# STATE OF MAINE

## SINGLE AUDIT REPORT
## OMB Circular A-133
### Fiscal Year Ending June 30, 2014

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

# STATE OF MAINE
# SINGLE AUDIT REPORT
# FOR THE YEAR ENDED JUNE 30, 2014

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DIRIGO
MAINE

**STATE OF MAINE**
**OFFICE OF THE STATE AUDITOR**
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

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

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

**MARY GINGROW-SHAW, CPA**
DEPUTY STATE AUDITOR
**MICHAEL J. POULIN, CIA**
DIRECTOR of AUDIT and ADMINISTRATION

# Letter of Transmittal

Senator Michael D. Thibodeau
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, 2014. 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 also a prerequisite for the receipt of federal financial assistance. During fiscal year 2014, $3.3 billion in federal financial assistance was received by the State of Maine.

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 for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
- Schedule of Expenditures of Federal Awards
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On behalf of the Office of the State Auditor, I thank employees throughout Maine Government who have assisted us during the audit.

Please contact me if you have questions or comments about the 2014 Single Audit of the State of Maine.

Respectfully submitted,

Pola Buckley

Pola A. Buckley
State Auditor

March 30, 2015

# STATE OF MAINE
# EXECUTIVE SUMMARY
# FOR THE YEAR ENDED JUNE 30, 2014

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# STATE OF MAINE
# SINGLE AUDIT REPORT
# FOR THE YEAR ENDED JUNE 30, 2014

## EXECUTIVE SUMMARY

The Office of the State Auditor 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 twenty major federal programs representing 92% 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 provided an unmodified opinion on the State's basic financial statements. This means that we provide reasonable assurance that the State of Maine's financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles. This report includes an opinion on the Schedule of Expenditures of Federal Awards in relation to the basic financial statements taken as a whole.

### 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 identified a deficiency in internal control that we considered to be a material weakness. A separate significant deficiency was also identified. 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. These findings are identified in this report as 2014-001 and 2014-002.

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 for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

*Compliance with program requirements*

We qualified our opinion on compliance with program requirements for the Unemployment Insurance program because of material noncompliance. The remaining nineteen federal programs complied in all material respects with program requirements.

*Internal control over compliance*

We identified forty 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.

Two 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.

Thirty-eight 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.

## Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs includes managements' responses and plans for corrective action for addressing the audit findings. Our Single Audit Report also identified a total of $33 thousand of *known questioned costs* and four other instances for which the *known 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, 2014

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# STATE OF MAINE
# OFFICE OF THE STATE AUDITOR

66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

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

**POLA A. BUCKLEY, CPA, CISA**
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DIRECTOR OF AUDIT and ADMINISTRATION


## INDEPENDENT AUDITOR'S REPORT

To the Honorable Michael D. Thibodeau, President of the Senate and
the Honorable 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, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: Child Development Services, Connect ME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Maine Turnpike Authority, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and the University of Maine System. These financial statements reflect 100% of the assets and net position of the Aggregate Discretely Presented Component Units, 95% of assets and 97% of net position/fund balance of the Aggregate Remaining Fund Information, and 7% of liabilities of the Governmental Activities. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it related 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 the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Efficiency Maine Trust, Loring Development Authority, Maine Educational Loan Authority, Maine Port Authority, Maine Technology Institute, and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards.*

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

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

**Opinions**

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages B-7 through B-18, Budgetary Comparison information, State Retirement Plan and Other Post-Employment Benefit Plans and Information about Infrastructure Assets Reported Using the Modified Approach on pages B-102 through B-114, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maine's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and

certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of other auditors, the combining and individual nonmajor fund statements, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014 on our consideration of the State's internal control over financial reporting and our test 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Pola Buckley

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

December 31, 2014

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# 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, 2014. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

**Government-wide:**

- The State's net position decreased by 0.8 percent from the previous fiscal year. Net position of Governmental Activities increased by $147.5 million, while net position of Business-Type Activities decreased by $174.8 million. The State's assets exceeded its liabilities by $3.6 billion at the close of fiscal year 2014. Component units reported net position of $2.9 billion, an increase of $120.8 million (4.4 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 $416.0 million, an increase of $171.4 million from the previous year. The General Fund's total fund balance was a negative $215.4 million, a decline of $71.1 million from the previous year. The Highway Fund total fund balance was $37.8 million, an improvement of $3.5 million from the prior year.

- The proprietary funds reported net position at year end of $412.1 million, a decrease of $162.5 million from the previous year. This decrease is due primarily to a decrease in the Alcoholic Beverages Fund of $171.0 million.

**Long-term Debt:**

- The State's liability for general obligation bonds increased by $29.4 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $112.9 million in bonds and made principal payments of $83.5 million.

Additional information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page B-10.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

### Government-wide Statements

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

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

Both government-wide statements report three activities:

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

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

*Component units* - Although legally separate, component units are important because the State is financially accountable for these entities. The State has "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 inflows on the governmental fund statements.

- Other long-term assets that are not available to pay for current period expenditures are recorded as deferred outflows in governmental fund statements, but not deferred on the government-wide statements.

- Internal service funds are reported as Governmental Activities in the government-wide statements, but reported as proprietary funds in the fund financial statements.

- Governmental fund long-term liabilities, such as certificates of participation, 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 position balances are allocated as follows:

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

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

  *Unrestricted Net Position* is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet any of the above restrictions.

**Fund Financial Statements**

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

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

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

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

**Notes to the Financial Statements**

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

**Required Supplementary Information**

The required supplementary information includes budgetary comparison schedules for the General Fund and major special revenue funds. Also included are notes and a reconciliation of fund balance from the budgetary basis to fund balance determined according to generally accepted accounting principles. This section also includes schedules of funding progress for certain pension and other post-employment benefit trust funds and condition and maintenance data regarding certain portions of the State's infrastructure.

**Other Supplementary Information**

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements. Budgetary comparison schedules by agency are also included for the general fund, the highway fund, federal funds, and other special revenue fund.

## FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net position decreased by 0.8 percent to $3.6 billion at June 30, 2014, as detailed in Tables A-1 and A-2.

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

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | **2014** | **2013 *** | **2014** | **2013** | **2014** | **2013** |
| Current and other noncurrent assets | $ 1,860,634 | $ 1,937,953 | $ 188,740 | $ 362,402 | $ 2,049,374 | $ 2,300,355 |
| Capital assets | 4,004,210 | 3,940,296 | 44,462 | 55,340 | 4,048,672 | 3,995,636 |
| **Total Assets** | **5,864,844** | **5,878,249** | **233,202** | **417,742** | **6,098,046** | **6,295,991** |
| Current liabilities | 1,037,500 | 1,444,030 | 23,577 | 33,778 | 1,061,077 | 1,477,808 |
| Long-term liabilities | 1,478,277 | 1,232,666 | 5,394 | 4,981 | 1,483,671 | 1,237,647 |
| **Total Liabilities** | **2,515,777** | **2,676,696** | **28,971** | **38,759** | **2,544,748** | **2,715,455** |
| **Net position (deficit):** | | | | | | |
| Net investment in capital assets | 3,326,970 | 3,262,047 | 44,462 | 55,340 | 3,371,432 | 3,317,387 |
| Restricted | 523,133 | 404,218 | 331,799 | 321,112 | 854,932 | 725,330 |
| Unrestricted (deficit) | (501,036) | (464,712) | (172,030) | 2,531 | (673,066) | (462,181) |
| **Total Net Position** | **$ 3,349,067** | **$3,201,553** | **$ 204,231** | **$ 378,983** | **$ 3,553,298** | **$3,580,536** |

* As restated

**Changes in Net Position**

The State's fiscal year 2014 revenues totaled $7.5 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 46.7 percent and 37.6 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 $7.6 billion for the year 2014. (See Table A-2) These expenses are predominantly (70.6 percent) related to health & human services and education activities. The

State's governmental support & operations activities accounted for 5.0 percent of total costs. Total net position decreased by $27.2 million.

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

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 * | 2014 | 2013 | 2014 | 2013 |
| **Revenues** | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | $ 528,673 | $ 508,039 | $ 457,147 | $ 543,926 | $ 985,820 | $ 1,051,965 |
| Operating Grants/Contributions | 2,831,956 | 3,047,714 | 7,036 | 7,032 | 2,838,992 | 3,054,746 |
| General Revenues: | | | | | | |
| Taxes | 3,523,533 | 3,540,712 | - | - | 3,523,533 | 3,540,712 |
| Other | 195,689 | 161,340 | - | - | 195,689 | 161,340 |
| **Total Revenues** | 7,079,851 | 7,257,805 | 464,183 | 550,958 | 7,544,034 | 7,808,763 |
| **Expenses** | | | | | | |
| Governmental Activities: | | | | | | |
| Governmental Support | 377,269 | 428,011 | | | 377,269 | 428,011 |
| Education | 1,676,908 | 1,581,556 | | | 1,676,908 | 1,581,556 |
| Health & Human Services | 3,669,552 | 3,657,573 | | | 3,669,552 | 3,657,573 |
| Justice & Protection | 410,641 | 401,656 | | | 410,641 | 401,656 |
| Transportation Safety | 524,024 | 521,638 * | | | 524,024 | 521,638 |
| Other | 468,725 | 516,398 | | | 468,725 | 516,398 |
| Interest | 47,271 | 46,541 | | | 47,271 | 46,541 |
| Business-Type Activities: | | | | | | |
| Employment Security | | | 159,058 | 169,334 | 159,058 | 169,334 |
| Lottery | | | 180,087 | 176,094 | 180,087 | 176,094 |
| Military Equip. Maint. | | | 11,466 | 36,971 | 11,466 | 36,971 |
| Dirigo Health | | | 26,863 | 56,229 | 26,863 | 56,229 |
| Other | | | 19,408 | 19,213 | 19,408 | 19,213 |
| **Total Expenses** | 7,174,390 | 7,153,373 | 396,882 | 457,841 | 7,571,272 | 7,611,214 |
| **Excess (Deficiency) before Special Items and Transfers** | (94,539) | 104,432 | 67,301 | 93,117 | (27,238) | 197,549 |
| Special Items | 193,192 | 92,401 | (193,192) | (108,288) | - | (15,887) |
| Transfers | 48,861 | 54,916 | (48,861) | (54,916) | - | - |
| Increase (Decrease) in Net Position | 147,514 | 251,749 | (174,752) | (70,087) | (27,238) | 181,662 |
| Net Position, beginning of year (As Restated) | 3,201,553 | 2,949,804 | 378,983 | 449,070 | 3,580,536 | 3,398,874 |
| Ending Net Position | $ 3,349,067 | $ 3,201,553 | $ 204,231 | $ 378,983 | $ 3,553,298 | $ 3,580,536 |

* As restated

**Governmental Activities**

Revenues for the State's Governmental Activities totaled $7.1 billion while total expenses equaled $7.2 billion. The increase in net position for Governmental Activities was $147.5 million in 2014, much of which was the result of transfers from the State's Business-Type Activities discussed below. Program revenues were insufficient to cover program expenses, therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes. Tax revenue decreased by $17.2 million from the prior year, primarily in the Individual Income and Corporate Tax lines. Net expenses supported by tax revenue increased by approximately $216.1 million (as restated), primarily in the Health and Human Services and Education areas. Additionally, the State's Business-Type Activities transferred $242.1 million (net) to the Governmental Activities, which included statutorily required profit transfers, capital contributions, and the pledged profit of the Alcoholic Beverages Fund to finance the payment of the Liquor Revenue Bonds. These transfers are discussed futher on page 11.

