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.

$49,265,000
STATE OF MAINE
GENERAL OBLIGATION BONDS

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

Bond Ratings	Moody's Investors Service, Inc. See "RATINGS" herein. Standard & Poor's Ratings Services. See "RATINGS" herein.
Interest Payment Dates	June 1 and December 1, commencing December 1, 2012.
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 Wildman Palmer LLP, Bond Counsel to the State, interest on the Series B Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Series A Bonds is included in the gross income of the owners of the Series A Bonds for federal income tax purposes. Under existing law, interest on the Bonds is excluded from gross income for State income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.
Purpose	The Bonds are being issued to refinance 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 7, 2012.
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 Wildman Palmer LLP. See "TAX MATTERS" herein.
Financial Advisor	Public Financial Management, Inc. See "FINANCIAL ADVISOR" herein.
Issuer Contact	Bruce L. Poliquin, Treasurer of State. See "MISCELLANEOUS" herein.

Dated May 31, 2012

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES OR YIELDS*
$49,265,000
State of Maine
General Obligation Bonds

$15,445,000
General Obligation Bonds, 2012 Series A
(Federally Taxable)

Maturity (June 1)	Principal Amount	Interest Rate	Yield	CUSIP† No.
2013	$6,630,000	1.00%	0.39%	56052AXE1
2014	4,740,000	1.00	0.57	56052AXF8
2015	4,075,000	1.00	0.70	56052AXG6

$33,820,000
General Obligation Bonds, 2012 Series B

Maturity (June 1)	Principal Amount	Interest Rate	Yield	CUSIP† No.
2015	$ 665,000	2.00%	0.55%	56052AXH4
2016	4,740,000	4.00	0.66	56052AXJ0
2017	4,740,000	4.00	0.86	56052AXK7
2018	4,735,000	4.00	1.06	56052AXL5
2019	4,735,000	4.00	1.32	56052AXM3
2020	4,735,000	4.00	1.53	56052AXN1
2021	4,735,000	5.00	1.75	56052AXP6
2022	4,735,000	5.00	1.90	56052AXQ4

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

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

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Governor

Paul Richard LePage
State House
Augusta, Maine

Treasurer of State

Bruce L. Poliquin
39 State House Station
Augusta, Maine 04333

Commissioner of Administrative and Financial Services

H. Sawin Millett, Jr
State Offices
Augusta, Maine

Department of the Attorney General of the State of Maine

William J. Schneider, Attorney General of the State of Maine
Greg Im, Assistant Attorney General
State Offices
Augusta, Maine

Bond Counsel

Edwards Wildman Palmer LLP
Boston, Massachusetts

Financial Advisor

Public Financial Management, Inc.
Boston, Massachusetts

$49,265,000
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 $15,445,000 General Obligation Bonds, 2012 Series A (Federally Taxable) (the "Series A Bonds") and its $33,820,000 General Obligation Bonds, 2012 Series B (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds"). The Bonds are authorized by, and are being issued pursuant to, Article IX, Section 14, of the Constitution of the State and certain laws of the State which were ratified by voters of the State voting in elections thereon. See Appendix D hereto. The Bonds will be general obligations of the State.

DESCRIPTION OF THE BONDS

The Bonds will bear interest from the date of their delivery payable semiannually on June 1 and December 1 of each year, commencing December 1, 2012, until payment of the principal of the Bonds. Interest on the Bonds will be paid on the interest payment dates, and principal of the Bonds will be paid at maturity, to The Depository Trust Company, New York, New York ("DTC") or its nominee as registered owner of the Bonds. So long as DTC or its nominee is the registered owner of the Bonds, disbursement of such payments to DTC is the responsibility of the State, disbursement of such payments to the Direct Participants (as defined under the heading "The Depository Trust Company" below) is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (as defined under the heading "The Depository Trust Company" below) is the responsibility of the Direct Participants or Indirect Participants (as defined under the heading "The Depository Trust Company" below) as more fully described herein. See "The Depository Trust Company" below. The Bonds will bear interest at the rates and will mature on the dates and in the amounts set forth on the inside cover page hereof. Interest on the Bonds will be computed on the basis of a 30-day month and a 360-day year.

The Bonds are not subject to redemption prior to maturity.

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

The Bonds are being issued (i) to refinance certain capital expenditures of the State and (ii) to finance certain additional capital expenditures of the State. See Appendix D hereto.

INFORMATION CONCERNING THE STATE

Certain information regarding the State is included in Appendix A hereto. The State's audited financial statements for the fiscal year ended June 30, 2011 and certain other selected financial information pertaining to the State are included in Appendix B hereto. Certain information with respect to revenues of the State is included in Appendix C hereto. Certain information regarding authorized and outstanding debt of the State is included in Appendix D hereto. Certain information derived from actuarial valuation reports for the retirement programs administered by the Maine Public Employee Retirement System is included in Appendix E hereto. Selected economic information pertaining to the State is included in Appendix F hereto.

LITIGATION

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

TAX MATTERS

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

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

Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Maine. Complete copies of the proposed forms of opinions of Bond Counsel with respect to the Bonds are set forth in Appendix G hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes (only in the case of the Series B Bonds) and is exempt from Maine personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Holders of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such 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 B 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 B Bonds may adversely affect the value of, or the tax status of interest on, the Series B 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 B Bonds. Prospective holders of the Series B 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 B Bonds is excluded from gross income for federal income tax purposes and that interest on the Bonds is exempt from Maine personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a holder's federal tax liability (in the case of the Series B 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 Bonds should consult with their own tax advisors with respect to such consequences.

DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS

Absence of Litigation

Upon delivery of the Bonds, the State will furnish an opinion of the Department of the Attorney General, dated the date of delivery of the Bonds, to the effect that there is no litigation of any nature pending or threatened to restrain or enjoin the issuance or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds or 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 Wildman Palmer LLP with respect to the validity and tax status of the Bonds will be delivered at the time of delivery of the Bonds in substantially the forms set forth in Appendix G to this Official Statement.

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 not failed within the last five years to comply in all material respects with its 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.

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

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

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

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

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

Principal, 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 "negative" outlook and "AA" with a "stable" outlook, respectively, to the Bonds. The State has furnished such rating agencies with certain information and materials concerning the Bonds and the State, some of which is not included in this Official Statement. Generally, each such rating agency bases its ratings on such information and materials and also on such investigations, studies and assumptions as each may undertake or establish independently.

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

COMPETITIVE SALE OF BONDS

The Bonds were offered for sale at competitive bidding on May 31, 2012, in accordance with the Notice of Sale dated May 22, 2012. Citigroup Global Markets, Inc. ("Citi") was the successful bidder for the Series A and Series B Bonds. Information provided by Citi regarding the interest rates and reoffering yields of the Bonds is set forth on the inside cover of this Official

Statement. The Series A Bonds are being purchased from the State by Citit at an aggregate price of $15,550,731.55, reflecting the principal amount of $15,445,000.00, plus net original issue premium of $115,770.80, less underwriter's discount of $10,039.25. The Series B Bonds are being purchased from the State by Citi at an aggregate price of $40,223,865.00, reflecting the principal amount of $33,820,000.00, plus net original issue premium of $6,501,943.00, less underwriter's discount of $98,078.00.

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

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

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

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

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

STATE OF MAINE

By:/s/ Bruce L. Poliquin

Dated: May 31, 2012 Treasurer of State

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STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX A

State of Maine Information Statement

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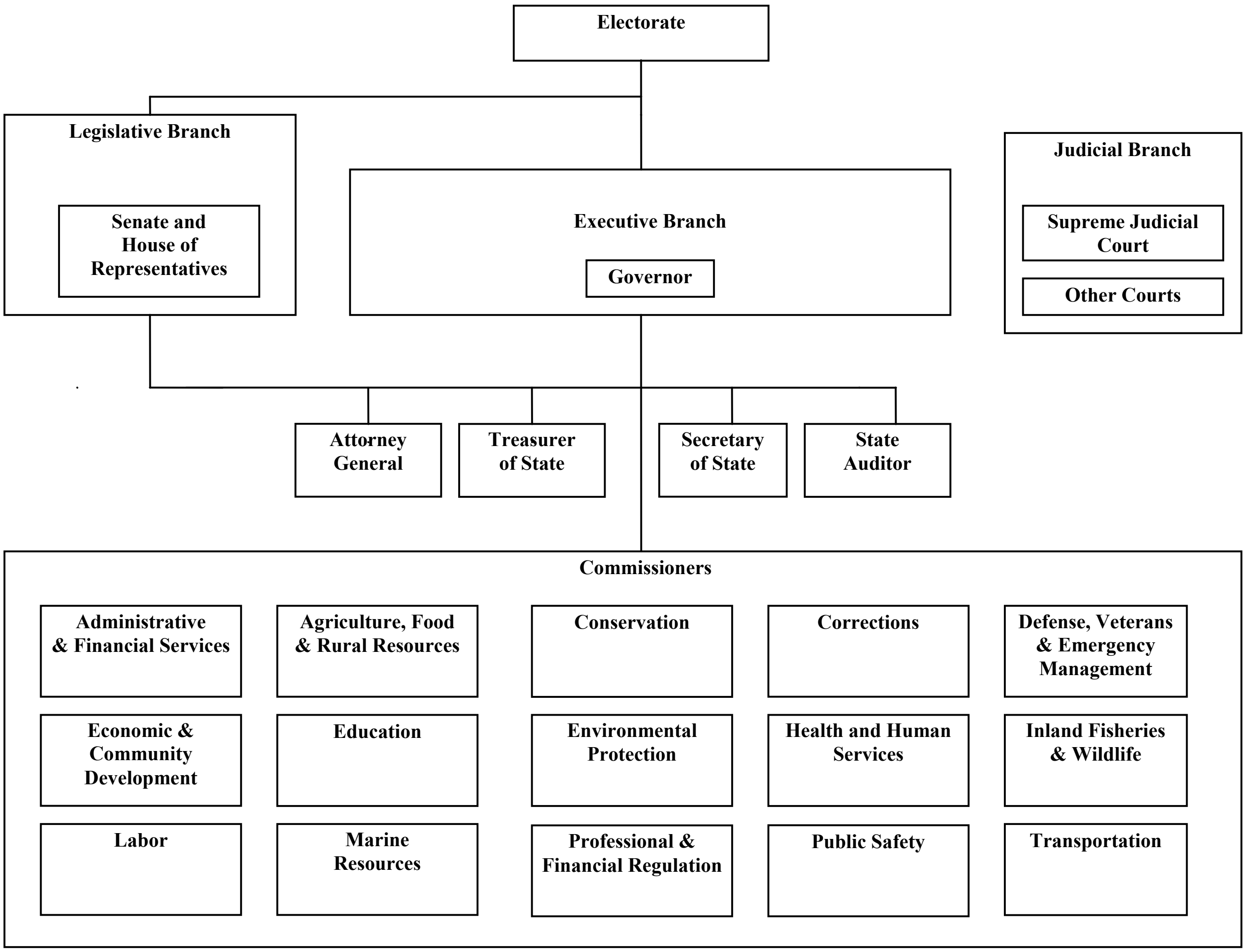
GOVERNMENTAL ORGANIZATION

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 first term of the present Governor began in January 2011. 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 to 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 a number of authorities and bodies established by the State, including the Maine Municipal Bond Bank, the Maine Public Employees Retirement System, the Maine Health and Higher Educational Facilities Authority, the Maine Governmental Facilities Authority, the Maine State Housing Authority, the Finance Authority of Maine, the Maine Public Utility Financing Bank, the Adaptive Equipment Loan Board, the 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. Funds are transferred from receipt accounts to disbursement accounts by wire as needed to meet balance requirements.

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

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

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

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

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

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 16 Joint Standing Committees, each comprised of 3 Senators and 10 Representatives. Current Joint Standing Committees are: Agriculture, Conservation and Forestry; Appropriations and Financial Affairs; Labor, Commerce, Research and Economic Development; Criminal Justice and Public Safety; Education and Cultural Affairs; Health and Human Services; Inland Fisheries and Wildlife; Insurance and Financial Services; Judiciary; 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 is currently meeting in an extended session.

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

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

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

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

The Judiciary

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

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

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

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

Independent Authorities and Agencies

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

County and Municipal Government

The State is divided into 16 county governments responsible for various functions, including the operation of county jails and registries of probate and deeds. Each county government assesses the costs of its operations upon the cities, towns and Unorganized Territories located within the county. 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, 433 towns, 34 plantations, and 3 Indian nations or territories which exercise the functions of municipal government, including the provision of elementary and secondary education. There are also a number of unorganized townships and coastal and inland islands and three Indian Reservations. Cities are governed by several variations of the mayor and council form of government. In most towns, executive power has been placed in a board of three, five, or seven selectmen, elected to terms of from one to three years and legislative power has been retained by the voters themselves, who assemble in periodic open town meetings. There are various regional districts for school, water supply, solid waste, wastewater disposal and other purposes.

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

FISCAL MANAGEMENT

Department of Administrative and Financial Services

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

Constitutional Debt Limit

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

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

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

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

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

Revenue Forecasting

Statutory Responsibilities. A Revenue Forecasting Committee 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 Associate Commissioner for Tax Policy, the State economist, an economist on the faculty of the University Maine System selected by the chancellor, the Director of the Office of Fiscal and Program Review of the Legislature and another member of the Legislature's nonpartisan staff familiar with revenue estimating issues appointed by the Legislative Council. The 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 2011 and 2012 Reports. The Consensus Economic Forecasting Commission issued its report dated February 1, 2012 which updated the forecast it released in November 2011. Seeing few significant changes in most economic indicators and the overall economic outlook, the Commission made no adjustments to its economic forecast in February. The November 2011 forecast made downward revisions to the April 2011 forecast to reflect an impending recession in Europe and the subsequent expected negative effects of reduced US export demand and a strong dollar. The November 2011 forecast reflects expectations that growth will slow globally and that inflation will ease from 2011 rates.

The November 2011 forecast projected fiscal year employment losses to reach 7.8% in calendar year 2012 but the actual state unemployment rate declined to 7.0% in November and December after peaking at 7.8% in June 2011. The changes in the unemployment rate in calendar year 2011 were largely driven by changes in the labor force participation rate and not due to changes in the number of jobs. Unemployment losses are expected to continue a gradual decline through the forecast period reaching 6.3% in calendar year 2015. The personal income forecast was revised downward for fiscal year 2011 (from 4.6% growth to 3.8%) with the expiration of Social Security Tax cuts in fiscal year 2012 expected to reduce growth to 3.0% in fiscal year 2012, up from 2.9% in the previous forecast. The current forecast projects annual personal income growth of 3.0% in fiscal year 2013, 4.7% in fiscal year 2014 and 4.8% in fiscal year 2015.

The forecast for wage and salary income growth (a sub-set of personal income growth) was revised downward for fiscal year 2011 (from 4.0% to 2.8%). Wages were revised downward in the November 2011 forecast for fiscal year 2012-2015 and are projected to grow to an estimated 4.2% annual growth in 2015. The forecast for other labor income was revised downward for fiscal year 2011 (from 3.3% to 1.8%) for fiscal year 2012 (from 4.2% to 3.3%) and for fiscal year 2013 (from 4.4% to 4.2%) but remains unchanged at 4.7% for fiscal year 2014 and increases in fiscal year 2015 (from 4.3% to 4.9%). Non-farm proprietors' income was revised downward for fiscal year 2011 (from 6.1% to 4.9%) and for fiscal year 2012 (from 5.8% to 3.4%) but increased in each of the remaining years to a high of 7% in fiscal year 2014. The forecast for dividends, interest and rent was increase for fiscal year 2011 (from 4.3% to 6.1%) but is expected to decline from the previous forecast through fiscal year 2014 until increasing to 7.6% in fiscal year 2015.

The Commission revised inflation upward for fiscal year 2011 (from 2.5% to 3.1%) based on higher energy prices. The forecast for fiscal year 2012 drops to 1.3% and grows to 2.3% in fiscal year 2014 before dropping to 2.1% in fiscal year 2015.

The Revenue Forecasting Committee met in late February 2012 to review and update the December 2011 revenue forecast. The revised forecast, which was issued on March 1, 2012, adjusted General Fund revenue estimates downward by $4.9 million in fiscal year 2012 and by $8.1 million in fiscal year 2013 with income and sales taxes representing a majority of the downward adjustment. Based on new information that was discovered after the release of the March 2012 revenue forecast, the Committee held a special forecast meeting to recommend adjustments to the forecast on April 30, 2012. The effect of those adjustments, which recognized a January 2012 deposit of tax receipts of $14.3 million that was not properly recorded, was an upward increase of $42.2 million in fiscal year 2012 and $6.7 million in fiscal year 2013.

The March 2012 forecast projected individual income tax receipt decreases of $6.3 million in fiscal year 2012 and $5.1 million in fiscal year 2013. For preliminary, unaudited tax receipts for fiscal year 2012, see "Revenues of the State - General" and Appendix C herein.

The March 2012 forecast projected decreases in sales and use tax revenues of $4.5 million in fiscal year 2012 and $4.8 million in fiscal year 2013 as a result of lower than expected collections during the holiday season. However, the April 2012 forecast increased sales and use tax revenues by $14.5 million in fiscal year 2012 and by $15.1 million in fiscal year 2013 for a net increase of $10 million in fiscal year 2012 and $10.3 million in fiscal year 2013. The increases were the result of recognizing the January 2012 deposit referenced above and were consistent with the taxable sales report that reflected year-over-year growth in consumer sales of 5.7% for the November-December 2011 two month period.

Corporate income tax revenue was projected downward in the March 2012 report from the December 2011 forecast by $3.9 million in fiscal year 2012 and $4.7 million in fiscal year 2013. The revised April 2012 report increased projections by $21.8 million in fiscal year 2012 but decreased them by an additional $12.1 million in fiscal year 2013. While corporate income tax revenues were performing above budget in fiscal year 2012 it was assumed that approximately $16 million of that increase was the result of how the revenue reduction from the Maine Capital Investment Credit and conformity with Section 179 expensing enacted in the biennial budget was allocated between the fiscal years. The Committee shifted the $16 million to fiscal year 2013 assuming that in fiscal year 2013 large corporations will be seeking relatively large refunds of payments made in fiscal year 2012. Taking this into account the forecast reflects a base upward adjustment of $6 million in fiscal year 2012 that is expected to be ongoing and reflected in the forecasts for fiscal years 2013 through 2015.

For a description of enacted and proposed laws amending the budgets for fiscal years 2011, 2012 and 2013 and for information regarding fiscal year 2011, 2012 and 2013 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 2011, $3.5 billion for fiscal year 2012 and is approximately $3.5 billion for fiscal year 2013. The Growth Limit Factor for fiscal year 2011 is 2.76%. The Growth Limit Factor for the 2012-2013 biennium is 2.05%.

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 2014 and that the General Fund appropriation limit will include the State share of the cost of K-12 Education beginning with fiscal year 2015. See "Certain Expenditures and Obligations - Education Funding" herein.

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

"Baseline General Fund revenue" and other available budgeted General Fund resources that exceed the General Fund appropriation limit plus the EPS Costs must be transferred to the Maine Budget Stabilization Fund (the "Stabilization Fund"). If the Stabilization Fund is at its limit of 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 2011, chapter 1 ("2011 Chapter 1") required the transfer of $3,199,702 from the fiscal year 2010 unappropriated surplus of the General Fund to the Stabilization Fund no later than June 30, 2011. Public Laws of Maine 2011, chapter 28 ("2011 Chapter 28") changed the priority order of distribution for fiscal year 2011 and directed the transfer of up to $25 million to the

Stabilization Fund as the first priority following the transfers to the State Contingent Account and the Loan Insurance Reserve and before the 35% transfer to the Stabilization Fund. The State closed fiscal year 2011 with approximately $82 million available in General Fund unappropriated surplus before the year end transfers. The total transfer to the Stabilization Fund, including the $25 million authorized in 2011 Chapter 28, was $35.3 million and the Reserve for General Fund Operating Capital received $5.9 million. The remainder of the year end balance was distributed as follows: $5.9 million to the Retirement Allowance Fund, $4.4 million to the Retiree Health Fund, $2.9 million to the Capital Construction and Improvement Reserve Fund, $1 million to Loan Insurance Reserve Fund and $350 thousand to the State Contingent Account. Additionally, $5 million was transferred to the Department of Health and Human Services Bureau of Medical Services account and $2,500,488 was transferred to the Department of Administrative and Financial Services, Accident, Sickness and Health Insurance Internal Service Fund.

As of May 14, 2012, the projected fiscal year 2012 year end balances in the Stabilization Fund and the Reserve for General Fund Operating Capital are $44.8 million and $17.1 million, respectively. The reduction in the Stabilization Fund balance, as compared to the June 30, 2011 amount is primarily related to a $29.7 million payment to the federal government for the settlement of a Targeted Case Management Audit. 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 May 14, 2012, the balances in the Retiree Health Insurance Internal Service Fund and the Capital Construction and Improvements Reserve Fund were $32.5 million and $6.2 million, respectively.

Public Laws of Maine 2011, chapter 380 ("2011 Chapter 380") further changed the priority order of distribution. Prior to the percentage distributions ordered in 2005 Chapter 15, 2011 Chapter 380 provides for two transfers from the unappropriated surplus, if any: a transfer of $15,000,000 to a retirement reserve account to provide a non-cumulative COLA payment to retirees for fiscal years 2012, 2013 and 2014 and a transfer of $25,000,000 for hospital settlements in fiscal year 2012 (this language was extended to fiscal year 2013 in Public Laws of Maine 2011, chapter 657). Both of these transfers would be met before the year end percentage distribution of the unappropriated surplus, if any, as of June 30, 2012.

LD 849, "An Act to Provide Tax Relief for Maine's Citizens by Reducing Income Taxes," was recently passed by the Legislature, but as of the date of this Official Statement, has not been signed by the Governor. This bill amends the Tax Relief Fund for Maine Residents, and provides that amounts, if any, credited to this fund in the future will be used to allow for potential future incremental reductions in the individual income tax rates to 4%. The bill provides for the State Tax Assessor to calculate annually the amount by which income tax rates may be reduced in subsequent years using the amount available from the Tax Relief Fund for Maine Residents to offset the lower tax revenue expected to be received in the following year. The bill provides for an initial minimum reduction of 0.2 percentage points. The bill only provides for reductions in tax rates and does not provide for any increases.

This bill would also change the distribution of the unappropriated surplus of the General Fund to: 35% Stabilization Fund; 13% Retirement Allowance Fund; 13% Reserve for General Fund Operating Capital; 9% Retiree Health Insurance Internal Service Fund; 10% Capital Construction and Improvements Reserve Fund and 20% to the Tax Relief Fund for Maine Residents. If the General Fund has an unappropriated surplus and the Tax Relief Fund for Maine Residents is fully funded, this legislation further provides for an individual income tax rate reduction until the individual income tax rate reaches 4 percent. Maine Revenue Services estimates that a reduction of the individual income tax rate from its current top rate of 7.95% to 4% would decrease annual State revenues by approximately $600 million. Maine Revenue Services has also estimated that in order to provide the initial minimum reduction of 0.2 percentage points, the balance in the Tax Relief Fund for Maine Residents would need to be approximately $40 million and that aggregate unappropriated General Fund surpluses of over $200 million would be needed to generate such a balance in the fund.

In light of recent fiscal conditions, the State believes that any income tax rate reductions arising from this bill are remote. If the bill becomes law, the State cannot predict the actual fiscal impact, because the State does not project surpluses in its budgets and therefore cannot anticipate when, if at all, the Tax Relief Fund for Maine Residents would be fully funded thereby triggering future income tax rate reductions.

Citizen Initiative Petitions

Pursuant to the Constitution of the State an initiative petition of citizens of the State was presented to the Legislature in 2012. Since the Legislature did not pass this initiative, it will be placed before the voters of the State at the statewide election on November 6, 2012 for a decision on whether to enact the initiated legislation, entitled, "An Act To Allow Marriage Licenses for Same-sex Couples and Protect Religious Freedom". As of the date hereof, the State estimates that there will be no material negative impact on State revenues as a result of this initiative.

The Accounting System

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Reports and Practices

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

The State Controller's annual financial report for the fiscal year ended June 30, 2011 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, 2011 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, 2011 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, 2011."

Annual financial reports prepared by the State Controller for the fiscal year ending June 30, 2011 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. The CAFR for the fiscal year ended June 30, 2011 and for prior fiscal years are also available at http://www.maine.gov/osc/finanrept/cafr.shtml.

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 29, 2011 with respect to the fiscal year ending June 30, 2011 is set forth in Appendix B hereto. Single audit reports prepared by the Department of Audit for the fiscal year ending June 30, 2011 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, 2011 is unaudited and therefore is subject to change.

STATE BUDGETS

Laws authorizing General Fund and Highway Fund expenditures for fiscal years 2009 through 2013 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
2009	$ 3,017,952,419	$ 327,534,161
2010	2,849,227,923	316,706,397
2011	2,872,754,172	305,064,953
2012	3,130,208,194	318,920,211
2013	3,001,803,931	311,224,073

For information regarding fiscal years 2010 through 2013 expenditures, see "Certain Expenditures and Obligations – General Fund Expenditures" below.

On December 1, 2010, the Revenue Forecasting Committee issued a regularly scheduled updated forecast. The December report reflected an upward adjustment of revenues of $111.6 million in fiscal year 2011, $170.5 million in fiscal year 2012 and $195.1 million in fiscal year 2013. The December report also projected revenues of $3.3 billion in fiscal year 2014 and $3.4 billion in fiscal year 2015.

On January 12, 2011, the Governor released his supplemental budget recommendations to provide $248 million in State and federal funds for hospital settlements dating back to fiscal year 2006. The budget recommendations also addressed projected growth in the MaineCare programs and a phased reduction in the Federal Medicaid Assistance Percentage from 6.2 to 1.2 percentage points by June 30, 2011.

A second supplemental budget was released by the Governor on March 28, 2011 to restore a deappropriation included in 2009 Chapter 571 related to the disallowance of federal financial participation for targeted case management claims in fiscal years 2002 and 2003. The funds were proposed to be restored to the Medical Care – Payments to Providers program to address shortfalls that resulted from the deappropriation with the expectation that the Federal government would be reimbursed in fiscal year 2012. The budget recommendations further addressed growth in the MaineCare program and provided funds for Child Development Services to address a projected shortfall for the program.

On February 8, 2011, the Legislature enacted the first supplemental budget based on the Governor's recommendations; the Governor signed that budget into law the same day. The law, 2011 Chapter 1, amended the 2010-2011 biennial budget enacted in the spring of 2009, 2009 Chapter 213 and the 2010-2011 supplemental budget enacted in the spring of 2010, 2009 Chapter 571. On April 14, 2011, the Legislature enacted the second supplemental budget for fiscal year 2011 based on the Governor's recommendations; the Governor signed that budget into law on the same day. The law, 2011 Chapter 28, further amended the budgets previously mentioned.

Prior to the December 2010 upwards revenue projection, the Bureau of the Budget updated its four year revenue and expenditure forecast in September 2010 for the fiscal year ending June 30, 2013. As required by State law, the forecast assumed the continuation of current laws and included reasonable and predictable estimates of growth in revenues and expenditures based on national and local trends and program operations. At the time of the forecast the structural gap was projected to be $1.1 billion for the 2012-2013 biennium.

The gap assumed increases in General Purpose Aid for Local Schools (GPA) of $216.5 million in fiscal year 2012 and $238.4 million in fiscal year 2013 over fiscal year 2011 levels. The preliminary amounts would increase GPA $423.9 million over the previous 2010-2011 biennium and achieve the commitment made in 2005 Chapter 2, as amended, for a 55% State share of education costs. The structural gap also reflected significant increases in future State contributions to address the increased unfunded pension liability for state employees and teachers. See “Defined Benefit Retirement Programs” below.

In order to address the projected shortfall, the Governor’s recommended budget for the 2012-2013 biennium included proposals to delay the attainment of 55% for GPA until the 2014-2015 biennium and to make several changes to pension benefits in order to reduce the unfunded pension liability for state employees and teachers. 2009 Chapter 380 was signed by the Governor on June 20, 2011. In addition to delaying the attainment of 55% for GPA until the 2014-2015 biennium, it amended the requirement to include the cost of teacher retirement, retired teachers’ health insurance and retired teachers’ life insurance in the calculation. See “Certain Expenditures and Obligations – Education Funding” below. It increased the retirement age of state employee and teacher members of the Retirement System having less than 5 years of service to 65 years of age, froze cost-of-living increases for retirees for 3 years and capped them at 3% for the first $20,000 beginning in fiscal year 2014. The pension changes resulted in savings to the General Fund of $123.1 million in fiscal year 2012 and $126.2 million in fiscal year 2013 and eliminated $1.7 billion, or 41%, of the then estimated unfunded pension liability.

The Governor’s budget amended statutory provisions pertaining to retired teachers’ health insurance to include 10 year vesting periods, require retirees to pay 100% of the cost of their health insurance if they retire before reaching their normal retirement age and cap the State’s cost for premiums at fiscal year 2011 totals. These changes resulted in savings to the General Fund of $5.5 million in fiscal year 2012 and $9.2 million in fiscal year 2013. The State’s cost of health insurance premiums for active employees for the 2012-2013 biennium was also capped at fiscal year 2011 totals resulting in savings to the General Fund of $4.6 million in fiscal year 2012 and $9.5 million in fiscal year 2013. In addition to freezing merit increases for State employees for the biennium and eliminating longevity payments for certain individuals not eligible on June 30, 2011, the approved budget offered a retirement incentive to employees who were eligible to retire. These three initiatives resulted in estimated savings to the General Fund of $7.7 million in fiscal year 2012 and $12.6 million in fiscal year 2013.

The December 2010 upward projection of revenue allowed the Governor to propose tax cuts intended to stimulate economic growth in his biennial budget for 2012-2013. 2009 Chapter 380 reformed the income tax provisions by flattening the rate structure and reducing the top rate from 8.50% to 7.95%. It conformed to the federal income tax code Section 179 expensing provisions for small business investment and to the federal standard deduction for joint filers (marriage penalty relief) and personal exemption amount. These changes resulted in the reduction of undedicated revenue to the General Fund of $17.3 million in fiscal year 2012 and $81.0 million in fiscal year 2013. The approved budget adopted the new Maine Capital Investment Credit to provide a credit equal to 10% of the federal bonus depreciation on certain qualified property place in service in Maine resulting in an estimated reduction of General Fund revenues of $24.7 million in fiscal year 2012 and $7.0 million in fiscal year 2013. It eliminated the requirement that out-of-state residents pay income taxes after 10 days and exempted meals provided at retirement facilities from the sales tax. These initiatives resulting in an estimated reduction of General Fund revenues of $4.5 million in fiscal year 2012 and $3.1 million in fiscal year 2013.

2009 Chapter 380 has amended the Maine Residents Property Tax and Rent Refund, or “Circuit Breaker” program to permanently fund the program at 80%. This increased General Fund revenues by $11 million in fiscal year 2012 and $11.3 million in fiscal year 2013. The budget authorized the transfer of the 5% local government fund share of certain taxes that increased from current levels as a result of revised revenue projects and other tax initiatives to the General Fund resulting in an increase of undedicated revenue of $42.4 million in fiscal year 2012 and $48.6 million in fiscal year 2013.

In December 2011 the Governor proposed a budget to address a projected shortfall in the MaineCare program of approximately $120.9 million in fiscal year 2012 and $101.0 million in fiscal year 2013. At that time the Legislature also received a budget that reflected the recommendations of the Streamline and Prioritize Core Government Services Task Force to reduce spending by approximately $25 million by fiscal year 2013. In its December 2011 report, the Revenue Forecasting Committee revised its May 2011 forecast for the General Fund and increased projections for fiscal year 2012 by $10.6 million and decreased projections for fiscal year 2013 by $9.6 million. The Legislature chose to address the fiscal year 2012 portion of the shortfall first and combined the proposals into the streamlining budget. The result was 2011 Chapter 477, which was approved by the Governor on February 23, 2012. In addition to implementing the recommendations of the Streamline and Prioritize Core Government Services Task Force, it provided General Fund appropriations totaling $107.3 million in fiscal year 2012 to address the MaineCare shortfall. It recognized savings in fiscal year 2013 intended to reduce the overall cost of the MaineCare program by reducing rates paid to agency per diem homes by 5% ($3.7 million), reducing funding for contracts ($2 million), limiting access to certain combination drugs ($0.6 million), and increasing compliance with statutes mandating the use of generic drugs ($5.8 million). It extended the freeze on new enrollment in the MaineCare childless adult waiver program, saving $11 million in fiscal year 2013 and provides one-time savings of $10 million from the Dirigo Health program to fund a portion of the fiscal year 2012 cost of the childless adult waiver program. 2011 Chapter 477 also authorized a one-time assessment on hospitals equal to 0.39% of hospital net operating revenue resulting in $14.2 million in revenue in fiscal year 2013 to the General Fund.

In March 2012, the Revenue Forecasting Committee revised its December 2011 forecast and reduced General Fund revenue projections by $4.9 million in fiscal year 2012 and by $13.9 million in fiscal year 2013. See "Revenue Forecasting, Fiscal Year 2011 and 2012 Reports" above. In response to the fiscal year 2012 downward revision the Legislature enacted 2011 Chapter 575, which was approved by the Governor on March 30, 2012. In addition to transferring available fund balances from various accounts to the unappropriated surplus of the General Fund, it reflected savings in debt service and charges for services provided by the central finance and personnel division. The net savings provided by 2011 Chapter 575 were $4.9 million.

In April 2012 the Revenue Forecasting Committee held a special meeting to revise its March 2012 forecast as a result of new information that became available after the conclusion of the March 2012 forecast. See "Revenue Forecasting, Fiscal Year 2011 and 2012 Reports" above. The revised forecast reflected an upward projection of $42.2 million in fiscal year 2012 and $6.7 million in fiscal year 2013.

On May 16, 2012, the Governor signed into law 2011 Chapter 657, which addressed a net fiscal year 2013 shortfall in the MaineCare program of $78.6 million. In addition to resolving the revised fiscal year 2013 MaineCare shortfall, it provides $4.3 million for the municipal general assistance program to fund an increase in demand for services and $3.8 million for operation of the E-911 program. It transfers $13 million to the Budget Stabilization Fund in fiscal year 2013 and includes authority to transfer up to $7.4 million from the fund, if necessary, to add to $3.2 million appropriated for the State's psychiatric hospitals for the cost of forensic patients determined ineligible for federal reimbursement, and an additional transfer of $3.8 million, if necessary, to reimburse the federal government for funds drawn for ineligible MaineCare recipients. It generates savings from eliminating of some MaineCare optional coverage and services, resulting in fiscal year 2013 savings to the General Fund of $13.8 million. It reallocates Fund for a Healthy Maine resources to the MaineCare program, providing savings of $9.8 million, and directs the Department of Health and Human Services to develop a Medicaid stabilization plan to achieve savings of $5.3 million. It eliminates $2 million from the Head Start program and reduces funding by requiring hospital based primary care practices that also provide mental health services to participate in the Maine Health Access Foundation's integrated care initiative for outpatient mental health and primary care service, saving $1.5 milion in fiscal year 2013. It raises the loan reserve cap for the Finance Authority of Maine from $35 million to $40 million and transfers $2 million to the General Fund, implements a use tax compliance and education program to generate $5.3 million in one-time revenue, and authorizes the use of overtime to enhance the collection of tax receivables, resulting in net savings of $1.7 million. In fiscal year 2013, it requires revenues in excess of $10.6 million from the Oxford casino that would otherwise go to the Department of Education for essential programs and services to be transferred to the Department of Health and Human Services to be used for hospital settlements.

2011 Chapter 657 amends the pension income tax subtraction modification for certain retirement benefits to raise the $6,000 limit to $10,000, it provides an income tax exemption to active duty military service men and women for pay received while in service outside of Maine and provides a sales tax exemption for commercial wood harvesting and commercial greenhouse and nursery products. These changes are expected to result in a revenue loss of $8.7 million in fiscal year 2014 and $23.5 million in fiscal year 2015.

