# STATE OF MAINE
# SINGLE AUDIT REPORT
# FOR THE YEAR ENDED JUNE 30, 2012

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DIRIGO
MAINE

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# Letter of Transmittal

Senator Justin L. Alfond
President of the Senate

Representative Mark W. Eves
Speaker of the House of Representatives

The Honorable Paul R. LePage
Governor of Maine

I am pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 2012. This audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States; the requirements of the Single Audit Act Amendments of 1996; and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Our audit complies with 5 MRSA §243 and is a prerequisite for the receipt of federal financial assistance, which was $3.2 billion during fiscal year 2012.

This document contains the following reports and schedules:

- Independent Auditor's Report
- Basic Financial Statements, Management's Discussion and Analysis, Notes to Financial Statements, and Required Supplementary Information
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards
- Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133
- Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs
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- Indexes to Federal Program Findings
- Federal Findings, Questioned Costs and Corrective Action Plan
- Summary Schedule of Prior Audit Findings

On behalf of the Maine Department of Audit, I thank employees throughout Maine government who have assisted us during our audit. I know that we all work to improve financial reporting and accountability for our citizens and our State.

Please contact me if you have questions or comments about the 2012 Single Audit of the State of Maine.

Respectfully submitted,

Pola Buckley

Pola A. Buckley
State Auditor

March 28, 2013

# STATE OF MAINE
# EXECUTIVE SUMMARY
# FOR THE YEAR ENDED JUNE 30, 2012

DIRIGO
MAINE

# STATE OF MAINE
# SINGLE AUDIT REPORT
# FOR THE YEAR ENDED JUNE 30, 2012

## EXECUTIVE SUMMARY

The Department of Audit performs an annual financial and compliance audit, the Single Audit of the State of Maine, in order to comply with federal and State requirements. Our audit included 24 major federal programs representing 97% of the $3.3 billion in federal assistance that the State expended. The Single Audit Report consists of various audit reports along with related financial statement and federal audit findings and recommendations.

### Independent Auditor's Report

We rendered an unqualified opinion on the State's basic financial statements which means that the financial report is presented fairly in all material respects in accordance with generally accepted accounting principles.

### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

We reported on internal control over financial reporting and did not identify any deficiencies in internal control that we considered to be material weaknesses. A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees to prevent, or detect and correct financial statement misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies such that there is a reasonable possibility that a material misstatement of the State's financial statements would not be prevented, or detected and corrected on a timely basis. We did detect one significant deficiency over financial reporting for the Employment Security Fund (Unemployment Insurance). This finding is identified as 12-0308-01.

As part of obtaining reasonable assurance about whether the State's financial statements were not materially misstated, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The results of our tests disclosed no instances of noncompliance that were required to be reported under *Government Auditing Standards*.

## Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

*Compliance with program requirements*

We issued three audit findings that resulted in qualifications of our opinions on compliance with program requirements for three federal programs because of material noncompliance. The remaining 21 federal programs complied in all material respects with program requirements.

*Internal control over compliance*

We identified 36 deficiencies in internal control over compliance. A *deficiency* exists when the operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program, on a timely basis.

Thirty-three deficiencies were considered to be *significant deficiencies* in internal control over compliance. A *significant deficiency* exists when there is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Three deficiencies were considered to be *material weaknesses* in internal control. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

## Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs includes the audit findings and managements' responses and plans for corrective action for addressing the audit findings. The audit findings also include a total of $915 thousand of *known questioned costs* and three other audit findings for which the *questioned costs* could not be determined. *Questioned costs* are amounts of federal financial assistance that we believe were not spent in accordance with program requirements. The federal government may or may not disallow these costs and could result in reimbursements from the State to the federal government.

# STATE OF MAINE
# FINANCIAL STATEMENTS
# FOR THE YEAR ENDED JUNE 30, 2012

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**POLA A. BUCKLEY, CPA, CISA**
STATE AUDITOR

# INDEPENDENT AUDITOR'S REPORT

To Justin L. Alfond, President of the Senate
Mark W. Eves, 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, 2012, 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, 2012, 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*, we have also issued our report dated December 21, 2012 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. 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 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages B5 – B17, 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 B98 – B108, 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 accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Pola Buckley

Pola A. Buckley, CPA, CISA
State Auditor
Maine Department of Audit

December 21, 2012

# 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, 2012. 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 1.8 percent from the previous fiscal year. Net assets of Governmental Activities increased by $74.3 million, while net assets of Business-type Activities increased by $9.1 million. The State's assets exceeded its liabilities by $4.7 billion at the close of fiscal year 2012. Component units reported net assets of $2.7 billion, an increase of $254.6 million (10.3 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 $244.4 million, a decrease of $80.1 million from the previous year. The General Fund's total fund balance was a negative $349.9 million, a decline of $113.6 million from the previous year. The Highway Fund total fund balance was $36.1 million, an improvement of $4.3 million from the prior year.

- The proprietary funds reported net assets at year end of $632.3 million, a decrease of $2.3 million from the previous year. This decrease is due to several factors: an increase in the Alcoholic Beverages Fund of $12.5 million, an increase in the Statewide Radio & Network Systems Fund of $5.7 million, offset by a decrease in the Retiree Health Insurance Fund of $6.1 million and a decrease in the Transportation Facilities Fund of $7.4 million.

**Long-term Debt:**

- The State's liability for general obligation bonds decreased by $48.1 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $49.3 million in bonds and made principal payments of $97.4 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

Governmental Accounting Standards Board (GASB) Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs became effective for the State for the year ended June 30, 2012 when the State acquired and became responsible for the closure and postclosure monitoring costs of the Dolby Landfills. This Statement established accounting and financial reporting for municipal solid waste landfill (MSWLF) closure and postclosure care costs. The fiscal year 2011 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" two component units, the Maine Governmental Facilities Authority (MGFA) and Child Development Services (CDS) with Governmental Activities as described above. Maine reports 18 other component units (7 major and 11 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 1.8 percent to $4.7 billion at June 30, 2012, 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 | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Current and other noncurrent assets | $ 1,911,603 | $ 1,911,307 | $ 350,609 | $ 353,854 | $ 2,262,212 | $ 2,265,161 |
| Capital assets | 5,085,498 | 4,862,331 | 152,763 | 146,357 | 5,238,261 | 5,008,688 |
| **Total Assets** | **6,997,101** | **6,773,638** | **503,372** | **500,211** | **7,500,473** | **7,273,849** |
| Current liabilities | 1,424,285 | 1,307,641 | 37,185 | 32,967 | 1,461,470 | 1,340,608 |
| Long-term liabilities | 1,281,137 | 1,248,658 | 17,117 | 27,223 | 1,298,254 | 1,275,881 |
| **Total Liabilities** | **2,705,422** | **2,556,299** | **54,302** | **60,190** | **2,759,724** | **2,616,489** |
| **Net assets (deficit):** | | | | | | |
| Invested in capital assets, net of related debt | 4,408,377 | 4,165,760 * | 152,763 | 146,357 | 4,561,140 | 4,312,117 * |
| Restricted | 534,806 | 496,261 * | 295,632 | 300,287 | 830,438 | 796,548 * |
| Unrestricted (deficit) | (651,504) | (444,682) * | 675 | (6,623) | (650,829) | (451,305) * |
| **Total Net Assets** | **$ 4,291,679** | **$4,217,339** | **$ 449,070** | **$ 440,021** | **$ 4,740,749** | **$4,657,360** |

* As Restated

### Changes in Net Assets

The State's fiscal year 2012 revenues totaled $7.8 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 44.5 percent and 40.6 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 2012. (See Table A-2) These expenses are predominantly (69.5 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 5.9 percent of total costs. Total net assets increased by $83.4 million.

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

| | Governmental Activities | | | Business-type Activities | | Total Primary Government | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | | 2012 | 2011 | 2012 | 2011 | |
| **Revenues** | | | | | | | | |
| Program Revenues: | | | | | | | | |
| Charges for Services | $ 488,832 | $ 490,069 | * | $ 540,924 | $ 535,349 | $ 1,029,756 | $ 1,025,418 | * |
| Operating Grants/Contributions | 3,160,241 | 3,389,193 | * | 7,823 | 11,253 | 3,168,064 | 3,400,446 | * |
| General Revenues: | | | | | | | | |
| Taxes | 3,472,588 | 3,435,859 | | - | - | 3,472,588 | 3,435,859 | |
| Other | 130,091 | 172,641 | * | - | - | 130,091 | 172,641 | * |
| **Total Revenues** | 7,251,752 | 7,487,762 | | 548,747 | 546,602 | 7,800,499 | 8,034,364 | |
| **Expenses** | | | | | | | | |
| Governmental Activities: | | | | | | | | |
| Governmental Support | 456,622 | 448,917 | | | | 456,622 | 448,917 | |
| Education | 1,610,095 | 1,741,685 | * | | | 1,610,095 | 1,741,685 | * |
| Health & Human Services | 3,750,402 | 3,522,341 | | | | 3,750,402 | 3,522,341 | |
| Justice & Protection | 401,740 | 415,450 | | | | 401,740 | 415,450 | |
| Transportation Safety | 376,689 | 371,374 | | | | 376,689 | 371,374 | |
| Other | 591,281 | 659,947 | | | | 591,281 | 659,947 | |
| Interest | 45,551 | 43,202 | | | | 45,551 | 43,202 | |
| Business-Type Activities: | | | | | | | | |
| Employment Security | | | | 187,703 | 203,693 | 187,703 | 203,693 | |
| Lottery | | | | 176,837 | 167,956 | 176,837 | 167,956 | |
| Military Equip. Maint. | | | | 35,058 | 44,765 | 35,058 | 44,765 | |
| Dirigo Health | | | | 56,702 | 47,980 | 56,702 | 47,980 | |
| Other | | | | 28,430 | 31,390 | 28,430 | 31,390 | |
| **Total Expenses** | 7,232,380 | 7,202,916 | | 484,730 | 495,784 | 7,717,110 | 7,698,700 | |
| **Excess (Deficiency) before Special Items and Transfers** | 19,372 | 284,846 | | 64,017 | 50,818 | 83,389 | 335,664 | |
| Special Items | - | (36,931) | | - | (7,086) | - | (44,017) | |
| Transfers | 54,968 | (13,016) | | (54,968) | 13,016 | - | - | |
| Increase (Decrease) in Net Assets | 74,340 | 234,899 | | 9,049 | 56,748 | 83,389 | 291,647 | |
| Net Assets, beginning of year | 4,217,339 | 3,982,440 | * | 440,021 | 383,273 | 4,657,360 | 4,365,713 | * |
| Ending Net Assets | $ 4,291,679 | $ 4,217,339 | | $ 449,070 | $ 440,021 | $ 4,740,749 | $ 4,657,360 | |

*as restated

## Governmental Activities

Revenues for the State's Governmental Activities totaled $7.3 billion while total expenses equaled $7.2 billion. The increase in net assets for Governmental Activities was $74.3 million in 2012, resulting mainly from transfers from the State's Business-type activities discussed below. 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 $36.7 million from the prior year; however, net expenses supported by tax revenue increased by approximately $260.2 million. Furthermore, the State's Business-type Activities transferred $65.0 million (net) to the Governmental Activities, which included statutorily required profit transfers. However, offsetting these profit transfers were contributions totaling $10.0 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 $488.8 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $3.2 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 2012

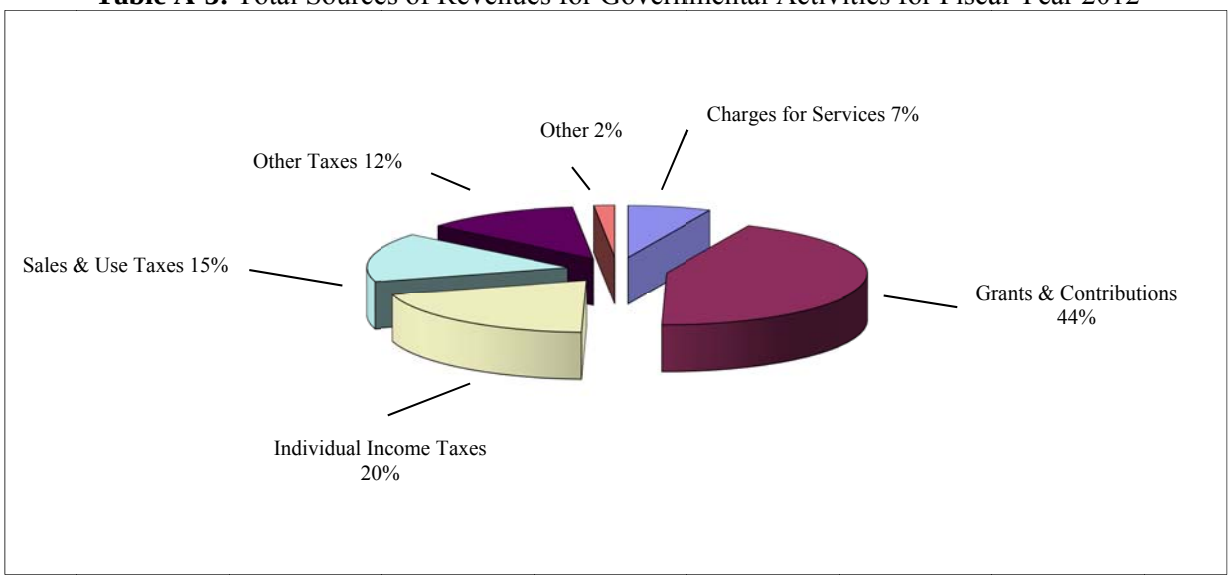
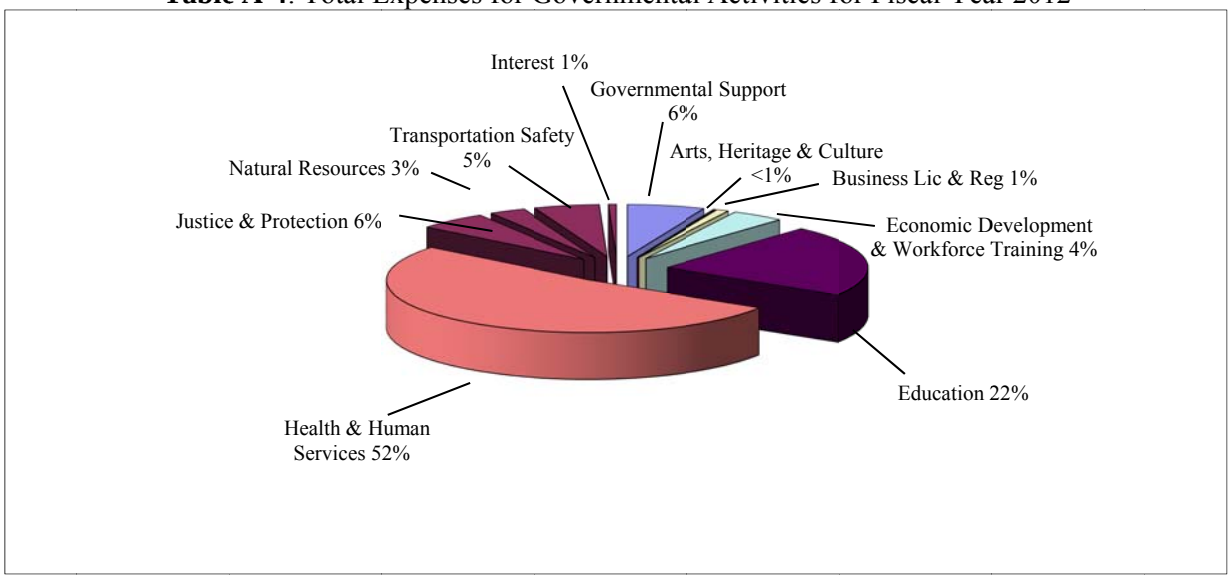



**Table A-4**: Total Expenses for Governmental Activities for Fiscal Year 2012



**Business-type Activities**

Revenues for the State's Business-type Activities totaled $548.7 million while expenses totaled $484.7 million. The increase in net assets for Business-type Activities was $9.1 million in 2012, due mainly to the deferred recognition of proceeds resulting from the sale of the State's liquor operations.

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 2012 | Total Cost 2011 | Net (Cost) Revenue 2012 | Net (Cost) Revenue 2011 |
|---|---|---|---|---|
| Employment Security | $ 187,703 | $ 203,693 | $ (3,235) | $ (19,024) |
| Alcoholic Beverages | - | - | 12,532 | 12,533 |
| Lottery | 176,837 | 167,956 | 54,178 | 50,125 |
| Military Equip. Maint. | 35,058 | 44,765 | 46 | (2,292) |
| Dirigo Health | 56,702 | 47,980 | 13,594 | 23,416 |
| Other | 28,430 | 31,390 | (13,098) | (13,940) |
| Total | $ 484,730 | $ 495,784 | $ 64,017 | $ 50,818 |

The cost of all Business-type Activities this year was $484.7 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was $64.0 million, with the Lottery making up $54.2 million of the total. The State's Business-type Activities transferred $65.0 million (net) to the Governmental Activities, which included statutorily required profit transfers. Additionally, the Governmental Activities contributed $10.0 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 | 2012 | 2011 | Change |
|---|---|---|---|
| General | $ (349,935) | $ (236,369) | $ (113,566) |
| Highway | 36,109 | 31,792 | 4,317 |
| Federal | 15,128 | 24,419 | (9,291) |
| Other Special Revenue | 443,250 | 399,792 | 43,458 |
| Other Governmental | 99,840 | 104,849 * | (5,009) |
| Total | $ 244,392 | $ 324,483 | $ (80,091) |

* As restated

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $244.4 million, a decrease of $80.1 million in comparison with the prior year. Of this total amount, $20.9 million (8.5 percent) is classified as non-spendable, either due to its form or legal constraints, and $530.8 million (217.2 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 15.7 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 $12.5 million or 5.1 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 $355.9 million, a decline of $112.3 million.

General Fund expenditures and other uses surpassed General Fund revenues and other sources resulting in a decrease in the fund balance by $113.6 million. While revenues and other sources of the General Fund increased by approximately $10.4 million (0.31 percent) which is mainly attributed to an increase in tax revenue ($63.4 million) offset by a decrease in transfers in from other funds ($45.1 million); General Fund expenditures increased by $146.3 million, led by an increase in expenditures for health and human service of $193.8 million.

The fund balance of the Highway Fund increased $4.3 million from fiscal year 2011, due mainly to the Highway Fund's reimbursement of approximately $15.8 million from the Federal Fund for prior period expenditures that were ultimately approved for federal funding.

### Budgetary Highlights

For the 2012 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $3.2 billion, an increase of about $108.5 million from the original legally adopted budget of approximately $3.1 billion. Actual expenditures on a budgetary basis amounted to approximately $74.9 million less than those authorized in the final budget. After deducting the encumbered obligations and other commitments that will come due in fiscal year 2013, including the budgeted starting balance for Fiscal Year 2012, there were funds remaining of $26 million to distribute in Fiscal Year 2012. Actual revenues exceeded final budget forecasts by $2.1 million. As a part of the final budget adjustment for Fiscal Year 2012, the Legislature approved net transfers of $25.7 million from the State's Budget Stabilization Fund to unappropriated surplus. Interest earnings netted against the legislatively and statutorily approved transfers decreased the balance in the Fund to $44.8 million as of June 30, 2012. This item is further explained in Note 2 of Notes to the Financial Statements.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of fiscal year 2012, the State had roughly $5.2 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2012, the State acquired or constructed more than $417.4 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 | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Land | $ 497,893 | $ 488,197 | $ 58,888 | $ 58,888 | $ 556,781 | $ 547,085 |
| Buildings | 626,202 | 592,943 | 9,449 | 9,449 | 635,651 | 602,392 |
| Equipment | 272,567 | 255,915 * | 80,892 | 67,037 | 353,459 | 322,952 * |
| Improvements | 20,843 | 19,796 * | 74,889 | 63,342 | 95,732 | 83,138 * |
| Software | 41,789 | 9 * | - | - | 41,789 | 9 * |
| Infrastructure | 4,018,966 | 3,814,466 | - | - | 4,018,966 | 3,814,466 |
| Construction in Progress | 48,473 | 119,419 | 18,555 | 32,024 | 67,028 | 151,443 |
| Total Capital Assets | 5,526,733 | 5,290,745 | 242,673 | 230,740 | 5,769,406 | 5,521,485 |
| Accumulated Depreciation | 441,235 | 428,414 * | 89,910 | 84,383 | 531,145 | 512,797 * |
| Capital Assets, net | $ 5,085,498 | $ 4,862,331 | $ 152,763 | $ 146,357 | $ 5,238,261 | $ 5,008,688 |

* as restated

### 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 8,828 highway miles or 17,993 lane miles within the State. Bridges have a deck area of 11.8 million square feet among 2,963 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2012, the actual average condition was 75.4. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 79 at June 30, 2012. Preservation costs for fiscal year 2012 totaled $104.7 million compared to estimated preservation costs of $185 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 645, PL 2009, $13.7 million in General fund bonds was spent during FY2012.

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 $1.5 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 | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| General Obligation Bonds | $ 472,055 | $ 520,230 | $ - | $ - | $ 472,055 | $ 520,230 |
| Other Long-Term Obligations | 1,001,843 | 917,588 * | 4,726 | 2,283 | 1,006,569 | 919,871 * |
| Total | $ 1,473,898 | $ 1,437,818 | $ 4,726 | $ 2,283 | $ 1,478,624 | $ 1,440,101 |

* as restated

During the year, the State reduced outstanding long-term obligations by $97.4 million for outstanding general obligation bonds and $643.4 million for other long-term debt. Also during fiscal year 2012, the State incurred $779.4 million of additional long-term obligations.

**Credit Ratings**

The State's credit was rated during fiscal year 2012 by Moody's Investors Service as Aa2 with a negative outlook and by Standard & Poor's as AA with a stable outlook.

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

National and state economic indicators suggest little improvement in economic conditions since the State's Consensus Economic Forecasting Committee (CEFC) met in February 2012. Maine's coincident economic activity index was unchanged in the three months ending in August and remains below pre-recession levels. About half the states saw growth over the three months ending in August. Nationwide, consumer sentiment and small business optimism are up over year-ago levels. Personal income in Maine grew 3.0% year-over-year in the first half of 2012, while wage and salary income grew 1.3% over the same period. The Consumer Price Index was 2.0% higher in September 2012 than it was in September 2011.

The price of crude oil (West Texas Intermediate) remained fairly steady in the third quarter of 2012 around $92 per barrel. Home sales in Maine increased in six of the seven months since January 2012. Month-over-month, housing permits in Maine grew 33% in August. The median home price in the Portland Metropolitan Statistical Area (York, Cumberland, and Sagadahoc Counties) increased by 3.1% year-over-year in the second quarter of 2012. Mortgage delinquency rates remain well above pre-recession levels but below peak crisis levels. The foreclosure rate in Maine increased in the second quarter of 2012 and remains well above pre-recession levels.

Uncertainty stemming from the "fiscal cliff" has continued to restrain economic growth in recent months. The "fiscal cliff" is a major fiscal tightening that includes the expiry of the Bush tax cuts, the payroll tax cut, emergency unemployment insurance benefits, and depreciation incentives as well as the sequester spending cuts, for a cliff estimated to be worth 3.0% of GDP nationally. Given the severe impact to the economy if a solution is not successfully reached, the CEFC will reevaluate their forecast in the first quarter of calendar year 2013 in response to actual policy decisions at the federal level.

Wage and salary employment growth was revised upwards slightly for 2012 and slightly downwards for 2013-2015 to reflect more robust current-year employment growth and longer-term structural workforce challenges, respectively. Personal income growth was revised upwards for 2012 in part to reflect the stronger employment growth and in 2013 to reflect increased dividends, interest and rent income, while 2014 and 2015 were revised downwards. Inflation, as measured by the Consumer Price Index (CPI), was revised upwards for 2012 and downwards for 2013-2015.

General Fund revenues slowed in FY12 because of the slow national economic recovery. Growth is projected to be flat or negative in FY13 and FY14 because of significant tax reductions enacted by the Legislature during the last two legislative sessions. Revenue growth is projected to return to a more moderate pace of 3.5% once the tax cuts are fully implemented.

At June 30, 2012, the deficit in the State of Maine's Unassigned Fund Balance Account in the General Fund has increased to $355.9 million (from a deficit unassigned balance of $243.6 for fiscal year 2011). This increase is primarily due the State using a one-day borrowing from the Other Special Revenue Fund to balance the budget which totaled $91 million in fiscal year 2012.

There are several factors that adversely affect our General Fund Balance Sheet that we should strive to improve over the next several years. The largest cause for the current condition is the Medicaid liabilities for amounts owed to hospitals and the incurred but not paid liability that accrues at the end of each fiscal year which currently total $720.4 million of which the General Fund portion is $263.7 and the budgetary one-day borrowing used to balance the budget. This combined with the lack of significant reserves weakens the General Fund equity position.

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 and the increase in the dem and for appropriations whose balances carr y from year to year which results in a lack funds accruing 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 c reditors with a general overview of the finances of the State and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

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

# STATE OF MAINE
# STATEMENT OF NET ASSETS

June 30, 2012
(Expressed in Thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Totals | Component Units |
| **Assets** | | | | |
| Current Assets: | | | | |
| Equity in Treasurer's Cash Pool | $ 250,306 | $ 16,626 | $ 266,932 | $ 68,900 |
| Cash and Cash Equivalents | 2,473 | 1,901 | 4,374 | 111,009 |
| Cash with Fiscal Agent | 151,337 | - | 151,337 | - |
| Investments | 73,281 | - | 73,281 | 624,607 |
| Restricted Assets: | | | | |
| Restricted Equity in Treasurer's Cash Pool | 20,918 | - | 20,918 | - |
| Restricted Deposits and Investments | 3,694 | 269,597 | 273,291 | 44,573 |
| Inventories | 6,060 | 2,497 | 8,557 | 3,480 |
| Receivables, Net of Allowance for Uncollectibles: | | | | |
| Taxes Receivable | 371,716 | - | 371,716 | - |
| Loans Receivable | 5,538 | - | 5,538 | 105,128 |
| Notes Receivable | - | - | - | 3,621 |
| Other Receivables | 222,501 | 56,696 | 279,197 | 95,986 |
| Internal Balances | 5,421 | (5,421) | - | - |
| Due from Other Governments | 530,978 | - | 530,978 | 165,703 |
| Due from Primary Government | - | - | - | 16,214 |
| Loans receivable from primary government | - | - | - | 24,086 |
| Due from Component Units | 48,663 | - | 48,663 | - |
| Other Current Assets | 4,385 | 1,875 | 6,260 | 42,989 |
| Total Current Assets | 1,697,271 | 343,771 | 2,041,042 | 1,306,296 |
| Noncurrent Assets: | | | | |
| Equity in Treasurer's Cash Pool | 103,103 | 6,838 | 109,941 | 28,340 |
| Assets Held in Trust | - | - | - | 2 |
| Restricted Assets: | | | | |
| Restricted Equity in Treasurer's Cash Pool | 8,456 | - | 8,456 | - |
| Restricted Deposits and Investments | - | - | - | 587,580 |
| Investments | - | - | - | 488,741 |
| Receivables, Net of Current Portion: | | | | |
| Taxes Receivable | 92,659 | - | 92,659 | - |
| Loans Receivable | - | - | - | 2,589,794 |
| Notes Receivable | - | - | - | 69,781 |
| Other Receivables | 860 | - | 860 | 17,932 |
| Due from Other Governments | 7,494 | - | 7,494 | 1,416,602 |
| Loans receivable from primary government | - | - | - | 304,045 |
| Due From Primary Government | - | - | - | 1,487 |
| Other Noncurrent Assets | - | - | - | 63,916 |
| Post-Employment Benefit Asset | 1,760 | - | 1,760 | 9,783 |
| Capital Assets: | | | | |
| Land, Infrastructure, and Other Non-Depreciable Assets | 4,565,332 | 77,443 | 4,642,775 | 552,623 |
| Buildings, Equipment and Other Depreciable Assets | 961,401 | 165,230 | 1,126,631 | 1,571,948 |
| Less: Accumulated Depreciation | (441,235) | (89,910) | (531,145) | (580,336) |
| Capital Assets, Net of Accumulated Depreciation | 5,085,498 | 152,763 | 5,238,261 | 1,544,235 |
| Total Noncurrent Assets | 5,299,830 | 159,601 | 5,459,431 | 7,122,238 |
| Total Assets | $ 6,997,101 | $ 503,372 | $ 7,500,473 | $ 8,428,534 |

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 | $ 901,319 | $ 8,673 | $ 909,992 | $ 105,688 |
| Accrued Payroll | 41,037 | 1,420 | 42,457 | 3,561 |
| Tax Refunds Payable | 167,260 | - | 167,260 | - |
| Due to Component Units | 16,342 | - | 16,342 | - |
| Due to Primary Government | - | - | - | 48,663 |
| Undistributed Grants and Administrative Funds | - | - | - | 10,693 |
| Allowances for Losses on Insured Commercial Loans | - | - | - | 12,235 |
| Current Portion of Long-Term Obligations: | | | | |
| Compensated Absences | 4,430 | 109 | 4,539 | 2,184 |
| Due to Other Governments | 76,062 | - | 76,062 | 3,713 |
| Amounts Held under State & Federal Loan Programs | - | - | - | 48,423 |
| Claims Payable | 25,767 | - | 25,767 | - |
| Bonds and Notes Payable | 102,330 | - | 102,330 | 177,122 |
| Notes Payable | - | - | - | 1,469 |
| Revenue Bonds Payable | 18,245 | - | 18,245 | 55,603 |
| Obligations under Capital Leases | 5,324 | - | 5,324 | 350 |
| Certificates of Participation and Other Financing Arrangements | 26,323 | - | 26,323 | - |
| Loans Payable to Component Unit | 24,085 | - | 24,085 | - |
| Accrued Interest Payable | 6,866 | - | 6,866 | 45,899 |
| Deferred Revenue | 1,133 | 12,790 | 13,923 | 55,794 |
| Other Current Liabilities | 7,762 | 14,193 | 21,955 | 57,835 |
| Total Current Liabilities | 1,424,285 | 37,185 | 1,461,470 | 629,232 |
| Long-Term Liabilities: | | | | |
| Compensated Absences | 37,624 | 1,480 | 39,104 | - |
| Due to Component Units | 1,359 | - | 1,359 | - |
| Due to Other Governments | - | - | - | 4,830 |
| Amounts Held under State & Federal Loan Programs | - | - | - | 44,017 |
| Claims Payable | 38,556 | - | 38,556 | - |
| Bonds and Notes Payable | 369,725 | - | 369,725 | 3,614,182 |
| Notes Payable | - | - | - | 25,162 |
| Revenue Bonds Payable | 169,620 | - | 169,620 | 1,209,783 |
| Obligations under Capital Leases | 24,454 | - | 24,454 | 5,948 |
| Certificates of Participation and Other Financing Arrangements | 25,774 | - | 25,774 | - |
| Loans Payable to Component Unit | 304,046 | - | 304,046 | - |
| Deferred Revenue | 12,384 | 12,500 | 24,884 | 31,315 |
| Pension Obligation | 2,010 | - | 2,010 | - |
| Other Post-Employment Benefit Obligation | 266,705 | 3,137 | 269,842 | - |
| Pollution Remediation and Landfill Obligations | 28,880 | - | 28,880 | - |
| Other Noncurrent Liabilities | - | - | - | 138,742 |
| Total Long-Term Liabilities | 1,281,137 | 17,117 | 1,298,254 | 5,073,979 |
| Total Liabilities | 2,705,422 | 54,302 | 2,759,724 | 5,703,211 |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 4,408,377 | 152,763 | 4,561,140 | 948,600 |
| Restricted: | | | | |
| Transportation Purposes | 190,642 | - | 190,642 | - |
| Business Licensing & Regulation | 67,374 | - | 67,374 | - |
| Justice and Protection | 5,966 | - | 5,966 | - |
| Natural Resources | 41,803 | - | 41,803 | - |
| Health and Human Services | 28,430 | - | 28,430 | - |
| Capital Projects | 26,735 | - | 26,735 | - |
| Government Support & Operations | 90,740 | - | 90,740 | - |
| Unemployment Compensation | - | 295,632 | 295,632 | - |
| Other Purposes | 7,816 | - | 7,816 | 1,158,825 |
| Funds Held as Permanent Investments: | | | | |
| Expendable | 58,972 | - | 58,972 | - |
| Nonexpendable | 16,328 | - | 16,328 | 213,124 |
| Unrestricted | (651,504) | 675 | (650,829) | 404,774 |
| Total Net Assets | $ 4,291,679 | $ 449,070 | $ 4,740,749 | $ 2,725,323 |

# STATE OF MAINE
# STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

| | | Program Revenues | | |
|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| **Primary government:** | | | | |
| Governmental activities: | | | | |
| Governmental Support & Operations | $ 456,622 | $ 80,534 | $ 43,617 | $ - |
| Arts, Heritage & Cultural Enrichment | 11,507 | 1,006 | 2,939 | - |
| Business Licensing & Regulation | 68,697 | 75,633 | (1,116) | - |
| Economic Development & Workforce Training | 302,614 | 7,175 | 215,720 | - |
| Education | 1,610,095 | 6,897 | 198,560 | - |
| Health & Human Services | 3,750,402 | 20,018 | 2,348,167 | - |
| Justice & Protection | 401,740 | 86,583 | 59,700 | - |
| Natural Resources Development & Protection | 208,463 | 93,991 | 53,043 | - |
| Transportation Safety & Development | 376,689 | 116,995 | 239,611 | - |
| Interest Expense | 45,551 | - | - | - |
| Total Governmental Activities | 7,232,380 | 488,832 | 3,160,241 | - |
| Business-Type Activities: | | | | |
| Employment Security | 187,703 | 176,645 | 7,823 | - |
| Alcoholic Beverages | - | 12,532 | - | - |
| Lottery | 176,837 | 231,015 | - | - |
| Transportation | 9,310 | 4,692 | - | - |
| Ferry Services | 11,458 | 4,695 | - | - |
| Military Equipment Maintenance | 35,058 | 35,104 | - | - |
| Dirigo Health | 56,702 | 70,296 | - | - |
| Other | 7,662 | 5,945 | - | - |
| Total Business-Type Activities | 484,730 | 540,924 | 7,823 | - |
| Total Primary Government | $ 7,717,110 | $ 1,029,756 | $ 3,168,064 | $ - |
| **Component Units:** | | | | |
| Finance Authority of Maine | 37,575 | 12,644 | 22,352 | - |
| Maine Community College System | 127,768 | 16,672 | 63,942 | 31,098 |
| Maine Health & Higher Educational Facilities Authority | 53,443 | 49,411 | 8,944 | - |
| Maine Municipal Bond Bank | 81,049 | 65,370 | 17,905 | 27,393 |
| Maine State Housing Authority | 267,551 | 81,488 | 189,736 | - |
| Maine Turnpike Authority | 89,562 | 107,543 | - | - |
| University of Maine System | 684,277 | 298,670 | 177,297 | 19,695 |
| All Other Non-Major Component Units | 156,836 | 41,501 | 74,424 | 144,647 |
| Total Component Units | $ 1,498,061 | $ 673,299 | $ 554,600 | $ 222,833 |

General Revenues:
- Taxes:
  - Corporate
  - Individual Income
  - Fuel
  - Property
  - Sales & Use
  - Other
- Unrestricted Investment Earnings
- Non-Program Specific Grants, Contributions & Appropriations
- Miscellaneous Income
- Loss on Assets Held for Sale
- Tobacco Settlement

Transfers - Internal Activities
- Total General Revenues and Transfers
  - Change in Net Assets

Net Assets - Beginning (As Restated)
Net Assets - Ending

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

| Net (Expenses) Revenues and Changes in Net Assets | | | |
|---|---|---|---|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Units |
| $ (332,471) | $ - | $ (332,471) | $ - |
| (7,562) | - | (7,562) | - |
| 5,820 | - | 5,820 | - |
| (79,719) | - | (79,719) | - |
| (1,404,638) | - | (1,404,638) | - |
| (1,382,217) | - | (1,382,217) | - |
| (255,457) | - | (255,457) | - |
| (61,429) | - | (61,429) | - |
| (20,083) | - | (20,083) | - |
| (45,551) | - | (45,551) | - |
| (3,583,307) | - | (3,583,307) | - |
| - | (3,235) | (3,235) | - |
| - | 12,532 | 12,532 | - |
| - | 54,178 | 54,178 | - |
| - | (4,618) | (4,618) | - |
| - | (6,763) | (6,763) | - |
| - | 46 | 46 | - |
| - | 13,594 | 13,594 | - |
| - | (1,717) | (1,717) | - |
| - | 64,017 | 64,017 | - |
| $ (3,583,307) | $ 64,017 | $ (3,519,290) | $ - |
| - | - | - | (2,579) |
| - | - | - | (16,056) |
| - | - | - | 4,912 |
| - | - | - | 29,619 |
| - | - | - | 3,673 |
| - | - | - | 17,981 |
| - | - | - | (188,615) |
| - | - | - | 103,736 |
| $ - | $ - | $ - | $ (47,329) |
| 334,818 | - | 334,818 | - |
| 1,459,039 | - | 1,459,039 | - |
| 245,815 | - | 245,815 | - |
| 45,902 | - | 45,902 | - |
| 1,113,952 | - | 1,113,952 | - |
| 273,062 | - | 273,062 | - |
| 2,543 | - | 2,543 | 6,632 |
| - | - | - | 291,765 |
| 76,360 | - | 76,360 | 3,572 |
| - | - | - | (28) |
| 51,188 | - | 51,188 | - |
| 54,968 | (54,968) | - | - |
| 3,657,647 | (54,968) | 3,602,679 | 301,941 |
| 74,340 | 9,049 | 83,389 | 254,612 |
| 4,217,339 | 440,021 | 4,657,360 | 2,470,711 |
| $ 4,291,679 | $ 449,070 | $ 4,740,749 | $ 2,725,323 |

DIRIGO
MAINE

# STATE OF MAINE
# BALANCE SHEET
# GOVERNMENTAL FUNDS

June 30, 2012
(Expressed in Thousands)

| | General | Highway | Federal | Other Special Revenue | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Equity in Treasurer's Cash Pool | $ 8,895 | $ 40,385 | $ 8,670 | $ 134,376 | $ 2,019 | $ 194,345 |
| Cash and Short-Term Investments | 120 | 116 | 1 | 43 | 2,190 | 2,470 |
| Cash with Fiscal Agent | 1,066 | 1,016 | - | 134,602 | - | 136,684 |
| Investments | - | - | - | - | 73,281 | 73,281 |
| Restricted Assets: | | | | | | |
| Restricted Equity in Treasurer's Cash Pool | 360 | - | - | - | 29,014 | 29,374 |
| Inventories | 1,413 | - | 483 | - | - | 1,896 |
| Receivables, Net of Allowance for Uncollectibles: | | | | | | |
| Taxes Receivable | 426,523 | 27,167 | - | 10,685 | - | 464,375 |
| Loans Receivable | 1 | 27 | - | 5,510 | - | 5,538 |
| Other Receivable | 75,951 | 3,609 | 72,573 | 67,211 | 39 | 219,383 |
| Due from Other Funds | 14,463 | 7,173 | 1,415 | 120,350 | 214 | 143,615 |
| Due from Other Governments | - | - | 530,530 | - | - | 530,530 |
| Due from Component Units | 3,000 | - | - | 45,547 | 116 | 48,663 |
| Other Assets | 1,803 | 45 | 372 | 561 | 43 | 2,824 |
| Working Capital Advances Receivable | 111 | - | - | - | - | 111 |
| Total Assets | $ 533,706 | $ 79,538 | $ 614,044 | $ 518,885 | $ 106,916 | $ 1,853,089 |
| **Liabilities and Fund Balances** | | | | | | |
| Accounts Payable | $ 294,556 | $ 24,938 | $ 499,221 | $ 25,543 | $ 3,817 | $ 848,075 |
| Accrued Payroll | 16,746 | 6,673 | 4,795 | 8,050 | 979 | 37,243 |
| Tax Refunds Payable | 167,252 | 8 | - | - | - | 167,260 |
| Due to Other Governments | 3,792 | - | 70,539 | - | - | 74,331 |
| Due to Other Funds | 159,085 | 3,180 | 12,425 | 4,683 | 19 | 179,392 |
| Due to Component Units | 1,864 | 7 | 8,174 | 2,346 | 1,585 | 13,976 |
| Compensated Absences | - | - | - | - | 350 | 350 |
| Deferred Revenue | 235,827 | 8,623 | 2,214 | 32,126 | 7 | 278,797 |
| Other Accrued Liabilities | 4,519 | - | 1,548 | 2,887 | 319 | 9,273 |
| Total Liabilities | 883,641 | 43,429 | 598,916 | 75,635 | 7,076 | 1,608,697 |
| Fund Balances: | | | | | | |
| Nonspendable: | | | | | | |
| Permanent Fund Principal | - | - | - | - | 16,328 | 16,328 |
| Inventories and Prepaid Items | 2,965 | 45 | 855 | 633 | 30 | 4,528 |
| Restricted | 2,989 | 36,064 | 14,273 | 391,692 | 85,782 | 530,800 |
| Committed | - | - | - | 38,436 | - | 38,436 |
| Assigned | - | - | - | 12,489 | - | 12,489 |
| Unassigned | (355,889) | - | - | - | (2,300) | (358,189) |
| Total Fund Balances | (349,935) | 36,109 | 15,128 | 443,250 | 99,840 | 244,392 |
| Total Liabilities and Fund Balances | $ 533,706 | $ 79,538 | $ 614,044 | $ 518,885 | $ 106,916 | $ 1,853,089 |