The users of the State's programs financed $528.7 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $2.8 billion. $3.7 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 2014

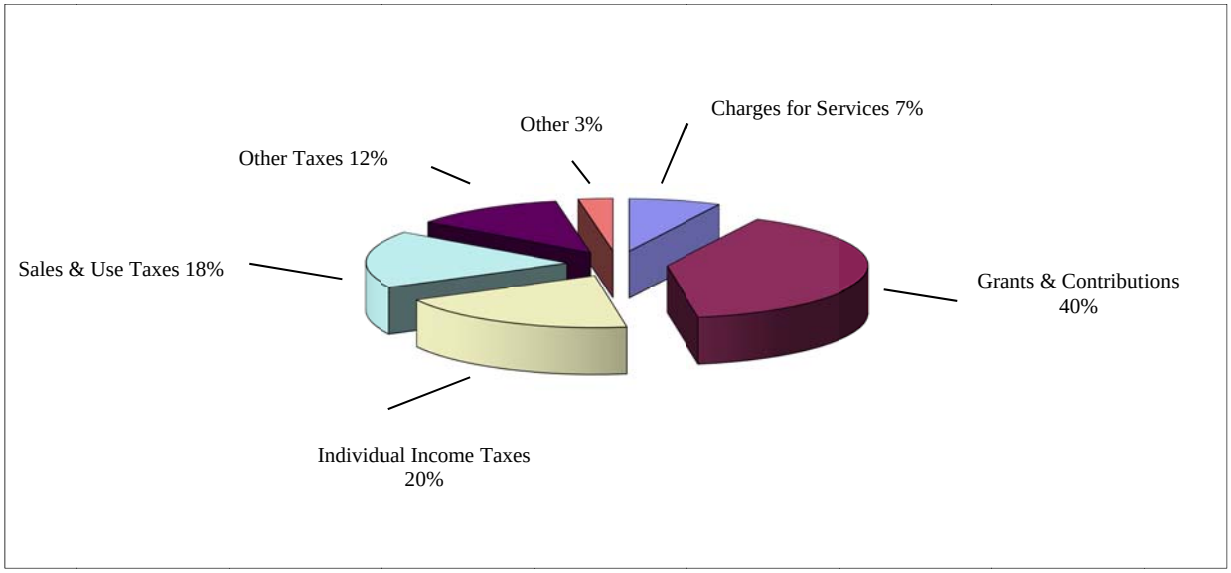
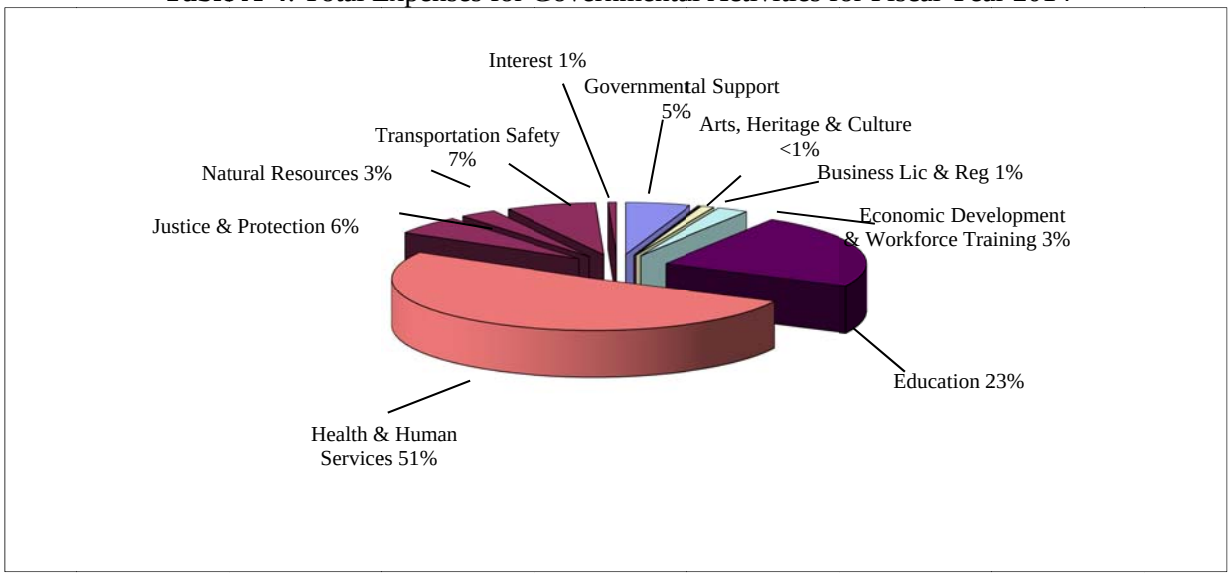



**Table A-4**: Total Expenses for Governmental Activities for Fiscal Year 2014



**Business-Type Activities**

Revenues for the State's Business-Type Activities totaled $464.2 million while expenses totaled $396.9 million. However, due to the conversion of the Marine Ports Enterprise Fund to an Other Special Revenue Fund of $9.7 million and the transfer recorded for the Healthcare Liability Retirement Fund (for payments due to healthcare providers for services prior to December 1, 2012) totaling $183.5 million (see Note 17), the net position for Business-Type Activities decreased by $174.8 million in 2014.

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 2014 | Total Cost 2013 | Net (Cost) Revenue 2014 | Net (Cost) Revenue 2013 |
|---|---|---|---|---|
| Employment Security | $ 159,058 | $ 169,334 | $ 11,330 | $ 26,531 |
| Alcoholic Beverages | 19 | - | 12,520 | 12,533 |
| Lottery | 180,087 | 176,094 | 52,333 | 53,471 |
| Military Equip. Maint. | 11,466 | 36,971 | (1,364) | (1,157) |
| Dirigo Health | 26,863 | 56,229 | (1,061) | 9,225 |
| Other | 19,389 | 19,213 | (6,457) | (7,486) |
| Total | $ 396,882 | $ 457,841 | $ 67,301 | $ 93,117 |

The cost of all Business-Type Activities this year was $396.9 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-Type Activities was $67.3 million, with the Lottery making up $52.3 million of the total. The State’s Business-Type Activities transferred $242.1 million (net) to the Governmental Activities, which included statutorily required profit transfers of $52.4 million, the transfer of balances totaling $9.7 million from the Marine Ports Enterprise Fund and the transfer of $183.5 million recorded for the Healthcare Liability Retirement Fund discussed above. Additionally, the Governmental Activities contributed $2.2 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 | 2014 | 2013 | Change |
|---|---|---|---|
| General | $ (215,436) | $ (144,375) | $ (71,061) |
| Highway | 37,790 | 34,324 | 3,466 |
| Federal | 9,291 | 24,751 | (15,460) |
| Other Special Revenue | 416,273 | 247,223 | 169,050 |
| Other Governmental | 168,094 | 82,713 | 85,381 |
| Total | $ 416,012 | $ 244,636 | $ 171,376 |

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $416.0 million, an increase of $171.4 million in comparison with the prior year. Of this total amount, $27.2 million (6.5 percent) is classified as non-spendable, either due to its form or legal constraints, and $546.0 million (131.2 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. At the end of the current fiscal year, the unassigned fund balance of the General Fund was a deficit of $221.3 million, a decline of $70.1 million.

General Fund expenditures and other uses surpassed General Fund revenues and other sources resulting in an decrease in the fund balance by $71.1 million. Revenues and other sources of the General Fund decreased by approximately $12.3 million (.36 percent) which is mainly attributed to an decrease in tax revenue ($50.2 million primarily from Individual Income and Corporate Tax). General Fund expenditures and other financing uses increased by $264 million (8.2 percent). This is due, primarily, to an increase in expenditures for health and human services and an increase in education expense.

The fund balance of the Highway Fund increased $3.5 million from fiscal year 2013, due mainly to the Highway Fund's decrease in other expenses from the prior year, of $5.6 million.

### Budgetary Highlights

For the 2014 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $3.3 billion, an increase of about $46.8 million from the original legally adopted budget of approximately $3.2 billion. Actual expenditures on a budgetary basis amounted to approximately $85.6 million less than those authorized in the final budget. After deducting the encumbered obligations and other commitments that will come due in fiscal year 2015, including the budgeted starting balance for Fiscal Year 2014, there were funds remaining of $49.1 million to distribute in Fiscal Year 2014. Actual revenues exceeded final budget forecasts by $54.4 million. In addition, the year-end cascade transferred $8.5 million to the Budget Stabilization Fund. Interest earnings along with the legislatively and statutorily approved transfers increased the balance in the Budget Stabilization Fund to $68.3 million as of June 30, 2014. 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 2014, the State had roughly $4.0 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2014, the State acquired or constructed more than $133.4 million of capital assets. The most significant impact on capital assets during the year resulted from a $1.5 billion write down of infrastructure due to a correction of the capitalization policy. 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 | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Land | $ 575,382 | $ 571,268 | $ 2,255 | $ 7,292 | $ 577,637 | $ 578,560 |
| Buildings | 666,425 | 660,538 | 4,395 | 4,395 | 670,820 | 664,933 |
| Equipment | 268,621 | 265,956 | 32,268 | 36,339 | 300,889 | 302,295 |
| Improvements | 71,875 | 52,251 | 41,124 | 48,767 | 112,999 | 101,018 |
| Software | 74,670 | 72,551 | - | - | 74,670 | 72,551 |
| Infrastructure | 2,761,257 | 2,719,346 * | - | - | 2,761,257 | 2,719,346 |
| Construction in Progress | 109,989 | 83,273 * | 1,869 | 1,138 | 111,858 | 84,411 |
| Total Capital Assets | 4,528,219 | 4,425,183 | 81,911 | 97,931 | 4,610,130 | 4,523,114 |
| Accumulated Depreciation | 524,009 | 484,887 | 37,449 | 42,591 | 561,458 | 527,478 |
| Capital Assets, net | $ 4,004,210 | $ 3,940,296 | $ 44,462 | $ 55,340 | $ 4,048,672 | $ 3,995,636 |

* 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 8,827 highway miles or 17,951 lane miles within the State. Bridges have a deck area of 11.8 million square feet among 2,964 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2014, the actual average condition was 75.5. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 78 at June 30, 2014. Preservation costs for fiscal year 2014 totaled $234 million compared to estimated preservation costs of $27.8 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 697, PL 2011, $26 million in General fund bonds was spent during FY2014.

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

**Long-Term Debt**

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

At year-end, the State had $1.7 billion in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

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

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| General Obligation Bonds | $ 399,190 | $ 369,725 | $ - | $ - | $ 399,190 | $ 369,725 |
| Other Long-Term Obligations | 1,285,279 | 1,035,226 | 5,522 | 5,147 | 1,290,801 | 1,040,373 |
| Total | $ 1,684,469 | $ 1,404,951 | $ 5,522 | $ 5,147 | $ 1,689,991 | $ 1,410,098 |

During the year, the State reduced outstanding long-term obligations by $83.5 million for outstanding general obligation bonds and $686.0 million for other long-term debt. Also during fiscal year 2014, the State incurred $1,049.4 million of additional long-term obligations.

**Credit Ratings**

The State’s credit was rated during fiscal year 2014 by Moody’s Investors Service as Aa2 with a stable outlook and by Standard & Poor’s as AA with a stable outlook.

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

The Maine and U.S. economies continued to show signs of improvement since the Consensus Economic Forecasting Commission (CEFC) last met in January 2014. Maine's Gross Domestic Product for 2013 was slightly higher than 2012, with all of the growth coming from private industry, but total GDP growth for the state was half the national growth. Personal income in Maine grew 3.4 percent year-over-year in the first half of 2014, while wage and salary income, which makes up around half of total personal income, grew 2.7 percent over the same period. The Consumer Price Index was 1.7 percent higher in August 2014 than it was in August 2013.

The price of crude oil decreased 5.8 percent in the third quarter of 2014 to around $103 per barrel. Heating oil prices were considerably lower at the start of the current heating season compared to the past three years and gasoline prices have also declined recently. The number of new automobile titles issued by the Maine Bureau of Motor Vehicles increased 7 percent in fiscal year 2013 compared to fiscal year 2012, while the number of used auto titles decreased just 0.3 percent. Existing single-family home sales in Maine were up 6.6 percent in September 2014 compared to September 2013 and housing permits for the September 2013-August 2014 year were 6.6 percent higher than the previous 12-month period. The median home price in the Portland Metropolitan Statistical Area (York, Cumberland, and Sagadahoc Counties) decreased 2.6 percent year-over-year in the second quarter of 2014. Mortgage delinquency rates in Maine have been declining but at a slower pace than nationally. The foreclosure rate in Maine was 0.57 percent in the second quarter of 2014 and remained above the national rate for an eighth straight quarter.

Overall, while the Commission continues to forecast slow growth for Maine's economy, the demographic situation in the state is of great concern, as the aging population and lack of population growth will limit employment growth and income growth going forward.

The 2014 wage and salary employment forecast was revised downwards slightly, while the 2014-2017 employment forecast was revised upward slightly, projecting a return to Maine's pre-recession employment levels in 2017. Wage and salary income growth was revised upwards for 2015-2017. Total personal income was also revised downwards for 2014-2017, reflecting the lower wage and salary income growth. Inflation, as measured by the Consumer Price Index (CPI), was adjusted upward for 2014-2017.

General Fund revenue estimates were revised upward by $45.5 million in fiscal year 2015 and by $67.5 million over the 2016-2017 biennium. Upward revisions to the Sales and Use Tax, the Individual Income Tax, the Corporate Income Tax, and the Estate Tax account for most of the net changes to the General Fund revenue forecast.

At June 30, 2014, the deficit in the State of Maine's Unassigned Fund Balance Account in the General Fund has increased to $221.3 million (from a deficit unassigned balance of $151.3 for fiscal year 2013). This increase is primarily due to a decrease in tax revenue and an increase in expenditures for health and human services as described on page B-14.

There are several factors that adversely affect our General Fund Balance Sheet that we should continue to strive to improve over the next several years. The primary factors that have a significant impact on the State's Financial Statements compiled and issued in accordance with Generally Accepted Accounting Principles as applicable to governments include such items as accruing tax revenues for budgetary purposes and for financial statement purposes without accruing the offsetting liabilities for budgetary purposes and the increase in the demand for appropriations whose balances carry from year to year which results in a lack funds accruing to the Unassigned Fund Balance of the General Fund. This combined with the lack of significant reserves weakens the General Fund equity position.