CERTAIN EXPENDITURES AND OBLIGATIONS

General Fund Expenditures

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, 2011 Chapter 1 and 2011 Chapter 28.

	2010	2011
Governmental Support and Operations	$251,862,046	$236,824,102
Economic Development & Workforce Training	35,707,478	34,588,383
Education	1,412,297,179	1,398,741,990
Arts, Heritage & Cultural Enrichment	7,461,189	7,189,756
Natural Resources Development & Protection	68,419,220	66,225,967
Health & Human Services	795,586,471	850,852,097
Justice & Protection	277,894,340	271,331,877
Transportation		7,000,000
Total	$2,849,227,923	$2,872,754,172

The following table sets forth, by certain major categories, General Fund expenditures set forth in 2011 Chapter 380, the budget for fiscal years 2012 and 2013, as amended by the supplemental General Fund budgets, 2011 Chapter 477, 2011 Chapter 655 and other miscellaneous laws enacted to date.

	2012	**2013**
Governmental Support and Operations	$255,024,711	$259,744,032
Economic Development & Workforce Training	33,737,045	33,207,757
Education	1,373,551,473	1,393,489,878
Arts, Heritage & Cultural Enrichment	7,422,644	7,148,307
Natural Resources Development & Protection	67,994,914	65,742,715
Health & Human Services	1,116,567,462	961,503,014
Justice & Protection	275,909,945	277,182,998
Total	$3,130,208,194	$3,001,803,931

The authorized budget through the end of the First Regular Session of the 125th Legislature was approximately $6.13 billion. Laws enacted during the current session increased the budget to $6.07 billion but the increase is based on net spending increase in fiscal year 2012 of over $86 million and net spending in fiscal year 2013 of approximately $4 million. Of the $6.13 billion in the biennium, 45.1% is attributable to education, 33.9% to health and human services, and 21.0% to other purposes of State government.

For additional information regarding General Fund expenditures during fiscal years 2007 through 2011, and for information regarding Highway Fund expenditures during fiscal years 2007 through 2011, 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 the American Recovery and Reinvestment Act of 2009 ("ARRA").

With the enactment of the supplemental budget, 2009 Chapter 571, GPA is approximately 47.29% of the total State and local cost of K-12 education in fiscal year 2010 and 44.86% in fiscal year 2011 as amended by 2011 Chapter 1. The State General Fund contribution was approximately $909.1 million in fiscal year 2010 and is expected to be approximately $878.1 million in fiscal year 2011, totaling approximately $1,781,900,000 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 added approximately $102 million over the course of the 2010-2011 biennium. Total payments by the State to local school districts (including ARRA monies) comprised 49.52% of the total cost of Essential Program and Services in fiscal year 2010 and are expected to comprise 47.80% in fiscal year 2011.

The biennial budget as most recently enacted for fiscal years 2012 and 2013 includes a State General Fund commitment to the cost of K-12 education of $888,902,400 in fiscal year 2012 and $910,661,214 in fiscal year 2013. Those General Fund appropriations result in a 45.05% State share of the total cost of education in fiscal year 2012 and 45.62% in fiscal year 2013. Maine public schools also received Federal Jobs Funds of $33,581,587 in fiscal year 2012 to help retain or hire critical staff. The enacted budget also includes the State share of teacher retirement, retired teacher's health insurance, and retired teacher's life insurance of $172,592,848 in 2012 and $174,932,892 in 2013 when considering the State's contribution for Essential Programs and Services. Including the State contribution to teacher retirement, retired teacher's health insurance, and retired teacher's life insurance the State's contribution towards the total cost of education is 49.47% in fiscal year 2012 and 50.00% in fiscal year 2013.

Health and Human Services Funding

After education, proposed spending for health and human services and programs comprise the second most significant area of expenditure, at approximately 33.9% of General Fund appropriations for the 2012-2013 biennium. Furthermore, General Fund expenditures for the State's Medicaid program, MaineCare, are the largest, comprising $1.4 billion or 68.1%, of all health and human services spending. The State continues to make significant efforts to hold down the rate of increase in the growth of MaineCare expenditures. While remaining committed to provide access to care for the State's most vulnerable residents, the State is employing even more aggressive care management techniques, continues to standardize provider reimbursement rates and has developed more capacity in the area of third party recovery. Regardless of these efforts, additional General Fund resources were needed in 2011 Chapter 1 and 2011 Chapter 28 for fiscal year 2011 totaling $46 million, in 2011 Chapter 380 funding amounting to approximately $118 million was provided for the 2012-2013 biennium. The first 2012-2013 supplemental budget, 2011 Chapter 477, proposed more changes to the MaineCare program in the areas of generic drug utilization, opioid prescribing policies, rate reform, service limitations and enhanced efforts in the area of collection of overpayments, legal settlements and through increased cost avoidance, yet provided funding to address an estimated shortfall of $108 million. A second 2012-2013 supplemental budget that has been approved by the Legislature's Joint Standing Committee on Appropriations and Financial Affairs but not yet enacted by the entire Legislature includes structural changes to the MaineCare program by eliminating some Medicaid optional services and coverage. Despite these initiatives, additional 2012-2013 General Fund resources of approximately $78 million have been proposed.

During fiscal year 2008-09 and the 2010-2011 biennium, the ARRA provided a substantial infusion of federal funds into the MaineCare program which was primarily in the form of enhanced federal matching dollars. This funding assisted 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. However, the extension passed by Congress phased down the federal match rate and required Maine to provide additional General Fund support of $33 million in fiscal year 2011. The 2012-2013 baseline appropriation for the Medicaid program provided approximately $360 million in General Fund resources necessary to replace these federal funds.

The 2012-2013 budget also continues Maine's efforts to pay its obligations to hospitals on a timely basis. General Fund resources of approximately $63 million are designated to transition payments to Maine's noncritical access hospitals from a prospective interim payment system to methodologies based on diagnosis related groupings and ambulatory payment classifications in order to pay hospitals on a real-time basis and reduce the use of paying hospital settlements several years after hospitals have incurred costs. The budget also continues the effort to pay outstanding hospital settlements though an initiative to provide up to $25 million in General Fund resources that may be available at the end of fiscal year 2012. 2011 Chapter 657 requires the transfer of up to an additional $25 million in General Fund resources that may be available at the end of fiscal year 2013, and an additional transfer of certain casino revenues to the extent such casino revenues exceed $10.6 million.

For additional information regarding the impact of these unpaid amounts on the State's General Fund Unassigned Balance and related matters, see Management's Discussion and Analysis in the State's financial statements on page B-15 and Note 4 in the State's financial statements in Appendix B.

The 2012-2013 budget also continues funding for its patient-centered medical home initiative to encourage Maine health care providers to provide better access to primary care physician services to MaineCare members. Funding is also provided to address shortfalls in the municipal General Assistance program resulting from the economic downturn, to pay for the cost of forensic patients at the State's psychiatric hospitals, to service individuals with intellectual disabilities and autism who are current waiting for services and for housing services for individuals with mental illness.

Ineligible Segment Overview

In February 2012, the Department of Health and Human Services discovered an issue with their Medicaid claims processing system, MIHMS. The system was continuing to pay for services for certain members after those services were no longer eligible. The issue occurred due an error in the business design made during the development of the system.

The first population of members was identified after a change request was applied to the system on January 2, 2012. That change request resulted in approximately 24,000 total members, approximately 19,000 Medicaid and 5,500 non-Medicaid, no longer being eligible for the same benefit package. Over the month of March and most of April a team with representatives from DHHS, the Office of Information Technology, the Office of the State Controller and the two vendors, Molina and Goold Health Systems, analyzed the impact of the claims processed against ineligible services.

The financial impact of data analyzed to date is as follows:

Ineligible Paid Claims by SFY:	**State**	**Federal**	**Total**
2011	$1,481,268	$ 694,333	$ 2,175,601
2012	$5,396,832	$3,097,437	$ 8,494,269
Total	$6,878,100	$3,791,770	$10,669,870

The most recent state budget, Public Law 2011 Chapter 655, included funding to pay $3,791,770 to the federal government.

A second population of potential ineligible Medicaid members of approximately 5,300 was identified on March 10, 2012. These members would have become ineligible between January 2, 2012 and March 10, 2012. An analysis of this population of members has not been completed at this point. It is expected that the financial impact of the second population will be significantly less than the first population because the first analysis covered a period from September 2010 to January 2012 while the second period is a much shorter duration.

Debts of the State

As of April 30, 2012, there were outstanding general obligation bonds of the State in the principal amount of $490,435,000, including $350,535,000 to be paid from the General Fund and $139,900,000 to be paid from the Highway Fund. Debt service requirements to maturity for the outstanding general obligation bonds are set forth in Appendix D herein.

As of the date hereof, there are no outstanding tax anticipation notes of the State. As of the date hereof, the State has used interfund borrowings from the State investment pool in the amount of $165,000,000 to satisfy its fiscal year 2012 cash flow needs. The State also plans to continue to use internal cash flow borrowing to meet cash flow needs in fiscal year 2013. Additional external borrowing may be needed in fiscal year 2013. The amount budgeted to be borrowed externally in fiscal year 2013 is not currently expected to exceed $150,000,000. 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 $40,752,809. As of the date hereof, the aggregate additional principal amount of bonds of the State authorized by the Constitution and implementing legislation for certain purposes, but unissued, is $99,000,000. See "Fiscal Management – Constitutional Debt Limit" and "Certain Public Instrumentalities – Finance Authority of Maine" and "– Maine State Housing Authority" herein.

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

Lease Financing Agreements

From time to time, the State enters into lease agreements for the purpose of acquiring or financing capital equipment and buildings. A lease agreement is secured solely by the equipment or building which is the subject of such agreement and is not a pledge of the full faith and credit of the State. Lease payment obligations are subject to appropriation by the Legislature. In certain instances, the State has issued certificates of participation in the lease payments to be made pursuant to certain lease agreements. As of March 31, 2012, the aggregate principal amount of such lease obligations outstanding was $52,189,202. For additional information regarding such lease agreements, see Appendix D hereto. For information regarding rental payments to be made by the State, subject to appropriation, to the Maine Governmental Facilities Authority, see "CERTAIN PUBLIC INSTRUMENTALITIES - Maine Governmental Facilities Authority."

Defined Benefit Retirement Programs

Overview. The Maine Public Employees Retirement System ("MainePERS" or "System") administers three defined benefit pension plans (often referred to as "Programs") on behalf of the State with approximately the following membership as of June 30, 2011: the State Employee and Teacher Retirement Program, with 38,759 active, 36,282 inactive, non-vested, 7,074 terminated, vested and 28,900 retired members and surviving beneficiaries; the Judicial Retirement Program, with 59 active, 1 inactive, non-vested, 1 terminated, vested and 62 retired members and surviving beneficiaries; and the Legislative Retirement Program, with 173 active, 109 inactive, non-vested, 93 terminated, vested and 145 retired members and surviving beneficiaries (collectively "State Plans"). In addition, MainePERS administers the Participating Local District Consolidated Plan on behalf of 296 participating state and local public entities ("PLDs"). In addition, the System also administers a group life insurance plan which provides or makes available life insurance benefits for active and retired System members and employees of certain PLDs. As of June 30, 2011, the System's group life insurance plan, for actuarial purposes, was comprised of approximately 33,790 active members and 15,705 retirees, which includes 6,021 PLD active members and 2,306 PLD retirees and surviving beneficiaries. The State has no retirement or group life insurance obligations to the PLDs or to their covered employees. The trust fund balances associated with each plan administered by MainePERS are segregated. The funds are commingled only for investment purposes. The administrative operating expenses of the System are charged against each trust fund balance as directed by statute and in accordance with generally accepted accounting standards. The budgeted administrative operating expenses of the System for fiscal year 2012 are $10,423,659.

The System's retirement programs provide defined retirement benefits based on members' three-year average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten-year requirement was reduced by legislative action to five years for state employees and teachers; separate legislation enacted the same reduced requirement for judges, legislators, and employees of PLDs). Vesting also occurs upon the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for "regular service retirement plan" State employees and teachers, judges and legislative members is age 60 or 62[1]. The normal retirement age is determined by whether a member had at least ten years of creditable service on June 30, 1993. For "regular service retirement plan" PLD members, normal retirement age is 60. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employees and teacher members and by contract with other participating employers under applicable statutory provisions.

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

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 5.0%. Employer contributions for terminated members are not refunded and remain assets of the applicable plan.

Other Available Information

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

- Comprehensive Annual Financial Report of the System for the fiscal year ended June 30, 2011 available at http://www.mainepers.org/PDFs/other%20publications/11CAFR.pdf.
- Actuarial Valuation Report for each of the retirement programs administered by the System as of June 30, 2011 available at www.mainepers.org/bonds.htm.
- Final Report of the State Employee and Teacher Retirement Program experience study, dated December 22, 2011 available at http://www.mainepers.org/PDFs/Bonds/Maine%20Assumption%20Changes_12222011_vf.pdf.
- "Task Force Study and Report, Maine State Employee and Teacher Unified Retirement Plan" dated March 8, 2010 prepared by the Unified Retirement Plan Task Force available at http://www.mainepers.org/PDFs/other%20publications/MainePERS%20Final%20URP%20Task%20Force%20Report%203-9-2010.pdf.
- "Report on Pension Costs to the Legislature of the State of Maine" dated April 15, 2011 prepared by the System available at http://www.mainepers.org/PDFs/Leg%20Pension%20Cost%20Request.pdf.
- "New Pension Plan Design and Implementation Plan" dated March 2012 prepared by the New Pension Plan Working Group available at http://www.mainepers.org/Pensions/NPP_Report_3-5-2012.pdf.

For additional information about the System contained in this Official Statement, see also Note 9 and Required Supplementary Information in the State's financial statements on pages B-60 – B-65 and B-101 – B-103 herein and "Appendix E – Maine Public Employees Retirement System Actuarial Balance Sheet, June 30, 2011".

Funding Policy and Status

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

Normal Costs - the present value of future pension benefits earned by employees in the current year. Normal costs are based on each year's projected annual collective employee earnings. The State's share of the normal cost was 5.5% of such earnings from July 1, 2007 through June 30, 2011. As a result of an experience study as well as changes to the plan design, as described below in "Recent Legislative Changes Affecting Benefits Levels" effective July 1, 2011, the State's share of the normal cost was reduced to 2.94%. Most State employees and teachers are required by statute to contribute 7.65% of their earnings. As previously noted, some State employees may pay a higher rate as a result of participation in a so-called "special plan", which typically permit a member to retire younger or with fewer years of service. Other State employees may pay a lesser rate as a result of a collective bargaining agreement or other arrangement with the State. The employee contribution rate did not change as a result of the recent experience study or plan design changes.

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

State Employee and Teacher Retirement Program annual and/or biennial costs are defined as those normal and UAAL costs required by State law and the Maine Constitution to fund the plan. The State is currently required by the Maine Constitution to fully fund the State Employee and Teacher Retirement Program by June 30, 2028.

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

The State appropriates funding for pension costs associated with the State Plans, covering all State employees and teachers, legislators and judges. Retirement, disability and death benefits provided by the System are funded by employee contributions as set by statute and by employer contributions determined on an actuarial basis. An actuarial valuation is prepared annually and the valuation completed in the even year for each of the state's three defined benefit plans is used to determine the State's employer contribution requirements for the ensuing biennium. For example, the valuation as of June 30, 2010 was used to set contributions for the 2012-2013 biennium, and the valuation dated as of June 30, 2012 will be used for the contributions to be made in the 2014-2015 biennium.

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 State Employee and Teacher Retirement Program's UAAL. As of June 30, 2011, the actuarial value of assets of the State Employee and Teacher Retirement Program (which does not include members of the judicial and legislative programs) was $8,736,885,121 and the actuarial accrued liability was $11,281,665,186 resulting in a UAAL of $2,544,780,065 and a funded ratio of 77.4%. The State is obligated under an amendment to the Maine Constitution adopted in 1995 to amortize the UAAL of the State Employee and Teacher Retirement Program as of June 30, 1996 by no later than the end of fiscal year 2028. As of June 30, 2011, 17 years remained in the current, constitutionally mandated amortization period for the unfunded liability of the State Employee and Teacher Retirement Program. The Maine Constitution also prohibits the creation of new unfunded liabilities other than those arising from experience losses. Any such liabilities are required to be amortized within 10 years. The constitutional requirement does not apply to the Legislative Retirement Program or the Judicial Retirement Program. MainePERS monitors all relevant proposed bills to ensure continued compliance with the constitutional requirement.

The judicial retirement plan had an actuarial surplus of $1,456,487 at June 30, 2011. The legislative retirement plan had an actuarial surplus of $3,314,987 at June 30, 2011.

The State has generally funded its annual required contribution for State employees, teachers, judges and legislators as shown in the table below. Differences between the ARC and the actual contribution may be the result of the differences between projected and actual salary amounts for any given year. Differences may also be the result of additional contributions paid by the State, as required by statute, from general fund surplus money available at the close of a given fiscal year.

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

As of June 30, 2011, the State had a net pension obligation ("NPO") in connection with the State Plans of $2,028,339. The NPO is the cumulative difference between annual pension cost and the employer's contributions to a plan, including the pension liability or asset at transition, if any. Measured is the annual pension cost equal to (a) the ARC, (b) one year's interest on the NPO, and (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under- or over-contributions. "Transition" refers to the point in time when the employer implemented GASB Statement # 27 and measured its initial pension liability or asset at that point in time.

The amount paid by the State in fiscal year 2011 was $333,944,000. The amounts projected to be paid by the State in fiscal years 2012 and 2013 are $253,092,389 and $256,769,981, respectively.

The ARC originally determined for the 2012-2013 biennial budget was based upon an estimate of the assets and liabilities as of June 30, 2010. The estimated assets included the June 30, 2010 assets (at market value), except that the private market values were based on the March 31, 2010 value, with a projection of total cashflows for the year. The liabilities included the June 30, 2009 liabilities, rolled forward based on projected actuarial assumptions for fiscal year 2010. This new process, as compared to the prior process of waiting for all values at June 30 to become available, was recommended by Cheiron, the System's actuary, and approved by the System's Board of Trustees, and was implemented in order to provide employer contribution rates to the State as early as possible in the biennial budget process. The completion of the actuarial valuation as of June 30, 2010 by the System's actuary, using all values as of June 30, 2010, demonstrated no material difference between the estimated results, used to establish the employer contribution, and the results of the actual valuation.

Recent Actuarial Assumption Changes. State law provides that at least once in each six-year period, the System's actuary is to make an investigation into account program demographics and changes in program demographics, employment patterns and projections, relevant economic measures and expectations and other factors that the Board or actuary considers significant. The actuary must also make recommendations for certain modifications of the actuarial assumptions, as needed. As a result of the 2008 adverse market conditions and a specific request from the Legislature in September 2010, the System conducted an experience study for the State Employee and Teacher Retirement Program, which has resulted in the adoption of different assumptions, as described below. Changes to the economic assumptions implemented as a result of the experience study also apply to the Legislative Retirement Program and the Judicial Retirement Program. The final report of the experience study is available at http://www.mainepers.org/bonds.htm.

The results of the experience study led to the adoption by the System's Board of Trustees on April 14, 2011 of certain changes in economic and demographic actuarial assumptions used in the calculation of the liabilities of the State Employee and Teacher Retirement Program.

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

Retirement	Generally more members than expected retire before age 60, and fewer than expected retire after age 60
Turnover	Very close to assumed levels up to 15 years of service; more than expected above 15 years of service
Disability	Very close to assumed levels up to age 50; less than expected above age 50
Mortality	Fewer male deaths and more female deaths occurred than were expected
Individual Salary (Merit)	Increases were generally less than previously assumed

The actuary recommended updating the demographic assumptions, moving partway towards the observed experience and keeping with sound actuarial practices. The MainePERS Board of Trustees adopted the demographic assumption changes recommended by the actuary. The aggregate impact of adoption of these demographic changes was estimated to increase the UAAL by approximately $200 million.

The MainePERS Board of Trustees also adopted the following changes to the economic assumptions, as recommended by the actuary:

	Old Assumption	New Assumption
Discount Rate	7.75%	7.25%
Inflation	4.75%	1.5% for two years and 3.5% thereafter

The impact of the reduction in the discount rate was estimated to increase the UAAL by approximately $700 million. The impact of the reduction in the inflation assumption was estimated to decrease the UAAL by approximately $1.1 billion. The net impact of all the changes to the actuarial assumptions was an estimated decrease in the UAAL by approximately $200 million.

The application of the newly adopted actuarial assumptions to the June 30, 2010 valuation resulted in a decrease in the ARC for the 2012-2013 biennium. The System directed its actuaries to perform the recalculation, which, in combination with the plan changes (see "Recent Legislative Changes Affecting Benefits Levels" below), resulted in changes to the ARC for all State Plans for the 2012-2013 biennium.

Actuarial Valuation. By State law, the System's assets and liabilities are calculated annually by the System's actuaries. Each even year's valuation serves as the basis for the State's ARC in the biennium that begins two years from the date of the valuation. This report is delivered to the State in late October and contains an actuarial valuation of the plans administered by the System as of the end of the most recent fiscal year and sets out the ARC for the upcoming biennium. The report also includes, for each plan, a description of the actuarial assumptions and methods used, a brief summary of the principal plan provisions and a summary of member data. The actuarial reports for the fiscal year ending June 30, 2011 (the most recently completed actuarial report) are incorporated by reference herein and are available at www. mainepers.org/bonds.htm.

The actuarial valuation calculates the actuarial accrued liability for each of the defined benefit plans, which represents the present value of benefits the System will pay to its retired members and active members upon retirement, based on certain demographic and economic assumptions. Some examples of these assumptions include an expected rate of return on assets, age of retirement of active members, future salary increases for current employees and assumed mortality rates for retirees and beneficiaries. If the actual experience of a plan differs from these assumptions, the UAAL of the plan may increase or decrease to the extent of any such variance. This could have a resulting impact on the ARC, which may increase or decrease the amount of the State's contribution to the plans. As previously discussed, the actuarial assumptions of the State Employee and Teacher Retirement Program were recently changed to reflect the results of the latest experience study. See "Recent Actuarial Assumption Changes" above. See also "Recent Legislative Changes Affecting Benefits Levels" below for information regarding legislative changes and the resulting impact on the UAAL and required contributions.

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

With respect to the expected rate of return of assets, the actual rate of return on investments depends on the performance of its investment portfolio. The value of the securities and other investments in the investment portfolio changes from one fiscal year to the next, which, in turn, causes increases or decreases in the funded ratio of each plan and in the UAAL. Currently, the assumed rate of return is 7.25%. This is a reduction from the earlier assumed earnings rate of 7.75% and results from the Board's adoption of new actuarial assumptions at its April 14, 2011 meeting, as described above. For fiscal year 2011, the actuarial rate of return of the assets was 6.89% as compared to an actual market rate of return of 22.11%. Information about the System's Investment Program is available at www. mainepers.org/Investments/Investments.htm.

The following table sets out the actual rate of investment return as compared to the actuarial assumed rate of return (taking into account the three-year smoothing method described below) for the calendar years 2011 through 1990, inclusive.

Calendar Year	Actual Rate of Investment Return	Actuarial Assumed Rate of Return*
2011	0.22%	7.25%
2010	12.20	7.75
2009	21.50	7.75
2008	-27.60	7.75
2007	9.10	7.75
2006	11.30	7.75
2005	7.70	8.00
2004	13.10	8.00
2003	25.60	8.00
2002	-10.30	8.00
2001	-5.00	8.00
2000	-3.80	8.00
1999	15.30	8.00
1998	15.30	8.00
1997	18.50	8.00
1996	13.50	8.00
1995	25.70	8.00
1994	-0.10	8.00
1993	13.90	8.00
1992	7.20	8.00
1991	23.90	8.50
1990	0.00	0.09

*Changes effective July 1 of stated year

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

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

State & Teachers							
Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2011	$11,281,665,186	$8,736,885,121	$2,544,780,065	77.44%	$8,677,947,874	76.90%	100.70%
2010	12,617,144,005	8,313,459,810	4,303,684,195	65.90	7,239,332,094	57.40	114.80
2009	12,321,219,332	8,325,951,236	3,995,268,096	67.60	6,620,849,642	53.70	125.80
2008	11,668,032,511	8,631,557,629	3,036,474,882	74.00	8,311,970,624	71.20	103.80
2007	11,157,770,138	8,245,520,019	2,912,250,119	73.90	8,668,381,195	77.70	95.10
2006	10,547,299,194	7,504,219,546	3,043,079,648	71.10	7,503,201,781	71.10	100.00
2005	9,999,250,038	6,964,597,457	3,034,652,581	69.70	6,997,802,832	70.00	99.50
2004	9,442,389,399	6,452,570,244	2,989,819,155	68.30	6,280,951,942	66.50	102.70
2003	9,442,389,399	6,452,570,244	2,989,819,155	68.30	6,280,951,942	66.50	102.70
2002	8,469,835,410	5,877,158,371	2,592,677,039	69.40	5,092,119,785	60.10	115.40

Judicial							
Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2011	$47,868,297	$49,324,784	-$1,456,487	103.0%	$48,992,049	102.4%	100.7%
2010	53,149,699	47,677,635	5,472,064	89.70	41,517,520	78.10	114.80
2009	50,543,320	48,478,344	2,064,976	95.90	38,550,289	76.30	125.80
2008	47,634,452	50,418,942	-2,784,490	105.80	48,552,160	101.90	103.80
2007	46,842,351	48,225,053	-1,382,702	103.00	50,698,214	108.20	95.10
2006	43,102,409	44,350,649	-1,248,240	102.90	44,344,633	102.90	100.00
2005	41,804,673	41,842,216	-37,543	100.10	42,041,709	100.60	99.50
2004	36,388,731	39,210,995	-2,822,264	107.80	38,168,105	104.90	102.70
2003	41,931,130	41,842,216	88,914	99.80	42,041,709	100.30	99.50
2002	35,752,969	37,071,019	-1,318,050	103.70	32,119,276	89.80	115.40

Legislative							
Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2011	$5,725,193	$9,040,180	-$3,314,987	157.90%	$8,979,197	156.80%	100.70%
2010	6,073,364	8,634,635	-2,561,271	142.20	7,519,010	123.80	114.80
2009	5,499,809	8,717,885	-3,218,076	158.50	6,932,518	126.10	125.80
2008	5,605,005	9,099,133	-3,494,128	162.30	8,762,234	156.30	103.80
2007	5,095,638	8,721,571	-3,625,933	171.20	9,168,846	179.90	95.10
2006	7,944,468	7,944,468	0	100.00	7,943,390	100.00	100.00
2005	7,406,475	7,406,475	0	100.00	7,441,788	100.50	99.50
2004	6,827,478	6,827,478	0	100.00	6,645,888	97.30	102.70
2003	7,406,475	7,406,475	0	100.00	7,441,788	100.50	99.50
2002	6,246,247	6,246,247	0	100.00	5,411,908	86.60	115.40

ALL STATE PLANS							
Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2011	$11,335,258,676	$8,795,250,085	$2,540,008,591	77.60%	$8,735,919,120	77.10%	100.70%
2010	12,676,367,069	8,369,772,080	4,306,594,989	66.00	7,288,368,624	57.50	114.80
2009	12,377,262,461	8,383,147,465	3,994,114,996	67.70	6,666,332,449	53.90	125.80
2008	11,721,271,967	8,691,075,704	3,030,196,263	74.10	8,369,285,018	71.40	103.80
2007	11,209,708,127	8,302,466,643	2,907,241,484	74.10	8,728,248,255	77.90	95.10
2006	10,598,346,071	7,556,514,663	3,041,831,408	71.30	7,555,489,804	71.30	100.00
2005	10,048,461,186	7,013,846,148	3,034,615,038	69.80	7,047,286,328	70.10	99.50
2004	9,485,605,608	6,498,608,717	2,986,996,891	68.50	6,325,765,935	66.70	102.70
2003	9,491,727,004	6,501,818,935	2,989,908,069	68.50	6,330,435,439	66.70	102.70
2002	8,511,834,626	5,920,475,637	2,591,358,989	69.60	5,129,650,969	60.30	115.40

For further information regarding the actuarial method and significant assumptions used to determine the ARC, see Note 6 to the System's Comprehensive Annual Financial Report for the year ended June 30, 2011, which is available at www.mainepers.org/Publications/Publications.htm, and also "Recent Actuarial Assumption Changes" above. The estimated market value of All State Plans as of March 31, 2012 was $10,755,991,411. More recent values are not yet available, but in light of recent declines in equity markets, it is likely that that market value is now less than the March 31 value.

Recent Legislative Changes Affecting Benefits Levels. The Legislature has in the past adopted laws that have had the effect of both increasing and decreasing future retirement benefits payable under one or more of the State Plans. Any increases in retirement benefits have the effect of increasing the actuarial accrued liability of the plan, which also has the effect of increasing the ARC with respect to the State Plans. Any decreases in benefits have the effect of limiting the future growth of the actuarial accrued liability of the plan, which also has the effect of limiting the growth of the ARC for the State for the plan in future years.

By virtue of Article 9, Section 18-A of the Maine Constitution, unfunded liabilities cannot be created in the State Employee and Teacher Retirement Program, except those liabilities resulting from experience losses. Any unfunded liabilities arising from experience losses are further required to be amortized over a period of no more than 10 years.

In June 2011, the 125th Legislature passed 2011 Chapter 380, the biennial budget for fiscal years 2012 and 2013. Part U of the budget established a working group to develop an implementation plan designed to close the current State Employee and Teacher Retirement Program and replace it with a retirement benefit plan that is supplemental to Social Security. The new plan would apply to all state employees and teachers first hired after June 30, 2015. In March, 2012, the Working Group issued its report entitled "New Pension Plan Design and Implementation Plan" which is available at www.mainepers.org. The Legislature considered the report and enacted additional legislation that requires MainePERS to submit, no later than January 15, 2013, proposed legislation to implement the new plan as described in the report.

During the First Regular Session of the 125th Legislature, several changes were made to the State Plans. The changes include: changes to the retiree cost-of-living provisions, including a three-year freeze on cost-of-living adjustments, a reduction in the cost-of-living cap from 4% to 3%, and the establishment of a $20,000 limit on the amount of benefit subject to the cost-of-living adjustment; an increase in the normal retirement age from age 62 to age 65 for non-vested members of the regular plan component of the State Employee and Teacher Retirement Program (the non-special plan tiers); and a change that ties eligibility for subsidized health insurance coverage (health insurance benefits are funded directly by the State) to normal retirement age.

The following table sets forth a projection of the contributions that were expected to be made by the State to pay both the normal cost and to amortize the UAAL of the State Employee and Teacher Retirement Program for the period from fiscal year 2012 through fiscal year 2028 **before** the legislative changes described above. The dollar amounts are shown both as future year dollars and current year (2011) dollars (discounted at a 3.5% rate). The amounts shown in the table below also reflect the recent experience study changes described above.

Projected Contributions - Pre-Legislative Changes

Fiscal Year	Normal Cost (future dollars)	Normal Cost (current dollars)	UAL Payment (future dollars)	UAL Payment (current dollars)	Total Payment (future dollars)	Total Payment (current dollars)
2012	$74,385,840	$ 74,385,840	$340,989,985	$ 340,989,985	$ 415,375,825	$ 415,375,825
2013	75,501,627	72,948,432	346,280,748	334,570,771	421,782,375	407,519,203
2014	78,910,322	73,663,630	443,406,392	413,924,612	522,316,714	487,588,241
2015	81,672,183	73,663,630	458,925,615	413,924,611	540,597,798	487,588,241
2016	84,530,710	73,663,630	533,409,081	464,835,198	617,939,791	538,498,828
2017	87,489,285	73,663,630	552,078,399	464,835,198	639,567,684	538,498,828
2018	90,551,409	73,663,630	603,441,533	490,900,076	693,992,942	564,563,705
2019	93,720,709	73,663,630	624,561,987	490,900,076	718,282,696	564,563,706
2020	97,000,934	73,663,630	663,117,371	503,578,995	760,118,305	577,242,625
2021	100,395,966	73,663,630	686,326,479	503,578,995	786,722,445	577,242,624
2022	103,909,825	73,663,630	670,616,161	475,412,413	774,525,986	549,076,043
2023	107,546,669	73,663,630	639,649,452	438,125,150	747,196,121	511,788,780
2024	111,310,802	73,663,630	618,439,186	409,272,724	729,749,988	482,936,354
2025	115,206,681	73,663,630	610,133,908	390,122,155	725,340,589	463,785,785
2026	119,238,914	73,663,630	606,647,320	374,775,667	725,886,234	448,439,297
2027	123,412,276	73,663,630	612,248,652	365,445,477	735,660,928	439,109,106
2028	127,731,706	73,663,630	620,606,971	357,907,709	748,338,677	431,571,339

The amounts shown above were calculated in 2011 prior to enactment of the legislative changes and do not reflect any changed circumstances since they were prepared. They are presented solely for purposes of showing the projected effects of the legislative changes by comparison to the table below, which shows the projected contributions after the legislative changes described above. The following table sets forth the estimated impacts of the recently enacted legislative changes on the State/Teacher plan for fiscal years 2012 and 2013.

MainePERS Budget/Costs with Legislative Changes	Before Legislative Changes*	After Legislative Changes*	Difference*
FY 2012			
Estimated Normal Cost	$75	$50	$25
Estimated UAL Amortization	341	200	141
Estimated Total Appropriation	416	250	166
FY 2013			
Estimated Normal Cost	76	51	25
Estimated UAL Amortization	346	203	143
Estimated Total Appropriation	422	254	168
FY 2012-13 Estimated Biennial Contribution	838	504	334

*All costs in millions

The changes in the cost-of-living provisions were the most significant contributor to the reduction in the required fiscal year 2012-2013 biennial contributions as detailed above. Specifically, more than 95% of the reduction can be attributed to those changes. The changes also resulted in a significant reduction in the UAAL of the State/Teacher Plan. The UAAL at the start of fiscal year 2012 was approximately $1.77 billion less than it otherwise would have been had the plan design changes not been implemented. Of that reduction in the UAAL, approximately 95% can be attributed to the changes made to the cost-of-living provisions. See “Litigation” below.

The following table sets forth a projection of the contributions expected to be made by the State to pay both the normal cost and to amortize the UAAL of the State Employee and Teacher Retirement Program for the period from fiscal year 2012 through fiscal year 2028. The dollar amounts (expressed as millions) are shown both as future year dollars and current year dollars (discounted at a 3.5% rate). The amounts shown in the table below are based on the plan as in effect **after** the legislative changes and the recent experience study changes.

Projected Contributions – Post-Legislative Changes

Fiscal Year	Normal Cost future dollars*	Normal Cost current dollars*	UAL Cost future dollars*	UAL Cost current dollars*	Total Cost future dollars*	Total Cost current dollars*
2012	$50	$50	$200	$200	$250	$250
2013	51	49	203	196	254	245
2014	53	50	286	267	339	316
2015	55	50	296	267	351	316
2016	57	50	363	316	420	366
2017	59	50	376	316	435	366
2018	61	50	421	342	482	392
2019	63	50	435	342	498	392
2020	66	50	467	355	533	405
2021	68	50	484	355	552	405
2022	70	50	484	343	554	393
2023	73	50	448	307	521	357
2024	75	50	421	279	496	329
2025	78	50	406	260	484	310
2026	81	50	396	245	477	295
2027	83	50	394	235	477	285
2028	86	50	395	228	481	278

*All costs in millions.

The amounts in the preceding paragraph are based on projections derived from current actuarial assumptions and other information now known to the State and the System. The actual amounts required to be contributed by the State in the future will likely differ from these amounts and, depending upon actual circumstances, such differences may be substantial. The actual contributions to be made by the State for any future fiscal year, including the amount required to amortize the then UAAL, will be based upon actual investment results and other factors as they occur in the future and the applicable actuarial valuation used to certify the contribution rates for such year and will reflect all actuarial assumptions and circumstances then in effect. The State cannot predict what the actual dollar amount of required contributions to the System will be for fiscal years beyond fiscal year 2013.