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, 2012
(Expressed in Thousands)

| | | |
|---|---|---|
| Total fund balances for governmental funds | | $ 244,392 |
| 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. | 5,173,912 | |
| Less: Accumulated depreciation | (244,193) | 4,929,719 |
| Other Post-Employment Benefit Assets are not financial resources | | 1,760 |
| Pollution Remediation Receivable | | 4,371 |
| 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 | (659,920) | |
| Interest Payable Related to Long-term Financing | (4,541) | |
| Certificates of Participation and Other Financing Arrangements | (13,144) | |
| Capital Leases | (68) | |
| Other accrued | (9) | |
| Loans Payable to Component Unit | (328,131) | |
| Compensated Absences | (37,695) | |
| Pension Obligation | (2,010) | |
| Other Post-Employment Benefit Obligation | (266,705) | |
| Pollution Remediation Obligation and Landfill Post Closure Liability | (28,880) | (1,341,103) |
| Certain revenues are earned but not available and therefore are not reported in the governmental fund statements. | | 269,290 |
| 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. | | 183,250 |
| Net assets of governmental activities | | $ 4,291,679 |

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, 2012
(Expressed in Thousands)

| | General | Highway | Federal | Other Special Revenue | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **Revenues:** | | | | | | |
| Taxes | $ 2,990,353 | $ 219,540 | $ - | $ 260,032 | $ - | $ 3,469,925 |
| Assessments and Other Revenue | 103,292 | 90,494 | 1 | 138,075 | - | 331,862 |
| Federal Grants and Reimbursements | 3,377 | - | 3,147,893 | 10,789 | - | 3,162,059 |
| Service Charges | 49,008 | 6,124 | 451 | 90,408 | 1,388 | 147,379 |
| Investment Income (Loss) | 1,413 | 141 | 18 | 423 | (696) | 1,299 |
| Miscellaneous Revenue | 17,047 | 693 | 393 | 108,852 | 342 | 127,327 |
| Total Revenues | 3,164,490 | 316,992 | 3,148,756 | 608,579 | 1,034 | 7,239,851 |
| **Expenditures** | | | | | | |
| Current: | | | | | | |
| Governmental Support & Operations | 255,191 | 2,726 | 14,027 | 136,662 | 124 | 408,730 |
| Economic Development & Workforce Training | 33,561 | - | 220,193 | 30,867 | 17,206 | 301,827 |
| Education | 1,335,736 | - | 227,257 | 12,563 | 41,431 | 1,616,987 |
| Health and Human Services | 1,126,805 | - | 2,345,952 | 298,077 | 265 | 3,771,099 |
| Business Licensing & Regulation | - | - | 390 | 65,486 | - | 65,876 |
| Natural Resources Development & Protection | 65,332 | 33 | 50,915 | 83,142 | 4,931 | 204,353 |
| Justice and Protection | 253,226 | 27,761 | 59,164 | 42,972 | - | 383,123 |
| Arts, Heritage & Cultural Enrichment | 7,117 | - | 2,880 | 901 | 83 | 10,981 |
| Transportation Safety & Development | - | 280,767 | 199,323 | 84,664 | 1,786 | 566,540 |
| Debt Service: | | | | | | |
| Principal Payments | 98,340 | 16,385 | 10,770 | 9,370 | 21 | 134,886 |
| Interest Payments | 21,714 | 5,406 | 4,208 | 8,805 | - | 40,133 |
| Capital Outlay | - | - | - | - | 25,729 | 25,729 |
| Total Expenditures | 3,197,022 | 333,078 | 3,135,079 | 773,509 | 91,576 | 7,530,264 |
| Revenue over (under) Expenditures | (32,532) | (16,086) | 13,677 | (164,930) | (90,542) | (290,413) |
| Other Financing Sources (Uses): | | | | | | |
| Transfer from Other Funds | 134,722 | 29,328 | 19,676 | 207,960 | 34,449 | 426,135 |
| Transfer to Other Funds | (216,827) | (9,954) | (42,644) | (91,769) | (4,742) | (365,936) |
| COP's and Other | 1,071 | 1,029 | - | 471 | 54 | 2,625 |
| Loan Proceeds from Component Units | - | - | - | 58,726 | - | 58,726 |
| Bonds Issued | - | - | - | 33,000 | 49,265 | 82,265 |
| Premium on Bonds Issued | - | - | - | - | 6,507 | 6,507 |
| Net Other Finance Sources (Uses) | (81,034) | 20,403 | (22,968) | 208,388 | 85,533 | 210,322 |
| Net Change in Fund Balances | (113,566) | 4,317 | (9,291) | 43,458 | (5,009) | (80,091) |
| Fund Balances at Beginning of Year (As Restated) | (236,369) | 31,792 | 24,419 | 399,792 | 104,849 | 324,483 |
| Fund Balances at End of Year | $ (349,935) | $ 36,109 | $ 15,128 | $ 443,250 | $ 99,840 | $ 244,392 |

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, 2012
(Expressed in Thousands)

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds | | $ (80,091) |
| 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 | 244,809 | |
| Depreciation expense | (21,583) | 223,226 |
| The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets. | | (30) |
| Post-employment benefit asset funding, net | | 1,460 |
| Pollution Remediation Receivable | | (14,624) |
| 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 | (82,265) | |
| Proceeds from other financing arrangements | (2,571) | |
| Loan proceeds from component unit | (58,726) | |
| Repayment of bond principal | 114,725 | |
| Repayment of other financing debt | 14,091 | |
| Repayment of pledged revenue principal | 21,514 | |
| Accrued interest | 505 | 7,273 |
| 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 | 18 | |
| Other post-employment benefit obligation | (76,083) | |
| Pollution remediation obligation | 18,157 | |
| Claims payable | 4 | |
| Compensated absences | 4,320 | (53,584) |
| Certain revenues are earned but not available and therefore are not reported in the governmental fund statements. | | 1,990 |
| 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. | | (11,280) |
| Changes in net assets of governmental activities | | $ 74,340 |

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

# STATE OF MAINE
# STATEMENT OF NET ASSETS
# PROPRIETARY FUNDS

June 30, 2012
(Expressed in Thousands)

| | Business-Type Activities Enterprise Funds | | | Governmental Activities |
|---|---|---|---|---|
| | Major | Non-Major | | Internal |
| | Employment Security | Other Enterprise | Totals | Service Funds |
| **Assets** | | | | |
| Current Assets: | | | | |
| Equity in Treasurer's Cash Pool | $ - | $ 16,626 | $ 16,626 | $ 112,706 |
| Cash and Short-Term Investments | 1,145 | 756 | 1,901 | 3 |
| Cash with Fiscal Agent | - | - | - | 14,653 |
| Restricted Assets: | | | | |
| Restricted Deposits and Investments | 269,597 | - | 269,597 | 3,694 |
| Inventories | - | 2,497 | 2,497 | 4,164 |
| Receivables, Net of Allowance for Uncollectibles: | | | | |
| Other Receivable | 31,466 | 25,230 | 56,696 | 463 |
| Due from Other Funds | 24 | 270 | 294 | 19,468 |
| Other Current Assets | - | 1,875 | 1,875 | 1,561 |
| Total Current Assets | 302,232 | 47,254 | 349,486 | 156,712 |
| Noncurrent Assets: | | | | |
| Equity in Treasurer's Cash Pool | - | 6,838 | 6,838 | 46,358 |
| Capital Assets - Net of Depreciation | - | 152,763 | 152,763 | 155,779 |
| Total Noncurrent Assets | - | 159,601 | 159,601 | 202,137 |
| Total Assets | 302,232 | 206,855 | 509,087 | 358,849 |
| **Liabilities** | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | 5,935 | 2,738 | 8,673 | 23,049 |
| Accrued Payroll | - | 1,420 | 1,420 | 3,794 |
| Due to Other Funds | - | 5,239 | 5,239 | 6,286 |
| Due to Component Units | - | - | - | 3,725 |
| Current Portion of Long-Term Obligations: | | | | |
| Certificates of Participation and Other Financing Arrangements | - | - | - | 14,906 |
| Obligations Under Capital Leases | - | - | - | 5,298 |
| Claims Payable | - | - | - | 25,767 |
| Compensated Absences | - | 109 | 109 | 271 |
| Deferred Revenue | - | 12,790 | 12,790 | 646 |
| Other Accrued Liabilities | 665 | 13,528 | 14,193 | 805 |
| Total Current Liabilities | 6,600 | 35,824 | 42,424 | 84,547 |
| Long-Term Liabilities: | | | | |
| Working Capital Advances Payable | - | - | - | 111 |
| Deferred Revenue | - | 12,500 | 12,500 | 664 |
| Certificates of Participation and Other Financing Arrangements | - | - | - | 24,047 |
| Obligations Under Capital Leases | - | - | - | 24,412 |
| Claims Payable | - | - | - | 38,556 |
| Compensated Absences | - | 1,480 | 1,480 | 3,738 |
| Other Post-Employment Benefit Obligation | - | 3,137 | 3,137 | - |
| Total Long-Term Liabilities | - | 17,117 | 17,117 | 91,528 |
| Total Liabilities | 6,600 | 52,941 | 59,541 | 176,075 |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | - | 152,763 | 152,763 | 108,776 |
| Restricted for: | | | | |
| Unemployment Compensation | 295,632 | - | 295,632 | - |
| Other Purposes | - | - | - | 39 |
| Unrestricted | - | 1,151 | 1,151 | 73,959 |
| Total Net Assets | $ 295,632 | $ 153,914 | $ 449,546 | $ 182,774 |
| Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-type activites | | | (476) | |
| | | | $ 449,070 | |

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, 2012
(Expressed in Thousands)

| | Business-Type Activities Enterprise Funds | | | Governmental Activities Internal Service Funds |
|---|---|---|---|---|
| | Major Employment Security | Non-Major Other Enterprise | Totals | |
| **Operating Revenues** | | | | |
| Charges for Services | $ - | $ 348,479 | $ 348,479 | $ 397,856 |
| Assessments | 176,645 | 1,717 | 178,362 | - |
| Miscellaneous Revenues | - | 547 | 547 | 553 |
| Total Operating Revenues | 176,645 | 350,743 | 527,388 | 398,409 |
| **Operating Expenses** | | | | |
| General Operations | - | 288,587 | 288,587 | 370,464 |
| Depreciation | - | 8,290 | 8,290 | 20,079 |
| Claims/Fees Expense | 187,703 | - | 187,703 | 12,822 |
| Other Operating Expenses | - | - | - | 755 |
| Total Operating Expenses | 187,703 | 296,877 | 484,580 | 404,120 |
| Operating Income (Loss) | (11,058) | 53,866 | 42,808 | (5,711) |
| **Nonoperating Revenues (Expenses)** | | | | |
| Investment Revenue (Expense) - net | 7,823 | - | 7,823 | 1,244 |
| Interest Expense | - | - | - | (7,283) |
| Other Nonoperating Revenues (Expenses) - net | - | 13,536 | 13,536 | (5,987) |
| Total Nonoperating Revenues (Expenses) | 7,823 | 13,536 | 21,359 | (12,026) |
| Income (Loss) Before Capital Contributions and Transfers | (3,235) | 67,402 | 64,167 | (17,737) |
| **Capital Contributions and Transfers** | | | | |
| Capital Contributions from (to) Other Funds | - | 10,003 | 10,003 | 1,417 |
| Transfers from Other Funds | - | 7,713 | 7,713 | 9,221 |
| Transfers to Other Funds | (1,420) | (71,264) | (72,684) | (4,331) |
| Total Capital Contributions and Transfers In (Out) | (1,420) | (53,548) | (54,968) | 6,307 |
| Change in Net Assets | (4,655) | 13,854 | 9,199 | (11,430) |
| Total Net Assets - Beginning of Year | 300,287 | 140,060 | 440,347 | 194,204 |
| Total Net Assets - End of Year | $ 295,632 | $ 153,914 | | $ 182,774 |
| 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 | | | (150) | |
| Changes in Business-Types Net Assets | | | $ 9,049 | |

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

# STATE OF MAINE
# STATEMENT OF CASH FLOWS
## PROPRIETARY FUNDS

June 30, 2012
(Expressed in Thousands)

| | Business-Type Activities Enterprise Funds | | | Governmental Activities |
|---|---|---|---|---|
| | Major | Non-Major | | Internal |
| | Employment Security | Other Enterprise | Totals | Service Funds |
| **Cash Flows from Operating Activities** | | | | |
| Receipts from Customers and Users | $ 180,441 | $ 351,146 | $ 531,587 | $ 399,569 |
| Payments of Benefits | (182,866) | - | (182,866) | - |
| Payments to Prize Winners | - | (144,018) | (144,018) | - |
| Payments to Suppliers | - | (113,289) | (113,289) | (296,398) |
| Payments to Employees | - | (26,176) | (26,176) | (70,176) |
| Net Cash Provided (Used) by Operating Activities | (2,425) | 67,663 | 65,238 | 32,995 |
| **Cash Flows from Noncapital Financing Activities** | | | | |
| Transfers from Other Funds | - | 7,712 | 7,712 | 9,221 |
| Transfers to Other Funds | (1,420) | (71,263) | (72,683) | (4,331) |
| Net Cash Provided (Used) by Noncapital Financing Activities | (1,420) | (63,551) | (64,971) | 4,890 |
| **Cash Flows from Capital and Related Financing Activities** | | | | |
| Payments for Acquisition of Capital Assets | - | (4,694) | (4,694) | (23,853) |
| Proceeds from Financing Arrangements | - | - | - | 4,600 |
| Principal and Interest Paid on Financing Arrangements | - | - | - | (24,843) |
| Proceeds from Sale of Capital Assets | - | 970 | 970 | - |
| Net Cash Provided (Used) by Capital Financing Activities | - | (3,724) | (3,724) | (44,096) |
| **Cash Flows from Investing Activities** | | | | |
| Interest Revenue | 7,823 | 67 | 7,890 | 1,244 |
| Net Cash Provided (Used) by Investing Activities | 7,823 | 67 | 7,890 | 1,244 |
| Net Increase (Decrease) in Cash/Cash Equivalents | 3,978 | 455 | 4,433 | (4,967) |
| Cash/Cash Equivalents - Beginning of Year | 266,764 | 23,765 | 290,529 | 182,381 |
| Cash/Cash Equivalents - End of Year | $ 270,742 | $ 24,220 | $ 294,962 | $ 177,414 |
| **Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities** | | | | |
| Operating Income (Loss) | $ (11,058) | $ 53,866 | $ 42,808 | $ (5,711) |
| **Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities** | | | | |
| Depreciation Expense | - | 8,290 | 8,290 | 20,079 |
| Decrease (Increase) in Assets: | | | | |
| Accounts Receivable | 3,807 | 403 | 4,210 | 64 |
| Interfund Balances | (11) | 3,113 | 3,102 | 1,548 |
| Inventories | - | (110) | (110) | (709) |
| Other Assets | - | - | - | 266 |
| Increase (Decrease) in Liabilities: | | | | |
| Accounts Payable | 5,062 | (26) | 5,036 | 14,788 |
| Accrued Payroll Expenses | - | 336 | 336 | 1,026 |
| Due to Other Governments | - | - | - | (3) |
| Change in Compensated Absences | - | 707 | 707 | (419) |
| Other Accruals | (225) | 1,084 | 859 | 2,066 |
| Total Adjustments | 8,633 | 13,797 | 22,430 | 38,706 |
| Net Cash Provided (Used) by Operating Activities | $ (2,425) | $ 67,663 | $ 65,238 | $ 32,995 |
| **Non Cash Investing, Capital and Financing Activities** | | | | |
| Property Leased, Accrued, or Acquired | - | - | - | 1,401 |
| Contributed Capital Assets | - | 10,003 | 10,003 | 1,417 |
| Decrease of Deferred Revenue from the Sale of Liquor Operations | - | 12,500 | 12,500 | - |

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

# STATE OF MAINE
# STATEMENT OF FIDUCIARY NET ASSETS
## FIDUCIARY FUNDS

June 30, 2012
(Expressed in Thousands)

| | Pension (and Other Employee Benefit) Trusts | Private Purpose Trusts | Agency Funds |
|---|---|---|---|
| **Assets** | | | |
| Equity in Treasurer's Cash Pool | $ - | $ 1,632 | $ 13,574 |
| Cash and Short-Term Investments | 61,168 | - | 27 |
| Receivables, Net of Allowance for Uncollectibles: | | | |
| State and Local Agency Contributions | 6,000 | - | - |
| Interest and Dividends | 4,818 | 4,176 | - |
| Due from Brokers for Securities Sold | 74,942 | 12,525 | - |
| Other | 28,075 | - | - |
| Investments at Fair Value: | | | |
| Debt Securities | 972 | - | - |
| Equity Securities | 3,637,612 | - | - |
| Common/Collective Trusts | 6,971,761 | - | - |
| Foreign Governments and Agencies | - | - | 11 |
| Other | - | 11,501 | - |
| Securities Lending Collateral | 812,174 | - | - |
| Due from Other Funds | - | 30,195 | - |
| Investments Held on Behalf of Others | - | 6,013,272 | 70,180 |
| Capital Assets - Net of Depreciation | 10,849 | - | - |
| Other Assets | - | 3,887 | 3,243 |
| Total Assets | 11,608,371 | 6,077,188 | 87,035 |
| **Liabilities** | | | |
| Accounts Payable | 5,715 | 3,847 | 1 |
| Due to Other Funds | - | 6 | 2,649 |
| Due to Brokers for Securities Purchased | - | 12,525 | - |
| Agency Liabilities | - | - | 84,341 |
| Obligations Under Securities Lending | 812,174 | - | - |
| Other Accrued Liabilities | 23,615 | - | 44 |
| Total Liabilities | 841,504 | 16,378 | 87,035 |
| **Net Assets** | | | |
| Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes | 10,766,867 | 6,060,810 | - |
| Total Net Assets | $ 10,766,867 | $ 6,060,810 | $ - |

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, 2012
(Expressed in Thousands)

| | Pension (and Other Employee Benefit) Trusts | Private Purpose Trusts |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Members | $ 161,692 | $1,726,338 |
| State and Local Agencies | 355,405 | - |
| Investment Income (Loss): | | |
| Net Increase (Decrease) in the Fair Value of Investments | (22,850) | (217,829) |
| Capital Gains Distributions from Investments | - | 41,162 |
| Interest and Dividends | 100,784 | 114,018 |
| Securities Lending Income | 1,709 | - |
| Less Investment Expense: | | |
| Investment Activity Expense | 24,338 | - |
| Securities Lending Expense | (740) | - |
| Net Investment Income (Loss) | 56,045 | (62,649) |
| Miscellaneous Revenues | - | 7,295 |
| Transfers In | - | 671 |
| Total Additions | 573,142 | 1,671,655 |
| Deductions: | | |
| Benefits Paid to Participants or Beneficiaries | 802,018 | 1,587,162 |
| Refunds and Withdrawals | 45,201 | - |
| Administrative Expenses | 10,027 | 46,140 |
| Claims Processing Expense | 722 | - |
| Transfers Out | - | 784 |
| Total Deductions | 857,968 | 1,634,086 |
| Net Increase (Decrease) | (284,826) | 37,569 |
| Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes: | | |
| Beginning of Year | 11,051,693 | 6,023,241 |
| End of Year | $ 10,766,867 | $6,060,810 |

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

# STATE OF MAINE
# STATEMENT OF NET ASSETS
## COMPONENT UNITS

June 30, 2012
(Expressed in Thousands)

| | Finance Authority of Maine | Maine Community College System | Maine Health and Higher Educational Facilities Authority | Maine Municipal Bond Bank |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Equity in Treasurer's Cash Pool | $ 19,667 | $ 14,880 | $ 3,567 | $ - |
| Cash and Cash Equivalents | 5,500 | 4,214 | 4,414 | 64 |
| Investments | 47,184 | 36,240 | 34,531 | 19,103 |
| Restricted Assets: | | | | |
| Restricted Deposits and Investments | - | - | - | - |
| Inventories | - | 1,321 | - | - |
| Receivables, Net of Allowance for Uncollectibles: | | | | |
| Loans Receivable | - | - | 55,390 | - |
| Notes Receivable | - | - | - | - |
| Other Receivables | 692 | 11,790 | 43 | 877 |
| Due from Other Governments | 275 | - | - | 142,457 |
| Due from Primary Government | - | 1,142 | - | - |
| Loans Receivable from Primary Government | - | - | - | 24,086 |
| Other Current Assets | 1,908 | 2,524 | 845 | 30,183 |
| Total Current Assets | 75,226 | 72,111 | 98,790 | 216,770 |
| Noncurrent Assets: | | | | |
| Equity in Treasurer's Cash Pool | 8,090 | 6,120 | 1,467 | - |
| Assets Held in Trust | - | - | - | - |
| Restricted Assets: | | | | |
| Restricted Deposits and Investments | - | 1,614 | 154,952 | 362,393 |
| Investments | - | 12,548 | - | - |
| Receivables, Net of Current Portion: | | | | |
| Loans Receivable | - | - | 1,089,721 | - |
| Notes Receivable | 25,127 | - | - | - |
| Other Receivables | - | 4,350 | 206 | - |
| Due from Other Governments | - | - | - | 1,416,602 |
| Due from Primary Government | - | - | - | - |
| Loans Receivable from Primary Government | - | - | - | 304,045 |
| Post-Employment Benefit Asset | - | 9,783 | - | - |
| Capital Assets - Net of Depreciation | 1,798 | 151,201 | - | 667 |
| Other Noncurrent Assets | - | 227 | - | 1,495 |
| Total Noncurrent Assets | 35,015 | 185,843 | 1,246,346 | 2,085,202 |
| Total Assets | 110,241 | 257,954 | 1,345,136 | 2,301,972 |
| **Liabilities** | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | 1,311 | 4,290 | 84 | 516 |
| Accrued Payroll | - | - | - | - |
| Compensated Absences | - | 1,905 | - | - |
| Due to Other Governments | - | - | - | 2,627 |
| Due to Primary Government | 3,000 | - | - | 45,547 |
| Amounts Held under State & Federal Loan Programs | - | - | - | 48,423 |
| Undistributed Grants and Administrative Funds | 10,489 | - | - | 204 |
| Allowances for Losses on Insured Commercial Loans | 12,235 | - | - | - |
| Bonds Payable | 806 | - | 55,450 | 134,609 |
| Notes Payable | - | 600 | - | - |
| Obligations under Capital Leases | - | - | - | - |
| Accrued Interest Payable | - | - | 24,278 | 13,393 |
| Deferred Revenue | 1,311 | 1,208 | 2,621 | 82 |
| Other Current Liabilities | 3 | 8,722 | - | - |
| Total Current Liabilities | 29,155 | 16,725 | 82,433 | 245,401 |
| Long-Term Liabilities: | | | | |
| Due to Other Governments | - | - | 319 | 838 |
| Amounts Held under State & Federal Loan Programs | 44,017 | - | - | - |
| Bonds Payable | 707 | - | 1,208,015 | 1,436,408 |
| Notes Payable | - | 23,973 | - | - |
| Obligations under Capital Leases | - | 2,180 | - | - |
| Deferred Revenue | - | - | - | - |
| Other Noncurrent Liabilities | - | - | - | - |
| Total Long-Term Liabilities | 44,724 | 26,153 | 1,208,334 | 1,437,246 |
| Total Liabilities | 73,879 | 42,878 | 1,290,767 | 1,682,647 |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 1,798 | 126,289 | - | 667 |
| Restricted | 16,576 | 45,500 | 33,637 | 539,552 |
| Unrestricted | 17,988 | 43,287 | 20,732 | 79,106 |
| Total Net Assets | $ 36,362 | $ 215,076 | $ 54,369 | $ 619,325 |

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

| Maine State Housing Authority | Maine Turnpike Authority | University of Maine System | Non-Major Component Units | Totals |
|---|---|---|---|---|
| $ - | $ - | $ 29,782 | $ 1,004 | $ 68,900 |
| 1,128 | 6,068 | 1,365 | 88,256 | 111,009 |
| 276,221 | - | 205,945 | 5,383 | 624,607 |
| - | 27,367 | - | 17,206 | 44,573 |
| - | 1,462 | - | 697 | 3,480 |
| 31,089 | - | - | 18,649 | 105,128 |
| 2 | - | 63 | 3,556 | 3,621 |
| 25,932 | 3,554 | 43,363 | 9,735 | 95,986 |
| 7,797 | - | 11,895 | 3,279 | 165,703 |
| - | - | 9,713 | 5,359 | 16,214 |
| - | - | - | - | 24,086 |
| - | 1,174 | 5,106 | 1,249 | 42,989 |
| 342,169 | 39,625 | 307,232 | 154,373 | 1,306,296 |
| - | - | 12,250 | 413 | 28,340 |
| - | - | - | 2 | 2 |
| - | 42,332 | 10,191 | 16,098 | 587,580 |
| 145,326 | - | 312,863 | 18,004 | 488,741 |
| 1,376,149 | - | - | 123,924 | 2,589,794 |
| 335 | - | 40,140 | 4,179 | 69,781 |
| 2,214 | 1 | 8,114 | 3,047 | 17,932 |
| - | - | - | - | 1,416,602 |
| - | - | 1,359 | 128 | 1,487 |
| - | - | - | - | 304,045 |
| - | - | - | - | 9,783 |
| 2,810 | 472,125 | 683,862 | 231,772 | 1,544,235 |
| 35,713 | 22,309 | 2,052 | 2,120 | 63,916 |
| 1,562,547 | 536,767 | 1,070,831 | 399,687 | 7,122,238 |
| 1,904,716 | 576,392 | 1,378,063 | 554,060 | 8,428,534 |
| 56,254 | 8,308 | 18,052 | 16,873 | 105,688 |
| - | 3,274 | - | 287 | 3,561 |
| - | - | - | 279 | 2,184 |
| 256 | - | - | 830 | 3,713 |
| - | - | - | 116 | 48,663 |
| - | - | - | - | 48,423 |
| - | - | - | - | 10,693 |
| - | - | - | - | 12,235 |
| 9,905 | 13,855 | 10,331 | 7,769 | 232,725 |
| - | - | - | 869 | 1,469 |
| - | - | 339 | 11 | 350 |
| 7,537 | - | - | 691 | 45,899 |
| 4,216 | 6,030 | 12,300 | 28,026 | 55,794 |
| - | 9,970 | 38,469 | 671 | 57,835 |
| 78,168 | 41,437 | 79,491 | 56,422 | 629,232 |
| 1,963 | - | - | 1,710 | 4,830 |
| - | - | - | - | 44,017 |
| 1,444,805 | 383,201 | 180,286 | 170,543 | 4,823,965 |
| - | - | - | 1,189 | 25,162 |
| - | - | 3,754 | 14 | 5,948 |
| 27,918 | - | - | 3,397 | 31,315 |
| 29,649 | 10,889 | 98,099 | 105 | 138,742 |
| 1,504,335 | 394,090 | 282,139 | 176,958 | 5,073,979 |
| 1,582,503 | 435,527 | 361,630 | 233,380 | 5,703,211 |
| 2,810 | 100,640 | 500,595 | 215,801 | 948,600 |
| 305,877 | 31,945 | 329,367 | 69,495 | 1,371,949 |
| 13,526 | 8,280 | 186,471 | 35,384 | 404,774 |
| $ 322,213 | $ 140,865 | $ 1,016,433 | $ 320,680 | $ 2,725,323 |

# STATE OF MAINE
# STATEMENT OF ACTIVITIES
## COMPONENT UNITS

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

| | Finance Authority of Maine | Maine Community College System | Maine Health and Higher Educational Facilities Authority | Maine Municipal Bond Bank |
|---|---|---|---|---|
| **Expenses** | $ 37,575 | $ 127,768 | $ 53,443 | $ 81,049 |
| **Program Revenues** | | | | |
| Charges for Services | 12,644 | 16,672 | 49,411 | 65,370 |
| Program Investment Income | 308 | 791 | 8,944 | 17,411 |
| Operating Grants and Contributions | 22,044 | 63,151 | - | 494 |
| Capital Grants and Contributions | - | 31,098 | - | 27,393 |
| Net Revenue (Expense) | (2,579) | (16,056) | 4,912 | 29,619 |
| **General Revenues** | | | | |
| Unrestricted Investment Earnings | 518 | 1,143 | 72 | 66 |
| Non-program Specific Grants, Contributions and Appropriations | - | 55,638 | - | - |
| Miscellaneous Income | 42 | 1,471 | 139 | 1,179 |
| Gain (Loss) on Assets Held for Sale | - | - | - | - |
| Total General Revenues | 560 | 58,252 | 211 | 1,245 |
| Change in Net Assets | (2,019) | 42,196 | 5,123 | 30,864 |
| Net Assets, Beginning of the Year (as restated) | 38,381 | 172,880 | 49,246 | 588,461 |
| Net Assets, End of Year | $ 36,362 | $ 215,076 | $ 54,369 | $ 619,325 |

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

| Maine State Housing Authority | Maine Turnpike Authority | University of Maine System | Non-Major Component Units | Totals |
|---|---|---|---|---|
| $ 267,551 | $ 89,562 | $ 684,277 | $ 156,836 | $1,498,061 |
| 81,488 | 107,543 | 298,670 | 41,501 | 673,299 |
| 6,152 | - | - | 102 | 33,708 |
| 183,584 | - | 177,297 | 74,322 | 520,892 |
| - | - | 19,695 | 144,647 | 222,833 |
| 3,673 | 17,981 | (188,615) | 103,736 | (47,329) |
| 9 | (201) | 4,596 | 429 | 6,632 |
| - | - | 218,357 | 17,770 | 291,765 |
| - | - | - | 741 | 3,572 |
| - | - | (34) | 6 | (28) |
| 9 | (201) | 222,919 | 18,946 | 301,941 |
| 3,682 | 17,780 | 34,304 | 122,682 | 254,612 |
| 318,531 | 123,085 | 982,129 | 197,998 | 2,470,711 |
| $ 322,213 | $ 140,865 | $1,016,433 | $ 320,680 | $2,725,323 |

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## NOTES TO THE FINANCIAL STATEMENTS


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## 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** – Blended component units are entities that are legally separate from the State, but provide services entirely, or almost entirely to the State or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it. The State reports two 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. Its purpose includes assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. In their separately issued financial statements, MGFA records a lease receivable from the State and a liability for bonds issued. However, in accordance with 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. Therefore, the State reports MGFA's balances and transactions as though they were part of the primary government, using the blending method.

Child Development Services (CDS) is a legally separate organization, which ensures the provision of child find activities, early intervention services and free, appropriate public education services to eligible children. Prior to

fiscal year 2012, CDS had been reported as a non-major discrete component unit. Legislation enacted on April 13, 2012, Public Law Chapter 655, Part OO-4, altered the State's management and operational responsibility with this component unit. The State's Education Commissioner now appoints and supervises the CDS director. Therefore, the State reports CDS balances and transactions as though they were a non-major special revenue 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 Maine Turnpike Authority* (MTA) constructs, maintains and operates a turnpike at such a location approved by the State Highway Commission and to issue turnpike revenue bonds payable solely from revenues of the Authority. The Governor appoints MTA's board of directors. As a result of substantive legislative changes made in 2011, the State's relationship to MTA changed. The former related organization is now reported as a discrete component unit. See Note 3. The Authority's fiscal year ends December 31.

*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 293 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<br>5 Community Dr.<br>PO Box 949<br>Augusta, ME 04332 | Maine Health and Higher Ed. Facilities Authority<br>PO Box 2268<br>Augusta, ME 04338 | Maine Public Employees Retirement System<br>46 State House Station<br>Augusta, ME 04333 | Maine Turnpike Authority<br>2360 Congress Street<br>Portland, ME 04102 |
| Maine Community College System<br>323 State Street<br>Augusta, ME 04330 | Maine Municipal Bond Bank<br>PO Box 2268<br>Augusta, ME 04338 | Maine State Housing Authority<br>89 State House Station<br>353 Water Street<br>Augusta, ME 04330 | University of Maine System<br>16 Central Street<br>Bangor, ME 04401 |

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

## B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

**Government-Wide Financial Statements**
The Statement of Net 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 $830.4 million of restricted net assets, of which $112.0 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, Maine State Housing Authority and Maine Turnpike 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 $116 million of Workers' Compensation, $51 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 non-road structures and improvements and 3–15 years for equipment, furniture, fixtures and vehicles. Component units reflect infrastructure in improvements other than buildings and record depreciation expense on them. The Maine Turnpike Authority (MTA) uses the modified approach for reporting its significant infrastructure assets. As long as MTA maintains and preserves its infrastructure assets at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported.

**Accounts Payable**
Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements are actuarially estimated. The IBNP estimate recorded at June 30, 2012 is $227 million. The actuarial range of reasonable estimate is a low of $227 million to a high of $247 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, 2012 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. Legislative assignments include formal actions passed into law that lapse. Maine statute also set forth powers and duties of management. Assignments also include decisions made by management, including encumbrances. 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 $356 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. Per Public Law 2011, Chapter 380, Part RRR $4.0 million was transferred from General Fund unappropriated surplus to the Budget Stabilization Fund. Per Public Law 2011, Chapter 380, Part JJJJ, $29.7 million was transferred from the Budget Stabilization Fund to the General Fund unappropriated surplus. Additionally, $1.2 million was transferred to general purpose aid for local schools within the Department of Education in accordance with Title 5 MRSA C.142 Section 1532.

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 2012 actual General Fund revenue, the statutory cap at the close of fiscal year 2012 and during fiscal year 2012 was $361.9 million. At the close of fiscal year 2012, the balance of the Maine Budget Stabilization Fund was $44.8 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 | $ | 71,414 |
| Decrease in fund balance | | (26,605) |
| Balance, end of year | $ | 44,809 |

**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 budgets or separate pieces of legislation. For the year ended June 30, 2012, the Legislature increased appropriations to the General Fund by $86.6 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, 2012 are as follows:

**Governmental Fund Balances**
(Expressed in Thousands)

| | Restricted | Committed | Assigned |
|---|---|---|---|
| **General Fund:** | | | |
| Natural Resources Development & Protection | $ 2,989 | $ - | $ - |
| Total | $ 2,989 | $ - | $ - |
| **Highway Fund:** | | | |
| Transportation Safety & Development | $ 31,943 | $ - | $ - |
| Justice and Protection | 3,743 | - | - |
| Governmental Support & Operations | 375 | - | - |
| Natural Resources Development & Protection | 3 | - | - |
| Total | $ 36,064 | $ - | $ - |
| **Federal Fund:** | | | |
| Governmental Support & Operations | $ 5,108 | $ - | $ - |
| Health and Human Services | 9,165 | - | - |
| Justice and Protection | - | - | - |
| Natural Resources Development & Protection | - | - | - |
| Total | $ 14,273 | $ - | $ - |
| **Other Special Revenue Fund:** | | | |
| Arts, Heritage & Cultural Enrichment | $ 160 | $ 10 | $ 4 |
| Business Licensing & Regulation | 68,388 | 991 | 371 |
| Economic Development & Workforce Training | 6,927 | 4,417 | 1,174 |
| Education | 903 | 20 | 7 |
| Governmental Support & Operations | 85,421 | 17,407 | 35 |
| Health and Human Services | 21,301 | 10,597 | 9,650 |
| Justice and Protection | 3,992 | 1,719 | 765 |
| Natural Resources Development & Protection | 40,112 | 3,133 | 430 |
| Transportation Safety & Development | 164,488 | 142 | 53 |
| Total | $ 391,692 | $ 38,436 | $ 12,489 |
| **Other Governmental Funds:** | | | |
| Capital Projects | $ 26,735 | $ - | $ - |
| Natural Resources Development & Protection | 58,814 | - | - |
| Education | 75 | - | - |
| Other | 158 | - | - |
| Total | $ 85,782 | $ - | $ - |

## NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

**Accounting Changes**
Governmental Accounting Standards Board (GASB) Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs became effective for the State for the year ended June 30, 2012 when the State acquired and became responsible for the closure and postclosure monitoring costs of the Dolby Landfills. This Statement established accounting and financial reporting for municipal solid waste landfill (MSWLF) closure and postclosure care costs. As a result of applying this Statement, the State's beginning net assets have been restated. Beginning net assets for Governmental Activities were reduced by $7.4 million.

During fiscal year 2012, statute changes necessitated that an entity (CDS) that had once been reported as a discretely presented component unit to be reported as a blended component unit of the State. Accordingly, beginning fund balance for the non-major governmental funds decreased by $4.3 million and beginning net assets for the governmental activities decreased by $3.7 million.

Additional statute changes required that an entity (Maine Turnpike Authority) that had once been reported as a related party to be reported as a discretely presented component unit of the State. This required that beginning net assets for the component units to be increased by $123.1 million.

## NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Three internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2012. The Workers' Compensation Fund reported a deficit of $14.5 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of $3.8 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 $25 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 $349.9 million at June 30, 2012. 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.

The Child Development Services Special Revenue Fund shows a deficit of $2.2 million. This deficit has accumulated through operating losses dating back to the year ended June 30, 2008.

## 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, 2012:

**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 | $ 353,409 | $ 23,464 | $ 1,632 | $ 13,574 | $ 392,079 |
| Cash and Cash Equivalents | 2,473 | 1,901 | - | 27 | 4,401 |
| Cash with Fiscal Agent | 151,337 | - | - | - | 151,337 |
| Investments | 73,281 | - | 11,501 | - | 84,782 |
| Restricted Equity in Treasurer's Cash Pool | 29,374 | - | - | - | 29,374 |
| Restricted Deposits and Investments | 3,694 | 269,597 | - | 11 | 273,302 |
| Investments Held on Behalf of Others | - | - | 6,013,272 | 70,180 | 6,083,452 |
| Other Assets | - | - | - | - | - |
| Total Primary Government | $ 613,568 | $ 294,962 | $ 6,026,405 | $ 83,792 | $ 7,018,727 |

*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, 2012:

| | 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 | $ 8,319 | $ 140,310 | $ - | $ - | $ - | $ - | $ 148,629 |
| US Treasury Notes | - | 7,673 | - | - | - | - | 7,673 |
| Repurchase Agreements | 45,742 | - | - | - | - | - | 45,742 |
| Corporate Notes and Bonds | - | - | - | - | - | - | - |
| Commercial Paper | - | - | - | - | - | - | - |
| Certificates of Deposit | 473 | 4,274 | - | - | - | - | 4,747 |
| Money Market | - | - | - | - | - | - | - |
| Cash and Cash Equivalents | - | - | - | - | - | 207,562 | 207,562 |
| Unemployment Fund | | | | | | | |
| Deposits with US Treasury | - | - | - | - | - | 269,597 | 269,597 |
| *Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds* | | | | | | | |
| US Instrumentalities | 255 | 5,879 | 130 | 232 | 971 | - | 7,467 |
| US Treasury Notes | 3,069 | 7,674 | 4,650 | 10,913 | - | 1,400 | 27,706 |
| Repurchase Agreements | 1,712 | - | - | - | - | - | 1,712 |
| Corporate Notes and Bonds | 3,239 | 3,515 | 865 | 197 | 1,258 | 5,978 | 15,052 |
| Other Fixed Income | | | | | | | |
| Securities | 9,514 | 89 | 5,643 | - | - | - | 15,246 |
| Commercial Paper | - | - | - | - | - | - | - |
| Certificates of Deposit | 10,808 | 14 | - | - | - | - | 10,822 |
| Money Market | - | - | - | - | - | 1,090 | 1,090 |
| Cash and Cash Equivalents | - | - | - | - | - | 23,951 | 23,951 |
| Equities | - | - | - | - | - | 41,511 | 41,511 |
| Other | - | - | - | - | - | 25,611 | 25,611 |
| | $ 83,131 | $ 169,428 | $ 11,288 | $ 11,342 | $ 2,229 | $ 576,700 | $ 854,118 |
| NextGen College Investing Plan | | | | | | | 6,013,272 |
| Other Assets | | | | | | | - |
| Cash with Fiscal Agent | | | | | | | 151,337 |
| Total Primary Government | | | | | | | $ 7,018,727 |

*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, 2012 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 | $ - | $ - | $ 148,629 | $ - | $ - | $ - | $ - | $ - | $ 148,629 |
| US Treasury Notes | - | - | 7,673 | - | - | - | - | - | 7,673 |
| Corporate Notes and Bonds | - | - | - | - | - | - | - | - | - |
| Commercial Paper | - | - | - | - | - | - | - | - | - |
| Money Market | - | - | - | - | - | - | - | - | - |
| *Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds* | | | | | | | | | |
| US Instrumentalities | - | - | 5,528 | - | - | - | - | 1,939 | 7,467 |
| US Treasury Notes | - | - | 1,133 | - | - | - | - | 26,574 | 27,707 |
| Corporate Notes and Bonds | - | 852 | 188 | - | 39 | 20 | 611 | 13,648 | 15,358 |
| Commercial Paper | - | - | - | - | - | - | - | - | - |
| Money Market | - | - | - | - | - | - | - | - | - |
| Other Fixed Income Securities | - | - | - | - | 5,727 | - | - | 9,519 | 15,246 |
| Total Primary Government | $ - | $852 | $163,151 | $ - | $ 5,766 | $ 20 | $ 611 | $51,680 | $ 222,080 |

*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, 2012, there were no investments that exceeded five percent of the Treasurer's Cash Pool.

*Custodial Credit Risk* - For investments, custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State limits its custodial credit risk for the Treasurer's Cash Pool by maintaining a file of the most recent credit rating analysis reports performed for each approved financial institution. The State also requires that all securities be perfected in the name of the State and held in third party safekeeping by a state approved custodian. Of the cash pool's $6.2 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, 2012 was $58.7 million and was comprised of the following:

| | |
|---|---|
| U.S. Instrumentalities | $ 1,232 |
| US Treasury Notes | 846 |
| Corporate Notes and Bonds | 1,710 |
| Other Fixed Income Securities | 9,603 |
| Equities | 41,205 |
| Cash and Equivalents | 1,135 |
| Other | 3,005 |
| Total | $ 58,736 |

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2012 these disbursements, on average, exceeded $134.1 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. At June 30, 2012, no balances of the System's CMO and Asset-Backed Security holdings were outstanding. 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, 2012 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, 2012 was $812.2 million and $792.2 million, respectively.

The following table details the System's derivative investments at June 30, 2012:

(Expressed in Thousands)

| | 2012 Changes in Fair Value | Fair Value at June 30, 2012 | | Notional |
|---|---|---|---|---|
| | | Classification | Amount | |
| Futures: | | | | |
| Equity Index Futures Contracts | $ 1,181 | OSIC* | $ 1,455 | $ 56,417 |

*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 59 different investment portfolios which are reported at fair value and total $6.0 billion at June 30, 2012.