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

## CONTACTING THE STATE'S FINANCIAL MANAGEMENT

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

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

DIRIGO
MAINE

# STATE OF MAINE
# STATEMENT OF NET POSITION

June 30, 2014
(Expressed in Thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| **Assets** | | | | |
| Current Assets: | | | | |
| Equity in Treasurer's Cash Pool | $ 293,824 | $ 11,226 | $ 305,050 | $ 49,336 |
| Cash and Cash Equivalents | 4,820 | 3,443 | 8,263 | 106,831 |
| Cash with Fiscal Agent | 77,785 | - | 77,785 | - |
| Investments | 95,706 | - | 95,706 | 607,831 |
| Restricted Assets: | | | | |
| Restricted Equity in Treasurer's Cash Pool | 55,795 | - | 55,795 | - |
| Restricted Deposits and Investments | 3,662 | 297,686 | 301,348 | 114,748 |
| Inventories | 5,051 | 2,866 | 7,917 | 3,874 |
| Receivables, Net of Allowance for Uncollectibles: | | | | |
| Taxes Receivable | 381,290 | - | 381,290 | - |
| Loans Receivable | 3,960 | - | 3,960 | 96,584 |
| Notes Receivable | - | - | - | 8,080 |
| Other Receivables | 233,372 | 61,661 | 295,033 | 72,842 |
| Internal Balances | 192,631 | (192,631) | - | - |
| Due from Other Governments | 257,250 | - | 257,250 | 159,002 |
| Due from Primary Government | - | - | - | 15,674 |
| Loans receivable from primary government | - | - | - | 45,333 |
| Due from Component Units | 46,217 | - | 46,217 | - |
| Other Current Assets | 5,325 | 195 | 5,520 | 52,542 |
| Total Current Assets | 1,656,688 | 184,446 | 1,841,134 | 1,332,677 |
| Noncurrent Assets: | | | | |
| Equity in Treasurer's Cash Pool | 112,375 | 4,294 | 116,669 | 18,870 |
| Restricted Assets: | | | | |
| Restricted Equity in Treasurer's Cash Pool | 21,340 | - | 21,340 | - |
| Restricted Deposits and Investments | - | - | - | 560,533 |
| Investments | - | - | - | 521,098 |
| Receivables, Net of Current Portion: | | | | |
| Taxes Receivable | 62,279 | - | 62,279 | - |
| Loans Receivable | - | - | - | 2,117,249 |
| Notes Receivable | - | - | - | 67,897 |
| Other Receivables | 2,593 | - | 2,593 | 8,609 |
| Due from Other Governments | 4,049 | - | 4,049 | 1,308,309 |
| Loans receivable from primary government | - | - | - | 427,643 |
| Due From Primary Government | - | - | - | 482 |
| Post-Employment Benefit Asset | 1,310 | - | 1,310 | 12,333 |
| Other Noncurrent Assets | - | - | - | 19,627 |
| Capital Assets: | | | | |
| Land, Infrastructure and Other Non-Depreciable Assets | 3,446,628 | 4,124 | 3,450,752 | 567,406 |
| Buildings, Equipment and Other Depreciable Assets, Net | 557,582 | 40,338 | 597,920 | 1,029,346 |
| Total Noncurrent Assets | 4,208,156 | 48,756 | 4,256,912 | 6,659,402 |
| Total Assets | 5,864,844 | 233,202 | 6,098,046 | 7,992,079 |
| **Deferred Outflows of Resources** | | | | |
| Accumulated Decrease in Fair Value of Hedging Derivatives | - | - | - | 15,152 |
| Deferred Loss on Refunding | - | - | - | 41,533 |
| Total Deferred Outflows of Resources | $ - | $ - | $ - | $ 56,685 |

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

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| **Liabilities** | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | $ 463,315 | $ 3,313 | $ 466,628 | $ 52,359 |
| Accrued Payroll | 48,232 | 1,009 | 49,241 | 2,705 |
| Tax Refunds Payable | 194,063 | - | 194,063 | - |
| Due to Component Units | 15,829 | - | 15,829 | - |
| Due to Primary Government | - | - | - | 46,217 |
| Current Portion of Long-Term Obligations: | | | | |
| Compensated Absences | 6,236 | 128 | 6,364 | 2,154 |
| Due to Other Governments | 87,292 | - | 87,292 | 1,115 |
| Amounts Held under State & Federal Loan Programs | - | - | - | 34,213 |
| Claims Payable | 28,103 | - | 28,103 | - |
| Bonds and Notes Payable | 80,945 | - | 80,945 | 217,014 |
| Revenue Bonds Payable | 19,205 | - | 19,205 | 53,053 |
| Obligations under Capital Leases | 5,571 | - | 5,571 | 374 |
| Certificates of Participation and Other Financing Arrangements | 33,333 | - | 33,333 | - |
| Loans Payable to Component Unit | 45,333 | - | 45,333 | - |
| Accrued Interest Payable | 4,991 | - | 4,991 | 38,824 |
| Unearned Revenue | 1,260 | 210 | 1,470 | 57,029 |
| Other Current Liabilities | 3,792 | 18,917 | 22,709 | 72,476 |
| Total Current Liabilities | 1,037,500 | 23,577 | 1,061,077 | 577,533 |
| Long-Term Liabilities: | | | | |
| Compensated Absences | 37,276 | 930 | 38,206 | - |
| Due to Component Units | 327 | - | 327 | - |
| Due to Other Governments | - | - | - | 4,071 |
| Amounts Held under State & Federal Loan Programs | - | - | - | 39,770 |
| Claims Payable | 41,646 | - | 41,646 | - |
| Bonds and Notes Payable | 318,245 | - | 318,245 | 3,479,824 |
| Revenue Bonds Payable | 167,970 | - | 167,970 | 921,636 |
| Obligations under Capital Leases | 29,644 | - | 29,644 | 5,311 |
| Certificates of Participation and Other Financing Arrangements | 73,477 | - | 73,477 | - |
| Loans Payable to Component Unit | 427,643 | - | 427,643 | - |
| Unearned Revenue | 12,207 | - | 12,207 | - |
| Pension Obligation | 1,959 | - | 1,959 | - |
| Other Post-Employment Benefit Obligation | 340,198 | 4,464 | 344,662 | 2,129 |
| Pollution Remediation and Landfill Obligations | 27,685 | - | 27,685 | - |
| Other Noncurrent Liabilities | - | - | - | 134,755 |
| Total Long-Term Liabilities | 1,478,277 | 5,394 | 1,483,671 | 4,587,496 |
| Total Liabilities | 2,515,777 | 28,971 | 2,544,748 | 5,165,029 |
| **Deferred Inflows of Resources** | | | | |
| Deferred Inflow of Grant Income | - | - | - | 5,538 |
| Deferred Inflow of Loan Origination Points | - | - | - | 66 |
| Total Deferred Inflows of Resources | - | - | - | 5,604 |
| **Net Position** | | | | |
| Net Investment in Capital Assets | 3,326,970 | 44,462 | 3,371,432 | 1,007,914 |
| Restricted: | | | | |
| Transportation Purposes | 171,695 | - | 171,695 | - |
| Business Licensing & Regulation | 53,467 | - | 53,467 | - |
| Justice and Protection | 40,832 | - | 40,832 | - |
| Natural Resources | 50,453 | - | 50,453 | - |
| Health and Human Services | 13,075 | - | 13,075 | - |
| Education | 17,151 | - | 17,151 | - |
| Government Support & Operations | 42,988 | - | 42,988 | - |
| Employment Security | - | 331,799 | 331,799 | - |
| Other Purposes | 37,633 | - | 37,633 | 1,214,821 |
| Funds Held as Permanent Investments: | | | | |
| Expendable | 73,944 | - | 73,944 | - |
| Nonexpendable | 21,895 | - | 21,895 | 228,008 |
| Unrestricted | (501,036) | (172,030) | (673,066) | 427,388 |
| Total Net Position | $ 3,349,067 | $ 204,231 | $ 3,553,298 | $ 2,878,131 |

# STATE OF MAINE
# STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2014
(Expressed in Thousands)

| | | Program Revenues | | |
|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| **Primary government:** | | | | |
| Governmental activities: | | | | |
| Governmental Support & Operations | $ 377,269 | $ 96,712 | $ 3,969 | $ - |
| Arts, Heritage & Cultural Enrichment | 11,401 | 1,315 | 2,501 | - |
| Business Licensing & Regulation | 73,016 | 74,799 | 250 | - |
| Economic Development & Workforce Training | 175,338 | 7,410 | 99,433 | - |
| Education | 1,676,908 | 37,467 | 200,560 | - |
| Health & Human Services | 3,669,552 | 11,953 | 2,211,452 | - |
| Justice & Protection | 410,641 | 82,347 | 44,249 | - |
| Natural Resources Development & Protection | 208,970 | 88,035 | 41,289 | - |
| Transportation Safety & Development | 524,024 | 128,635 | 228,253 | - |
| Interest Expense | 47,271 | - | - | - |
| Total Governmental Activities | 7,174,390 | 528,673 | 2,831,956 | - |
| Business-Type Activities: | | | | |
| Employment Security | 159,058 | 163,352 | 7,036 | - |
| Alcoholic Beverages | 19 | 12,539 | - | - |
| Lottery | 180,087 | 232,420 | - | - |
| Ferry Services | 11,849 | 4,912 | - | - |
| Military Equipment Maintenance | 11,466 | 10,102 | - | - |
| Dirigo Health | 26,863 | 25,802 | - | - |
| Other | 7,540 | 8,020 | - | - |
| Total Business-Type Activities | 396,882 | 457,147 | 7,036 | - |
| Total Primary Government | $ 7,571,272 | $ 985,820 | $ 2,838,992 | $ - |
| **Component Units:** | | | | |
| Finance Authority of Maine | 32,703 | 18,038 | 17,971 | - |
| Maine Community College System | 135,765 | 18,384 | 60,265 | 7,001 |
| Maine Health & Higher Educational Facilities Authority | 45,042 | 41,552 | 6,347 | - |
| Maine Municipal Bond Bank | 71,561 | 60,518 | 7,557 | 22,526 |
| Maine State Housing Authority | 220,707 | 72,099 | 132,459 | - |
| Maine Turnpike Authority | 90,746 | 121,817 | - | - |
| University of Maine System | 693,209 | 297,293 | 214,962 | 7,403 |
| All Other Non-Major Component Units | 146,773 | 50,359 | 69,143 | 21,210 |
| Total Component Units | $ 1,436,506 | $ 680,060 | $ 508,704 | $ 58,140 |

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

Special Items
Transfers - Internal Activities
- Total General Revenues and Transfers
  - Change in Net Position

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

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

| Net (Expenses) Revenues and Changes in Net Position | | | |
|---|---|---|---|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Units |
| $ (276,588) | $ - | $ (276,588) | $ - |
| (7,585) | - | (7,585) | - |
| 2,033 | - | 2,033 | - |
| (68,495) | - | (68,495) | - |
| (1,438,881) | - | (1,438,881) | - |
| (1,446,147) | - | (1,446,147) | - |
| (284,045) | - | (284,045) | - |
| (79,646) | - | (79,646) | - |
| (167,136) | - | (167,136) | - |
| (47,271) | - | (47,271) | - |
| (3,813,761) | - | (3,813,761) | - |
| - | 11,330 | 11,330 | - |
| - | 12,520 | 12,520 | - |
| - | 52,333 | 52,333 | - |
| - | (6,937) | (6,937) | - |
| - | (1,364) | (1,364) | - |
| - | (1,061) | (1,061) | - |
| - | 480 | 480 | - |
| - | 67,301 | 67,301 | - |
| $ (3,813,761) | $ 67,301 | $ (3,746,460) | $ - |
| - | - | - | 3,306 |
| - | - | - | (50,115) |
| - | - | - | 2,857 |
| - | - | - | 19,040 |
| - | - | - | (16,149) |
| - | - | - | 31,071 |
| - | - | - | (173,551) |
| - | - | - | (6,061) |
| $ - | $ - | $ - | $ (189,602) |
| 194,770 | - | 194,770 | - |
| 1,399,238 | - | 1,399,238 | - |
| 237,439 | - | 237,439 | - |
| 51,684 | - | 51,684 | - |
| 1,257,376 | - | 1,257,376 | - |
| 383,026 | - | 383,026 | - |
| 19,950 | - | 19,950 | 21,126 |
| - | - | - | 287,643 |
| 118,043 | - | 118,043 | 10,948 |
| (53) | - | (53) | (2,143) |
| 57,749 | - | 57,749 | - |
| 193,192 | (193,192) | - | (7,220) |
| 48,861 | (48,861) | - | - |
| 3,961,275 | (242,053) | 3,719,222 | 310,354 |
| 147,514 | (174,752) | (27,238) | 120,752 |
| 3,201,553 | 378,983 | 3,580,536 | 2,757,379 |
| $ 3,349,067 | $ 204,231 | $ 3,553,298 | $ 2,878,131 |