Litigation. On February 13, 2012, a putative class action suit was brought by the Maine Association of Retirees and four of its active members against the Board of Trustees of MainePERS in the United States District Court for the District of Maine. *Maine Association of Retirees v. Board of Trustees of the Maine Public Employees Retirement System, Docket No. 12-CV-00059-DBH.* The Complaint asks the District Court to declare that the 2011 cost-of-living adjustment ("COLA") statutes discussed above violate either or both the Contract Clause of and the Fifth Amendment to the Federal Constitution. In the event the court determines that the 2011 COLA statutes violated either provision, the Plaintiffs request that the court order the MainePERS Board "to make cost-of-living adjustments retroactively beginning in September 2011, and continuing thereafter, pursuant to the provisions of 5 M.R.S.A. § 17806(1)(A) as it provided prior to the enactment of the 2011 COLA amendments for members of the MainePERS System who were retired as of June 20, 2011." The Complaint also seeks an award of costs and attorneys' fees pursuant to 42 U.S.C. § 1988. The case is currently in the initial pleadings phase and the final outcome of the lawsuit is impossible to predict as is the expected time frame for resolution. If the Plaintiffs prevail and the legislative changes related to COLA as discussed in "Recent Legislative Changes Affecting Benefits Levels" above are completely reversed by the Court finding the legislation violated one or more constitutional provisions, it is likely that approximately 95% of the reduction in the State's fiscal year 2012-2013 biennial contributions and the reduction of $1.77 billion in the UAAL would also be reversed.

The System is also involved in a small number of administrative appeals brought by members whose requests have been denied by the System. Most often, those cases are appeals from adverse decisions in connection with applications for disability retirement benefits. Less often, there are administrative appeals involving or relating to group life insurance matters or retirement eligibility matters. In each case, the relief requested by appellants is to have the System's determination in their case reversed and the sought-after benefit granted.

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.

Public Law 2011, Chapter 380 made several changes to the Post-Employment Health Care plan. For both teachers and State employees first employed on or after July 1, 2011 the retirement age was increased to age 65. The benefits earned for State employees hired on or after July 1, 2011 were also modified such that no State paid benefit is earned until after 10 years of service, those with 10 to 15 years earn a 50% premium payment, those with 15 to 20 years earn a 75% premium payment and those with more than 20 years earn a 100% premium payment. Chapter 380 also included language such that those State employees retiring after January 1, 2012 and those teachers retiring after July 1, 2012 must contribute 100% of the individual premium until such time as the retiree reaches normal retirement age.

Title 5 MRSA §286-B authorizes an Irrevocable Trust Fund for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants in the State Employee Plan who are the beneficiaries of the irrevocable trust fund. Annually, beginning with the fiscal year starting July 1, 2007, the Legislature shall appropriate funds to meet the State's obligations under any group health plan, policy or contract purchased by the State Employee Health Commission. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not to exceed 10 years. The unfunded liability for retiree health benefits for eligible participants must be retired in 30 years or less from July 1, 2007. Public Law 2007 Chapter 240 amended Title 5 MRSA Chapter 421 by establishing the Irrevocable Trust for Other Post-employment Benefits. The Maine Public Employees Retirement System holds and invests long-term funds in the irrevocable trust fund. Its fiduciary responsibilities include setting investment policy in order to fund the plan in accordance with a projected disbursement schedule that does not begin before the year 2027. Public Law 2011, Chapter 380, Pt. Y §2 established separate Irrevocable Trust Funds for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants in the Teachers Plan and the First Responders Plan who are the beneficiaries of their irrevocable trust funds. Annually, beginning with the fiscal year starting July 1, 2011 for eligible first responders and July 1, 2013 for eligible teachers, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability in 30 years or less from July 1, 2007.

Contribution requirements are set forth in State law. The annual other post-employment benefit ("OPEB") cost (expense) for each plan is calculated based on the 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 2011 and the related information for each plan are as follows:

(Expressed in Thousands)

	State Employees	Teachers	First Responders
Annual required contribution	$ 120,000	$ 61,000	$ 916
Interest on net OPEB obligation	-	5,000	113
Adjustment to annual required contribution	(1,000)	(8,000)	(184)
Annual OPEB cost	$ 119,000	$ 58,000	$ 845
Contributions made	85,000	18,000	523
Increase (decrease) in net healthcare obligation	34,000	40,000	322
Net healthcare obligation beginning of year	8,228	106,956	2,516
Net healthcare obligation end of year	$ 42,228	$ 146,956	$ 2,838

As of June 30, 2011, there were 8,920 retired eligible State employees, 9,381 retired teachers, and 69 retired first responders. In fiscal year 2011, the State made contributions for other post-employment healthcare benefits of $85 million for retired employees and $18 million for retired teachers. The actuarially determined budgeted amounts for fiscal years 2012 and 2013 are $76 million and $78 million, respectively, for the state employee plan and $23 million each year for the teacher plan.

The funded status of the plans as of June 30, 2011 was as follows:

(Expressed in millions)

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, 2011	$ 111	$ 1,544	$ 1,433	7.19%	$ 567	252.73%
	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%
	June 30, 2009	82	1,311	1,229	6.25%	595	206.55%
Teachers	June 30, 2011	0	806	806	0.00%	1,098	73.41%
	June 30, 2010	0	1,005	1,005	0.00%	1,064	94.45%
	June 30, 2009	0	994	994	0.00%	1,215	81.81%
First Responders	June 30, 2010	0	19	19	0.00%	54	35.60%
	June 30, 2009	0	20	20	0.00%	52	38.67%
	June 30, 2008	0	20	20	0.00%	51	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.

Employee Relations

As of May 11, 2012, the State had approximately 11,863 Executive Branch employees.

The State Employees Labor Relations Act allows State employees in the Executive Branch to engage in collective bargaining. As of May 11, 2012, approximately 10,683 employees were covered by the law. The Maine State Employees Association (MSEA-SEIU) is the bargaining agent for four bargaining units which include approximately 9,095 employees. The American Federation of State, County, and Municipal Employees (AFSCME) represents the employees in State institutions; the Maine State Law Enforcement Association (MSLEA) represents those in law enforcement activities excluding State Police; and the Maine State Troopers Association (MSTA) represents the State Police. The Commissioner of Administrative and Financial Services, acting through the Office of Employee Relations within the Bureau of Human Resources, is the Governor's designee for collective bargaining and is responsible for the negotiations and all other employee relations functions. There are seven bargaining units within the Executive Branch. The State remains in negotiations with the MSEA-SEIU for a successor to the agreement that expired June 30, 2011. The State is also in negotiations with AFSCME for a successor to the agreement that expires June 30, 2012. Current contracts with MSLEA and MSTA expire June 30, 2013.

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

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, 2011:

Interfund Receivables
(Expressed in Thousands)

Due from Other Funds	Due to Other Funds: General	Highway	Federal	Other Special Revenue	Other Governmental
General	$ -	$ -	$ 16,630	$ -	$ -
Highway	1	1	-	-	-
Federal	60	3	218	370	-
Other Special Revenue	79,397	163	256	258	40
Other Governmental	-	-	3	-	-
Employment Security	-	-	13	-	-
Non-Major Enterprise	1,220	1,073	12	25	-
Internal Service	9,662	2,958	4,083	3,341	-
Fiduciary	21,520	-	-	-	-
Total	$ 111,860	$ 4,198	$ 21,215	$ 3,994	$ 40

Due from Other Funds	Employment Security	Non-Major Enterprise	Internal Service	Fiduciary	Total
General	$ -	$ 3,920	$ 5,509	$ -	$ 26,059
Highway	-	-	-	-	2
Federal	-	-	1	-	652
Other Special Revenue	-	20	57	-	80,191
Other Governmental	-	-	-	-	3
Employment Security	-	-	-	-	13
Non-Major Enterprise	-	186	-	-	2,516
Internal Service	-	246	710	9	21,009
Fiduciary	-	-	-	-	21,520
Total	$ -	$ 4,372	$ 6,277	$ 9	$ 151,965

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, 2011:

Schedule of Advances to or from Other Funds
June 30, 2011

(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.

General Fund revenue collections for the month of April 2012 were over budget by $3.9 million or 1.1%. Revenues for the ten-month period ending April 2012 totaled $2,291.4 billion and were over budget by $9.18 million or .4%. Compared to the same period last fiscal year, General Fund revenues are up $42.3 million or 1.9%. Individual Income Tax was over budget for the month by $15 thousand or .01% and was over budget year-to-date through April 2012 by $15 thousand. Sales and Service Provider Taxes, combined, were over budget for the month by $376 thousand or .49%, and 414 thousand or .05% over budget year-to-date. Corporate Tax revenues were under budget for the month by $196 thousand or (-.72%), and $196 thousand or (-.11%) under budget year-to-date. Estate Taxes were under budget by $127 thousand or (-3.9%) for the month and $1.9 million or 7.65% over budget for the year-to- date. Tobacco Taxes were $1.4 million or (-12.1%) under budget for the month, and under budget by $1.7 million or (-1.4%) for the year-to-date. Insurance Companies Tax was over budget by $5.0 million or 47.5% for the month and over budget by $6.9 million or 17.0% for the year-to-date. Fines, Forfeits and Penalties were $403 thousand or (-14.0%) under budget for the month, and $501 thousand or (-2.38%) under budget for the year. Lottery income was over budget by $1.2 million or 33.6% for the month, and over budget by $3.4 million or 8.2% for the year. Transfers for Tax Relief were over budget by $438 thousand or 63.4% for the month, and $572 thousand or .51% over budget for the year-to-date. Other Taxes and Fees were under budget by $483 thousand or (-5.6%) for the month, and were under budget by $1.0 million or (-1.1%) for the year-to-date. “Other Revenues” were over budget for the month by $562 thousand or 5.2%, and over budget by $832 thousand or 3.0% for the year-to-date.

As previously described in this Official Statement, the Revenue Forecasting Committee in December 2010 increased the budgeted revenue for fiscal year 2011 by $111.5 million or 4.7%. The Legislature in February 2011 enacted 2011 Chapter 1 which decreased General Fund budgeted revenues by $1.5 million for fiscal year 2011. The Committee in April 2011 increased General Fund budgeted revenues by $12.1 million or 5.1% for fiscal year 2011. The following tables for fiscal years 2011, 2012 and 2013 reflect the updated budgeted revenue re-projections after the December 2008, the December 2010, and the April 2012 Committee meetings and to reflect the impact of initiatives authorized in 2011 Chapter 567. See “State Budgets” above.

CATEGORY	Fiscal year 2011 baseline budget December 2008 RFC	Fiscal year 2011 budget through 124th 2nd regular Session, June 2010 incl. Dec 2010 RFC revisions	Fiscal year 2011 budget revised by RFC in April 2011
Sales and Use Tax	$1,046,074,023	$904,850,262	$916,746,307
Service Provider Tax	57,814,486	57,814,486	55,214,486
Individual Income Tax	1,523,843,260	1,370,120,000	1,392,702,302
Corporate Income Tax	179,553,010	200,490,112	193,182,264
Cigarette and Tobacco Tax	147,435,703	146,209,555	146,209,555
Insurance Companies Tax	71,990,000	76,765,000	76,765,000
Estate Tax	3,083,156	42,978,079	45,052,787
Fines, Forfeits and Penalties	43,592,953	31,133,161	28,799,339
Income from Investments	43,581	27,332	245,127
Transfer from Lottery Commission	52,534,250	52,034,250	49,034,250
Transfers for Tax Relief Programs	-138,409,003	-112,087,945	-113,986,593
Transfer to Municipal Revenue Sharing	-140,080,816	-93,088,096	-91,930,345
Other Taxes and Fees	137,990,415	149,003,882	149,672,089
Other Revenues	30,811,517	59,224,977	48,357,956
Total Undedicated Revenues	**$3,016,276,535**	**$2,885,475,055**	**$2,896,064,524**

CATEGORY	Fiscal year 2012 baseline budget December 2008 RFC	Fiscal year 2012 budget through 125th 2nd regular Session	Fiscal year 2012 budget revised by RFC in April 2012
Sales and Use Tax	$1,085,745,854	$ 973,220,397	$ 973,220,397
Service Provider Tax	59,555,680	50,366,313	50,366,313
Individual Income Tax	1,579,083,000	1,444,897,209	1,444,897,209
Corporate Income Tax	182,393,700	218,610,460	218,610,460
Cigarette and Tobacco Tax	145,397,809	142,123,350	142,123,350
Insurance Companies Tax	71,990,000	79,215,000	79,215,000
Estate Tax	0	38,260,185	38,260,185
Fines, Forfeits and Penalties	43,592,953	25,754,504	25,754,504
Income from Investments	43,581	106,808	106,808
Transfer from Lottery Commission	52,534,250	50,700,000	50,700,000
Transfers for Tax Relief Programs	-140,560,977	(114,418,263)	(114,418,263)
Transfer to Municipal Revenue Sharing	-145,470,604	(96,854,740)	(96,854,740)
Other Taxes and Fees	140,408,915	132,077,778	132,077,778
Other Revenues	32,350,266	51,390,200	51,390,200
Total Undedicated Revenues	**$3,107,064,427**	**$2,995,449,201**	**$2,995,449,201**

CATEGORY	Fiscal year 2013 baseline budget December 2008 RFC	Fiscal year 2013 budget revised by RFC in April 2012	Fiscal year 2013 budget through 125th 2nd Regular
Sales and Use Tax	$1,127,405,489	$ 1,009,189,596	$ 1,015,989,596
Service Provider Tax	61,840,807	53,586,812	53,586,812
Individual Income Tax	1,621,165,000	1,436,399,714	1,437,199,714
Corporate Income Tax	183,670,455	204,196,901	204,196,901
Cigarette and Tobacco Tax	143,392,221	139,555,285	139,555,285
Insurance Companies Tax	71,990,000	79,215,000	79,215,000
Estate Tax		42,736,287	42,736,287
Fines, Forfeits and Penalties	43,592,953	25,145,756	25,145,756
Income from Investments	43,581	141,684	141,684
Transfer from Lottery Commission	52,534,250	52,550,000	52,550,000
Transfer for Tax Relief Programs	-139,734,150	(110,914,175)	(110,914,175)
Transfer to Municipal Revenue Sharing	-150,191,517	(94,221,379)	(94,601,379)
Other Taxes and Fees	142,602,960	153,989,377	156,489,377
Other Revenues	31,693,401	55,230,031	57,089,772
Total Undedicated Revenues	**$3,190,005,450**	**$3,046,800,889**	**$3,058,380,630**

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 2012, the maximum rate applies to Maine taxable income of $40,700 or greater for married persons filing joint returns ($20,350 for single individuals and married persons filing separate returns and $30,500 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, 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.

Beginning in tax year 2013 the progressive rates will range from 0% to 7.95%, with an infra-marginal rate of 6.5%. The personal exemptions amount will be equal to the amount allowed on the taxpayer's federal income tax return.

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, and prepared food); prescription medicines; certain products used in agricultural and aqua cultural production; certain motor fuels; coal, oil, wood and all other fuels, except electricity, when bought for cooking and heating in residential units; the first 750 kilowatt hours of residential electricity per month; fuel oil or coal, the by-products from the burning of which become an ingredient or component part of tangible personal property for later sale; packaging materials; certain periodicals; sales to incorporated hospitals, licensed and incorporated non-profit nursing homes, licensed and incorporated non-profit boarding care facilities, medical research facilities, schools, regularly organized churches and similar institutions; water pollution and air pollution control facilities certified by the State Commissioner of Environmental Protection; and ninety-five percent (95%) of the sale price of all fuel and electricity purchased for use at a manufacturing facility.

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

Certain Motor Fuel Taxes. An excise tax is imposed at the rate of $0.300 per gallon on internal combustion engine fuel (gasoline) sold or used within the State. An excise tax is imposed on all suppliers of special fuel sold and on all users of special fuel used in the State at the rate of $0.312 per gallon of distillate. Low-energy fuel such as liquefied natural gas, propane, methane and butane is taxed at a rate based on the energy content of each fuel as compared to gasoline. Special fuels include all combustible gases and liquids used in an internal combustion engine, except fuel subject to the gasoline tax. Since 2003, motor fuel tax rates have been subject to indexing annually. Indexing of motor fuel excise tax rates was repealed effective July 1, 2013.

Estate Tax. The 2012-2013 biennial budget reformed this tax with respect to decedents dying after December 31, 2012. The exclusion amount increases from $1,000,000 to $2,000,000. Also beginning in 2013, a progressive rate structure applies: 8% on estate value of more than $2,000,000 but less than or equal to $5,000,000; 10% on estate value of more than $5,000,000 but less than or equal to $8,000,000; 12% on estate value of more than $8,000,000.

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

Tobacco Master Settlement Agreement

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

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

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

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

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 $51,009,048 in fiscal year 2012 pursuant to the Settlement Agreement.

Pursuant to the Settlement Agreement, Participating Manufacturers may dispute annual payment amounts. Participating Manufacturers have disputed certain amounts of each year's payment since 2003. The predominant dispute, though not the only dispute, is that certain Participating Manufacturers have claimed that they are entitled to a downward adjustment in the amount they owe because of loss of market share to non-participating manufacturers. If the Participating Manufacturers prevail on this claim against the State, the amount the State is entitled to for each disputed year would decrease. The State is 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 $616,476,785 in fiscal year 2011. The balance of the State investment pool as of April 30, 2012 was approximately $526,000,000.

Collateralized bank accounts, repurchase agreements and certificates of deposit collateralized by U.S. Treasuries and Agencies and direct holdings in U.S. Treasuries make up the cash pool portfolio. On April 30, 2011 the weighted average final maturity of the pool was 53 days.

CERTAIN PUBLIC INSTRUMENTALITIES

Maine Governmental Facilities Authority

The Maine Governmental Facilities Authority ("MGFA") is authorized to assist in financing the acquisition, construction, improvement, reconstruction or equipping of, or construction of an addition or additions to, structures designed for use as court facilities or state offices and the acquisition, construction, improvement, reconstruction or repair of equipment or other personal property, all of which are rented to agencies of the State. MGFA was created in 1987 and was known as the Maine Court Facilities Authority until 1997 when its name was changed and its purposes were broadened. Under current statutory limits, the MGFA 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 MGFA's bonds. MGFA has no taxing power. As of April 30, 2012, the aggregate principal amount of MGFA's bonds outstanding was $187,865,000. The State has agreed, subject to appropriation, to make rental payments to be applied to payment of MGFA's bonds. Debt service on MGFA's bonds for the State fiscal year ending June 30, 2012 is $24,964,848.

Finance Authority of Maine

The Finance Authority of Maine ("FAME") was created in 1983 to undertake various economic development finance programs and to assume the responsibilities of several smaller state authorities. FAME is currently authorized to insure repayment of commercial loans and to require the State to fund its insurance obligations, from proceeds of bonds of the State or from other sources, provided that insurance obligations and bonds of the State issued to fund insurance obligations shall not exceed in the aggregate at any one time outstanding the principal amount of $90,000,000 plus an additional $4,000,000 with respect to loans for eligible veterans. As of March 31, 2012, amounts outstanding pursuant to these authorizations were $52,566,000 and $630,000 respectively. See "Fiscal Management - Constitutional Debt Limit" herein. Since the creation of FAME in 1983, the Treasurer of State has not been asked to issue bonds of the State to pay off defaulted loans insured by FAME pursuant to these authorizations.

In 1990, FAME was authorized to provide certain student financial assistance services, including continuation of a student loan insurance program meeting certain federal requirements in order to secure loans to students attending institutions of higher education. Pursuant to this authorization, FAME 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, 2012, the student loan insurance obligations of FAME were $715,378,000. 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, FAME 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 FAME include Capital Reserve Provisions. As of March 31, 2012, the aggregate principal amount outstanding of FAME's obligations undertaken pursuant to its Capital Reserve Provisions was $0 for electric rate stabilization projects, $13,820,000 for waste motor oil disposal site remediation projects, and $21,027,000 for other projects. The State has not been asked to restore FAME's Capital Reserve since the inception of its Capital Reserve Provision. See "Governmental Organization - Independent Authorities and Agencies" herein.

Maine State Housing Authority

The Maine State Housing Authority ("MSHA") was created in 1969 to undertake various programs related to housing. The bonds and other obligations of MSHA shall not be a debt of any municipality, the State or any political subdivision thereof and neither the State nor any municipality nor any political subdivision thereof shall be liable thereon. As of April 30, 2012, MSHA had $1,373,745,000 of housing bonds outstanding which require a capital reserve. The statutes governing MSHA include Capital Reserve Provisions. The State has not been asked to restore MSHA's Capital Reserves since the inception of its Capital Reserve Provisions. See "Governmental Organization - Independent Authorities and Agencies" herein. MSHA also has $49,600,000 of Maine Energy, Housing and Economic Recovery Bonds for a grand total of $1,423,345,000 outstanding.

MHSA is also authorized to insure repayment of mortgage loans on Indian housing and to require the State to fund these insurance obligations, from proceeds of bonds of the State or from other sources, provided that insurance obligations shall not exceed in the aggregate at any one time outstanding the principal amount of $1,000,000. As of April 30, 2012, MSHA's Indian housing mortgage insurance obligations were approximately $422,600. See "Fiscal Management – Constitutional Debt Limit" herein.

Maine Municipal Bond Bank

The Maine Municipal Bond Bank ("MMBB") was created in 1972 to lend money to counties, cities, towns, school administrative districts, community school districts, and quasi-municipal corporations to finance certain capital expenditures (the "Original Program"). Bonds and notes issued by the MMBB shall not be in any way a debt or liability of the State and shall not create any debt or debts, liability or liabilities, on behalf of the State or be or constitute a pledge of the full faith and credit of the State. As of April 30, 2012, the aggregate principal amount of the MMBB's bonds outstanding was $1,534,710,000 of which (a) $38,250,000 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) $106,830,000 is attributable to certain grant anticipation bonds payable solely from annual federal highway grants to the State, (c) $219,555,000 is attributable to certain transportation revenue bonds payable solely from certain State revenues, (d) $30,375,000 is for Qualified School Construction Bonds and (e) substantially all of the balance is attributable to the Original Program. The statutes governing the MMBB include Capital Reserve Provisions. The State has not been asked to restore the MMBB's Capital Reserves since the inception of its Capital Reserve Provisions. See "Governmental Organization – Independent Authorities and Agencies" herein.

Maine Health and Higher Educational Facilities Authority

The Maine Health and Higher Educational Facilities Authority ("MHHEFA") was created in 1971 to provide the means to expand, enlarge and establish health care, hospital, nursing home and other related facilities and to assist institutions of higher education in the State to provide facilities and structures. Bonds and notes issued by MHHEFA do not constitute or create any debt or debts, liability or liabilities, on behalf of the State or any political subdivision thereof other than MHHEFA or a loan of credit of the State or a pledge of the faith and credit of the State or of any political subdivision other than MHHEFA. As of April 30, 2012, the aggregate principal amount of MHHEFA's bonds outstanding was $1,268,630,000. The statutes governing MHHEFA include a Capital Reserve Provision. The State has not been asked to restore MHHEFA's Capital Reserve since the inception of its Capital Reserve Provision. See "Governmental Organization - Independent Authorities and Agencies" herein.

Maine Educational Loan Authority

The Maine Educational Loan Authority ("MELA") was established in 1988 to carry out programs making financial and other assistance available to students and their parents to finance costs of attendance at institutions of higher education. Bonds of MELA 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 MELA, 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 MELA. As of April 30, 2012, the aggregate principal amount of MELA's bonds outstanding was $161,790,000. The statutes governing MELA include a Capital Reserve Provision. The State has not been asked to restore MELA's Capital Reserve since the inception of its Capital Reserve Provision. See "Governmental Organization - Independent Authorities and Agencies" herein.

Loring Development Authority

Loring Development Authority ("LDA") was established in 1993 to acquire and manage the former Loring Air Force Base in northern Maine. Bonds of LDA are payable solely from the income, proceeds, revenues and funds of LDA and do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. As of April 30, 2012, LDA had not issued any bonds. The statutes governing LDA include a Capital Reserve Provision. See "Governmental Organization - Independent Authorities and Agencies" herein.

University of Maine System

The University of Maine System (the "University System") includes the University of Maine, established in 1865, and all other public institutions of higher education in Maine, except the Maine Maritime Academy and the seven colleges of the Maine Community College System. Money borrowed by the University System and evidences of indebtedness issued by the University System do not constitute any debt or liability of the State or of any municipality or political subdivision of the State, but shall be payable solely from the revenues of the University System or any project for which they are issued. As of April 30, 2012, the aggregate principal amount of the University System's bonds outstanding was $185,540,000. .

Maine Turnpike Authority

The Maine Turnpike Authority ("MTA") was created in 1941 and has constructed and operates and maintains a turnpike approximately 109 miles long between York and Augusta. Bonds issued by MTA shall not be deemed to be a debt of the State, but such bonds shall be payable exclusively from tolls. The bonds shall not directly or indirectly or contingently obligate the State to levy or pledge any form of taxation whatever therefor or to make any appropriation for the payment thereof. As of April 30, 2012, the aggregate principal amount of MTA's bonds outstanding was $452,550,000.

Maine Public Utility Financing Bank

The Maine Public Utility Financing Bank ("MPUFB") was created in 1981 to lend money to public utilities in the State. Bonds and notes issued by MPUFB do not constitute a debt or liability of the State or of any municipality therein or any political subdivision thereof, or a pledge of the faith and credit of the State or of any such municipality or political subdivision. As of April 30, 2012, the aggregate principal amount of MPUFB's bonds outstanding was $22,600,000.

Maine Port Authority

The Maine Port Authority ("MPA") was established in 1945 and is authorized to acquire, construct and operate any kind of port terminal facility within the State and to acquire and construct any railroad facility within the State. Bonds of MPA do not constitute a debt of the State, or of any agency or political subdivision thereof, but are payable solely from the revenues of MPA, and neither the faith nor credit nor taxing power of the State, or any political subdivision thereof, is pledged to the payment of MPA's bonds. As of April 30, 2012, there were no outstanding bonds of MPA.

LITIGATION

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

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.

The Maine Association of Retirees has sued the Board of Trustees of the Maine Public Employees Retirement System in federal court challenging the constitutionality of legislation that changes the cost of living adjustments ("COLA") for retirees. The Plaintiffs seek to have that portion of the legislation that reduces the COLA, determined null and void. No damages are sought, but attorney fees and costs are requested. If the Plaintiffs prevail on all counts, the State will have to make provision to retroactively reinstate COLA payments to the prior level. Such provision may have an impact on the System's unfunded actuarial liability. To avoid an appearance of conflict, the Office of the Attorney General has contracted outside counsel to defend the Board. Current federal case law is such that predicting the outcome of this case cannot be done with any degree of accuracy. More details regarding the challenged legislation and the pending lawsuit can be found at in the section "Recent Legislative Changes Affecting Benefits Levels".

In fiscal year 2011, the Legislature enacted certain changes to the State's retirement plan and related benefits. One of the changes requires State employees who retire prior to their normal retirement age to pay 100% of their retiree health insurance premiums until they reach normal retirement age. A claimant has alleged that the requirement to pay 100% of the retiree health insurance premium discriminates on the basis of age. The claim is in the early stages of administrative process and limited facts are available. If a court were to conclude that the statute is discriminatory, the State may have to reestablish funding for early retiree health insurance premiums in its budget. It is uncertain whether this claim may affect other possible claimants or benefits. Accordingly, the probability and extent of the budgetary impact, if any, are unknown.

In IMS Health v. Schneider, plaintiffs have prevailed on the merits in a lawsuit that challenged the constitutionality of a Maine statute. Plaintiffs now seek $1.2 million in attorney fees. The probability is high that the federal court will award some attorney fees, but it is low that those fees will be over $1 million.

Walker Digitial, Inc. v. Multi-State Lottery Assoc. is a suit that was brought in Delaware. Maine is a member of the Multi-State Lottery Association (MUSL), through which Maine operates Powerball. No State of Maine entity has yet been served in this case. Although the individual state lottery members are not currently named as defendants, this could change. Plaintiff seeks a percentage of some of the revenue from Powerball. The potential for liability is over $1 million, but the exact figure is not easily calculated. MUSL has indicated that it expects to prevail. The probability of loss is low.

There is pending arbitration regarding the "diligent enforcement" of the 1998 Tobacco Settlement Agreement, by which 46 states and territories settled their claims against major tobacco companies in return for annual payments of funds in perpetuity. This matter does not contemplate a "liability" of the State, but it may result in substantial loss of revenue. The Agreement required the states to "diligently enforce" certain tobacco laws against tobacco companies that did not enter into the Agreement. If the states or some of them did not "diligently enforce" those laws, the settling tobacco companies could seek to decrease the amounts they paid through binding arbitration. The settling companies have filed such an arbitration for the year 2003, and they are contesting Maine's efforts. If Maine loses the arbitration, the future payments to Maine would be diminished by as much as $48.4 million (the amount Maine received in 2003). As this matter is extraordinarily novel and without precedent, it is not possible to gauge the probability of success. The earliest any decision would issue is late 2012. For more details regarding the Settlement Agreement and this dispute, see the section "Tobacco Master Settlement Agreement".

Another matter may result in reduction of future payments to Maine. The dispute involves whether Maine, as part of its Temporary Assistance for Needy Families Program (TANF), met its two-parent work participation rate for the federal fiscal year 2007. The U.S. Department of Health and Human Services has assessed a penalty against Maine of just over $1 million. That penalty is now in abeyance pending the State's execution of a corrective action plan, which may result in abatement of the penalty. It is unclear whether Maine will realize this loss, which will result in that amount being deducted from future federal payments for the TANF program in Maine.

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STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX B

Selected Financial Information Pertaining to the State of Maine for Fiscal Years 2007 through 2011

INDEX TO FINANCIAL INFORMATION

Section I - General Purpose Financial Statements of the State of Maine for the Year Ended June 30, 2011

INDEX TO FINANCIAL INFORMATION

Section II - Certain Information from the State Controller's Budgetary and Legal Requirements Reports for Fiscal Years 2007 through 2011 (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, 2011, 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, ConnectME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth 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	94%	96%

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, 2011, 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, and grant agreements and other matters will be issued under separate cover. The purpose of that report is to describe the scope of our testing 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. 54 - Fund Balance Reporting and Governmental Fund Type Definitions.*

The Management's Discussion and Analysis on pages 4 through 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 106 through 117, 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 introductory section, the supplementary information – combining statements and individual fund statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information - combining statements and individual fund statements and schedules on pages 120 through 173 has been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section on pages ii through xiii and the statistical section on pages 178 through 209 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Neria R. Douglass

Neria R. Douglass, JD, CIA
State Auditor
December 29, 2011

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, 2011. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- The State's net assets increased by 6.7 percent from the previous fiscal year. Net assets of Governmental Activities increased by $235.5 million, while net assets of Business-type Activities increased by $56.7 million. The State's assets exceeded its liabilities by $4.7 billion at the close of fiscal year 2011. Component units reported net assets of $2.3 billion, an increase of $206.6 million (9.7 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 $328.8 million, an increase of $17.0 million from the previous year. The General Fund's total fund balance was a negative $243.6 million, an improvement of $71.9 million from the previous year. The Highway Fund total fund balance was $31.8 million, a decline of $24.6 million from the prior year.

- The proprietary funds reported net assets at year end of $634.6 million, an increase of $72.6 million from the previous year. This increase is due to several factors: an increase in the Dirigo Health Fund of $19.5 million, an increase in the Transit, Aviation & Rail Transportation Fund of $49.7 million, an increase in the Alcoholic Beverages Fund of $12.5 million, and an increase in the Information Services Fund of $11.1 million, offset by a decrease in the Employment Security Fund of $20.4 million.

Long-term Debt:

- The State's liability for general obligation bonds increased by $20.1 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $108.1 million in bonds and made principal payments of $88.0 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.

Change in Accounting Principles

The State implemented Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fiscal year 2010 Condensed Statement of Net Assets has been restated to reflect related changes for comparison purposes.

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 18 other component units (6 major and 12 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 increased by 6.7 percent to $4.7 billion at June 30, 2011, 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	
	2011	2010	2011	2010	2011	2010
Current and other noncurrent assets	$ 1,910,362	$ 1,891,198	$ 353,854	$ 361,077	$ 2,264,216	$ 2,252,275
Capital assets	4,861,678	4,618,143	146,357	97,635	5,008,035	4,715,778
Total Assets	**6,772,040**	**6,509,341**	**500,211**	**458,712**	**7,272,251**	**6,968,053**
Current liabilities	1,303,421	1,348,020	32,967	37,184	1,336,388	1,385,204
Long-term liabilities	1,240,167	1,168,334	27,223	38,255	1,267,390	1,206,589
Total Liabilities	**2,543,588**	**2,516,354**	**60,190**	**75,439**	**2,603,778**	**2,591,793**
Net assets (deficit):						
Investment in capital net of related debt	4,165,151	3,945,220	146,357	97,635	4,311,508	4,042,855
Restricted	496,215	535,173 *	300,287	320,648	796,502	855,821 *
Unrestricted (deficit)	(432,914)	(487,406) *	(6,623)	(35,010)	(439,537)	(522,416) *
Total Net Assets	**$ 4,228,452**	**$3,992,987**	**$ 440,021**	**$ 383,273**	**$ 4,668,473**	**$4,376,260**

* As Restated

Changes in Net Assets

The State's fiscal year 2011 revenues totaled $8.0 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 43.0 percent and 42.1 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 $7.7 billion for the year 2011. (See Table A-2) These expenses are predominantly (68.2 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 5.9 percent of total costs. Total net assets increased by $292.2 million.

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

	Governmental Activities 2011	Governmental Activities 2010	Business-type Activities 2011	Business-type Activities 2010	Total Primary Government 2011	Total Primary Government 2010
Revenues						
Program Revenues:						
Charges for Services	$ 488,644	$ 492,251	$ 535,349	$ 489,034	$ 1,023,993	$ 981,285
Operating Grants/Contributions	3,355,823	3,525,858	11,253	44,629	3,367,076	3,570,487
General Revenues:						
Taxes	3,435,859	3,193,659	-	-	3,435,859	3,193,659
Other	172,622	156,515	-	-	172,622	156,515
Total Revenues	7,452,948	7,368,283	546,602	533,663	7,999,550	7,901,946
Expenses						
Governmental Activities:						
Governmental Support	448,917	445,972 *			448,917	445,972
Education	1,706,305	1,752,041			1,706,305	1,752,041
Health & Human Services	3,522,341	3,511,572			3,522,341	3,511,572
Justice & Protection	415,450	412,263			415,450	412,263
Transportation Safety	371,374	327,536 *			371,374	327,536
Other	659,947	682,950			659,947	682,950
Interest	43,202	48,594			43,202	48,594
Business-Type Activities:						
Employment Security			203,693	235,301	203,693	235,301
Lottery			167,956	166,721	167,956	166,721
Military Equip. Maint.			44,765	45,004	44,765	45,004
Dirigo Health			47,980	50,952	47,980	50,952
Other			31,390	28,740	31,390	28,740
Total Expenses	7,167,536	7,180,928	495,784	526,718	7,663,320	7,707,646
Excess (Deficiency) before Special Items and Transfers	285,412	187,355	50,818	6,945	336,230	194,300
Special Items	(36,931)	(11,728)	(7,086)	-	(44,017)	(11,728)
Transfers	(13,016)	37,279	13,016	(37,279)	-	-
Increase (Decrease) in Net Assets	235,465	212,906	56,748	(30,334)	292,213	182,572
Net Assets, beginning of year	3,992,987	3,780,081	383,273	413,607	4,376,260	4,193,688
Ending Net Assets	$ 4,228,452	$ 3,992,987	$ 440,021	$ 383,273	$ 4,668,473	$ 4,376,260

* As reclassified

Governmental Activities

Revenues for the State's Governmental Activities totaled $7.5 billion while total expenses equaled $7.2 billion. The increase in net assets for Governmental Activities was $235.5 million in 2011, resulting mainly from an increase in the State’s investment in capital assets such as land, buildings, and infrastructure. 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 increased by $242.2 million from the prior year; however, net expenses supported by tax revenue also increased by approximately $160.3 million. Furthermore, the State’s Business-type Activities transferred $48.5 million (net) to the Governmental Activities, which included statutorily required profit transfers. However, offsetting these profit transfers were contributions totaling $61.6 million from the Governmental Activities to purchase capital assets that are recorded in the Business-type activities.