*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, 2012 was $262.7 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 from FAME and the Treasurer. All Maine Certificate of Deposit's are FDIC insured or fully collateralized. The value of the Account at June 30, 2012 was $271.7 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 | $ 262,698 |
| Cash Allocation Account | 271,747 |
| Fixed Income Securities | 1,826,891 |
| Total Fair Value | $2,361,336 |

**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 $97.2 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 $4.7 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 | $554,720 | $124,608 | $1 | ($176,854) | $502,475 |
| Highway | 31,396 | 3,630 | 27 | (4,250) | 30,803 |
| Federal | - | 102,605 | - | (30,032) | 72,573 |
| Other Special Revenue | 11,278 | 77,401 | 5,510 | (10,783) | 83,406 |
| Other Governmental Funds | - | 39 | - | - | 39 |
| Total Governmental Funds | 597,394 | 308,283 | 5,538 | (221,919) | 689,296 |
| Allowance for Uncollectibles | (133,019) | (88,900) | - | | |
| Net Receivables | $464,375 | $219,383 | $5,538 | | $689,296 |
| **Proprietary Funds:** | | | | | |
| Employment Security | $ - | $50,641 | $ - | ($19,175) | $31,466 |
| Nonmajor Enterprise | - | 26,304 | - | (1,074) | 25,230 |
| Internal Service | - | 463 | - | - | 463 |
| Total Proprietary Funds | - | 77,408 | - | (20,249) | 57,159 |
| Allowance for Uncollectibles | - | (20,249) | - | | |
| Net Receivables | $ - | $ 57,159 | $ - | | $57,159 |

**Component Units – Receivables**
(Expressed in Thousands)

| | Accounts | Loans | Notes | Allowance For Uncollectibles | Net Receivables |
|---|---|---|---|---|---|
| Finance Authority of Maine | $692 | $ - | $31,145 | ($6,018) | $25,819 |
| Maine Community College System | 17,326 | - | - | (1,186) | 16,140 |
| Maine Health and Educational Facilities Authority | 676 | 1,145,111 | - | (427) | 1,145,360 |
| Maine Municipal Bond Bank | 877 | - | - | - | 877 |
| Maine State Housing Authority | 28,146 | 1,418,484 | 364 | (11,273) | 1,435,721 |
| Maine Turnpike Authority | 3,555 | - | - | - | 3,555 |
| University of Maine System | 56,600 | - | 41,585 | (6,505) | 91,680 |

## 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, 2012 were:

**Interfund Receivables**
(Expressed in Thousands)

| | Due to Other Funds | | | | |
|---|---|---|---|---|---|
| **Due from Other Funds** | **General** | **Highway** | **Federal** | **Other Special Revenue** | **Other Governmental** |
| General | $ - | $ - | $ 1,348 | $ - | $ - |
| Highway | 1 | 1 | 7,171 | - | - |
| Federal | 16 | 1 | 106 | 1,292 | - |
| Other Special Revenue | 119,924 | 85 | 143 | 140 | 19 |
| Other Governmental | 214 | - | - | - | - |
| Employment Security | - | - | 24 | - | - |
| Non-Major Enterprise | 143 | 124 | 1 | 2 | - |
| Internal Service | 8,592 | 2,969 | 3,632 | 3,249 | - |
| Fiduciary | 30,195 | - | - | - | - |
| Total | $ 159,085 | $ 3,180 | $ 12,425 | $ 4,683 | $ 19 |

| **Due from Other Funds** | **Employment Security** | **Non-Major Enterprise** | **Internal Service** | **Fiduciary** | **Total** |
|---|---|---|---|---|---|
| General | $ - | $ 4,989 | $ 5,479 | $ 2,647 | $ 14,463 |
| Highway | - | - | - | - | 7,173 |
| Federal | - | - | - | - | 1,415 |
| Other Special Revenue | - | 9 | 30 | - | 120,350 |
| Other Governmental | - | - | - | - | 214 |
| Employment Security | - | - | - | - | 24 |
| Non-Major Enterprise | - | - | - | - | 270 |
| Internal Service | - | 241 | 777 | 8 | 19,468 |
| Fiduciary | - | - | - | - | 30,195 |
| Total | $ - | $ 5,239 | $ 6,286 | $ 2,655 | $ 193,572 |

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.

Included in the Due to/Due from other funds is $15 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. Additionally, $91 million due to the Other Special Revenue Fund from the General Fund relates to the interfund borrowing authorized in Public Law 2011, Chapter 655, Part DDD-1.

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 2012, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers.

The Dirigo Health Fund transferred $10.5 million to the Department of Health and Human Services, Other Special Revenue Fund.

Interfund transfers for the year ended June 30, 2012, consisted of the following:

**Interfund Transfers**
(Expressed in Thousands)

| | Transferred From | | | | |
|---|---|---|---|---|---|
| **Transferred To** | **General** | **Highway** | **Federal** | **Other Special Revenue** | **Other Governmental** |
| General | $ - | $ - | $ 4,810 | $ 73,745 | $ - |
| Highway | 1,979 | - | 25,011 | 1,803 | - |
| Federal | 2,120 | - | - | 15,627 | - |
| Other Special Revenue | 171,895 | 5,300 | 9,984 | - | 2,549 |
| Other Governmental Funds | 32,927 | - | - | - | 1,522 |
| Employment Security | - | - | - | - | - |
| Non-Major Enterprise | 3,197 | 3,949 | 70 | 356 | - |
| Internal Service | 4,709 | 705 | 2,769 | 237 | - |
| Fiduciary | - | - | - | 1 | 671 |
| Total | $ 216,827 | $ 9,954 | $ 42,644 | $ 91,769 | $ 4,742 |

| | Transferred From | | | | |
|---|---|---|---|---|---|
| **Transferred To** | **Employment Security** | **Non-Major Enterprise** | **Internal Service** | **Fiduciary** | **Total** |
| General | $ - | $ 53,817 | $ 2,350 | $ - | $ 134,722 |
| Highway | - | - | 535 | - | 29,328 |
| Federal | 1,420 | - | 509 | - | 19,676 |
| Other Special Revenue | - | 17,262 | 180 | 790 | 207,960 |
| Other Governmental Funds | - | - | - | - | 34,449 |
| Employment Security | - | - | - | - | - |
| Non-Major Enterprise | - | - | 141 | - | 7,713 |
| Internal Service | - | 185 | 616 | - | 9,221 |
| Fiduciary | - | - | - | - | 672 |
| Total | $ 1,420 | $ 71,264 | $ 4,331 | $ 790 | $ 443,741 |

## NOTE 8 - CAPITAL ASSETS

The following schedule details changes in cap ital assets for the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2012:

**Primary Government – Capital Assets**
(Expressed in Thousands)

| | Beginning Balance (Restated) | Increases and Other Additions | Decreases and Other Deletions | Ending Balance |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 488,197 | $ 9,996 | $ 300 | $ 497,893 |
| Construction in progress | 119,419 | 36,198 | 107,144 | 48,473 |
| Infrastructure | 3,814,466 | 204,500 | - | 4,018,966 |
| Total capital assets not being depreciated | 4,422,082 | 250,694 | 107,444 | 4,565,332 |
| Capital assets being depreciated: | | | | |
| Buildings | 592,943 | 49,745 | 16,487 | 626,201 |
| Equipment | 255,915 | 19,679 | 19,966 | 255,628 |
| Improvements other than buildings | 19,796 | 1,051 | 4 | 20,843 |
| Software | 9 | 58,720 | - | 58,729 |
| Total capital assets being depreciated | 868,663 | 129,195 | 36,457 | 961,401 |
| Less accumulated depreciation for: | | | | |
| Buildings | 239,590 | 19,723 | 9,592 | 249,721 |
| Equipment | 175,869 | 16,206 | 19,248 | 172,827 |
| Improvements other than buildings | 12,951 | 1,108 | 1 | 14,058 |
| Software | 4 | 4,625 | - | 4,629 |
| Total accumulated depreciation | 428,414 | 41,662 | 28,841 | 441,235 |
| Total capital assets being depreciated, net | 440,249 | 87,533 | 7,616 | 520,166 |
| Governmental Activities Capital Assets, net | $ 4,862,331 | $ 338,227 | $ 115,060 | $ 5,085,498 |

| | Beginning Balance | Net Additions | Net Deletions | Ending Balance |
|---|---|---|---|---|
| **Business-Type Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 58,888 | $ - | $ - | $ 58,888 |
| Construction in progress | 32,024 | 7,109 | 20,578 | 18,555 |
| Total capital assets not being depreciated | 90,912 | 7,109 | 20,578 | 77,443 |
| Capital assets being depreciated: | | | | |
| Buildings | 9,449 | - | - | 9,449 |
| Equipment | 67,037 | 18,815 | 4,960 | 80,892 |
| Improvements other than buildings | 63,342 | 11,547 | - | 74,889 |
| Total capital assets being depreciated | 139,828 | 30,362 | 4,960 | 165,230 |
| Less accumulated depreciation for: | | | | |
| Buildings | 5,920 | 251 | - | 6,171 |
| Equipment | 49,603 | 5,863 | 2,763 | 52,703 |
| Improvements other than buildings | 28,860 | 2,176 | - | 31,036 |
| Total accumulated depreciation | 84,383 | 8,290 | 2,763 | 89,910 |
| Total capital assets being depreciated, net | 55,445 | 22,072 | 2,197 | 75,320 |
| Business-Type Activities Capital Assets, net | $ 146,357 | $ 29,181 | $ 22,775 | $ 152,763 |

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 | $ 16 |
| Business Licensing and Regulation | 429 |
| Economic Development and Workforce Training | 1,180 |
| Education | 621 |
| Governmental Support and Operations | 5,829 |
| Health and Human Services | 8,161 |
| Justice and Protection | 10,835 |
| Natural Resources Development and Protection | 3,156 |
| Transportation Safety and Development | 11,435 |
| Total Depreciation Expense – Governmental Activities | $ 41,662 |

## 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 293 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, 2012 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, 2012, there were 57 employers participating in these plans. The 817 participants individually direct the $16.5 million in net 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, 2012:

| | State Employees and Teachers Plan | Consolidated Plan for PLD |
|---|---|---|
| Active vested and nonvested members | 39,594 | 10,800 |
| Terminated vested participants | 6,378 | 1,220 |
| Retirees and benefit recipients | 30,689 | 7,719 |
| Total | 76,661 | 19,739 |
| Number of participating employers/sponsors | 1 | 293 |

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. Normal retirement age for State employees and teachers is age 60, 62 or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. The monthly benefit 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; and, 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, 2012, 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 | 8,939,788 | 11,605,891 | 2,666,103 | 77.0% | 1,727,667 | 154.3% |
| PLD's | 2,136,653 | 2,405,708 | 269,055 | 88.8% | 476,244 | 56.5% |

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, 2012 | June 30, 2012 |
| Actuarial cost method | Entry age | Entry age |
| Version | Individual | Individual |
| Amortization method | Level percent closed | Level dollar open |
| Remaining amortization period | 16 [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% | 3.50% - 9.50% |
| Includes inflation at | 3.50% | 3.50% |
| Cost of living adjustments | 2.55% | 3.12% |
| Most recent review of plan experience: | 2011 | 2011 |
| Former actuarial assumptions: | | |
| Version of actuarial cost method | New entrant | New entrant |
| Retirement assumption | lowered to reflect the closing of the retirement window for early retiree health coverage | |

[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 5 years remained at June 30, 2012.

## 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 2012, no amount was owed.

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 2012 for participating entities:

| | | |
|---|---|---|
| State | | |
| Employees | [1] | 7.65 - 8.65% |
| Employer | [1] | 23.47 - 101.26% |
| Teachers | | |
| Employees | | 7.65% |
| Employer | | 23.94% |
| Participating Local Entities | | |
| Employees | [1] | 3.0 - 8.0% |
| Employer | [1] | 2.4 - 10.2% |

[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 | $ 252,830 |
| Interest on net pension obligation | 147 |
| Adjustment to annual required contribution | (165) |
| Annual pension cost | 252,812 |
| Contributions made | 252,830 |
| Increase (decrease) in net pension obligation | (18) |
| Net pension obligation beginning of year | 2,028 |
| Net pension obligation end of year | $ 2,010 |

**Analysis of Funding Progress**
(Expressed in Thousands)

| Year | Annual Pension Cost | Percentage Covered | Net Pension Obligation |
|---|---|---|---|
| 2012 | $ 252,812 | 100.01% | $ 2,010 |
| 2011 | 328,127 | 101.77% | 2,028 |
| 2010 | 318,171 | 103.47% | 7,845 |

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 | 12,419 | 28,375 | 741 | 63 |
| Retirees | 9,587 | 9,520 | 80 | 13 |
| Total | 22,006 | 37,895 | 821 | 76 |
| 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 two non-major component units: Maine Educational Center for the Deaf and Hard of Hearing and the Northern New England Passenger Rail Authority. All active employees participate in the State Employee Group Health Insurance Plan. All eligible retired employees who elect coverage are included in this plan. The State Employee Health Commission establishes premiums annually.

ANNUAL OPEB COST

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

(Expressed in Thousands)

| | State Employees | Teachers | First Responders |
|---|---|---|---|
| Annual required contribution | $ 126,000 | $ 55,000 | $ 1,350 |
| Interest on net OPEB obligation | 2,000 | 6,000 | 114 |
| Adjustment to annual required contribution | (5,000) | (12,000) | (210) |
| Annual OPEB cost | 123,000 | 49,000 | 1,254 |
| Contributions made | 73,000 | 22,000 | 434 |
| Increase (decrease) in net healthcare obligation | 50,000 | 27,000 | 820 |
| Net healthcare obligation beginning of year | 42,228 | 146,956 | 2,838 |
| Net healthcare obligation end of year | $ 92,228 | $ 173,956 | $ 3,658 |

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

**Analysis of Funding Progress**
(Expressed in Thousands)

| Plan | Year Ended | Annual OPEB Cost | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| State Employees | 6/30/2012 | 123,000 | 59.35% | 92,228 |
| | 6/30/2011 | 119,000 | 71.43% | 42,228 |
| | 6/30/2010 | 92,000 | 59.78% | 8,228 |
| Teachers | 6/30/2012 | 49,000 | 44.90% | 173,956 |
| | 6/30/2011 | 58,000 | 31.03% | 146,956 |
| | 6/30/2010 | 56,000 | 33.93% | 106,956 |
| First Responders | 6/30/2012 | 1,254 | 34.61% | 3,658 |
| | 6/30/2011 | 845 | 61.89% | 2,838 |
| | 6/30/2010 | 1,051 | 35.01% | 2,516 |

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plans as of June 30, 2012 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) |
|---|---|---|---|---|---|---|---|
| State Employees (in millions) | June 30, 2012 | 136 | 1,316 | 1,180 | 10.33% | 502 | 235.06% |
| | June 30, 2011 | 112 | 1,544 | 1,432 | 7.25% | 567 | 252.56% |
| | June 30, 2010 | 103 | 1,450 | 1,347 | 7.10% | 549 | 245.36% |
| Teachers (in millions) | June 30, 2012 | 0 | 665 | 665 | 0.00% | 1,156 | 57.53% |
| | June 30, 2011 | 0 | 801 | 801 | 0.00% | 1,098 | 72.95% |
| | June 30, 2010 | 0 | 994 | 994 | 0.00% | 1,064 | 93.42% |
| First Responders (in thousands) | June 30, 2011 | 0 | 21,921 | 21,921 | 0.00% | 42,242 | 51.89% |
| | 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% |

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

ACTUARIAL METHODS AND ASSUMPTIONS

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

| | State Employees | Teachers | First Responders |
|---|---|---|---|
| Valuation date | June 30, 2012 | June 30, 2012 | June 30, 2011 |
| 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 | 25 | 25 | 26 |
| 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 | 4.00% |
| Projected salary increases | 3.25% | 3.25% | 3.00% |
| Inflation rate | 3.00% | 3.00% | 3.00% |
| Healthcare inflation rate | initial - actual premiums [2] ultimate 5.00% | initial - actual premiums [2] ultimate 5.00% | 8.50% ultimate 5.00% |
| Former actuarial assumptions: | | | |
| Investment rate of return | | | 4.50% |
| Projected salary increases | | | 3.75% |
| Inflation rate | | | 3.75% |
| Healthcare inflation rate | | | 8.00% [2] |

[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 293 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, 2012 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

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

(Expressed in Thousands)

| | State Employees | Teachers |
|---|---|---|
| Annual required contribution | $ 3,250 | $ 2,959 |
| Interest on net OPEB obligation | (111) | - |
| Adjustment to annual required contribution | 85 | - |
| Annual OPEB cost | 3,224 | 2,959 |
| Contributions made | 4,684 | 2,959 |
| Increase (decrease) in net healthcare obligation | (1,460) | - |
| Net healthcare (asset) obligation beginning of year | (300) | - |
| Net healthcare (asset) obligation end of year | $ (1,760) | $ - |

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

**Analysis of Funding Progress**
(Expressed in Thousands)

| Plan | Year Ended | Annual OPEB Cost | Percentage of OPEB Cost Contributed | Net OPEB (Asset) |
|---|---|---|---|---|
| State Employees | 6/30/2012 | 3,224 | 145.29% | (1,760) |
| | 6/30/2011 | 4,268 | 89.22% | (300) |
| | 6/30/2010 | 4,383 | 89.98% | (761) |
| Teachers | 6/30/2012 | 2,959 | 100.00% | - |
| | 6/30/2011 | 2,532 | 100.00% | - |
| | 6/30/2010 | 2,417 | 100.00% | - |

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of June 30, 2012 was as follows:

(Expressed in Thousands)

| Plan | Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b-a) Unfunded AAL (UAAL) | (a/b) Funded Ratio | (c) Annual Covered Payroll | (b-a)/c) UAAL (as a percentage of covered payroll) |
|---|---|---|---|---|---|---|---|
| | June 30, 2012 | 24,700 | 80,900 | 56,200 | 30.53% | 553,500 | 10.15% |
| 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, 2012 | 30,100 | 71,000 | 40,900 | 42.39% | 630,800 | 6.48% |
| 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% |

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, 2012 |
| 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 | 3.25% |
| Inflation rate | 3.50% |
| Cost of living increases in life benefits | N/A |
| Participation percent for future retirees | 100.00% |
| Form of benefit payment | lump sum |
| | |
| Former actuarial assumptions: | |
| Projected salary increases | 3.50% - 10.50% |

## 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 and landfill closure and postclosure care costs.

**GENERAL OBLIGATION BONDS**

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

Changes in general obligation bonds of the primary government during fiscal year 2012 were:

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

| | Balance July 1, 2011 | Additions | Retirements | Balance June 30, 2012 | Due Within One Year |
|---|---|---|---|---|---|
| General Obligation Debt: | | | | | |
| General Fund | $ 378,880 | $ 49,265 | $ 81,055 | $ 347,090 | $ 85,595 |
| Special Revenue Fund | 141,350 | - | 16,385 | 124,965 | 16,735 |
| Total | $ 520,230 | $ 49,265 | $ 97,440 | $ 472,055 | $ 102,330 |

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2012 until maturity, are summarized in the following table:

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

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 102,330 | $ 18,076 | $ 120,406 |
| 2014 | 83,480 | 14,704 | 98,184 |
| 2015 | 69,650 | 11,886 | 81,536 |
| 2016 | 54,340 | 9,411 | 63,751 |
| 2017 | 49,105 | 7,102 | 56,207 |
| 2018 - 2022 | 113,150 | 10,611 | 123,761 |
| Total | $ 472,055 | $ 71,790 | $ 543,845 |

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2012 are as follows:

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

| | Amounts Issued | Outstanding June 30, 2012 | Fiscal Year Maturities First Year | Fiscal Year Maturities Last Year | Interest Rates |
|---|---|---|---|---|---|
| General Fund: | | | | | |
| Series 2003 | $ 97,080 | $ 9,705 | 2003 | 2013 | 1.50% - 5.00% |
| Series 2004 | 117,275 | 19,560 | 2005 | 2014 | 2.00% - 5.27% |
| Series 2005 | 137,525 | 45,925 | 2006 | 2015 | 2.00% - 5.27% |
| Series 2006 | 52,390 | 20,945 | 2007 | 2016 | 4.00% - 5.51% |
| Series 2007 | 33,975 | 16,975 | 2008 | 2017 | 4.00% - 5.50% |
| Series 2008 | 46,525 | 27,905 | 2009 | 2018 | 3.00% - 5.13% |
| Series 2009 | 96,035 | 60,960 | 2011 | 2019 | 2.50% - 5.00% |
| Series 2010 | 31,755 | 23,055 | 2011 | 2020 | 1.41% - 4.00% |
| Series 2011 | 86,010 | 72,795 | 2012 | 2021 | 1.625% - 5.00% |
| Series 2012 | 49,265 | 49,265 | 2013 | 2022 | 1.00% - 5.00% |
| Total General Fund | | $ 347,090 | | | |
| Special Revenue Fund: | | | | | |
| Series 2004 | $ 13,000 | $ 2,175 | 2005 | 2014 | 2.00% - 4.00% |
| Series 2007 | 27,000 | 13,500 | 2008 | 2017 | 4.00% - 5.50% |
| Series 2008 | 57,550 | 34,530 | 2009 | 2018 | 3.00% - 5.13% |
| Series 2009 | 37,310 | 32,375 | 2011 | 2019 | 2.50% - 5.00% |
| Series 2010 | 25,080 | 22,475 | 2011 | 2020 | 1.41% - 4.00% |
| Series 2011 | 22,125 | 19,910 | 2012 | 2021 | 1.625% - 5.00% |
| Total Special Revenue | | $ 124,965 | | | |

**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, 2012, general obligations bonds authorized and unissued totaled $40.8 million.

**REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY**

The State included $187.9 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, 2012, MGFA issued Series 2011A Bonds, which totaled $33.0 million at an interest rate between 3.00 percent and 4.25 percent. At June 30, 2012, there were approximately $3.2. 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 did not issue or retire Bond Anticipation Notes during fiscal year 2012. Short term obligations are used to meet temporary operating cash flow needs. At June 30, 2012 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, pollution remediation landfill closure and postclosure care costs.

Changes in other long-term obligations for governmental and business-type activities for the fis cal year ended June 30, 2012, are summarized as follows:

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

| | Balance July 1, 2011 | Additions | Reductions | Balance June 30, 2012 | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| MGFA Revenue Bonds | $ 172,150 | $ 33,000 | $ 17,285 | $ 187,865 | $ 18,245 |
| COP's and Other Financing | 71,830 | 7,171 | 26,904 | 52,097 | 26,323 |
| Compensated Absences | 46,443 | 156 | 4,545 | 42,054 | 4,430 |
| Claims Payable | 62,869 | 202,872 | 201,418 | 64,323 | 25,767 |
| Capital Leases | 33,690 | 1,386 | 5,298 | 29,778 | 5,324 |
| Loans Payable to Component Unit | 290,919 | 58,726 | 21,514 | 328,131 | 24,085 |
| Net Pension Obligation | 2,028 | 252,812 | 252,830 | 2,010 | - |
| Other Post-Employment Benefit Obligation | 190,622 | 168,962 | 92,879 | 266,705 | - |
| Pollution Remediation and Landfill | 47,037 * | | 18,157 | 28,880 | - |
| Total Governmental Activities | $ 917,588 * | $ 725,085 | $ 640,830 | $ 1,001,843 | $ 104,174 |
| * as restated | | | | | |
| **Business-Type Activities:** | | | | | |
| Compensated Absences | $ 883 | $ 765 | $ 59 | $ 1,589 | $ 109 |
| Other Post-Employment Benefit Obligation | 1,400 | 4,292 | 2,555 | 3,137 | - |
| Total Business-Type Activities | $ 2,283 | $ 5,057 | $ 2,614 | $ 4,726 | $ 109 |

Debt service requirements (principal and interest) for CO P's and ot her financing arrangements of the prim ary government, from June 30, 2012 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 |
| 2013 | $ 11,417 | $ 35 | $ 11,452 | $ 33,151 | $ 8,605 | $ 41,756 |
| 2014 | 1,157 | 18 | 1,175 | 29,337 | 7,452 | 36,789 |
| 2015 | 570 | 3 | 573 | 23,908 | 6,467 | 30,375 |
| 2016 | - | - | - | 21,876 | 5,571 | 27,447 |
| 2017 | - | - | - | 19,351 | 4,717 | 24,068 |
| 2018 - 2022 | - | - | - | 59,675 | 13,696 | 73,371 |
| 2023 - 2027 | - | - | - | 23,235 | 6,149 | 29,384 |
| 2028 - 2031 | - | - | - | 16,285 | 1,498 | 17,783 |
| Total | $ 13,144 | $ 56 | $ 13,200 | $ 226,818 | $ 54,155 | $ 280,973 |

**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 2012 were:

**Primary Government - Changes in GARVEE and TransCap Loans Payable**
(Expressed in Thousands)

| | Balance July 1, 2011 | Additions | Retirements | Balance June 30, 2012 | Due Within One Year |
|---|---|---|---|---|---|
| Loans Payable to Component Unit: | | | | | |
| Federal Funds | $ 119,346 | $ - | $ 11,095 | $ 108,251 | $ 12,291 |
| Special Revenue Fund | 171,573 | 58,726 | 10,419 | 219,880 | 11,794 |
| Total | $ 290,919 | $ 58,726 | $ 21,514 | $ 328,131 | $ 24,085 |

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, 2012 are as follows:

**GARVEE and TransCap Revenue Bonds Outstanding**
(Expressed in Thousands)

| | Amounts Issued | Outstanding June 30, 2012 | Fiscal Year Maturities First Year | Fiscal Year Maturities Last Year | Interest Rates |
|---|---|---|---|---|---|
| Federal Funds: | | | | | |
| Series 2004 | $ 48,395 | $ 20,005 | 2005 | 2015 | 2.50% - 5.00% |
| Series 2008 | 50,000 | 39,400 | 2009 | 2020 | 3.25% - 4.00% |
| Series 2010A | 25,915 | 23,340 | 2011 | 2017 | 2.00% - 5.00% |
| Series 2010B | 24,085 | 24,085 | 2018 | 2022 | 4.52% - 5.32% |
| Total Federal Funds | | $ 106,830 | | | |
| Special Revenue Fund: | | | | | |
| Series 2008 | $ 50,000 | $ 42,800 | 2009 | 2023 | 3.00% - 5.50% |
| Series 2009A | 105,000 | 93,405 | 2010 | 2023 | 2.50% - 5.00% |
| Series 2009B | 30,000 | 28,350 | 2010 | 2024 | 2.00% - 5.00% |
| Series 2011A | 55,000 | 55,000 | 2012 | 2026 | 2.00% - 5.00% |
| Total Special Revenue | | $ 219,555 | | | |

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 2012 were $207 million. Current year payments to MMBB for GARVEE bonds were $15.1 million (7.3 percent of federal highway transportation funds received).

Total principal and interest requirements over the life of the 2008 TransCap Revenue Bond are $71.9 million, with annual requirements up to $4.8 million. Total 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 principal and interest requirements over the life of the 2011A TransCap Revenue Bond are $84.2 million, with annual requirements up to $20.3 million. Total revenue received for revenue sources used as pledged revenues were $38.2 million in fiscal year 2012.

**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, 2012 capital assets include $66.2 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of $40.7 million.

**OBLIGATIONS UNDER OPERATING LEASES**

The State is obligated under certain leases, accounted for as operating leases, in the proprietary funds. Operating leases do not give rise to property rights or lease obligations, and therefore assets and liabilities related to the lease agreements are not recorded in the State's financial statements. Rental expense incurred under operating leases totaled $2.4 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 |
|---|---|---|
| 2013 | $ 5,324 | $ 5,811 |
| 2014 | 4,656 | 5,414 |
| 2015 | 4,248 | 5,032 |
| 2016 | 3,734 | 4,439 |
| 2017 | 3,370 | 3,943 |
| 2018 - 2022 | 11,052 | 13,387 |
| 2023 - 2027 | 3,130 | 5,887 |
| 2028 - 2032 | 2 | 775 |
| 2033 - 2037 | - | 764 |
| 2038 - 2042 | - | 852 |
| 2043- 2047 | - | 762 |
| 2048 - 2051 | - | 892 |
| Total Minimum Payments | 35,516 | $ 47,958 |
| Less: Amount Representing Interest | 5,738 | |
| Present Value of Future Minimum Payments | $ 29,778 | |

**MGFA REVENUE BONDS, COP'S AND OTHER FINANCING ARRANGEMENTS**

MGFA revenue bonds will be liquidated by the MGFA Internal Service Fund, from revenues received through lease agreements with various governmental funds. The liability for loans payable to the component unit will be liquidated from the Federal Fund and Highway Fund. The vast majority of COP's and other financing arrangements will be liquidated by the internal service fund in which the leases are recorded; the General and Highway Funds will pay relatively small amounts.

**CLAIMS PAYABLE**

Claims payable that represent Medicaid claims will be paid from the General Fund and Federal Fund. Claims payable that represent workers' compensation and retiree/employee health will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. Other claims and judgments attributable to governmental activities will be liquidated by the General Fund and related special revenue funds.

**COMPENSATED ABSENCES**

In the government-wide statements and proprietary fund financial statements, compensated absences are reported as long-term liabilities as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments made to terminated employees as of June 30, 2012 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% | 1,513 | 2012 – 2025 |
| Maine Community College System | 3.0 - 5.0% | 24,653 | 2012 - 2037 |
| Maine Health and Higher Educational Facilities Authority | | | |
| debt | 1.25 - 6.2% | 1,263,465 | 2012 - 2040 |
| conduit debt | 3.42 - 7.5% | 483,872 | 2012 - 2043 |
| Maine Municipal Bond Bank | .7 - 6.1% | 1,571,017 | 2012 – 2040 |
| Maine State Housing Authority | 0.1 - 5.75% | 1,454,710 | 2012 – 2042 |
| Maine Turnpike Authority | 3.0 - 6.0% | 397,056 | 2012 – 2038 |
| University of Maine System | 2.0 - 5.75% | 190,617 | 2012 – 2037 |

On January 31, 2012, MHHEFA issued $27.7 million general resolution tax-exempt bonds with an average interest rate of 3.56 percent. A portion of the proceeds was used to in-substance defease $13.0 million in outstanding various bond obligations in prior years. The net proceeds of approximately $13.7 million were used to purchase U.S. Government securities that will provide for future payment on the debt. The economic benefits associated with the refunding inure to the respective institutions. At June 30, 2012, there were approximately $13.3 million of in-substance defeased bonds remaining outstanding with respect to advance refunded conduit debt of bond issues of the general resolution.

In periods of declining interest rates, MHHEFA has refunded its bond obligations, reducing aggregate debt service. The proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. During the current year, MHHEFA issued $119.6 million of reserve resolution bonds with interest rates of 4.36 to 4.60 percent to in-substance defease $127.1 million of various outstanding bonds. The net proceeds of $129.8 million were used to purchase U.S. Government securities that will provide for future payment on the debt. The economic benefits associated with the refunding inure to the

respective institutions. At June 30, 2012 the remaining balances of the conduit debt reserve resolution in-substance defeased bonds total approximately $141.2.

On February 23, 2012, UMS issued bonds to currently refund a $30.0 million balloon payment and to fund a new capital project. Refunding proceeds were temporarily placed into an escrow account and were used to retire the 2002 bonds on March 1, 2012.

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. During the current year, MMBB issued $26.1 million of General Tax-Exempt Bonds with an average interest rate of 3.90 percent; $61.1 million of General Tax Exempt Series 2012 B and C Series Bonds with average interest rates of 4.85 percent and 1.58 percent, respectively; and $17.8 million of Sewer and Water bonds with an average interest rate of 3.80 percent to in-substance defease $105.9 million of various outstanding bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately $9.5 million, MMBB in effect reduced its aggregate debt service payments by approximately $10.3 million over the next 13 to 21 years and obtained an economic gain of approximately $6.5 million. Future debt service requirements were reduced $6.1 million. At June 30, 2012 the remaining balances of the General Tax-Exempt Fund Group and Clean Water Revolving Loan Fund in-substance defeased bonds total approximately $177.3 million and $17.8 million, respectively.

For the period ended December 31, 2011, MSHA redeemed $122.3 million of its Mortgage Purchase Fund Group bonds from reserve funds, mortgage prepayments, surplus revenues and the proceeds of refunding bonds and $6.3 million of its Housing Finance Revenue Fund Group bonds from subsidy funds. Mortgage Purchase Fund losses of $.5 million and Housing Finance Revenue Fund Group losses of $42 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 | MTA | UMS | MHHEFA |
|---|---|---|---|---|---|---|---|
| 2013 | $ 806 | $ 130,516 | $ 600 | $ 9,905 | $ 13,855 | $ 9,743 | $ 55,450 |
| 2014 | 57 | 123,199 | 622 | 45,860 | 15,560 | 10,167 | 56,845 |
| 2015 | 57 | 119,515 | 649 | 52,130 | 17,470 | 12,259 | 58,725 |
| 2016 | 57 | 112,832 | 671 | 54,035 | 18,275 | 8,697 | 53,840 |
| 2017 | 58 | 106,569 | 697 | 50,760 | 19,090 | 9,099 | 54,515 |
| 2018 - 2022 | 301 | 474,819 | 3,946 | 295,835 | 81,145 | 45,507 | 281,475 |
| 2023 - 2027 | 177 | 332,450 | 4,967 | 304,420 | 83,450 | 37,740 | 265,340 |
| 2028 - 2032 | - | 130,141 | 6,061 | 278,015 | 91,220 | 39,360 | 230,400 |
| 2033 - 2037 | - | 7,520 | 5,692 | 245,420 | 35,965 | 14,450 | 165,050 |
| 2038 - 2042 | - | 2,415 | - | 129,955 | 10,345 | - | 41,825 |
| 2043 - 2047 | - | - | - | 1,055 | - | - | - |
| Net unamortized premium or (deferred amount) | - | 31,041 | 668 | (12,680) | 10,681 | 3,595 | - |
| Total Principal Payments | $ 1,513 | $ 1,571,017 | $ 24,573 | $1,454,710 | $ 397,056 | $190,617 | $1,263,465 |

## 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, 2012. 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, 2012 and 2011, the present value of the claims payable for the State's self-insurance plan was estimated at $3.8 million and $3.9 million, respectively. The actuary calculated this based on the State's rate on investments.

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

| | 2012 | 2011 |
|---|---|---|
| Liability at Beginning of Year | $ 3,872 | $ 3,872 |
| Current Year Claims and Changes in Estimates | 1,253 | 86 |
| Claims Payments | 1,355 | 86 |
| Liability at End of Year | $ 3,770 | $ 3,872 |

As of June 30, 2012, fund assets of $24.4 million exceeded fund liabilities of $4.4 million by $20 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, 2012.

### 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 $2.2 million for the fiscal year ended June 30, 2012.

### 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, 2012:

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

| | 2012 | 2011 |
|---|---|---|
| Liability at Beginning of Year | $ 39,282 | $ 38,673 |
| Current Year Claims and Changes in Estimates | 11,468 | 8,987 |
| Claims Payments | 8,637 | 8,378 |
| Liability at End of Year | $ 42,113 | $ 39,282 |

Based on the actuarial calculation as of June 30, 2012, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $50.3 million. The discounted amount is $42.1 million and was calculated based on a 3.0 percent interest rate on investments.

**D. EMPLOYEE HEALTH INSURANCE**

The employee health and retiree health insurance programs are accounted for in two Internal Service Funds. The State became self insured for employee and retiree health care coverage on July 1, 2003. A stop loss agreement with 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 38,800 covered individuals. This total includes 27,000 active employees and dependents, 4,400 pre-Medicare retirees and dependents, and 7,400 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, 2012 the State recorded a payable of $10.8 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 $18.4 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2012 follows (in thousands):

| | Employee Health Fund | Retiree Health Fund |
|---|---|---|
| Liability at Beginning of Year | $ 14,786 | $ 4,929 |
| Current Year Claims and Changes in Estimates | 158,537 | 31,614 |
| Claims Payments | 159,493 | 31,933 |
| Liability at End of Year | $ 13,830 | $ 4,610 |

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. $44.6 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 2012, 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 | $ | 22,517 |
| Noncurrent Assets | | 46,265 |
| Total Assets | $ | 68,782 |
| | | |
| Current Liabilities | $ | 18,711 |
| Long-term Liabilities | | 36,459 |
| Total Liabilities | | 55,170 |
| | | |
| Designated Prize Reserves | | 4,346 |
| Reserve for Unrealized Gains | | 9,266 |
| Total Net Assets | | 13,612 |
| Total Liabilities and Net Assets | $ | 68,782 |
| | | |
| Total Revenue | $ | 61,355 |
| Total Expenses | | 41,134 |
| Allocation to Member States | | 20,221 |
| Change in Unrealized Gain on Investments Held for Resale | | 1,008 |
| Change in Net Assets | $ | 1,008 |

## 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 2012, 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 | $ 106,685 |
| Investments in US Government Securities | 142,712 |
| US Government Securities Held for Prize Annuities | 300,465 |
| Due from Party Lotteries | 32,358 |
| Other Assets | 945 |
| Total Assets | $ 583,165 |
| | |
| Amount Held for Future Prizes | $ 268,775 |
| Grand Prize Annuities Payable | 310,847 |
| Other Liabilities | 3,388 |
| | 583,010 |
| | |
| Net Assets, Unrestricted | 155 |
| Total Liabilities and Net Assets | $ 583,165 |
| | |
| Total Revenue | $ 4,783 |
| Total Expenses | 4,869 |
| Excess of revenue over expenses | (86) |
| Net assets, beginning | 241 |
| Net assets, ending | $ 155 |

## NOTE 14 - RELATED PARTY TRANSACTIONS

**PRIMARY GOVERNMENT**

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

By statute, program assets are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen had approximately $6.0 billion in net assets at June 30, 2012, 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, $237.6 million; Maine Community College System, $65.6 million; Maine Municipal Bond Bank, $39.1 million; Finance Authority of Maine, $12.0 million; and Maine State Housing Authority, $9.9 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $29.9 million at June 30, 2012, 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 2012, the State expended $2.8 million to FAME for State revolving loan funds. The State also transferred $1 million from its Loan Insurance Reserves to FAME. State statute required FAME to return $5 million of the Loan Insurance Reserves. As of June 30, 2012, $3 million was owed to the State.

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 $6.8 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

The Maine Turnpike Authority (MTA) pays the State for services rendered by the Maine State Police (MSP). MSP has a separate troop responsible for patrolling the Maine Turnpike. MTA pays all costs associated with that troop. For fiscal 2012, the amount billed totaled $4.8 million.

## 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.

*Temporary Assistance for Needy Families (TANF) Program – DHHS.* This matter may result in a reduction of future payments to Maine. This dispute involves whether Maine 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. The federal agency has not required Maine to pay the penalty yet. Maine has submitted a Corrective Action Plan that has resulted in meeting the participation rate by the end of FY 2012, and the federal agency does have the ability to reduce the amount of the 2007 penalty. There is a high probability that Maine can experience this loss, but so far the federal agency has not reduced Maine's payments.

*Food Supplement – DHHS*. The State received from the federal Food and Nutrition Service a "Bill for Collection" in the amount of $2.8 million, representing an offset applying three performance bonus awards totaling $2.1 million to an over-issuance claim of $4.9 million. The State has administratively appealed this claim and should learn the result of our appeal within 30 days. There is a moderate probability that the State will experience this loss.

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, 2012 is $21.4 million. Superfund sites account for approximately $12.2 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 and maintenance and long-term monitoring costs.

*Eastern Surplus* – The State recorded a liability for pollution remediation activities of approximately $5.2 million. Beginning in August of 2012, the State assumed 100 percent of the operation and maintenance and monitoring costs. As of June 30, 2012 the State has received $2.2 million in recoveries from the Department of Defense. The State expects to recover additional costs of $3.5 million.

*Callahan Mine* – The State recorded a liability for pollution remediation activities of approximately $5.3 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 $792 thousand) related to three of five uncontrolled hazardous substance sites. The State expects to recover $860

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**

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

The State will recognize a portion of the estimated total current cost of closure and postclosure care as an expense and a liability on the Statement of Activities and Statement of Net Assets, respectively, in each period that the landfill accepts solid waste. The $7.4 million reported as landfill closure and postclosure care liability at June 30, 2012, represents the cumulative amount reported to date based on the use of 94% of the estimated capacity of the landfill. The State will recognize the remaining estimated cost of closure and postclosure care of $465 thousand as the remaining estimated capacity is filled. Based on estimated annual disposal volumes of 5,000 cubic yard to 8,000 cubic yards per year, the estimated remaining landfill life would be 38 to 60 years. Actual costs may be higher due to inflation, changes in technology or changes in applicable laws or regulations.

*Cost-Sharing Program*– 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 $100 thousand for fiscal year 2012.

During the 2012 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. Recent changes to landfill legislation Title 38 MRSA §1310-F (1-B)(E) do obligate DEP to potential landfill closure expenses at a limited number of municipal landfills until 2015. No reimbursement applications for past closure costs are currently on file. No eligible municipalities have contacted DEP regarding potential closure cost sharing at this time. The DEP estimates that potential obligations related to municipal landfill closures could range from $1.14 million to $5.25 million by 2015.

During the 2012 fiscal year, the State expended $85 thousand of general obligation bond funds and $15 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 $935 thousand,

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 could add to these future costs. 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 $18.6 million. This consists of approximately $12.6 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 2012 fiscal year, $4.12 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2012, amounts encumbered for pollution abatement projects totaled $1.29 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $2.05 million. As of June 30, 2012, 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 46.60 percent of the annual payments. As of June 30, 2012, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $1.1 billion.

At June 30, 2012, the Department of Transportation had contractual commitments of approximately $147.0 million for construction of various highway projects. The State's share of that amount is expected to be approximately $31.8 million. Of these amounts, $8.3 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

**TOBACCO SETTLEMENTS**

On November 23, 1998, Maine along with 45 other states and six civil jurisdictions (collectively known under the 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. NPM Adjustment Due to the provisions of the MSA, a State that is found not to have diligently enforced its qualifying statute may lose up to its entire annual payment amount due to the NPM Adjustment for a given year.