# STATE OF MAINE
# BALANCE SHEET
# GOVERNMENTAL FUNDS

June 30, 2014
(Expressed in Thousands)

| | General | Highway | Federal | Other Special Revenue | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Equity in Treasurer's Cash Pool | $ 6,363 | $ 28,872 | $ 15,587 | $ 188,955 | $ 133 | $ 239,910 |
| Cash and Short-Term Investments | 106 | 117 | 1 | 44 | 4,549 | 4,817 |
| Cash with Fiscal Agent | 1,622 | 734 | - | 63,684 | - | 66,040 |
| Investments | - | - | - | - | 95,706 | 95,706 |
| Restricted Assets: | | | | | | |
| Restricted Equity in Treasurer's Cash Pool | - | - | - | - | 77,135 | 77,135 |
| Inventories | 2,050 | - | 689 | - | - | 2,739 |
| Receivables, Net of Allowance for Uncollectibles: | | | | | | |
| Taxes Receivable | 410,074 | 22,028 | - | 11,467 | - | 443,569 |
| Loans Receivable | 1 | 9 | - | 3,950 | - | 3,960 |
| Other Receivable | 79,603 | 2,768 | 65,838 | 74,734 | 6 | 222,949 |
| Due from Other Funds | 18,536 | 18,363 | 9,969 | 286,050 | 566 | 333,484 |
| Due from Other Governments | - | - | 256,666 | - | - | 256,666 |
| Due from Component Units | 1,000 | - | 25 | 40,330 | 107 | 41,462 |
| Other Assets | 1,946 | 55 | 380 | 127 | 180 | 2,688 |
| Working Capital Advances Receivable | 111 | - | - | - | - | 111 |
| Total Assets | $ 521,412 | $ 72,946 | $ 349,155 | $ 669,341 | $ 178,382 | $ 1,791,236 |
| **Liabilites, Deferred Inflows and Fund Balances** | | | | | | |
| **Liabilities** | | | | | | |
| Accounts Payable | $ 145,343 | $ 16,275 | $ 231,382 | $ 18,325 | $ 4,160 | $ 415,485 |
| Accrued Payroll | 20,352 | 7,414 | 5,606 | 9,701 | 965 | 44,038 |
| Tax Refunds Payable | 194,055 | 8 | - | - | - | 194,063 |
| Due to Other Governments | 12,972 | - | 73,598 | - | - | 86,570 |
| Due to Other Funds | 146,622 | 3,930 | 23,554 | 5,262 | 24 | 179,392 |
| Due to Component Units | 2,593 | 1,881 | 3,098 | 498 | 4,055 | 12,125 |
| Compensated Absences | - | - | - | - | 456 | 456 |
| Unearned Revenue | - | 4,916 | 689 | 6,785 | 230 | 12,620 |
| Other Accrued Liabilities | 1,679 | 1 | 1,215 | 1,701 | 398 | 4,994 |
| Total Liabilities | 523,616 | 34,425 | 339,142 | 42,272 | 10,288 | 949,743 |
| **Deferred Inflow of Resources** | | | | | | |
| Tax and Assessment Revenue | 213,232 | 731 | 722 | 27,314 | - | 241,999 |
| Pledged Revenue Transfer from Enterprise Fund | - | - | - | 183,482 | - | 183,482 |
| Total Deferred Inflows of Resources | 213,232 | 731 | 722 | 210,796 | - | 425,481 |
| **Fund Balances** | | | | | | |
| Nonspendable: | | | | | | |
| Permanent Fund Principal | - | - | - | - | 21,895 | 21,895 |
| Inventories and Prepaid Items | 3,807 | 55 | 1,071 | 214 | 181 | 5,328 |
| Restricted | 2,064 | 37,735 | 8,220 | 351,691 | 146,265 | 545,975 |
| Committed | - | - | - | 48,381 | - | 48,381 |
| Assigned | - | - | - | 15,987 | - | 15,987 |
| Unassigned | (221,307) | - | - | - | (247) | (221,554) |
| Total Fund Balances | (215,436) | 37,790 | 9,291 | 416,273 | 168,094 | 416,012 |
| Total Liabilities, Deferred Inflows and Fund Balances | $ 521,412 | $ 72,946 | $ 349,155 | $ 669,341 | $ 178,382 | $ 1,791,236 |

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

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

June 30, 2014
(Expressed in Thousands)

| | | | |
|---|---|---|---|
| Total fund balances for governmental funds | | | $ 416,012 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. | * | 4,151,442 | |
| Less: Accumulated depreciation | | (324,340) | 3,827,102 |
| Other post-employment benefit assets are not financial resources | | | 1,310 |
| Pollution remediation receivable | | | 2,914 |
| Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. However, these amounts are included in the Statement of Net Position. This is the net effect of these balances on the statement: | | | |
| Bonds payable | | (586,365) | |
| Interest payable related to long-term financing | | (3,435) | |
| Certificates of participation and other financing arrangements | | (64,031) | |
| Capital leases | | (3,809) | |
| Other accrued | | (9) | |
| Loans payable to component unit | | (472,976) | |
| Due from component unit debt service interest reserve | | 4,755 | |
| Compensated absences | | (39,451) | |
| Pension obligation | | (1,959) | |
| Other post-employment benefit obligation | | (340,198) | |
| Pollution remediation and landfill obligations | | (27,685) | |
| | | | (1,535,163) |
| Certain revenues are earned but not available and therefore are not reported in the governmental fund statements. | | | 245,589 |
| Special Item - Liquor bond funds owed by the Alcoholic Beverages Enterprise Fund will be paid from the profits of the fund. | | | 183,482 |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. | | | 207,821 |
| Net position of governmental activities | | | $ 3,349,067 |

* As restated. - See footnote 3 for further detail.

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, 2014
(Expressed in Thousands)

| | General | Highway | Federal | Other Special Revenue | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **Revenues:** | | | | | | |
| Taxes | $ 3,027,088 | $ 214,119 | $ - | $ 289,150 | $ - | $ 3,530,357 |
| Assessments and Other Revenue | 97,622 | 94,240 | - | 158,896 | - | 350,758 |
| Federal Grants and Reimbursements | 1,988 | - | 2,818,388 | 9,707 | - | 2,830,083 |
| Service Charges | 50,580 | 4,188 | 352 | 108,682 | 659 | 164,461 |
| Investment Income | 716 | 80 | 9 | 740 | 16,222 | 17,767 |
| Miscellaneous Revenue | 23,706 | 3,688 | 4 | 125,247 | 1,574 | 154,219 |
| Total Revenues | 3,201,700 | 316,315 | 2,818,753 | 692,422 | 18,455 | 7,047,645 |
| **Expenditures** | | | | | | |
| Current: | | | | | | |
| Governmental Support & Operations | 219,125 | 2,596 | 4,905 | 105,442 | 112 | 332,180 |
| Economic Development & Workforce Training | 32,635 | - | 96,699 | 38,808 | 5,726 | 173,868 |
| Education | 1,404,149 | - | 199,595 | 66,984 | 30,520 | 1,701,248 |
| Health and Human Services | 1,159,000 | - | 2,208,900 | 307,348 | 5,756 | 3,681,004 |
| Business Licensing & Regulation | 3,797 | - | 99 | 68,124 | - | 72,020 |
| Natural Resources Development & Protection | 66,684 | 33 | 39,358 | 85,561 | 3,890 | 195,526 |
| Justice and Protection | 283,477 | 25,151 | 47,015 | 62,179 | 74 | 417,896 |
| Arts, Heritage & Cultural Enrichment | 7,459 | - | 2,796 | 852 | 47 | 11,154 |
| Transportation Safety & Development | - | 274,375 | 195,386 | 63,904 | 3,330 | 536,995 |
| Debt Service: | | | | | | |
| Principal Payments | 85,735 | 16,035 | 12,465 | 11,065 | 25 | 125,325 |
| Interest Payments | 18,163 | 4,274 | 3,331 | 9,052 | - | 34,820 |
| Capital Outlay | - | - | - | - | 35,227 | 35,227 |
| Total Expenditures | 3,280,224 | 322,464 | 2,810,549 | 819,319 | 84,707 | 7,317,263 |
| Revenue over (under) Expenditures | (78,524) | (6,149) | 8,204 | (126,897) | (66,252) | (269,618) |
| Other Financing Sources (Uses): | | | | | | |
| Transfer from Other Funds | 169,095 | 25,200 | 15,490 | 189,083 | 27,856 | 426,724 |
| Transfer to Other Funds | (206,907) | (16,320) | (39,154) | (113,974) | (3,412) | (379,767) |
| COP's and Other | 45,275 | 735 | - | 31,742 | 69 | 77,821 |
| Loan Proceeds from Component Units | - | - | - | 183,482 | - | 183,482 |
| Bonds Issued | - | - | - | 10,055 | 112,945 | 123,000 |
| Bonds Defeased | - | - | - | (4,500) | - | (4,500) |
| Premium on Bonds Issued | - | - | - | - | 14,175 | 14,175 |
| Net Other Finance Sources (Uses) | 7,463 | 9,615 | (23,664) | 295,888 | 151,633 | 440,935 |
| Special Item | - | - | - | 59 | - | 59 |
| Net Change in Fund Balances | (71,061) | 3,466 | (15,460) | 169,050 | 85,381 | 171,376 |
| Fund Balances at Beginning of Year | (144,375) | 34,324 | 24,751 | 247,223 | 82,713 | 244,636 |
| Fund Balances at End of Year | $ (215,436) | $ 37,790 | $ 9,291 | $ 416,273 | $ 168,094 | $ 416,012 |

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, 2014
(Expressed in Thousands)

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds | | $ 171,376 |
| 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 | 71,926 | |
| Capital assets transfer, net | 27,188 | |
| Depreciation expense | (31,056) | 68,058 |
| The net effect of various transactions involving capital assets (i.e. sales, trade-ins and contributions) is to increase net position. | | 621 |
| Post-employment benefit asset funding, net | | (561) |
| Pollution Remediation Receivable | | (5,937) |
| The issuance of long-term debt provides current financial resources to governmental funds which increases long-term debt in the Statement of Net Position. Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but repayment reduces long-term debt in the Statement of Net Position. This is the amount that proceeds exceed repayments: | | |
| Bond proceeds | (123,000) | |
| Proceeds from other financing arrangements | (77,752) | |
| Loan proceeds from component unit | (193,816) | |
| Changes in component unit debt service interest reserve | 4,755 | |
| Loan proceeds from capitalized leases | (69) | |
| Repayment of bond principal | 106,270 | |
| Repayment of other financing debt | 21,444 | |
| Repayment of pledged revenue principal | 24,885 | |
| Repayment of capitalized lease principal | 554 | |
| Accrued interest | 313 | (236,416) |
| Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Position and have been eliminated from the Statement of Position as follows: | | |
| Pension obligation | 30 | |
| Other post-employment benefit obligation | (42,137) | |
| Pollution remediation and landfill obligations | 4,447 | |
| Compensated absences | (1,847) | (39,507) |
| Certain revenues are earned but not available and therefore are not reported in the governmental fund statements. | | (5,826) |
| Special Item - Liquor bond funds owed by the Alcoholic Beverages Enterprise Fund will be paid from profits of the fund. | | 183,482 |
| 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. | | 12,224 |
| Changes in net position of governmental activities | | $ 147,514 |