The users of the State's programs financed $488.6 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $3.4 billion. $3.6 billion of the State's net costs were financed by taxes and other miscellaneous revenue.

Table A-3: Total Sources of Revenues for Governmental Activities for Fiscal Year 2011

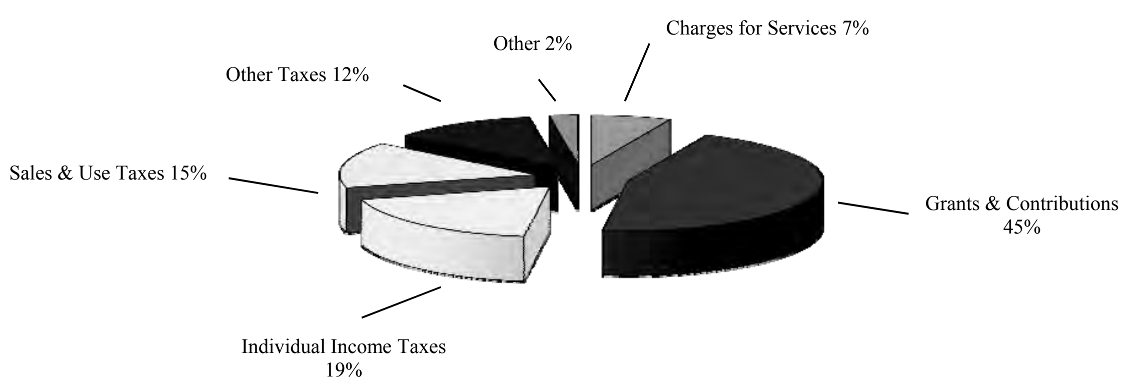
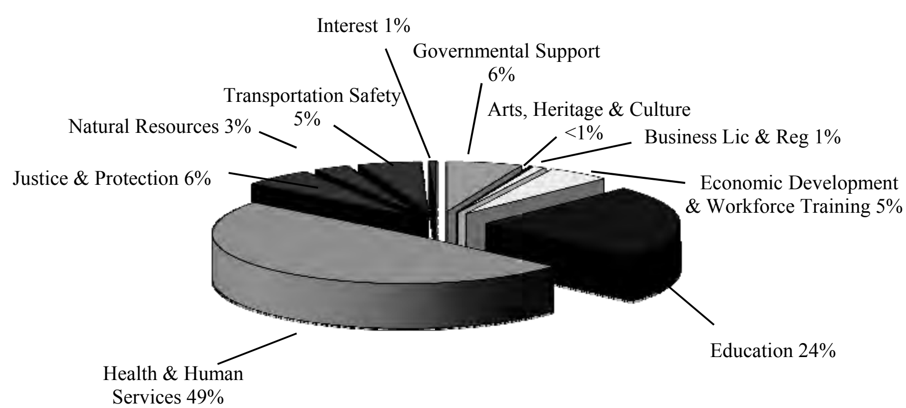


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2011



Business-type Activities

Revenues for the State's Business-type Activities totaled $546.6 million while expenses totaled $495.8 million. The increase in net assets for Business-type Activities was $56.7 million in 2011, due mainly to the contribution from the State's Governmental Activities to purchase capital assets recorded in the Transit, Aviation and Rail Transportation 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 2011	Total Cost 2010	Net (Cost) Revenue 2011	Net (Cost) Revenue 2010
Employment Security	$ 203,693	$ 235,301	$ (19,024)	$ (63,234)
Alcoholic Beverages	-	1	12,533	12,527
Lottery	167,956	166,721	50,125	53,245
Military Equip. Maint.	44,765	45,004	(2,292)	4,483
Dirigo Health	47,980	50,952	23,416	14,657
Other	31,390	28,739	(13,940)	(14,733)
Total	$ 495,784	$ 526,718	$ 50,818	$ 6,945

The cost of all Business-type Activities this year was $495.8 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was $50.8 million, with the Lottery making up $50.1 million of the total. The State's Business-type Activities transferred $48.5 million (net) to the Governmental Activities, which included statutorily required profit transfers. Additionally, the Governmental Activities contributed $61.6 million to purchase capital assets that are recorded in the Business-type activities.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

Fund	2011	2010	Change
General	$ (236,369)	$ (308,248)	$ 71,879
Highway	31,792	56,403	(24,611)
Federal	24,419	22,082	2,337
Other Special Revenue	399,792	442,482	(42,690)
Other Governmental	109,134	99,052	10,082
Total	$ 328,768	$ 311,771	$ 16,997

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $328.8 million, an increase of $17.0 million in comparison with the prior year. Of this total amount, $20.3 million (6.2 percent) is classified as non-spendable, either due to its form or legal constraints, and $496.4 million (151.0 percent) is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. Unspent bond proceeds, revenue restricted for transportation, natural resources or other programs are included in restricted fund balance. An additional $38.4 million or 11.7 percent of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional $17.1 million or 5.2 percent of total fund balance has been assigned to specific purposes, as expressed by government's intent. At the end of the current fiscal year, the unassigned fund balance of the General Fund was a deficit of $243.6 million, an improvement of $71.9 million.

General Fund revenues and other sources surpassed General Fund expenditures and other uses resulting in an increase in the fund balance by $71.9 million. While expenditures and other uses of the General Fund increased by approximately $79.5 million (2.5 percent) led by an increase in expenditures for health and human service of $174.2 million, transfers to other funds and expenditures for education decreased by $38.5 million and $30.5 million respectively; General Fund revenues and other sources also increased by $186.2 million (6.0 percent) which is mainly attributed to an increase in tax revenue ($170.5 million).

The fund balance of the Highway Fund decreased $24.6 million from fiscal year 2010, due mainly to an increase in the transportation, safety and development expenditures by approximately $33.4 million (as reclassified) offset by the Highway Fund's reimbursement of approximately $8.3 million from the Federal Fund for prior period expenditures that were ultimately approved for federal funding.

Budgetary Highlights

For the 2011 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $2.9 billion, an increase of about $191 million from the original legally adopted budget of approximately $2.7 billion. Actual expenditures on a budgetary basis amounted to approximately $76.2 million less than those authorized in the final budget. After deducting the encumbered obligations and other commitments that will come due in fiscal year 2012, including the budgeted starting balance for Fiscal Year 2011, there were funds remaining of $82 million to distribute in Fiscal Year 2011. Actual revenues exceeded final budget forecasts by $17.5 million. As a part of the final budget adjustment for Fiscal Year 2011, the Legislature approved direct transfers to the State's Budget Stabilization Fund in the amount of $35.8 million. In addition, the year-end cascade transferred another $10.3 million to the State's Budget Stabilization Fund. The additional transfer and interest earnings increased the balance in the Fund to $71.4 million as of June 30, 2011. This item is further explained in Note 2 of Notes to the Financial Statements. The year-end cascade also transferred $5.9 million to the Operating Capital Fund, increasing the balance in that fund to $17.1 million as of June 30, 2011.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2011, the State had roughly $5.0 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2011, the State acquired or constructed more than $346.5 million of capital assets. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of roads and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land	$ 488,197	$ 473,464	$ 58,888	$ 43,076	$ 547,085	$ 516,540
Buildings	592,943	589,375	9,449	8,465	602,392	597,840
Equipment	254,392	254,744	67,037	49,548	321,429	304,292
Improvements	19,602	19,576	63,342	74,572	82,944	94,148
Infrastructure	3,814,466	3,600,246	-	-	3,814,466	3,600,246
Construction in Progress	119,419	90,974	32,024	8,789	151,443	99,763
Total Capital Assets	5,289,019	5,028,379	230,740	184,450	5,519,759	5,212,829
Accumulated Depreciation	427,341	410,236	84,383	86,815	511,724	497,051
Capital Assets, net	$ 4,861,678	$ 4,618,143	$ 146,357	$ 97,635	$ 5,008,035	$ 4,715,778

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 8,807 highway miles or 17,921 lane miles within the State. Bridges have a deck area of 11.7 million square feet among 2,960 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2011, the actual average condition was 74.8. Its policy for bridges is an average sufficiency rating condition assessment of

60. The actual average condition for bridges was 78 at June 30, 2011. Preservation costs for fiscal year 2011 totaled $110.7 million compared to estimated preservation costs of $94.0 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 414, PL 2009, $25 million in Highway fund bonds and $5 million in General fund bonds was spent during FY2011. Of the amount authorized by Chapter 645, PL 2009, $10 million was spent during FY2011.

Additional information on infrastructure assets can be found in Required Supplementary Information (RSI).

Long-Term Debt

The State Constitution authorizes general obligation long-term borrowing, with 2/3 approval of the Legislature and ratification by a majority of the voters, and general obligation short-term notes, of which the principal may not exceed an amount greater than 10 percent of all moneys appropriated, authorized and allocated by the Legislature from undedicated revenues to the General Fund and dedicated revenues to the Highway Fund for that fiscal year, or greater than 1 percent of the total valuation of the State of Maine, whichever is the lesser.

At year-end, the State had $1.4 billion in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

Table A-8 - Outstanding Long-Term Debt
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	$ 520,230	$ 500,100	$ -	$ -	$ 520,230	$ 500,100
Other Long-Term Obligations	910,156	836,743	2,283	808	912,439	837,551
Total	$ 1,430,386	$ 1,336,843	$ 2,283	$ 808	$ 1,432,669	$ 1,337,651

During the year, the State reduced outstanding long-term obligations by $88.0 million for outstanding general obligation bonds and $689.7 million for other long-term debt. Also during fiscal year 2011, the State incurred $872.7 million of additional long-term obligations.

Credit Ratings

The State's credit was rated during fiscal year 2011 by Moody's Investors Service as Aa2 with a stable outlook and by Standard & Poor's as AA with a negative outlook.

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

National and state economic conditions have shown little to no improvement over recent months. Maine's economic activity index shows weak growth and remains well below pre-recession levels. Nationwide, consumer sentiment and small business optimism have both declined over the course of the year. According to the U.S. Bureau of Economic Analysis, personal income in Maine was 3.9 percent higher in the second quarter of 2011 than it was in the second quarter of 2010. After rising on a quarter-over-quarter basis for three straight quarters, the price of a barrel of oil fell 12.5 percent in the third quarter of 2011. Since the end of the homebuyer tax credit in May 2010, home sales in Maine and the U.S. have fallen on a year-over-year basis in three of the last four quarters and are just slightly above the bottom reached in early 2009. After hitting bottom in February 2011, housing permits in Maine inched up to about where they were in January 2009. Home prices in the Portland metropolitan area increased 1.0 percent year-over-year in the second quarter of 2011. Foreclosure starts and mortgage delinquencies remain well above pre-recession levels but below peak crisis levels.

The November 2011 economic forecast continues to see little progress in the national and state economic recovery through 2012, partly due to the European debt crisis and the expected recession in the euro zone. The revised forecast lowers the expectations for wage and salary employment growth through 2014. Personal income growth was generally revised downward for the near term. After an upward revision in growth in the Consumer Price Index (CPI) for 2011, the November forecast made a large downward revision for 2012, a slight downward revision in 2013 and no changes for 2014-2015. The downward revision for CPI growth in 2012 and 2013 are due to reduced expectations for global economic demand growth and the relatively high prices for food and energy seen in 2010 and 2011.

The unemployment rate in Maine has been below the national average throughout the recession and during the early stages of the economic recovery. The rate in Maine stood at 7.3 percent in October, which is below both the national and New England averages. Maine is forecasted to return to its pre-recession wage and salary employment level after 2015.

After falling for two straight years, General Fund revenue increased by 6.9 percent in FY11. Growth is projected to be well below that rate in fiscal years 2012-2014 because of significant tax reductions enacted by the Legislature during the last legislative session. Revenue growth is projected to return to a more moderate pace of 4.1 percent in fiscal year 2015 once the tax cuts are fully implemented.

At June 30, 2011, the deficit in the State of Maine's Unassigned Fund Balance Account in the General Fund has decreased to $243.6 million (from a deficit unassigned balance of $312.7 for fiscal year 2010). This decrease is primarily due the State not using a one-day borrowing from the Other Special Revenue Fund to balance the budget which totaled $79 million in fiscal year 2010.

There are several factors that adversely affect our General Fund Balance Sheet that we should strive to improve over the next several years. One cause for the current condition is the Medicaid liabilities that accrue at the end of each fiscal year. 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 Unassigned 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, 2011
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 313,188	$ 18,228	$ 331,416	$ 86,244
Cash and Cash Equivalents	282	2,166	2,448	107,457
Cash with Fiscal Agent	144,748	-	144,748	-
Investments	78,256	-	78,256	642,769
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	27,319	-	27,319	-
Restricted Deposits and Investments	3,971	265,354	269,325	21,650
Inventories	5,582	2,387	7,969	2,110
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	371,925	-	371,925	-
Loans Receivable	4,933	-	4,933	94,729
Notes Receivable	-	-	-	960
Other Receivables	211,761	60,906	272,667	79,179
Internal Balances	2,169	(2,169)	-	-
Due from Other Governments	494,762	-	494,762	157,835
Due from Primary Government	-	-	-	16,641
Loans receivable from primary government	-	-	-	21,276
Due from Component Units	40,583	-	40,583	-
Other Current Assets	4,802	2,201	7,003	40,671
Total Current Assets	1,704,281	349,073	2,053,354	1,271,521
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	81,896	4,781	86,677	22,628
Assets Held in Trust	-	-	-	5
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	7,168	-	7,168	-
Restricted Deposits and Investments	-	-	-	520,222
Investments	-	-	-	471,620
Receivables, Net of Current Portion:				
Taxes Receivable	93,067	-	93,067	-
Loans Receivable	-	-	-	2,648,029
Notes Receivable	-	-	-	70,402
Other Receivables	752	-	752	12,964
Due from Other Governments	22,898	-	22,898	1,446,450
Loans receivable from primary government	-	-	-	269,643
Due From Primary Government	-	-	-	1,855
Other Noncurrent Assets	-	-	-	33,281
Post-Employment Benefit Asset	300	-	300	9,326
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	4,422,082	90,912	4,512,994	90,234
Buildings, Equipment and Other Depreciable Assets	866,937	139,828	1,006,765	1,289,315
Less: Accumulated Depreciation	(427,341)	(84,383)	(511,724)	(480,168)
Capital Assets, Net of Accumulated Depreciation	4,861,678	146,357	5,008,035	899,381
Total Noncurrent Assets	5,067,759	151,138	5,218,897	6,405,806
Total Assets	$ 6,772,040	$ 500,211	$ 7,272,251	$ 7,677,327

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	$ 766,785	$ 3,637	$ 770,422	$ 92,750
Accrued Payroll	40,616	1,084	41,700	1,016
Tax Refunds Payable	159,964	-	159,964	-
Due to Component Units	22,593	-	22,593	-
Due to Primary Government	-	-	-	40,583
Undistributed Grants and Administrative Funds	-	-	-	13,804
Allowances for Losses on Insured Commercial Loans	-	-	-	14,979
Current Portion of Long-Term Obligations:				
Compensated Absences	4,545	59	4,604	2,514
Due to Other Governments	97,722	-	97,722	2,700
Amounts Held under State & Federal Loan Programs	-	-	-	30,208
Claims Payable	27,006	-	27,006	-
Bonds and Notes Payable	97,440	-	97,440	157,283
Notes Payable	-	-	-	572
Revenue Bonds Payable	17,285	-	17,285	52,442
Obligations under Capital Leases	5,881	-	5,881	1,946
Certificates of Participation and Other Financing Arrangements	25,541	-	25,541	-
Loans Payable to Component Unit	21,276	-	21,276	-
Accrued Interest Payable	7,149	-	7,149	48,562
Deferred Revenue	1,250	12,799	14,049	62,716
Other Current Liabilities	8,368	15,388	23,756	39,008
Total Current Liabilities	1,303,421	32,967	1,336,388	561,083
Long-Term Liabilities:				
Compensated Absences	41,898	823	42,721	-
Due to Component Units	1,742	-	1,742	-
Due to Other Governments	3	-	3	8,904
Amounts Held under State & Federal Loan Programs	-	-	-	48,760
Claims Payable	35,863	-	35,863	-
Bonds and Notes Payable	422,790	-	422,790	3,274,908
Notes Payable	-	-	-	25,783
Revenue Bonds Payable	154,865	-	154,865	1,289,104
Obligations under Capital Leases	27,809	-	27,809	6,224
Certificates of Participation and Other Financing Arrangements	46,289	-	46,289	-
Loans Payable to Component Unit	269,643	-	269,643	-
Deferred Revenue	7,010	25,000	32,010	18,523
Pension Obligation	2,028	-	2,028	-
Other Post-Employment Benefit Obligation	190,622	1,400	192,022	-
Pollution Remediation	39,605	-	39,605	-
Other Noncurrent Liabilities	-	-	-	100,093
Total Long-Term Liabilities	1,240,167	27,223	1,267,390	4,772,299
Total Liabilities	2,543,588	60,190	2,603,778	5,333,382
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,165,151	146,357	4,311,508	675,358
Restricted:				
Transportation Purposes	176,140	-	176,140	-
Business Licensing & Regulation	44,245	-	44,245	-
Justice and Protection	11,416	-	11,416	-
Natural Resources	46,891	-	46,891	-
Health and Human Services	33,828	-	33,828	-
Capital Projects	30,542	-	30,542	-
Government Support & Operations	60,628	-	60,628	-
Unemployment Compensation	-	300,287	300,287	-
Other Purposes	13,933	-	13,933	1,172,379
Funds Held as Permanent Investments:				
Expendable	63,631	-	63,631	-
Nonexpendable	14,961	-	14,961	10,709
Unrestricted	(432,914)	(6,623)	(439,537)	485,499
Total Net Assets	$ 4,228,452	$ 440,021	$ 4,668,473	$ 2,343,945

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	$ 448,917	$ 105,851	$ 29,378	$ -
Arts, Heritage & Cultural Enrichment	11,807	749	3,386	-
Business Licensing & Regulation	69,288	57,772	2,151	-
Economic Development & Workforce Training	374,473	5,972	281,472	-
Education	1,706,305	4,470	309,555	-
Health & Human Services	3,522,341	18,252	2,393,090	-
Justice & Protection	415,450	83,093	63,254	-
Natural Resources Development & Protection	204,379	102,084	46,652	-
Transportation Safety & Development	371,374	110,401	226,885	-
Interest Expense	43,202	-	-	-
Total Governmental Activities	7,167,536	488,644	3,355,823	-
Business-Type Activities:				
Employment Security	203,693	173,416	11,253	-
Alcoholic Beverages	-	12,533	-	-
Lottery	167,956	218,081	-	-
Transportation	11,082	4,182	-	-
Marine Ports	625	-	-	-
Ferry Services	12,711	4,649	-	-
Military Equipment Maintenance	44,765	42,473	-	-
Dirigo Health	47,980	71,396	-	-
Other	6,972	8,619	-	-
Total Business-Type Activities	495,784	535,349	11,253	-
Total Primary Government	$ 7,663,320	$ 1,023,993	$ 3,367,076	$ -
Component Units:				
Finance Authority of Maine	38,267	12,661	26,125	-
Maine Community College System	123,620	17,208	66,706	2,214
Maine Health & Higher Educational Facilities Authority	55,628	50,972	5,446	-
Maine Municipal Bond Bank	71,871	59,032	3,774	37,429
Maine State Housing Authority	283,549	81,536	203,344	-
University of Maine System	678,915	298,211	247,045	22,556
All Other Non-Major Component Units	211,022	41,100	158,604	17,557
Total Component Units	$ 1,462,872	$ 560,720	$ 711,044	$ 79,756

General Revenues:
Taxes:
Corporate
Individual Income
Fuel
Property
Sales & Use
Other
Unrestricted Investment Earnings
Non-Program Specific Grants, Contributions & Appropriations
Miscellaneous Income
Loss on Assets Held for Sale
Tobacco Settlement
Special Items
Transfers - Internal Activities
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning
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
$ (313,688)	$ -	$ (313,688)	$ -
(7,672)	-	(7,672)	-
(9,365)	-	(9,365)	-
(87,029)	-	(87,029)	-
(1,392,280)	-	(1,392,280)	-
(1,110,999)	-	(1,110,999)	-
(269,103)	-	(269,103)	-
(55,643)	-	(55,643)	-
(34,088)	-	(34,088)	-
(43,202)	-	(43,202)	-
(3,323,069)	-	(3,323,069)	-
-	(19,024)	(19,024)	-
-	12,533	12,533	-
-	50,125	50,125	-
-	(6,900)	(6,900)	-
-	(625)	(625)	-
-	(8,062)	(8,062)	-
-	(2,292)	(2,292)	-
-	23,416	23,416	-
-	1,647	1,647	-
-	50,818	50,818	-
$ (3,323,069)	$ 50,818	$ (3,272,251)	$ -
-	-	-	519
-	-	-	(37,492)
-	-	-	790
-	-	-	28,364
-	-	-	1,331
-	-	-	(111,103)
-	-	-	6,239
$ -	$ -	$ -	$ (111,352)
310,693	-	310,693	-
1,455,959	-	1,455,959	-
241,710	-	241,710	-
45,882	-	45,882	-
1,097,900	-	1,097,900	-
283,715	-	283,715	-
17,051	-	17,051	14,830
-	-	-	278,102
107,017	-	107,017	2,090
-	-	-	(1,314)
48,554	-	48,554	-
(36,931)	(7,086)	(44,017)	24,277
(13,016)	13,016	-	-
3,558,534	5,930	3,564,464	317,985
235,465	56,748	292,213	206,633
3,992,987	383,273	4,376,260	2,137,312
$ 4,228,452	$ 440,021	$ 4,668,473	$ 2,343,945

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2011
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Treasurer's Cash Pool	$ 50,221	$ 45,150	$ -	$ 145,501	$ 336	$ 241,208
Cash and Short-Term Investments	119	116	1	43	-	279
Cash with Fiscal Agent	357	713	-	119,147	-	120,217
Investments	-	-	-	-	78,256	78,256
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	-	-	-	-	34,487	34,487
Inventories	1,296	-	831	-	-	2,127
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	430,911	24,823	-	9,258	-	464,992
Loans Receivable	1	35	-	4,897	-	4,933
Other Receivable	72,060	2,442	69,092	67,633	-	211,227
Due from Other Funds	26,059	2	652	80,191	3	106,907
Due from Other Governments	-	-	494,239	-	-	494,239
Due from Component Units	-	-	-	40,467	116	40,583
Other Assets	2,357	-	391	214	13	2,975
Working Capital Advances Receivable	111	-	-	-	-	111
Total Assets	$ 583,492	$ 73,281	$ 565,206	$ 467,351	$ 113,211	$ 1,802,541
Liabilities and Fund Balances						
Accounts Payable	$ 250,849	$ 20,426	$ 435,282	$ 28,364	$ 2,083	$ 737,004
Accrued Payroll	18,574	7,649	4,424	7,201	-	37,848
Tax Refunds Payable	159,958	6	-	-	-	159,964
Due to Other Governments	29,736	-	66,157	-	-	95,893
Due to Other Funds	111,860	4,198	21,215	3,994	40	141,307
Due to Component Units	8,399	85	9,395	893	1,951	20,723
Deferred Revenue	233,491	9,123	2,660	25,747	3	271,024
Other Accrued Liabilities	6,994	2	1,654	1,360	-	10,010
Total Liabilities	819,861	41,489	540,787	67,559	4,077	1,473,773
Fund Balances:						
Non-spendable Legal or Contractual	-	-	-	-	14,961	14,961
Non-spendable in Form	3,846	-	1,222	313	-	5,381
Restricted	3,344	31,792	23,197	343,886	94,173	496,392
Committed	-	-	-	38,444	-	38,444
Assigned	-	-	-	17,149	-	17,149
Unassigned	(243,559)	-	-	-	-	(243,559)
Total Fund Balances	(236,369)	31,792	24,419	399,792	109,134	328,768
Total Liabilities and Fund Balances	$ 583,492	$ 73,281	$ 565,206	$ 467,351	$ 113,211	$ 1,802,541

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, 2011
(Expressed in Thousands)

Total fund balances for governmental funds		$ 328,768
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.	4,932,467	
Less: Accumulated depreciation	(226,597)	4,705,870
Other Post-Employment Benefit Assets are not financial resources		300
Pollution Remediation Receivable		18,995
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	(692,380)	
Interest Payable Related to Long-term Financing	(5,046)	
Certificates of Participation and Other Financing Arrangements	(24,664)	
Due to Federal Government	(1,829)	
Loans Payable to Component Unit	(290,919)	
Compensated Absences	(42,015)	
Pension Obligation	(2,028)	
Other Post-Employment Benefit Obligation	(190,622)	
Pollution Remediation Obligation	(39,605)	(1,289,108)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		269,097
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.		194,530
Net assets of governmental activities		$ 4,228,452

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, 2011
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 2,926,972	$ 218,019	$ -	$ 253,039	$ -	$ 3,398,030
Assessments and Other Revenue	107,878	87,766	3	118,800	-	314,447
Federal Grants and Reimbursements	11,832	-	3,344,827	9,959	-	3,366,618
Service Charges	46,206	5,799	883	102,603	-	155,491
Investment Income	(54)	125	33	653	15,493	16,250
Miscellaneous Revenue	15,805	975	1,180	104,959	9,492	132,411
Total Revenues	3,108,639	312,684	3,346,926	590,013	24,985	7,383,247
Expenditures						
Current:						
Governmental Support & Operations	238,729	3,307	23,878	127,705	6,961	400,580
Economic Development & Workforce Training	34,504	-	287,139	24,282	29,309	375,234
Education	1,389,383	-	309,842	12,526	6,240	1,717,991
Health and Human Services	933,047	-	2,343,477	291,542	3,400	3,571,466
Business Licensing & Regulation	-	-	2,264	65,436	-	67,700
Natural Resources Development & Protection	64,972	33	46,245	91,732	8,186	211,168
Justice and Protection	264,792	31,167	66,765	36,186	1	398,911
Arts, Heritage & Cultural Enrichment	7,081	-	3,396	843	224	11,544
Transportation Safety & Development	7,000	286,732	207,646	87,329	68,821	657,528
Debt Service:						
Principal Payments	89,835	15,100	7,950	9,110	-	121,995
Interest Payments	21,425	5,022	3,922	7,762	-	38,131
Total Expenditures	3,050,768	341,361	3,302,524	754,453	123,142	7,572,248
Revenue over (under) Expenditures	57,871	(28,677)	44,402	(164,440)	(98,157)	(189,001)
Other Financing Sources (Uses):						
Transfer from Other Funds	179,795	12,702	19,691	181,831	1,660	395,679
Transfer to Other Funds	(167,274)	(9,518)	(61,631)	(89,396)	(4,431)	(332,250)
COP's and Other	1,487	882	-	-	2,875	5,244
Loan Proceeds from Component Unit	-	-	-	51,710	-	51,710
Bonds Issued	-	-	-	-	108,135	108,135
Net Other Finance Sources (Uses)	14,008	4,066	(41,940)	144,145	108,239	228,518
Special Item	-	-	(125)	(22,395)	-	(22,520)
Revenues and Other Sources over (under) Expenditures and Other Uses	71,879	(24,611)	2,337	(42,690)	10,082	16,997
Fund Balances at Beginning of Year	(308,248)	56,403	22,082	442,482	99,052	311,771
Fund Balances at End of Year	$ (236,369)	$ 31,792	$ 24,419	$ 399,792	$ 109,134	$ 328,768

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, 2011
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 16,997
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	260,083	
Depreciation expense	(17,650)	242,433
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		(2,747)
Post-employment benefit asset funding, net		(461)
Pollution Remediation Receivable		5,313
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	(108,135)	
Proceeds from other financing arrangements	(2,369)	
Loan proceeds from component unit	(51,710)	
Repayment of bond principal	104,935	
Repayment of other financing debt	16,166	
Repayment of pledged revenue principal	19,185	
Accrued interest	712	(21,216)
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	5,817	
Other post-employment benefit obligation	(72,922)	
Pollution remediation obligation	10,423	
Due to Federal Government - Disallowed Costs in Litigation	(1,829)	
Compensated absences	(504)	(59,015)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		38,310
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.		15,851
Changes in net assets of governmental activities		$ 235,465

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

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2011
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major Employment Security	Non-Major Other Enterprise	Totals	Internal Service Funds
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ -	$ 18,228	$ 18,228	$ 122,115
Cash and Short-Term Investments	1,410	756	2,166	3
Cash with Fiscal Agent	-	-	-	24,531
Restricted Assets:				
Restricted Deposits and Investments	265,354	-	265,354	3,971
Inventories	-	2,387	2,387	3,455
Receivables, Net of Allowance for Uncollectibles:				
Other Receivable	35,273	25,633	60,906	525
Due from Other Funds	13	2,516	2,529	21,009
Other Current Assets	-	2,201	2,201	1,827
Total Current Assets	302,050	51,721	353,771	177,436
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	-	4,781	4,781	31,761
Receivables, Net of Allowance for Uncollectibles:				
Capital Assets - Net of Depreciation	-	146,357	146,357	155,808
Total Noncurrent Assets	-	151,138	151,138	187,569
Total Assets	302,050	202,859	504,909	365,005
Liabilities				
Current Liabilities:				
Accounts Payable	873	2,764	3,637	8,261
Accrued Payroll	-	1,084	1,084	2,768
Due to Other Governments	-	-	-	3
Due to Other Funds	-	4,372	4,372	6,277
Due to Component Units	-	-	-	3,612
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	12,356
Obligations Under Capital Leases	-	-	-	5,881
Claims Payable	-	-	-	27,006
Compensated Absences	-	59	59	299
Deferred Revenue	-	12,799	12,799	419
Other Accrued Liabilities	890	14,498	15,388	461
Total Current Liabilities	1,763	35,576	37,339	67,343
Long-Term Liabilities:				
Working Capital Advances Payable	-	-	-	111
Deferred Revenue	-	25,000	25,000	736
Certificates of Participation and Other Financing Arrangements	-	-	-	34,810
Obligations Under Capital Leases	-	-	-	27,809
Claims Payable	-	-	-	35,863
Compensated Absences	-	823	823	4,129
Other Post-Employment Benefit Obligation	-	1,400	1,400	-
Total Long-Term Liabilities	-	27,223	27,223	103,458
Total Liabilities	1,763	62,799	64,562	170,801
Net Assets				
Invested in Capital Assets, Net of Related Debt	-	146,357	146,357	99,812
Restricted for:				
Unemployment Compensation	300,287	-	300,287	-
Other Purposes	-	-	-	65
Unrestricted	-	(6,297)	(6,297)	94,327
Total Net Assets	$ 300,287	$ 140,060	$ 440,347	$ 194,204
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			(326)	
Net Assets of Business-Type Activities			$ 440,021	

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, 2011
(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	$ -	$ 344,959	$ 344,959	$ 420,669
Assessments	173,415	1,769	175,184	-
Miscellaneous Revenues	1	2,623	2,624	593
Total Operating Revenues	173,416	349,351	522,767	421,262
Operating Expenses				
General Operations	-	282,287	282,287	371,198
Depreciation	-	7,826	7,826	17,006
Claims/Fees Expense	203,693	-	203,693	8,464
Other Operating Expenses	-	-	-	194
Total Operating Expenses	203,693	290,113	493,806	396,862
Operating Income (Loss)	(30,277)	59,238	28,961	24,400
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	11,253	-	11,253	801
Interest Expense	-	-	-	(7,813)
Other Nonoperating Revenues (Expenses) - net	-	12,582	12,582	(1,118)
Total Nonoperating Revenues (Expenses)	11,253	12,582	23,835	(8,130)
Income (Loss) Before Capital Contributions, Transfers and Special Items	(19,024)	71,820	52,796	16,270
Capital Contributions, Transfers and Special Items				
Capital Contributions from (to) Other Funds	-	61,559	61,559	2,927
Transfers from Other Funds	-	7,062	7,062	11,565
Transfers to Other Funds	(1,337)	(54,268)	(55,605)	(2,478)
Special Items	-	(7,086)	(7,086)	(14,411)
Total Capital Contributions, Transfers In (Out) and Special Items	(1,337)	7,267	5,930	(2,397)
Change in Net Assets	(20,361)	79,087	58,726	13,873
Total Net Assets - Beginning of Year	320,648	60,973	381,621	180,331
Total Net Assets - End of Year	$ 300,287	$ 140,060		$ 194,204
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities			(1,978)	
Changes in Business-Types Net Assets			$ 56,748	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2011
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major Employment Security	Non-Major Other Enterprise	Totals	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from Customers and Users	$ 168,589	$ 351,283	$ 519,872	$ 423,684
Payments of Benefits	(204,095)	-	(204,095)	-
Payments to Prize Winners	-	(135,587)	(135,587)	-
Payments to Suppliers	-	(120,987)	(120,987)	(328,909)
Payments to Employees	-	(33,727)	(33,727)	(73,204)
Net Cash Provided (Used) by Operating Activities	(35,506)	60,982	25,476	21,571
Cash Flows from Noncapital Financing Activities				
Operating Transfers In	-	7,062	7,062	11,565
Operating Transfers Out	(1,337)	(54,268)	(55,605)	(2,478)
Special Items - OPEB Trust Contribution	-	-	-	(14,411)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,337)	(47,206)	(48,543)	(5,324)
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	(2,088)	(2,088)	(14,243)
Proceeds from Financing Arrangements	-	-	-	24,186
Principal and Interest Paid on Financing Arrangements	-	-	-	(27,125)
Proceeds from Sale of Capital Assets	-	13	13	19
Net Cash Provided (Used) by Capital Financing Activities	-	(2,075)	(2,075)	(17,163)
Cash Flows from Investing Activities				
Interest Revenue	11,253	82	11,335	801
Net Cash Provided (Used) by Investing Activities	11,253	82	11,335	801
Net Increase (Decrease) in Cash/Cash Equivalents	(25,590)	11,783	(13,807)	(115)
Cash/Cash Equivalents - Beginning of Year	292,354	11,982	304,336	182,495
Cash/Cash Equivalents - End of Year	$ 266,764	$ 23,765	$ 290,529	$ 182,380
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	$ (30,277)	$ 59,238	$ 28,961	$ 24,400
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	-	7,826	7,826	17,006
Decrease (Increase) in Assets				
Accounts Receivable	(4,931)	1,931	(3,000)	1,793
Interfund Balances	(65)	(5,866)	(5,931)	555
Inventories	-	74	74	163
Other Assets	-	-	-	(920)
Increase (Decrease) in Liabilities				
Accounts Payable	(357)	(2,798)	(3,155)	(14,491)
Accrued Payroll Expenses	-	(523)	(523)	319
Due to Other Governments	-	-	-	(11,938)
Change in Compensated Absences	-	74	74	151
Other Accruals	124	1,026	1,150	4,533
Total Adjustments	(5,229)	1,744	(3,485)	(2,829)
Net Cash Provided (Used) by Operating Activities	$ (35,506)	$ 60,982	$ 25,476	$ 21,571
Non Cash Investing, Capital and Financing Activities				
Property Leased, Accrued, or Acquired	-	-	-	5,230
Contributed Capital Assets	-	53,530	53,530	2,927
Decrease of Deferred Revenue From the Sale of Liquor Operations	-	12,500	12,500	-
Special Item - Eastport Cargo Pier	-	(7,086)	(7,086)	-

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

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2011
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Current Assets:			
Equity in Treasurer's Cash Pool	$ -	$ 1,650	$ 9,807
Cash and Short-Term Investments	32,553	-	27
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	18,181	-	-
Loans to Institutions	-	-	-
Interest and Dividends	4,997	4,050	-
Due from Brokers for Securities Sold	104	8,794	-
Investments at Fair Value:			
Debt Securities	103,685	-	-
Equity Securities	3,863,562	-	-
Common/Collective Trusts	7,051,476	-	-
Foreign Governments and Agencies	-	-	11
Other	-	11,944	-
Securities Lending Collateral	279,674	-	-
Due from other funds	-	21,520	-
Investments Held on Behalf of Others	-	5,982,144	61,073
Capital Assets - Net of Depreciation	10,947	-	-
Other Assets	-	5,433	520
Total Assets	11,365,179	6,035,535	71,438
Liabilities			
Accounts Payable	6,053	3,956	1
Due to Other Funds	-	7	2
Due to Other Governments	-	-	-
Due to Brokers for Securities Purchased	-	8,331	-
Agency Liabilities	-	-	71,422
Obligations Under Securities Lending	279,674	-	-
Other Accrued Liabilities	27,759	-	13
Funds Held in Trust - noncurrent			
Total Liabilities	313,486	12,294	71,438
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	11,051,693	6,023,241	-
Total Net Assets	$ 11,051,693	$ 6,023,241	$ -