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

In addition, in the MSA, the PM's agreed to pay $8.6 billion in Strategic Contribution Payments (SCP) to certain states and jurisdictions as compensation for their contribution to the overall settlement. Maine's share of this total amount is approximately $114 million. Maine will receive this amount through ten annual SCP payments starting in 2008. In April 2012, Maine received a total of $51 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, 2012, the Fund included $3.9 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2012 of approximately $178.4 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, 2012, the amount reported in the Fund for claimant liability is $34.6 million. The General Fund shows a $30.2 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, 2012, loans outstanding pursuant to these authorizations are $60.9 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, 2012.

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, 2012, 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, 2012.

**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 | $ 1,263,465 | $ 105,711 | no limit | 22 MRSA § 2075 |
| conduit debt | 483,872 | | no limit | 22 MRSA § 2075 |
| Finance Authority of Maine | 35,026 | - | $ 642,000 | 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 | 1,201,387 | 142,437 | no limit | 30-A MRSA §6006 |
| Maine Educational Loan Authority * | 161,790 | 16,042 | 225,000 | 20-A MRSA §11424 |
| Maine State Housing Authority | 1,467,390 | 90,087 | 2,150,000 | 30-A MRSA §4906 |
| University of Maine System | 189,135 | 2,870 | 220,000 | 20-A MRSA §10952 |
| Total | $ 4,802,065 | $ 357,147 | | |

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

**CONSTRUCTION CONTRACTS**
At June 30, 2012, UMS had outstanding commitments on uncompleted construction contracts that totaled $14.6 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, 2011 Maine State Housing Authority (MSHA) had outstanding commitments to originate multi-family loans of approximately $52.2 million.

MSHA, under its single-family program, enters into purchase agreements to lenders to purchase mortgage loans. At December 31, 2011, single-family loans being processed by lenders totaled $7.4 million.

**INSURED LOAN COMMITMENTS**
The Finance Authority of Maine (FAME) insures loans made by financial institutions to qualifying businesses under various insurance programs. FAME is contingently liable for the insured portion of payments due on these loans. At June 30, 2012, FAME had insurance outstanding for commercial loans under the Loan Insurance Program totaling approximately $83.4 million. At June 30, 2012, FAME was insuring loans with an aggregate outstanding principle balance approximating $4.9 million which were 90 or more days delinquent. The aggregate insured balance of these loans was approximately $2.6 million at June 30, 2012. In addition, FAME has entered into commitments to insure loans at some future date. At June 30, 2012, these commitments under the Loan Insurance Program were approximately $13.0 million.

## NOTE 16 - SUBSEQUENT EVENTS

**COMPONENT UNITS**
In January 2012, MHSA was awarded $.5 million as part of a settlement in connection with an investigation by the United States Securities and Exchange Commission (SEC) into the bidding practices involving investment bond proceeds by a banking and financial services company. Proceeds from this settlement are to be distributed within 60 days of the final order. MSHA received $1.4 million in 2011 as part of a similar SEC investigation and settlement with a different banking and financial services company.

On March 1, 2012 MSHA communicated to the Trustee its intention to redeem on April 10, 2012 at par $44.0 million of bonds in the General Mortgage Purchase Bond Resolution.

Until June 30, 2012, the NextGen College Investing Plan is reported as a private purpose trust for the State. Pursuant to a change in Maine law which became effective September 28, 2011, beginning July 1, 2012, the 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. Once the law becomes effective, FAME will report the $6.0 billion in assets in a private purpose trust fund.

## STATE OF MAINE
## BUDGETARY COMPARISON SCHEDULE
### MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2012
(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 | $ 2,829,762 | $ 2,865,232 | $ 2,900,672 | $ 35,440 | $ 220,061 | $ 218,089 | $ 219,474 | $ 1,385 |
| Assessments and Other | 102,673 | 101,488 | 102,887 | 1,399 | 87,823 | 88,027 | 88,957 | 930 |
| Federal Grants | 3,351 | 3,337 | 3,377 | 40 | - | - | - | - |
| Service Charges | 49,680 | 51,537 | 49,008 | (2,529) | 6,162 | 4,301 | 6,126 | 1,825 |
| Income from Investments | 258 | 107 | 403 | 296 | 32 | 122 | 141 | 19 |
| Miscellaneous Revenue | 41,969 | 47,726 | 15,203 | (32,523) | 192 | 131 | 693 | 562 |
| **Total Revenues** | 3,027,693 | 3,069,427 | 3,071,550 | 2,123 | 314,270 | 310,670 | 315,391 | 4,721 |
| **Expenditures** | | | | | | | | |
| Governmental Support and Operations | 266,302 | 264,583 | 259,280 | 5,303 | 36,430 | 36,851 | 33,545 | 3,306 |
| Economic Development & Workforce Training | 34,722 | 34,666 | 33,529 | 1,137 | - | - | - | - |
| Education | 1,379,042 | 1,385,470 | 1,365,933 | 19,537 | - | - | - | - |
| Health and Human Services | 1,030,347 | 1,130,724 | 1,103,849 | 26,875 | - | - | - | - |
| Business Licensing & Regulation | - | - | - | - | - | - | - | - |
| Natural Resources Development & Protection | 68,727 | 68,528 | 65,763 | 2,765 | 33 | 33 | 33 | - |
| Justice and Protection | 276,970 | 280,632 | 261,702 | 18,930 | 31,106 | 30,845 | 28,634 | 2,211 |
| Arts, Heritage & Cultural Enrichment | 7,457 | 7,463 | 7,068 | 395 | - | - | - | - |
| Transportation Safety & Development | - | - | - | - | 253,379 | 300,621 | 274,829 | 25,792 |
| **Total Expenditures** | 3,063,567 | 3,172,066 | 3,097,124 | 74,942 | 320,948 | 368,350 | 337,041 | 31,309 |
| **Revenues Over (Under) Expenditures** | (35,874) | (102,639) | (25,574) | 77,065 | (6,678) | (57,680) | (21,650) | 36,030 |
| **Other Financing Sources (Uses)** | | | | | | | | |
| Operating Transfers Net | (82,189) | (79,407) | 49,044 | 128,451 | (3,204) | (998) | 19,374 | 20,372 |
| Proceeds from Pledged Future Revenues | | | | | | | | |
| **Net Other Financing Sources (Uses)** | (82,189) | (79,407) | 49,044 | 128,451 | (3,204) | (998) | 19,374 | 20,372 |
| **Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses** | $ (118,063) | $ (182,046) | $ 23,470 | $ 205,516 | $ (9,882) | $ (58,678) | $ (2,276) | $ 56,402 |
| Fund Balances at Beginning of Year | | | 196,146 | | | | 63,377 | |
| Fund Balances at End of Year | | | $ 219,616 | | | | $ 61,101 | |

| Federal Funds | | | | Other Special Revenue Fund | | | |
|---|---|---|---|---|---|---|---|
| Original Budget | Final Budget | Actual | Variance with Final Budget | Original Budget | Final Budget | Actual | Variance with Final Budget |
| $ - | $ - | $ - | $ - | $ 269,345 | $ 266,245 | $ 258,819 | $ (7,426) |
| 4 | 4 | 1 | (3) | 163,842 | 166,651 | 137,546 | (29,105) |
| 2,704,172 | 3,371,127 | 2,702,662 | (668,465) | 17,620 | 25,286 | 10,789 | (14,497) |
| 504 | 462 | 451 | (11) | 210,494 | 211,040 | 188,256 | (22,784) |
| - | - | 18 | 18 | 1,461 | 1,460 | 324 | (1,136) |
| - | - | 883 | 883 | 144,419 | 164,735 | 135,210 | (29,525) |
| 2,704,680 | 3,371,593 | 2,704,015 | (667,578) | 807,181 | 835,417 | 730,944 | (104,473) |
| 10,335 | 25,428 | 13,258 | 12,170 | 130,548 | 143,729 | 132,305 | 11,424 |
| 123,590 | 270,180 | 219,550 | 50,630 | 77,341 | 82,152 | 68,995 | 13,157 |
| 251,711 | 320,053 | 221,739 | 98,314 | 17,742 | 17,941 | 11,864 | 6,077 |
| 1,955,928 | 2,265,383 | 1,891,851 | 373,532 | 508,669 | 560,274 | 423,638 | 136,636 |
| 1,202 | 1,399 | 441 | 958 | 74,184 | 73,496 | 63,526 | 9,970 |
| 60,923 | 70,075 | 47,657 | 22,418 | 125,104 | 133,864 | 83,371 | 50,493 |
| 122,012 | 134,408 | 47,869 | 86,539 | 38,407 | 44,946 | 35,133 | 9,813 |
| 4,106 | 4,342 | 3,585 | 757 | 1,768 | 1,756 | 881 | 875 |
| 188,544 | 266,487 | 213,675 | 52,812 | 82,502 | 119,096 | 86,918 | 32,178 |
| 2,718,351 | 3,357,755 | 2,659,625 | 698,130 | 1,056,265 | 1,177,254 | 906,631 | 270,623 |
| (13,671) | 13,838 | 44,390 | 30,552 | (249,084) | (341,837) | (175,687) | 166,150 |
| (42,711) | (49,129) | (28,374) | 20,755 | 183,163 | 212,732 | 28,723 | (184,009) |
| | | | | 69,198 | 103,198 | 78,148 | (25,050) |
| (42,711) | (49,129) | (28,374) | 20,755 | 252,361 | 315,930 | 106,871 | (209,059) |
| $ (56,382) | $ (35,291) | $ 16,016 | $ 51,307 | $ 3,277 | $ (25,907) | $ (68,816) | $ (42,909) |
| | | (9,614) | | | | 220,454 | |
| | | $ 6,402 | | | | $ 151,638 | |

# Required Supplementary Information - Budgetary Reporting

## STATE OF MAINE
## BUDGETARY COMPARISON SCHEDULE
### BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

| | General Fund | Highway Fund | Federal Funds | Special Revenue Fund |
|---|---|---|---|---|
| Fund Balances - Non-GAAP Budgetary Basis | $ 219,616 | $ 61,101 | $ 6,402 | $ 151,638 |
| **Basis Differences** | | | | |
| Revenue Accruals/Adjustments: | | | | |
| Taxes Receivable | 240,065 | 5,917 | - | 9,825 |
| Intergovernmental Receivables | - | - | 530,316 | - |
| Other Receivables | 35,272 | 3,575 | 72,270 | 64,450 |
| Inventories | 1,411 | - | 483 | - |
| Due from Component Units | 3,000 | | - | 45,547 |
| Due from Other Funds | 14,861 | 9,074 | 4,315 | 239,330 |
| Other Assets | 1,552 | 45 | 319 | 657 |
| Deferred Revenues | (235,827) | (8,623) | (2,214) | (25,960) |
| Total Revenue Accruals/Adjustments | 60,334 | 9,988 | 605,489 | 333,849 |
| Expenditure Accruals/Adjustments: | | | | |
| Accounts Payable | (296,601) | (25,120) | (502,735) | (25,100) |
| Due to Component Units | (1,409) | 1 | (4,749) | (2,134) |
| Accrued Liabilities | (16,746) | (6,673) | (6,315) | (8,050) |
| Taxes Payable | (167,252) | (8) | - | - |
| Intergovernmental Payables | (3,792) | - | (70,539) | - |
| Due to Other Funds | (144,085) | (3,180) | (12,425) | (6,953) |
| Total Expenditure Accruals/Adjustments | (629,885) | (34,980) | (596,763) | (42,237) |
| Fund Balances - GAAP Basis | $ (349,935) | $ 36,109 | $ 15,128 | $ 443,250 |

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
## BUDGETARY REPORTING

**Statutory/Budgetary Presentation**

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

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

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

Detailed budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget or separate pieces of legislation. For the year ended June 30, 2012, the legislature increased appropriations to the General Fund by $86.6 million.

Governmental funds use encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation or allocation. Unencumbered appropriations in the General Fund and Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. 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 2012-2013, as well as the actual resource inflows, outflows and fund balances stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of June 20, 2011, 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, 2012 rather than the amounts shown in the original budget, are reported.

The final appropriations budget represents original and supplemental appropriations, carry-forwards, approved transfers, and executive order reductions. Expenditures, transfers out, other financing uses, and encumbrances are combined and classified by policy area rather than being reported by character and function as shown in the GAAP statements. This policy area classification is used to better reflect organizational responsibility and to be more consistent with the budget process.

**Compliance at the Legal Level of Budgetary Control**

The Budgetary Comparison Schedules by Agency depict budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds. The schedules provide further detail at the agency level within departments for transparency.

## Required Supplementary Information – State Retirement Plan

### Schedule of Funding Progress
(Expressed in Thousands)

| Actuarial Valuation June 30, | (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) |
|---|---|---|---|---|---|---|
| 2012 | 8,939,788 | 11,605,891 | 2,666,103 | 77.0% | 1,727,667 | 154.3% |
| 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% |

Major changes in actuarial assumptions include the following:

| Valuation date | June 30, 2012 | June 30, 2011 | June 30, 2010 | June 30, 2008 |
|---|---|---|---|---|
| Former actuarial assumptions: | | | | |
| Retirement assumption | Lowered to reflect the closing of the retirement window for early retiree health coverage | | | |
| Version of actuarial cost method | New entrant | | 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. 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, 2012 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 2012 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 5 years remained at June 30, 2012.

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, 2012.

## 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, 2012 | 136 | 1,316 | 1,180 | 10.33% | 502 | 235.06% |
| | June 30, 2011 | 112 | 1,544 | 1,432 | 7.25% | 567 | 252.56% |
| | June 30, 2010 | 103 | 1,450 | 1,347 | 7.10% | 549 | 245.36% |
| Teachers (in millions) | June 30, 2012 | 0 | 665 | 665 | 0.00% | 1,156 | 57.53% |
| | June 30, 2011 | 0 | 801 | 801 | 0.00% | 1,098 | 72.95% |
| | June 30, 2010 | 0 | 994 | 994 | 0.00% | 1,064 | 93.42% |
| First Responders (in thousands) | June 30, 2011 | 0 | 21,921 | 21,921 | 0.00% | 42,242 | 51.89% |
| | 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% |

#### 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, 2012 | 24,700 | 80,900 | 56,200 | 30.53% | 553,500 | 10.15% |
| | 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% |
| Teachers | June 30, 2012 | 30,100 | 71,000 | 40,900 | 42.39% | 630,800 | 6.48% |
| | 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% |

## 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 - 2012 | $126,000 | 57.94% | | $55,000 | 40.00% | | $1,350 | 32.15% |
| Healthcare - 2011 | 120,000 | 70.84% | | 61,000 | 29.51% | | 916 | 57.10% |
| Healthcare - 2010 | 90,000 | 61.12% | | 58,000 | 32.76% | | 1,105 | 33.31% |
| | | | | | | | | |
| Group Life - 2012 | 3,250 | 144.13% | | 2,959 | 100.00% | | N/A | N/A |
| Group Life - 2011 | 4,268 | 89.20% | | 2,532 | 100.00% | | N/A | N/A |
| Group Life - 2010 | 4,383 | 89.98% | | 2,417 | 100.00% | | 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 8,828 highway miles or 17,993 lane miles of roads and 2,963 bridges having a total deck area of 11.8 million square feet that the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved at, or above, the established condition level.

Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

### Highways

**Measurement Scale for Highways**

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

| Data Element | Point Rating (%) | Description |
|---|---|---|
| Pavement Condition Rating (PCR) | 45 | PCR is defined as the composite condition of the pavement on a roadway only, and is compiled from the severity and extent of pavement distresses such as cracking, rutting and patching. It is the key indicator used to determine the optimum time to treat a particular section of road. Points decrease as PCR decreases. |
| Safety | 20 | Statewide crash rates are used to allocate points. Locations with high rates get fewer points. |
| Backlog (Built 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 |
|---|---|---|
| 2012 | 75.4 | 79.0 |
| 2011 | 74.8 | 78.0 |
| 2010 | 76.2 | 79.0 |

**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)

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Highways | $ 91.5 | $ 101.4 | $ 68.6 | $ 74.5 | $ 80.0 |
| Bridges | 13.2 | 9.3 | 9.2 | 1.6 | 1.6 |
| **Total** | **$ 104.7** | **$ 110.7** | **$ 77.8** | **$ 76.1** | **$ 81.6** |

Estimated Preservation Costs
(Amounts in millions)

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Highways | $ 155.0 | $ 86.1 | $ 48.5 | $ 55.8 | $ 97.7 |
| Bridges | 30.0 | 7.9 | 6.5 | 1.2 | 2.0 |
| **Total** | **$ 185.0** | **$ 94.0** | **$ 55.0** | **$ 57.0** | **$ 99.7** |

**Transportation Bonds**

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 645, PL 2009, $13.7 million in General fund bonds was spent during FY2012.

# STATE OF MAINE
# REPORTS ON INTERNAL CONTROL AND COMPLIANCE
# FOR THE YEAR ENDED JUNE 30, 2012

DIRIGO
MAINE

**STATE OF MAINE**
**DEPARTMENT OF AUDIT**
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**POLA A. BUCKLEY, CPA, CISA**
STATE AUDITOR

## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To: Justin L. Alfond, President of the Senate
Mark W. Eves, Speaker of the House of Representatives

We have audited the 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, 2012, which collectively comprise the State of Maine's basic financial statements, and have issued our report thereon dated December 21, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of the 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 Education Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine Technology Institute, Maine Turnpike Authority, Midcoast Regional Redevelopment Authority, NextGen College Investing Plan, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and the University of Maine System. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. 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.*

### Internal Control over Financial Reporting

Management of the State of Maine is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Maine's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Maine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Maine's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the State of Maine's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the financial findings section of the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency in internal control over financial reporting (see finding 12-0308-01). A *significant deficiency* is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain additional matters which we will report to management in a separate letter.

This report is intended solely for the information and use of the Governor, management, others within the entity, the Legislature, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Pola Buckley

Pola A. Buckley, CPA, CISA
State Auditor
Maine Department of Audit

December 21, 2012

**STATE OF MAINE**
**DEPARTMENT OF AUDIT**
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

**POLA A. BUCKLEY, CPA, CISA**
STATE AUDITOR

## Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To: Justin L. Alfond, President of the Senate
Mark W. Eves, Speaker of the House of Representatives

### Compliance

We have audited the State of Maine's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Maine's major Federal programs for the year ended June 30, 2012. The State of Maine's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the State of Maine's management. Our responsibility is to express an opinion on the State of Maine's compliance based on our audit.

The State of Maine's basic financial statements included the operations 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, Maine Turnpike Authority, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and the University of Maine System. The Federal awards that these component units received are not included in the Supplementary Schedule of Expenditures of Federal Awards for the year ended June 30, 2012. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State of Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Maine's compliance with those requirements.

As described in items 12-1140-03, 12-1203-01 and 12-1302-01 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with compliance requirements regarding Eligibility that are applicable to its Children's Health Insurance Program, compliance requirements regarding Reporting that are applicable to its Child Nutrition Cluster or compliance requirements regarding Eligibility that are applicable to its Unemployment Insurance program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Maine complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 12-0703-01, 12-0909-01, 12-1103-02, 12-1106-07, 12-1106-08, 12-1106-12, 12-1109-02, 12-1200-02, 12-1200-05, and 12-1201-01.

**Internal Control Over Compliance**

Management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the State of Maine's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the State of Maine's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described as items 12-1140-03, 12-1203-01 and 12-1302-01 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described as items 12-0909-01, 12-1106-01, 12-1106-02, 12-1106-04, 12-1106-05, 12-1106-07, 12-1106-08, 12-1106-09, 12-1106-10, 12-1106-11, 12-1106-12, 12-1106-14, 12-1108-01, 12-1109-01, 12-1111-01, 12-1111-02, 12-1113-01, 12-1118-03, 12-1140-01, 12-1140-02, 12-1200-01, 12-1200-03, 12-1200-04, 12-1200-05, 12-1201-02, 12-1201-03, 12-1201-04, 12-1205-01, 12-1315-01, 12-1401-02, 12-1404-01, 12-1505-01, and 12-1505-02 in the accompanying Schedule of Findings and Questioned costs to be significant deficiencies.

The State of Maine's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Maine's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Governor, management, others within the entity, the Legislature, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Pola Buckley

Pola A. Buckley, CPA, CISA
State Auditor
Maine Department of Audit

March 28, 2013

DIRIGO
MAINE

# STATE OF MAINE
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE YEAR ENDED JUNE 30, 2012

DIRIGO
MAINE

STATE OF MAINE

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

| Federal Agency<br>Clusters and Program Titles | CFDA# | State Agency | Total ARRA | Total non-ARRA | Grand Total | |
|---|---|---|---|---|---|---|
| **Department of Agriculture** | | | | | | |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | Agriculture | - | 373,508 | 373,508 | |
| | | Conservation | - | 70,209 | 70,209 | |
| | | Inland Fisheries | - | 54,155 | 54,155 | |
| | 10.025 Total | | - | 497,872 | 497,872 | |
| Conservation Reserve Program | 10.069 | Conservation | - | 4,382 | 4,382 | |
| Federal-State Marketing Improvement Program | 10.156 | Agriculture | - | 681,418 | 681,418 | |
| Inspection Grading and Standardization | 10.162 | Agriculture | - | 809,778 | 809,778 | |
| Market Protection and Promotion | 10.163 | Agriculture | - | 323,095 | 323,095 | |
| Specialty Crop Block Grant Program | 10.169 | Agriculture | - | 34,394 | 34,394 | |
| Specialty Crop Block Grant Program - Farm Bill | 10.170 | Agriculture | - | 494,670 | 494,670 | |
| Cooperative Agreements with States for Intrastate Meat and Poultry Inspection | 10.475 | Agriculture | - | 190,963 | 190,963 | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | Human Services | - | 18,892,008 | 18,892,008 | * |
| Child and Adult Care Food Program | 10.558 | Human Services | - | 10,214,243 | 10,214,243 | * |
| State Administrative Expenses for Child Nutrition | 10.560 | Education | - | 392,457 | 392,457 | |
| | | Human Services | - | 277,598 | 277,598 | |
| | 10.560 Total | | - | 670,055 | 670,055 | |
| Commodity Supplemental Food Program | 10.565 | Agriculture | - | 231,207 | 231,207 | |
| WIC Farmers' Market Nutrition Program (FMNP) | 10.572 | Human Services | - | 55,645 | 55,645 | |
| Team Nutrition Grants | 10.574 | Education | - | 108,578 | 108,578 | |
| Senior Farmers Market Nutrition Program | 10.576 | Agriculture | - | 1,032,135 | 1,032,135 | |
| WIC Grants To States (WGS) | 10.578 | Human Services | 539,119 | 91,446 | 630,565 | |
| Child Nutrition Discretionary Grants Limited Availability | 10.579 | Human Services | - | 100,114 | 100,114 | |
| Fresh Fruit and Vegetable Program | 10.582 | Education | - | 1,662,470 | 1,662,470 | |
| Forestry Research | 10.652 | Conservation | - | 330,573 | 330,573 | |
| Cooperative Forestry Assistance | 10.664 | Conservation | - | 4,639,301 | 4,639,301 | |
| Urban and Community Forestry Program | 10.675 | Conservation | - | 150,267 | 150,267 | |
| Forest Legacy Program | 10.676 | Conservation | - | 2,225,504 | 2,225,504 | |
| Forest Stewardship Program | 10.678 | Conservation | - | 268,702 | 268,702 | |
| Forest Health Protection | 10.680 | Conservation | - | 23,975 | 23,975 | |
| Recovery Act of 2009: Wildland Fire Management | 10.688 | Conservation | 5,542,304 | - | 5,542,304 | |
| Rural Energy for America Program | 10.868 | Planning | - | 40,144 | 40,144 | |
| Soil and Water Conservation | 10.902 | Conservation | - | 6,261 | 6,261 | |
| | | Inland Fisheries | - | 19,982 | 19,982 | |
| | 10.902 Total | | - | 26,243 | 26,243 | |
| Environmental Quality Incentives Program | 10.912 | Conservation | - | 33,447 | 33,447 | |
| Wildlife Habitat Incentive Program | 10.914 | Inland Fisheries | - | 17,380 | 17,380 | |
| *Child Nutrition Cluster* | | | | | | |
| School Breakfast Program | 10.553 | Corrections | - | 113,970 | 113,970 | * |
| | | Education | - | 10,034,390 | 10,034,390 | * |
| | 10.553 Total | | | 10,148,360 | 10,148,360 | |
| National School Lunch Program | 10.555 | Corrections | - | 227,764 | 227,764 | * |
| | | Education | - | 35,412,565 | 35,412,565 | * |
| | 10.555 Total | | - | 35,640,329 | 35,640,329 | |
| Special Milk Program for Children | 10.556 | Education | - | 33,087 | 33,087 | * |
| Summer Food Service Program for Children | 10.559 | Education | - | 1,270,649 | 1,270,649 | * |
| *Child Nutrition Cluster Total* | | | - | 47,092,426 | 47,092,426 | |
| *Emergency Food Assistance Cluster* | | | | | | |
| Emergency Food Assistance Program (Administrative Costs) | 10.568 | Agriculture | - | 372,246 | 372,246 | |
| Emergency Food Assistance Program (Food Commodities) | 10.569 | Agriculture | - | 976,166 | 976,166 | |
| *Emergency Food Assistance Cluster Total* | | | - | 1,348,412 | 1,348,412 | |
| *SNAP Cluster* | | | | | | |
| Supplemental Nutrition Assistance Program | 10.551 | Human Services | - | 382,345,928 | 382,345,928 | * |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | Human Services | 1,083,907 | 11,483,874 | 12,567,781 | * |
| *SNAP Cluster Total* | | | 1,083,907 | 393,829,802 | 394,913,709 | |
| Department of Agriculture Total | | | 7,165,331 | 486,120,650 | 493,285,981 | |
| **Department of Commerce** | | | | | | |
| Interjurisdictional Fisheries Act of 1986 | 11.407 | Marine Resource | - | 83,987 | 83,987 | |

STATE OF MAINE

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

| Federal Agency<br>Clusters and Program Titles | CFDA# | State Agency | Total ARRA | Total non-ARRA | Grand Total |
|---|---|---|---|---|---|
| Coastal Zone Management Administration Awards | 11.419 | Conservation | - | 96,867 | 96,867 |
| | | Environment | - | 419,872 | 419,872 |
| | | Marine Resource | - | 270,191 | 270,191 |
| | | Planning | - | 1,391,860 | 1,391,860 |
| | 11.419 Total | | - | 2,178,790 | 2,178,790 |
| Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program | 11.427 | Marine Resource | - | 11,875 | 11,875 |
| Marine Mammal Data Program | 11.439 | Marine Resource | - | 32,935 | 32,935 |
| Hawaii Sustainable Fisheries Development (Aquaculture Program) | 11.444 | Agriculture | - | 87,241 | 87,241 |
| Unallied Industry Projects | 11.452 | Marine Resource | - | 851,461 | 851,461 |
| Unallied Management Projects | 11.454 | Marine Resource | - | 2,112,540 | 2,112,540 |
| Meteorologic and Hydrologic Modernization Development | 11.467 | Defense | - | 41,945 | 41,945 |
| Unallied Science Program | 11.472 | Marine Resource | - | 2,411,928 | 2,411,928 |
| Atlantic Coastal Fisheries Cooperative Management Act | 11.474 | Marine Resource | - | 608,690 | 608,690 |
| Public Safety Interoperable Communications Grant Program | 11.555 | Defense | - | 780,016 | 780,016 |
| Broadband Technology Opportunities Program (BTOP) | 11.557 | Library | 1,075,371 | - | 1,075,371 |
| State Broadband Data and Development Grant Program | 11.558 | Education [1] | 65,605 | - | 65,605 |
| | | Planning | 121,201 | - | 121,201 |
| | 11.558 Total | | 186,806 | - | 186,806 |
| NMFS - Office of Law Enforcement | 11.999 | Marine Resource | - | 475,292 | 475,292 |
| Derelict Lobster Gear Retrieval, Salvage & Disposal MOU-GOMLF | 11.999 | Marine Resource | - | 1,764 | 1,764 |
| Exploratory Fixed Gear Survey EA133F10CN0075 | 11.999 | Marine Resource | - | 23,398 | 23,398 |
| MOA with MACRO #37555-10S-1482 | 11.999 | Marine Resource [2] | - | 18,718 | 18,718 |
| NMFS Large Pelagic Intercept Survey | 11.999 | Marine Resource | - | 26,062 | 26,062 |
| Department of Commerce Total | | | 1,262,177 | 9,746,641 | 11,008,818 |
| **Department of Defense** | | | | | |
| State Memorandum of Agreement Program for the Reimbursement of Technical Services | 12.113 | Environment | - | 522,062 | 522,062 |
| Military Construction, National Guard | 12.400 | Defense | - | 655,661 | 655,661 |
| National Guard Military Operations and Maintenance (O&M) Projects | 12.401 | Defense | - | 57,856,172 | 57,856,172 * |
| National Guard Challenge Program | 12.404 | Defense | - | 264,036 | 264,036 |
| Department of Defense Total | | | - | 59,297,931 | 59,297,931 |
| **Department of Housing and Urban Development** | | | | | |
| Manufactured Home Dispute Resolution | 14.171 | Professional Reg | - | 26,040 | 26,040 |
| Shelter Plus Care | 14.238 | Human Services | - | 6,548,396 | 6,548,396 |
| Fair Housing Assistance Program_State and Local | 14.401 | Human Rights | - | 211,052 | 211,052 |
| *CDBG - State-Administered CDBG Cluster*<br>Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii | 14.228 | Defense | - | 21,655 | 21,655 * |
| | | Economic Devel | - | 17,372,550 | 17,372,550 * |
| *CDBG - State-Administered CDBG Cluster Total* | 14.228 Total | | - | 17,394,205 | 17,394,205 |
| Department of Housing and Urban Development Total | | | - | 24,179,692 | 24,179,692 |
| **Department of the Interior** | | | | | |
| National Fire Plan - Rural Fire Assistance | 15.242 | Conservation | - | 24,974 | 24,974 |
| Fish and Wildlife Management Assistance | 15.608 | Conservation | - | 21,981 | 21,981 |
| Fish and Wildlife Management Assistance | | Environment | - | 18,500 | 18,500 |
| | | Inland Fisheries | - | 1,694 | 1,694 |
| | | Marine Resource | - | 72,886 | 72,886 |
| | 15.608 Total | | - | 115,061 | 115,061 |
| Coastal Wetlands Planning, Protection and Restoration Act | 15.614 | Inland Fisheries | - | 1,378,367 | 1,378,367 |
| Cooperative Endangered Species Conservation Fund | 15.615 | Conservation | - | 19,836 | 19,836 |
| | | Inland Fisheries | - | 25,149 | 25,149 |
| | | Marine Resource | - | 19,863 | 19,863 |

STATE OF MAINE

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

| Federal Agency<br>Clusters and Program Titles | CFDA# | State Agency | Total ARRA | Total non-ARRA | Grand Total |
|---|---|---|---|---|---|
| | 15.615 Total | | - | 64,848 | 64,848 |
| Clean Vessel Act | 15.616 | Environment | - | 178,484 | 178,484 |
| Sportfishing and Boating Safety Act | 15.622 | Transportation | - | 53,182 | 53,182 |
| North American Wetlands Conservation Fund | 15.623 | Conservation | - | 59,500 | 59,500 |
| Landowner Incentive Program | 15.633 | Inland Fisheries | - | 540,673 | 540,673 |
| State Wildlife Grants | 15.634 | Inland Fisheries | - | 531,639 | 531,639 |
| Challenge Cost Share | 15.642 | Inland Fisheries | - | 35 | 35 |
| Service Training and Technical Assistance (Generic Training) | 15.649 | Conservation | - | 28,000 | 28,000 |
| Research Grants (Generic) | 15.650 | Marine Resource | - | 2,899 | 2,899 |
| National Wildlife Refuge Fund | 15.659 | Conservation | - | 20,694 | 20,694 |
| U.S. Geological Survey_ Research and Data Collection | 15.808 | Financial Serv | - | 79,120 | 79,120 |
| National Spatial Data Infrastructure Cooperative Agreements Program | 15.809 | Financial Serv | - | 22,500 | 22,500 |
| National Cooperative Geologic Mapping Program | 15.810 | Conservation | - | 137,582 | 137,582 |
| Historic Preservation Fund Grants-In-Aid | 15.904 | Historic Preserve | - | 621,709 | 621,709 |
| Outdoor Recreation_Acquisition, Development and Planning | 15.916 | Conservation | - | 185,038 | 185,038 |
| Conservation Activities by Youth Service Organizations | 15.931 | Conservation | 25,000 | 152,923 | 177,923 |
| Atlantic Salmon Management & Habitat Protection #01-007 | 15.999 | Marine Resource | - | 38,455 | 38,455 |
| Webber Pond - 7 Mile Stream Fish Passage | 15.999 | Marine Resource | - | (2,189) | (2,189) |
| *Fish and Wildlife Cluster* | | | | | |
| Sport Fish Restoration Program | 15.605 | Inland Fisheries | - | 2,022,780 | 2,022,780 |
| | | Marine Resource | - | 825,762 | 825,762 |
| | 15.605 Total | | - | 2,848,542 | 2,848,542 |
| Wildlife Restoration and Basic Hunter Education | 15.611 | Inland Fisheries | - | 2,979,423 | 2,979,423 |
| *Fish and Wildlife Cluster Total* | | | - | 5,827,965 | 5,827,965 |
| Department of the Interior Total | | | 25,000 | 10,061,459 | 10,086,459 |
| **Department of Justice** | | | | | |
| Sexual Assault Services Formula Program | 16.017 | Human Services | - | 89,246 | 89,246 |
| Juvenile Accountability Block Grants | 16.523 | Corrections | - | 192,409 | 192,409 |
| Supervised Visitation, Safe Havens for Children | 16.527 | Human Services | - | 90,576 | 90,576 |
| Juvenile Justice and Delinquency Prevention_Allocation to States | 16.540 | Corrections | - | 392,843 | 392,843 |
| Part E - Developing, Testing and Demonstrating Promising New Programs | 16.541 | Corrections | - | 27,091 | 27,091 |
| Missing Children's Assistance | 16.543 | Public Safety | 134,526 | 238,106 | 372,632 |
| Youth Gang Prevention | 16.544 | Public Safety | - | 186,295 | 186,295 |
| Title V_Delinquency Prevention Program | 16.548 | Corrections | - | 118,289 | 118,289 |
| State Justice Statistics Program for Statistical Analysis Centers | 16.550 | Corrections | - | 53,179 | 53,179 |
| Crime Victim Assistance | 16.575 | Corrections | - | 47,085 | 47,085 |
| | | Human Services | - | 2,037,259 | 2,037,259 |
| | | Judicial | - | 21,583 | 21,583 |
| | 16.575 Total | | - | 2,105,927 | 2,105,927 |
| Crime Victim Compensation | 16.576 | Attorney General | - | 202,699 | 202,699 |
| Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | 16.580 | Public Safety | - | 139,889 | 139,889 |
| Drug Court Discretionary Grant Program | 16.585 | Human Services | - | 490,337 | 490,337 |
| | | Judicial | - | 286,970 | 286,970 |
| | 16.585 Total | | - | 777,307 | 777,307 |
| Violence Against Women Formula Grants | 16.588 | Attorney General | 34,608 | 32,204 | 66,812 |
| | | Judicial | 15,939 | 33,832 | 49,771 |
| | | Public Safety | 83,469 | 1,080,267 | 1,163,736 |
| | 16.588 Total | | 134,016 | 1,146,303 | 1,280,319 |
| Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program | 16.590 | Corrections | [3] - | 76,468 | 76,468 |
| | | Judicial | - | 111,611 | 111,611 |
| | 16.590 Total | | - | 188,079 | 188,079 |
| Residential Substance Abuse Treatment for State Prisoners | 16.593 | Corrections | - | 100,000 | 100,000 |
| | | Public Safety | - | 1,523 | 1,523 |
| | 16.593 Total | | - | 101,523 | 101,523 |
| State Criminal Alien Assistance Program | 16.606 | Corrections | - | 70,583 | 70,583 |
| Project Safe Neighborhoods | 16.609 | Public Safety | - | 60,624 | 60,624 |
| Public Safety Partnership and Community Policing Grants | 16.710 | Financial Serv | - | 2,069,114 | 2,069,114 |

STATE OF MAINE

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

| Federal Agency<br>Clusters and Program Titles | CFDA# | State Agency | Total ARRA | Total non-ARRA | Grand Total | |
|---|---|---|---|---|---|---|
| | | Inland Fisheries | - | 109,429 | 109,429 | |
| | | Public Safety | - | 1,196,415 | 1,196,415 | |
| | 16.710 Total | | - | 3,374,958 | 3,374,958 | |
| Juvenile Mentoring Program | 16.726 | Corrections | - | 35,877 | 35,877 | |
| Enforcing Underage Drinking Laws Program | 16.727 | Human Services | - | 194,048 | 194,048 | |
| Forensic DNA Backlog Reduction Program | 16.741 | Public Safety | - | 145,986 | 145,986 | |
| Paul Coverdell Forensic Sciences Improvement Grant Program | 16.742 | Attorney General | - | 47,250 | 47,250 | |
| | | Human Services | - | 41,653 | 41,653 | |
| | | Public Safety | - | 86,133 | 86,133 | |
| | 16.742 Total | | - | 175,036 | 175,036 | |
| Criminal and Juvenile Justice and Mental Health Collaboration Program | 16.745 | Judicial | - | 1,036 | 1,036 | |
| Convicted Offender and/or Arrestee DNA Backlog Reduction Program | 16.748 | Public Safety | - | 16,540 | 16,540 | |
| Congressionally Recommended Awards | 16.753 | Public Safety | - | 3,546 | 3,546 | |
| Harold Rogers Prescription Drug Monitoring Program | 16.754 | Human Services | - | 221,365 | 221,365 | |
| Recovery Act - State Victim Assistance Formula Grant Program | 16.801 | Human Services | 133,135 | - | 133,135 | |
| Equitable Sharing Program | 16.922 | Public Safety | - | 30,864 | 30,864 | |
| *JAG Program Cluster* | | | | | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | Attorney General | - | 556,892 | 556,892 | |
| | | Public Safety | - | 780,709 | 780,709 | |
| | 16.738 Total | | - | 1,337,601 | 1,337,601 | |
| Recovery Act - Eward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories | 16.803 | Attorney General | 132,261 | - | 132,261 | |
| | | Attorney General [4] | - | 63,380 | 63,380 | |
| | | Judicial | 12,902 | - | 12,902 | |
| | | Public Safety | 870,568 | - | 870,568 | |
| | 16.803 Total | | 1,015,731 | 63,380 | 1,079,111 | |
| *JAG Program Cluster Total* | | | 1,015,731 | 1,400,981 | 2,416,712 | |
| Department of Justice Total | | | 1,417,408 | 11,781,204 | 13,198,612 | |
| **Department of Labor** | | | | | | |
| Labor Force Statistics | 17.002 | Labor | - | 1,182,556 | 1,182,556 | |
| Compensation and Working Conditions | 17.005 | Labor | - | 116,047 | 116,047 | |
| Unemployment Insurance | 17.225 | Labor | 99,984,968 | 239,702,537 | 339,687,505 | * |
| Senior Community Service Employment Program | 17.235 | Human Services | - | 557,211 | 557,211 | |
| Trade Adjustment Assistance | 17.245 | Labor | - | 4,017,604 | 4,017,604 | |
| WIA Pilots, Demonstrations, and Research Projects | 17.261 | Labor | - | 108,402 | 108,402 | |
| Work Incentives Grant | 17.266 | Labor | - | 5,832 | 5,832 | |
| H-1B Job Training Grants | 17.268 | Economic Devel | - | 251,671 | 251,671 | |
| Work Opportunity Tax Credit Program (WOTC) | 17.271 | Labor | - | 101,908 | 101,908 | |
| Temporary Labor Certification for Foreign Workers | 17.273 | Labor | - | 253,736 | 253,736 | |
| Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors | 17.275 | Labor [5] | 1,896,180 | - | 1,896,180 | |
| Health Care Tax Credit (HCTC) National Emergency Grants (NEGs) | 17.276 | Labor | 78,976 | - | 78,976 | |
| Workforce Investment Act (WIA) National Emergency Grants | 17.277 | Labor | 188,506 | 1,443,249 | 1,631,755 | |
| Consultation Agreements | 17.504 | Labor | - | 651,219 | 651,219 | |
| OSHA Data Initiative | 17.505 | Labor | - | 139 | 139 | |
| Mine Health and Safety Grants | 17.600 | Labor | - | 45,205 | 45,205 | |
| *Employment Service Cluster* | | | | | | |
| Employment Service/Wagner-Peyser Funded Activities | 17.207 | Labor | - | 4,331,478 | 4,331,478 | |
| Disabled Veterans' Outreach Program (DVOP) | 17.801 | Labor | - | 315,447 | 315,447 | |
| Local Veterans' Employment Representative Program | 17.804 | Labor | - | 381,049 | 381,049 | |
| *Employment Service Cluster Total* | | | - | 5,027,974 | 5,027,974 | |
| *WIA Cluster* | | | | | | |
| WIA Adult Program | 17.258 | Labor | 53,393 | 2,895,871 | 2,949,264 | * |
| WIA Youth Activities | 17.259 | Labor | 15,611 | 3,139,006 | 3,154,617 | * |
| WIA Dislocated Worker Formula Grants | 17.278 | Labor | 222,080 | 4,296,099 | 4,518,179 | * |
| *WIA Cluster Total* | | | 291,084 | 10,330,976 | 10,622,060 | |
| Department of Labor Total | | | 102,439,713 | 263,796,264 | 366,235,977 | |