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

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

June 30, 2014
(Expressed in Thousands)

| | Business-Type Activities Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Major Employment Security | Major Alcoholic Beverages | Non-Major Other Enterprise | Total | Internal Service Funds |
| **Assets** | | | | | |
| Current Assets: | | | | | |
| Equity in Treasurer's Cash Pool | $ - | $ 361 | $ 10,865 | $ 11,226 | $ 120,284 |
| Cash and Short-Term Investments | 2,687 | - | 756 | 3,443 | 3 |
| Cash with Fiscal Agent | - | - | - | - | 11,745 |
| Restricted Assets: | | | | | |
| Restricted Deposits and Investments | 297,686 | - | - | 297,686 | 3,662 |
| Inventories | - | - | 2,866 | 2,866 | 2,312 |
| Receivables, Net of Allowance for Uncollectibles: | | | | | |
| Other Receivable | 34,334 | - | 27,327 | 61,661 | 7,092 |
| Due from Other Funds | 22 | - | 307 | 329 | 24,622 |
| Other Current Assets | - | - | 195 | 195 | 2,637 |
| Total Current Assets | 334,729 | 361 | 42,316 | 377,406 | 172,357 |
| Noncurrent Assets: | | | | | |
| Equity in Treasurer's Cash Pool | - | 138 | 4,156 | 4,294 | 46,005 |
| Capital Assets - Net of Depreciation | - | - | 44,462 | 44,462 | 177,108 |
| Total Noncurrent Assets | - | 138 | 48,618 | 48,756 | 223,113 |
| Total Assets | 334,729 | 499 | 90,934 | 426,162 | 395,470 |
| **Liabilities** | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable | 1,942 | 6 | 1,365 | 3,313 | 23,812 |
| Accrued Payroll | - | 13 | 996 | 1,009 | 4,194 |
| Due to Other Funds | - | 183,482 | 9,562 | 193,044 | 6,675 |
| Due to Component Units | - | - | - | - | 4,031 |
| Current Portion of Long-Term Obligations: | | | | | |
| Certificates of Participation and Other Financing Arrangements | - | - | - | - | 11,484 |
| Obligations Under Capital Leases | - | - | - | - | 5,016 |
| Claims Payable | - | - | - | - | 28,103 |
| Compensated Absences | - | - | 128 | 128 | 435 |
| Unearned Revenue | - | - | 210 | 210 | 344 |
| Accrued Interest Payable | - | - | - | - | 345 |
| Other Accrued Liabilities | 988 | 500 | 17,429 | 18,917 | - |
| Total Current Liabilities | 2,930 | 184,001 | 29,690 | 216,621 | 84,439 |
| Long-Term Liabilities: | | | | | |
| Working Capital Advances Payable | - | - | - | - | 111 |
| Unearned Revenue | - | - | - | - | 503 |
| Certificates of Participation and Other Financing Arrangements | - | - | - | - | 31,295 |
| Obligations Under Capital Leases | - | - | - | - | 26,390 |
| Claims Payable | - | - | - | - | 41,646 |
| Compensated Absences | - | - | 930 | 930 | 3,181 |
| Other Post-Employment Benefit Obligation | - | - | 4,464 | 4,464 | - |
| Total Long-Term Liabilities | - | - | 5,394 | 5,394 | 103,126 |
| Total Liabilities | 2,930 | 184,001 | 35,084 | 222,015 | 187,565 |
| **Net Position** | | | | | |
| Net Investment in Capital Assets | - | - | 44,462 | 44,462 | 117,237 |
| Restricted for: | | | | | |
| Employment Security | 331,799 | - | - | 331,799 | - |
| Other Purposes | - | - | - | - | 468 |
| Unrestricted | - | (183,502) | 11,388 | (172,114) | 90,200 |
| Total Net Position | $ 331,799 | $ (183,502) | $ 55,850 | $ 204,147 | $ 207,905 |

| | |
|---|---|
| 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 | 84 |
| Net Position of Business-Type Activities | $ 204,231 |

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

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

Fiscal Year Ended June 30, 2014
(Expressed in Thousands)

| | Business-Type Activities Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Major Employment Security | Major Alcoholic Beverages | Non-Major Other Enterprise | Total | Internal Service Funds |
| **Operating Revenues** | | | | | |
| Charges for Services | $ - | $ 39 | $ 280,991 | $ 281,030 | $ 440,328 |
| Assessments | 163,341 | - | - | 163,341 | - |
| Miscellaneous Revenues | 11 | - | 214 | 225 | 441 |
| Total Operating Revenues | 163,352 | 39 | 281,205 | 444,596 | 440,769 |
| **Operating Expenses** | | | | | |
| General Operations | - | 19 | 234,762 | 234,781 | 390,270 |
| Depreciation | - | - | 3,456 | 3,456 | 17,082 |
| Claims/Fees Expense | 159,058 | - | - | 159,058 | 10,755 |
| Other Operating Expenses | - | - | - | - | 48 |
| Total Operating Expenses | 159,058 | 19 | 238,218 | 397,295 | 418,155 |
| Operating Income (Loss) | 4,294 | 20 | 42,987 | 47,301 | 22,614 |
| **Nonoperating Revenues (Expenses)** | | | | | |
| Investment Revenue (Expense) - net | 7,036 | - | - | 7,036 | 443 |
| Interest Expense | - | - | - | - | (8,291) |
| Other Nonoperating Revenues (Expenses)- net | - | 12,500 | 51 | 12,551 | (18,483) |
| Total Nonoperating Revenues (Expenses) | 7,036 | 12,500 | 51 | 19,587 | (26,331) |
| Income (Loss) Before Capital Contributions, Transfers and Special Items | 11,330 | 12,520 | 43,038 | 66,888 | (3,717) |
| **Capital Contributions, Transfers and Special Items** | | | | | |
| Capital Contributions from (to) Other Funds | - | - | 2,231 | 2,231 | 1,693 |
| Transfers from Other Funds | - | - | 4,672 | 4,672 | 18,002 |
| Transfers to Other Funds | (643) | (39) | (55,082) | (55,764) | (3,341) |
| Special Items | - | (183,482) | (9,710) | (193,192) | - |
| Total Capital Contributions, Transfers In (Out) and Special Items | (643) | (183,521) | (57,889) | (242,053) | 16,354 |
| Change in Net Position | 10,687 | (171,001) | (14,851) | (175,165) | 12,637 |
| Net Position - Beginning of Year | 321,112 | (12,501) | 70,701 | 379,312 | 195,268 |
| Net Position - End of Year | $ 331,799 | $ (183,502) | $ 55,850 | | $ 207,905 |
| 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 | | | | 413 | |
| Changes in Business-Type Net Position | | | | $ (174,752) | |

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

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

June 30, 2014
(Expressed in Thousands)

| | Business-Type Activities Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Major Employment Security | Major Alcoholic Beverages | Non-Major Other Enterprise | Totals | Internal Service Funds |
| **Cash Flows from Operating Activities** | | | | | |
| Receipts from Customers and Users | $ 170,388 | $ 39 | $ 278,376 | $ 448,803 | $ 440,099 |
| Payments of Benefits | (158,974) | - | - | (158,974) | - |
| Payments to Prize Winners | - | - | (148,077) | (148,077) | - |
| Payments to Suppliers | - | 499 | (58,640) | (58,141) | (316,783) |
| Payments to Employees | - | - | (21,139) | (21,139) | (68,934) |
| Net Cash Provided (Used) by Operating Activities | 11,414 | 538 | 50,520 | 62,472 | 54,382 |
| **Cash Flows from Noncapital Financing Activities** | | | | | |
| Transfers from Other Funds | - | - | 4,672 | 4,672 | 18,002 |
| Transfers to Other Funds | (643) | (39) | (55,082) | (55,764) | (3,341) |
| Net Cash Provided (Used) by Noncapital Financing Activities | (643) | (39) | (50,410) | (51,092) | 14,661 |
| **Cash Flows from Capital and Related Financing Activities** | | | | | |
| Payments for Acquisition of Capital Assets | - | - | (76) | (76) | (28,252) |
| Proceeds from Financing Arrangements | - | - | - | - | 16,300 |
| Principal and Interest Paid on Financing Arrangements | - | - | - | - | (26,223) |
| Proceeds from Sale of Capital Assets | - | - | 61 | 61 | 65 |
| Net Cash Provided (Used) by Capital Financing Activities | - | - | (15) | (15) | (38,110) |
| **Cash Flows from Investing Activities** | | | | | |
| Interest Revenue | 7,036 | - | 9 | 7,045 | 443 |
| Net Cash Provided (Used) by Investing Activities | 7,036 | - | 9 | 7,045 | 443 |
| Net Increase (Decrease) in Cash/Cash Equivalents | 17,807 | 499 | 104 | 18,410 | 31,376 |
| Cash/Cash Equivalents - Beginning of Year | 282,566 | - | 15,673 | 298,239 | 150,322 |
| Cash/Cash Equivalents - End of Year | $ 300,373 | $ 499 | $ 15,777 | $ 316,649 | $ 181,698 |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities** | | | | | |
| Operating Income (Loss) | $ 4,294 | $ 20 | $ 42,987 | $ 47,301 | $ 22,614 |
| **Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities** | | | | | |
| Depreciation Expense | - | - | 3,456 | 3,456 | 17,082 |
| Decrease (Increase) in Assets | | | | | |
| Accounts Receivable | 6,827 | - | (2,829) | 3,998 | 3,544 |
| Interfund Balances | 209 | (1) | 3,503 | 3,711 | (3,580) |
| Inventories | - | - | (557) | (557) | (246) |
| Other Assets | - | - | - | - | (48) |
| Increase (Decrease) in Liabilities | | | | | |
| Accounts Payable | (148) | 6 | (563) | (705) | 15,651 |
| Accrued Payroll Expenses | - | 13 | (561) | (548) | 205 |
| Change in Compensated Absences | - | - | (322) | (322) | (62) |
| Other Accruals | 232 | 500 | 5,406 | 6,138 | (778) |
| Total Adjustments | 7,120 | 518 | 7,533 | 15,171 | 31,768 |
| Net Cash Provided (Used) by Operating Activities | $ 11,414 | $ 538 | $ 50,520 | $ 62,472 | $ 54,382 |
| **Non Cash Investing, Capital and Financing Activities** | | | | | |
| Property Leased, Accrued or Acquired | - | - | - | - | 921 |
| Contributed Capital Assets | - | - | 2,231 | 2,231 | 1,693 |
| Decrease of deferred revenue from the sale of liquor operations | - | 12,500 | - | 12,500 | - |
| Special Item | - | (183,482) | (9,710) | (193,192) | - |

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

DIRIGO
MAINE

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

June 30, 2014
(Expressed in Thousands)

| | Pension (and Other Employee Benefit) Trusts | Private Purpose Trusts | Agency Funds |
|---|---|---|---|
| **Assets** | | | |
| Equity in Treasurer's Cash Pool | $ - | $ 1,982 | $ 18,310 |
| Cash and Short-Term Investments | 31,272 | - | 27 |
| Receivables, Net of Allowance for Uncollectibles: | | | |
| Interest and Dividends | 4,389 | - | - |
| Due from Brokers for Securities Sold | 99 | - | - |
| Other | 19,369 | - | - |
| Investments at Fair Value: | | | |
| Equity Securities | 3,967,803 | - | - |
| Common/Collective Trusts | 9,211,945 | - | - |
| Other | - | 14,900 | - |
| Restricted Deposits and Investments | - | - | 11 |
| Securities Lending Collateral | 260,224 | - | - |
| Due from Other Funds | - | 24,007 | - |
| Investments Held on Behalf of Others | - | - | 52,641 |
| Capital Assets - Net of Depreciation | 8,719 | - | - |
| Other Assets | - | 4,621 | 4,416 |
| Total Assets | 13,503,820 | 45,510 | 75,405 |
| **Liabilities** | | | |
| Accounts Payable | 6,213 | 88 | 1,064 |
| Due to Other Funds | - | 4 | 3,327 |
| Due to Brokers for Securities Purchased | 534 | - | - |
| Agency Liabilities | - | - | 70,983 |
| Obligations Under Securities Lending | 260,224 | - | - |
| Other Accrued Liabilities | 20,801 | - | 31 |
| Total Liabilities | 287,772 | 92 | 75,405 |
| **Net Position** | | | |
| Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes | 13,216,048 | 45,418 | - |
| Total Net Position | $ 13,216,048 | $ 45,418 | $ - |

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

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

Fiscal Year Ended June 30, 2014
(Expressed in Thousands)

| | Pension (and Other Employee Benefit) Trusts | Private Purpose Trusts |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Members | $ 163,219 | $ - |
| State and Local Agencies | 268,581 | - |
| Other Contributing Entity | 142,303 | - |
| Investment Income (Loss): | | |
| Net Increase (Decrease) in the Fair Value of Investments | 1,855,602 | 2,090 |
| Interest and Dividends | 126,528 | 319 |
| Securities Lending Income | 1,494 | - |
| Less Investment Expense: | | |
| Investment Activity Expense | 41,310 | - |
| Securities Lending Expense | (1,201) | - |
| Net Investment Income (Loss) | 1,943,515 | 2,409 |
| Miscellaneous Revenues | - | 9,714 |
| Transfers In | - | 738 |
| Total Additions | 2,517,618 | 12,861 |
| Deductions: | | |
| Benefits Paid to Participants or Beneficiaries | 869,133 | 69 |
| Refunds and Withdrawals | 31,225 | - |
| Administrative Expenses | 10,624 | 157 |
| Claims Processing Expense | 835 | - |
| Transfers Out | - | 7,834 |
| Total Deductions | 911,817 | 8,060 |
| Net Increase (Decrease) | 1,605,801 | 4,801 |
| Net Position: | | |
| Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes: | | |
| Beginning of Year, as Restated | 11,610,247 | 40,617 |
| End of Year | $ 13,216,048 | $ 45,418 |