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, 2011
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 167,630	$1,728,789
State and Local Agencies	443,992	-
Investment Income (Loss):		
Net Increase (Decrease) in the Fair Value of Investments	1,929,070	874,846
Capital Gains Distributions from Investments	-	4,227
Interest and Dividends	107,496	96,619
Securities Lending Income	1,261	-
Less Investment Expense:		
Investment Activity Expense	19,704	-
Securities Lending Expense	(145)	-
Net Investment Income (Loss)	2,018,268	975,692
Miscellaneous Revenues	-	10,889
Transfers In	-	729
Total Additions	2,629,890	2,716,099
Deductions:		
Benefits Paid to Participants or Beneficiaries	760,326	1,488,679
Refunds and Withdrawals	32,993	-
Administrative Expenses	10,104	44,257
Claims Processing Expense	737	-
Transfers Out	-	24,697
Total Deductions	804,160	1,557,633
Net Increase (Decrease)	1,825,730	1,158,466
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	9,225,963	4,864,775
End of Year	$11,051,693	$6,023,241

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, 2011
(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	$ 26,926	$ 16,054	$ 3,973
Cash and Cash Equivalents	5,314	3,713	9,192
Investments	49,232	29,885	28,382
Restricted Assets:			
Restricted Deposits and Investments	-	-	-
Inventories	-	1,272	-
Receivables, Net of Allowance for Uncollectibles:			
Loans Receivable	-	-	51,795
Notes Receivable	-	-	-
Other Receivables	632	8,749	1,554
Due from Other Governments	116	-	-
Due from Primary Government	-	315	-
Loans Receivable from Primary Government	-	-	-
Other Current Assets	1,860	1,078	785
Total Current Assets	84,080	61,066	95,681
Noncurrent Assets:			
Equity in Treasurer's Cash Pool	7,065	4,212	1,042
Assets Held in Trust	-	-	-
Restricted Assets:			
Restricted Deposits and Investments	-	1,141	157,410
Investments	-	12,349	-
Receivables, Net of Current Portion:			
Loans Receivable	-	-	1,165,053
Notes Receivable	25,752	-	-
Other Receivables	-	-	218
Due from Other Governments	-	-	-
Due from Primary Government	-	-	-
Loans Receivable from Primary Government	-	-	-
Post-Employment Benefit Asset	-	9,326	-
Capital Assets - Net of Depreciation	2,163	127,678	-
Other Noncurrent Assets	-	242	-
Total Noncurrent Assets	34,980	154,948	1,323,723
Total Assets	119,060	216,014	1,419,404
Liabilities			
Current Liabilities:			
Accounts Payable	2,275	3,792	89
Accrued Payroll	-	-	-
Compensated Absences	-	1,944	-
Due to Other Governments	-	-	810
Due to Primary Government	-	-	-
Amounts Held under State & Federal Loan Programs	-	-	-
Undistributed Grants and Administrative Funds	11,832	-	-
Allowances for Losses on Insured Commercial Loans	14,979	-	-
Bonds Payable	805	-	52,300
Notes Payable	-	54	-
Obligations under Capital Leases	-	1,310	-
Accrued Interest Payable	-	-	26,866
Deferred Revenue	1,262	1,097	2,734
Other Current Liabilities	3	8,157	-
Total Current Liabilities	31,156	16,354	82,799
Long-Term Liabilities:			
Due to Other Governments	-	-	129
Amounts Held under State & Federal Loan Programs	48,760	-	-
Bonds Payable	763	-	1,287,230
Notes Payable	-	24,600	-
Obligations under Capital Leases	-	2,180	-
Deferred Revenue	-	-	-
Other Noncurrent Liabilities	-	-	-
Total Long-Term Liabilities	49,523	26,780	1,287,359
Total Liabilities	80,679	43,134	1,370,158
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,163	100,917	-
Restricted	14,058	31,914	29,084
Unrestricted	22,160	40,049	20,162
Total Net Assets	$ 38,381	$ 172,880	$ 49,246

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
$ -	$ -	$ 37,168	$ 2,123	$ 86,244
129	1,819	2,506	84,784	107,457
21,039	329,532	180,280	4,419	642,769
-	-	-	21,650	21,650
-	-	-	838	2,110
-	29,251	-	13,683	94,729
-	3	63	894	960
1,187	22,840	39,084	5,133	79,179
134,216	5,490	14,748	3,265	157,835
-	-	10,775	5,551	16,641
21,276	-	-	-	21,276
30,000	-	4,728	2,220	40,671
207,847	388,935	289,352	144,560	1,271,521
-	-	9,752	557	22,628
-	-	-	5	5
348,795	-	3,374	9,502	520,222
-	135,276	306,832	17,163	471,620
-	1,349,143	-	133,833	2,648,029
-	773	39,840	4,037	70,402
-	-	7,134	5,612	12,964
1,446,450	-	-	-	1,446,450
-	-	1,742	113	1,855
269,643	-	-	-	269,643
-	-	-	-	9,326
743	2,617	668,482	97,698	899,381
2,209	7,120	16,169	7,541	33,281
2,067,840	1,494,929	1,053,325	276,061	6,405,806
2,275,687	1,883,864	1,342,677	420,621	7,677,327
468	50,993	19,057	16,076	92,750
-	-	-	1,016	1,016
-	-	-	570	2,514
484	105	-	1,301	2,700
40,467	-	-	116	40,583
30,208	-	-	-	30,208
1,972	-	-	-	13,804
-	-	-	-	14,979
125,176	16,195	9,929	5,320	209,725
-	-	-	518	572
-	-	611	25	1,946
13,668	7,300	-	728	48,562
2,591	13,942	13,780	27,310	62,716
-	-	29,993	855	39,008
215,034	88,535	73,370	53,835	561,083
2,881	4,184	-	1,710	8,904
-	-	-	-	48,760
1,469,311	1,457,681	183,178	165,849	4,564,012
-	-	-	1,183	25,783
-	-	3,989	55	6,224
-	14,933	-	3,590	18,523
-	-	100,011	82	100,093
1,472,192	1,476,798	287,178	172,469	4,772,299
1,687,226	1,565,333	360,548	226,304	5,333,382
743	2,617	474,651	94,267	675,358
523,111	300,700	210,805	73,416	1,183,088
64,607	15,214	296,673	26,634	485,499
$ 588,461	$ 318,531	$ 982,129	$ 194,317	$2,343,945

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Expenses	$ 38,267	$ 123,620	$ 55,628
Program Revenues			
Charges for Services	12,661	17,208	50,972
Program Investment Income	197	2,203	5,446
Operating Grants and Contributions	25,928	64,503	-
Capital Grants and Contributions	-	2,214	-
Net Revenue (Expense)	519	(37,492)	790
General Revenues			
Unrestricted Investment Earnings	562	2,533	87
Non-program Specific Grants, Contributions and Appropriations	-	54,643	-
Miscellaneous Income	(1,781)	1,553	114
Gain (Loss) on Assets Held for Sale	-	-	-
Special Item	-	-	-
Total General Revenues	(1,219)	58,729	201
Change in Net Assets	(700)	21,237	991
Net Assets, Beginning of the Year	39,081	151,643	48,255
Net Assets, End of Year	$ 38,381	$ 172,880	$ 49,246

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
	$ 71,871	$ 283,549	$ 678,915	$ 211,022	$1,462,872
	59,032	81,536	298,211	41,100	560,720
	3,037	5,885	-	3,654	20,422
	737	197,459	247,045	154,950	690,622
	37,429	-	22,556	17,557	79,756
	28,364	1,331	(111,103)	6,239	(111,352)
	123	10	10,663	852	14,830
	-	-	207,131	16,328	278,102
	1,467	-	-	737	2,090
	-	-	(53)	(1,261)	(1,314)
	-	-	-	24,277	24,277
	1,590	10	217,741	40,933	317,985
	29,954	1,341	106,638	47,172	206,633
	558,507	317,190	875,491	147,145	2,137,312
	$ 588,461	$ 318,531	$ 982,129	$ 194,317	$2,343,945

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. In their separately issued financial statements, MGFA records a lease receivable from the State and a liability for bonds issued. However, in accordance with GASBS 14, capital leases that exist between the State and MGFA are not recorded as leases in this report. The assets associated with these leases are reported in the government-wide statements along with the related debt. The corresponding debt service activity is recorded in the Governmental Funds. MGFA financial activity associated with servicing the debt is reported in an internal service fund.

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 313 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 $796.5 million of restricted net assets, of which $114.7 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 the unemployment compensation program, lottery operations and transportation services.

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

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

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

D. FISCAL YEAR-ENDS

All funds and discretely presented major component units are reported using fiscal years which end on June 30, except for the Maine Educational Loan Authority 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 $135 million of Workers' Compensation, $147 million of Bureau of Insurance, and $26 million of Maine Department of Labor surety bonds and letters of credit that are not reflected on the financial statements.

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

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

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

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

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

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

Due from/to Primary Government/Component Units
Numerous transactions are made between the primary government and component units to finance operations, provide services, acquire or construct assets, or repay bonds. To the extent that transactions between funds were not completed as of June 30, "Due from Primary Government" and "Due to Component Unit" receivables and payables have been recorded. 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. Governmental and proprietary fund software is capitalized at $1 million or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if donated, at estimated fair market value at date of acquisition. In some instances, capital assets historical cost were not available. The costs of these assets at the date of acquisitions have been estimated.

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

Capital assets of component units are capitalized upon purchase and depreciated over their estimated useful lives. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 5–60 years for 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, 2011 is $252 million.

Tax Refunds Payable

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

Claims Payable

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

Compensated Employee Absences

In the government-wide statements and proprietary fund financial statements, compensated absences are recorded as a long-term liability as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2011 but paid after the fiscal year end is also reported in the funds. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

Deferred Revenue
In the government-wide statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, amounts recorded as receivable that do not meet the "availability" criterion for recognition as revenue in the current period are classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. Deferred revenue reported in the General Fund 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 Restrictions
Fund balances for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned.

The State reported the following fund balance restrictions:

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

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

Committed Fund Balances – indicates assets can be used only for specific purposes pursuant to constraints imposed by a formal action of the Maine Legislature, the State's highest level of decision-making authority. This formal action is the passage of law by the legislature, creating, modifying, or rescinding an appropriation.

Assigned Fund Balances – include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.

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

F. REVENUES AND EXPENDITURES/EXPENSES

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

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

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

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

NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE

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

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

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

Budget Stabilization Fund

The Maine Budget Stabilization Fund, a fund designation established under Title 5 MRSA C. 142, is included in the negative $244 million unassigned General Fund fund balance. Amounts in the stabilization fund may be expended only to offset a General Fund revenue shortfall. The Governor may also allocate funds for payment of death benefits for law enforcement officers, firefighters and emergency medical services personnel.

Balances in the fund do not lapse, but carry forward each year. Money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. As the fourth priority before any other transfer, the State Controller is required to transfer 35 percent of the unappropriated surplus of the General Fund, when the fund is not at its statutory cap. In accordance with the statute, the State Controller made the required transfer for fiscal year 2011. Per Public Law 2011, Chapter 1, Part M and Public Law 2011, Chapter 28, Part I, an additional $28.2 million was transferred from the General Fund unappropriated surplus to the Budget Stabilization fund. Per Public Law 2011, Chapter 380, Sec RRR-2, $7.6 million was transferred from the Unclaimed Property fund account to the Budget Stabilization fund.

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 2011 actual General Fund revenue, the statutory cap at the close of fiscal year 2011 and during fiscal year 2011 was $353.4 million. At the close of fiscal year 2011, the balance of the Maine Budget Stabilization Fund was $71.4 million. No reductions to the Maine Budget Stabilization Fund balance are required when it exceeds the balance of the statutory cap as a result of a decline of General Fund revenue.

Budget Stabilization Fund Activity
(Expressed in Thousands)

Balance, beginning of year	$ 25,385
Increase in fund balance	46,029
Balance, end of year	$ 71,414

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, 2011, the Legislature decreased supplemental appropriations to the General Fund by $27.4 million.

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

Governmental Fund Balances – Restricted, Committed and Assigned
The State's fund balances represent: (1) restricted purposes, which include balances legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (2) committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature; (3) assigned purposes, which includes balances that are constrained by government's intent to be used for specific purposes, but are neither restricted or committed. A summary of the nature and purpose of these fund balance types at June 30, 2011 are as follows:

Governmental Fund Balances
(Expressed in Thousands)

	Restricted	Committed	Assigned
General Fund:			
Natural Resources Development & Protection	$ 3,344	$ -	$ -
Total	$ 3,344	$ -	$ -
Highway Fund:			
Transportation Safety & Development	$ 28,378	$ -	$ -
Justice and Protection	3,084	-	-
Governmental Support & Operations	327	-	-
Natural Resources Development & Protection	3	-	-
Total	$ 31,792	$ -	$ -
Federal Fund:			
Education	$ 542	$ -	$ -
Governmental Support & Operations	5,305	-	-
Health and Human Services	14,007	-	-
Justice and Protection	1,042	-	-
Natural Resources Development & Protection	2,301	-	-
Total	$ 23,197	$ -	$ -
Other Special Revenue Fund:			
Arts, Heritage & Cultural Enrichment	$ 422	$ 61	$ 28
Business Licensing & Regulation	45,202	325	147
Economic Development & Workforce Training	9,504	3,332	147
Education	2,764	329	149
Governmental Support & Operations	55,159	17,250	466
Health and Human Services	22,007	8,147	13,543
Justice and Protection	8,803	3,825	803
Natural Resources Development & Protection	44,326	4,800	1,695
Transportation Safety & Development	155,700	375	170
Total	$ 343,887	$ 38,444	$ 17,148
Other Governmental Funds:			
Capital Projects	$ 30,542	$ -	$ -
Natural Resources Development & Protection	63,256	-	-
Other	375	-	-
Total	$ 94,173	$ -	$ -

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

Accounting Changes
During fiscal year ended June 30, 2011, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

As a result of implementing this new standard, the State identified additional fiscal year 2010 net asset restrictions totaling $351.0 million on the Statement of Net Assets, of which $325.0 million resulted from enabling legislation from prior fiscal years.

Change in Classification
For the current fiscal year the State recorded $30.7 million of expenditures related to the Bureau of Motor Vehicles within the Transportation Safety and Development function. In the prior fiscal year, similar expenditures totaling $32 million had been classified as Governmental Support and Operations. This change was made to report related revenue and expenditures within the same function.

Additionally, in the current fiscal year, the State recorded $49.9 million in Fuel Tax revenue that had previously been recorded as a Sales and Use Tax. The prior year revenue totaled $49.3 million. This change was made to consistently report Fuel Tax revenue received by the State.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Three internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2011. The Workers' Compensation Fund reported a deficit of $9.5 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of $4.1 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of $1.9 million because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. All of the deficits mentioned above are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of $37.5 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 General Fund shows a deficit fund balance of $236.4 million at June 30, 2011. This deficit is primarily 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, 2011:

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	$ 395,084	$ 23,009	$ 1,650	$ 9,807	$ 429,550
Cash and Cash Equivalents	282	2,166	-	27	2,475
Cash with Fiscal Agent	144,748	-	-	-	144,748
Investments	78,256	-	11,944	-	90,200
Restricted Equity in Treasurer's Cash Pool	34,487	-	-	-	34,487
Restricted Deposits and Investments	3,971	265,354	-	11	269,336
Investments Held on Behalf of Others	-	-	5,982,144	61,073	6,043,217
Other Assets	-	-	-	-	-
Total Primary Government	$ 656,828	$ 290,529	$ 5,995,738	$ 70,918	$ 7,014,013

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, 2011:

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	$ 1,013	$ 55,681	$ -	$ -	$ -	$ -	$ 56,694
US Treasury Notes	-	46,999	-	-	-	-	46,999
Repurchase Agreements	35,036	-	-	-	-	-	35,036
Corporate Notes and Bonds	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	4,474	-	-	-	-	-	4,474
Money Market	-	-	-	-	-	-	-
Cash and Cash Equivalents	-	-	-	-	-	315,807	315,807
Unemployment Fund Deposits with US Treasury	-	-	-	-	-	265,354	265,354
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	156	3,419	139	621	2,407	-	6,742
US Treasury Notes	3,702	13,904	3,721	12,191	-	1,054	34,572
Repurchase Agreements	887	-	-	-	-	-	887
Corporate Notes and Bonds	-	4,364	1,484	4	1,076	5,620	12,548
Other Fixed Income Securities	4,028	-	200	-	46	-	4,274
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	113	-	-	-	-	11,379	11,492
Money Market	-	-	-	-	-	907	907
Cash and Cash Equivalents	-	-	-	-	-	18,036	18,036
Equities	-	-	-	-	-	69,475	69,475
Other	-	-	-	-	-	3,824	3,824
	$ 49,409	$ 124,367	$ 5,544	$ 12,816	$ 3,529	$ 691,456	$ 887,121
NextGen College Investing Plan							5,982,144
Other Assets							-
Cash with Fiscal Agent							144,748
Total Primary Government							$ 7,014,013

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings of investments as described by nationally recognized statistical rating organizations. The State's investment policy limits its investments to those with high credit quality made by or with the advice and upon the due diligence of the State's independent investment advisor. The State limits credit risk in its trusts by ensuring that 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, 2011 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	$ -	$ -	$ -	$ -	$ 56,694	$ -	$ -	$ -	$ 56,694
US Treasury Notes	-	-	-	-	-	-	-	46,999	46,999
Corporate Notes and Bonds	-	-	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	-	-	-	-	2,639	-	-	4,103	6,742
US Treasury Notes	-	-	-	-	4,419	-	-	30,152	34,571
Corporate Notes and Bonds	-	1,938	481	-	394	-	657	9,078	12,548
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
Other Fixed Income Securities	-	43	46	-	45	-	112	4,028	4,274
Total Primary Government	$ -	$ 1,981	$ 527	$ -	$ 64,191	$ -	$ 769	$ 94,360	$ 161,828

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, 2011, 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 $5.8 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, 2011 was $63.3 million and was comprised of the following:

U.S. Instrumentalities	$ 3,088
US Treasury Notes	2,759
Corporate Notes and Bonds	3,161
Other Fixed Income Securities	4,275
Equities	47,612
Cash and Equivalents	361
Other	2,000
Total	$ 63,256

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2011 these disbursements, on average, exceeded $148.4 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, infrastructure, private equity, real estate, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy.

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

Foreign currency forward contracts are used to hedge against the currency risk in the System's foreign equity and fixed income security portfolios. The System's fixed income managers invest in CMOs and Asset-Backed Securities to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2011 the carrying value of the System's CMO and Asset-Backed Security holdings totaled $97.2 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.

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

Cash open collateral is invested in a short-term investment pool, the Core Limited Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2011 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, 2010 was $279.7 million and $274.4 million, respectively.

The following table details the System's derivative investments at June 30, 2011:

(Expressed in Thousands)

	2011 Changes in Fair Value	Fair Value at June 30, 2011		Notional
		Classification	Amount	
Futures:				
Equity Index Futures Contracts	$ 538	OSIC*	$ 274	$ 32,546

*OSIC = Obligations to settle investment contracts

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. See Note 16 for additional information. 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 58 different investment portfolios which are reported at fair value and total $6.0 billion at June 30, 2011.

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, 2011 was $239.4 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, other short-term debt securities issued by U.S. and foreign entities, and 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, 2011 was $247.0 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	$ 239,366
Cash Allocation Account	247,026
Fixed Income Securities	1,607,862
Total Fair Value	$2,094,254

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 20 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 $108.9 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 $5.8 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	$552,469	$118,854	$1	($168,352)	$502,972
Highway	35,345	2,460	35	(10,540)	27,300
Federal	-	92,142	-	(23,050)	69,092
Other Special Revenue	9,690	76,218	5,044	(9,164)	81,788
Other Governmental Funds	-	-	-	-	-
Total Governmental Funds	597,504	289,674	5,080	(211,106)	681,152
Allowance for Uncollectibles	(132,512)	(78,447)	(147)		
Net Receivables	$464,992	$211,227	$4,933		$681,152
Proprietary Funds:					
Employment Security	$ -	$48,982	$ -	($13,709)	$35,273
Nonmajor Enterprise	-	26,638	-	(1,005)	25,633
Internal Service	-	525	-	-	525
Total Proprietary Funds	-	76,145	-	(14,714)	61,431
Allowance for Uncollectibles	-	(14,714)	-		
Net Receivables	$ -	$ 61,431	$ -		$61,431

Component Units – Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance For Uncollectibles	Net Receivables
Finance Authority of Maine	$632	$ -	$31,019	($5,267)	$26,384
Maine Community College System	9,784	-	-	(1,035)	8,749
Maine Health and Educational Facilities Authority	2,297	1,216,848	-	(525)	1,218,620
Maine Municipal Bond Bank	1,187	-	-	-	1,187
Maine State Housing Authority	22,840	1,389,159	803	(10,792)	1,402,010
University of Maine System	51,201	-	41,304	(6,384)	86,121

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, 2011 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ 16,630	$ -	$ -
Highway	1	1	-	-	-
Federal	60	3	218	370	-
Other Special Revenue	79,397	163	256	258	40
Other Governmental	-	-	3	-	-
Employment Security	-	-	13	-	-
Non-Major Enterprise	1,220	1,073	12	25	-
Internal Service	9,662	2,958	4,083	3,341	-
Fiduciary	21,520	-	-	-	-
Total	$ 111,860	$ 4,198	$ 21,215	$ 3,994	$ 40

Due from Other Funds	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 3,920	$ 5,509	$ -	$ 26,059
Highway	-	-	-	-	2
Federal	-	-	1	-	652
Other Special Revenue	-	20	57	-	80,191
Other Governmental	-	-	-	-	3
Employment Security	-	-	-	-	13
Non-Major Enterprise	-	186	-	-	2,516
Internal Service	-	246	710	9	21,009
Fiduciary	-	-	-	-	21,520
Total	$ -	$ 4,372	$ 6,277	$ 9	$ 151,965

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 $65 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.

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 2011, the State of Maine, in accordance with the legislatively authorized budget, recorded several non-routine, nonrecurring transfers.

The Medical Care Services Federal Expenditures Fund transferred $29.7 million to the unappropriated surplus of the General Fund for the federal disallowance related to targeted case management services provided in 2002 and 2003.

The Other Special Revenue Fund transferred $18.2 million to the unappropriated surplus of the General Fund.

Interfund transfers for the year ended June 30, 2011, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ 154	$ 36,033	$ 69,669	$ -
Highway	1,806	-	8,250	1,941	-
Federal	75	-	-	17,609	-
Other Special Revenue	151,078	5,764	17,348	-	2,042
Other Governmental Funds	-	-	-	-	1,660
Employment Security	-	-	-	-	-
Non-Major Enterprise	3,100	3,600	-	177	-
Internal Service	11,215	-	-	-	-
Fiduciary	-	-	-	-	729
Total	$ 167,274	$ 9,518	$ 61,631	$ 89,396	$ 4,431

	Transferred From				
Transferred To	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 49,581	$ 331	$ 24,027	$ 179,795
Highway	-	-	705	-	12,702
Federal	1,337	-	670	-	19,691
Other Special Revenue	-	4,687	237	675	181,831
Other Governmental Funds	-	-	-	-	1,660
Employment Security	-	-	-	-	-
Non-Major Enterprise	-	-	185	-	7,062
Internal Service	-	-	350	-	11,565
Fiduciary	-	-	-	-	729
Total	$ 1,337	$ 54,268	$ 2,478	$ 24,702	$ 415,035

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, 2011:

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	$ 473,464	$ 17,610	$ 2,877	$ 488,197
Construction in progress	90,974	28,445	-	119,419
Infrastructure	3,600,246	214,220	-	3,814,466
Total capital assets not being depreciated	4,164,684	260,275	2,877	4,422,082
Capital assets being depreciated:				
Buildings	589,375	8,657	5,089	592,943
Equipment	254,744	13,832	14,184	254,392
Improvements other than buildings	19,576	26	-	19,602
Total capital assets being depreciated	863,695	22,515	19,273	866,937
Less accumulated depreciation for:				
Buildings	228,757	15,995	5,162	239,590
Equipment	169,699	17,552	12,389	174,862
Improvements other than buildings	11,780	1,109	-	12,889
Total accumulated depreciation	410,236	34,656	17,551	427,341
Total capital assets being depreciated, net	453,459	(12,141)	1,722	439,596
Governmental Activities Capital Assets, net	$ 4,618,143	$ 248,134	$ 4,599	$ 4,861,678

	Beginning Balance	Net Additions	Net Deletions	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 43,076	$ 15,825	$ 13	$ 58,888
Construction in progress	8,789	23,235	-	32,024
Total capital assets not being depreciated	51,865	39,060	13	90,912
Capital assets being depreciated:				
Buildings	8,465	984	-	9,449
Equipment	49,548	18,026	537	67,037
Improvements other than buildings	74,572	5,610	16,840	63,342
Total capital assets being depreciated	132,585	24,620	17,377	139,828
Less accumulated depreciation for:				
Buildings	5,651	269	-	5,920
Equipment	44,628	5,482	507	49,603
Improvements other than buildings	36,536	2,075	9,751	28,860
Total accumulated depreciation	86,815	7,826	10,258	84,383
Total capital assets being depreciated, net	45,770	16,794	7,119	55,445
Business-Type Activities Capital Assets, net	$ 97,635	$ 55,854	$ 7,132	$ 146,357

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	$ 17
Business Licensing and Regulation	355
Economic Development and Workforce Training	1,068
Education	329
Governmental Support and Operations	5,138
Health and Human Services	5,501
Justice and Protection	10,466
Natural Resources Development and Protection	3,907
Transportation Safety and Development	7,875
Total Depreciation Expense – Governmental Activities	$ 34,656

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 314 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, 2011 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, 2011, there were 51 employers participating in these plans. The 742 participants individually direct the $14.4 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, 2011:

	State Employees and Teachers Plan	Consolidated Plan for PLD
Active vested and nonvested members	38,991	10,629
Terminated vested participants	7,278	1,259
Retirees and benefit recipients	29,107	7,610
Total	75,376	19,498
Number of participating employers/sponsors	1	313

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 5 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. Through June 30, 2010, 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 10 year requirement was reduced to 5 years by legislative action). For members with fewer than 5 years of creditable service on July 1, 2011, normal retirement age is 65. 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, 2011, the most recent biennial actuarial valuation date, is as follows:

(Expressed in Thousands)

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	8,795,250	11,335,259	2,540,009	77.6%	1,652,576	153.7%
PLD's	2,119,466	2,267,575	148,109	93.5%	436,015	34.0%

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, 2011		June 30, 2011	
Actuarial cost method	Entry age		Entry age	
Amortization method	Level percent closed		Level dollar open	
Remaining amortization period	17	1	15	
Asset valuation method	3-Year smoothed market		3-Year smoothed market	
Actuarial assumptions:				
Investment rate of return	7.25%		7.25%	
Projected salary increases	3.50%	2	3.50% - 9.50%	
Includes inflation at	3.50%		3.50%	
Cost of living adjustments	2.55%	4	3.12%	
Most recent review of plan experience:	2010	3	2008	3
Former 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%	

[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 2010 was determined by the 2008 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 6 years remained at June 30, 2011

[2] The.projected rate of salary increases include a 3.5% across-the-board increase at each year of service with a revised merit scale of up to 10.5% for State Employees and 13.5% for Teachers. The first 2 fiscal years assume a flat 1.5% pay increase across the board.

[3] The assumptions were adopted by the Trustees as a result of the latest experience study review performed in 2011 and covering the period July 1, 2005 through June 30, 2010.

[4] The cap on annual COLA was lowered from 4.0% per year to 3.0% per year on the first $20,000 of annual benefit (indexed). No COLA will be made until September 2014.

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 2011, the amount due was $5.9 million.

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 2011 for participating entities:

State	
Employees [1]	7.65 - 8.65%
Employer [1]	14.12 - 54.49%
Teachers	
Employees	7.65%
Employer	17.28%
Participating Local Entities	
Employees [1]	3.0 - 8%
Employer [1]	1.9 - 8.1%

[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	$ 328,075
Interest on net pension obligation	608
Adjustment to annual required contribution	(556)
Annual pension cost	328,127
Contributions made	333,944
Increase (decrease) in net pension obligation	(5,817)
Net pension obligation beginning of year	7,845
Net pension obligation end of year	$ 2,028

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2011	328,127	101.77%	2,028
2010	318,171	103.47%	7,845
2009	320,285	99.93%	18,881

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 two non-major discretely presented component units. Under the Ancillary Group Plan, the State acts as the plan administrator only.

Beginning in the fiscal year ending June 30, 2008, each participating employer 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	12,720	27,159	912	67
Retirees	8,920	9,381	69	11
Total	21,640	36,540	981	78
Number of employers	1			2
Contributing entities		1	1	2

STATE EMPLOYEES PLAN FUNDING POLICY

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

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

TEACHERS PLAN AND FIRST RESPONDERS PLAN FUNDING

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

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

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

ANCILLARY GROUP PLAN

The following plan, administered by the State, is financially independent and is not included in the State Retiree Health Internal Service Fund. This multiple-employer agent postemployment benefit plan covers 11 retirees of 2 non-major component units: Maine Educational Center for the Deaf and Hard of Hearing and the Northern New England Passenger Rail Authority. All active employees participate in the State Employee Group Health Insurance Plan. All eligible retired employees who elect coverage are included in this plan. The State Employee Health Commission establishes premiums annually.

ANNUAL OPEB COST

Contribution requirements are set forth in statute. The annual other post-employment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 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	$ 120,000	$ 61,000	$ 916
Interest on net OPEB obligation	-	5,000	113
Adjustment to annual required contribution	(1,000)	(8,000)	(184)
Annual OPEB cost	$ 119,000	$ 58,000	$ 845
Contributions made	85,000	18,000	523
Increase (decrease) in net healthcare obligation	34,000	40,000	322
Net healthcare obligation beginning of year	8,228	106,956	2,516
Net healthcare obligation end of year	$ 42,228	$ 146,956	$ 2,838

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	6/30/2011	119,000	71.43%		42,228
	6/30/2010	92,000	59.78%		8,228
	6/30/2009	77,000	65.43%	28,772	
Teachers	6/30/2011	58,000	31.03%		146,956
	6/30/2010	56,000	33.93%		106,956
	6/30/2009	60,000	30.65%		69,956
First Responders	6/30/2011	845	61.89%		2,838
	6/30/2010	1,051	35.01%		2,516
	6/30/2009	1,045	24.69%		1,833

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plans as of June 30, 2011 was as follows:

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
	June 30, 2011	111	1,544	1,433	7.19%	567	252.73%
State Employees (in millions)	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%
	June 30, 2009	82	1,311	1,229	6.25%	595	206.55%
Teachers (in millions)	June 30, 2011	0	806	806	0.00%	1,098	73.41%
	June 30, 2010	0	1,005	1,005	0.00%	1,064	94.45%
	June 30, 2009	0	994	994	0.00%	1,215	81.81%
	June 30, 2010	0	19,158	19,158	0.00%	53,821	35.60%
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	March 31, 2011	March 31, 2011	June 30, 2010
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	26	26	27
Plan changes	30-year fixed [1]	30-year fixed [1]	20-year fixed
Actuarial (gains) /losses	10-year fixed	15-year fixed	rolling 15 year period
Asset valuation method	investment gains and losses spread over a 5 - year period no less than 80% nor more than 120% of market value	n/a	n/a
Actuarial assumptions:			
Investment rate of return	4.00% 7.25% ultimate	4.00% 7.25% ultimate	4.50%
Projected salary increases	3.25%	3.25%	3.75%
Inflation rate	3.00%	3.00%	3.75%
Healthcare inflation rate	initial - actual premiums [2] ultimate 5.00%	initial - actual premiums [2] ultimate 5.00%	8.00% [2] ultimate 5.00%
Former actuarial assumptions:			
Plan changes	30-year fixed	30-year fixed	20-year fixed
Asset valuation method	market value	n/a	n/a
Investment rate of return	4.80% 7.50% ultimate	4.50%	4.50%
Healthcare inflation rate	ultimate 4.5%	ultimate 4.5%	ultimate 4.5%

[1] Initial UAAL and plan changes are amortized over a 30 year period from 6/30/07.

[2] Healthcare cost assumptions for the first 2 fiscal years include no increase in non-Medicare costs.

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 324 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, 2011 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% per year to the greater of 40% 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 retirement period.

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

Analysis of Funding Progress
(Expressed in Thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Net OPEB Asset	Percentage of OPEB Cost Contributed
June 30, 2011	$ 6,800	$ 6,339	$ 300	93.22%
June 30, 2010	6,800	6,361	761	93.54%
June 30, 2009	5,700	12,377	1,200	217.14%

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plan as of June 30, 2011 was as follows:

(Expressed in Thousands)

		(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
State Employees	June 30, 2011	24,400	78,700	54,300	31.00%	623,600	8.71%
	June 30, 2010	19,700	71,500	51,800	27.55%	615,600	8.41%
	June 30, 2009	17,500	67,900	50,400	25.77%	601,099	8.38%
Teachers	June 30, 2011	27,800	67,600	39,800	41.12%	659,100	6.04%
	June 30, 2010	21,400	60,400	39,000	35.43%	650,600	5.99%
	June 30, 2009	17,700	54,700	37,000	32.36%	591,100	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, 2011	
Actuarial cost method	Entry age normal	
Amortization method	Level percent open	
Asset valuation method	market	
Actuarial assumptions:		
Investment rate of return	7.25%	
Projected salary increases	3.50% - 10.50%	1
Cost of living increases in life benefits	N/A	
Participation percent for future retirees	100.00%	
Form of benefit payment	lump sum	
Former actuarial assumptions:		
Investment rate of return	7.75%	
Projected salary increases	4.75% - 10.00%	

[1] Until fiscal year 2012 the average projected salary increase of 3.5% has been decreased to 1.5%.

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; other post-employment benefits; and obligations for pollution remediation.

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 2011 were:

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

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
General Obligation Debt:					
General Fund	$ 365,775	$ 86,010	$ 72,905	$ 378,880	$ 81,055
Special Revenue Fund	134,325	22,125	15,100	141,350	16,385
Total	$ 500,100	$ 108,135	$ 88,005	$ 520,230	$ 97,440

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2011 until maturity, are summarized in the following table:

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

Fiscal Year	Principal	Interest	Total
2012	$ 97,440	$ 19,714	$ 117,154
2013	95,700	16,514	112,214
2014	78,740	13,182	91,922
2015	64,910	10,412	75,322
2016	49,600	7,990	57,590
2017 - 2021	133,840	13,213	147,053
Total	$ 520,230	$ 81,025	$ 601,255

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2011 are as follows:

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

	Amounts Issued	Outstanding June 30, 2011	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year	Interest Rates
General Fund:					
Series 2002	$ 27,610	$ 2,760	2003	2012	3.00% - 5.75%
Series 2003	97,080	19,410	2003	2013	1.50% - 5.00%
Series 2004	117,275	32,600	2005	2014	2.00% - 5.27%
Series 2005	137,525	61,230	2006	2015	2.00% - 5.27%
Series 2006	52,390	26,185	2007	2016	4.00% - 5.51%
Series 2007	33,975	20,370	2008	2017	4.00% - 5.50%
Series 2008	46,525	32,560	2009	2018	3.00% - 5.13%
Series 2009	96,035	70,030	2011	2019	2.50% - 5.00%
Series 2010	31,755	27,725	2011	2020	1.41% - 4.00%
Series 2011	86,010	86,010	2012	2021	1.625% - 5.00%
Total General Fund		$ 378,880			
Special Revenue Fund:					
Series 2004	$ 13,000	$ 3,625	2005	2014	2.00% - 4.00%
Series 2007	27,000	16,200	2008	2017	4.00% - 5.50%
Series 2008	57,550	40,285	2009	2018	3.00% - 5.13%
Series 2009	37,310	36,640	2011	2019	2.50% - 5.00%
Series 2010	25,080	22,475	2011	2020	1.41% - 4.00%
Series 2011	22,125	22,125	2012	2021	1.625% - 5.00%
Total Special Revenue		$ 141,350			

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, 2011, general obligations bonds authorized and unissued totaled $96.5 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State included $172.2 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, 2011, MGFA did not issue any bonds. At June 30, 2011, there were approximately $20.7 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 $68.5 million in Bond Anticipation Notes during fiscal year 2011. Short term obligations are used to meet temporary operating cash flow needs. At June 30, 2011 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, net pension obligation, other post-employment benefit obligations, and pollution remediation.

Changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2011, are summarized as follows:

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

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 189,080	$ -	$ 16,930	$ 172,150	$ 17,285
COP's and Other Financing	76,291	26,572	31,033	71,830	25,541
Compensated Absences	45,788	5,135	4,480	46,443	4,545
Claims Payable	58,288	169,779	165,198	62,869	27,006
Capital Leases	33,329	5,245	4,884	33,690	5,881
Loans Payable to Component Unit	258,394	51,709	19,184	290,919	21,276
Net Pension Obligation	7,845	328,127	333,944	2,028	-
Other Post-Employment Benefit Obligation	117,700	172,960	100,038	190,622	-
Pollution Remediation	50,028		10,423	39,605	-
Total Governmental Activities	$ 836,743	$ 759,527	$ 686,114	$ 910,156	$ 101,534
Business-Type Activities:					
Compensated Absences	$ 808	$ 127	$ 52	$ 883	$ 59
Other Post-Employment Benefit Obligation	-	4,885	3,485	1,400	-
Total Business-Type Activities	$ 808	$ 5,012	$ 3,537	$ 2,283	$ 59

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2011 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
2012	$ 13,184	$ 70	$ 13,254	$ 29,642	$ 8,339	$ 37,981
2013	10,873	20	10,893	31,382	7,307	38,689
2014	606	6	612	26,990	6,200	33,190
2015	-	-	-	21,520	5,271	26,791
2016	-	-	-	19,432	4,431	23,863
2017 - 2021	-	-	-	66,411	11,643	78,054
2022 - 2026	-	-	-	15,680	3,640	19,320
2027 - 2030	-	-	-	8,260	628	8,888
Total	$ 24,663	$ 96	$ 24,759	$ 219,317	$ 47,459	$ 266,776

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 2011 were:

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

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Loans Payable to Component Unit:					
Federal Funds	$ 76,578	$ 51,710	$ 8,942	$ 119,346	$ 11,094
Special Revenue Fund	181,816	-	10,243	171,573	10,182
Total	$ 258,394	$ 51,710	$ 19,185	$ 290,919	$ 21,276

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, 2011 are as follows:

GARVEE and TransCap Revenue Bonds Outstanding
(Expressed in Thousands)

	Amounts Issued	Outstanding June 30, 2011	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year	Interest Rates
Federal Funds:					
Series 2004	$ 48,395	$ 24,525	2005	2015	2.50% - 5.00%
Series 2008	50,000	43,075	2009	2020	3.25% - 4.00%
Series 2010A	25,915	25,915	2011	2017	2.00% - 5.00%
Series 2010B	24,085	24,085	2018	2022	4.52% - 5.32%
Total Federal Funds		$ 117,600			
Special Revenue Fund:					
Series 2008	$ 50,000	$ 45,455	2009	2023	3.00% - 5.50%
Series 2009A	105,000	99,285	2010	2023	2.50% - 5.00%
Series 2009B	30,000	29,185	2010	2024	2.00% - 5.00%
Total Special Revenue		$ 173,925			

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; for 2010 GARVEE bonds total principal and interest requirements are $66.3 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 2011 were $186.3 million. Current year payments to MMBB for GARVEE bonds were $11.2 million (6.0 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 principal and interest requirements over the life of the 2009A TransCap Revenue Bonds are $144.3 million, with annual requirements up to $10.1 million; for the 2009B TransCap Revenue Bonds total principal and interest requirements are $46.2 million, with annual requirements up to $16.9 million. Total revenue received for revenue sources used as pledged revenues were $38.1 million in fiscal year 2011.

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, 2011 capital assets include $72.6 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of $43.3 million.

OBLIGATIONS UNDER OPERATING LEASES

The State is obligated under certain leases, accounted for as operating leases, in the proprietary funds. Operating leases do not give rise to property rights or lease obligations, and therefore assets and liabilities related to the lease agreements are not recorded in the State's financial statements. Rental expense incurred under operating leases totaled $2.0 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**
2012	$ 5,881	$ 2,471
2013	5,158	2,312
2014	4,522	2,214
2015	4,114	1,945
2016	3,625	1,450
2017 - 2021	12,860	4,878
2022 - 2026	4,083	652
2027 - 2031	299	345
2032 - 2036	-	349
2037 - 2041	-	397
2042- 2046	-	453
2047 - 2050	-	390
Total Minimum Payments	40,542	$ 17,856
Less: Amount Representing Interest	6,852	
Present Value of Future Minimum Payments	$ 33,690	

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 long-term liabilities as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments made to terminated employees as of June 30, 2011 but paid after the fiscal year end is also reported in the funds.

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

Component Unit Bonds Outstanding
(Expressed in Thousands)

Component Unit	Interest Rates	Amount	Maturity Dates
Finance Authority of Maine	1.00%	1,568	2011 – 2025
Maine Community College System	3.0 - 5.0%	24,654	2011 - 2037
Maine Health and Higher Educational Facilities Authority			
debt	2.0 - 6.2%	1,339,530	2011 - 2040
conduit debt	4.5- 7.3%	148,345	2011 - 2043
Maine Municipal Bond Bank	.7 - 6.1%	1,594,487	2011 – 2041
Maine State Housing Authority	0.0 - 5.75%	1,473,876	2011 – 2042
University of Maine System	2.0 - 5.75%	193,107	2011 – 2037

On March 17, 2011 FAME sold its portfolio of federal student loans under the Higher Education Loan Purchase Program. The aggregate principal amount at June 30, 2010 was $166.8 million. On the sale date, the outstanding aggregate loan principal had been reduced to $149.8 million. This transaction resulted in a loss on sale of loans of $7.0 million. The proceeds from the sale of loans, combined with Program cash on hand and a contribution of funds from the bond issuer of $5.2 million were used to fully redeem at par the $172.0 million 2003, 2005 and 2007 Series auction rate bonds and accrued interest outstanding, all of which were secured by the loans sold. Redemption of bonds occurred on scheduled auction dates from March 24, 2011 through April 21, 2011. The bond redemption resulted in a net loss of $.4 million.

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. At June 30, 2011, there were approximately $123.4 million of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues within the reserve fund resolution. At June 30, 2011, there were approximately $13.3 million of defeased bonds outstanding with respect to advance refunded bond issues of the general resolution. The general resolution bonds are considered conduit debt.

Prior to July 1, 2007, UMS advance refunded various bond obligations. Proceeds were primarily used to purchase U.S. Government securities that will provide for future debt service payment on the debt. At June 30, 2011, all refunded bonds are considered defeased.

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. On October 7, 2010 MMBB issued $99.4 million of General Tax-Exempt Bonds with an average interest rate of 4.47 percent to in-substance defease $99.8 million of various outstanding bonds. At June 30, 2011 the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately $149 million.

For the period ended December 31, 2010, MSHA redeemed $196.8 million of its Mortgage Purchase Fund Group bonds from reserve funds, mortgage prepayments, surplus revenues and the proceeds of refunding bonds and $7.2 million of its Housing Finance Revenue Fund Group bonds from subsidy funds. Mortgage Purchase Fund losses of $1.2 million and Housing Finance Revenue Fund Group losses of $55 thousand were attributable to recognition of the bond discount and debt issuance expenses associated with the redeemed bonds.

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
2012	$ 805	$ 122,048	$ 54	$ 16,195	$ 39,430	$ 52,300
2013	56	126,161	600	44,680	7,620	56,805
2014	57	119,549	622	45,160	7,962	57,310
2015	57	116,055	649	51,575	9,990	59,540
2016	57	109,307	671	53,585	6,343	55,285
2017 - 2021	298	482,543	3,787	273,110	35,154	286,135
2022 - 2026	238	321,200	4,746	296,150	32,665	280,300
2027 - 2031	-	145,785	5,863	289,240	33,100	244,410
2032 - 2036	-	23,835	6,967	241,470	18,645	172,985
2037 - 2041	-	2,500	-	159,925	552	74,460
2042 - 2046	-	195	-	15,925	-	-
Net unamortized premium or (deferred amount)	-	25,309	695	(13,139)	1,646	-
Total Principal Payments	$ 1,568	$ 1,594,487	$ 24,654	$ 1,473,876	$ 193,107	$ 1,339,530

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, 2010. 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, 2011 and 2010, the present value of the claims payable for the State's self-insurance plan was estimated at $3.8 million and $3.8 million, respectively. The actuary calculated this based on the State's rate on investments.

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

	2011	2010
Liability at Beginning of Year	$ 3,872	$ 3,525
Current Year Claims and Changes in Estimates	86	1,062
Claims Payments	86	715
Liability at End of Year	$ 3,872	$ 3,872

As of June 30, 2011, fund assets of $23.4 million exceeded fund liabilities of $4.3 million by $19.1 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, 2011.

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 $2.1 million for the fiscal year ended June 30, 2011.

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, 2011:

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

	2011	2010
Liability at Beginning of Year	$ 38,673	$ 38,673
Current Year Claims and Changes in Estimates	8,987	8,961
Claims Payments	8,378	8,961
Liability at End of Year	$ 39,282	$ 38,673

Based on the actuarial calculation as of June 30, 2010, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $46.1 million. The discounted amount is $39.3 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 third-party administration (TPA) services for claims administration, utilization review, and case management services. Premium equivalents are paid to the TPA based upon rates established with the technical assistance of the plan's consulting actuary.

There are two primary health plans available. HMO Choice is a point-of-service plan available to all active employees and retirees not eligible for Medicare. Smart Value is a Medicare Advantage plan available to Medicare eligible retirees. Total enrollment averaged approximately 40,500 covered individuals. This total includes 29,000 active employees and dependents, 4,500 pre-Medicare retirees and dependents, and 7,000 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, 2011, the State recorded a payable of $3.4 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 $19.7 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2011 follows (in thousands):

	Employee Health Fund	Retiree Health Fund
Liability at Beginning of Year	$ 11,965	$ 3,778
Current Year Claims and Changes in Estimates	142,343	18,363
Claims Payments	139,522	17,212
Liability at End of Year	$ 14,786	$ 4,929

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. $48.5 million in retiree healthcare costs were reclassified from the internal service fund to the OPEB Trust Fund, a fiduciary fund. Additionally, $22.0 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 2011, 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	$	21,827
Noncurrent Assets		52,098
Total Assets	$	73,925
Current Liabilities	$	18,035
Long-term Liabilities		43,287
Total Liabilities		61,322
Designated Prize Reserves		4,346
Reserve for Unrealized Gains		8,257
Total Net Assets		12,603
Total Liabilities and Net Assets	$	73,925
Total Revenue	$	68,179
Total Expenses		45,353
Allocation to Member States		22,826
Change in Unrealized Gain on Investments Held for Resale		(2,433)
Change in Net Assets	$	(2,433)

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 2011, 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	$ 86,328
Investments in US Government Securities	158,285
US Government Securities Held for Prize Annuities	374,246
Due from Party Lotteries	21,436
Other Assets	1,140
Total Assets	$ 641,435
Amount Held for Future Prizes	$ 246,048
Grand Prize Annuities Payable	392,972
Other Liabilities	2,174
	641,194
Net Assets, Unrestricted	241
Total Liabilities and Net Assets	$ 641,435
Total Revenue	$ 4,101
Total Expenses	4,364
Excess of revenue over expenses	(263)
Net assets, beginning	504
Net assets, ending	$ 241

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. NextGen had approximately $6.0 billion in net assets at June 30, 2011, which have been recorded in a Private Purpose Trust Fund on the financial statements of the State. Also see Note 16 for additional information.

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, $237.3 million; Maine Community College System, $65.7 million; Maine Municipal Bond Bank, $41.1 million; Finance Authority of Maine, $16.8 million; and Maine State Housing Authority, $5.5 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $29.6 million at June 30, 2011, as a liability in Amounts Held Under State Revolving Loan Programs in their fiduciary financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2011, the State expended $8.2 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 $6.5 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 2010.

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. Certain cases have the potential for liability in excess of $1 million. Even if liability is found, the State should not expect to pay out the full amounts being sought against it in all of the cases. In any given case, however, the State could incur a large judgment.

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, 2011 is $39.6 million. Superfund sites account for approximately $30.4 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 $1.7 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, maintenance and long-term monitoring costs.

Eastern Surplus – The State recorded a liability for pollution remediation activities of approximately $23.2 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, maintenance and monitoring costs. As of June 30, 2011 the State has received $2.2 million in recoveries from the Department of Defense. The State expects to recover additional costs of $18.2 million.

Callahan Mine – The State recorded a liability for pollution remediation activities of approximately $5.5 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 $9.2 million (net of unrealized recoveries of $4 million) related to four of five uncontrolled hazardous substance sites. The State expects to recover $752 thousand in costs. The Uncontrolled Hazardous Substance Sites Program was created in response to the threats and potential threats to human health and the environment posed primarily by abandoned hazardous waste sites. The Uncontrolled Hazardous Substance Sites program is the State's equivalent to the Federal Superfund Program.

The State has the knowledge and expertise to estimate the remediation obligation based on prior experience in identifying and funding similar remediation activities. The standard requires the liability to be measured using the expected cash flow technique. The remediation obligation estimates are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statues or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

MUNICIPAL SOLID WASTE LANDFILLS

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 $14 thousand for fiscal year 2011.

During the 2011 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 2011 fiscal year, the State expended $9 thousand of general obligation bond funds and $3 thousand in solid waste funds were expended 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 $1.5 million, based on current site knowledge, the increasing frequency of residential development near closed municipal landfills, and the discovery of older abandoned dump sites now occupied by residential homes. The DEP currently owes $2.6 million for recent remedial work related to issues involving gas migration from two municipal landfills in the state. The existing municipal landfill bond account has been spent. No bond funds are currently available to cover outstanding 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 $18.3 million. This consists of approximately $12.3 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 2011 fiscal year, $5.55 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2011, amounts encumbered for pollution abatement projects totaled $3.77 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $3.69 million. As of June 30, 2011, DEP estimated the total cost (federal, State, and local) of future projects to be $1 billion.

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

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

CONSTRUCTION COMMITMENTS
A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. Although the outstanding indebtedness for school construction projects is debt of the municipalities, the State subsidizes 45.84 percent of the annual payments. As of June 30, 2011, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $1.2 billion.

At June 30, 2011, the Department of Transportation had contractual commitments of approximately $34.6 million for construction of various highway projects. The State's share of that amount is expected to be approximately $11.1 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.

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 (PM's). The MSA is a settlement of lawsuits brought by many States against the four largest tobacco companies alleging multiple counts of misconduct and claiming punitive and compensatory damages, including a claim for all the State's Medicaid costs caused by or related to tobacco use. The MSA includes provisions to annually compensate the State for smoking-related Medicaid costs and to impose marketing and advertising restrictions on PM's to protect public health. In this settlement, the PM's agreed, among other things, to make annual payments to the states and jurisdictions based on their allocable share of the market. In return, the states agreed to relinquish claims to further damages resulting from, among other things, Medicaid costs. Annual payments fluctuate subject to various adjustments and are partially contingent on the passage and enforcement of a State statute imposing economic conditions related to the State's public health claims on the Nonparticipating manufacturers (NPM's) in the form of an annual escrow payment due from each NPM with in-state sales. The NPM Adjustment is set forth in the Master Settlement Agreement (MSA). If the PM's claim an NPM Adjustment for a given year and prove that they lost market share to the NPM's and it is determined that the MSA was a significant factor contributing to that lost market share then an NPM Adjustment 'shall apply' unless a Settling State passed a qualifying statute and 'diligently enforced' that statute. In effect this means that the Allocated Payment to a Settling State that diligently enforced will not be reduced, but a Settling State that did not diligently enforce its qualifying statute will be subject to a reduction in its payment due to the NPM Adjustment. Due to the provisions of the MSA, a State that is found not to have diligently enforced its qualifying statute may lose up to its entire annual payment amount due to the NPM Adjustment for a given year.

The NPM Adjustment may be claimed each year and has been claimed for each completed calendar year since 2003. Frequently PM's claim entitlement to the NPM Adjustment and either withhold the amount from their annual payments, or place the amount in what is known as a 'disputed payment account'. Each year beginning in 2003 Maine's annual payments have been lower than calculated because many of the PM's have claimed entitlement to the NPM Adjustment and either withheld money or routed it to the disputed payments account. For the year 2003, the Adjustment claimed by the PM's, and calculated as set forth in the MSA, was approximately 18 percent of the total amount paid by the PM's and distributed among the Settling States. However, the total amount related to the NPM Adjustment to which the PMs are entitled is dependent on the number of non-diligent states.

In addition, in the MSA, the PM's agreed to pay $8.6 billion in Strategic Contribution Payments (SCP) to certain states and jurisdictions as compensation for their contribution to the overall settlement. Maine's share of this total amount is approximately $114 million. Maine will receive this amount through ten annual SCP payments starting in 2008. In April 2011, Maine received a total of $50 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, 2011, the Fund included $5.4 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2011 of approximately $142.4 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, 2011, the amount reported in the Fund for claimant liability is $27.4 million. The General Fund shows a $21.5 million payable to the Escheat Fund.

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, 2011, loans outstanding pursuant to these authorizations are $48 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, 2011.

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, 2011, 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, 2011.

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	$ 1,339,530	$ 109,183	no limit	22 MRSA § 2075
conduit debt	148,345		no limit	22 MRSA § 2075
Finance Authority of Maine	45,543	-	$ 474,165	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	1,255,794	139,732	no limit	30-A MRSA §6006
Maine Educational Loan Authority *	171,975	13,991	225,000	20-A MRSA §11424
Maine State Housing Authority	1,437,415	95,073	2,150,000	30-A MRSA §4906
University of Maine System	191,436	2,870	220,000	20-A MRSA §10952
Total	$ 4,590,038	$ 360,849		

* Reported in combining non-major component unit financial statements.
** See Note 16 for additional information.

COMPONENT UNITS
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 $354 thousand from the operating fund as of June 30, 2011 to other financially troubled institutions, with combined loan amounts due the Authority of approximately $8.8 million at June 30, 2011, including loans of $8.5 million reserved at June 30, 2011. These advances were primarily made to assist these institutions in meeting debt service requirements in years prior to fiscal 2011. MHHEFA also has approximately $.4 million of other receivables outstanding with the operating fund at June 30, 2011, primarily related to amounts due from institutions to reimburse the Authority for arbitrage rebate payments made on their behalf. MHHEFA established a $.5 million reserve in its operating fund related to the above loans, advances and other receivables outstanding.

CONSTRUCTION CONTRACTS
At June 30, 2011, UMS had outstanding commitments on uncompleted construction contracts that totaled $19.1 million.

MORTGAGE COMMITMENTS

Mortgage commitments are agreements to lend provided there is no violation of any term or condition of the agreement. Generally, once exercised, the loans made under the terms of such commitments are secured by a lien on the related property and other collateral as deemed necessary. At December 31, 2010, Maine State Housing Authority (MSHA) had outstanding commitments to originate multi-family loans of approximately $83.2 million.

MSHA, under its single-family program, enters into purchase agreements to lenders to purchase mortgage loans. At December 31, 2010, single-family loans being processed by lenders totaled $25 million.

NOTE 16 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On September 16, 2011, the State entered an agreement with Katahdin Paper Company (KPC) to acquire the Dolby Landfills, a solid waste disposal facility, located in the Town's of Millinocket and East Millinocket. The State, as the holder of the permits, is responsible for closure and post closure monitoring and maintenance activities and costs.

Pursuant to a change in Maine law which becomes effective September 28, 2011, Section 1 subsection 6A of 1053 of Title 10 MRSA expanded the projects subject to the State's moral obligation with FAME. As a result, moral obligations totaling $12.2 million at June 30, 2011 for electric rate stabilization projects or loans for energy distribution systems increased to $330.0 million.

COMPONENT UNITS

On February 1, 2011, the Maine State Housing Authority (MSHA) redeemed at par $9.8 million of its 1999 through 2001 General Mortgage Purchase Fund bonds.

In July 2011, the U.S. government made the first of two transfers that will give Maine Community College System (MCCS) title to approximately 20 acres of land and 5 buildings located on the site of the former Brunswick Naval Air Station. MCCS received indemnification for any environmental liabilities that might be associated with the property. This property will be used for classrooms and resident halls as part of the Southern Maine Community College. MCCS is insuring the property at a value of $20 million but has not yet determined its fair value.

Pursuant to a change in Maine law which becomes effective September 28, 2011, Chapter 417-E of Title 20-A MRSA is amended to reflect that beginning July 1, 2012, the NextGen College Savings Program Fund will be held by FAME, which shall invest it under the direction of and with the advice of the Advisory Committee on College Savings. Until then, the Program Fund will continue to be held by the State Treasurer. Once the law becomes effective, FAME will report the $6.0 billion in assets in an agency fund.

NOTE 17 – SPECIAL ITEM

Title 5 MRSA § 286-B, as amended by PL 2009, c. 213, Pt. N, §1 authorized an Irrevocable Trust Fund for Other Post-employment Benefits (OPEB Trust). The purpose of accumulating assets in this investment trust fund is to provide funding of the State's unfunded liability obligations for retiree health benefits. Funds appropriated for the irrevocable trust must be held in trust and must be invested or disbursed for the exclusive purpose of providing for retiree health benefits and may not be encumbered for, or diverted to, other purposes. Funds appropriated for the irrevocable trust fund may not be diverted or deappropriated by any subsequent action. On January 21, 2008, the State transferred an initial $100 million to the OPEB Trust managed by Maine Public Employees Retirement System. During the current fiscal year, the State transferred $14.4 million from the Retiree Health Insurance Internal Service Fund to the OPEB Trust. The transfer is treated as a special item in the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets.

Pursuant to Public Law 2009, Chapter 372 Section C-2, the Efficiency Maine program was transferred from the State, Maine Public Utilities Commission (MPUC), to a new discrete non-major component unit named Efficiency Maine Trust (EMT). Effective July 1, 2010, EMT assumed responsibility for administering all non-transportation related energy efficiency programs for the State. The State transferred program balances totaling $22.5 million to EMT. This transfer is recorded as a Special Item in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances

During the fiscal year, the State transferred $7.1 million of assets associated with Estes Head Cargo Pier from the Marine Ports enterprise fund to the Eastport Port Authority, part of the City of Eastport, Maine. The transfer is recorded as a Special Item in the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets.


DIRIGO
MAINE

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2011
(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	$ 2,636,564	$ 2,769,783	$ 2,817,476	$ 47,693	$ 214,526	$ 215,546	$ 217,035	$ 1,489
Assessments and Other	106,676	106,721	107,457	736	84,362	84,550	86,320	1,770
Federal Grants	10,493	10,655	11,832	1,177	-	-	-	-
Service Charges	58,819	50,753	46,206	(4,547)	4,328	4,343	5,797	1,454
Income from Investments	275	245	328	83	32	120	125	5
Miscellaneous Revenue	38,212	43,391	15,719	(27,672)	100	100	955	855
Total Revenues	2,851,039	2,981,548	2,999,018	17,470	303,348	304,659	310,232	5,573
Expenditures								
Governmental Support and Operations	250,436	244,874	234,222	10,652	37,010	36,244	3,227	33,017
Economic Development & Workforce Training	36,056	35,799	34,495	1,304	-	-	-	-
Education	1,396,452	1,401,706	1,387,720	13,986	-	-	-	-
Health and Human Services	697,815	887,726	845,417	42,309	-	-	-	-
Business Licensing & Regulation	-	-	-	-	-	-	-	-
Natural Resources Development & Protection	67,059	66,530	64,864	1,666	34	34	33	1
Justice and Protection	272,763	275,072	268,880	6,192	30,698	30,440	29,262	1,178
Arts, Heritage & Cultural Enrichment	7,302	7,210	7,078	132	-	-	-	-
Transportation Safety & Development	7,000	7,000	7,000	-	235,145	308,187	295,073	13,114
Total Expenditures	2,734,883	2,925,917	2,849,676	76,241	302,887	374,905	327,595	47,310
Revenues Over (Under) Expenditures	116,156	55,631	149,342	93,711	461	(70,246)	(17,363)	52,883
Other Financing Sources (Uses)								
Operating Transfers Net	(76,223)	(84,713)	(79,597)	5,116	(2,046)	(2,134)	3,184	5,318
Proceeds from Pledged Future Revenues	-	-	-	-	-	-	-	-
Net Other Financing Sources (Uses)	(76,223)	(84,713)	(79,597)	5,116	(2,046)	(2,134)	3,184	5,318
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ 39,933	$ (29,082)	$ 69,745	$ 98,827	$ (1,585)	$ (72,380)	$ (14,179)	$ 58,201
Fund Balances at Beginning of Year (As Restated)			126,401				77,556	
Fund Balances at End of Year			$ 196,146				$ 63,377	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
$ -	$ -	$ -	$ -	$ 236,047	$ 233,746	$ 253,174	$ 19,428
10	10	3	(7)	148,662	156,595	119,531	(37,064)
2,893,117	3,686,813	3,053,164	(633,649)	24,068	44,704	9,959	(34,745)
1,059	1,349	883	(466)	147,386	164,888	150,954	(13,934)
17	17	33	16	1,912	1,919	438	(1,481)
2,437	2,455	423	(2,032)	253,132	222,073	160,143	(61,930)
2,896,640	3,690,644	3,054,506	(636,138)	811,207	823,925	694,199	(129,726)
9,407	33,550	22,956	10,594	122,689	136,898	121,105	15,793
127,749	353,539	287,104	66,435	67,580	84,314	60,205	24,109
257,240	364,897	309,293	55,604	8,358	23,557	12,312	11,245
2,155,967	2,445,739	2,091,679	354,060	527,686	556,219	411,040	145,179
7,569	1,677	528	1,149	115,655	81,275	65,253	16,022
50,450	82,096	42,131	39,965	125,731	145,064	92,240	52,824
123,189	140,400	58,914	81,486	43,404	50,532	36,014	14,518
3,161	4,849	2,714	2,135	1,572	1,804	832	972
194,165	262,931	214,237	48,694	91,164	128,186	87,933	40,253
2,928,897	3,689,678	3,029,556	660,122	1,103,839	1,207,849	886,934	320,915
(32,257)	966	24,950	23,984	(292,632)	(383,924)	(192,735)	191,189
(34,100)	(34,542)	(22,747)	11,795	203,614	214,407	180,524	(33,883)
-	-	-	-	98,139	134,639	75,263	(59,376)
(34,100)	(34,542)	(22,747)	11,795	301,753	349,046	255,787	(93,259)
$ (66,357)	$ (33,576)	$ 2,203	$ 35,779	$ 9,121	$ (34,878)	$ 63,052	$ 97,930
		(11,817)				157,402	
		$ (9,614)				$ 220,454	

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 196,146	$ 63,377	$ (9,614)	$ 220,454
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	260,950	3,573	-	8,180
Intergovernmental Receivables	-	-	494,027	-
Other Receivables	38,007	2,376	66,404	62,899
Inventories	1,294	-	831	-
Due from Component Units	-	-	-	40,467
Due from Other Funds	13,829	4,130	3,416	163,591
Other Assets	2,550	1	335	313
Deferred Revenues	(233,491)	(9,123)	(2,660)	(25,449)
Total Revenue Accruals/Adjustments	83,139	957	562,353	250,001
Expenditure Accruals/Adjustments:				
Accounts Payable	(252,715)	(20,641)	(437,409)	(28,051)
Due to Component Units	(7,804)	(47)	(7,338)	(549)
Bonds Issued	-	-	-	-
Accrued Liabilities	(18,574)	(7,650)	(6,066)	(7,201)
Taxes Payable	(159,958)	(6)	-	-
Intergovernmental Payables	(29,736)	-	(66,157)	-
Due to Other Funds	(46,867)	(4,198)	(11,350)	(34,862)
Total Expenditure Accruals/Adjustments	(515,654)	(32,542)	(528,320)	(70,663)
Fund Balances - GAAP Basis	$ (236,369)	$ 31,792	$ 24,419	$ 399,792

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, 2011, the legislature deappropriated $27.4 million of original appropriations for the General Fund.

Governmental funds use encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation or allocation.. Unencumbered appropriations in the General Fund and Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. In the State's accounting system, amounts carried forward are shown as reservations of fund balance. For financial statement purposes unless amounts would create deficits, encumbrances outstanding at June 30 are shown as restrictions, commitments or assignments of fund balance.

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

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

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

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

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

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2010-2011, 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 May 28, 2009, 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, 2011 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.

Restatement

The beginning fund balance for the Highway Fund decreased by $77 million to adjust for working capital advances recorded in the fund to account for contributions to Internal Service Funds. This restatement is only necessary for the Budgetary Comparison Schedule, since appropriate adjustments were made in the GAAP statements.

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress
(Expressed in Thousands)

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation June 30,	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)
2011	8,795,250	11,335,259	2,540,009	77.6%	1,652,576	153.7%
2010	8,369,772	12,676,367	4,306,595	66.0%	1,681,593	256.1%
2009	8,383,148	12,377,262	3,994,114	67.7%	1,678,931	237.9%
2008	8,691,076	11,721,272	3,030,196	74.1%	1,628,421	186.1%
2007	8,302,467	11,209,708	2,907,241	74.1%	1,595,200	182.2%
2006	7,556,515	10,598,346	3,041,831	71.3%	1,546,316	196.7%
2005	7,013,846	10,048,588	3,034,742	69.8%	1,516,391	200.1%

Major changes in actuarial assumptions include the following:

Valuation date	June 30, 2011	June 30, 2010	June 30, 2008
Former actuarial assumptions:		No changes	
Investment rate of return	7.25%	were made	7.75%
Projected salary increases	3.50%	to 2008	4.75% - 10.00%
Includes inflation at	3.50%	plan	4.50%
Cost of living adjustments	2.25%	assumptions	3.75%

The June 30, 2011 valuation included changes to the plan and actuarial assumptions. For members with fewer than 5 years of creditable service on July 1, 2011, the normal retirement age increased to 65. Projected salary increases include a 3.5% across the board increase at each year of service with a revised merit scale of up to 10.5% for State Employees and 13.5% for Teachers. The first 2 fiscal years assume a flat 1.5% pay increase across the board. The cap on annual cost of living adjustments was lowered from 4% per year to 3% per year on the first $20,000 of annual benefit (indexed). No COLA will be made until September 2014.

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, 2011 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 2011 was determined by the 2010 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 6 years remained at June 30, 2011.

Note: Unless plan changes occur, actuarial valuations are performed biennially on even years. Rollforward valuations occur on odd numbered years. The latest actuarial valuation occurred June 30, 2011.

Required Supplementary Information – Other Post-employment Benefit Plans

Schedules of Funding Progress

Healthcare Plans

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(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, 2011	111	1,544	1,433	7.19%	567	252.73%
	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%
	June 30, 2009	82	1,311	1,229	6.25%	595	206.55%
Teachers (in millions)	June 30, 2011	0	806	806	0.00%	1,098	73.41%
	June 30, 2010	0	1,005	1,005	0.00%	1,064	94.45%
	June 30, 2009	0	994	994	0.00%	1,215	81.81%
First Responders (in thousands)	June 30, 2010	0	19,158	19,158	0.00%	53,821	35.60%
	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%

Group Life Insurance Plans

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
State Employees	June 30, 2011	24,400	78,700	54,300	31.00%	623,600	8.71%
	June 30, 2010	19,700	71,500	51,800	27.55%	615,600	8.41%
	June 30, 2009	17,500	67,900	50,400	25.77%	601,099	8.38%
Teachers	June 30, 2011	27,800	67,600	39,800	41.12%	659,100	6.04%
	June 30, 2010	21,400	60,400	39,000	35.43%	650,600	5.99%
	June 30, 2009	17,700	54,700	37,000	32.36%	591,100	6.26%

Required Supplementary Information – Other Post-employment Benefit Plans (continued)

Schedule of Employer Contributions

(Expressed in Thousands)

	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 - 2011	119,000	71.43%		58,000	31.03%		845	61.89%
Healthcare - 2010	92,000	59.78%		56,000	33.93%		1,051	35.01%
Healthcare - 2009	77,000	65.43%		60,000	30.65%		1,045	24.69%
Group Life - 2011	6,800	93.22%					N/A	N/A
Group Life - 2010	6,800	93.54%					N/A	N/A
Group Life - 2009	5,700	217.14%					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 8,807 highway miles or 17,921 lane miles of roads and 2,960 bridges having a total deck area of 11.7 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
2011	74.8	78.0
2010	76.2	79.0
2009	75.3	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)

	2011	2010	2009	2008	2007
Highways	$ 101.4	$ 68.6	$ 74.5	$ 80.0	$ 71.7
Bridges	9.3	9.2	1.6	1.6	1.6
Total	**$110.7**	**$77.8**	**$76.1**	**$81.6**	**$73.3**

Estimated Preservation Costs
(Amounts in millions)

	2011	2010	2009	2008	2007
Highways	$ 86.1	$ 48.5	$ 55.8	$ 97.7	$ 59.7
Bridges	7.9	6.5	1.2	2.0	1.3
Total	**$ 94.0**	**$55.0**	**$57.0**	**$99.7**	**$61.0**

Transportation Bonds

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 414, PL 2009, $25 million in Highway fund bonds and $5 million in General fund bonds was spent during FY2011. Of the amount authorized by Chapter 645, PL 2009, $10 million was spent during FY2011.