See accompanying notes to the Schedule of Expenditures of Federal Awards



Asterisks indicate audited programs

STATE OF MAINE

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

| Federal Agency<br>Clusters and Program Titles | CFDA# | State Agency | Total ARRA | Total non-ARRA | Grand Total | |
|---|---|---|---|---|---|---|
| **Department of Transportation** | | | | | | |
| Airport Improvement Program | 20.106 | Transportation | - | 1,757,349 | 1,757,349 | |
| National Motor Carrier Safety | 20.218 | Public Safety | - | 161,323 | 161,323 | |
| Commercial Driver's License Program Improvement Grant | 20.232 | State | - | 246,760 | 246,760 | |
| Border Enforcement Grants | 20.233 | Public Safety | - | 221,098 | 221,098 | |
| Safety Data Improvement Program | 20.234 | Public Safety | - | 139,216 | 139,216 | |
| Commercial Vehicle Information Systems and Networks | 20.237 | Transportation | - | 277,281 | 277,281 | |
| Capital Assistance to States - Intercity Passenger Rail Service | 20.317 | Transportation | - | 2,843,809 | 2,843,809 | |
| Metropolitan Transportation Planning | 20.505 | Transportation | - | 104,317 | 104,317 | |
| Formula Grants for Other Than Urbanized Areas | 20.509 | Transportation | 1,008,156 | 6,225,626 | 7,233,782 | |
| Paul S. Sarbanes Transit in the Parks | 20.520 | Transportation | - | 520,548 | 520,548 | |
| National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants | 20.614 | Public Safety | - | 38,026 | 38,026 | |
| Pipeline Safety Program Base Grants | 20.700 | Public Utilities | - | 224,573 | 224,573 | |
| Interagency Hazardous Materials Public Sector Training and Planning Grants | 20.703 | Defense | - | 118,630 | 118,630 | |
| PHMSA Pipeline Safety Program One Call Grant | 20.721 | Public Utilities | - | 59,574 | 59,574 | |
| Surface Transportation _ Discretionary Grants for Capital Investment. | 20.932 | Transportation | 10,205,243 | - | 10,205,243 | * |
| *Federal Transit Cluster* | | | | | | |
| Federal Transit_Capital Investment Grants | 20.500 | Transportation | - | 1,810,906 | 1,810,906 | |
| Federal Transit_Formula Grants | 20.507 | Transportation | - | 2,689,945 | 2,689,945 | |
| *Federal Transit Cluster Total* | | | - | 4,500,851 | 4,500,851 | |
| *Highway Planning and Construction Cluster* | | | | | | |
| Highway Planning and Construction | 20.205 | Transportation | 6,544,617 | 203,396,070 | 209,940,687 | * |
| Recreational Trails Program | 20.219 | Conservation | - | 1,595,177 | 1,595,177 | * |
| *Highway Planning and Construction Cluster Total* | | | 6,544,617 | 204,991,247 | 211,535,864 | |
| *Highway Safety Cluster* | | | | | | |
| State and Community Highway Safety | 20.600 | Public Safety | - | 719,237 | 719,237 | |
| Alcohol Impaired Driving Countermeasures Incentive Grants I | 20.601 | Public Safety | - | 409,825 | 409,825 | |
| Occupant Protection Incentive Grants | 20.602 | Public Safety | - | 137,973 | 137,973 | |
| Safety Belt Performance Grants | 20.609 | Public Safety | - | 281,997 | 281,997 | |
| State Traffic Safety Information System Improvement Grants | 20.610 | Public Safety | - | 415,367 | 415,367 | |
| Incentive Grant Program to Increase Motorcyclist Safety | 20.612 | Public Safety | - | 40,742 | 40,742 | |
| Child Safety and Child Booster Seats Incentive Grants | 20.613 | Public Safety | - | 57,793 | 57,793 | |
| *Highway Safety Cluster Total* | | | - | 2,062,935 | 2,062,935 | |
| *Transit Services Programs Cluster* | | | | | | |
| Capital Assistance Program for Elderly Persons and Persons with Disabilities | 20.513 | Transportation | - | 530,494 | 530,494 | |
| Job Access_Reverse Commute | 20.516 | Transportation | - | 1,049,927 | 1,049,927 | |
| New Freedom Program | 20.521 | Transportation | - | 185,597 | 185,597 | |
| *Transit Services Programs Cluster Total* | | | - | 1,766,018 | 1,766,018 | |
| Department of Transportation Total | | | 17,758,016 | 226,259,179 | 244,017,195 | |
| **Department of the Treasury** | | | | | | |
| Treasury Forfeiture Fund | 21.000 | Public Safety | - | 280,644 | 280,644 | |
| Department of the Treasury Total | | | - | 280,644 | 280,644 | |
| **Equal Employment Opportunity Commission** | | | | | | |
| Employment Discrimination_Title VII of the Civil Rights Act of 1964 | 30.001 | Human Rights | - | 144,431 | 144,431 | |
| Equal Employment Opportunity Commission Total | | | - | 144,431 | 144,431 | |
| **General Services Administration** | | | | | | |
| Donation of Federal Surplus Personal Property | 39.003 | Financial Serv | - | 831,182 | 831,182 | |
| General Services Administration Total | | | - | 831,182 | 831,182 | |

See accompanying notes to the Schedule of Expenditures of Federal Awards



Asterisks indicate audited programs

STATE OF MAINE

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

| Federal Agency<br>Clusters and Program Titles | CFDA# | State Agency | Total ARRA | Total non-ARRA | Grand Total |
|---|---|---|---|---|---|
| **National Endowment for the Arts** | | | | | |
| Promotion of the Arts_Partnership Agreements | 45.025 | Arts | - | 914,763 | 914,763 |
| National Endowment for the Arts Total | | | - | 914,763 | 914,763 |
| **Institute of Museum and Library Services** | | | | | |
| Grants to States | 45.310 | Library | - | 974,025 | 974,025 |
| Institute of Museum and Library Services Total | | | - | 974,025 | 974,025 |
| **Department of Veterans Affairs** | | | | | |
| Burial Expenses Allowance for Veterans | 64.101 | Defense | - | 7,271 | 7,271 |
| State Cemetery Grants | 64.203 | Defense | - | 1,046,527 | 1,046,527 |
| Department of Veterans Affairs Total | | | - | 1,053,798 | 1,053,798 |
| **Environmental Protection Agency** | | | | | |
| State Indoor Radon Grants | 66.032 | Human Services | - | 216,228 | 216,228 |
| National Clean Diesel Emissions Reduction Program | 66.039 | Environment | 51,672 | 242,213 | 293,885 |
| State Clean Diesel Grant Program | 66.040 | Education | - | 57,000 | 57,000 |
| | | Environment | 155,469 | 287,210 | 442,679 |
| | | Transportation | 40,487 | - | 40,487 |
| | 66.040 Total | | 195,956 | 344,210 | 540,166 |
| Congressionally Mandated Projects | 66.202 | Environment | - | 340,687 | 340,687 |
| State Public Water System Supervision | 66.432 | Human Services | - | 940,514 | 940,514 |
| Water Quality Management Planning | 66.454 | Environment | 46,364 | 123,469 | 169,833 |
| Regional Wetland Program Development Grants | 66.461 | Conservation | - | 95,487 | 95,487 |
| Capitalization Grants for Drinking Water State Revolving Funds | 66.468 | Human Services | - | 1,340,220 | 1,340,220 |
| State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs | 66.471 | Human Services | - | 86,185 | 86,185 |
| Beach Monitoring and Notification Program Implementation Grants | 66.472 | Environment | - | 248,690 | 248,690 |
| | | Planning | - | 72,140 | 72,140 |
| | 66.472 Total | | - | 320,830 | 320,830 |
| Water Protection Grants to the States | 66.474 | Human Services | - | 44,582 | 44,582 |
| Science To Achieve Results (STAR) Research Program | 66.509 | Inland Fisheries | - | (200) | (200) |
| Performance Partnership Grants | 66.605 | Agriculture | - | 228,541 | 228,541 |
| | | Environment | - | 6,484,807 | 6,484,807 |
| | 66.605 Total | | - | 6,713,348 | 6,713,348 |
| Environmental Information Exchange Network Grant Program and Related Assistance | 66.608 | Environment | - | 284,097 | 284,097 |
| | | Marine Resource | - | 219,886 | 219,886 |
| | 66.608 Total | | - | 503,983 | 503,983 |
| Multi-Media Capacity Building Grants for States and Tribes | 66.709 | Environment | - | 39,970 | 39,970 |
| Source Reduction Assistance | 66.717 | Environment | - | 6,684 | 6,684 |
| Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements | 66.802 | Environment | - | 2,624,965 | 2,624,965 |
| Underground Storage Tank Prevention, Detection and Compliance Program | 66.804 | Environment | - | 466,533 | 466,533 |
| Leaking Underground Storage Tank Trust Fund Corrective Action Program | 66.805 | Environment | - | 628,470 | 628,470 |
| Superfund State and Indian Tribe Core Program Cooperative Agreements | 66.809 | Environment | - | 196,231 | 196,231 |
| State and Tribal Response Program Grants | 66.817 | Environment | - | 1,068,457 | 1,068,457 |
| Environmental Policy and State Sustainability Grants | 66.940 | Environment | - | 67,259 | 67,259 |
| Environmental Protection Agency Total | | | 293,992 | 16,410,325 | 16,704,317 |
| **Department of Energy** | | | | | |
| State Energy Program | 81.041 | Governor | 5,824,645 | - | 5,824,645 |
| | | Labor | 199,998 | - | 199,998 |

| Federal Agency<br>Clusters and Program Titles | CFDA# | State Agency | Total ARRA | Total non-ARRA | Grand Total | |
|---|---|---|---|---|---|---|
| | | Planning | 118,428 | 806,181 | 924,608 | |
| | | Public Safety | 75,497 | - | 75,497 | |
| | | Transportation | 411,436 | - | 411,436 | |
| | 81.041 Total | | 6,630,004 | 806,181 | 7,436,184 | |
| State Energy Program Special Projects | 81.119 | Planning | - | 69,837 | 69,837 | |
| Electricity Delivery and Energy Reliability, Research, Development and Analysis | 81.122 | Financial Serv | 918 | - | 918 | |
| | | Governor | 7,000 | - | 7,000 | |
| | | Public Utilities | 183,135 | - | 183,135 | |
| | 81.122 Total | | 191,053 | - | 191,053 | |
| Department of Energy Total | | | 6,821,057 | 876,017 | 7,697,993 | |
| **Department of Education** | | | | | | |
| Adult Education - Basic Grants to States | 84.002 | Education | - | 1,840,344 | 1,840,344 | |
| Migrant Education_State Grant Program | 84.011 | Education | - | 1,408,394 | 1,408,394 | |
| Title I State Agency Program for Neglected and Delinquent Children and Youth | 84.013 | Corrections | - | 97,338 | 97,338 | |
| Career and Technical Education -- Basic Grants to States | 84.048 | Corrections | - | 26,783 | 26,783 | |
| | | Education | - | 4,769,713 | 4,769,713 | |
| | 84.048 Total | | - | 4,796,496 | 4,796,496 | |
| National Institute on Disability and Rehabilitation Research | 84.133 | Labor | - | 1,600 | 1,600 | |
| Rehabilitation Services_Client Assistance Program | 84.161 | Labor | - | 109,733 | 109,733 | |
| Safe and Drug-Free Schools and Communities_National Programs | 84.184 | Human Services | - | 45,583 | 45,583 | |
| Safe and Drug-Free Schools and Communities_State Grants | 84.186 | Corrections | - | 32 | 32 | |
| | | Human Services | - | 30,633 | 30,633 | |
| | 84.186 Total | | - | 30,665 | 30,665 | |
| Supported Employment Services for Individuals with the Most Significant Disabilities | 84.187 | Labor | - | 143,740 | 143,740 | |
| Even Start_State Educational Agencies | 84.213 | Education | - | 272,536 | 272,536 | |
| Assistive Technology | 84.224 | Education | - | 353,608 | 353,608 | |
| Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training | 84.265 | Labor | - | 51,118 | 51,118 | |
| Twenty-First Century Community Learning Centers | 84.287 | Education | - | 4,951,619 | 4,951,619 | * |
| Special Education - State Personnel Development | 84.323 | Education | - | 424,362 | 424,362 | |
| Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants) | 84.330 | Education | - | 84,279 | 84,279 | |
| Grants to States for Workplace and Community Transition Training for Incarcerated Individuals | 84.331 | Corrections | - | 11,919 | 11,919 | |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334 | Education | - | 696,380 | 696,380 | |
| Reading First State Grants | 84.357 | Education | - | 203,375 | 203,375 | |
| Rural Education | 84.358 | Corrections | - | 17,425 | 17,425 | |
| | | Education | - | 1,799,447 | 1,799,447 | |
| | 84.358 Total | | - | 1,816,871 | 1,816,871 | |
| English Language Acquisition Grants | 84.365 | Education | - | 912,151 | 912,151 | |
| Mathematics and Science Partnerships | 84.366 | Education | - | 777,638 | 777,638 | |
| *Improving Teacher Quality State Grants Total* | | | | | | |
| Improving Teacher Quality State Grants | 84.367 | Corrections | - | 9,251 | 9,251 | * |
| | | Education | - | 10,554,400 | 10,554,400 | * |
| | 84.367 Total | | - | 10,563,651 | 10,563,651 | |
| Grants for State Assessments and Related Activities | 84.369 | Education | - | 3,386,711 | 3,386,711 | |
| Striving Readers | 84.371 | Education | - | 9,703 | 9,703 | |
| Education Jobs Fund | 84.410 | Education | - | 27,672,596 | 27,672,596 | * |
| *Early Intervention Services (IDEA) Cluster* | | | | | | |
| Special Education-Grants for Infants and Families | 84.181 | Education | - | 2,598,538 | 2,598,538 | |
| *Early Intervention Services (IDEA) Cluster Total* | | | - | 2,598,538 | 2,598,538 | |
| *Education of Homeless Children and Youth Cluster* | | | | | | |
| Education for Homeless Children and Youth | 84.196 | Education | - | 154,277 | 154,277 | |
| Education for Homeless Children and Youth, Recovery Act | 84.387 | Education | 14,259 | - | 14,259 | |
| *Education of Homeless Children and Youth Cluster Total* | | | 14,259 | 154,277 | 168,536 | |
| *Educational Technology State Grants Cluster* | | | | | | |
| Educational Technology State Grants | 84.318 | Education | - | 325,775 | 325,775 | |
| Education Technology State Grants, Recovery Act | 84.386 | Education | 539,561 | - | 539,561 | |

STATE OF MAINE

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

| Federal Agency<br>Clusters and Program Titles | CFDA# | State Agency | Total ARRA | Total non-ARRA | Grand Total | |
|---|---|---|---|---|---|---|
| *Educational Technology State Grants Cluster Total* | | | 539,561 | 325,775 | 865,335 | |
| *Independent Living Services for Older Individuals Who Are Blind Cluster* | | | | | | |
| Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind | 84.177 | Labor | - | 345,672 | 345,672 | |
| Independent Living Services for Older Individuals Who are Blind, Recovery Act | 84.399 | Labor | 43,749 | - | 43,749 | |
| *Independent Living Services for Older Individuals Who Are Blind Cluster Total* | | | 43,749 | 345,672 | 389,421 | |
| *Independent Living State Grants Cluster* | | | | | | |
| Independent Living_State Grants | 84.169 | Labor | - | 292,691 | 292,691 | |
| Independent Living State Grants, Recovery Act | 84.398 | Labor | 70,434 | - | 70,434 | |
| *Independent Living State Grants Cluster Total* | | | 70,434 | 292,691 | 363,125 | |
| *School Improvement Grants Cluster* | | | | | | |
| School Improvement Grants | 84.377 | Education | - | 117,450 | 117,450 | |
| School Improvement Grants, Recovery Act | 84.388 | Education | 3,725,457 | - | 3,725,457 | |
| *School Improvement Grants Cluster Total* | | | 3,725,457 | 117,450 | 3,842,907 | |
| *Special Education Cluster (IDEA)* | | | | | | |
| Special Education_Grants to States | 84.027 | Corrections | - | 3,160 | 3,160 | * |
| | | Education | - | 47,166,021 | 47,166,021 | * |
| | 84.027 Total | | - | 47,169,181 | 47,169,181 | |
| Special Education_Preschool Grants | 84.173 | Education | - | 2,179,110 | 2,179,110 | * |
| Special Education Grants to States, Recovery Act | 84.391 | Education | 4,736,087 | - | 4,736,087 | * |
| Special Education - Preschool Grants, Recovery Act | 84.392 | Education | 248,425 | - | 248,425 | * |
| *Special Education Cluster (IDEA) Total* | | | 4,984,512 | 49,348,291 | 54,332,803 | |
| *State Fiscal Stabilization Fund Cluster* | | | | | | |
| State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 84.394 | Education | 18,410,039 | - | 18,410,039 | * |
| State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act | 84.397 | Financial Serv | 2,569 | - | 2,569 | * |
| *State Fiscal Stabilization Fund Cluster Total* | | | 18,412,608 | - | 18,412,608 | |
| *Statewide Data Systems Cluster* | | | | | | |
| Statewide Data Systems | 84.372 | Education | - | 165,179 | 165,179 | |
| Statewide Data Systems, Recovery Act | 84.384 | Education | 1,882,317 | - | 1,882,317 | |
| *Statewide Data Systems Cluster Total* | | | 1,882,317 | 165,179 | 2,047,496 | |
| *Title I, Part A Cluster* | | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | Education | - | 43,628,282 | 43,628,282 | * |
| Title I Grants to Local Educational Agencies, Recovery Act | 84.389 | Education | 2,809,789 | - | 2,809,789 | * |
| *Title I, Part A Cluster Total* | | | 2,809,789 | 43,628,282 | 46,438,071 | |
| *Vocational Rehabilitation Cluster* | | | | | | |
| Rehabilitation Services_Vocational Rehabilitation Grants to States | 84.126 | Labor | - | 17,043,229 | 17,043,229 | * |
| Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act | 84.390 | Labor | 425,910 | - | 425,910 | * |
| *Vocational Rehabilitation Cluster Total* | | | 425,910 | 17,043,229 | 17,469,139 | |
| Department of Education Total | | | 32,908,595 | 174,681,794 | 207,590,389 | |
| **National Archives and Records Administration** | | | | | | |
| Cooperative Agreements to Support the Programs of the National Archives and Records Administration (NARA) | 89.005 | State | - | 59,637 | 59,637 | |
| National Archives and Records Administration Total | | | - | 59,637 | 59,637 | |
| **U.S. Election Assistance Commission** | | | | | | |
| Help America Vote Act Requirements Payments | 90.401 | State | - | 657,238 | 657,238 | |
| U.S. Election Assistance Commission Total | | | - | 657,238 | 657,238 | |
| **Department of Health and Human Services** | | | | | | |
| Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation | 93.041 | Human Services | - | 23,868 | 23,868 | |
| Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals | 93.042 | Human Services | - | 84,369 | 84,369 | |

STATE OF MAINE

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

| Federal Agency<br>Clusters and Program Titles | CFDA# | State Agency | Total ARRA | Total non-ARRA | Grand Total |
|---|---|---|---|---|---|
| Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services | 93.043 | Human Services | - | 104,815 | 104,815 |
| Special Programs for the Aging_Title IV_and Title II_Discretionary Projects | 93.048 | Human Services | - | 876,805 | 876,805 |
| Alzheimer's Disease Demonstration Grants to States | 93.051 | Human Services | - | 475,335 | 475,335 |
| National Family Caregiver Support, Title III, Part E | 93.052 | Human Services | - | 640,460 | 640,460 |
| Public Health Emergency Preparedness | 93.069 | Human Services | - | 4,075,050 | 4,075,050 |
| | | Public Safety | - | 49,929 | 49,929 |
| | 93.069 Total | | - | 4,124,979 | 4,124,979 |
| Environmental Public Health and Emergency Response | 93.070 | Human Services | - | 929,689 | 929,689 |
| Medicare Enrollment Assistance Program | 93.071 | Human Services | - | 511 | 511 |
| Guardianship Assistance | 93.090 | Human Services | - | 514,384 | 514,384 |
| Affordable Care Act (ACA) Personal Responsibility Education Program | 93.092 | Human Services | - | 243,406 | 243,406 |
| Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) | 93.104 | Human Services | - | 754,323 | 754,323 |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | Human Services | - | 507,342 | 507,342 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | Human Services | - | 208,885 | 208,885 |
| Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices | 93.130 | Human Services | - | 184,219 | 184,219 |
| Injury Prevention and Control Research and State and Community Based Programs | 93.136 | Human Services | - | 350,608 | 350,608 |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | Human Services | - | 307,972 | 307,972 |
| Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children | 93.197 | Human Services | - | 20,038 | 20,038 |
| Traumatic Brain Injury State Demonstration Grant Program | 93.234 | Human Services | - | 67,505 | 67,505 |
| Grants to States to Support Oral Health Workforce Activities | 93.236 | Human Services | - | 276,863 | 276,863 |
| State Rural Hospital Flexibility Program | 93.241 | Human Services | - | 292,667 | 292,667 |
| | | Public Safety | - | 2,977 | 2,977 |
| | 93.241 Total | | - | 295,644 | 295,644 |
| Substance Abuse and Mental Health Services_Projects of Regional and National Significance | 93.243 | Human Services | - | 1,970,193 | 1,970,193 |
| | | Judicial | - | 170,561 | 170,561 |
| | 93.243 Total | | - | 2,140,754 | 2,140,754 |
| Universal Newborn Hearing Screening | 93.251 | Human Services | - | 226,721 | 226,721 |
| State Health Access Program | 93.256 | Dirigo | - | 1,227,412 | 1,227,412 |
| Adult Viral Hepatitis Prevention and Control | 93.270 | Human Services | - | 108,982 | 108,982 |
| Centers for Disease Control and Prevention_Investigations and Technical Assistance | 93.283 | Human Services | - | 7,283,586 | 7,283,586 |
| State Partnership Grant Program to Improve Minority Health | 93.296 | Human Services | - | 105,559 | 105,559 |
| Small Rural Hospital Improvement Grant Program | 93.301 | Human Services | - | 237,409 | 237,409 |
| ARRA Equipment to Enhance Training for Health Professionals | 93.411 | Human Services | 291,525 | - | 291,525 |
| ARRA - State Primary Care Offices | 93.414 | Human Services | 41,484 | - | 41,484 |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | 93.505 | Human Services | - | 3,982,464 | 3,982,464 |
| PPHF 2012 National Public Health Improvement Initiative | 93.507 | Human Services | - | 1,171,575 | 1,171,575 |
| Affordable Care Act (ACA) State Health Care Workforce Development Grants | 93.509 | Labor | - | 56,094 | 56,094 |
| Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review | 93.511 | Human Services | - | 50,000 | 50,000 |
| | | Professional Reg | - | 100,080 | 100,080 |
| | 93.511 Total | | - | 150,080 | 150,080 |
| Affordable Care Act (ACA) Personal and Home Care Aide State Training Program (PHCAST) | 93.512 | Human Services | - | 592,778 | 592,778 |
| Affordable Care Act Aging and Disability Resource Center | 93.517 | Human Services | - | 201,015 | 201,015 |
| Affordable Care Act - Medicare Improvements for Patients and Providers | 93.518 | Human Services | - | 144,984 | 144,984 |
| Affordable Care Act (ACA) Consumer Assistance Program Grants | 93.519 | Attorney General | - | 86,583 | 86,583 |
| The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements | 93.521 | Human Services | - | 609,995 | 609,995 |
| State Planning and Establishment Grants for the Affordable Care Act (ACA)s Exchanges | 93.525 | Governor | - | 963,426 | 963,426 |

STATE OF MAINE

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

| Federal Agency<br>Clusters and Program Titles | CFDA# | State Agency | Total ARRA | Total non-ARRA | Grand Total | |
|---|---|---|---|---|---|---|
| PPHF 2012: Community Transfromation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Preventinon and Public Health Funds | 93.531 | Human Services | - | 498,619 | 498,619 | |
| Affordable Care Act - National Environmental Public Health Tracking Program-Network Implementation | 93.538 | Human Services | - | 796,037 | 796,037 | |
| PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds | 93.539 | Human Services | - | 254,557 | 254,557 | |
| The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program | 93.544 | Human Services | - | 246,046 | 246,046 | |
| Promoting Safe and Stable Families | 93.556 | Human Services | - | 1,250,110 | 1,250,110 | |
| Child Support Enforcement | 93.563 | Human Services | - | 16,778,548 | 16,778,548 | * |
| Refugee and Entrant Assistance_State Administered Programs | 93.566 | Human Services | - | 642,022 | 642,022 | |
| Refugee and Entrant Assistance_Discretionary Grants | 93.576 | Education | - | 185,930 | 185,930 | |
| | | Human Services | - | 559,569 | 559,569 | |
| | 93.576 Total | | - | 745,499 | 745,499 | |
| State Court Improvement Program | 93.586 | Judicial | - | 250,618 | 250,618 | |
| Chafee Education and Training Vouchers Program (ETV) | 93.599 | Human Services | - | 172,894 | 172,894 | |
| Adoption Incentive Payments | 93.603 | Human Services | - | 57,963 | 57,963 | |
| Family Connection Grants | 93.605 | Human Services | - | 567,381 | 567,381 | |
| Voting Access for Individuals with Disabilities_Grants to States | 93.617 | State | - | 120,118 | 120,118 | |
| Developmental Disabilities Basic Support and Advocacy Grants | 93.630 | Financial Serv | - | 494,321 | 494,321 | |
| Children's Justice Grants to States | 93.643 | Human Services | - | 15,803 | 15,803 | |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | Human Services | - | 373,070 | 373,070 | |
| Social Services Research and Demonstration | 93.647 | Human Services | - | 173,832 | 173,832 | |
| Foster Care_Title IV-E | 93.658 | Human Services | - | 16,110,429 | 16,110,429 | * |
| Adoption Assistance | 93.659 | Human Services | - | 14,230,557 | 14,230,557 | |
| Social Services Block Grant | 93.667 | Human Services | - | 5,587,371 | 5,587,371 | |
| Child Abuse and Neglect State Grants | 93.669 | Human Services | - | 127,102 | 127,102 | |
| Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes | 93.671 | Human Services | - | 841,092 | 841,092 | |
| Chafee Foster Care Independence Program | 93.674 | Human Services | - | 306,302 | 306,302 | |
| ARRA Child Care and Development Block Grant | 93.713 | Human Services | 913,343 | - | 913,343 | |
| Recovery Act Comparative Effectiveness Research - AHRQ | 93.715 | Human Services | 253,630 | - | 253,630 | |
| ARRA - Preventing Healthcare-Associated Infections | 93.717 | Human Services | 519,678 | - | 519,678 | |
| ARRA - State Grants to Promote Health Information Technology | 93.719 | Human Services | 1,082,684 | - | 1,082,684 | |
| ARRA - Prevention and Wellness-State, Territories and Pacific Islands | 93.723 | Human Services | 175,414 | - | 175,414 | |
| ARRA - Prevention and Wellness Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) | 93.724 | Human Services | 1,693,121 | - | 1,693,121 | |
| ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program | 93.725 | Human Services | 81,227 | - | 81,227 | |
| Children's Health Insurance Program | 93.767 | Human Services | - | 32,134,243 | 32,134,243 | * |
| Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities | 93.768 | Human Services | - | 356,447 | 356,447 | |
| | | Labor | - | 87,153 | 87,153 | |
| | 93.768 Total | | - | 443,600 | 443,600 | |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 93.779 | Human Services | - | 859,842 | 859,842 | |
| Money Follows the Person Rebalancing Demonstration | 93.791 | Human Services | - | 127,070 | 127,070 | |
| Specially Selected Health Projects | 93.888 | Professional Reg | - | 123,525 | 123,525 | |
| National Bioterrorism Hospital Preparedness Program | 93.889 | Human Services | - | 1,678,168 | 1,678,168 | |
| | | Public Safety | - | 32,259 | 32,259 | |
| | 93.889 Total | | - | 1,710,427 | 1,710,427 | |
| Grants to States for Operation of Offices of Rural Health | 93.913 | Human Services | - | 150,728 | 150,728 | |
| HIV Care Formula Grants | 93.917 | Human Services | - | 1,772,297 | 1,772,297 | |
| Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems | 93.938 | Education | - | 535,952 | 535,952 | |
| HIV Prevention Activities_Health Department Based | 93.940 | Human Services | - | 1,362,347 | 1,362,347 | |
| Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance | 93.944 | Human Services | - | 143,898 | 143,898 | |
| Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs | 93.946 | Human Services | - | 154,111 | 154,111 | |

STATE OF MAINE

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

| Federal Agency<br>Clusters and Program Titles | CFDA# | State Agency | Total ARRA | Total non-ARRA | Grand Total | |
|---|---|---|---|---|---|---|
| Block Grants for Community Mental Health Services | 93.958 | Human Services | - | 1,618,797 | 1,618,797 | |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | Human Services | - | 5,888,430 | 5,888,430 | |
| National All Schedules Prescription Electronic Reporting Grant | 93.975 | Human Services | - | 33,527 | 33,527 | |
| Preventive Health Services_Sexually Transmitted Diseases Control Grants | 93.977 | Human Services | - | 284,037 | 284,037 | |
| Preventive Health and Health Services Block Grant | 93.991 | Human Services | - | 254,801 | 254,801 | |
| Maternal and Child Health Services Block Grant to the States | 93.994 | Education | - | 131,586 | 131,586 | |
| | | Human Services | - | 2,632,585 | 2,632,585 | |
| | 93.994 Total | | - | 2,764,171 | 2,764,171 | |
| MIS: Implementation of Uniform Alcohol & Drug Abuse Data Collection System | 93.999 | Human Services | - | 86,150 | 86,150 | |
| *Aging Cluster* | | | | | | |
| Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers | 93.044 | Human Services | - | 2,628,501 | 2,628,501 | |
| Special Programs for the Aging_Title III, Part C_Nutrition Services | 93.045 | Human Services | - | 2,635,746 | 2,635,746 | |
| Nutrition Services Incentive Program | 93.053 | Human Services | - | 533,753 | 533,753 | |
| *Aging Cluster Total* | | | - | 5,798,000 | 5,798,000 | |
| *CCDF Cluster* | | | | | | |
| Child Care and Development Block Grant | 93.575 | Human Services | - | 8,054,625 | 8,054,625 | * |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | Human Services | - | 7,550,032 | 7,550,032 | * |
| *CCDF Cluster Total* | | | - | 15,604,657 | 15,604,657 | |
| *CSBG Cluster* | | | | | | |
| Community Services Block Grant | 93.569 | Human Services | - | 3,166,929 | 3,166,929 | |
| *CSBG Cluster Total* | | | - | 3,166,929 | 3,166,929 | |
| *Head Start Cluster* | | | | | | |
| Head Start | 93.600 | Human Services | - | 3,075 | 3,075 | |
| ARRA - Head Start | 93.708 | Human Services | 231,784 | - | 231,784 | |
| *Head Start Cluster Total* | | | 231,784 | 3,075 | 234,859 | |
| *Immunization Cluster* | | | | | | |
| Immunization Grants | 93.268 | Human Services | - | 13,730,817 | 13,730,817 | * |
| ARRA - Immunization | 93.712 | Human Services | 147,878 | - | 147,878 | * |
| *Immunization Cluster Total* | | | 147,878 | 13,730,817 | 13,878,695 | |
| *Medicaid Cluster* | | | | | | |
| ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative | 93.720 | Human Services | 33,185 | - | 33,185 | * |
| State Medicaid Fraud Control Units | 93.775 | Attorney General | - | 394,672 | 394,672 | * |
| State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare | 93.777 | Human Services | - | 3,052,643 | 3,052,643 | * |
| Medical Assistance Program | 93.778 | Governor | - | 61,913 | 61,913 | * |
| | | Human Services | 46,805,144 | 1,538,462,009 | 1,585,267,153 | * |
| | 93.778 Total | | 46,805,144 | 1,538,523,922 | 1,585,329,066 | |
| *Medicaid Cluster Total* | | | 46,838,329 | 1,541,971,237 | 1,588,809,566 | |
| *TANF Cluster* | | | | | | |
| Temporary Assistance for Needy Families | 93.558 | Human Services | - | 74,444,073 | 74,444,073 | * |
| *TANF Cluster Total* | | | - | 74,444,073 | 74,444,073 | |
| Department of Health and Human Services Total | | | 52,270,099 | 1,796,088,470 | 1,848,358,568 | |
| **Corporation for National and Community Service** | | | | | | |
| State Commissions | 94.003 | Planning | - | 186,846 | 186,846 | |
| Learn and Serve America_School and Community Based Programs | 94.004 | Planning | - | 39,203 | 39,203 | |
| AmeriCorps | 94.006 | Conservation | - | 321,249 | 321,249 | |
| | | Planning | - | 625,226 | 625,226 | |
| | 94.006 Total | | - | 946,475 | 946,475 | |
| Program Development and Innovation Grants | 94.007 | Planning | - | 41,200 | 41,200 | |
| Training and Technical Assistance | 94.009 | Planning | - | 56,324 | 56,324 | |
| Volunteers in Service to America | 94.013 | Planning | - | 151,456 | 151,456 | |
| Volunteer Generation Fund | 94.021 | Planning | - | 310,733 | 310,733 | |
| Corporation for National and Community Service Total | | | - | 1,732,237 | 1,732,237 | |

See accompanying notes to the Schedule of Expenditures of Federal Awards



Asterisks indicate audited programs

STATE OF MAINE

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

| Federal Agency<br>Clusters and Program Titles | CFDA# | State Agency | Total ARRA | Total non-ARRA | Grand Total |
|---|---|---|---|---|---|
| **Social Security Administration** | | | | | |
| *Disability Insurance/SSI Cluster* | | | | | |
| Social Security_Disability Insurance | 96.001 | Human Services | - | 8,475,585 | 8,475,585 |
| Social Security Administration Total | | | - | 8,475,585 | 8,475,585 |
| **Department of Homeland Security** | | | | | |
| Interoperable Emergency Communications Grant | 97.001 | Defense | - | 486,169 | 486,169 |
| Boating Safety Financial Assistance | 97.012 | Inland Fisheries | - | 999,627 | 999,627 |
| | | Marine Resource | - | 260,139 | 260,139 |
| | 97.012 Total | | - | 1,259,766 | 1,259,766 |
| Community Assistance Program State Support Services Element (CAP-SSSE) | 97.023 | Planning | - | 122,625 | 122,625 |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | Defense | - | 3,274,443 | 3,274,443 |
| | | Inland Fisheries | - | 366 | 366 |
| | | Marine Resource | - | 11,743 | 11,743 |
| | 97.036 Total | | - | 3,286,552 | 3,286,552 |
| Hazard Mitigation Grant | 97.039 | Defense | - | 169,607 | 169,607 |
| National Dam Safety Program | 97.041 | Defense | - | 56,406 | 56,406 |
| Emergency Management Performance Grants | 97.042 | Defense | - | 2,662,910 | 2,662,910 |
| | | Financial Serv | - | 30,000 | 30,000 |
| | 97.042 Total | | - | 2,692,910 | 2,692,910 |
| Assistance to Firefighters Grant | 97.044 | Public Safety | - | 95,976 | 95,976 |
| Cooperating Technical Partners | 97.045 | Planning | - | 164,670 | 164,670 |
| Pre-Disaster Mitigation | 97.047 | Defense | - | 89,598 | 89,598 |
| Homeland Security Grant Program | 97.067 | Defense | - | 5,777,400 | 5,777,400 |
| | | Inland Fisheries | - | 297,627 | 297,627 |
| | | Marine Resource | - | 68,716 | 68,716 |
| | | Public Safety | - | 317,499 | 317,499 |
| | 97.067 Total | | - | 6,461,242 | 6,461,242 |
| Buffer Zone Protection Program (BZPP) | 97.078 | Defense | - | 235,249 | 235,249 |
| | | Public Safety | - | 40,227 | 40,227 |
| | 97.078 Total | | - | 275,476 | 275,476 |
| Earthquake Consortium | 97.082 | Defense | - | 38,756 | 38,756 |
| Driver's License Security Grant Program | 97.089 | State | - | 100,033 | 100,033 |
| Department of Homeland Security Total | | | - | 15,299,786 | 15,299,786 |
| Total State of Maine | | | 222,361,388 | 3,109,722,952 | 3,332,084,340 |

The State spent pass-through funds received from:

[1] ConnectME Authority

[2] MACRO

[3] Cumberland County

[4] York County

[5] State of Vermont

* represents major programs.

# State of Maine
# Schedule of Expenditures of Federal Awards
# Fiscal Year Ended June 30, 2012

## Legend of State Agency Abbreviations

| Abbreviation | State Agency Name |
|---|---|
| Agriculture | Department of Agriculture |
| Arts | Maine Arts Commission |
| Attorney General | Department of the Attorney General |
| Conservation | Department of Conservation |
| Corrections | Department of Corrections |
| Defense | Department of Defense, Veterans and Emergency Management |
| Economic Devel | Department of Economic and Community Development |
| Education | Department of Education |
| Environment | Department of Environmental Protection |
| Financial Serv | Department of Administrative and Financial Services |
| Governor | Governor's Office |
| Historic Preserve | Maine Historical Preservation Commission |
| Human Rights | Maine Human Rights Commission |
| Human Services | Department of Health and Human Services |
| Inland Fisheries | Department of Inland Fisheries and Wildlife |
| Judicial | Judicial Branch |
| Labor | Department of Labor |
| Library | Maine State Library |
| Marine Resource | Department of Marine Resources |
| Museum | Maine State Museum |
| Planning | State Planning Office |
| Public Safety | Department of Public Safety |
| Public Utilities | Maine Public Utilities Commission |
| State | Department of Secretary of State |
| Transportation | Department of Transportation |

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# STATE OF MAINE
## Notes to the Schedule of Expenditures of Federal Awards
## For the Year Ended June 30, 2012

### 1. Purpose of the Schedule

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule to the State's basic financial statements (BFS) and is presented for purposes of additional analysis. Total expenditures for each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA) are shown. Federal financial assistance programs, which have not been assigned a CFDA number, have been identified using the two-digit federal agency number and the suffix *999*. Federal award amounts aggregated by federal agency; direct and pass-through amounts are reported by primary recipient to prevent overstatement of expenditures of federal awards. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations requires the Schedule.

### 2. Significant Accounting Policies

A. *Reporting Entity* - The reporting entity is defined in Note 1 to the BFS. The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 2012, with the exception of the discrete component units identified in Note 1 to the BFS. The discrete component units engaged other auditors.

B. *Basis of Presentation* – The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133.

1) Federal Awards – Pursuant to the Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133, federal award is defined as federal financial assistance and federal cost-reimbursement contracts that non-federal agencies receive directly or indirectly from federal agencies or pass-through entities. Federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance. Accordingly, non-monetary federal assistance, including food stamps, food stamp EBT cards and food commodities, is included in federal financial assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash assistance to individuals.

2) ARRA Reporting - To maximize the transparency and accountability of the American Recovery and Reinvestment Act spending required by Congress and in accordance with 2 CFR 215, section___. 21 "Uniform Administrative Requirements for Grants and Agreements" and the A-102 Common Rule provisions, recipients agree to maintain records that identify adequately the source and application of ARRA funds. For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, recipients agree to separately identify the expenditures for Federal awards under the ARRA on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. This shall be accomplished by identifying expenditures for Federal awards made under the ARRA separately, in their own column on the SEFA. Separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the

prefix "ARRA-" in identifying the name of the Federal program as the first characters in Item 9d of Part III on the SF-SAC.

3) ARRA Reporting Exception – The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.55 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2012.

4) Type A and Type B Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Maine are those programs that equal or exceed $10.7 million in expenditures, distributions, or issuances for the year ended June 30, 2012. Programs audited as major programs are marked with asterisks in the accompanying schedule.

C. *Basis of Accounting* - The information presented in the Schedule of Expenditures of Federal Awards is presented primarily on the modified accrual basis of accounting, which is consistent with the fund financial statements. Under this basis, expenditures of federal awards are recorded in the accounting period in which the fund liability is incurred.