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

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

June 30, 2014
(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 | $ 18,740 | $ 10,725 | $ 3,662 | $ - |
| Cash and Cash Equivalents | 3,541 | 15,093 | 3,783 | 246 |
| Investments | 46,348 | 45,188 | 36,309 | 21,249 |
| Restricted Assets: | | | | |
| Restricted Deposits and Investments | - | - | - | - |
| Inventories | - | 1,394 | - | - |
| Receivables, Net of Allowance for Uncollectibles: | | | | |
| Loans Receivable | - | - | 47,286 | - |
| Notes Receivable | - | - | - | - |
| Other Receivables | 1,313 | 6,766 | 211 | 1,020 |
| Due from Other Governments | 315 | - | - | 135,630 |
| Due from Primary Government | - | 1,437 | - | - |
| Loans Receivable from Primary Government | - | - | - | 45,333 |
| Other Current Assets | 1,648 | 1,903 | 796 | 40,512 |
| Total Current Assets | 71,905 | 82,506 | 92,047 | 243,990 |
| Noncurrent Assets: | | | | |
| Equity in Treasurer's Cash Pool | 7,167 | 4,102 | 1,401 | - |
| Restricted Assets: | | | | |
| Restricted Deposits and Investments | - | 1,637 | 132,093 | 375,842 |
| Investments | - | 14,835 | - | - |
| Receivables, Net of Current Portion: | | | | |
| Loans Receivable | - | - | 827,231 | - |
| Notes Receivable | 22,584 | - | - | - |
| Other Receivables | - | - | - | - |
| Due from Other Governments | - | - | - | 1,308,309 |
| Due from Primary Government | - | - | - | - |
| Loans Receivable from Primary Government | - | - | - | 427,643 |
| Post-Employment Benefit Asset | - | 12,333 | - | - |
| Capital Assets - Net of Depreciation | 1,473 | 161,462 | - | 550 |
| Other Noncurrent Assets | - | - | - | - |
| Total Noncurrent Assets | 31,224 | 194,369 | 960,725 | 2,112,344 |
| Total Assets | 103,129 | 276,875 | 1,052,772 | 2,356,334 |
| **Deferred Outflows of Resources** | | | | |
| Accumulated Decrease in Fair Value of Hedging Derivatives | - | - | - | - |
| Deferred Loss on Refunding | - | - | - | 22,555 |
| Total Deferred Outflows of Resources | $ - | $ - | $ - | $ 22,555 |
| **Liabilities** | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | 2,989 | 4,718 | 174 | 730 |
| Accrued Payroll | - | - | - | - |
| Compensated Absences | - | 1,965 | - | - |
| Due to Other Governments | - | - | - | 724 |
| Due to Primary Government | 1,000 | - | - | 44,458 |
| Amounts Held Under State & Federal Loan Programs | - | - | - | 34,213 |
| Bonds and Notes Payable | 807 | 649 | 51,505 | 151,070 |
| Obligations Under Capital Leases | - | 10 | - | - |
| Accrued Interest Payable | - | - | 20,393 | 12,385 |
| Deferred Revenue | 1,130 | 2,414 | 2,805 | 273 |
| Other Current Liabilities | 21,034 | 8,894 | - | - |
| Total Current Liabilities | 26,960 | 18,650 | 74,877 | 243,853 |
| Long-Term Liabilities: | | | | |
| Due to Other Governments | - | - | 435 | 1,005 |
| Amounts Held Under State & Federal Loan Programs | 39,770 | - | - | - |
| Bonds and Notes Payable | 593 | 22,647 | 921,605 | 1,485,890 |
| Obligations Under Capital Leases | - | 2,199 | - | - |
| Other Post-Employment Benefits Obligation | - | - | - | - |
| Other Noncurrent Liabilities | - | - | - | - |
| Total Long-Term Liabilities | 40,363 | 24,846 | 922,040 | 1,486,895 |
| Total Liabilities | 67,323 | 43,496 | 996,917 | 1,730,748 |
| **Deferred Inflows of Resources** | | | | |
| Deferred Inflow of Grant Income | - | - | - | - |
| Deferred Inflow of Loan Origination Points | - | - | - | - |
| Total Deferred Inflows of Resources | - | - | - | - |
| **Net Position** | | | | |
| Net Investment in Capital Assets | 1,473 | 137,594 | - | 548 |
| Restricted | 17,054 | 40,303 | 34,283 | 577,447 |
| Unrestricted | 17,279 | 55,482 | 21,572 | 70,146 |
| Total Net Position | $ 35,806 | $ 233,379 | $ 55,855 | $ 648,141 |

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

| Maine State Housing Authority | Maine Turnpike Authority | University of Maine System | Non-Major Component Units | Total |
|---|---|---|---|---|
| $ - | $ - | $ 15,132 | $ 1,077 | $ 49,336 |
| 1,307 | 17,779 | 886 | 64,196 | 106,831 |
| 227,989 | - | 221,902 | 8,846 | 607,831 |
| - | 81,809 | - | 32,939 | 114,748 |
| - | 1,604 | - | 876 | 3,874 |
| 30,920 | - | - | 18,378 | 96,584 |
| 8 | - | 63 | 8,009 | 8,080 |
| 18,027 | 4,425 | 35,023 | 6,057 | 72,842 |
| 3,959 | - | 13,069 | 6,029 | 159,002 |
| - | - | 5,658 | 8,579 | 15,674 |
| - | - | - | - | 45,333 |
| - | 875 | 5,338 | 1,470 | 52,542 |
| 282,210 | 106,492 | 297,071 | 156,456 | 1,332,677 |
| - | - | 5,788 | 412 | 18,870 |
| - | 34,100 | 400 | 16,461 | 560,533 |
| 103,490 | 14,301 | 365,529 | 22,943 | 521,098 |
| 1,184,850 | - | - | 105,168 | 2,117,249 |
| 86 | - | 41,820 | 3,407 | 67,897 |
| 1,062 | 14 | 4,490 | 3,043 | 8,609 |
| - | - | - | - | 1,308,309 |
| - | - | 327 | 155 | 482 |
| - | - | - | - | 427,643 |
| - | - | - | - | 12,333 |
| 1,492 | 497,236 | 698,219 | 236,320 | 1,596,752 |
| 5,640 | 12,515 | - | 1,472 | 19,627 |
| 1,296,620 | 558,166 | 1,116,573 | 389,381 | 6,659,402 |
| 1,578,830 | 664,658 | 1,413,644 | 545,837 | 7,992,079 |
| 15,152 | - | - | - | 15,152 |
| 6,348 | 7,652 | 3,957 | 1,021 | 41,533 |
| $ 21,500 | $ 7,652 | $ 3,957 | $ 1,021 | $ 56,685 |
| 8,423 | 6,819 | 13,137 | 15,369 | 52,359 |
| - | 2,298 | - | 407 | 2,705 |
| - | - | - | 189 | 2,154 |
| 391 | - | - | - | 1,115 |
| - | - | - | 759 | 46,217 |
| - | - | - | - | 34,213 |
| 29,360 | 17,820 | 9,346 | 9,510 | 270,067 |
| - | - | 359 | 5 | 374 |
| 5,477 | - | - | 569 | 38,824 |
| 1,181 | 7,243 | 11,049 | 30,934 | 57,029 |
| - | 10,797 | 30,340 | 1,411 | 72,476 |
| 44,832 | 44,977 | 64,231 | 59,153 | 577,533 |
| - | - | - | 2,631 | 4,071 |
| - | - | - | - | 39,770 |
| 1,244,268 | 430,975 | 155,767 | 139,715 | 4,401,460 |
| - | - | 3,112 | - | 5,311 |
| - | - | - | 2,129 | 2,129 |
| 15,152 | 15,361 | 104,081 | 161 | 134,755 |
| 1,259,420 | 446,336 | 262,960 | 144,636 | 4,587,496 |
| 1,304,252 | 491,313 | 327,191 | 203,789 | 5,165,029 |
| 2,984 | - | - | 2,554 | 5,538 |
| 66 | - | - | - | 66 |
| 3,050 | - | - | 2,554 | 5,604 |
| 1,492 | 117,417 | 531,742 | 217,648 | 1,007,914 |
| 267,236 | 49,832 | 371,458 | 85,216 | 1,442,829 |
| 24,300 | 13,748 | 187,210 | 37,651 | 427,388 |
| $ 293,028 | $ 180,997 | $ 1,090,410 | $ 340,515 | $ 2,878,131 |

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

Fiscal Year Ended June 30, 2014
(Expressed in Thousands)

| | Finance Authority of Maine | Maine Community College System | Maine Health and Higher Educational Facilities Authority | Maine Municipal Bond Bank |
|---|---|---|---|---|
| **Expenses** | $ 32,703 | $ 135,765 | $ 45,042 | $ 71,561 |
| **Program Revenues** | | | | |
| Charges for Services | 18,038 | 18,384 | 41,552 | 60,518 |
| Program Investment Income | 196 | 3,505 | 6,347 | 7,050 |
| Operating Grants and Contributions | 17,775 | 56,760 | - | 507 |
| Capital Grants and Contributions | - | 7,001 | - | 22,526 |
| Net Revenue (Expense) | 3,306 | (50,115) | 2,857 | 19,040 |
| **General Revenues** | | | | |
| Unrestricted Investment Earnings | 458 | 2,799 | 71 | 64 |
| Non-program Specific Grants, Contributions and Appropriations | - | 57,086 | - | - |
| Miscellaneous Income | 230 | 1,413 | 127 | 2,735 |
| Gain (Loss) on Assets Held for Sale | - | - | - | - |
| Special Item | - | - | - | - |
| Total General Revenues | 688 | 61,298 | 198 | 2,799 |
| Change in Net Position | 3,994 | 11,183 | 3,055 | 21,839 |
| Net Position, Beginning of the Year (as restated) | 31,812 | 222,196 | 52,800 | 626,302 |
| Net Position, End of Year | $ 35,806 | $ 233,379 | $ 55,855 | $ 648,141 |

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

| Maine State Housing Authority | Maine Turnpike Authority | University of Maine System | Non-Major Component Units | Total |
|---|---|---|---|---|
| $ 220,707 | $ 90,746 | $ 693,209 | $ 146,773 | $ 1,436,506 |
| 72,099 | 121,817 | 297,293 | 50,359 | 680,060 |
| (10,969) | - | 38,692 | 65 | 44,886 |
| 143,428 | - | 176,270 | 69,078 | 463,818 |
| - | - | 7,403 | 21,210 | 58,140 |
| (16,149) | 31,071 | (173,551) | (6,061) | (189,602) |
| 17 | (475) | 13,081 | 5,111 | 21,126 |
| - | - | 213,278 | 17,279 | 287,643 |
| - | 5,283 | - | 1,160 | 10,948 |
| - | (2,509) | - | 366 | (2,143) |
| - | - | - | (7,220) | (7,220) |
| 17 | 2,299 | 226,359 | 16,696 | 310,354 |
| (16,132) | 33,370 | 52,808 | 10,635 | 120,752 |
| 309,160 | 147,627 | 1,037,602 | 329,880 | 2,757,379 |
| $ 293,028 | $ 180,997 | $ 1,090,410 | $ 340,515 | $ 2,878,131 |

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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.

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

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

**Blended Component Units** – Blended component units are entities that are legally separate from the State, but provide services entirely, or almost entirely to the State or otherwise exclusively, or almost exclusively, benefits the primary government even though they do not provide services directly to it. The State reports 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 GASB, capital leases that exist between the State and MGFA are not recorded as leases in this report. The assets associated with these leases are reported in the government-wide statements along with the related debt. The corresponding debt service activity is recorded in the Governmental Funds. MGFA financial activity associated with servicing the debt is reported in an internal service fund. Therefore, the State reports MGFA's balances and transactions as though they were part of the primary government, using the blending method.

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. The State's Education Commissioner 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 whose boards of directors or boards of trustees are appointed by the Governor:

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

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

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

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

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

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

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

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

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

*Maine Public Employees Retirement System* administers a public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, employees of approximately 300 local municipalities and other public entities in Maine. The 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 Position and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

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

**Restricted component of net position** consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Constraints placed on restricted components of net position are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net position reports $854.9 million of restricted net position, of which $144.2 million is restricted by enabling legislation.

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

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

**Fund Financial Statements**

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

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

**Measurement Focus and Basis of Accounting**

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

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

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

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

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

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

**Financial Statement Presentation**

The State reports the following major governmental funds:

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

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

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

The *Other Special Revenue Fund* accounts for specific revenue sources that are legally 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.

The *Alcoholic Beverages Fund* licenses and regulates the sale of alcoholic beverages. 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. Fiscal year 2014 was the final year of the contract.

Additionally, the State reports the following fund types:

**Governmental Fund Types:**

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

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

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

**Proprietary Fund Types:**

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

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

**Fiduciary Fund Types:**

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

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

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

## D. FISCAL YEAR-ENDS

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

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

**Equity in Treasurer's Cash Pool**

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

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

**Cash and Cash Equivalents**

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

**Cash with Fiscal Agent**
Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds, 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 $107 million of Workers' Compensation, $51 million of Bureau of Insurance, and $30 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 Position.

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

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

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

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

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

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

**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, 2014 is $219 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, 2014 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 Inflows of Resources**
In addition to liabilities, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate element represents an acquisition of fund equity that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The government funds report unavailable revenues, which arise only under the modified accrual basis of accounting, from two sources: tax and assessment revenue and pledged revenue transfer from an Enterprise Fund.

**Loans Payable to Component Unit**
In the Statement of Net Position, 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." In fiscal year 2014 a Liquor Revenue Bond was issued by the Component Unit. The bond, including debt service reserves, totaled $220.7 million. See Note 11 for additional information on the Liquor Bond.