INDEX TO FINANCIAL INFORMATION

Section II - Certain Information from the State Controller's Budgetary and Legal Requirements Reports for Fiscal Years 2007 through 2011 (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 Fiscal Years Ended June 30
($ thousands)

	2007	2008[1]	2009	2010	2011
Revenues					
Taxes					
Sales, Use and Service Provider Tax	$ 1,142,801	$ 1,157,608	$ 1,083,760	$ 1,073,443	$ 1,095,072
Individual Income Tax	1,427,163	1,521,890	1,302,912	1,368,185	1,490,879
Corporate Income Tax	193,184	216,503	184,939	183,751	251,345
Cigarette and Tobacco Tax	158,953	150,499	144,425	149,067	145,229
Inheritance and Estate Tax	54,820	39,891	31,819	31,210	49,323
Gasoline, Use Fuel and Motor Carrier Tax	231,214	229,600	220,526	241,424	239,184
Insurance Tax	89,437	102,032	92,353	109,689	93,029
Public Utilities Tax	40,758	49,564	46,300	46,340	49,555
Other Industry or Occupation Taxes	202,616	182,327	194,516	226,940	216,974
Real Estate Transfer Tax	29,355	24,685	17,708	19,186	19,621
Unorganized Territories Property Tax	19,864	19,159	21,127	27,062	26,700
Other Taxes	9,047	15,003	14,963	35,679	11,740
Total Taxes	3,599,212	3,708,762	3,355,349	3,511,976	3,688,652
From Federal Government	2,166,136	2,211,181	2,861,697	3,139,053	3,064,954
From Cities, Towns and Counties	12,050	13,672	22,167	13,448	13,890
From Private Sources	168,051	189,838	197,675	184,425	207,509
Service Charge for Current Services	153,736	157,515	163,369	181,276	138,689
Fines, Forfeitures & Penalties	52,386	55,033	54,854	44,684	39,476
Vehicle Registration and Drivers Licenses	90,457	89,096	94,938	82,619	100,483
Hunting, Fishing and Related Licenses	18,566	17,917	17,587	18,124	17,934
Transferred from Bureau of Alcoholic Beverages	-	-	-	-	-
Transferred from Lottery Commission	50,625	49,491	49,839	52,202	49,548
Transferred from Other Funds	30,958	30,998	33,130	20,515	16,255
Transferred for Revenue Sharing	(130,491)	(135,820)	(102,134)	(122,809)	(131,302)
Transferred for Tax Relief [2]				(113,605)	(113,935)
Income from Investments	9,672	5,861	4,944	1,339	501
Other Revenues	11,680	30,266	15,695	24,149	483
	2,633,826	2,715,049	3,413,760	3,525,420	3,404,485
Other Financial Resources					
Proceeds of General Obligation Bonds	61,535	108,590	141,469	58,391	120,331
Other	36,912	29,219	69,619	103,736	121,312
Total Revenues and Resources	6,331,485	6,561,621	6,980,197	7,199,523	7,334,780
Expenditures					
Governmental Support & Operations	448,559	458,393	442,218	431,744	388,285
Arts, Heritage & Cultural Enrichment	13,349	12,710	13,185	11,772	10,848
Business Licensing & Regulation	60,357	65,603	64,887	76,125	65,781
Economic Development & Workforce Training	164,201	151,141	223,104	434,770	412,673
Education	1,620,175	1,668,137	1,705,111	1,731,496	1,713,750
Health & Human Services	2,983,031	3,055,914	3,462,723	3,440,041	3,351,536
Justice & Protection	396,099	396,502	411,042	401,711	393,314
Natural Resources Development & Protection	202,609	198,049	220,264	220,084	207,649
Transportation Safety & Development	494,624	522,473	547,269	567,864	672,108
Total Expenditures	6,383,004	6,528,922	7,089,802	7,315,607	7,215,944
Excess Resources Over (Under) Expenditures	(51,519)	32,699	(109,606)	(116,084)	118,836
Fund Equity July 1 of preceding calendar year	725,572	660,728	693,428	583,822	390,479
Fund Equity June 30	$ 674,053	$ 693,427	$ 583,822	$ 467,738	$ 509,315

(1)Fund Equity for General Fund as restated.

(2) Prior to 2010, transferred amounts for tax relief programs were reported as a net amount in the Individual Income Tax line. Prior year amounts were not restated. Therefore, comparisons between 2010 and prior years may not be possible in this instance.

GENERAL FUND

COMBINED STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY

For the Fiscal Years Ended June 30

($ thousands)

	2007	2008[5]	2009	2010	2011
Revenues					
Taxes					
Sales, Use and Service Provider Tax	$ 1,020,856	$ 1,035,158	$ 974,636	$ 954,025	$ 976,359
Individual Income Tax	1,353,934	1,443,468	1,242,506	1,298,036	1,415,284
Corporate Income Tax	183,853	207,093	178,961	175,292	241,225
Cigarette and Tobacco Tax	158,953	150,499	144,425	149,067	145,229
Inheritance and Estate Tax	54,820	39,891	31,819	31,210	49,323
Insurance Tax	74,452	72,293	79,770	80,019	76,930
Public Utilities Tax	16,317	16,858	19,536	17,524	17,668
Other Industry or Occupation Taxes	72,180	50,340	43,502	59,597	52,270
Real Estate Transfer Tax	22,207	17,465	17,185	12,181	13,816
Unorganized Territories Property Tax	11,376	12,217	12,634	13,218	13,382
Other Taxes	2,956	3,809	3,752	30,792	6,449
Total Taxes	2,971,904	3,049,092	2,748,726	2,820,961	3,007,935
From Federal Government	15,311	11,040	12,456	9,308	10,379
From Cities, Towns and Counties	116	163	143	187	219
From Private Sources	6,500	8,023	7,526	8,697	8,923
Service Charges for Current Services	30,256	26,157	24,653	33,329	30,557
Fines, Forfeitures & Penalties	41,415	44,466	44,024	32,787	28,513
Hunting, Fishing and Related Licenses	16,401	15,683	15,379	16,277	15,864
Transferred from Bureau of Alcoholic Beverages	-	-	-	-	-
Transferred from Lottery Commission	50,625	49,491	49,839	52,202	49,548
Transferred from Other Funds	15,051	18,823	9,605	17,868	37,396
Transferred for Revenue Sharing	(130,491)	(135,820)	(102,134)	(122,809)	(131,302)
Transferred for Tax Relief[6]				(113,605)	(113,935)
Income from Investments	1,216	1,074	1,100	265	278
Other Revenues	4,247	21,724	7,701	23,456	7,998
	50,647	60,324	70,292	(42,037)	(55,563)
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	14,134	31,074	141	76,823	(32,959)
Total Revenues and Resources	3,036,684	3,140,490	2,819,159	2,855,747	2,919,414
Expenditures					
Governmental Support & Operations[1]	253,529	245,992	239,485	251,522	234,222
Arts, Heritage & Cultural Enrichment	8,999	8,682	8,084	7,392	7,078
Business Licensing & Regulation	-	2	-	26	-
Economic Development & Workforce Training	40,668	38,253	37,030	35,788	34,495
Education[2]	1,419,036	1,471,239	1,455,087	1,419,788	1,387,720
Health & Human Services[3]	1,008,391	985,139	929,836	802,461	845,417
Justice & Protection	242,654	262,299	271,853	276,030	268,880
Natural Resources Development & Protection	71,143	72,957	68,114	67,360	64,864
Transportation Safety & Development[4]	-	-	-	-	7,000
Total Expenditures	3,044,420	3,084,563	3,009,489	2,860,367	2,849,676
Excess Resources Over (Under) Expenditures	(7,736)	55,927	(190,330)	(4,620)	69,738
Fund Equity July 1 of preceding calendar year	286,486	265,424	321,351	131,021	126,401
Fund Equity June 30	$ 278,750	$ 321,351	$ 131,021	$ 126,401	$ 196,139

(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.

(6) Prior to 2010, transferred amounts for tax relief programs were reported as a net amount in the Individual Income Tax line. Prior year amounts were not restated. Therefore, comparisons between 2010 and prior years may not be possible in this instance.

HIGHWAY FUND

STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY

For the Years Ended June 30

(thousands $000's)

	2007	2008	2009	2010	2011
Revenues					
Taxes					
Gasoline, Use Fuel and Motor Carrier Tax	$ 226,824	$ 225,235	$ 216,216	$ 219,191	$ 217,034
Other Taxes	1,169	1,748	1,785	952	1,291
Total Taxes	227,993	226,983	218,001	220,143	218,325
From Federal Government	-	465	3		
Service Charges for Current Services	5,440	5,038	5,201	4,796	4,304
Fines, Forfeitures & Penalties	1,668	1,183	1,014	1,440	1,145
Vehicle Registration and Drivers Licenses	90,457	89,096	94,938	80,965	83,886
Income from Investments	1,106	1,152	480	162	125
Other Revenues	4,062	4,188	1,785	3,684	3,458
	102,733	101,122	103,422	91,047	92,918
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	15,179	6,185	(5,136)	16,558	2,173
Total Revenues and Resources	345,905	334,291	316,287	327,748	313,416
Expenditures					
Governmental Support & Operations (2)	35,405	37,646	36,626	35,452	3,227
Economic Development & Workforce Training	-	-	-	-	-
Justice & Protection	36,806	35,476	36,401	30,720	29,262
Natural Resources Development & Protection	40	28	38	38	33
Transportation Safety & Development (1)(2)	272,746	276,294	230,279	234,579	295,073
Total Expenditures	344,997	349,444	303,344	300,789	327,595
Excess Resources Over (Under) Expenditures	908	(15,153)	12,943	26,959	(14,179)
Fund Equity July 1 of preceding calendar year	129,159	130,067	114,914	127,857	77,556
Fund Equity June 30	$ 130,067	$ 114,914	$ 127,857	$ 154,816	$ 63,377

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

(2) Beginning in fiscal year 2011, the State reported expenditures for the Bureau of Motor Vehicles ($30.7 million) within the Transportation Safety & Development function. Previously, these expenditures were classified as Governmental Support and Operations.

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

	2007	2008	2009	2010	2011
Revenues					
Taxes					
Sales, Use and Service Provider Tax	$ 121,944	$ 122,450	$ 109,123	$ 119,417	$ 118,713
Individual Income Tax	73,229	78,422	60,407	70,149	75,595
Corporate Income Tax	9,332	9,410	5,978	8,459	10,120
Gasoline, Use Fuel and Motor Carrier Tax	4,390	4,365	4,311	22,234	22,150
Insurance Tax	14,985	29,740	12,582	29,670	16,099
Public Utilities Tax	24,441	32,705	26,763	28,816	31,886
Other Industry or Occupation Taxes	130,436	131,986	151,015	167,343	164,704
Real Estate Transfer Tax	7,148	7,220	523	7,004	5,805
Unorganized Territories Property Tax	8,488	6,941	8,494	13,844	13,319
Other Taxes	4,923	9,446	9,423	3,936	3,999
Total Taxes	399,316	432,687	388,622	470,872	462,390
From Federal Government	2,150,825	2,199,675	2,849,238	3,129,745	3,054,575
From Cities, Towns and Counties	11,934	13,509	22,024	13,146	13,657
From Private Sources	161,551	181,815	190,148	175,728	198,586
Service Charges for Current Services	118,040	126,320	133,515	143,151	103,828
Fines, Forfeitures & Penalties	9,303	9,385	9,816	10,457	9,818
Vehicle Registration and Drivers Licenses				1,654	16,598
Hunting, Fishing and Related Licenses	2,165	2,234	2,208	1,847	2,070
Transfers from Other Funds	15,907	12,676	23,526	2,647	(21,142)
Income from Investments	5,344	2,514	1,860	625	481
Other Revenues	3,371	4,355	6,209	(2,535)	(11,216)
	2,478,440	2,552,483	3,238,543	3,476,464	3,367,256
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	10,008	(8,172)	75,540	10,355	152,098
Total Revenues and Resources	2,887,764	2,976,998	3,702,705	3,957,691	3,981,745
Expenditures					
Governmental Support & Operations	154,215	167,300	158,310	134,660	144,061
Arts, Heritage & Cultural Enrichment	3,791	3,751	4,052	3,606	3,546
Business Licensing & Regulation	60,357	65,601	64,887	76,099	65,781
Economic Development & Workforce Training	113,633	105,163	176,465	384,632	347,309
Education	192,720	184,633	230,633	298,371	321,605
Health & Human Services	1,972,766	2,068,054	2,530,487	2,637,580	2,502,719
Justice & Protection	116,260	98,281	102,158	94,459	94,928
Natural Resources Development & Protection	127,570	121,020	140,540	144,562	134,371
Transportation Safety & Development	182,571	173,491	259,005	299,105	302,170
Total Expenditures	2,923,883	2,987,294	3,666,537	4,073,074	3,916,490
Excess Resources Over (Under) Expenditures	(36,119)	(10,295)	36,168	(115,383)	65,255
Fund Equity July 1 of preceding calendar year	271,214	235,095	224,800	260,968	145,585
Fund Equity June 30	$ 235,095	$ 224,800	$ 260,968	$ 145,585	$ 210,840

GOVERNMENTAL FUNDS
COMBINED BALANCE SHEETS

Fiscal Year Ended June 30, 2011
($ thousands)

	Total (Memorandum) (only)	General Fund	Highway Fund	Other Special Revenues	Capital Projects	Debt Service
ASSETS						
Equity in Treasurer's Cash Pool	$ 272,036	$ 58,271	$ 41,753	$ 133,069	$ 34,508	$ 4,435
Cash - Other	237	119	116	2	-	-
Accounts, Notes and Grants Receivable						
Net of Reserves for Uncollectible Accounts	238,763	204,015	21,351	13,397	-	-
Due from Other Funds	70,999	4,537	2	66,460	-	-
Working Capital Advances to Other Funds	111	111	-	-	-	-
Prepaid Expenses and Other Assets	(30)	(191)	(21)	169	13	-
TOTAL ASSETS	582,116	266,862	63,201	213,097	34,521	4,435
LIABILITIES AND EQUITY						
LIABILITIES:						
Accounts Payable	(861)	(1,271)	(177)	587	-	-
Other Liabilities	73,662	71,994	1	1,670	(3)	-
TOTAL LIABILITIES	72,801	70,723	(176)	2,257	(3)	-
EQUITY:						
Reserved for Encumbrances	124,598	16,878	1,504	100,639	5,577	-
Reserved for Authorized Expenditures	234,213	59,319	52,029	93,918	28,947	-
Reserved for Utility Loans	35	-	35	-	-	-
Working Capital Advances to Other Funds	111	111	-	-	-	-
Designated for Other Purposes	29,267	29,247	20	-	-	-
Budget Stabilization Fund	71,414	71,414	-	-	-	-
Unappropriated Surplus	49,677	19,170	9,789	16,283	-	4,435
TOTAL EQUITY	509,315	196,139	63,377	210,840	34,524	4,435
TOTAL LIABILITIES AND EQUITY	$ 582,116	$ 266,862	$ 63,201	$ 213,097	$ 34,521	$ 4,435

GENERAL FUND UNAPPROPRIATED SURPLUS
For the Years Ended June 30

	General Fund Unappropriated Surplus (Million)	General Fund Revenues (Million)	Surplus as Percentage of Revenues
2011	$19.2	$2,919.4	0.66%
2010	(13.0)	2,855.7	(0.46)%
2009	12.9	2,819.0	0.46%
2008	26.5	3,109.4	0.85%
2007	17.6	3,022.6	0.58%
2006	14.5	2,931.8	0.50%
2005	33.7	2,790.8	1.21%
2004	14.9	2,683.5	0.55%
2003	28.9	2,394.7	1.21%
2002	0.0	2,331.7	0%
2001	38.8	2,390.6	1.62%
2000	300.9	2,500.9	12.03%
1999	229.2	2,336.1	9.81%
1998	98.3	2,111.9	4.65%
1997	21.1	1,863.1	1.13%
1996	25.8	1,766.4	1.46%
1995	4.4	1,671.7	0.26%
1994	3.8	1,623.8	0.23%
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%

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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, 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	0.5%	$ 921,823,720	$ 929,698,051	$ (7,874,331)	(0.8%)
Service Provider Tax	52,100,664	51,181,910	918,754	1.8%	52,812,595	53,452,742	(640,147)	(1.2%)
Individual Income Tax	1,443,468,204	1,400,047,321	43,420,883	3.1%	1,242,505,909	1,281,982,990	(39,477,081)	(3.1%)
Corporate Income Tax	184,514,568	182,170,000	2,344,568	1.3%	143,085,966	148,940,000	(5,854,034)	(3.9%)
Cigarette and Tobacco Tax	150,499,432	154,786,180	(4,286,748)	(2.8%)	144,424,712	143,213,844	1,210,868	0.8%
Public Utilities Tax	16,858,472	17,476,987	(618,515)	(3.5%)	19,536,483	18,405,029	1,131,454	6.1%
Insurance Companies Tax	72,292,532	76,751,673	(4,459,141)	(5.8%)	79,770,431	71,978,985	7,791,446	10.8%
Inheritance & Estate Tax	39,890,577	44,562,240	(4,671,663)	(10.5%)	31,819,188	34,335,010	(2,515,822)	(7.3%)
Property Tax - Unorganized Territory	12,217,081	12,611,986	(394,905)	(3.1%)	12,633,755	12,969,540	(335,785)	(2.6%)
Income from Investments	1,074,143	950,648	123,495	13.0%	1,100,029	1,154,221	(54,192)	(4.7%)
Transfer to Municipal Revenue Sharing	(135,820,176)	(133,184,448)	(2,635,728)	(2.0%)	(102,160,745)	(103,412,337)	1,251,592	1.2%
Transfer from Lottery Commission	49,491,086	49,154,250	336,836	0.7%	49,839,434	49,549,250	290,184	0.6%
Other Revenues	218,175,129	206,171,173	12,003,956	5.8%	214,176,818	212,495,823	1,680,995	0.8%
Total Undedicated Revenue	**$ 3,087,818,991**	**$ 3,040,740,422**	**$ 47,078,569**	**1.5%**	**$ 2,811,368,295**	**$ 2,854,763,148**	**$ (43,394,853)**	**(1.5%)**

STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
Fiscal Years Ended June 30, 2010 and June 30, 2011

	2010				2011			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Sales and Use Tax	$ 897,938,873	$ 883,839,994	$ 14,098,879	1.6%	$ 923,686,973	$ 916,746,307	$ 6,940,666	0.8%
Service Provider Tax	56,086,391	55,590,852	495,539	0.9%	52,672,306	55,214,486	(2,542,180)	(4.6%)
Individual Income Tax	1,298,036,055	1,299,630,000	(1,593,945)	(0.1%)	1,415,283,534	1,392,702,302	22,581,232	1.6%
Corporate Income Tax	175,292,433	147,718,716	27,573,717	18.7%	208,996,598	193,182,264	15,814,334	8.2%
Cigarette and Tobacco Tax	149,066,678	140,139,902	8,926,776	6.4%	145,229,303	146,209,555	(980,252)	(0.7%)
Public Utilities Tax	-	-	-	-	-	-	-	-
Insurance Companies Tax	80,019,145	71,985,000	8,034,145	11.2%	76,930,329	76,765,000	165,329	0.2%
Inheritance & Estate Tax	31,209,840	29,593,253	1,616,587	5.5%	49,323,494	45,052,787	4,270,707	9.5%
Property Tax – Unorganized Territory	-	-	-	-	-	-	-	-
Fines, Forfeits and Penalties	32,787,060	32,853,721	(66,661)	(0.2%)	28,513,040	28,799,339	(286,299)	(1.0%)
Income from Investments	265,091	103,246	161,845	156.8%	277,770	245,127	32,643	13.3%
Transfer for Tax Relief Programs	(113,604,905)	(112,559,862)	(1,045,043)	(0.9%)	(113,934,585)	(113,986,593)	52,008	0.0%
Transfer to Municipal Revenue Sharing	(97,425,079)	(95,899,642)	(1,525,437)	(1.6%)	(93,156,725)	(91,930,345)	(1,226,380)	(1.3%)
Transfer from Lottery Commission	52,201,531	49,843,299	2,358,232	4.7%	49,547,800	49,034,250	513,550	1.0%
Other Taxes and Fees	149,588,680	148,808,830	779,850	0.5%	151,676,495	149,672,089	2,004,406	1.3%
Other Revenues	44,220,707	41,358,080	2,862,627	6.9%	49,910,424	48,357,956	1,552,468	3.2%
Total Undedicated Revenue	**$ 2,755,682,500**	**$ 2,693,005,389**	**$ 62,677,111**	**2.3%**	**$ 2,944,956,756**	**$ 2,896,064,524**	**$ 48,892,232**	**1.7%**

STATE OF MAINE
PRELIMINARY UNDEDICATED REVENUES
GENERAL FUND
Ten Months Ended April 30, 2012

	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 6/30/12
Sales and Use Tax	$ 74,391,770	$ 74,000,615	$ 391,155	0.5%	$ 733,866,770	$ 733,437,998	$ 428,772	0.1%	$ 973,220,397
Service Provider Tax	3,277,826	3,293,012	(15,186)	(0.5%)	35,907,940	35,923,128	(15,188)	(0.0%)	50,366,313
Individual Income Tax	219,833,318	219,818,562	14,756	0.0%	1,146,702,630	1,146,687,874	14,756	0.0%	1,444,897,209
Corporate Income Tax	27,019,848	27,216,556	(196,708)	(0.7%)	184,368,546	184,565,252	(196,706)	(0.1%)	218,610,460
Cigarette and Tobacco Tax	10,174,520	11,576,454	(1,401,934)	(12.1%)	115,127,267	116,795,694	(1,668,427)	(1.4%)	142,123,350
Insurance Companies Tax	15,804,112	10,711,114	5,092,998	47.5%	47,719,142	40,779,047	6,940,095	17.0%	79,215,000
Estate Tax	3,098,827	3,225,380	(126,553)	(3.9%)	27,427,014	25,477,787	1,949,227	7.7%	38,260,185
Fines, Forfeits & Penalties	2,475,554	2,878,758	(403,204)	(14.0%)	20,537,707	21,038,717	(501,010)	(2.4%)	25,754,504
Income from Investments	(58,052)	(41,155)	(16,897)	(41.1%)	103,199	125,145	(21,946)	(17.5%)	106,808
Transfer from Lottery Commission	5,113,071	3,826,430	1,286,641	33.6%	45,553,909	42,090,732	3,463,177	8.2%	50,700,000
Transfers for Tax Relief Programs	(1,128,251)	(690,473)	(437,778)	(63.4%)	(112,840,242)	(112,268,279)	(571,963)	(0.5%)	(114,418,263)
Transfer to Municipal Revenue Sharing	(6,863,464)	(6,477,177)	(386,287)	(6.0%)	(75,890,805)	(75,504,519)	(386,286)	(0.5%)	(96,854,740)
Other Taxes and Fees	8,066,899	8,550,284	(483,385)	(5.7%)	94,567,542	95,653,911	(1,086,369)	(1.1%)	132,077,778
Other Revenues	11,324,256	10,761,305	562,951	5.2%	28,311,513	27,478,807	832,706	3.0%	51,390,200
Total Undedicated Revenue	**$ 372,530,234**	**$ 368,649,665**	**$ 3,880,569**	**1.1%**	**$ 2,291,462,132**	**$2,282,281,294**	**$ 9,180,838**	**0.4%**	**$ 2,995,449,201**

NOTES: (1) Included in the above is $6,863,464 for the month and $75,890,805 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 estimated adjustments in projected revenue provided by the Maine State Revenue Forecasting Committee in its April 2012 report. For additional information concerning the revisions to the State's fiscal year 2012 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, 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
HIGHWAY FUND
REVENUES
Fiscal Years Ended June 30, 2010 and June 30, 2011

	2010				2011			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Fuel Taxes	$ 219,190,706	$ 220,305,526	$ (1,114,820)	(0.5%)	$ 217,033,892	$ 215,546,404	$ 1,487,488	0.7%
Motor Vehicle Registration & Fees	78,082,290	75,043,693	3,038,597	4.0%	80,841,240	78,986,392	1,854,848	2.3%
Inspection Fees	3,834,421	3,896,915	(62,494)	(1.6%)	2,977,702	3,032,500	(54,799)	(1.8%)
Miscellanous Taxes & Fees	-	-	-	-	1,358,069	1,325,823	32,246	2.4%
Fines, Forfeits & Penalties	1,440,062	1,745,049	(304,987)	(17.5%)	1,145,044	1,205,049	(60,005)	(5.0%)
Earnings on Investments	162,488	113,330	49,158	43.4%	124,518	120,434	4,084	3.4%
All Other Revenues	8,480,405	8,387,253	93,152	1.1%	7,870,691	8,072,531	(201,840)	(2.5%)
TOTAL	**$ 311,190,374**	**$ 309,491,766**	**$ 1,698,608**	**0.5%**	**$ 311,351,155**	**$ 308,289,133**	**$ 3,062,022**	**1.0%**

Source: Revenue Highway General Accounting

STATE OF MAINE
PRELIMINARY HIGHWAY FUND
REVENUES
Ten Months Ended April 30, 2012

	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 6-30-2012
Fuel Taxes	$ 17,117,181	$16,469,306	$ 647,875	3.9%	$ 162,849,247	$ 162,407,661	$ 441,586	0.3%	$ 218,088,754
Motor Vehicle Registration & Fees	8,075,635	7,610,297	465,338	6.1%	69,030,257	67,760,757	1,269,500	1.9%	82,738,186
Inspection Fees	(1,016)	226,200	(227,216)	(100.4%)	2,389,280	2,369,000	20,280	0.9%	2,982,500
Miscellaneous Taxes & Fees	139,368	123,369	15,999	13.0%	1,076,318	1,045,727	30,591	2.9%	1,313,165
Fines, Forfeits & Penalties	97,501	76,769	20,732	27.0%	868,320	819,020	49,300	6.0%	993.049
Earnings on Investments	13,481	10,092	3,389	33.6%	92,101	100,450	(8,349)	(8.3%)	121,761
All Other	492,635	637,568	(144,933)	(22.7%)	7,503,560	7,361,149	142,411	1.9%	8,734,112
Total Revenue	**$ 25,934,785**	**$25,153,601**	**$ 781,184**	**3.1%**	**$ 243,809,084**	**$ 241,863,764**	**$ 1,945,320**	**0.8%**	**$ 314,971,527**

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 estimated adjustments in projected revenue provided by the Maine State Revenue Forecasting Committee in its April 2012 report. For additional information concerning the revisions to the State's fiscal year 2012 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

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	Taxable	Tax-Exempt	Authorization Available
DAG	2009 PL Chapter 414	Agricultural water source development grant program.	$ -	$ 405,000	$ 295,000
DECD	2005 PL, Chapter 462	Provides funds for the Maine Biomedical Research Fund to support capital infrastructure and equiptment.	-	750,000	-
DECD	2005 PL, Chapter 462	Provides funds for the Marine Infrastructure and Technology Fund administered by the Maine Technology Institute.	-	150,000	-
DECD	2009 PL, Chapter 414	Provides funds to make investments under the Communities for Maine's future program.	-	448,289	3,051,711
DECD	2009 PL, Chapter 414	Brunswick Naval Air Station Redevelopment	-	395,902	2,944,098
DEP	2007 PL, Chapter 39	Industrial landfills	-	-	300,000
DEP	2009 PL, Chapter 414, C	Small Community Grant program: provides funding for grants to small towns to help replace malfunctioning septic systems that are polluting a water body or creating a public nuisance.	-	300,000	200,000
DEP	2009 PL, Chapter 414, C	Uncontrolled hazardous substance investigation and clean up	-	600,000	150,000
DEP	2009 PL, Chapter 414, C	Wastewater treatment facility construction grants	-	-	200,000
DEP	2009 PL, Chapter 414, C	Overboard discharge	-	200,000	100,000
DHHS	2009 PL, c.414 as amended by PL 2009, c.645	Community-based Teaching Clinic	-	1,100,000	2,400,000
DHHS	2009 PL, c.414 as amended by PL 2009, c.645	Health and Dental Clinic Upgrades	-	-	1,500,000
DOC	2009 PL, c.414 as amended by PL 2009, c.645	State Parks and Land Management	-	140,000	110,000
DOT	2009 PL, Chapter 414, Part A	Ports (includes funds for port improvements in Eastport & Searsport)	-	1,600,000	900,000

Agency	Law	Description	Taxable	Tax-Exempt	Authorization Available
DOT	2009 PL, Chapter 414, Part A	Ferry	-	350,000	650,000
DOT	2009 PL, Chapter 414, Part A	Islander Explorer Phase II	-	400,000	-
DOT	2009 PL, Chapter 414, Part A	Aviation-FAA	-	300,000	1,700,000
DOT	2009 PL, Chapter 414, Part A	Island Airport Program	-	100,000	100,000
DOT	2009 PL, Chapter 414, Part A	Augusta Airport Upgrade	-	100,000	50,000
DOT	2007 PL, Chapter 39	IRAP, FRIP, and State Rail Track Improvement	250,000	-	-
DOT	2007 PL, Chapter 39	Aviation	-	1,100,000	-
DOT	2007 PL, Chapter 39	Mountain Div and Trails	-	150,000	-
DOT	2007 PL, Chapter 39-2008	Pedestrian and Bike	-	300,000	300,000
DOT	2009 PL, Chapter 645, A	State highway restructuring and paving	-	14,700,000	-
DOT	2009 PL, Chapter 645, A	Taxable Railroad	-	-	2,000,000
DOT	2009 PL, Chapter 645, A	Marine/SHIP	-	1,900,000	100,000
MCCS	2007 PL, Chapter 39	Provides funds for interior and exterior building renovations, improvements and additions at all campuses of the Maine Community College System.	-	400,000	-
MCCS	2009 PL, c 414	Provides funds for energy and infrastructure upgrades at all campuses of MCCS.	-	3,050,000	1,050,000
Maine Historic Preservation	2009 PL, Chapter 414 as amended by chapter 645	Historic Preservation Commission: Provides capital investment through a revolving loan fund to revitalize downtowns and village centers by preserving and rehabilitating historic properties.	50,000	-	1,200,000
MMA	2009 PL, c 414	Provides funds for energy and infrastructure upgrades at MMA.	-	710,000	-
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 acces to digital and educational resources.	-	100,000	-

Agency	Law	Description	Taxable	Tax-Exempt	Authorization Available
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.	12,400,000	-	-
MTI	2009 PL, Chapter 414	Provides funds for research, development and commercialization as prioritized by the Office of Innovation's current Science and Technology Action Plan for Maine. The funds must be allocated to envirmonmental and renewable energy technology, biomedical and biotechnology, aquaculture and marine technology, composite materials technology, advanced technologies for forestry and agriculture, information technology, and precision manufacturing technology through a competitive process and must be awarded to a Maine-based public and provate institutions and must be awarded to leverage matching funds.	-	-	3,000,000
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.	-	4,250,000	-
SPO	2009 PL, c.414 as amended by PL 2009, c.645	Provides for the use of bond proceeds to be used for the acquisition of land and interest in land for conservation, water access, outdoor recreation, wildlife and fish habitat, farmland preservation.	-	-	6,500,000
SPO	2009 PL, c.414 as amended by PL 2009, c.645	Provides funds to be used for working farmland preservation.	-	500,000	500,000

Agency	Law	Description	Taxable	Tax-Exempt	Authorization Available
SPO	2009 PL, c.414 as amended by PL 2009, c.645	Provides funds to be used for working waterfront preservation.	-	1,325,000	425,000
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.	-	900,000	-
UMS	2009 PL, chapter 414	Tax-exempt Provides funds for energy and infrastructure upgrades at all campuses of UMS.	-	3,500,000	3,677,000
UMS	2010 PL, chapter 414	Taxable Provides funds for energy and infrastructure upgrades at all campuses of UMS.	348,000	-	-
UMS	2009 PL, chapter 414 as amended by c. 645	Maine Marine Wind Energy Fund. Provides funds for research, development and product innovation associated with developing one or more ocean wind energy demonstration sites.	2,500,000	-	7,350,000
		TOTAL	**$15,548,000**	**$40,224,191**	**$40,752,809**

GENERAL FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY
June 30, 2011

FISCAL YEAR		PRINCIPAL		INTEREST		TOTAL
2012	$	81,055,000.00	$	14,015,648.28	$	95,070,648.28
2013		78,965,000.00		11,362,386.36		90,327,386.36
2014		62,705,000.00		8,637,228.26		71,342,228.26
2015		49,635,000.00		6,496,888.78		56,131,888.78
2016		34,300,000.00		4,725,425.80		39,025,425.80
2017		23,350,000.00		3,269,666.70		26,619,666.70
2018		19,975,000.00		2,145,887.10		22,120,887.10
2019		15,355,000.00		1,227,469.30		16,582,469.30
2020		6,915,000.00		541,431.80		7,456,431.80
2021		6,625,000.00		331,250.00		6,956,250.00
	$	**378,880,000.00**	**$**	**52,753,282.38**	**$**	**431,633,282.38**

HIGHWAY FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY
June 30, 2011

FISCAL YEAR		PRINCIPAL		INTEREST		TOTAL
2012	$	16,385,000.00	$	5,698,368.00	$	22,083,368.00
2013		16,735,000.00		5,151,841.06		21,886,841.06
2014		16,035,000.00		4,544,278.56		20,579,278.56
2015		15,275,000.00		3,914,653.56		19,189,653.56
2016		15,300,000.00		3,265,078.56		18,565,078.56
2017		21,015,000.00		2,600,578.56		23,615,578.56
2018		18,285,000.00		1,691,210.10		19,976,210.10
2019		12,500,000.00		905,540.30		13,405,540.30
2020		7,610,000.00		389,668.00		7,999,668.00
2021		2,210,000.00		110,500.00		2,320,500.00
	$	**141,350,000.00**	**$**	**28,271,716.70**	**$**	**169,621,716.70**

GF + HF	**$**	**520,230,000.00**	**$**	**81,024,999.08**	**$**	**601,254,999.08**

INFORMATION REGARDING LEASE FINANCING AGREEMENTS

Agency	Date of Agreement	Original Principal Amount	Principal Amount Outstanding 3/31/2012	Principal & Interest Due 4/1/2012 - 6/30/2012
Administrative & Financial Services	July, 2006	10,000,000	1,581,931	-
Administrative & Financial Services	February, 2007	14,000,000	3,545,382	-
Administrative & Financial Services	April, 2008	2,248,970	472,002	241,880
Administrative & Financial Services	June, 2008	1,700,416	537,515	185,055
Administrative & Financial Services	June, 2008	2,800,000	719,671	733,197
Administrative & Financial Services	April, 2009	4,200,000	1,621,812	556,403
Department of Education	August, 2009	38,045,561	11,397,994	2,279,599
Department of Education	September, 2009	349,086	11,360	2,272
Department of Education	September, 2009	98,768	30,865	6,173
Department of Education	December, 2009	689,000	246,071	49,214
Administrative & Financial Services	January, 2010	10,000,000	5,872,750	-
Department of Transportation	January, 2010	2,770,000	1,440,997	-
Administrative & Financial Services	May, 2010	4,700,000	3,542,999	1,205,411
Public Safety	May, 2010	749,040	251,827	-
Department of Education	June, 2010	588,602	251,533	42,768
Administrative & Financial Services	July, 2010	10,000,000	7,230,681	-
Administrative & Financial Services	October, 2010	5,000,000	3,952,058	387,655
Department of Education	January, 2011	569,250	284,625	56,925
Administrative & Financial Services	May, 2011	4,200,000	3,163,060	-
Administrative & Financial Services	May, 2011	5,000,000	4,535,594	-
Public Safety	May, 2011	1,800,000	1,204,151	-
Department of Education	July, 2011	470,919	294,324	58,865
TOTALS:		$ 119,979,612	$ 52,189,202	$ 5,805,417

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, 2011.

	Amount of Debt	Per Capita (1)	Debt to Estimated Full Valuation (2)	Debt to Personal Income (3)
General Fund	$378,880,000	$285.26	0.23%	0.75%
Highways & Bridges	141,350,000	106.42	0.09	0.28
Total	$520,230,000	$391.68	0.32%	1.03%

(1) Based on population estimate of 1,328,188 for 2011 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 2012 of $163,424,200,000.

(3) Based on State of Maine total personal income reported by the U.S. Department of Commerce for 2011 of $50,435,496,000.

Debt Ratio Statistics

June 30, 2011

Debt to Full Value	
2010	0.58%
2011	0.32%
Debt to Personal Income	
2010	1.42%
2011	1.03%
Per Capita Debt	
2010	$374.20
2011	$391.68

DEBT SERVICE PAID OVER PAST TEN FISCAL YEARS ENDING JUNE 30

Fiscal Year	General Fund Principal	General Fund Interest	Highway Fund Principal	Highway Fund Interest	Total Principal	Total Interest
2002	$64,225,000	$15,444,189	$23,300,000	$5,299,529	$87,525,000	$20,743,718
2003	63,880,000	12,941,300	21,215,000	4,003,828	85,095,000	16,945,128
2004	56,240,000	12,567,264	16,015,000	3,022,015	72,255,000	15,589,279
2005	53,440,000	12,525,813	13,280,000	2,477,535	66,720,000	15,003,348
2006	57,915,000	15,253,937	13,950,000	2,007,306	71,865,000	17,261,243
2007	69,280,000	17,364,513	10,415,000	1,387,084	79,695,000	18,751,597
2008	66,230,000	16,057,428	10,750,000	2,050,995	76,980,000	18,108,423
2009	65,685,000	15,179,120	13,505,000	3,848,227	79,190,000	19,027,347
2010	74,905,000	15,451,420	11,820,000	4,803,042	86,725,000	20,254,462
2011	81,055,000	14,015,648	16,385,000	5,698,368	97,440,000	19,714,016

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
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
2010	365,775,000	134,325,000	0	500,100,000	7,157,520,886	7.0
2011	378,880,000	141,350,000	0	520,230,000	7,383,247,000	7.0

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APPENDIX E

The information contained in this Appendix E is derived from information contained in the actuarial valuation reports for the year ended June 30, 2011 for the State Employee and Teacher Retirement Program, the Legislative Retirement Program, the Judicial Retirement Program, and the Group Life Insurance Program. These actuarial valuation reports are available at www.mainepers.org/bonds.htm.