**3. Unemployment Insurance Program**

The expenditures reported on the Schedule for Unemployment Insurance (CFDA 17.225) include:

| | |
|---|---|
| State Funds | $182,838,290 |
| Federal Funds | 156,849,214 |
| Total | $339,687,505 |

## 4. NonCash Awards

The State of Maine is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements. Noncash awards received by the State are included in the Schedule of Expenditures of Federal Awards as follows:

| CFDA Number | Program Title | Noncash Awards | Commodities on hand at June 30, 2012 |
|---|---|---|---|
| 10.551 | SNAP (Supplemental Nutrition Assistance Program) | 375,063,008 | - |
| 10.553 | School Breakfast Program | 123,640 | 20,409 |
| 10.555 | National School Lunch Program | 3,717,210 | - |
| 10.559 | Summer Food Service Program for Children | 5,815 | - |
| 10.569 | Emergency Food Assistance Program | 2,459,457 | 434,313 |
| 10.664 | Cooperative Forestry Assistance | 1,224,329 | - |
| 12.401 | National Guard Military Operations & Maint. Proj. | 1,440,470 | - |
| 12.401 | Readiness Sustainment Maint. Center (formerly CFDA 12.999) | 6,876,612 | - |
| 39.003 | Donation of federal surplus property | 950,634 | 376,679 |
| 93.268 Immunization Cluster | Immunization grants | 9,558,935 | - |

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# STATE OF MAINE
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2012

## Section I – Summary of Auditor's Results

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# SECTION I – SUMMARY OF AUDITOR'S RESULTS

***Financial Statements:***

| | | |
|---|---|---|
| Type of auditor's report issued: | Unqualified | |
| Internal control over financial reporting: | | |
| • Material weaknesses identified? | YES ☐ | NO ☑ |
| • Significant deficiencies identified that were not considered to be material weaknesses? | YES ☑ | NO ☐ |
| • Noncompliance material to financial statements noted? | YES ☐ | NO ☑ |

***Federal Awards:***

| | | |
|---|---|---|
| Internal control over major programs: | | |
| • Material weaknesses identified? | YES ☑ | NO ☐ |
| • Significant deficiencies identified that were not considered to be material weaknesses? | YES ☑ | NO ☐ |

Type of auditor's report issued on compliance for major programs:

Unqualified
CCDF Cluster
CDBG – State-Administered CDBG Cluster
Child and Adult Care Food Program
Child Support Enforcement
Education Jobs Fund
Foster Care Title IV-E
Highway Planning and Construction Cluster
Immunization Cluster
Improving Teacher Quality State Grants
Medicaid Cluster
National Guard Military Operations and Maintenance (O&M) Projects
SNAP Cluster
Special Education Cluster (IDEA)
Special Supplemental Nutrition Program for Women, Infants, and Children
State Fiscal Stabilization Fund Cluster
Surface Transportation – Discretionary Grants for Capital Investment
TANF Cluster
Title I, Part A Cluster
Twenty-First Century Community Learning Centers
Vocational Rehabilitation Cluster
WIA Cluster

Qualified
Child Nutrition Cluster
Children's Health Insurance Program
Unemployment Insurance

| | | |
|---|---|---|
| Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)? | YES ☑ | NO ☐ |

# SECTION I – SUMMARY OF AUDITOR'S RESULTS

***Identification of Major Programs:***

| **CFDA #** | **Name of Federal Program or Cluster** |
|---|---|
| SNAP Cluster | |
| 10.551 | Supplemental Nutrition Assistance Program |
| 10.561 | State Administrative Matching Grants for the Supplemental Nutrition Assistance Program |
| Child Nutrition Cluster | |
| 10.553 | School Breakfast Program |
| 10.555 | National School Lunch Program |
| 10.556 | Special Milk Program for Children |
| 10.559 | Summer Food Service Program for Children |
| CDBG - State-Administered CDBG Cluster | |
| 14.228 | Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii |
| WIA Cluster | |
| 17.258 | WIA Adult Program |
| 17.259 | WIA Youth Activities |
| 17.278 | WIA Dislocated Worker |
| Highway Planning and Construction Cluster | |
| 20.205 | Highway Planning and Construction |
| 20.219 | Recreational Trails Program |
| Title I, Part A Cluster | |
| 84.010 | Title I Grants to Local Educational Agencies |
| 84.389 | Title I Grants to Local Educational Agencies, Recovery Act |
| Special Education Cluster (IDEA) | |
| 84.027 | Special Education--Grants to States (IDEA, Part B) |
| 84.173 | Special Education--Preschool Grants (IDEA Preschool) |
| 84.391 | Special Education–Grants to States (Idea, Part B), Recovery Act |
| 84.392 | Special Education–Preschool Grants (Idea Preschool), Recovery Act |
| Vocational Rehabilitation Cluster | |
| 84.126 | Rehabilitation Services–Vocational Rehabilitation Grants to States |
| 84.390 | Rehabilitation Services–Vocational Rehabilitation Grants to States, Recovery Act |
| State Fiscal Stabilization Fund Cluster | |
| 84.394 | State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (Education Stabilization Fund) |
| 84.397 | State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act |

# SECTION I – SUMMARY OF AUDITOR'S RESULTS

| | |
|---|---|
| Immunization Cluster | |
| 93.268 | Immunization Grants |
| 93.712 | ARRA - Immunization |
| TANF Cluster | |
| 93.558 | Temporary Assistance for Needy Families (TANF) State Programs |
| CCDF Cluster | |
| 93.575 | Child Care and Development Block Grant |
| 93.596 | Child Care Mandatory and Matching Funds of the Child Care and Development Fund |
| Medicaid Cluster | |
| 93.720 | ARRA - State Survey and Certification Ambulatory Surgical Center Healthcare Associated Infection (ASC-HAI) Prevention Initiative |
| 93.775 | State Medicaid Fraud Control Units |
| 93.777 | State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare |
| 93.778 | Medical Assistance Program |
| Other Programs | |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| 10.558 | Child and Adult Care Food Program |
| 12.401 | National Guard Military Operations and Maintenance (O&M) Projects |
| 17.225 | Unemployment Insurance |
| 20.932 | Surface Transportation – Discretionary Grants for Capital Investment |
| 84.287 | Twenty-First Century Community Learning Centers |
| 84.367 | Improving Teacher Quality State Grants |
| 84.410 | Education Jobs Fund |
| 93.563 | Child Support Enforcement |
| 93.658 | Foster Care - Title IV-E |
| 93.767 | Children's Health Insurance Program |

Dollar threshold used to distinguish between type A and type B programs: $9,996,253

Does the auditee qualify as low risk? YES ☐ NO ☑

# SECTION I – SUMMARY OF AUDITOR'S RESULTS

***Summary of Questioned Costs:***

| Federal Agency | Federal Program | Known Questioned Costs | Finding Number |
|---|---|---|---|
| U.S. Department of Commerce/NOAA | Groundfish Industry Economic Assistance | $ 10,234 | 12-0703-01 |
| U.S. Department of Education | Special Education Cluster (IDEA) | 65,846 | 12-1201-01 |
| | Title I, Part A Cluster | 13,654 | 12-1200-02 |
| U.S. Department of Health and Human Services | Medicaid Cluster | 647,077<br>40,061<br>Undeterminable<br>803 | 12-0909-01<br>12-1106-07<br>12-1106-08<br>12-1106-12 |
| | Foster Care – Title IV-E | 90,069 | 12-1109-02 |
| | Children's Health Insurance Program | 15,068<br>1,321 | 12-0909-01<br>12-1140-03 |
| | Supplemental Nutrition Assistance Program, Outreach/Participation Program | 30,582 | 12-1103-02 |
| U.S. Department of Labor | Unemployment Insurance | Undeterminable | 12-1302-01 |

# STATE OF MAINE
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2012

## Section II – Financial Statement Findings

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**(12-0308-01)**

**Title:** Accounting for the employer-funded unemployment insurance program needs to be improved

**Prior Year Finding:** None
**State Department:** Labor, Administrative and Financial Services
**State Bureau:** Unemployment Compensation
Security and Employment Service Center
Office of the State Controller
**Federal Agency:** None (this finding pertains to the financial audit of the Enterprise Fund for Unemployment)
**CFDA Title:** None (see comment for Federal Agency)
**CFDA #:** None (see comment for Federal Agency)
**Federal Award #:** None (see comment for Federal Agency)

**Compliance Area:** None (see comment for Federal Agency)

**Type of Finding:** Significant Deficiency

**Known Questioned Costs:** N/A

**Likely Questioned Costs:** N/A

**Criteria:** Generally Accepted Accounting Principles

**Condition:** The Department of Labor Bureau of Unemployment Compensation and the Department of Administrative and Financial Services did not have controls in place to prevent, detect, and correct accounting records and estimates used to prepare financial statements for the Employment Security Fund.

**Context:** The Employment Security Fund provides an accounting of assets and liabilities; and operating activity such as revenue from Maine's employers, State-funded payments to claimants, and interest income.

On June 30, 2012, the U.S. Treasury held $268.5 million of Maine's employer-funded unemployment contributions. Payments of $184.9 million were made to unemployment claimants during fiscal year 2012.

**Cause:** Inadequate procedures to prevent, detect, and correct errors in the State's Employment Security accounting records and financial statements.

**Effect:** The financial statements for the Employment Security Fund contained multiple errors as follows:

- Estimated revenue from employers earned in the fourth quarter of fiscal year 2012 but not received until fiscal year 2013 was understated by approximately $11.0 million.
- For at least thirteen years the same percentages and assumptions have been used to estimate the Allowance for Uncollectible Accounts. For fiscal year 2012, an Allowance of $19.2 million was calculated for receivables of $50.6 million without taking into consideration relevant collection experience and general economic conditions. Also, personnel did not consider the fact that no write-off of uncollectible accounts was made in fiscal year 2012. In each of the prior two fiscal years $2.4 million in receivables had been written-off.
- Estimated unemployment claims earned in fiscal year 2012 of $5.9 million but not paid until fiscal year 2013 were overstated by approximately $2.8 million.
- Restricted Deposits and Investments (Maine's deposits with the U.S. Treasury) were overstated by $1.1 million.

**Recommendation:** We recommend that personnel employed by the Bureau of Unemployment Compensation, the Security and Employment Service Center, and the Office of the State Controller combine their efforts to improve their procedures and scrutiny of accounting entries and estimates.

**Management's Response/Corrective Action Plan:** *The Department of Administrative and Financial Services agrees to review the current process used for estimating the year-end revenue accrual for Unemployment Insurance Tax. We will complete this review for the accrual that will be included in the fiscal year 2013 Comprehensive Annual Financial Report.*

*The Maine Department of Labor agrees with the finding. The financial service center has already addressed the issue related to the overstatement of Restricted Deposits and Investments with a process improvement. The issue of overstatement of estimated unemployment claims earned but not paid has also been addressed by a manual process put in place.*

*The Department and Service Center are reviewing a detailed course of action that should identify a resolution necessary in order to address estimated revenue from employers earned in fiscal year 2012 but not received until the following year as well as the estimating of the Allowance for Uncollectible Accounts. We are tentatively planning a September 30, 2013 completion date.*

*The primary reason there was no submission of uncollectable debt in 2012 was due to the fact that on the benefits side, we are anticipating the implementation of Federal Tax Offset Program (TOP). As a result of TOP, we will be able to identify debt aged retroactively back ten years for collection via this program with the IRS.*

***Contacts:*** *Patricia K. O'Brien, Deputy Bureau Director, Labor, 621-5161*
*Heidi McDonald, Manager, Financial Reporting and Analysis. OSC, 626-8437*

# STATE OF MAINE
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2012

## Indexes to Federal Program Findings

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| 12-1111-01 | Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges | DAFS | E-52 |
| 12-1111-02 | Income Eligibility and Verification System procedures need improvement | DHHS | E-54 |
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| **Child Nutrition Cluster**<br>CFDA# 10.553, 10.555, 10.556, 10.559 | | | |
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| **Special Supplemental Nutrition Program for Women, Infants, and Children**<br>CFDA# 10.557 | | | |
| 12-1113-01 | Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency | DAFS | E-57 |
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| 12-1505-01 | Suspension and debarment requirements overlooked | DECD | E-85 |
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| **Special Education Cluster (IDEA)**<br>CFDA# 84.027, 84.173, 84.391, 84.392 | | | |
| 12-1200-01 | Noncompliance with subrecipient cash management requirements | DOE | E-65 |
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| 12-1200-05 | Control procedures related to period of availability requirements need improvement | DOE | E-69 |
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| 12-1201-03 | Noncompliance with reporting requirements | DOE | E-73 |
| 12-1201-04 | Noncompliance with earmarking requirements | DOE | E-74 |
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| **Twenty-First Century Community Learning Centers**<br>CFDA# 84.287 | | | |
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| **State Fiscal Stabilization Fund Cluster** CFDA# 84.394, 84.397 | | | |
| 12-1200-03 | Procedures to comply with Treasury-State Agreement for cash management need to be improved | DAFS | E-67 |
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| 12-1200-04 | Federal cash management procedures need improvement | DAFS | E-68 |
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| 12-1118-03 | Hours worked for the program not adequately documented | DHHS | E-58 |
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| 12-1106-05 | Procedures to ensure that the MaineCare fiscal agent complies with provisions relating to information technology risk assessment and system security reviews need to be improved | DHHS | E-38 |
| 12-1106-09 | Controls over pharmacy claims processing system need improvement | DHHS | E-42 |
| 12-1106-10 | Access controls over Maine Integrated Health Management Solution (MIHMS) need improvement | DHHS | E-43 |
| 12-1106-11 | The Decision Support System/Data Warehouse is not reconciled to the Statewide accounting system | DHHS | E-44 |
| 12-1140-01 | Federal cash management procedures need improvement | DAFS | E-60 |
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| 12-1106-01 | Inconsistent application of controls over the Medicaid provider desk review process | DHHS | E-34 |
| 12-1106-02 | Procedures relating to the hospital cost reporting process need to be improved | DHHS | E-35 |
| 12-1106-04 | Automated Data Processing (ADP) risk analysis and security reviews were not performed | DAFS/ DHHS | E-37 |
| 12-1106-05 | Procedures to ensure that the MaineCare fiscal agent complies with provisions relating to information technology risk assessment and system security reviews need to be improved | DHHS | E-38 |
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| 12-1106-12 | Procedures to ensure proper crediting of Federal share of "cost of care" recoupments and procedures to ensure "cost of care" is properly deducted need improvement | DAFS/ DHHS | E-46 |
| 12-1106-14 | Provider eligibility procedures need improvement | DHHS | E-48 |
| 12-1111-01 | Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges | DAFS | E-52 |
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| 12-1140-02 | Procedures to ensure local match (certified seed) are met need improvement | DHHS | E-61 |


**Legend of State Agency Abbreviations:**

DAFS Department of Administrative and Financial Services
DECD Department of Economic and Community Development
DHHS Department of Health and Human Services
DMR Department of Marine Resources
DOE Department of Education
DOL Department of Labor
DOT Department of Transportation
DVEM Defense Veterans and Emergency Management
EXEC Executive Office

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| 12-1106-07 | Medicaid Cluster | | ✓ | | | | | | | | | | | | | E-39 |
| 12-1106-12 | Medicaid Cluster | ✓ | ✓ | | | | | | | | | | | | | E-46 |
| 12-1108-01 | SNAP Cluster | | | ✓ | | | | | | | | | | | | E-49 |
| 12-1109-01 | Foster Care Title IV-E | | ✓ | | | | | | | | | | | | | E-50 |
| 12-1109-02 | Foster Care Title IV-E | | ✓ | | | | | | | | | | | | | E-51 |
| 12-1111-01 | Multiple Programs | | | | | | | | | | | | | | ✓ | E-52 |
| 12-1113-01 | Special Supplemental Nutrition Program for Women, Infants, and Children | | | | | | | | | | | | ✓ | | | E-57 |
| 12-1140-01 | Children's Health Insurance Program | | | ✓ | | | | | | | | | | | | E-60 |
| 12-1200-02 | Title I, Part A Cluster | | | | | | | | ✓ | | | | | | | E-66 |
| 12-1200-03 | Multiple Programs | | | ✓ | | | | | | | | | | | | E-67 |
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| 12-1200-01 | Multiple Programs | | | ✓ | | | | | | | | | | | | E-65 |
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| 12-1106-01 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-34 |
| 12-1106-02 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-35 |
| 12-1106-04 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-37 |
| 12-1106-05 | Multiple Programs | ✓ | ✓ | | | | | | | | | | | | | E-38 |
| 12-1106-08 | Medicaid Cluster | | | | | ✓ | | | | | | | | | | E-40 |
| 12-1106-09 | Multiple Programs | ✓ | ✓ | | | | | | | | | | | | | E-42 |
| 12-1106-10 | Multiple Programs | ✓ | ✓ | | | | | | | | | | | | | E-43 |
| 12-1106-11 | Multiple Programs | ✓ | ✓ | | | | | | | | | | | | | E-44 |
| 12-1106-12 | Medicaid Cluster | ✓ | ✓ | | | | | | | | | | | | | E-46 |
| 12-1106-14 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-48 |
| 12-1111-02 | Multiple Programs | | | | | | | | | | | | | | ✓ | E-54 |
| 12-1118-03 | Immunization Cluster | ✓ | ✓ | | | | | | | | | | | | | E-58 |
| 12-1140-02 | Multiple Programs | | | | | | | ✓ | | | | | | | | E-61 |
| 12-1140-03 | Children's Health Insurance Program (CHIP) | | | | | ✓ | | | | | | | | | | E-62 |
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| 12-1302-01 | Unemployment Insurance | | | | | ✓ | | | | | | | | | | E-79 |
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| 12-1401-02 | Highway Planning and Construction Cluster | | | | | | | | | | | | | ✓ | | E-83 |
| 12-1404-01 | Surface Transportation – Discretionary Grants for Capital Investment | | | | | | | | | ✓ | | | | | | E-84 |
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| 12-0703-01 | Groundfish Industry Economic Assistance | ✓ | | | | | | | | | | | | | | E-29 |
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| | | | Material Non-compliance | Internal Control | | Known / Likely Questioned Costs |
| | | | | Material Weakness | Significant Deficiency | |
| 12-0703-01 | E-29 | Activities Allowed | | | | $10,234 / $10,234 |
| 12-0909-01 | E-33 | Activities Allowed/Allowable Costs | | | ✓ | $662,000 /$ 662,000 |
| 12-1103-02 | E-31 | Allowable Costs | | | | $30,582 / $30,582 |
| 12-1106-01 | E-34 | Special Tests and Provisions | | | ✓ | |
| 12-1106-02 | E-35 | Special Tests and Provisions | | | ✓ | |
| 12-1106-04 | E-37 | Special Tests and Provisions | | | ✓ | |
| 12-1106-05 | E-38 | Activities Allowed/Allowable Costs | | | ✓ | |
| 12-1106-07 | E-39 | Allowable Costs | | | ✓ | $40,061 / Undeterminable |
| 12-1106-08 | E-40 | Eligibility | | | ✓ | Undeterminable / Undeterminable |
| 12-1106-09 | E-42 | Activities Allowed/Allowable Costs | | | ✓ | |
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| 12-1106-12 | E-46 | Activities Allowed/Allowable Costs | | | ✓ | $803 / Undeterminable |
| 12-1106-14 | E-48 | Special Tests and Provisions | | | ✓ | |
| 12-1108-01 | E-49 | Cash Management | | | ✓ | |
| 12-1109-01 | E-50 | Allowable Costs | | | ✓ | |
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**Gaps in the sequence of finding numbers result from matters that are not required to be reported in accordance with OMB Circular A-133.*

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| | | | Material Non-compliance | Internal Control | | Questioned Costs |
| | | | | Material Weakness | Significant Deficiency | |
| 12-1111-01 | E-52 | Special Tests and Provisions | | | ✓ | |
| 12-1111-02 | E-54 | Special Tests and Provisions | | | ✓ | |
| 12-1113-01 | E-57 | Reporting | | | ✓ | |
| 12-1118-03 | E-58 | Activities Allowed/Allowable Costs | | | ✓ | |
| 12-1140-01 | E-60 | Cash Management | | | ✓ | |
| 12-1140-02 | E-61 | Matching, Level of Effort, Earmarking | | | ✓ | |
| 12-1140-03 | E-62 | Eligibility | ✓ | ✓ | | $1,321 / $4,018,000 |
| 12-1200-01 | E-65 | Cash Management | | | ✓ | |
| 12-1200-02 | E-66 | Period of Availability | | | | $13,654/ $13,654 |
| 12-1200-03 | E-67 | Cash Management | | | ✓ | |
| 12-1200-04 | E-68 | Cash Management | | | ✓ | |
| 12-1200-05 | E-69 | Period of Availability | | | ✓ | Undeterminable/ Undeterminable |
| 12-1201-01 | E-71 | Matching, Level of Effort, Earmarking | | | | $65,846 / $65,846 |
| 12-1201-02 | E-72 | Subrecipient Monitoring | | | ✓ | |
| 12-1201-03 | E-73 | Reporting | | | ✓ | |
| 12-1201-04 | E-74 | Matching, Level of Effort, Earmarking | | | ✓ | |
| 12-1203-01 | E-76 | Reporting | ✓ | ✓ | | |
| 12-1205-01 | E-78 | Subrecipient Monitoring | | | ✓ | |
| 12-1302-01 | E-79 | Eligibility | ✓ | ✓ | | Undeterminable / Undeterminable |
| 12-1315-01 | E-81 | Cash Management | | | ✓ | |
| 12-1401-02 | E-83 | Subrecipient Monitoring | | | ✓ | |

**Gaps in the sequence of finding numbers result from matters that are not required to be reported in accordance with OMB Circular A-133.*

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| | | | Material Non-compliance | Internal Control | | Questioned Costs |
| | | | | Material Weakness | Significant Deficiency | |
| 12-1404-01 | E-84 | Procurement, suspension, and debarment | | | ✓ | |
| 12-1505-01 | E-85 | Procurement, suspension, and debarment | | | ✓ | |
| 12-1505-02 | E-86 | Reporting | | | ✓ | |

**Gaps in the sequence of finding numbers result from matters that are not required to be reported in accordance with OMB Circular A-133.*

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# STATE OF MAINE
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2012

## Section III – Federal Findings, Questioned Costs and Corrective Action Plan

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# GROUNDFISH INDUSTRY ECONOMIC ASSISTANCE

**(12-0703-01)**

**Title:** Pre-billing of board members' payments not allowed for reimbursement by Federal program

**Prior Year Finding:** No
**State Department:** Marine Resources (DMR)
**State Bureau:** Resource Management
**Federal Agency:** U.S. Department of Commerce/NOAA
**CFDA Title:** Groundfish Industry Economic Assistance
**CFDA #:** 11.452
**Federal Award #:** NA09NMF4520244

**Compliance Area:** Activities allowed or unallowed

**Type of Finding:** Questioned costs

**Known Questioned Costs:** $10,234

**Likely Questioned Costs:** $10,234

**Criteria:** 2 CFR Section 225 Cost Principles for State, Local and Tribal Governments (OMB Circular A-87, Attachment C)

**Condition:** A first tier subcontractor was reimbursed by DMR for payments to a second tier subcontractor for board member stipends. The second tier subcontractor had not paid the board members at the time they billed the first tier subcontractor; instead payments to the board members were made approximately one year after receipt of the funds. In addition, payment was made to all seven sitting board members, rather than only to the five board members who were on the board at the time of the funding request.

**Context:** The first tier subcontractor, had a $99,000 contract with the State of Maine to provide assistance to the State's groundfish industry. The first tier subcontractor, in turn, contracted with the second tier subcontractor for services related to the grant. Board member payments totaled $10,234, or $1,462 for each of the seven board members.

**Cause:** Lack of appropriate and timely support for claimed expenditures

**Effect:** Inappropriate billing and claim of expenditure of Federal program funds

**Recommendation:** We recommend that DMR only pay invoices for services that have been authorized and received.

**Management's Response/Corrective Action Plan:** *The Department of Marine Resources agrees with this finding.*

*The Department will require the first tier subcontractor to demonstrate review and assessment controls for monitoring payment documentation are in place. Additionally, we are requesting a return of the full amount of the questioned costs.*

***Contact:*** *Sherri Watson, Marine Resources, Resource Administrator, 624-6572*

# SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM, OUTREACH/PARTICIPATION PROGRAM

**(12-1103-02)**

**Title:** Costs not allocated in accordance with plans

**Prior Year Finding:** No
**State Department:** Administrative and Financial Services
**State Bureau:** Health and Human Services Service Center
**Federal Agency:** U.S. Department of Agriculture
**CFDA Title:** Supplemental Nutrition Assistance Program, Outreach/Participation Program
**CFDA #:** 10.580
**Federal Award #:** 2011IS63121

**Compliance Area:** Allowable costs/cost principles

**Type of Finding:** Questioned costs

**Known Questioned Costs:** $30,582

**Likely Questioned Costs:** $30,582

**Criteria:** 45 CFR §95.507, §95.519 General Administration – Cost Allocation Plans

**Condition:** The SNAP Outreach/Participation Program was overcharged due to an incorrect allocation method related to the Office for Family Independence (OFI). Costs associated with OFI personnel working on multiple programs are supposed to be allocated based on the time charged to each program by the OFI Staff. These costs were allocated based on the average case counts of the three months in each quarter. This incorrect allocation method was used in both quarter three and quarter four.

**Context:** $7.3 million of costs related to OFI were allocated among various DHHS programs.

**Cause:**
- Human Error
- Lack of oversight

**Effect:** Not properly allocating costs could result in the following issues with Federal assistance programs:
- Inaccurate financial reports
- Potential unallowable costs claimed
- Possible match deficiencies
- Programs may not be charged their fair share of allocated costs

**Recommendation:** We recommend that the Department continue in its efforts to properly allocate costs by ensuring that the appropriate allocation method is assigned to each account based on the Federally approved cost allocation plan.

# SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM, OUTREACH/PARTICIPATION PROGRAM

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services and its Service Center agree with the finding.*

*In September both quarters three and four were rerun in the model with the correct allocation method. The money was returned to the Food Supplement Participation Grant account on 9/17 and 9/20 through journals. The money has been wired back to the Federal government to repay the overcharges.*

*The Service Center is undergoing changes to allow for better oversight of the cost allocation plan. Additional staff has been added to the cost allocation process so the running of the model can be transitioned off the Indirect Cost Team Leader to other members of the team. This will allow the Team Leader to perform more analysis and provide more oversight. A new model is in development that long-term is planned to have additional functionality that will better link the model and the narrative.*

***Contact:*** *David Whitt or William Korth, DHHS Financial Services Center, 215-1586*

# MEDICAID CLUSTER

**(12-0909-01)**

**Title:** Reversed pharmacy claims payments not recovered

**Prior Year Finding:** No
**State Department:** Health and Human Services
**State Bureau:** Office of MaineCare Services
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
Children's Health Insurance Program (CHIP)
**CFDA #:** 93.720; 93.775; 93.777; 93.778; 93.767
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP
05-1105ME5021; 05-1205ME5021

**Compliance Area:** Activities allowed or unallowed
Allowable costs/cost principles

**Type of Finding:** Significant deficiency/Questioned costs

**Known Questioned Costs:** $662,000

**Likely Questioned Costs:** $662,000
Total reversed claims provided by the pharmacy system contractor was $887,473. We used the value in the Date of Service field as the basis to apply the FMAP rate for each detail claim line since the Pay Order Date was not available in the data. Our likely questioned cost is 75% of the total overpayment, which approximates the ARRA FMAP rate in effect for the period of 99% of the claims.

**Criteria:** 2 CFR Part 225, Appendix A, Section C(1)(j) Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) requiring that costs be net of all applicable credits

**Condition:** Credits for a limited number of reversed pharmacy claims payments were not applied to claims payment cycles. To date, the Office of MaineCare Services has not recovered any of the amounts identified.

**Context:** This issue is limited to reversed pharmacy claims where the associated original claims were paid via the MEPOPS external interface feed to the State's accounting system prior to the implementation of the Maine Integrated Health Management Solution (MIHMS) in September 2010. The issue does not affect pharmacy claims and associated reversals for claims processed in MIHMS.

**Cause:** The MIHMS system was not capable of processing the reversed pharmacy claims without a reference to an original claim that exists in MIHMS.

**Effect:** Pharmacy providers were overpaid, since subsequent payments were not reduced by the amount of the reversed claims.

**Recommendation:** We recommend that the Department implement procedures to recover the overpayments.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services and its Service Center agree with the finding.*

*Goold Health Systems is reconciling the list of claims that are affected by this finding, once completed they will send the detail of the claims to the DHHS Service Center Accounts Receivable group. At that time the actual amount owed could vary from this finding. When the Accounts Receivable receives the data the receivable will be established and collections will begin to recoup the reversed claims.*

*Completion Date: 6/30/2013*

***Contact:*** *Donna Wheeler, Financial Analyst, DHHS Service Center, 287-1860*
*Sarah Gove, Senior Managing Accountant, DHHS Service Center, 287-6390*

**(12-1106-01)**

**Title:** Inconsistent application of controls over the Medicaid provider desk review process

**Prior Year Finding:** 11-1106-05
**State Department:** Health and Human Services
**State Bureau:** Division of Audit
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
**CFDA #:** 93.720; 93.775; 93.777; 93.778
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP

**Compliance Area:** Special tests and provisions

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** Chapter 101 of the MaineCare Benefits Manual (Chapter III, Section 67, subsection 34.1.3 of the Principles of Reimbursement for Nursing Facilities)

**Condition:** Established control procedures were not followed to ensure the timely issuance of nursing facility desk reviews. A test of 16 nursing facility desk reviews issued during the audit period revealed that 13 were not completed within the established 180-day time frame after the acceptance of the cost report and/or a request for additional information. The untimeliness of the desk audits ranged from a low of 13 to a high of 354 days.

**Context:** Medicaid paid $140.5 million to nursing facilities during fiscal year 2012.

**Cause:** Lack of staff

**Effect:**

- Noncompliance with cost report review requirements included in the principles of reimbursement
- Delays in the preparation and issuance of cost settlements

**Recommendation:** We recommend that the Division of Audit consistently apply established monitoring controls over the nursing home desk review process in order to provide reasonable assurance that they be completed within the established 180-day time frame.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this recommendation.*

*The Division of Audit utilizes status reports to track the 180 day time frame. The Division is assigning Nursing Facility cost reports for desk review and monitors these status reports at our monthly staff meetings. The Division of Audit is making every effort to comply with the 180 day time frame. However, staffing shortages have made compliance difficult. During State fiscal year 2013, the Division will be training some newly hired staff to do Nursing Facility cost report desk reviews.*

*In addition, there are other factors that cause delays in the issuance of desk reviews, such as delays in obtaining necessary information from a provider, and audit findings that are under appeal and affect the subsequent period desk review.*

***Contact:*** *David Hellmuth, MaineCare Audit Manager, 287-2809*

**(12-1106-02)**

**Title:** Procedures relating to the hospital cost reporting process need to be improved

**Prior Year Finding:** 11-1106-06
**State Department:** Health and Human Services
**State Bureau:** Division of Audit
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
**CFDA #:** 93.720; 93.775; 93.777; 93.778
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP

**Compliance Area:** Special tests and provisions

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** Chapter 101 of the MaineCare Benefits Manual (Chapter III, Section 45.02-5); 42 CFR §413.24(f)(2)(ii) Due dates for cost reports

**Condition:** Controls are inadequate to ensure the timely submission of hospital cost reports and the completion of periodic audits of the cost reports. Cost reports are due on or before the last day of the fifth month following the close of the period covered by the report. A test of eight hospital facility desk reviews issued during the audit period revealed that five of the eight cost reports were not submitted within the established time frame. The number of days late ranged from a low of one day to a high of 65 days. In addition, the Division of Audit did not perform any audits of the reports.

**Context:** Medicaid paid approximately $356 million to 41 in-state hospitals during fiscal year 2012.

**Cause:** Lack of available funding for cost settlements

**Effect:**

- Noncompliance with cost report submission requirements included in the State's principles of reimbursement and the Code of Federal Regulations
- Delays in the preparation and issuance of cost settlements

**Recommendation:** We recommend that the Division of Audit strengthen controls over the hospital cost reporting process in order to provide reasonable assurance that cost reports are submitted and received in a more timely fashion and periodic audits of cost reports are performed.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this recommendation.*

*The Division of Audit has established a process of notifying the hospitals in writing 30 days before their cost report is due. If a cost report is not received timely, the Division of Audit will contact the hospital to determine if good cause exists for the delay in the filing.*

*Failure to submit an adequate, complete cost report is grounds for the Department to impose sanctions pursuant to the MaineCare Benefits Manual Chapter I, Section I. Imposition of these sanctions will be considered on a case by case basis.*

*Audits are conducted when funding has been appropriated to pay settlements.*

***Contact:*** *Herb Downs, Director, Division of Audit, 287-2778*

# MEDICAID CLUSTER

**(12-1106-04)**

**Title:** Automated Data Processing (ADP) risk analysis and security reviews were not performed

**Prior Year Finding:** ML11-1106-09
**State Department:** Administrative and Financial Services
Health and Human Services
**State Bureau:** Office of Information Technology
Office of MaineCare Services
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
**CFDA #:** 93.720; 93.775; 93.777; 93.778
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP

**Compliance Area:** Special tests and provisions

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 45 CFR §95.621 Automated Data Processing (ADP) Reviews

**Condition:** The required ADP risk analysis of DHHS systems and biennial security reviews were not performed. Also, the individual assigned these responsibilities is not organizationally independent from the ADP systems being reviewed.

**Context:** ADP systems process Medicaid claims totaling approximately $2.5 billion per year.

**Cause:**
- Staff turnover
- Lack of resources
- Misinterpretation of the ADP risk analysis and security review requirements

**Effect:**
- Noncompliance with Federal regulations
- Reliance on ADP systems with potential security risks

**Recommendation:** We recommend that the Department implement policies and procedures to ensure periodic ADP risk analysis of DHHS systems and the required biennial security reviews are performed. We further recommend that the ADP risk analysis and system security reviews be performed by personnel who are organizationally independent.

**Management's Response/Corrective Action Plan:** *The Office of Information Technology (OIT) agrees with the finding.*

*The Department has developed a basic framework for completing a comprehensive risk assessment over all DHHS major systems. Policies and procedures to ensure that periodic ADP risk analysis of DHHS systems and the required biennial security reviews are performed will be developed and should be completed by September 30, 2013.*

***Contact:*** *Jim Smith, CIO, Department of Administrative and Financial Services, 624-7568*

**(12-1106-05)**

**Title:** Procedures to ensure that the MaineCare fiscal agent complies with provisions relating to information technology risk assessment and system security reviews need to be improved

**Prior Year Finding:** 11-1106-13
**State Department:** Health and Human Services
**State Bureau:** Office of MaineCare Services
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
Children's Health Insurance Program (CHIP)
**CFDA #:** 93.720; 93.775; 93.777; 93.778; 93.767
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP;
05-1105ME5021; 05-1205ME5021

**Compliance Area:** Activities allowed or unallowed
Allowable costs/cost principles

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** Contract with MaineCare Fiscal Agent, Security Specification Document, p. 8

**Condition:** The Office of MaineCare Services did not ensure that the MaineCare fiscal agent (FA) performed a systematic risk assessment to formally evaluate critical risk areas associated with the new claims management system, the Maine Integrated Health Management Solution (MIHMS). The contract explicitly requires the FA to conduct quarterly and annual reviews over 24 high risk areas. These critical areas include but are not limited to physical, equipment, and network security and the risks associated with personnel, contingency plans, and emergency preparedness. The only quarterly review completed was for the quarter ending June 30, 2012, and no annual review was performed.

**Context:** The MIHMS system processes Medicaid and CHIP claims totaling approximately $2.5 billion per year. It is a high risk and complex information system that connects various commercial off-the-shelf software.

**Cause:**

- High turnover of MaineCare personnel
- Competing priorities

**Effect:** Lack of a scheduled and systematic risk assessment process could have a negative effect on the utility of the system, business continuity, and financial exposure. It could also potentially lead to fraud or disclosure of personal health information.

**Recommendation:** We recommend that the Department ensure that the fiscal agent complies with contractual requirements.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The Department believes that substantial progress has been made on these issues but they are not yet complete. Quarterly security reports have been received from the fiscal agent beginning with the second quarter of CY2012 (April – June). Monthly security reports have been received from the fiscal agent for each month from June 2012 to current.*

*The fiscal agent has not provided an annual security review report to the State for CY2012. The State has reminded the fiscal agent of this obligation and will continue to request compliance with this provision.*

*Disaster recovery planning was on-going throughout FY12. A full Disaster Recover test is scheduled for March 2013. Following a successful Disaster Recovery test, the State will require the fiscal agent to update all outstanding security documentation.*

***Contact:*** *Roger Bondeson, Director of Operations, MaineCare Services, 287-2705*

**(12-1106-07)**

**Title:** Procedures relating to uncashed checks need improvement

**Prior Year Finding:** 11-1106-03
**State Department:** Administrative and Financial Services
**State Bureau:** Health and Human Services Service Center
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
**CFDA #:** 93.720; 93.775; 93.777; 93.778
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP

**Compliance Area:** Allowable costs/cost principles

**Type of Finding:** Significant deficiency/Questioned costs

**Known Questioned Costs:** $40,061

**Likely Questioned Costs:** Undeterminable

**Criteria:** 42 CFR §433.40(c) Treatment of uncashed or canceled (voided) Medicaid checks; 2 CFR Part 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, attachment A)

**Condition:** The Department did not credit the Federal government with a proportionate share of checks uncashed beyond 180 days from issuance on the next quarterly CMS-64 Federal expenditure report.

**Context:** The Department identifies checks that remain uncashed beyond 180 days from issuance on an annual basis. The related adjustment on the CMS-64 report may not be posted for another five quarters.

**Cause:** Failure to establish a process that will provide the information needed to report on the quarterly CMS-64 report

**Effect:**

- Potential current and future disallowances
- Inaccurate Federal financial reports

**Recommendation:** We recommend that the Department establish procedures to credit the Federal government on a quarterly basis for the proportionate share of checks uncashed beyond 180 days from issuance.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services and its Service Center agree with the finding.*

*It is our intention to dedicate a resource to work with the Office of the State Treasurer and the Office of the State Controller to correct this finding and ensure CMS is credited with the Federal share of uncashed checks greater than 180 days quarterly. We intend to have a process in place by 6/30/2013.*

***Contact:*** *Sarah Gove, Senior Managing Accountant, 287-6390*

**(12-1106-08)**

**Title:** Medicare Parts A and B eligibility verification procedures need improvement

**Prior Year Finding:** 11-1106-08
**State Department:** Health and Human Services
**State Bureau:** Office of Family Independence
Office of MaineCare Services
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
**CFDA #:** 93.720; 93.775; 93.777; 93.778

# MEDICAID CLUSTER

**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP

**Compliance Area:** Eligibility

**Type of Finding:** Significant deficiency/Questioned costs

**Known Questioned Costs:** Undeterminable

**Likely Questioned Costs:** Undeterminable

**Criteria:** Centers for Medicare and Medicaid Services' State Buy-In Manual; 42 CFR §431.625 Coordination of Medicaid with Medicare Part B; 45 CFR §92.20 Standards for financial management systems

**Condition:** Procedures were not adequate to ensure that Medicare Parts A and B premiums paid to the Centers for Medicare and Medicaid Services (CMS) are made only for eligible individuals. System controls to detect and reassess eligibility for Medicare Buy-In need to be established.

**Context:** Maine DHHS paid $117 million to CMS for Medicare Parts A and B premiums in fiscal year 2012.

**Cause:** No systematic electronic method has been developed that will determine whether Medicare Parts A and B health insurance premiums paid by the State are made only for eligible individuals.

**Effect:**

- Medicare Parts A and B premiums may be paid on behalf of ineligible individuals and result in higher than necessary Federal and State expenditures
- Possible disallowed costs

**Recommendation:** We recommend that the Department continue to improve electronic reconciliation procedures to provide assurance that Medicare Parts A and B premium payments are correct.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The Department has implemented a full rewrite of the Buy-In automated process (**April 2012**) that has reduced the need for manual re-establishment of Buy-ins. Additionally, the Department has an operating memorandum that regional staff refer to when requesting a manual Buy-In to ensure this is handled correctly.*

***Contact:*** *Anthony Pelotte, Division Director MIS/QA/EBT, 624-4104*

# MEDICAID CLUSTER

**(12-1106-09)**

**Title:** Controls over pharmacy claims processing system need improvement

**Prior Year Finding:** 11-1106-04
**State Department:** Health and Human Services
**State Bureau:** Office of MaineCare Services
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
Children's Health Insurance Program (CHIP)
**CFDA #:** 93.720; 93.775; 93.777; 93.778; 93.767
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP;
05-1105ME5021; 05-1205ME5021

**Compliance Area:** Activities allowed or unallowed
Allowable costs/cost principles

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** MaineCare Benefits Manual §80; 2 CFR Part 225 (Attachment A) Cost Principles for State Local, and Indian Tribal Governments (OMB Circular A-87)

**Condition:** Pharmacy claims processing system controls are not adequate to ensure compliance with program requirements. We noted the following:

- The Office of MaineCare Services does not provide adequate oversight to ensure the appropriateness of the override of rejected claims.
- Wholesale Acquisition Cost (WAC) prices are ignored when considering the lowest reimbursement rate for drugs.

**Context:** The pharmacy claims processing system processed Medicaid and CHIP claims totaling $243 million in fiscal year 2012.

**Cause:** The Department has relied on a contractor to have appropriate controls in place over the processing of pharmacy claims without adequate oversight.

**Effect:**

- Rejected claims could be erroneously approved
- Drugs may be paid at a higher rate than necessary
- Noncompliance with State and Federal rules and regulations
- Potential current and future disallowances

**Recommendation:** We recommend that the Department strengthen monitoring activities and ensure drug pricing is in line with State and Federal rules and regulations.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this recommendation.*

*Any pharmacy claim override must be approved by a pharmacist employed by Goold Health Systems. The recommended override report for State review has been designed and is being implemented during State Fiscal Year 2013. The report will be reviewed monthly by the MaineCare Quality Assurance staff.*

*The Department also intends to remove mention of the Wholesale Acquisition Cost (WAC) from MaineCare payment policy. The Department found that WAC was inaccurate for brand name drugs. The Department balances an aggressive approach to low reimbursement with the need to maintain access to prescription drugs for members, and WAC pricing was neither necessary nor effective to meet that goal.*

***Contact:*** *Roger Bondeson, Director of Operations, OMS, 287-2705*

**(12-1106-10)**

**Title:** Access controls over Maine Integrated Health Management Solution (MIHMS) need improvement

**Prior Year Finding:** ML11-0906-02
**State Department:** Health and Human Services
**State Bureau:** Office of MaineCare Services
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
Children's Health Insurance Program (CHIP)
**CFDA #:** 93.720; 93.775; 93.777; 93.778; 93.767
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP;
05-1105ME5021; 05-1205ME5021

**Compliance Area:** Activities allowed or unallowed
Allowable costs/cost principles

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 45 CFR Part 164, Subpart C, Paragraph 308 HIPAA; State of Maine Information Technology Security Policy, Section 9

**Condition:** Access controls over MIHMS should be improved. We are not disclosing specific issues in this report to avoid the possibility of compromising the Department's data and information technology resources. We have notified appropriate Department management regarding the specific issues.

# MEDICAID CLUSTER

**Context:** The MIHMS system processes Medicaid and Children's Health Insurance Program (CHIP) claims totaling approximately $2.5 billion per year. It is a high risk and complex information system that connects various commercial off-the-shelf software.

**Cause:** Competing priorities

**Effect:** Lack of proper control could potentially lead to fraud, abuse, disclosure of protected health information, or other unintentional errors

**Recommendation:** We recommend that the Department work with the fiscal agent to improve access controls within the MIHMS system.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The Department notes that significant progress has been made in this area in the past twelve months. Reviews of individual user access have been on-going. The final step, revision of the access permitted within specific user roles, is scheduled to begin in March 2013. This is a joint review between State and Molina security analysts.*

***Contact:*** *Roger Bondeson, Director of Operations, MaineCare Services, 287-2705*

**(12-1106-11)**

**Title:** The Decision Support System/Data Warehouse is not reconciled to the Statewide accounting system

**Prior Year Finding:** 11-1106-11
**State Department:** Health and Human Services
**State Bureau:** Office of MaineCare Services
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
Children's Health Insurance Program (CHIP)
**CFDA #:** 93.720; 93.775; 93.777; 93.778; 93.767
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP
05-1105ME5021; 05-1205ME5021

**Compliance Area:** Activities allowed or unallowed
Allowable costs/cost principles

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

# MEDICAID CLUSTER

**Criteria:** 2 CFR Part 225, Appendix A, Section C(1)(j) Cost Principles for State, Local, and Indian Tribal Governments requiring that costs be adequately documented.