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

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

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

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

The State reported the following fund balance restrictions:

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

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

*Committed Fund Balances* – indicates assets can be used only for specific purposes pursuant to constraints imposed by a formal action of the Maine Legislature, 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 $221 million unassigned General Fund fund balance. Amounts in the stabilization fund may be expended only to offset a General Fund revenue shortfall. The Governor may also allocate funds for payment of death benefits for law enforcement officers, firefighters and emergency medical services personnel.

Balances in the fund do not lapse, but carry forward each year. Money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. As the fifth priority before any other transfer, the State Controller is required to transfer 48 percent of the unappropriated surplus of the General Fund when the fund is not at its statutory cap. In accordance with the statute, the State Controller made the required transfer for fiscal year 2014.

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 2014 actual General Fund revenue, the statutory cap at the close of fiscal year 2014 and during fiscal year 2014 was $373.6 million. At the close of fiscal year 2014, the balance of the Maine Budget Stabilization Fund was $68.3 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 | $ | 59,701 |
| Increase in fund balance | | 8,570 |
| Balance, end of year | $ | 68,271 |

**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, 2014, the Legislature increased appropriations to the General Fund by $26.3 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, 2014 are detailed on the following page.

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

| | NSIF | Restricted | Committed | Assigned |
|---|---|---|---|---|
| **General Fund:** | | | | |
| Public Safety | $ - | $ 1,365 | $ - | $ - |
| All Other | 3,807 | 699 | - | - |
| Total | $ 3,807 | $ 2,064 | $ - | $ - |
| **Highway Fund:** | | | | |
| Light Highway & Bridge Capital | $ - | $ 20,522 | $ - | $ - |
| Highway and Bridge Construction | | 14,319 | | |
| Department of Motor Vehicles | - | 847 | - | - |
| All Other | 55 | 2,047 | - | - |
| Total | $ 55 | $ 37,735 | $ - | $ - |
| **Federal Fund:** | | | | |
| HHS Office of Family Independence | $ - | $ 1,739 | $ - | $ - |
| HHS Office of Child and Family Services | - | 2,443 | - | - |
| HHS Substance & Mental Health | - | 1,989 | - | - |
| Other General Support and Operations | - | 619 | - | - |
| Other Justice and Protection | - | 1,430 | - | - |
| All Other | 1,071 | - | - | - |
| Total | $ 1,071 | $ 8,220 | $ - | $ - |
| **Other Special Revenue Fund:** | | | | |
| Agriculture & Conservation | $ - | $ 18,049 | $ 3,673 | $ - |
| Bonds for Highway & Bridge Construction | - | 73,537 | - | - |
| Environmental Protection | - | 19,242 | - | - |
| Fund for a Healthy Maine | - | - | 8,351 | - |
| GSO Other | - | 42,882 | 8,864 | - |
| HHS Centers for Disease Control | - | - | 4,614 | - |
| HHS COM | - | - | - | - |
| HHS MaineCare (Medicaid Program) | - | - | 3,241 | - |
| HHS Office of Family Independence | - | - | - | 6,963 |
| HHS Other | - | 26,434 | 1,672 | 2,967 |
| Highway & Bridge Construction | - | 14,110 | - | - |
| Inland Wildlife & Fisheries | - | 10,032 | - | - |
| Multimodal Transportation | - | - | 6,862 | - |
| Natural Resources Other | - | 9,585 | - | - |
| Professional & Financial Regulation | - | 50,692 | - | - |
| Public Safety | - | 43,609 | - | - |
| Workers Compensation Board | - | 13,853 | - | - |
| All Other | 214 | 29,666 | 11,104 | 6,057 |
| Total | $ 214 | $ 351,691 | $ 48,381 | $ 15,987 |

| **Other Governmental Funds:** | NSIF | Restricted | Permanent |
|---|---|---|---|
| Permanent Funds - Baxter Park | $ - | $ - | $ 6,814 |
| Permanent Funds - All Others | - | - | 15,081 |
| Capital Projects - Highway & Bridge Construction | - | 30,455 | - |
| Capital Projects - Multimodal Transportation | - | 17,883 | - |
| Capital Projects - Higher Education | - | 16,669 | - |
| Capital Projects - Agriculture & Conservation | - | 3,091 | - |
| Capital Projects - Community & Economic Develop | - | 2,361 | - |
| Capital Projects - All Other | - | 1,787 | - |
| Special Revenue Funds - Baxter Park | - | 73,772 | - |
| Special Revenue Funds - CDS | 181 | 75 | - |
| Special Revenue Funds - All Other | - | 172 | - |
| Total | $ 181 | $ 146,265 | $ 21,895 |

## NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

**Accounting Changes**
During fiscal year ended June 30, 2014, the State implemented the following accounting standards:

GASB issued *Codification of Governmental Accounting and Financial Reporting Standards*. This integration includes GASB pronouncements issued and effective through December 31, 2013 and is intended to provide authoritative accounting and financial reporting guidance for state and local governmental entities. GASB pronouncements issued before December 31, 2013, but not effective at that date, may alter, amend, supplement, revoke, or supersede the guidance contained in this Codification. The State's current financial statement disclosures may refer to specific codification sections instead of GASB Standards.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As a result of implementing this new standard, presentation and terminology changes were made to the government-wide and fund financial statements as necessary.

GASB Statement No. 66, *Technical Corrections – 2012 an amendment of GASB Statements No. 10 and No. 62*. This Statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. There was no impact on the State's financial statements as a result of implementing GASB 66.

GASB Statement No. 67, *Financial Reporting for Pension Plans an amendment of GASB Statement No. 25*. This Statement improves financial reporting by state and local governmental pension plans by providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. There was no impact on the State's financial statements as a result of implementing GASB 67.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. As a result of implementing this new standard, slight changes were made to the disclosures of State constitutional obligations.

**Restatements – Primary Government**
The beginning net position for Governmental Activities in the Statement of Net Position were decreased by $1.5 billion to correct an overstatement of Infrastructure assets that had been incorrectly capitalized in prior years and increased by $14.9 million for construction in progress assets that should have been capitalized in the prior year.

**Restatements - Component Units**
The cumulative effect of implementing GASB #65 reduced beginning net position of discretely presented component units for a total of $25.2 million. The net position reductions result primarily from the change in accounting of deferred bond issuance costs and certain deferred loan costs and fees that are no longer reported as assets. The net position of the Maine Community College System, Maine Municipal Bond Bank, Maine State Housing Authority, Maine Turnpike Authority and the University of Maine decreased by: $0.2 million, $6.5 million, $9.7 million, $6.0 million and $2.7 million, respectively.

Three non-major discretely presented component units reduced their beginning net position as a result of correcting errors. Maine Educational Loan Authority reduced its beginning net position $.5 as a correction of an error in the calculation of its arbitrage rebatable liability. Maine Educational Center for the Deaf and Hard of Hearing reduced its beginning net position $1.9 million as a result of recognizing its Other Post Employment Benefit Obligation. Midcoast Regional Redevelopment Authority increased its beginning net position $0.8 million since certain construction and engineering costs had been excluded from the calculation of construction in progress.

A fiduciary component unit, Maine Public Employees Retirement System, restated its beginning net position as a result of changing how it reports results of pension plans and OPEB Trusts. As a result, fiduciary net position increased $9.1 million.

## NOTE 4 - DEFICIT FUND BALANCES/NET POSITION

Three internal service funds showed deficits for the fiscal year ended June 30, 2014. The Workers' Compensation Fund reported a deficit of $20.8 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a deficit of $3.9 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of $2.8 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 $183.5 million. During fiscal year 2014, Maine Municipal Bond Bank (MMBB) issued Liquor Operation Revenue Bonds on behalf of the State of Maine. The bonds are special, limited obligations of MMBB. The proceeds from the bonds were used for the purpose of making payments to health care providers for services provided prior to December 1, 2012. The bonds do not constitute a debt or liability of the State and neither the faith and credit nor the taxing power of the State is pledged to the payment of any amount due pursuant to the bonds. The bonds are secured by revenues received from the Bureau of Alcoholic Beverages and Lottery Operations from the operations of the State's liquor program pursuant to 28-A MRSA §90. A Due To the Other Special Revenue Fund has been recorded.

The General Fund shows a deficit fund balance of $215.4 million at June 30, 2014. This deficit is primarily due to the full recognition of the State's share of Medicaid liabilities at fiscal year end. The federal portion of these liabilities is also fully accrued, with an offsetting receivable from the federal government as allowed under Governmental Accounting Standards Board (GASB) Statement No. 33. Per GASB 33, revenue associated with government mandated non-exchange transactions should be recognized when applicable eligibility requirements have been met and the resources are available. Medicaid is an entitlement program. Therefore, the funds are available when the payments for these liabilities are processed.

## NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

No amounts exceeding 25 percent of the capital, surplus, and undivided profits of any trust company or national bank or 25 percent of the reserve fund and undivided profits of a mutual savings bank or State or federal savings and loan association, shall be on deposit in any 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. This program earmarks $4 million for loans to agricultural enterprises and the other $4 million are designated for commercial entities.

The Primary Government's Deposits and Investments excluding component units that are fiduciary in nature at June 30, 2014:

**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 | $ 406,199 | $ 15,520 | $ 1,982 | $18,310 | $ 442,011 |
| Cash and Cash Equivalents | 4,820 | 3,443 | - | 27 | 8,290 |
| Cash with Fiscal Agent | 77,785 | - | - | - | 77,785 |
| Investments | 95,706 | - | 14,900 | - | 110,606 |
| Restricted Equity in Treasurer's Cash Pool | 77,135 | - | - | - | 77,135 |
| Restricted Deposits and Investments | 3,662 | 297,686 | - | 11 | 301,359 |
| Investments Held on Behalf of Others | - | - | - | 52,641 | 52,641 |
| Other Assets | - | - | - | - | - |
| Total Primary Government | $ 665,307 | $ 316,649 | $ 16,882 | $70,989 | $1,069,827 |

*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, 2014:

| | 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 | $ 29,963 | $ 95,833 | $ - | $ - | $ - | $ - | $ 125,796 |
| US Treasury Notes | - | 57,912 | - | - | - | - | 57,912 |
| Repurchase Agreements | - | - | - | - | - | - | - |
| Corporate Notes and Bonds | - | - | - | - | - | - | - |
| Commercial Paper | 72,564 | - | - | - | - | - | 72,564 |
| Certificates of Deposit | 2,099 | 2,680 | - | - | - | - | 4,779 |
| Money Market | - | - | - | - | - | - | - |
| Cash and Cash Equivalents | 903 | - | - | - | - | 248,825 | 249,728 |
| Unemployment Fund Deposits with US Treasury | - | - | - | - | - | 297,686 | 297,686 |
| *Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds* | | | | | | | |
| US Instrumentalities | 1,178 | 3,926 | 2 | 359 | 907 | - | 6,372 |
| US Treasury Notes | - | 12,877 | 3,092 | 2,834 | - | - | 18,803 |
| Repurchase Agreements | - | - | - | - | - | - | - |
| Corporate Notes and Bonds | 196 | 1,254 | 1,898 | 7,278 | 1,034 | - | 11,660 |
| Other Fixed Income Securities | 10,696 | 20 | 7,349 | - | - | - | 18,065 |
| Commercial Paper | 2,952 | - | - | - | - | - | 2,952 |
| Certificates of Deposit | 6,290 | 112 | - | - | - | 3,642 | 10,044 |
| Money Market | 13 | - | - | - | - | 2,396 | 2,409 |
| Cash and Cash Equivalents | 920 | - | - | - | - | 23,074 | 23,994 |
| Equities | - | - | - | - | - | 84,852 | 84,852 |
| Other | - | - | - | - | - | 4,426 | 4,426 |
| | $127,774 | $174,614 | $12,341 | $10,471 | $ 1,941 | $ 664,901 | $ 992,042 |
| Other Assets | | | | | | | |
| Cash with Fiscal Agent | | | | | | | 77,785 |
| Total Primary Government | | | | | | | $1,069,827 |

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

The Primary Government's total investments by credit quality rating as of June 30, 2014 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 | $ - | $ - | $ 125,796 | $ - | $ - | $ - | $ - | $ - | $ 125,796 |
| US Treasury Notes | - | - | 57,912 | - | - | - | - | - | 57,912 |
| Corporate Notes and Bonds | - | - | - | - | - | - | - | - | - |
| Commercial Paper | 72,564 | - | - | - | - | - | - | - | 72,564 |
| Money Market | - | - | - | - | - | - | - | - | - |
| *Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds* | | | | | | | | | |
| US Instrumentalities | - | - | 5,005 | - | - | - | - | 1,367 | 6,372 |
| US Treasury Notes | - | - | 3,456 | - | - | - | - | 15,347 | 18,803 |
| Corporate Notes and Bonds | - | 859 | 300 | - | - | | 495 | 10,006 | 11,660 |
| Commercial Paper | 2,952 | - | - | - | - | - | - | - | 2,952 |
| Money Market | - | - | - | - | - | - | - | - | - |
| Other Fixed Income Securities | - | - | - | - | 7,369 | - | - | 10,696 | 18,065 |
| Total Primary Government | $ 75,516 | $ 859 | $ 192,469 | $ - | $ 7,369 | $ - | $ 495 | $ 37,416 | $ 314,124 |

*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 7 percent of the total portfolio. There is no concentration of credit risk policy for the Treasurer's Cash Pool. At June 30, 2014, there were no investments that exceeded five percent of the Treasurer's Cash Pool.