Maine Public Employees Retirement System
State Employees and Public School Teachers
Actuarial Balance Sheet, June 30, 2011

ASSETS **(Present Value of expected income)**	**State Employees**	**MTRA Teachers**	**All Employees**
(1) Invested Assets			
(a) Members Contribution Fund	$ 792,475,032	$ 1,437,509,935	$ 2,229,984,967
(b) Retirement Allowance Fund	2,211,923,468	4,294,976,686	6,506,900,154
(c) Total Invested Assets (a + b)*	$ 3,004,398,500	$ 5,732,486,621	$ 8,736,885,121
(2) Future Contributions			
(a) Member Contributions	$ 317,956,875	$ 543,656,910	$ 861,613,785
(b) Actuarial Costs	1,056,241,817	1,817,544,905	2,873,786,722
(c) Total Contribution Income (a + b)	$ 1,374,198,692	$ 2,361,201,815	$ 3,735,400,507
(3) Present Value of Total Income (1 + 2)	$ 4,378,597,192	$ 8,093,688,436	$ 12,472,285,628
LIABILITIES **(Present Value of expected benefit payments)**			
(1) Active Employees			
(a) Current Accrued Benefits	$ 1,181,100,698	$ 2,699,612,666	$ 3,880,713,364
(b) Future Benefit Accruals	761,889,736	1,376,297,798	2,138,187,534
(c) Total Active Benefits (a + b)	$ 1,942,990,434	$ 4,075,910,464	$ 6,018,900,898
(2) Inactive Employees			
(a) Total Inactive Benefits	$ 2,435,606,758	$ 4,017,777,972	$ 6,453,384,730
(3) Present Value of Total Benefits (1 + 2)	$ 4,378,597,192	$ 8,093,688,436	$ 12,472,285,628

*Actuarial Value

Maine Public Employees Retirement System

Judicial Plan

Actuarial Balance Sheet, June 30, 2011

Assets
(Present Value of expected income)

(1) Invested Assets

(a) Members Contribution Fund	$	9,028,737
(b) Retirement Allowance Fund		40,296,047
(c) Total Invested Assets (a+b)*	$	49,324,784

(2) Future Contributions

(a) Member Contributions	$	2,062,503
(b) Actuarial Costs		2,370,837
(c) Total Contribution Income (a+b)	$	4,433,340

(3) Present Value of Total Income (1+2)	$	53,758,124

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees

(a) Current Accrued Benefits	$	20,464,334
(b) Future Benefit Accruals		8,603,212
(c) Total Active Benefits (a+b)	$	29,067,546

(2) Inactive Employees

(a) Total Inactive Benefits	$	24,690,578

(3) Present Value of Total Benefits (1+2)	$	53,758,124

*Actuarial Value

Maine Public Employees Retirement System

Legislative Plan

Actuarial Balance Sheet, June 30, 2011

Assets
(Present Value of expected income)

(1) Invested Assets

(a) Members Contribution Fund	$	2,228,233
(b) Retirement Allowance Fund		6,811,947
(c) Total Invested Assets (a+b)*	$	9,040,180

(2) Future Contributions

(a) Member Contributions	$	948,483
(b) Actuarial Costs		(1,783,776)
(c) Total Contribution Income (a+b)	$	(835,293)

(3) Present Value of Total Income (1+2)	$	8,204,887

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees

(a) Current Accrued Benefits	$	1,946,216
(b) Future Benefit Accruals		2,255,678
(c) Total Active Benefits (a+b)	$	4,201,894

(2) Inactive Employees

(a) Total Inactive Benefits	$	4,002,993

(3) Present Value of Total Benefits (1+2)	$	8,204,887

*Actuarial Value

Maine Public Employees Retirement System
State Employees and Public School Teachers
Actuarial Balance Sheet for Group Life Insurance, June 30, 2011

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	23,989,264	27,781,212	51,770,476
(c) Total Invested Assets (a + b)*	$ 23,989,264	$ 27,781,212	$ 51,770,476
(2) Future Contributions			
(a) Member Contributions	$ 0	$ 0	$ 0
(b) Actuarial Costs	60,135,943	43,738,079	103,874,022
(c) Total Contribution Income (a + b)	$ 60,135,943	$ 43,738,079	$ 103,874,022
(3) Present Value of Total Income (1 + 2)	$ 84,125,207	$ 71,519,291	$ 155,644,498

LIABILITIES **(Present Value of expected benefit payments)**			
(1) Active Employees			
(a) Current Accrued Benefits	$ 24,489,639	$ 24,449,967	$ 48,939,606
(b) Future Benefit Accruals	15,947,296	13,828,044	29,775,340
(c) Total Active Benefits (a + b)	$ 40,436,935	$ 38,278,011	$ 78,714,946
(2) Inactive Employees			
(a) Total Inactive Benefits	$ 43,688,272	$ 33,241,280	$ 76,929,552
(3) Present Value of Total Benefits (1 + 2)	$ 84,125,207	$ 71,519,291	$ 155,644,498

*Actuarial Value

Maine Public Employees Retirement System

Judicial Plan

Actuarial Balance Sheet for Group Life Insurance, June 30, 2011

Assets
(Present Value of expected income)

(1) Invested Assets		
(a) Members Contribution Fund	$	0
(b) Retirement Allowance Fund		373,383
(c) Total Invested Assets (a+b)*	$	373,383
(2) Future Contributions		
(a) Member Contributions	$	0
(b) Actuarial Costs		896,035
(c) Total Contribution Income (a+b)	$	896,035
(3) Present Value of Total Income (1+2)	$	1,269,418

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees		
(a) Current Accrued Benefits	$	640,217
(b) Future Benefit Accruals		100,596
(c) Total Active Benefits (a+b)	$	740,813
(2) Inactive Employees		
(a) Total Inactive Benefits	$	528,605
(3) Present Value of Total Benefits (1+2)	$	1,269,418

*Actuarial Value

Maine Public Employees Retirement System

Legislative Plan

Actuarial Balance Sheet for Group Life Insurance, June 30, 2011

Assets
(Present Value of expected income)

(1) Invested Assets		
(a) Members Contribution Fund	$	0
(b) Retirement Allowance Fund		53,226
(c) Total Invested Assets (a+b)*	$	53,226
(2) Future Contributions		
(a) Member Contributions	$	0
(b) Actuarial Costs		118,290
(c) Total Contribution Income (a+b)	$	118,290
(3) Present Value of Total Income (1+2)	$	171,516

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees		
(a) Current Accrued Benefits	$	0
(b) Future Benefit Accruals		0
(c) Total Active Benefits (a+b)	$	0
(2) Inactive Employees		
(a) Total Inactive Benefits	$	171,516
(3) Present Value of Total Benefits (1+2)	$	171,516

*Actuarial Value

STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX F

Selected Economic Information with Respect to the State

Maine Population

Year	Population	Rank U.S.	Percent Change	Per Square Mile
1920	768,000	35	-	24.9
1930	797,000	-	3.80%	25.8
1940	847,000	35	6.30	27.4
1950	914,000	35	7.90	29.6
1960	969,000	36	6.00	31.4
1970	992,000	38	2.40	32.1
1980	1,126,000	38	13.50	36.5
1990	1,227,928	38	9.10	39.8
2000	1,274,923	40	3.80	41.3
2001	1,284,470	40	0.70	41.6
2002	1,294,464	40	0.80	41.9
2003	1,305,728	40	0.90	42.3
2004	1,317,253	40	0.90	37.2
2005	1,321,505	40	0.30	41.3
2006	1,321,574	40	0.01	43.0
2007	1,317,207	40	-.30	42.7
2008	1,316,456	40	-.06	43.0
2009	1,318,301	40	.14	37.0
2010	1,328,361	41	.76	43.1
2011	1,328,188	42	-.01	43.1

Source: U.S. Census Bureau.

Personal Income and Earnings by Industry in Maine 2007-2011

	2007	2008	2009	2010	2011
Personal income (thousands of dollars)	46,353,508	48,469,425	47,989,505	48,798,729	50,435,496
Earnings by place of work	32,773,624	33,333,748	32,723,826	33,482,056	34,216,077
Farm earnings	183,153	179,061	156,242	196,397	195,044
Nonfarm earnings	32,590,471	33,154,687	32,567,584	33,285,659	34,021,033
Forestry, fishing, related activities, and other	384,615	Confidential	Confidential	325,251	321,944
Mining	11,487	Confidential	Confidential	13,514	15,872
Utilities	185,412	218,131	190,559	200,588	194,259
Construction	2,463,167	2,208,731	1,956,974	1,974,213	2,057,992
Manufacturing	3,621,614	3,749,339	3,548,790	3,684,397	3,765,363
Wholesale trade	1,391,830	1,384,651	1,333,003	1,322,627	1,373,113
Retail trade	2,855,481	2,776,263	2,766,813	2,823,232	2,888,642
Transportation and warehousing	911,865	901,953	878,594	884,198	896,889
Information	613,373	585,021	543,292	564,991	509,584
Finance and insurance	1,857,098	1,852,693	1,836,405	1,901,069	2,025,574
Real estate and rental and leasing	390,398	418,789	435,544	420,377	459,067
Professional and technical services	2,048,948	2,247,550	2,096,354	2,145,789	2,244,684
Management of companies and enterprises	545,207	618,238	562,161	587,040	586,205
Administrative and waste services	1,027,587	1,110,424	1,108,224	1,173,905	1,249,258
Educational services	531,903	545,972	562,641	589,469	618,714
Arts	370,176	358,573	360,043	372,903	384,402
Accommodation and food services	1,159,638	1,140,026	1,116,980	1,221,370	1,270,709
Other services, except public administration	1,152,179	1,102,455	1,108,648	1,156,252	1,197,497
Government and government enterprises	6,094,942	6,324,258	6,463,304	6,504,694	6,357,768

Source: U.S. Bureau of Economic Analysis

Per Capita Personal Income
Maine, New England, U.S.
2001-2011

	Per Capita Income*			Maine as a Percent of		Annual Percent Increase		
	US	NE	Maine	US	NE	US	NE	Maine
2001	$ 31,157	$ 37,996	$ 28,181	90.4%	74.2%	2.8%	3.8%	5.6%
2002	31,481	38,131	28,846	91.6	75.6	1.0	0.4	2.4
2003	32,295	38,798	29,851	92.4	76.9	2.6	1.7	3.5
2004	33,909	40,837	31,335	92.4	76.7	5.0	5.3	5.0
2005	35,452	42,376	31,834	89.8	75.1	4.6	3.8	1.6
2006	37,725	45,627	33,474	88.7	73.4	6.4	7.7	5.2
2007	39,506	48,223	34,930	88.4	72.4	4.7	5.7	4.3
2008	40,947	49,726	36,429	89.0	73.3	3.6	3.1	4.3
2009	38,846	47,513	36,093	92.9	76.0	-5.1	-4.5	-0.9
2010	39,937	48,840	36,763	92.1	75.3	2.8	2.8	1.9
2011	41,663	51,074	37,973	91.1	74.3	4.3	4.6	3.3

*Source: U.S. Bureau of Economic Analysis

State Valuation of Taxable Real and Personal Property

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
January 2011	166,990,700,000
January 2012	163,424,200,000

Source: State Revenue Services.

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

Selected Labor Market Information for Maine

Annual Averages, 2007 through 2011, Not Seasonally Adjusted

	2007	2008	2009	2010	2011
Nonfarm Wage and Salary Employment	617,700	617,200	596,300	593,000	593,400
Manufacturing Employment	59,400	58,800	52,300	50,800	50,400
Nonmanufacturing Employment	558,300	558,400	544,000	542,200	543,000
Average Weekly Hours of Manufacturing Production Workers	41.9	41.4	40.0	41.1	40.7
Average Hourly Earnings of Manufacturing Production Workers	$ 19.19	$ 19.71	$ 19.97	$ 20.18	$ 20.21
Unemployment Rate	4.7%	5.4%	8.1%	8.2%	7.5%
Number Unemployed	33,013	37,938	56,924	57,324	53,040

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

Civilian Labor Force
Employed and Unemployed by Labor Market Area, Not Seasonally Adjusted
March 1, 2012

Maine Labor Force Estimates for Labor Market Areas												
	Civilian Labor Force			Employment			Unemployment			Unemployment Rate		
LABOR MARKET AREA	Mar-12	Feb-12	Mar-11	Mar-12	Feb-12	Mar-11	Mar-12	Feb-12	Mar-11	Mar-12	Feb-12	Mar-11
Augusta Micro	44,460	44,300	44,210	41,150	41,010	40,900	3,320	3,290	3,310	7.5%	7.4%	7.5%
Bangor MA	72,900	73,120	71,650	67,250	67,570	65,800	5,650	5,550	5,850	7.8	7.6	8.2
Belfast LMA	13,430	13,330	13,440	12,070	11,930	12,070	1,360	1,400	1,370	10.1	10.5	10.2
Boothbay Harbor LMA	3,640	3,590	3,600	3,230	3,180	3,190	410	420	410	11.3	11.6	11.4
Bridgton-Paris LMA	13,850	13,860	14,050	12,440	12,460	12,520	1,410	1,400	1,530	10.2	10.1	10.9
Brunswick Micro	34,450	34,340	34,390	31,970	31,840	31,730	2,490	2,510	2,660	7.2	7.3	7.7
Calais LMA	5,880	5,830	5,760	5,150	5,120	5,000	730	720	760	12.3	12.3	13.2
Camden LMA	7,400	7,300	7,220	6,730	6,620	6,530	670	680	690	9.1	9.3	9.5
Conway LMA	3,850	3,900	3,880	3,590	3,620	3,590	260	280	290	6.7	7.1	7.5
Dover-Foxcroft LMA	9,400	9,370	9,290	8,350	8,330	8,190	1,060	1,050	1,100	11.2	11.2	11.8
Ellsworth Micro	28,500	28,320	27,530	25,300	24,980	24,250	3,190	3,330	3,290	11.2	11.8	11.9
Farmington LMA	17,390	17,330	17,560	15,710	15,690	15,930	1,680	1,640	1,620	9.7	9.5	9.2
Houlton LMA	8,520	8,390	8,440	7,660	7,600	7,550	860	790	890	10.0	9.4	10.5
Lewiston-Auburn LMA	59,020	59,070	57,390	54,200	54,330	52,480	4,820	4,740	4,900	8.2	8.0	8.5
Lincoln LMA	3,680	3,650	3,740	3,280	3,270	3,340	400	380	400	10.9	10.4	10.7
Machias LMA	7,970	7,780	7,850	7,030	6,850	6,920	940	920	930	11.8	11.9	11.8
Madawaska LMA	2,880	2,830	2,880	2,640	2,600	2,630	240	230	250	8.4	8.2	8.7
Millinocket LMA	3,580	3,590	3,780	2,970	2,960	3,230	620	630	550	17.2	17.5	14.6
Pittsfield LMA	7,500	7,430	7,450	6,610	6,550	6,540	890	880	920	11.9	11.8	12.3
Portland-S. Portland-Biddeford MA	202,960	202,850	202,490	189,110	189,340	188,620	13,850	13,510	13,870	6.8	6.7	6.8
Portsmouth MA	9,300	9,370	8,880	8,850	8,880	8,380	450	490	500	4.8	5.2	5.6
Presque Isle LMA	24,500	24,320	24,480	22,050	21,900	21,950	2,450	2,420	2,530	10.0	10.0	10.4
Rochester-Dover MA	11,540	11,610	11,370	10,790	10,800	10,530	750	810	840	6.5	7.0	7.4
Rockland Micro	12,110	11,950	11,980	11,020	10,850	10,890	1,090	1,110	1,090	9.0	9.3	9.1
Rumford LMA	10,430	10,520	10,290	9,280	9,400	9,130	1,150	1,110	1,160	11.0	10.6	11.3
Sanford Micro	11,190	11,200	11,200	9,990	9,960	9,920	1,200	1,230	1,270	10.7	11.0	11.4
Skowhegan LMA	14,880	14,810	14,770	13,240	13,140	13,050	1,650	1,670	1,730	11.1	11.3	11.7
St. George LMA	1,350	1,340	1,360	1,260	1,240	1,240	100	110	120	7.2	7.9	8.5
Waldoboro LMA	9,380	9,290	9,250	8,620	8,530	8,500	760	750	750	8.1	8.1	8.1
Waterville Micro	22,400	22,390	22,180	20,500	20,520	20,250	1,900	1,880	1,930	8.5	8.4	8.7
York LMA	16,330	16,300	16,060	15,100	15,070	14,770	1,230	1,240	1,300	7.5	7.6	8.1
MAINE	701,230	699,820	694,940	643,140	642,160	635,590	58,090	57,660	59,350	8.3	8.2	8.5
UNITED STATES (000)	154,320	154,110	153,020	141,410	140,680	138,960	12,900	13,430	14,060	8.4	8.7	9.2

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STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX G

PROPOSED FORM OF BOND COUNSEL OPINION

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

EDWARDS WILDMAN

EDWARDS WILDMAN PALMER LLP
111 HUNTINGTON AVENUE
BOSTON, MA 02199
+1 617 239 0100 main +1 617 227 4420 fax
edwardswildman.com

[Date of Delivery]

The Honorable Bruce L. Poliquin
Treasurer of State
The State of Maine
39 State House Station
Augusta, Maine 04333

$15,445,000
State of Maine
General Obligation Bonds, 2012 Series A
(Federally Taxable)
Dated Date of Delivery

We have acted as bond counsel to the State of Maine (the "State") in connection with the issuance by the State of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State and the full faith and credit of the State are pledged for the payment of the principal of and interest on the Bonds.

2. Interest on the Bonds is included in the gross income of the owners of the Bonds for federal income tax purposes. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

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

This opinion is not intended or written by Edwards Wildman Palmer 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 WILDMAN PALMER LLP

PROPOSED FORM OF BOND COUNSEL OPINION

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

EDWARDS WILDMAN

EDWARDS WILDMAN PALMER LLP
111 HUNTINGTON AVENUE
BOSTON, MA 02199
+1 617 239 0100 main +1 617 227 4420 fax
edwardswildman.com

[Date of Delivery]

The Honorable Bruce L. Poliquin
Treasurer of State
The State of Maine
39 State House Station
Augusta, Maine 04333

$33,820,000
State of Maine
General Obligation Bonds, 2012 Series B
Dated Date of Delivery

We have acted as bond counsel to the State of Maine (the "State") in connection with the issuance by the State of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State and the full faith and credit of the State are pledged for the payment of the principal of and interest on the Bonds.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986 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 WILDMAN PALMER 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, not in excess of ten (10) business days after the occurrence of the event, to the MSRB notice of any of the following events with respect to the Bonds:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on the debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on the credit enhancements reflecting financial difficulties;

(v) substitution of the credit or liquidity providers or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(vii) modifications to rights of bondholders, if material;

(viii) optional, contingent or unscheduled calls of Bonds, if material;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the Bonds, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the State*;

(xiii) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material; and

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

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

The State may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the State, such other events are material with respect to the Bonds, but the State does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

The covenants described in this Appendix H (the “Covenants”) are for the benefit of the Beneficial Owners and shall be enforceable by any Beneficial Owner. No Beneficial Owner may institute any suit, action or proceeding at law or in equity (“Proceeding”) for the enforcement of the Covenants, unless such Beneficial Owner shall have filed with the Treasurer of State and the

* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State.

Attorney General a written request to cure such breach, and the State shall have refused or failed to comply within a reasonable time. Any assertion of beneficial ownership must be included in such written request and must be supported by independent evidence or documents. All Proceedings shall be instituted only in a State court located in the City of Augusta, Maine for the equal benefit of all Beneficial Owners of the outstanding Bonds. If a court of competent jurisdiction finds that the State has breached any of the Covenants, then the sole remedy for any such breach shall be an order of specific performance of the Covenants and there shall be no right of acceleration of the Bonds. Moreover, Proceedings filed by Beneficial Owners against the State may be subject to the defense of sovereign immunity which may substantially limit the scope and nature of any legal action against the State or of any order of specific performance that may be granted against the State.

The Covenants may only be amended if:

(i) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the State, or type of business conducted; the Covenants, as amended, would have complied with the Rule as of the date of issuance of the Bonds, after taking into account any amendments or changes in circumstances; and the amendment does not materially impair the interest of Beneficial Owners, as determined by parties unaffiliated with the State; or

(ii) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the adoption of such Rule, ceases to be in effect for any reason, and the State elects that the Covenants shall be deemed amended accordingly.

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APPENDIX I

NOTICE OF SALE

of the

STATE OF MAINE

relating to

$15,630,000*
General Obligation Bonds, 2012 Series A
(Federally Taxable)

and

$36,870,000*
General Obligation Bonds, 2012 Series B

Notice is hereby given that bids will be received until:

10:30 a.m., Eastern Daylight Saving Time, with respect to the Series A Bonds; and

10:45 a.m., Eastern Daylight Saving Time, with respect to the Series B Bonds,

on Thursday, May 31, 2012

via Parity®, subject to the terms and conditions hereof, for the purchase of the $15,630,000* State of Maine General Obligation Bonds, 2012 Series A (Federally Taxable) (the "Series A Bonds") and $36,870,000* State of Maine General Obligation Bonds, 2012 Series B (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds").

Description of the Bonds

The Bonds will bear interest from the date of their delivery payable semiannually on June 1 and December 1 of each year, commencing December 1, 2012, until payment of the principal of the Bonds. Interest on the Bonds will be paid on the interest payment dates, and principal of the Bonds will be paid at maturity, to The Depository Trust Company, New York, New York ("DTC") or its nominee as registered owner of the Bonds. Interest on the Bonds will be computed on the basis of a 30-day month and a 360-day year.

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

The Bonds are being issued (i) to refinance certain capital expenditures of the State and (ii) to finance certain additional capital expenditures of the State.

*Preliminary, subject to change.

Details of the Bonds

The Series A Bonds will be dated their date of delivery and will mature on June 1 in each of the years 2013 to 2015, inclusive, in the principal amounts described in the table below, subject to any adjustments described in "Adjustment of Maturity Schedule" below:

Year	Principal Amount*
2013	$5,205,000
2014	5,255,000
2015	5,170,000

The Series B Bonds will be dated the date of delivery and will mature on June 1 in each of the years 2015 to 2022, inclusive, in the principal amounts described in the table below, subject to any adjustments described in "Adjustment of Maturity Schedule" below:

Year	Principal Amount*
2015	$ 85,000
2016	5,255,000
2017	5,255,000
2018	5,255,000
2019	5,255,000
2020	5,255,000
2021	5,255,000
2022	5,255,000

Authorization and Security

The Bonds will be general obligations of the State and the full faith and credit of the State will be pledged for the punctual payment of the principal and interest on the Bonds.

Redemption

The Bonds are not subject to redemption prior to maturity.

Adjustment of Maturity Schedule

The State reserves the right to change the aggregate principal amount of the Bonds and the maturity schedule for either series after the determination of the winning bid by increasing or decreasing the principal amount of each maturity by such amount as may be necessary to (i) produce sufficient funds for the purposes for which the Bonds are being issued after taking into account any premium to be received by the State, and (ii) to produce substantially level annual payments of principal and interest on the Bonds. In such event, the final aggregate principal amount of the Bonds will be increased or decreased by the net amount of such change or changes in principal amount of one or more maturities, which net change will not exceed ten percent (10%) of the original aggregate principal amount of the Bonds. The State anticipates that the final maturity schedule will be communicated to the successful bidder by 1:00 p.m. Eastern Daylight Saving time on the date of award provided the State has received the reoffering prices and yields for the Bonds from the successful bidder within one hour after being notified of the

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*Preliminary, subject to change as described herein.

award of the Bonds. The adjusted bid price will reflect changes in the dollar amount of the underwriter's discount and original issue discount/premium, if any, but will not change the per-bond underwriter's discount as calculated from the bid and reoffering prices required to be delivered to the State as stated herein. The successful bidder for each series may not withdraw their bid or change the interest rates bid or initial reoffering prices as a result of any changes made to the principal amounts within these limits.

Book-Entry Only

The Bonds will be issued by means of a book-entry system with no physical distribution of Bonds made to the public. One Bond certificate for each maturity of each series will be issued to The Depository Trust Company, New York, New York ("DTC"), and immobilized in its custody. A book-entry system will be employed, evidencing ownership of the Bonds in principal amounts of $5,000 or integral multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. The successful bidder of each series, as a condition to delivery of the Bonds, shall be required to deposit the Bond certificates with DTC, registered in the name of Cede & Co. Interest on the Bonds will be payable semiannually on December 1 and June 1, beginning December 1, 2012. Principal of the Bonds will be paid annually on June 1, as set forth in the foregoing maturity schedules, to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The record date for principal and interest payments will be the fifteenth day of the month next preceding the date on which interest is to be paid. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds or (b) the Treasurer determines that continuation of the book-entry system of evidence and transfer of ownership of the Bonds would adversely affect the interests of the beneficial owners of the Bonds, the State will discontinue the book-entry system with DTC. If the State fails to identify another qualified securities depository to replace DTC, the State will authenticate and deliver replacement Bonds in the form of fully registered certificates.

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds in accordance with the terms of its bid. No CUSIP identification numbers shall be deemed to be part of any Bond or a part of the contract evidenced thereby and no liability shall hereafter attach to the State or any of its officers or agents because of or on account of such numbers. The State shall pay all expenses in connection with the initial assignment and printing of CUSIP numbers. The underwriter for each series will be responsible for applying for and obtaining CUSIP identification numbers for the Bonds. The CUSIP Service Bureau charge for the assignment of such numbers shall be the responsibility of and shall be paid by the successful bidder.

Bid Specifications

Bidders should state the rate of interest that the Series A Bonds and the Series B Bonds are to bear, in multiples of 1/8 or 1/20 of one percent. **In order to fund its planned capital expenditures, the total proceeds payable to the State (par plus premium, if any) must be at least $55,772,191. Accordingly, the par amount of the Series A Bonds and the Series B Bonds should be adjusted, as needed, in order that the total proceeds received by the State of the Series A Bonds and the Series B Bonds are as nearly as practicable (within $5,000) to $15,548,000 and $40,224,191, respectively.** The State reserves the right to adjust the par amount of the Series A Bonds and the Series B Bonds in order that the total proceeds received by the State are as nearly as practicable (within $5,000) to $15,548,000 and $40,224,191, respectively. No bids for other than all of the Series A Bonds and the Series B Bonds will be accepted. No bid for less than 100% of the principal amount of the Series A Bonds and the Series B Bonds will be accepted (subject to adjustments as provided above). Each bid for the Series A Bonds must be for the entire issue at a price not less than 100% and not greater than 105% of the par amount of the Series A Bonds. Each bid for the Series B Bonds must be for the entire issue at a price not less than 100% and not greater than 120% of the par amount of the Series B Bonds. All bids must be unconditional and submitted electronically via Parity® in accordance with this Notice of Sale.

Receipt of Bids

Sealed bids for the Series A Bonds and the Series B Bonds will be received electronically via Parity until 10:30 a.m., Eastern Daylight Saving Time, with respect to the Series A Bonds and 10:45 a.m., Eastern Daylight Saving Time, with respect to the Series B Bonds, on Thursday, May 31, 2012 (or on such later date as may be established by the State and communicated through Thomson Municipal Market Monitor not less than twenty-four (24) hours prior to the time the bids are to be received). To the extent any instructions or directions set forth on Parity conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about Parity, potential bidders may contact I-Deal LLC at 1359 Broadway, 2nd Floor, New York, NY 10018, or telephone (212) 849-5021. The use of Parity shall be at the bidder's risk and expense, and the State shall have no liability with respect thereto. Only bids submitted through Parity will be considered. No telephone, facsimile, mail, courier delivery or personal delivery bids will be accepted. To participate, bidders must be a contracted customer of the BiDCOMP Competitive Bidding System (the "System"). If the prospective bidder(s) do not have a contract with the System, call (212) 849-5021 to become a customer and to obtain a list of the bidding rules and procedures.

Basis of Award

The Bonds will be awarded to the bidder(s) offering to purchase the Bonds, as applicable, at the lowest interest cost to the State. Separate awards will be made with respect to the Series A Bonds and the Series B Bonds. **Such interest cost shall be determined on a true interest cost (TIC) basis. True interest cost (expressed as an annual interest rate) shall be determined for each bid by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments from the payment dates to the date of delivery and to the price bid.** In the event there is more than one bid specifying the lowest such cost, the Bonds will be awarded to the bidder whose bid is selected by the Treasurer by lot from among all such bids. It is requested that each bid be accompanied by a statement of such interest cost, computed at the interest rate or rates stated in the bid in accordance with the above method of computation (computed to six decimal places), but such statement will not be considered as part of the bid.

Bids will be accepted or rejected promptly after receipt and not later than 10:30 a.m., Eastern Daylight Saving Time, with respect to the Series A Bonds; and 10:45 a.m., Eastern Daylight Saving Time, with respect to the Series B Bonds, on the date of the sale.

The State reserves the right to reject any or all proposals and to reject any proposals not complying with this Notice of Sale. The State also reserves the right, so far as permitted by law, to waive any irregularity or informality with respect to any proposal.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the State. However, the

CUSIP Service Bureau charge for the assignment of such numbers shall be the responsibility of and shall be paid by the successful bidder.

Expenses

The State will pay: (i) the cost of the preparation of the Bonds; (ii) the fees and expenses of Bond Counsel; (iii) the fees of the rating agencies relating to the Bonds, and (iv) the cost of preparation and printing of the Official Statement.

Undertakings of the Successful Bidder(s)

The successful bidder(s) shall make a bona fide public offering of the Bonds. The successful bidder(s) must, by facsimile transmission or delivery received by the Deputy Treasurer within 24 hours after notification of the award, furnish the following information to Bond Counsel to complete the Official Statement in final form, as described below:

A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields at which the successful bidder(s) advised the Treasurer that the Bonds were initially offered to the public).

B. The identity of the underwriters if the successful bidder(s) is part of a group or syndicate.

C. Any other material information the Treasurer determines is necessary to complete the Official Statement in final form.

Prior to delivery of the Bonds, the successful bidders of the Bonds shall furnish to the State a certificate acceptable to Bond Counsel to the effect that as of the date of acceptance of its bid, such successful bidder had sold or reasonably expected to sell all of the Bonds to the public (excluding bond houses, brokers or similar persons or other intermediaries) at the Initial Reoffering Prices.

Delivery of the Bonds

The Bonds will be delivered on or about June 7, 2012 in New York, New York at DTC against payment of the purchase price therefor in Federal Funds.

Documents to be Delivered at Closing

It shall be a condition to the obligation of the successful bidder(s) to accept delivery of and pay for the Bonds that contemporaneously with or before accepting the Bonds and paying therefor, the successful bidder(s) shall be furnished, without cost, with (a) the approving opinions of the firm of Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel to the State, as to the validity and tax status of the Bonds, substantially in the forms provided in Appendix G to the Final Official Statement, referred to below; (b) a certificate of the Treasurer to the effect that, to the best of his knowledge, the Final Official Statement referred to below does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading; and (c) an opinion of the Department of the Attorney General of the State, dated as of the date of delivery of the Bonds, to the effect that there is no litigation of any nature pending or threatened to restrain or enjoin the issuance or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof or the levy or collection of any taxes to pay principal of or interest on the Bonds. In addition, such opinion will state that, based on consultations with certain officers of the State, there is no litigation of any nature now pending or threatened by or against the State wherein an adverse judgment or ruling could have a material adverse effect on the financial condition of the State or adversely affect the power of the State to levy, collect or enforce the collection of taxes or other revenues for the payment of its Bonds which has not been disclosed in the Final Official Statement referred to below.

Official Statement

The Preliminary Official Statement dated May 22, 2012 and the information contained therein have been deemed final by the State as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the Official Statement in final form (the "Final Official Statement").

The State, at its expense, will make available to the successful bidder(s) up to 75 copies of the Final Official Statement, for delivery to each potential investor requesting a copy of the Final Official Statement and to each person to whom the bidder(s) and members of its bidding group initially sell the Bonds, within seven business days of the award of the Bonds, provided that the successful bidder(s) cooperate in providing the information required to complete the Final Official Statement.

The successful bidder(s) shall comply with the requirements of Rule 15c2-12 and the rules of the Municipal Securities Rulemaking Board, including an obligation, if any, to update the Final Official Statement.

Continuing Disclosure

In order to assist bidders in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the State will undertake to provide notices of certain significant events. A description of this undertaking is set forth in the Preliminary Official Statement.

Right to Change the Notice of Sale and to Postpone Offering

The State reserves the right to make changes to this Notice of Sale and also reserves the right to postpone, from time to time, the date and time established for the receipt of bids. ANY SUCH POSTPONEMENT WILL BE ANNOUNCED NOT LATER THAN 1:00 P.M. (E.D.T.) ON THE LAST BUSINESS DAY PRIOR TO ANY ANNOUNCED DATE FOR RECEIPT OF BIDS. If any date and time fixed for the receipt of bids and the sale of the Bonds is postponed, an alternative sale date and time will be announced at least 48 hours prior to such alternative sale date. On any such alternative sale date and time, any bidder may submit a bid for the purchase of the Bonds in conformity in all respects with the provisions of this Notice of Sale, except for the date and time of sale and except for any changes announced at the time the sale date and time are announced.

Good Faith Deposit

The State is not requiring the submission of a good faith deposit prior to the date of award of the Bonds to the successful bidder. Rather, the successful bidder, as determined by the State in accordance with this Notice of Sale, must submit a good faith deposit in the amount of $156,300 for a bid on the Series A Bonds, and in the amount of $368,700 for a bid on the Series B Bonds. The good faith deposit will secure the State from any loss resulting from the failure of the successful bidder to comply with the terms of its bid. The successful bidder shall transfer the good faith deposit by wire transfer directly to the State upon notification, but in any case, no later than 3:00 p.m., Eastern Daylight Saving Time, on the date of award of the Bonds. The good faith deposit will be held by the State and applied toward a portion of the total purchase price of the Bonds. No interest on the good faith deposit will accrue to the successful bidder. Wire instructions will be provided to the successful bidder upon notification of the preliminary award.

Additional Information

For further information relating to the Bonds, reference is made to the Preliminary Official Statement dated May 22, 2012 prepared for and authorized by the Treasurer. The Preliminary Official Statement may be obtained by accessing the following website: http://www.imagemaster.com/. For further information, please contact Barbara Raths, Deputy State Treasurer, 39 State House Station, Augusta, Maine 04333 (telephone: 207-624-7477; facsimile 207-287-2367).

THE STATE OF MAINE

By Bruce L. Poliquin
Treasurer of State

Date: May 22, 2012

Attachment A

INSTRUCTIONS TO SUBMIT A BID VIA PARITY

- You must be a contracted customer of Parity's Competitive Bidding System. If you do not have a contract with Parity, call (212) 849-5021 to become a customer.
- In Parity select the State of Maine sale among the list of current sales.
- Go to the bid form page. Keep notice of the time clock and be sure to read all bid specifications on bottom.
- Once you have created and saved a bid in Parity, click the final bid button in Parity to submit the bid to Parity.
- Upon clicking the Final Bid button, the bidder will see a message box in Parity that states: "Do you want to submit this bid to Parity? By submitting the bid electronically via PARITY, you represent and warrant that this bid for the purchase of the Bonds is submitted by the representative who is duly authorized to bind the bidder to a legal, valid, enforceable contract for the purchase of the Bonds. The Official Notice of Sale is incorporated herein by this reference."
- If during bid calculation Parity warns you that your current bid violates the bid parameters, please change your bid to meet bid specifications. The Parity system will submit bids, which violate the bid parameters, but the State does not intend to consider any bids that do not meet its parameters.
- You may choose to proceed with submission of the bid or choose to cancel the submission.
- Contact Parity at (212) 849-5021 or with questions or problems.

STATE OF MAINE • GENERAL OBLIGATION BONDS

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From responsible sources
FSC™ C017146
FSC
www.fsc.org

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