**Condition:** The Department did not have procedures in place to routinely reconcile the Decision Support System/Data Warehouse (DSS/DW) to the Statewide accounting system. In addition, the DHHS Finance Unit was not able to provide the support necessary to reconcile the DSS/DW to the Statewide accounting system for fiscal year 2012. Paid claims stored in the DSS are not readily reconcilable to the Statewide accounting system with the data elements currently available.

**Context:** The Maine Integrated Health Management Solution (MIHMS) system processes Medicaid and CHIP claims totaling approximately $2.5 billion per year. It is a high risk and complex information system that connects various commercial-off-the-shelf software. MIHMS claim payment data is stored in the DSS/DW.

**Cause:** State personnel have not developed an understanding regarding how to reconcile the DSS/DW to the Statewide accounting system.

**Effect:** Incomplete or inaccurate financial data in the DSS/DW could potentially lead to administrative inefficiencies, incorrect decision-making, incorrect financial reporting or budgeting, and posting of adjusting journals that are incorrect.

**Recommendation:** We recommend that the Department work with their fiscal agent to develop a method that will facilitate a reconciliation of claim payments to the Statewide accounting system as well as provide a readily accessible audit trail of claims.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services and its Service Center agree with the finding.*

*Claim data is only reconcilable by paid date and service date in the DSS and does not tie to a payment batch date in AdvantageME, the State accounting system. Claim transactions need to be aligned to a batch in AdvantageME to be reconcilable.*

*The corrective action plan to address this issue is currently in process. We have submitted, to our vendor Truven, a formal change request to improve our Financial DSS/DW. Additionally, it has been acknowledged by the MIHMS vendor Molina who subcontracts to Truven for DSS/DW hosting and support that the current DSS/DW solution that is in place does not satisfy our financial reporting needs. The corrective action is planned to be in place by 12/31/2013. Additional expansion of the available reporting data set may continue into the first half of Calendar Year (CY) 2014.*

*The percentage of data and dollar amounts affected by the issue is moderate to relatively small. End users familiar with the data inconsistencies have been able to effect reliable results when the DSS is used from trend reporting, comparative analysis and forecasting. However, this issue prevents the ability to use the DSS to provide accurate supporting subsidiary ledger type detail which ties to the AdvantageME claims payment cycles.*

*Corrective action related to data accuracy, integrity and completeness includes Molina and Truven's implementation of balancing integrity checks between data source and destination as well as scheduled database builds that resolve incorrect data sent to the DSS and/or missing data issues. While best practices for data warehousing integrity were not in place initially, Truven and Molina continue to review best practice in these areas and identify opportunities for improvement.*

*With continued commitment from Molina and Truven DW/DSS reporting concerns identified in the 2011 & 2012 audit are on the path to being resolved. Additionally, many needs have been identified and related improvements implemented during State Fiscal Year 2013.*

***Contact:*** *Steve Garrant, Director of Benefit Analytics, OMS, 215-5879*
*Sarah Gove, Senior Managing Accountant, DHHSSC, 287-6390*

**(12-1106-12)**

**Title:** Procedures to ensure proper crediting of Federal share of "cost of care" recoupments and procedures to ensure "cost of care" is properly deducted need improvement

**Prior Year Finding:** 11-1106-14
**State Department:** Administrative and Financial Services
Health and Human Services
**State Bureau:** Health and Human Services Service Center
Office of MaineCare Services
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
**CFDA #:** 93.720; 93.775; 93.777; 93.778
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP

**Compliance Area:** Activities allowed or unallowed
Allowable costs/cost principles

**Type of Finding:** Significant deficiency/Questioned costs

**Known Questioned Costs:** $803

**Likely Questioned Costs:** Undeterminable

**Criteria:** 2 CFR Part 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, Attachment A); 42 CFR §435.725 Post-eligibility treatment of income of institutionalized individuals in SSI states: application of patient income to the "cost of care"; MaineCare Eligibility Manual, Part 14

**Condition:** The Department did not ensure "cost of care" was properly deducted prior to paying claims nor did they credit the Federal government with the proper share of "cost of care" recoupments.

- In a test of 60 paid claims, "cost of care" was not properly deducted for one nursing facility claim. The Department was unable to verify that this issue was isolated to this one member.
- Not all recoupments related to nursing facility and intermediate care facility overpayments were properly allocated between the General and Federal funds after October 2011. A disproportionate share of these recoupments was credited to the General Fund.

**Context:** Medicaid recipients may be responsible for paying a portion of their cost of care. Approximately $3.6 million in "cost of care" overpayments related to nursing facilities and intermediate care facilities were recouped in fiscal year 2012.

**Cause:**

- The "cost of care indicator" for one member was inadvertently removed from the electronic system. It remains unclear as to whether this affected other members as well.
- Uncertainty of how "cost of care" recoupments should be recorded in the State's accounting system

**Effect:** Potential current and future disallowances

**Recommendation:** We recommend that the Department ensure the necessary system corrections are made, including establishing controls to properly deduct "cost of care" when applicable. We further recommend that the Department credit the Federal program accounts for the appropriate share of "cost of care" recoupments related to nursing facilities and intermediate care facilities.

**Management's Response/Corrective Action Plan:** *The State Department of Health and Human Services and its Service Center agree with this finding.*

*The State Cost of Care group plans to analyze the past cost of care data, determine the corrective action, and to make the appropriate CMS 64 reporting adjustments and journal adjustments. The corrections will be done by June 30, 2013.*

*Also, beginning 1/1/2013 the State moved to a new MaineCare receivables process that reports the Federal share appropriately and returns funds identified up front. In addition this new process uses a field in the accounting system to clearly identify the applicable receivables by type, which includes cost of care.*

***Contact:*** *David Whitt, Deputy Director DHHS Service Center, 215-1586*

# MEDICAID CLUSTER

**(12-1106-14)**

**Title:** Provider eligibility procedures need improvement

**Prior Year Finding:** 11-1106-12
**State Department:** Health and Human Services
**State Bureau:** Office of MaineCare Services
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
**CFDA #:** 93.720; 93.775; 93.777; 93.778
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP

**Compliance Area:** Special tests and provisions

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 42 CFR §431.107(b)(4) Advance Directives; 42 C FR §455.105(b) Business Transactions

**Condition:** The Office of MaineCare Services does not have controls in place to ensure that provider agreements contain all required provisions. Provider agreements do not include a provision that the provider agrees to comply with advance directive requirements. In addition, the agreements do not include provisions to ensure the disclosure of information related to certain types of business transactions.

**Context:** All providers were re-enrolled as part of the implementation of the Maine Integrated Health Management Solution (MIHMS) system on September 1, 2010 operated by a fiscal agent.

**Cause:** Unfamiliarity with program requirements

**Effect:**

- Potentially ineligible providers being allowed to participate in the program
- Potential questioned costs and disallowances
- Noncompliance with required provider documentation requirements

**Recommendation:** We recommend that the Department modify provider enrollment forms and provider agreements to meet the advance directive and business transaction requirements.

**Management's Response/Corrective Action Plan:** *The Department of Health and H uman Services agrees with this finding.*

*The Department has requested the necessary changes in language and a system change request has been issued to move the updated agreement to the Provider Portal.*
*We anticipate that this change will be completed by May 31, 2013.*

***Contact:*** *Beth Ketch, Director of Policy, OMS, 287-4078*

# SNAP CLUSTER

**(12-1108-01)**

**Title:** Cash management procedures need improvement

**Prior Year Finding:** No
**State Department:** Administrative and Financial Services
**State Bureau:** Health and Human Services Service Center
**Federal Agency:** U.S. Department of Agriculture
**CFDA Title:** SNAP Cluster
**CFDA #:** 10.561
**Federal Award #:** 4ME400401; 4ME420408; 4ME430421

**Compliance Area:** Cash management

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 31 CFR Part 205 (Subpart B) Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement

**Condition:** The Department did not minimize the time between the drawdown and disbursement of Federal funds for the administrative portion of the SNAP Cluster (CFDA # 10.561). Federal regulations require that the timing of the drawdown of Federal funds be as close as administratively feasible to the date of disbursement. The administrative portion of the SNAP Cluster maintained an average of 12 days cash on hand throughout the fiscal year.

**Context:** The Department drew approximately $12.7 million in SNAP Cluster administrative funds during fiscal year.

**Cause:** Inadequate procedures

**Effect:** The Federal government may require the use of a more stringent cash drawdown method for the program.

**Recommendation:** We recommend strengthening procedures to better monitor cash balances and the number of days cash is on hand.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services and its Service Center agree with the finding.*

*The Service Center has implemented a reconciliation between draws and expenditures that also factors in returns for offsets. This increased control will decrease the number of days cash is on hand. This new process was implemented in the first half of State Fiscal Year 2013.*

***Contact:*** *Sarah Gove, DHHS Service Center, Senior Managing Accountant, 287-6390*

# FOSTER CARE – TITLE IV-E

**(12-1109-01)**

**Title:** Payroll costs not properly documented

**Prior Year Finding:** No
**State Department:** Administrative and Financial Services
**State Bureau:** Health and Human Services Service Center
**Federal Agency:** U.S. Department of Health and Human Services, ACFS
**CFDA Title:** Foster Care Title IV-E
**CFDA #:** 93.658
**Federal Award #:** 1201-ME-1401

**Compliance Area:** Allowable cost/cost principles

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 2 CFR Part 225 Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87) Attachment B - Support for salaries and wages

**Condition:** The Department did not have adequate procedures in place to ensure that salaries and wages were supported in accordance with Federal cost principles. These cost principles require that when employees are expected to work solely on a single Federal award, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification.

**Context:** The Department did not require periodic certifications for five of six employees whose compensation costs were charged 100% to the program.

**Cause:** Payroll system task codes were not available for program employees to properly document and certify their time.

**Effect:** Salaries and wages charged to the program may not be allowable.

**Recommendation:** We recommend that the Department implement procedures to ensure that payroll costs are properly documented in accordance with Federal cost principles.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this recommendation.*

*The Office of Child and Family Services will work with DHHS Financial Services to add additional task codes in the Time and Attendance Management System for the identified eligibility workers. This will ensure proper documentation of payroll costs in accordance with Federal cost principals. The task codes should be in place by June 30, 2013.*

***Contact:*** *Robert Blanchard, Associate Director, Office of Child and Family Services, 624-7955*

# FOSTER CARE – TITLE IV-E

**(12-1109-02)**

**Title:** Procedures not adequate to ensure payments are made only for allowable costs

**Prior Year Finding:** No
**State Department:** Administrative and Financial Services
**State Bureau:** Health and Human Services Service Center
**Federal Agency:** U.S. Department of Health and Human Services, ACFS
**CFDA Title:** Foster Care Title IV-E
**CFDA #:** 93.658
**Federal Award #:** 1201-ME-1401

**Compliance Area:** Allowable costs/cost principles

**Type of Finding:** Questioned costs

**Known Questioned Costs:** $90,069

**Likely Questioned Costs:** $90,069

**Criteria:** 42 USC § Definitions; 45 CFR § 1356.60 Fiscal Requirement (IV-E)

**Condition:** The Department improperly requested reimbursement twice for $180,137 in training costs. Training costs are reimbursed at a Federal financial participation rate of 50%, resulting in an over-reimbursement of $90,069.

**Context:** The Federal share of training and administrative costs during the audit period was $10.6 million

**Cause:** Templates used to prepare financial status reports contained flawed formulas.

**Effect:**
- Inaccurate Federal financial status reports
- Excess Federal financial participation

**Recommendation:** We recommend that the Department make a correction to their financial status report template and report a prior quarter adjustment on their next quarterly Financial Status Report to correct the noted excess reimbursement.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services and its Service Center agree with the finding.*

*The Service Center has a new template effective October 1, 2012, that includes training costs being claimed from the Cost Allocation Plan and flawed formulas no longer exist. This audit finding will be paid back on the next quarterly financial status report following the audit number being released to reference this finding.*

***Contact:*** *Sarah Gove, DHHS Service Center, Senior Managing Accountant, 287-6390*

# TANF CLUSTER

**(12-1111-01)**

**Title:** Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges

**Prior Year Finding:** No
**State Department:** Administrative and Financial Services
**State Bureau:** Office of Information Technology
Office for Family Independence
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** TANF Cluster
Medicaid Cluster
SNAP Cluster
**CFDA #:** 93.558; 93.775; 93.777; 93.778; 10.551; 10.561
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP;
1102METANF; 1102METANF; 1202METANF;
4ME400401; 4ME420408; 4ME430421

**Compliance Area:** Special tests and provisions

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 42 USC 1320b-7 Income and Eligibility Verification System; 42 CFR §431.625 Coordination of Medicaid with Medicare Part B; US Department of HHS, State Buy-In Manual (various sections); 45 CFR §92.20 Standards for Financial Management Systems; 2 CFR 225 (Attachment A, paragraph C) Cost Principles for State, Local, and Indian Tribal Governments ; HHS pub. A SMB, C-10; State Information Technology Security Policies, Procedures and Guidelines

**Condition:** Office of Information Technology (OIT) internal controls over federally required Income and Eligibility Verification System (IEVS) data exchanges are inadequate. Overall, we noted:

- The lack of institutional knowledge within OIT regarding IEVS and documentation to describe methods used to process IEVS related data exchanges is inaccurate and outdated.
- Inadequate monitoring practices and feedback controls present a risk that some exchanges are being performed needlessly or in an insecure manner.

In a test of 37 IEVS data exchanges, we noted the following:

- OIT Staff did not re-run one failed exchange (job) we tested.
- Four test jobs were identified as defunct; yet were still scheduled to run on a daily basis. These jobs still ran, receiving inbound and transmitting outbound records - despite their "defunct" status.
- One job tested is scheduled to run only when “a BMV (Bureau of Motor Vehicles) file is present", yet no records were produced when the job was run.

- Thirteen inbound jobs we tested were identified with a bogus remote IP address, rather than accurate information
- For three jobs tested OIT does nothing with the IEVS information received
- Six jobs run nightly seem to be experiencing problems during processing because no records are generated
- Another job tested was always manually processed by an employee who retired in November 2012. Current OIT staff can provide no information regarding this data transmission between SSA and the State, including the last date it was processed.

The results of a separate test of the four major inbound jobs indicated that the State does not necessarily receive all information sent to it from the SSA. We noted that total batch records sent by the SSA did not agree with the records received by ACES in two of the four instances tested – differences were for the two largest inbound data exchanges (BEER and BENDEX).

**Context:** The State is required to comply with Federal IEVS exchange rules and regulations in accordance with State Medicaid, TANF and SNAP agreements or risk financial penalties of up to two percent of State Federal assistance grants**.**

**Cause:**

- Ineffective communication between DHHS system owners and OIT service providers to ensure compliance with State and Federal requirements; and the lack of an in-house project manager accountable for this activity.
- The current DAFS-OIT-DHHS technology servicing structure does not hold any person or group of personnel appropriately accountable for these technology processes.
- Insufficient number of OIT personnel assigned to this effort
- Data exchanges are not tested periodically to ensure continued compliance with Federal regulations.
- System batch jobs relevant to IEVS were designed more than twenty years ago and over time have not been reviewed and maintained in an ongoing basis by OIT
- Lost institutional knowledge within OIT due to the retirement of one technical staff person with no backup process in place or adequate training of replacement personnel poses a business risk

**Effect:**

- Potential sanctions from Federal oversight entity
- Potential disallowed costs resulting from ineligible clients
- Exchanges may be performed needlessly or in an insecure manner

**Recommendation:** We recommend that the OIT:

- Document and periodically review the reasonableness of current IEVS exchanges with knowledgeable Medicaid, TANF and SNAP program experts to ensure that program eligibility and security compliance rules and regulations continue to be adhered to.
- Establish a feedback exchange method to provide assurance that all eligibility records sent from the SSA or CMS were, in fact, received by the State; and that all eligibility records sent from the State were, in fact, received by the SSA or CMS.
- Increase the number of OIT personnel assigned to this effort.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*The Department is working to correct the areas of the Income and Eligibility Verification System (IEVS) that have been identified as being weak or deficient. Implementation of a complete and full documentation library for each exchange is underway. A comprehensive review for all exchanges jobs is also underway. A program of interface job modification is being planned. Both program and technology management is aware of position challenges that have an impact on IEVS data interfaces and exchanges; options to address these challenges are currently under consideration.*

*At the time of the audit, a number of deficiencies/areas of improvement had already been identified by the ACES team. We are in the process of addressing these challenge areas. The audit findings have confirmed the areas of improvement and highlighted a few other areas that need attention. We agree with the finding, have a mitigation strategy and are currently working to correct these areas. A complete detailed corrective action plan is on file at the Department. A tentative completion date for corrective action is September 2013.*

***Contact:*** *John DeWitt, System Team Lead – ACES, 624-5662*

**(12-1111-02)**

**Title:** Income Eligibility and Verification System procedures need improvement

**Prior Year Finding:** 11-1111-01
**State Department:** Health and Human Services
**State Bureau:** Office for Family Independence
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** TANF Cluster
Medicaid Cluster
SNAP Cluster
**CFDA #:** 93.558; 93.775; 93.777; 93.778; 10.551; 10.561
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP;
1102METANF; 1102METANF; 1202METANF;
4ME400401; 4ME420408; 4ME430421

**Compliance Area:** Special tests and provisions

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 42 USC 1320b-7 Income Eligibility and Verification System; 45 CFR §205.56 Requirements Governing the Use of Income and Eligibility Information; Maine Public Assistance Manual; Maine Medicaid Manual; Maine Food Stamp Certification Manual

# TANF CLUSTER

**Condition:** Policies and procedures in place to ensure that Income Eligibility and Verification System (IEVS) information is utilized in determining eligibility and level of benefits or in maintaining case records in the Automated Client and Eligibility System (ACES) are not always followed.

Our testing indicated that the Department did not document any follow-up for 17 of the 60 client cases examined:

- Quarterly Earnings Discrepancy report
  One of three wage discrepancy alerts were not addressed
- Prisoner Verification Details
  None of the 3 alerts related to benefits, incarceration, or living arrangements were addressed
- Buy-In Supplement Security Income (SSI) Status report
  Four of 15 alerts that indicated "SSI ending" were not addressed
- Buy-In Discrepancy report
  Three of 15 alerts that indicated "CMS close – client moved out of State (1728)" were not addressed
- Buy-In Discrepancy report
  Six of 15 alerts that indicated "CMS close – client deceased (16)" were not addressed

**Context:** The State is required to comply with Federal IEVS exchange rules and regulations in accordance with State Medicaid, TANF and SNAP agreements. Many of these data exchanges involve "Buy-In". Buy-in refers to the payment of Medicare premiums by the Medicaid program for certain individuals eligible for Medicare.

**Cause:**

- While there seems to be efforts taken by eligibility workers in the Bangor and Augusta offices to use the Buy-In related match reports, these same efforts do not take place as frequently in other DHHS offices.
- The information in the "Prisoner Verification Details" match reports were found to be incomplete or outdated; prison staff is identified as uncooperative with eligibility workers who try to obtain more accurate information for updating client case records.

**Effect:**

- The Federal government may penalize a State for up to two percent of the State family assistance grant for noncompliance
- Potential disallowed costs resulting from ineligible clients

**Recommendation:** While we recognize that improvements have been made concerning the use of IVES data exchanges, we recommend that the Department:

- Continue with IEVS training efforts that outline the methods to be used to document case action taken in response to IEVS alert information presented in match reports
- Implement procedures to ensure that information in the "Prisoner Verification Details Reports" are accurate; and to develop a cooperative relationship or process with State prison personnel

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding*

*OFI will continue the IEVS training efforts it has already successfully implemented in all the regional offices. OFI's Director will attempt to establish a cooperative relationship with his counterpart in the Department of Corrections. OFI will also explore other automated and manual processes to assist front line staff with IEVS data exchanges.*

*These corrective actions should be completed by 12/31/2013.*

***Contact:*** *Anthony Pelotte, Division Director, OFI, 624-4104*

# SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

**(12-1113-01)**

**Title:** Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency

**Prior Year Finding:** No
**State Department:** Administrative and Financial Services
**State Bureau:** Health and Human Services Service Center
**Federal Agency:** U.S. Department of Agriculture
**CFDA Title:** Special Supplemental Nutrition Program for Women, Infants, and Children
**CFDA #:** 10.557
**Federal Award #:** 4ME700701

**Compliance Area:** Reporting

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 2 CFR Part 170.320 Federal financial assistance subject to the Transparency Act

**Condition:** The amount reported on the FFATA report for contractors differed significantly from the amount of the actual award. Estimates of food of approximately $17 million were omitted from the FFATA report.

**Context:** There are eight contracts with local agencies, totaling $20,653,587 that were required to be reported under FFATA.

**Cause:** Misunderstanding of the amount to be reported

**Effect:** Lack of transparency related to amounts awarded to contractors

**Recommendation:** We recommend that DHHS personnel responsible for FFATA reporting report all funds obligated by contractors.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*We will amend the FFATA postings for FFY 2012 for the eight contracts to show the correct amount of the award. The FFATA postings for FFY 2013 will be reviewed and amended as needed.*

*Currently, FFATA reporting procedures are being reviewed in order to ensure that all amounts that should be FFATA reported are reported including Food Allotment amounts associated with providers. A tentative date for completed corrective action is May 1, 2013.*

***Contact:*** *Bert Batchelor, CPA, Financial Analyst, DHHS/DPFC, 446-4731*

# IMMUNIZATION CLUSTER

**(12-1118-03)**

**Title:** Hours worked for the program not adequately documented.

**Prior Year Finding:** No
**State Department:** Health and Human Services
**State Bureau:** Centers for Disease Control
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Immunization Cluster
**CFDA #:** 93.268; 93.712
**Federal Award #:** 5H23IP122558-09; 5H23IP122558-10;
3U50CI123809-05S2; 3H23IP122558-07S1

**Compliance Area:** Activities allowed or unallowed
Allowable costs/cost principles

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 2 CFR Part 225 Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87 Appendix B) - Support for salaries and wages

**Condition:** Three employees' time was charged to the Immunization Program based on what appears to be budgeted percentages rather than actual hours worked, time studies or an approved cost allocation plan, as required by OMB Circular A-87.

**Context:** Personnel involved included two administrative assistants who support various functions and programs within the Maine Centers for Disease Control (CDC) and one epidemiologist who supported the Immunization Program as well as other programs administered the Maine CDC. Each of these staff members consistently charged the same percentage of their time to the Immunization Program each week.

**Cause:** Agency personnel were not aware of the requirements of OMB Circular A-87.

**Effect:** Potential disallowance of expenditures by the Federal government.

**Recommendation:** We recommend that the Department accurately record actual hours worked for the program or include the employees' payroll expenditures in a cost pool and allocate hours based on an approved cost allocation plan.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services agrees with this finding.*

*There were staff identified in this finding that may not have been recording actual hours worked according to the OMB Circular A-87.*

# IMMUNIZATION CLUSTER

*Both Program Managers that oversee the funding for this staff member (epidemiologist) have met with the staff to address the work that needs to be completed for both programs and has asked the staff to make sure when completing her time sheet that she accurately chooses the correct Time and Attendance Management System (TAMS)/tasks code for the actual hours worked for each project. This meeting occurred in February 2013. This employee will continue to work as close to the 80/20 program code split to meet both programs responsibilities and needs. On each Friday she will assess her time worked for the week and then determine what work needs to be done on Friday to meet both program requirements. Time sheets will be reviewed by her immediate supervisor and signed off on every two weeks, this will validate that the work has been performed and accounted for accurately. Program Managers will document this expectation and procedure.*

*We are working with the DHHS Service Center to determine a cost allocation solution for the administrative staff position that will be best suited for the needs of the Division. This solution will be implemented by June 1, 2013.*

***Contact:*** *Lori Wolanski, Division Director of Infectious Disease, MeCDC, 287-6448*

# CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)

**(12-1140-01)**

**Title:** Federal cash management procedures need improvement

**Prior Year Finding:** No
**State Department:** Administrative and Financial Services
**State Bureau:** Health and Human Services Service Center
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Children's Health Insurance Program (CHIP)
**CFDA #:** 93.767
**Federal Award #:** 1Z0C30541A

**Compliance Area:** Cash management

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 31 CFR Subpart A §205 Rules applicable to Federal assistance programs included in a Treasury-State Agreement

**Condition:** The Department did not follow requirements outlined in the Treasury-State Agreement (TSA) on cash management. Federal program cash drawdowns are not being made in a manner consistent with the methodology prescribed by the TSA. Four of 19 drawdowns tested were not in compliance with the prescribed methodology. All four drawdowns were from the Children's Health Insurance Program Reauthorization Act's quality demonstration grant.

**Context:** CHIP expended approximately $31 million in Federal funds during the fiscal year.

**Cause:**
- Inadequate procedures
- Insufficient cash in account to comply with TSA requirements

**Effect:**
- Potential interest liability to the Federal government
- The possibility that the Federal government could impose more stringent cash management requirements on the State for programs in noncompliance

**Recommendation:** We recommend that the Department follow procedures outlined in the Treasury-State Agreement on cash management to ensure that Federal funds are drawn in compliance with Federal requirements.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services and its Service Center agree with the finding.*

# CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)

*The Department is working with the Office of the State Controller to complete the necessary procedures in order to place the CHIPRA Account on Estimated Revenue in order to assure compliance with the TSA's requirements. This corrective action should be completed before June 30, 2013.*

***Contact:*** *Sarah Gove, DHHS Service Center, Senior Managing Accountant, 287-6390*

**(12-1140-02)**

**Title:** Procedures to ensure that local matching funds (certified seed) are met need improvement

**Prior Year Finding:** 11-1140-02
**State Department:** Health and Human Services
**State Bureau:** Office of MaineCare Services
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
Children's Health Insurance Program (CHIP)
**CFDA #:** 93.720; 93.775; 93.777; 93.778; 93.767
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP;
05-1105ME5021; 05-1205ME5021

**Compliance Area:** Matching, level of effort, earmarking

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 45 CFR §92.20 Standards for Financial Management Systems

**Condition:** Certain providers, called "certified seed providers," are required to provide the non-Federal matching funds for all claims they submit. Certified seed budgets are established within the Maine Integrated Health Management Solution (Flexi Financial) system with available matching funds. This budget amount is reduced each time a seed claim is paid. Once the certified seed budget is fully expended, no further claims should be paid as no funds are available to match the Federal funds. However, instances were found where the Federal share of the claim was paid despite a fully expended certified seed budget.

**Context:** Approximately $9 million in claims were paid to certified seed providers in fiscal year 2012.

**Cause:** Improper programming logic

**Effect:** Had there not been alternative sources of local matching funds, the non-Federal match may not have been met.

**Recommendation:** We recommend that the Department continue developing business process controls that will ensure payments are made only to certified seed providers with non-Federal match available.

**Management's Response/Corrective Action Plan:** *The Department of Health and H uman Services and its Service Center agree with the finding.*

*In State Fiscal Year 2013, this certified seed payment methodology ended and now all providers are paid with State and Federal portions with a reimbursement back from the Department of Education through a Memorandum of Understanding for the State share of those payments made to school-based providers.*

***Contact:*** *Sarah Gove, Managing Staff Accountant, DHHS Service Center, 287-6390*

**(12-1140-03)**

**Title:** Incorrect client eligibility determinations

**Prior Year Finding:** 11-1106-16
**State Department:** Health and Human Services
**State Bureau:** Office for Family Independence (OFI)
Office of MaineCare Services (OMS)
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Children's Health Insurance Program (CHIP)
**CFDA #:** 93.767
**Federal Award #:** 05-1105ME5MAP; 05-1205ME5MAP;
05-1105ME5021; 05-1205ME5021

**Compliance Area:** Eligibility

**Type of Finding:** Material weakness/Material noncompliance/Questioned costs

**Known Questioned Costs:** $1,321 (CHIP)
-$1,124 (Medicaid)

**Likely Questioned Costs:** $4.018 million (CHIP)
-$3.43 million (Medicaid)

**Criteria:** MaineCare Eligibility Manual; State Plan for Medicaid and State Plan for CHIP

**Condition:** The Department does not have adequate procedures to determine individual eligibility for the CHIP program or to charge the appropriate program for the associated costs of eligible individuals. In our sample, we noted the following:

- Claims for seven clients were incorrectly paid by the CHIP program. These clients had income below the 126% Federal Poverty Level (FPL), which made them eligible for Medicaid, rather than Medicaid Expansion.

- A claim for one client was incorrectly paid by the CHIP program. This client had income below the 134% FPL, which made the client eligible for Medicaid, rather than Medicaid Expansion.
- One claim was incorrectly paid by the CHIP program. The caseworker applied the childcare expense to the child as opposed to the parent. As a result, childcare expense was never included in the client's eligibility determination. The client should have been eligible for Medicaid, rather than Medicaid Expansion.
- One claim was incorrectly paid by the CHIP program. The caseworker incorrectly applied a known workaround that is necessary when one family member receives Social Security Disability Insurance. With the correct income allocation, the client would have been eligible for Medicaid, rather than CubCare.
- One client was incorrectly deemed eligible for CubCare. Based on a data exchange with the Social Security Administration (SSA) the client's income was changed in Maine's Automated Client Eligibility System (ACES). However, due to the way ACES handles SSA data exchanges, a redetermination was not initiated for this client at that time. Based on the client's income change, the client would have been eligible for Medicaid, rather than CubCare.

**Context:** ACES determines eligibility for the Department's public welfare programs. ACES eligibility information interfaces with the Data Hub which in turn links with the claims payment system.

**Cause:**

- Complex methods and criteria used to classify the underlying reasons that individuals are deemed eligible or ineligible
- Caseworker error
- Eligibility determinations made in ACES did not always get transferred correctly to the MIHMS system. This resulted in payments being made by incorrect programs
- Eligibility, payment, accounting and information technology functions are managed by separate organizational units which can impede problem identification and resolution

**Effect:**

- Costs may be charged to an incorrect State or Federal program
- Costs paid on be half of ineligible individuals reduce funds available for eligible individuals
- Eligibility errors may result in significant noncompliance with Federal regulations
- Current and possible future questioned costs

**Recommendation:** We recommend that the Department:

- Strengthen procedures to ensure that Medicaid and CHIP eligibility is properly determined in the electronic information system
- Provide resources necessary to resolve issues with the interface of data between ACES and the claims payment system

**Management's Response/Corrective Action Plan:** *The Department agrees partially with the findings outlined in this audit.*

*We do agree that eligibility was determined incorrectly in one case. The ACES system correctly determined eligibility in the other cases; however the appropriate category did not end up in the claims system MIHMS.*

*We can't give an opinion on the cause of the problem at this time. In addition, we can't determine that the questioned costs are correct. DHHS will conduct a review involving representatives from OMS and the Data hub teams and OFI to investigate the finding in order to determine the cause of this problem. Once the cause has been determined, we will be able to identify the amount of questioned costs and implement a corrective action. This review should be complete by December 31, 2013.*

***Contact:*** *Anthony Pelotte, Division Director, OFI, 624-4104*

**Auditor's Conclusion:** It is our understanding that the Departments' only partial agreement with this finding is due largely to the projection of likely questioned costs. We selected and tested our sample based on generally accepted auditing standards, and projected likely questioned costs based on the resulting error rate.

The finding remains as stated.

# TITLE I, PART A CLUSTER

**(12-1200-01)**

**Title:** Noncompliance with subrecipient cash management requirements

**Prior Year Finding:** 11-1200-01
**State Department:** Education
**State Bureau:** Support Systems Team – Education Finance
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Title I, Part A Cluster
Special Education Cluster (IDEA)
Twenty-First Century Community Learning Centers
Improving Teacher Quality State Grants
**CFDA #:** 84.010; 84.389; 84.027; 84.173; 84.391; 84.392; 84.287; 84.367
**Federal Award #:** S010A110019A; S010A100019A; S010A090019A; S389A090019A; H027A110109A; H027A100109A; H027A090109A; H173A110115; H173A100115; H173A090115; H391A090109A; H392A090115A; S287C110019; S287C100019; S367A110018; S367A100018; S367A090018

**Compliance Area:** Cash management

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 34 CFR Subtitle §80.37 & §80.20 Uniform administrative requirements for grants and cooperative agreements to State and local governments

**Condition:** During Fiscal Year 2012 the Department transitioned to a reimbursement system to process and disburse funds to subrecipients. The reimbursement requests obtained from subrecipients contained only summary level expenditure data in support of the reimbursement request and the Department did not have adequate procedures in place to ensure the reimbursement requests were supported by actual expenditures of the subrecipients.

**Context:** Approximately 180 subrecipients expended a total of approximately $112.1 million in fiscal year 2012.

**Cause:** Inadequately designed procedures

**Effect:** Subrecipients receiving funding were not monitored by the Department for compliance with cash management requirements.

**Recommendation:** We recommend that the Department modify procedures to ensure compliance with Federal cash management requirements.

**Management's Response/Corrective Action Plan:** *The Department agrees with the finding.*

*The Sub-recipient Monitoring Committee is scheduled to meet April 11, 2013. The committee will discuss and develop an efficient and effective protocol for reviewing reimbursed expenditures to ensure compliance with Federal requirements regarding sub-recipient monitoring across the Federal programs impacted by this finding. The Department expects to have the new protocol fully implemented by July 1, 2013.*

***Contact:*** *Heather Neal, Fiscal Review and Compliance Supervisor, Education, 624-6863*

**(12-1200-02)**

**Title:** Noncompliance with period of availability requirements

**Prior Year Finding:** No
**State Department:** Administrative and Financial Services
**State Bureau:** General Government Service Center
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Title I, Part A Cluster
**CFDA #:** 84.010
**Federal Award #:** S010A090019A

**Compliance Area:** Period of availability

**Type of Finding:** Questioned costs

**Known Questioned Costs:** $13,654

**Likely Questioned Costs:** $13,654

**Criteria:** 34 CFR Subtitle §76.703 through §76.710 Uniform administrative requirements for grants and cooperative agreements to State and local governments

**Condition:** During the fiscal year, the Department made payments totaling $13,654 outside of the period of availability of Federal funds, ranging from four to 43 days after the expiration of the liquidation period.

**Context:** U.S. Department of Education regulations require that Federal grant funds be obligated by the end of the grant period, typically 27 months after the award. These regulations also require that obligations be liquidated within 90 days of the end of the grant period.

**Cause:**

- Misinterpretation of regulations applicable to Federal grant period of availability
- Lack of procedures to obtain subcontract billing in adequate time to effectively liquidate outstanding obligations
- Lack of communication between Departments

**Effect:**

- Possible repayment of unallowable costs to the U.S. Department of Education
- Possibility that obligated expenditures of the Department and its subrecipients cannot be applied toward available Federal grant funding

**Recommendation:** We recommend that the Department modify procedures to ensure compliance with Federal period of availability requirements.

**Management's Response/Corrective Action Plan:** *The Department agrees with this finding, and will improve its documentation on Period of Availability requirements. Procedures will be updated by June 2013.*

***Contact:*** *Darlene Tarr, Managing Staff Accountant, General Government Service Center, 624-7395*

**(12-1200-03)**

**Title:** Procedures to ensure compliance with Treasury-State Agreement for cash management need to be improved

**Prior Year Finding:** 11-1200-03
**State Department:** Administrative and Financial Services
**State Bureau:** General Government Service Center
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Title I, Part A Cluster;
Special Education Cluster (IDEA)
Child Nutrition Cluster
State Fiscal Stabilization Fund Cluster
**CFDA #:** 84.010; 84.389; 84.027; 84.391; 10.555; 84.394
**Federal Award #:** S010A100019A; S010A090019A; S389A090019A; H027A100109A; H027A090109A; H391A090109A; 4ME300301; S394A090020

**Compliance Area:** Cash management

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 31 CFR Subpart A §205 Rules Applicable to Federal Assistance Programs Included in a Treasury-State Agreement

**Condition:** The Department did not follow the cash management requirements outlined in the Treasury-State Agreement (TSA). Federal program cash drawdowns are not being made in a manner consistent with the methodology prescribed by the TSA. Thirty-three of 70 drawdowns tested were not in compliance with the prescribed methodology. During the fiscal year, the level

of noncompliance was worsened by the return of approximately $9.9 million of excess cash from Local Educational Agencies (LEAs).

**Context:** The four CFDA numbers cited above expended a total of $166.3 million in fiscal year 2012.

**Cause:**
- Inadequate procedures
- Insufficient understanding of the requirements of the TSA
- Return of $9.9 million from LEAs

**Effect:**
- Potential interest liability to the Federal government
- The possibility that the Federal government could impose more stringent cash management requirements for programs in noncompliance

**Recommendation:** We recommend that the Department follow procedures outlined in the Treasury State Agreement for cash management to ensure that Federal funds are drawn in compliance with Federal requirements. Furthermore, we recommend that the Department strengthen procedures for managing Federal funds returned to the Department from LEAs.

**Management's Response/Corrective Action Plan:** *The Department agrees with the finding.*

*As of March 2013, the Service Center has adjusted its draw down process to improve timeliness, particularly in the Child Nutrition program. Problems with drawdowns in other programs were the result of insufficient communication and documentation. Documentation will be updated by June 2013.*

***Contact:*** *Darlene Tarr, Managing Staff Accountant, General Government Service Center, 624-7395*

**(12-1200-04)**

**Title:** Federal cash management procedures need improvement

**Prior Year Finding:** 11-1200-04
**State Department:** Administrative and Financial Services
**State Bureau:** General Government Service Center
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Improving Teacher Quality
Education Jobs Fund
**CFDA #:** 84.367; 84.410
**Federal Award #:** S367A100018; S410A100020

**Compliance Area:** Cash management

**Type of Finding:** Significant deficiency

# TITLE I, PART A CLUSTER

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 34 CFR Subpart C §80 Post-Award Requirements, Standards for Financial Management Systems; 31 CFR Subpart B §205 Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement

**Condition:** The Department did not minimize the time between receipt and disbursement of Federal funds for programs not subject to the Treasury-State Agreement for cash management. Six of fifty-five draws tested were in excess of immediate cash needs.

**Context:** The two programs cited expended approximately $38.2 million in fiscal year 2012.

**Cause:** Lack of communication between personnel drawing funds and personnel processing the disbursements

**Effect:** The possibility that the Federal government could impose more stringent cash management requirements for programs in noncompliance

**Recommendation:** We recommend that the Department establish procedures to monitor receipts and disbursements to ensure that Federal funds are drawn down and spent within allowable time frames.

**Management's Response/Corrective Action Plan:** *The Department agrees with the finding.*

*Many of the instances of excess cash were attributable to a one-time change in the processing of payments to subrecipients. This particular issue is not expected to recur. The Service Center is reviewing its process for cash drawdowns, and will work to improve the timeliness of draws overall. The review will be completed by June 2013.*

***Contact:*** *Darlene Tarr, Managing Staff Accountant, General Government Service Center, 624-7395*

**(12-1200-05)**

**Title:** Control procedures related to period of availability requirements need improvement

**Prior Year Finding:** No
**State Department:** Education
**State Bureau:** Support Systems Team – Education Finance
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Special Education Cluster (IDEA)
State Fiscal Stabilization Fund Cluster
**CFDA #:** 84.027; 84.173; 84.391; 84.392; 84.394

# TITLE I, PART A CLUSTER

**Federal Award #:** H027A090109A; H173A090115; H391A090109A; H392A090115A; S394A090020

**Compliance Area:** Period of availability

**Type of Finding:** Significant deficiency/Questioned costs

**Known Questioned Costs:** Undeterminable

**Likely Questioned Costs:** Undeterminable

**Criteria:** 34 CFR Subtitle §76.703 through §76.710 Uniform administrative requirements for grants and cooperative agreements to State and local governments

**Condition:** Internal control procedures related to period of availability of Federal funds need to be improved to ensure that only expenditures that were properly obligated are paid. During the fiscal year, the Department made disbursements from Federal grant funds to Local Educational Agencies (LEAs) which may have included expenditures that were not obligated by the end of the grant period. Auditor noted that LEA grant disbursements occurring in the liquidation period were not supported by documentation which ensured that the requested reimbursements were for amounts obligated during the grant period.

**Context:** U.S. Department of Education regulations require that grant funds be obligated by the end of the grant period, typically 27 months after the award. Approximately 206 LEA grant disbursements amounting to $8.2 million occurred during the liquidation periods.

**Cause:** Inadequate monitoring of LEAs

**Effect:** Possible repayment of unallowable costs to the U.S. Department of Education.

**Recommendation:** We recommend that the Department modify procedures to ensure compliance with period of availability requirements.

**Management's Response/Corrective Action Plan:** *The Department agrees with the finding.*

*Similar to finding 12-1200-01, the Sub-recipient Monitoring Committee is scheduled to meet April 11, 2013. The committee will discuss and develop an efficient and effective protocol for reviewing reimbursed expenditures to actual invoices to ensure that the requested reimbursements were for amounts obligated during the grant period. This new procedure will be established for all applicable Federal programs. The Department expects to have the new protocol fully implemented by July 1, 2013.*

***Contact:*** *Heather Neal, Fiscal Review and Compliance Supervisor, Education, 624-6863*

# SPECIAL EDUCATION CLUSTER

**(12-1201-01)**

**Title:** Noncompliance with earmarking requirements

**Prior Year Finding:** No
**State Department:** Education
**State Bureau:** Special Services
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Special Education Cluster (IDEA)
**CFDA #:** 84.027; 84.391
**Federal Award #:** H027A090109; H391A090109

**Compliance Area:** Earmarking

**Type of Finding:** Questioned costs

**Known Questioned Costs:** $65,846

**Likely Questioned Costs:** $65,846

**Criteria:** 34 CFR § 300.704 State reserves for State-level activities

**Condition:** The Department did not comply with earmarking requirements specifically related to limits on State set-aside funds of the regular and ARRA Special Education School Age Grants to Local Education Agencies (LEAs). The Department expended $65,846 more than allowed.

**Context:** Of the $107.5 million of funding awarded under the regular and ARRA Special Education School Age Grants, the Department was authorized to reserve $6.2 million as a State set-aside for Administration and Other State-level Activities.

**Cause:** Human error

**Effect:** The State Education Agency expenditures for Administration and Other State-level Activities exceeded the authorized amount of State set-aside funds.

**Recommendation:** We recommend that the Department review and improve procedures to ensure compliance with earmarking requirements.

**Management's Response/Corrective Action Plan:** *The Department agrees with the finding.*

*The State set-aside funds are identified in the table that accompanies the grant award.*

*When the Department receives the grant award the amounts for administration, State-level activities and grants are assigned a program code in AdvantageME so that the amount available cannot be overspent.*

*This particular case was caused by human error as the Management Analyst overseeing the grant did not use the table provided with the grant to identify the proper amounts.*

*The Department will request that the accountant in the General Government Service Center confirm the set-aside amounts before entering the budgets into AdvantageME creating a double-check of the data.*

*The Department agrees that expenditures for administration exceeded the amount authorized by $65,846.19 and has returned the funds to the United States Department of Education.*

***Contact:*** *Janice Breton, Director, Special Services, 624-6676*

**(12-1201-02)**

**Title:** During-the-award monitoring procedures need improvement

**Prior Year Finding:** 11-1201-02
**State Department:** Education
**State Bureau:** Special Services
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Special Education Cluster (IDEA)
**CFDA #:** 84.027; 84.173; 84.391; 84.392
**Federal Award #:** H027A110109; H173A110115; H391A090109A; H392A090115A

**Compliance Area:** Subrecipient monitoring

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** OMB Circular A-133, Subpart D, §__.400 (d)(3), Pass-through entity responsibilities.

**Condition:** The Department did not adequately monitor Local Education Agencies (LEAs) to ensure compliance with all Federal regulations. Only ten high risk subrecipients, out of a total of 144 subrecipients, were monitored for compliance with fiscal requirements.

**Context:** Ninety-six percent of program funds are passed through to LEAs, totaling $50 million in fiscal year 2012.

**Cause:** A new monitoring process was developed during fiscal year 2012 to address this deficiency. The Department did not fully implement the process because of time constraints. The new process will utilize risk assessment to identify high risk subrecipients, desk reviews, and other procedures for monitoring compliance with fiscal requirements.

**Effect:** Noncompliance with fiscal requirements could occur and not be detected if monitoring is not conducted.

**Recommendation:** We recommend that the Department continue to develop and implement subrecipient monitoring procedures to address compliance requirements that are fiscal in nature.

**Management's Response/Corrective Action Plan:** *Management agrees with the finding.*

*The Department will continue to develop and implement subrecipient monitoring procedures for fiscal compliance. The process will continue to utilize risk assessment to identify high risk subrecipients requiring monitoring. The Department will also develop and i mplement procedures for monitoring compliance with fiscal requirements for subrecipients who are not determined to be high risk. The process will be fully implemented by February 1, 2014*

***Contact:*** *Janice E. Breton, Director of Special Services, 624-6676*

**(12-1201-03)**

**Title:** Noncompliance with reporting requirements

**Prior Year Finding:** No
**State Department:** Education
**State Bureau:** Special Services
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Special Education Cluster (IDEA)
**CFDA #:** 84.027; 84.173; 84.391; 84.392
**Federal Award #:** H027A110109; H173A110115;
H391A090109A; H392A090115A

**Compliance Area:** Reporting

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 34 CFR § 300.645 Annual report of children served—other responsibilities of the State Educational Agency (SEA).

**Condition:** The Department did not maintain documentation to support the accuracy of the annual child count. In addition, the Department did not obtain required certifications from all Local Educational Agencies (LEAs) that an unduplicated and accurate child count had been made.

**Context:** The annual report of children served is due February 1st each year, based on t he number of children receiving special education services on December 1st of that academic year.

**Cause:**
- High staff turnover
- Lack of monitoring of child count reporting process

**Effect:** Inaccurate child count data could result in incorrect decision making

**Recommendation:** We recommend that the Department obtain certification from all LEAs ensuring that an unduplicated and accurate child count has been made. We further recommend that the Department maintain documentation that enables the State and the U.S. Department of Education to audit the accuracy of the child count.

**Management's Response/Corrective Action Plan:** *The Department agrees with the finding.*

*For the 2013 child count, the Department will ensure that each LEA certifies the accuracy of its submitted child count data. Additionally, the Department will maintain documentation that allows an audit of the accuracy of the child count data. Processes already exist that will be reviewed and strengthened with the new personnel who are responsible for these functions.*

***Contact:*** *Janice E. Breton, Director of Special Services, Maine Department of Education, 624-6676*

**(12-1201-04)**

**Title:** Noncompliance with earmarking requirements

**Prior Year Finding:** 11-1201-01
**State Department:** Education
**State Bureau:** Special Services
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Special Education Cluster (IDEA)
**CFDA #:** 84.173
**Federal Award #:** H173A110115

**Compliance Area:** Earmarking

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 34 CFR § 300.816 Allocation of Formula Subgrants to Local Educational Agencies (LEAs)

**Condition:** The Department did not comply with Earmarking requirements specifically related to the allocation of Special Education Preschool Grants. Incorrect data was used in determining amounts to be allocated to local educational agencies.

**Context:** The Department was awarded $2.5 million for preschool special education programs during fiscal year 2012. The Department is required to allocate a base amount of $1,793,129 to approximately 152 LEAs based on the child count conducted on December 1, 1996; instead DOE

utilized child count data from December 1, 1998. In addition, the Department allocated $1,797,418 to LEAs as the base year component of the award.

**Cause:** Insufficient resources

**Effect:** LEAs may have received disproportionate shares of the Special Education Preschool Grant funds.

**Recommendation:** We recommend that the Department implement procedures to ensure compliance with earmarking requirements.

**Management's Response/Corrective Action Plan:** *The Department accepts the finding.*

*This was a unique situation based on one person's error. It will not be repeated because the same baseline year (1996) is supposed to be used every year and is now in our worksheet for consistent use going forward to ensure compliance with earmarking requirements.*

***Contact:*** *Janice E. Breton, Director of Special Services, Maine Department of Education, 624-6676*

# CHILD NUTRITION CLUSTER

**(12-1203-01)**

**Title:** Agency did not file reports required under the Federal Funding Accountability and Transparency Act

**Prior Year Finding:** 11-1203-04
**State Department:** Education
**State Bureau:** Child Nutrition Services
**Federal Agency:** U.S. Department of Agriculture
**CFDA Title:** Child Nutrition Cluster
**CFDA #:** 10.553; 10.555; 10.556; 10.559
**Federal Award #:** 4ME300301

**Compliance Area:** Reporting

**Type of Finding:** Federal material noncompliance/Material weakness

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 2 CFR Part 170 Reporting subaward and executive compensation information

**Condition:** The Department did not report information required under the Federal Financial Accountability and Transparency Act (FFATA). FFATA requires that recipients periodically report information about first tier subawards or subaward amendments that result in an obligation of $25,000 or more of Federal funds.

**Context:** Child Nutrition Cluster payments to school food authorities totaled approximately $42 million.

**Cause:** The Agency was not aware of FFATA reporting requirements.

**Effect:**

- Inaccurate financial information
- Possible Federal sanctions for not reporting

**Recommendation:** We recommend that the Department implement procedures to ensure compliance with FFATA reporting requirements.

**Management's Response/Corrective Action Plan:** *The Department agrees with the finding.*

*Please note that procedures to submit school meals for Fiscal Year 2012 began after the 2011 audit (latter part of State Fiscal Year 2012); however, the Department did not maintain records to verify that attempts were made to transmit information to the Federal transparency site USAspending.gov.*

*Corrective action will consist of a manual upload process to the Federal Funding Accountability and Transparency Act Subaward Reporting system (FSRS); automated tracking; and, procedures that will verify that records were transmitted to USAspending.gov. Furthermore, the Department will maintain supporting documentation that uploads were successful.*

*A July 1, 2013 implementation date is planned.*

***Contact:*** *Walter Beesley, Education Specialist, 624-6875*

# 21ST CENTURY COMMUNITY LEARNING CENTERS

**(12-1205-01)**

**Title:** During-the-award monitoring procedures need improvement

**Prior Year Finding:** No
**State Department:** Education
**State Bureau:** Special Services Team
**Federal Agency:** U.S. Department of Education
**CFDA Title:** 21st Century Community Learning Centers
**CFDA #:** 84.287
**Federal Award #:** S287C110019-11A

**Compliance Area:** Subrecipient monitoring

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** OMB Circular A-133, Subpart D, §__.400 (d)(3), Pass-through entity responsibilities.

**Condition:** The Department did not adequately monitor subrecipients to ensure compliance with all Federal regulations. None of the subrecipients were monitored for compliance with financial requirements such as cash management, allowable activities and allowable costs.

**Context:** Ninety-five percent of the $5 million grant award was passed through to subrecipients.

**Cause:** The current Subrecipient Monitoring Report that is utilized for site visits is not adequately designed to meet the financial monitoring requirements of OMB Circular A-133.

**Effect:** Potential noncompliance with Federal regulations.

**Recommendation:** We recommend that the Department continue to develop and implement subrecipient monitoring procedures to address all compliance requirements, including those that are financial in nature.

**Management's Response/Corrective Action Plan:** *The Department agrees with the finding.*

*The 21st Century Special Services Team will continue to work with the Sub-recipient Monitoring Committee and the Fiscal Review and Compliance Team to further develop and strengthen sub-recipient monitoring procedures including fiscal oversight. July 1, 2013 i mplementation is expected.*

***Contact:*** *Rachelle Tome, Education/No Child Left Behind Director, 624-6705*

# UNEMPLOYMENT INSURANCE

**(12-1302-01)**

**Title:** Procedures to determine continuing eligibility needs improvement

**Prior Year Finding:** 11-1302-06
**State Department:** Labor
Administrative and Financial Services
**State Bureau:** Unemployment Compensation (BUC)
Office of Information Technology (OIT)
**Federal Agency:** U.S. Department of Labor (US DOL)
**CFDA Title:** Unemployment Insurance (UI)
**CFDA #:** 17.225
**Federal Award #:** Not applicable

**Compliance Area:** Eligibility

**Type of Finding:** Material weakness/Material noncompliance/Questioned costs

**Known Questioned Costs:** Undeterminable

**Likely Questioned Costs:** Undeterminable

**Criteria:** 26 MRSA §1192 Eligibility Conditions; 26 MRSA §1194 Claims for Benefits; 20 CFR § 603.2 F ederal State Unemployment Compensation (UC) Program; Confidentiality and Disclosure of State UC Information and 20 CFR § 615.8 Provisions of State Laws Applicable to Claims

**Condition:** Procedures to determine continuing eligibility need to be improved. We reviewed a random sample of 120 weekly benefit payments that were funded either by Maine's employers or the Federal government. No work search log was ever submitted to the Bureau of Unemployment Compensation for 39 of the 120 cases. This represents an error rate of 33%.

This error rate for the federally funded portion of the 120 count sample was 31% (16/51).

**Context:** $319 million in benefits were paid in fiscal year 2012. This includes $183 million of employer funded benefit payments and $136 million in federally funded benefit payments.

**Cause:** Inadequate internal control procedures

**Effect:** Approximately $42 million in federally funded unemployment claims and $61 million in claims funded by Maine's employers were paid to persons who might not have been actively searching for a job and obtaining timely re-employment. This potential effect would be to improperly reduce Maine's Unemployment Fund held by the U.S. Treasury, and to cause an unemployment tax rate increase in order to replenish the fund.

**Recommendation:** We recommend that the Department continue to implement procedures and system improvements to ensure that eligibility requirements for UI benefits are met and are adequately supported.

**Management's Response/Corrective Action Plan:** *MDOL agrees with this finding.*

*It is our plan to continue implementing procedures and system improvements to ensure that eligibility requirements for UI benefits are met and are adequately supported. Implementation began during November 2012 and full implementation is expected by the end of March 2013. Our detailed corrective action plan is on file at the Department.*

***Contact:*** *Patricia O'Brien, Deputy Bureau Director 621-5161.*

# WIA CLUSTER

**(12-1315-01)**

**Title:** Cash management procedures need to be improved

**Prior Year Finding:** 11-1315-01
**State Department:** Administrative and Financial Services
**State Bureau:** Security and Employment Service Center
**Federal Agency:** U.S. Department of Labor
**CFDA Title:** WIA Cluster
**CFDA #:** 17.258, 17.259; 17.278
**Federal Award #:** AA213991155A23; AA201971055A23; AA186440955A23

**Compliance Area:** Cash management

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 31 CFR §205 Subpart B Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement; 34 CFR §80 Subpart C Post Award Requirements

**Condition:** According to Federal regulations, programs not subject to the Treasury-State Agreement on cash management are required to minimize the time between receipt and disbursement of Federal funds. In our review, we noted that the program maintained cash balances in excess of immediate need throughout the year.

**Context:** The program expended approximately $10.6 million of Federal funds in fiscal year 2012.

**Cause:** Cash on hand is not taken into consideration when the amount of a draw from the Federal government is determined.

**Effect:** Potential interest liability to the Federal government and the possibility of more stringent cash management requirements by the Federal government.

**Recommendation:** We recommend that the Department document and follow established procedures to ensure that Federal funds are drawn in compliance with cash management requirements.

**Management's Response/Corrective Action Plan:** *We agree with the finding.*

*The SESC is finalizing a reconciliation of balances on inactive grants that were impacted by the existence of a dual accounting system that was sunset in April 2008 and the conversion of the State's accounting system in 2007. New accounts have been established and the older accounts are being reconciled and closed out. This work is expected to be complete by June 30, 2013. The current procedures for drawing cash have been simplified with the new account structure and*

*accurate cash on hand data is available to review and it is considered when making a new Federal draw request.*

***Contact:*** *Dennis A. Corliss, Director, Security and Employment Service Center, 623-6701*

# HIGHWAY PLANNING AND CONSTRUCTION CLUSTER

**(12-1401-02)**

**Title:** Subrecipient contracts do not contain all information required by Federal regulations

**Prior Year Finding:** No
**State Department:** Transportation
**State Bureau:** Finance and Administration
**Federal Agency:** U.S. Department of Transportation
**CFDA Title:** Highway Planning and Construction Cluster
**CFDA #:** 20.205; 20.219
**Federal Award #:** Various

**Compliance Area:** Subrecipient monitoring

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** OMB Circular A-133, Subpart D, _ .400 (d) Pass-through entity responsibilities

**Condition:** Federal regulations require that pass-through entities identify Federal awards by informing whether the award is research and development, and the name of the Federal agency. DOT did not include the CFDA title and number when awarding funds for locally administered projects.

**Context:** Out of a $210 million Federal program, MDOT passed-through $ 10.8 million to subrecipients for locally administered projects during fiscal year 2012.

**Cause:** Inadequately designed procedures

**Effect:** Without this information subrecipients may not be aware of compliance requirements related to grants, and may not know how to properly record Federal expenditures on their Schedule of Expenditures for Federal Awards.

**Recommendation:** We recommend that the Department notify their subrecipients of the correct CFDA title and number.

**Management's Response/Corrective Action Plan:** *We agree with the recommendation.*

*Future contracts for subrecipients will include the CFDA title and number.*

***Contact:*** *Michael Laberge, Local Projects Coordinator, 624-3508*

# SURFACE TRANSPORTATION – DISCRETIONARY GRANTS FOR CAPITAL INVESTMENT

**(12-1404-01)**

**Title:** Procedures to ensure compliance with Federal suspension and debarment

**Prior Year Finding:** No
**State Department:** Transportation
**State Bureau:** Contract Procurement Office
**Federal Agency:** U.S. Department of Transportation
**CFDA Title:** Surface Transportation – Discretionary Grants for Capital Investment
**CFDA #:** 20.932
**Federal Award #:** DTMA1G10006

**Compliance Area:** Procurement, suspension and debarment

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 49 CFR §18.35 Subawards to debarred and suspended parties

**Condition:** The Department did not have policies and procedures in place to ensure that awards were made only to parties who were not suspended or debarred from participation in Federal assistance programs. No verification was performed to ensure that a contractor receiving significant grant funds was not a suspended or debarred party.

**Context:** The Department expended $4.2 million during fiscal year 2012 related to this contract.

**Cause:** Insufficient monitoring of contractual provisions

**Effect:** Potential payments to suspended or debarred parties, resulting in disallowances

**Recommendation:** We recommend that the Department implement procedures to ensure the required suspension and debarment clause be included in the contracts.

**Management's Response/Corrective Action Plan:** *The Department agrees with the finding.*

*Although the Department does currently have policies and procedures in place to monitor suspension and debarment,* ***additional*** *policies and procedures will be implemented to ensure that* ***all*** *awards are made only to parties who are not suspended or debarred. In the future, all Department contracts involving Federal assistance programs will be monitored for contractual provisions such as the suspension and debarment clause. Additionally, the Department verified, with the Excluded Parties List System, that the particular contractor in question was not suspended or debarred.*

***Contact:*** *Deborah Farrell, Director, CPO, 624-3324*

# CDBG – STATE ADMINISTERED CDBG CLUSTER

**(12-1505-01)**

**Title:** Suspension and debarment requirements overlooked

**Prior Year Finding:** No
**State Department:** Economic and Community Development
**State Bureau:** Office of Community Development
**Federal Agency:** U.S. Department of Housing and Urban Development
**CFDA Title:** CDBG – State Administered CDBG Cluster
**CFDA #:** 14.228
**Federal Award #:** B-08-DN-23-0001

**Compliance Area:** Procurement, suspension and debarment

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 2 CFR part 180 OMB Guidelines

**Condition:** The Department did not have sufficient procedures in place to ensure that awards were made only to parties who were not suspended or debarred from participation in Federal assistance programs. No verification procedures were performed for any of the five contracts tested under this grant award.

**Context:** During the fiscal year 2012 ten contracts totaling $18,303,714 were funded by this award.

**Cause:** Because the Federal government selected the municipalities to whom this grant would be awarded, the standard procedures related to awarding contracts were not performed. Suspension and debarment verification procedures were overlooked.

**Effect:** Potential payments to suspended or debarred parties, resulting in possible disallowances

**Recommendation:** We recommend that the DECD amend its control procedures to ensure that suspension and debarment requirements are satisfied when Federal contracts are awarded, regardless of the methods used in awarding the contracts.

**Management's Response/Corrective Action Plan:** *Management agrees with the finding.*

*The Office of Community Development (OCD) currently has procedures in place to ensure that suspension and debarment requirements are satisfied. For the particular municipalities not included with our usual suspension and debarment procedures, the*

*awarding agency (HUD) specifically approved the municipalities; municipalities that also have an existing contractual relationship with HUD as entitlements. The particular municipalities were awarded funding through the Neighborhood Stabilization Program (NSP) funds, a special Community Development Block Grant allocation that resulted from the Housing and Economic Recovery Act of 2008. The NSP funding expired during State Fiscal Year 2013.*

*In the future, OCD will ensure that suspension and debarment requirements are satisfied in regards to all entities awarded funding through OCD, including municipalities and/or entities approved by HUD.*

***Contact:*** *Deborah Johnson, Director, Office of Community Development, 624-9817*

**(12-1505-02)**

**Title:** Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency

**Prior Year Finding:** No
**State Department:** Economic and Community Development
**State Bureau:** Office of Community Development
**Federal Agency:** U.S. Department of Housing and Urban Development
**CFDA Title:** CDBG – State Administered CDBG Cluster
**CFDA #:** 14.228
**Federal Award #:** B-11-DC-23-0001

**Compliance Area:** Reporting

**Type of Finding:** Significant deficiency

**Known Questioned Costs:** None

**Likely Questioned Costs:** None

**Criteria:** 2 CFR part 170 Reporting subaward and executive compensation information

**Condition:** The Department did not comply with FFATA reporting requirements. Although the information related to the contractors was uploaded to the Federal reporting system, it remained in a pending status and was never submitted to the Federal government.

**Context:** Forty contracts totaling $9,664,340 required FFATA reporting during the State Fiscal Year 2012.

**Cause:** Implementation challenges with the new FFATA reporting process.

**Effect:** Possible Federal sanctions for noncompliance with Transparency Act reporting requirements.

**Recommendation:** We recommend that DECD continue to utilize the FFATA training materials available at the Subaward Reporting System (FSRS) to comply with Transparency Act reporting requirements.

**Management's Response/Corrective Action Plan:** *Management agrees with the finding and has, in spite of the inherent technical flaws in the FFATA system successfully entered all of the awards as required.*

*Staff is now familiar with the system and awards are being entered appropriately for the 2013 CDBG Program.*

***Contact:*** *Deborah Johnson, Director, Office of Community Development, 624-9817*

DIRIGO
MAINE

# STATE OF MAINE
# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
# FOR THE YEAR ENDED JUNE 30, 2012

DIRIGO
MAINE

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

| Finding Number | CFDA Number | State Agency | Description | Questioned Costs | FY12 Status (Refer to auditee's complete corrective action plan) | FY12 Finding |
|---|---|---|---|---|---|---|
| 09-1106-08 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Provider eligibility procedures need improvement | None | Corrective action not completed in FY12 | See 12-1106-14 No further action warranted per OMB A-133 §315(b)(4) |
| 09-1106-09 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Controls over pharmacy claims processing system need improvement | None | Corrective action not completed in FY12 | See 12-1106-09 No further action warranted per OMB A-133 §315(b)(4) |
| 09-1106-10 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services Service Center & Health and Human Services | Procedures need to be implemented to ensure correct reimbursement rates are paid to providers and cost of care is properly deducted | 96,618 | Corrective action not completed in FY12 | See 12-1106-16 No further action warranted per OMB A-133 §315(b)(4) |
| 09-1106-13 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services | Controls over prompt payment requirements need improvement | None | Corrective action not completed in FY12 | ARRA audit requirements not applicable in FY12 |
| 09-1106-14 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Incorrect client eligibility determinations | None | Corrective action not completed in FY12 | See 12-1106-18 No further action warranted per OMB A-133 §315(b)(4) |
| 09-1109-04 | 93.658 | Health and Human Services | Procedures to ensure payments are made only for allowable activities need improvement | 7,045 | Corrective action taken in FY12 | Finding was not repeated |
| 09-1111-01 | 93.558<br>93.714<br>93.720<br>93.775<br>93.777<br>93.778<br>10.551<br>10.561 | Health and Human Services | Income and Eligibility Verification System procedures need improvement | None | Corrective action not completed in FY12 | See 12-1111-02 No further action warranted per OMB A-133 §315(b)(4) |

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

| Finding Number | CFDA Number | State Agency | Description | Questioned Costs | FY12 Status (Refer to auditee's complete corrective action plan) | FY12 Finding |
|---|---|---|---|---|---|---|
| 09-1111-04 | 93.558<br>93.714 | Health and Human Services Service Center | Procedures to ensure accurate financial reporting need improvement | None | Corrective action taken in FY12 | Finding was not repeated |
| 09-1140-01 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Claims processing procedures to ensure local match (certified seed) is met need improvement | None | Corrective action not completed in FY12 | See 12-1140-02 no further action warranted per OMB A-133 §315(b)(4) |
| 09-1140-03 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | School based rehabilitation services billing and payment procedures need improvement | None | Corrective action taken in FY12 | Finding was not repeated |
| 09-1140-04 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Procedures needed to ensure better accountability of certified public expenditures | None | Corrective action taken in FY12 | Finding was not repeated |
| 09-1200-01 | 84.010<br>84.389<br>84.027<br>84.173<br>84.391<br>84.392<br>84.367 | Administrative and Financial Services General Government Service Center | Noncompliance with subrecipient cash management requirements | None | Corrective action not completed in FY12 | See 12-1200-01 No further action warranted per OMB A-133 §315(b)(4) |
| 09-1200-03 | 84.010<br>84.027<br>84.394 | Administrative and Financial Services General Government Service Center | Procedures to comply with Treasury State Agreement on cash management need to be improved | None | Corrective action not completed in FY12 | See 12-1200-03 No further action warranted per OMB A-133 §315(b)(4) |
| 09-1200-04<br>09-1234-01 | 84.389<br>84.173<br>84.391<br>84.392 | Administrative and Financial Services General Government Service Center | Federal cash management procedures inadequate | None | Corrective action not completed in FY12 | See 12-1200-04 No further action warranted per OMB A-133 §315(b)(4) |
| 09-1201-02 | 84.027<br>84.173<br>84.391<br>84.392 | Education | During-the-award monitoring procedures need improvement | None | Corrective action not completed in FY12 | See 12-1201-02 No further action warranted per OMB A-133 §315(b)(4) |

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

| Finding Number | CFDA Number | State Agency | Description | Questioned Costs | FY12 Status (Refer to auditee's complete corrective action plan) | FY12 Finding |
|---|---|---|---|---|---|---|
| 09-1308-01 | 84.126<br>84.390 | Labor | Eligibility decisions need to be more timely | None | Corrective action completed in FY12 | Finding was not repeated |
| 09-1502-01 | 97.036 | Defense, Veterans and Emergency Management | Lack of procedures to ensure compliance with subrecipient monitoring requirements | None | Corrective action taken in FY12 | Finding was not repeated. No further action warranted per OMB A-133 §315(b)(4) |
| 10-1106-01 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services | Medicare Part B eligibility verification procedures need improvement | None | Corrective action not completed in FY12 | 12-1106-08 |
| 10-1106-02 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services Service Center & Health and Human Services | Federal share of paid claims overstated | Not determinable | Corrective action not completed in FY12 | Management Letter comment issued for FY12 |
| 10-1106-03 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Inconsistent application of the Medicaid provider desk review process | None | Corrective action not completed in FY12 | 12-1106-01 |
| 10-1106-04 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services | Procedures relating to the hospital cost reporting process need to be improved | None | Corrective action not completed in FY12 | 12-1106-02 |
| 10-1106-09 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Controls over pharmacy claims processing system need improvement | Not determinable | Corrective action not completed in FY12 | 12-1106-09 |
| 10-1106-10 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services Service Center & Health and Human Services | Procedures need to be implemented to ensure correct reimbursement rates are paid to providers and cost of care is properly deducted | 30,000 | Corrective action not completed in FY12 | 12-1106-16 |

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

| Finding Number | CFDA Number | State Agency | Description | Questioned Costs | FY12 Status (Refer to auditee's complete corrective action plan) | FY12 Finding |
|---|---|---|---|---|---|---|
| 10-1106-11 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Provider eligibility procedures need improvement | None | Corrective action not completed in FY12 | 12-1106-14 |
| 10-1106-12 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services Service Center | Procedures relating to uncashed checks need improvement | 55,512 | Corrective action not completed in FY12 | 12-1106-07 |
| 10-1106-14 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services | Controls over prompt payment requirements need improvement | Not determinable | Corrective action not completed in FY12 | ARRA audit requirements not applicable in FY12 |
| 10-1106-15 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services Service Center & Health and Human Services | Procedures to ensure payments are made from the correct Federal program need | 223,171 | Corrective action not completed in FY12 | Management Letter comment issued for FY12 |
| 10-1106-16 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Incorrect client eligibility determinations | None | Corrective action not completed in FY12 | 12-1106-18 |
| 10-1106-17 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services | Procedures to ensure timely submission of Medicaid Eligibility Quality Control (MEQC) six month summary reports need to be improved | None | Corrective action taken in FY12 | Finding was not repeated |
| 10-1109-06 | 93.658 | Health and Human Services | Procedures to ensure payments are made only for allowable activities need improvement | 13,622 | Corrective action taken in FY12 | Finding was not repeated |

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

| Finding Number | CFDA Number | State Agency | Description | Questioned Costs | FY12 Status (Refer to auditee's complete corrective action plan) | FY12 Finding |
|---|---|---|---|---|---|---|
| 10-1111-01 | 93.558<br>93.714<br>93.720<br>93.775<br>93.777<br>93.778<br>10.551<br>10.561 | Health and Human Services | Income and Eligibility Verification System procedures need improvement | None | Corrective action not completed in FY12 | 12-1111-02 |
| 10-1111-02 | 93.558<br>93.714 | Health and Human Services Service Center | Procedures to ensure accurate financial reporting need improvement | None | Corrective action taken in FY12 | Finding was not repeated |
| 10-1140-01 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | School based rehabilitation services billing and payment procedures need improvement | Not determinable | Corrective action taken in FY12 | Finding was not repeated |
| 10-1140-02 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Claims processing procedures to ensure local match (certified seed) is met need improvement | None | Corrective action not completed in FY12 | 12-1140-02 |
| 10-1140-03 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Procedures needed to ensure better accountability of certified public expenditures | None | Corrective action taken in FY12 | Finding was not repeated |
| 10-1151-03 | 93.069 | Health and Human Services Service Center | Controls over period of availability of Federal funds need improvement | $15,255 | Corrective action taken in FY12 | Finding was not repeated |
| 10-1151-05 | 93.069 | Health and Human Services | Payroll costs not supported in accordance with Federal regulations | Not determinable | Corrective action not completed in FY12 | Finding was not repeated |
| 10-1200-01 | 84.010<br>84.389<br>84.027<br>84.173<br>84.391<br>84.392<br>84.367 | Administrative and Financial Services General Government Service Center | Noncompliance with subrecipient cash management requirements | None | Corrective action not completed in FY12 | 12-1200-01 |

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

| Finding Number | CFDA Number | State Agency | Description | Questioned Costs | FY12 Status (Refer to auditee's complete corrective action plan) | FY12 Finding |
|---|---|---|---|---|---|---|
| 10-1200-02 | Various | Education & Administrative and Financial Services General Government Service Center | Subrecipient monitoring procedures need improvement | None | Corrective action completed in FY12 | Finding was not repeated |
| 10-1200-03 | 84.010<br>84.027<br>84.394 | Administrative and Financial Services General Government Service Center | Procedures to comply with Treasury State Agreement on cash management need to be improved | None | Corrective action not completed in FY12 | 12-1200-03 |
| 10-1200-04 | 84.389<br>84.173<br>84.391<br>84.392 | Administrative and Financial Services General Government Service Center | Federal cash management procedures inadequate | None | Corrective action not completed in FY12 | 12-1200-04 |
| 10-1201-01 | 84.027<br>84.173<br>84.391<br>84.392 | Education | During-the-award monitoring procedures need improvement | None | Corrective action not completed in FY12 | 12-1201-02 |
| 10-1308-01 | 84.126<br>84.390 | Administrative and Financial Services Security and Employment Service Center | Cash management procedures need improvement | None | Corrective action completed in FY12 | Finding was not repeated |
| 10-1308-03 | 84.126<br>84.390 | Labor | Eligibility decisions need to be more timely | None | Corrective action completed in FY12 | Finding was not repeated |
| 10-1315-01 | 17.258<br>17.259<br>17.260<br>17.277<br>17.278 | Administrative and Financial Services Security and Employment Service Center | Cash management procedures need to be improved | None | Corrective action not completed in FY12 | 12-1315-01 |
| 10-1315-02 | 17.258<br>17.259<br>17.260 | Labor | Procedures for providing award information to subrecipients need to be implemented | None | Corrective action taken in FY12 | Finding was not repeated |

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

| Finding Number | CFDA Number | State Agency | Description | Questioned Costs | FY12 Status (Refer to auditee's complete corrective action plan) | FY12 Finding |
|---|---|---|---|---|---|---|
| 10-1315-03 | 17.258<br>17.259<br>17.260<br>17.277<br>17.278 | Labor and Administrative and Financial Services Security and Employment Service Center | Subrecipient monitoring activities need to be improved | None | Corrective action taken in FY12 | Finding was not repeated |
| 11-1103-01 | 10.551<br>10.561 | Health and Human Services Service Center | Cost allocation plan error | 21,815 | Corrective action not completed in FY12 | Management Letter comment issued for FY12 |
| 11-1106-01 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services | Controls over prompt payment requirements need improvement | Not determinable | Corrective action not completed in FY12 | ARRA audit requirements N/A in FY12 |
| 11-1106-02 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services Service Center & Health and Human Services | Federal share of paid claims overstated | Not determinable | Corrective action not completed in FY12 | Management Letter comment issued for FY12 |
| 11-1106-03 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services Service Center | Procedures relating to uncashed checks need improvement | 26,024 | Corrective action not completed in FY12 | 12-1106-07 |
| 11-1106-04 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Controls over pharmacy claims processing system need improvement | Not determinable | Corrective action not completed in FY12 | 12-1106-09 |
| 11-1106-05 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Inconsistent application of the Medicaid provider desk review process | None | Corrective action not completed in FY12 | 12-1106-01 |
| 11-1106-06 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services | Procedures relating to the hospital cost reporting process need to be improved | None | Corrective action not completed in FY12 | 12-1106-02 |

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

| Finding Number | CFDA Number | State Agency | Description | Questioned Costs | FY12 Status (Refer to auditee's complete corrective action plan) | FY12 Finding |
|---|---|---|---|---|---|---|
| 11-1106-07 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services Service Center & Health and Human Services | Procedures to ensure payments are made from the correct Federal program need | 223,793 | Corrective action not completed in FY12 | Management Letter comment issued for FY12 |
| 11-1106-08 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services | Medicare Part B eligibility verification procedures need improvement | None | Corrective action not completed in FY12 | 12-1106-08 |
| 11-1106-10 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services | Procedures to ensure timely submission of Medicaid Eligibility Quality Control (MEQC) six month summary reports need to be improved | None | Corrective action taken in FY12 | Finding was not repeated |
| 11-1106-11 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services | The Decision Support System/Data Warehouse (DSS/DW) is not reconciled to the Statewide accounting system | None | Corrective action not completed in FY12 | 12-1106-11 |
| 11-1106-12 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Provider eligibility procedures need improvement | None | Corrective action not completed in FY12 | 12-1106-14 |
| 11-1106-13 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Procedures need to be implemented to ensure that the MaineCare Fiscal Agent complies | None | Corrective action not completed in FY12 | 12-1106-05 |
| 11-1106-14 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services Service Center & Health and Human Services | Procedures need to be implemented to ensure correct reimbursement rates are paid to providers and cost of care is properly deducted | Not determinable | Corrective action not completed in FY12 | 12-1106-16 |

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

| Finding Number | CFDA Number | State Agency | Description | Questioned Costs | FY12 Status (Refer to auditee's complete corrective action plan) | FY12 Finding |
|---|---|---|---|---|---|---|
| 11-1106-16 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Incorrect client eligibility determinations | Not determinable | Corrective action not completed in FY12 | 12-1106-18 |
| 11-1109-01 | 93.658 | Health and Human Services | Procedures to ensure payments are made only for allowable activities need improvement | 11,214 | Corrective action taken in FY12 | Finding was not repeated |
| 11-1111-01 | 93.558<br>93.714<br>93.720<br>93.775<br>93.777<br>93.778<br>10.551<br>10.561 | Health and Human Services | Income and Eligibility Verification System procedures need improvement | None | Corrective action not completed in FY12 | 12-1111-02 |
| 11-1111-02 | 93.558<br>93.714 | Health and Human Services Service Center | Procedures to ensure accurate financial reporting need improvement | None | Corrective action taken in FY12 | Finding was not repeated |
| 11-1114-01 | 93.596<br>93.575<br>93.713 | Health and Human Services Service Center | Federal cash management procedures inadequate | None | Corrective action completed in FY12 | Finding was not repeated |
| 11-1114-04 | 93.596<br>93.575<br>93.713 | Health and Human Services | Payroll costs not properly documented | Not determinable | Corrective action taken in FY12 | Finding was not repeated |
| 11-1114-05 | 93.596<br>93.575<br>93.713 | Health and Human Services | Procedures to ensure payments were only made to approved providers need to be improved | less than $10,000 | Corrective action taken in FY12 | Finding was not repeated |
| 11-1128-02 | 93.563 | Health and Human Services | Case records not established within required time frame | None | Corrective action not completed in FY12 | Finding was not repeated |
| 11-1128-03 | 93.563 | Health and Human Services | Cases not referred to other States within required time frame | None | Corrective action not completed in FY12 | Finding was not repeated |

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

| Finding Number | CFDA Number | State Agency | Description | Questioned Costs | FY12 Status (Refer to auditee's complete corrective action plan) | FY12 Finding |
|---|---|---|---|---|---|---|
| 11-1128-04 | 93.563 | Health and Human Services | Interstate cases not responded to within required time frame | None | Corrective action not completed in FY12 | Finding was not repeated |
| 11-1140-01 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | School based rehabilitation services billing and payment procedures need improvement | Not determinable | Corrective action taken in FY12 | Finding was not repeated |
| 11-1140-02 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Claims processing procedures to ensure local match (certified seed) is met need improvement | None | Corrective action not completed in FY12 | 12-1140-02 |
| 11-1140-03 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Procedures needed to ensure better accountability of certified public expenditures | None | Corrective action taken in FY12 | Finding was not repeated |
| 11-1200-01 | 84.010<br>84.389<br>84.027<br>84.173<br>84.391<br>84.392<br>84.367 | Administrative and Financial Services General Government Service Center | Noncompliance with subrecipient cash management requirements | None | Corrective action not completed in FY12 | 12-1200-01 |
| 11-1200-03 | 84.010<br>84.027<br>84.394 | Administrative and Financial Services General Government Service Center | Procedures to comply with Treasury State Agreement on cash management need to be improved | None | Corrective action not completed in FY12 | 12-1200-03 |
| 11-1200-04 | 84.389<br>84.173<br>84.391<br>84.392 | Administrative and Financial Services General Government Service Center | Federal cash management procedures inadequate | None | Corrective action not completed in FY12 | 12-1200-04 |
| 11-1201-01 | 84.173<br>84.392 | Education | Noncompliance with earmarking requirements | None | Corrective action not completed in FY12 | 12-1201-04 |

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

| Finding Number | CFDA Number | State Agency | Description | Questioned Costs | FY12 Status (Refer to auditee's complete corrective action plan) | FY12 Finding |
|---|---|---|---|---|---|---|
| 11-1201-02 | 84.027<br>84.173<br>84.391<br>84.392 | Education | During-the-award monitoring procedures need improvement | None | Corrective action not completed in FY12 | 12-1201-02 |
| 11-1201-03 | 84.027<br>84.173<br>84.391<br>84.392 | Education | Award identification procedures need improvement | None | Corrective action completed in FY12 | Finding was not repeated |
| 11-1203-03 | 10.553<br>10.555<br>10.556<br>10.559 | Education | Record keeping for donated foods needs to be improved | None | Corrective action completed in FY12 | Finding was not repeated |
| 11-1203-04 | 10.553<br>10.555<br>10.556<br>10.559 | Education | Reports required under the Federal Funding Accountability and Transparency Act (FFATA) were not filed | None | Corrective action not completed in FY12 | 12-1203-01 |
| 11-1221-01 | 84.367 | Education | Grant information not consistently or accurately provided to local educational agencies (LEAs) | None | Corrective action completed in FY12 | Finding was not repeated |
| 11-1302-02 | 17.225 | Labor & Administrative and Financial Services Security and Employment Service Center | Significant improvements are needed to prevent, detect, remediate and recover improper Unemployment Insurance benefit payments | None | Corrective action not completed in FY12 | 12-1302-01 |
| 11-1302-06 | 17.225 | Labor & Administrative and Financial Services Security and Employment Service Center | Procedures to determine eligibility need to be improved | 6,532 | Corrective action not completed in FY12 | 12-1302-01 |

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

| Finding Number | CFDA Number | State Agency | Description | Questioned Costs | FY12 Status (Refer to auditee's complete corrective action plan) | FY12 Finding |
|---|---|---|---|---|---|---|
| 11-1302-07 | 17.225 | Labor & Administrative and Financial Services Security and Employment Service Center | Benefit Accuracy Measurement (BAM) unit procedures need to be implemented so that Federal requirements are met | None | Corrective action completed in FY12 | Finding was not repeated |
| 11-1302-08 | 17.225 | Labor | Procedures to write-off Unemployment Insurance benefit overpayments need to be reassessed | Not determinable | Corrective action not completed in FY12 | Finding was not repeated |
| 11-1308-01 | 84.126<br>84.390 | Administrative and Financial Services Security and Employment Service Center | Cash management procedures need improvement | None | Corrective action completed in FY12 | Finding was not repeated |
| 11-1308-02 | 84.126<br>84.390 | Labor | Eligibility decisions need to be more timely | None | Corrective action completed in FY12 | Finding was not repeated |
| 11-1308-03 | 84.126<br>84.390 | Labor | Improvements are needed to ensure timely development of Individualized Plans for Employment (IPEs) | None | Corrective action completed in FY12 | Finding was not repeated |
| 11-1315-01 | 17.258<br>17.259<br>17.260<br>17.277<br>17.278 | Administrative and Financial Services Security and Employment Service Center | Cash management procedures need to be improved | None | Corrective action not completed in FY12 | 12-1315-01 |
| 11-1315-02 | 17.258<br>17.259<br>17.260<br>17.277<br>17.278 | Labor and Administrative and Financial Services Security and Employment Service Center | Subrecipient monitoring activities need to be improved | None | Corrective action taken in FY12 | Finding was not repeated |

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

| Finding Number | CFDA Number | State Agency | Description | Questioned Costs | FY12 Status (Refer to auditee's complete corrective action plan) | FY12 Finding |
|---|---|---|---|---|---|---|
| 11-1315-03 | 17.258<br>17.259<br>17.260 | Labor | Procedures for providing award information to subrecipients need to be implemented | None | Corrective action taken in FY12 | Finding was not repeated |
| 11-1315-04 | 17.258<br>17.259<br>17.260<br>17.277<br>17.278 | Labor | Procedures to ensure compliance with Federal suspension and debarment requirements need improvement | None | Corrective action taken in FY12 | Finding was not repeated |
| 11-1401-01 | 20.205<br>20.219 | Transportation | Procedures related to Davis-Bacon requirements need improvement | None | Corrective action taken in FY12 | Finding was not repeated |
| 11-1401-02 | 20.205<br>20.219<br>23.003 | Transportation | Quality Assurance Program requirements not followed | None | Corrective action taken in FY12 | Finding was not repeated |
| 11-1403-01 | 20.500<br>20.507<br>20.509 | Transportation | Procedures related to subrecipient monitoring requirements need improvement | None | Corrective action not completed in FY12 | Management Letter comment issued for FY12 |
| 11-1530-01 | 81.041 | Executive | Federal suspension and debarment procedures need to be implemented | None | Corrective action taken in FY12 | Finding was not repeated |
| 11-1530-03 | 81.041 | Executive | Subrecipient monitoring procedures need improvement | None | Corrective action taken in FY12 | Finding was not repeated |

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