*Custodial Credit Risk* - For investments, custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State limits its custodial credit risk for the Treasurer's Cash Pool by maintaining a file of the most recent credit rating analysis reports performed for each approved financial institution. The State also requires that all securities be perfected in the name of the State and held in third party safekeeping by a state approved custodian. Of the cash pool's $5.9 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, 2014 was $73.7 million and was comprised of the following (expressed in thousands):

| | |
|---|---|
| U.S. Instrumentalities | $ 1,268 |
| US Treasury Notes | 1,100 |
| Corporate Notes and Bonds | 1,713 |
| Other Fixed Income Securities | 10,716 |
| Equities | 56,599 |
| Cash and Equivalents | 973 |
| Other | 1,344 |
| Total | $ 73,713 |

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2014 these disbursements, on average, exceeded $125 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 Collateralized Mortgage Obligations (CMOs) and Asset-Backed Securities to improve the yield or adjust the duration of the fixed income portfolio. At June 30, 2014, the System held no CMO and Asset-Backed Securities. The System also invests in swaps. Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities.

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

Cash open collateral is invested in a short-term investment pool, the Core Limited Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2014 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, 2014 was $260.2 million and $253.6 million, respectively.

The following table details the System's derivative investments at June 30, 2014:

(Expressed in Thousands)

| | 2014 Changes in Fair Value | Fair Value at June 30, 2014 | | Notional Amount |
|---|---|---|---|---|
| | | Classification | Amount | |
| Futures: | | | | |
| Equity Index Futures Contracts | $ 305 | Investments | $ 95 | $ 75,920 |

**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 14 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 $68.2 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 $11.5 million, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements as invested in the Treasurer's Cash Pool.

## NOTE 6 - RECEIVABLES

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

**Primary Government – Receivables**
(Expressed in Thousands)

| | Taxes | Accounts | Loans | Allowance for Uncollectibles | Net Receivables |
|---|---|---|---|---|---|
| **Governmental Funds:** | | | | | |
| General | $ 538,762 | $ 137,536 | $ 1 | $ (186,621) | $ 489,678 |
| Highway | 22,910 | 2,798 | 9 | (912) | 24,805 |
| Federal | - | 110,903 | - | (45,065) | 65,838 |
| Other Special Revenue | 11,941 | 88,801 | 3,982 | (14,573) | 90,151 |
| Other Governmental Funds | - | 6 | - | - | 6 |
| Total Governmental Funds | 573,613 | 340,044 | 3,992 | (247,171) | 670,478 |
| Allowance for Uncollectibles | (130,044) | (117,095) | (32) | | |
| Net Receivables | $ 443,569 | $ 222,949 | $ 3,960 | | $ 670,478 |
| **Proprietary Funds:** | | | | | |
| Employment Security | $ - | $ 58,954 | $ - | $ (24,620) | $ 34,334 |
| Nonmajor Enterprise | - | 27,982 | - | (655) | 27,327 |
| Internal Service | - | 7,092 | - | - | 7,092 |
| Total Proprietary Funds | - | 94,028 | - | (25,275) | 68,753 |
| Allowance for Uncollectibles | - | (25,275) | - | | |
| Net Receivables | $ - | $ 68,753 | $ - | | $ 68,753 |

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

| | Accounts | Loans | Notes | Allowance For Uncollectibles | Net Receivables |
|---|---|---|---|---|---|
| Finance Authority of Maine | $ 1,313 | $ - | $ 28,397 | $ (5,813) | $ 23,897 |
| Maine Community College System | 7,853 | - | - | (1,087) | 6,766 |
| Maine Health and Educational Facilities Authority | 327 | 874,517 | - | (116) | 874,728 |
| Maine Municipal Bond Bank | 1,020 | - | - | - | 1,020 |
| Maine State Housing Authority | 19,089 | 1,227,182 | 121 | (11,439) | 1,234,953 |
| Maine Turnpike Authority | 4,439 | - | - | - | 4,439 |
| University of Maine System | 44,667 | - | 43,230 | (6,501) | 81,396 |

## 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, 2014 were:

**Interfund Receivables**
(Expressed in Thousands)

| | Due to Other Funds | | | | |
|---|---|---|---|---|---|
| **Due from Other Funds** | **General** | **Highway** | **Federal** | **Other Special Revenue** | **Other Governmental** |
| General | $ - | $ - | $ 1,302 | $ - | $ - |
| Highway | 31 | 2 | 18,316 | 2 | - |
| Federal | 9,217 | 2 | 121 | 629 | - |
| Other Special Revenue | 101,984 | 102 | 180 | 219 | 24 |
| Other Governmental | 437 | - | 129 | - | - |
| Employment Security | - | - | 22 | - | - |
| Alcoholic Beverages | - | - | - | - | - |
| Non-Major Enterprise | 165 | 135 | 2 | 4 | - |
| Internal Service | 10,781 | 3,689 | 3,482 | 4,408 | - |
| Fiduciary | 24,007 | - | - | - | - |
| Total | $ 146,622 | $ 3,930 | $ 23,554 | $ 5,262 | $ 24 |

| **Due from Other Funds** | **Employment Security** | **Alcoholic Beverages** | **Non-Major Enterprise** | **Internal Service** | **Fiduciary** | **Total** |
|---|---|---|---|---|---|---|
| General | $ - | $ - | $ 9,103 | $ 4,811 | $ 3,320 | $ 18,536 |
| Highway | - | - | - | 12 | - | 18,363 |
| Federal | - | - | - | - | - | 9,969 |
| Other Special Revenue | - | 183,482 | 16 | 43 | - | 286,050 |
| Other Governmental | - | - | - | - | - | 566 |
| Employment Security | - | - | - | - | - | 22 |
| Alcoholic Beverages | - | - | - | - | - | - |
| Non-Major Enterprise | - | - | 1 | - | - | 307 |
| Internal Service | - | - | 442 | 1,809 | 11 | 24,622 |
| Fiduciary | - | - | - | - | - | 24,007 |
| Total | $ - | $ 183,482 | $ 9,562 | $ 6,675 | $ 3,331 | $ 382,442 |

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 $183.5 due to the Other Special Revenue Fund that relates to the future profit due from the Alcoholic Beverages Fund. These profits will be used solely to make payments on the Liquor Revenue Bonds until the bonds are paid in full. Additionally, $98.5 million due to the Other Special Revenue Fund from the General Fund relates to the interfund borrowing authorized in Public Law 2013, Chapter 368, Part KKK-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 2014, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers.

The Other Special Revenue Fund transferred $6.7 million to the unappropriated surplus of the General Fund.

Interfund transfers for the year ended June 30, 2014, consisted of the following:

**Interfund Transfers**
(Expressed in Thousands)

| | Transferred From | | | | |
|---|---|---|---|---|---|
| **Transferred To** | **General** | **Highway** | **Federal** | **Other Special Revenue** | **Other Governmental** |
| General | $ - | $ - | $ 8,092 | $ 97,820 | $ - |
| Highway | 2,016 | - | 21,838 | 1,346 | - |
| Federal | 465 | - | - | 14,377 | - |
| Other Special Revenue | 169,822 | 5,211 | 9,224 | - | 1,567 |
| Other Governmental Funds | 26,749 | - | - | - | 1,107 |
| Employment Security | - | - | - | - | - |
| Alcoholic Beverages | - | - | - | - | - |
| Non-Major Enterprise | - | 4,302 | - | 370 | - |
| Internal Service | 7,855 | 6,807 | - | - | - |
| Fiduciary | - | - | - | 61 | 738 |
| Total | $ 206,907 | $ 16,320 | $ 39,154 | $ 113,974 | $ 3,412 |

| | Transferred From | | | | | |
|---|---|---|---|---|---|---|
| **Transferred To** | **Employment Security** | **Alcoholic Beverages** | **Non-Major Enterprise** | **Internal Service** | **Fiduciary** | **Total** |
| General | $ - | $ 39 | $ 52,646 | $ 1 | $ 10,497 | $ 169,095 |
| Highway | - | - | - | - | - | 25,200 |
| Federal | 643 | - | - | - | 5 | 15,490 |
| Other Special Revenue | - | - | 2,436 | - | 823 | 189,083 |
| Other Governmental Funds | - | - | - | - | - | 27,856 |
| Employment Security | - | - | - | - | - | - |
| Alcoholic Beverages | - | - | - | - | - | - |
| Non-Major Enterprise | - | - | - | - | - | 4,672 |
| Internal Service | - | - | - | 3,340 | - | 18,002 |
| Fiduciary | - | - | - | - | - | 799 |
| Total | $ 643 | $ 39 | $ 55,082 | $ 3,341 | $ 11,325 | $ 450,197 |

## NOTE 8 - CAPITAL ASSETS

The following schedule details changes in capital assets for the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2014:

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

| | Beginning Balance | | Increases and Other Additions | | Decreases and Deletions | Ending Balance |
|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | |
| Capital assets not being depreciated: | | | | | | |
| Land | $ 571,268 | | $ 11,498 | | $ 7,384 | $ 575,382 |
| Construction in progress | 83,273 | ** | 41,283 | | 14,567 | 109,989 |
| Infrastructure | 2,719,346 | ** | 41,911 | | - | 2,761,257 |
| Total capital assets not being depreciated | 3,373,887 | | 94,692 | * | 21,951 | 3,446,628 |
| Capital assets being depreciated: | | | | | | |
| Buildings | 660,538 | | 6,929 | | 1,042 | 666,425 |
| Equipment | 265,956 | | 24,933 | | 22,268 | 268,621 |
| Improvements other than buildings | 52,251 | | 19,740 | | 116 | 71,875 |
| Software | 72,551 | | 2,119 | | - | 74,670 |
| Total capital assets being depreciated | 1,051,296 | | 53,721 | * | 23,426 | 1,081,591 |
| Less accumulated depreciation for: | | | | | | |
| Buildings | 261,722 | | 17,553 | | 1,495 | 277,780 |
| Equipment | 177,461 | | 22,896 | | 15,846 | 184,511 |
| Improvements other than buildings | 34,681 | | 9,239 | | 41 | 43,879 |
| Software | 11,023 | | 6,816 | | - | 17,839 |
| Total accumulated depreciation | 484,887 | | 56,504 | * | 17,382 | 524,009 |
| Total capital assets being depreciated, net | 566,409 | | (2,783) | | 6,044 | 557,582 |
| Governmental Activities Capital Assets, net | $ 3,940,296 | ** | $ 91,909 | | $ 27,995 | $ 4,004,210 |

| | Beginning Balance | Net Additions | Net Deletions | Ending Balance |
|---|---|---|---|---|
| **Business-Type Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 7,292 | $ - | $ 5,037 | $ 2,255 |
| Construction in progress | 1,138 | 1,433 | 702 | 1,869 |
| Total capital assets not being depreciated | 8,430 | 1,433 | 5,739 | 4,124 |
| Capital assets being depreciated: | | | | |
| Buildings | 4,395 | 8 | 8 | 4,395 |
| Equipment | 36,339 | 821 | 4,892 | 32,268 |
| Improvements other than buildings | 48,767 | 702 | 8,345 | 41,124 |
| Total capital assets being depreciated | 89,501 | 1,531 | 13,245 | 77,787 |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,176 | 132 | - | 2,308 |
| Equipment | 16,991 | 1,600 | 8,605 | 9,986 |
| Improvements other than buildings | 23,424 | 1,731 | - | 25,155 |
| Total accumulated depreciation | 42,591 | 3,463 | 8,605 | 37,449 |
| Total capital assets being depreciated, net | 46,910 | (1,932) | 4,640 | 40,338 |
| Business-Type Activities Capital Assets, net | $ 55,340 | $ (499) | $ 10,379 | $ 44,462 |

* The total Increase and Other Additions for Governmental Activities and Net Deletions for Business-Type Activities includes $18.0 million in assets net of $8.3 million in accumulated depreciation related to the transfer of assets from an Enterprise Fund in FY 2014. See Footnote 17 - Special Items disclosure for additional information.
** As restated. Infrastructure assets were decrease by approximately $1.5 billion due to a correction in the capitalization policy.

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 | 430 |
| Economic Development and Workforce Training | 1,502 |
| Education | 524 |
| Governmental Support and Operations | 9,344 |
| Health and Human Services | 8,963 |
| Justice and Protection | 12,361 |
| Natural Resources Development and Protection | 3,569 |
| Transportation Safety and Development | 11,427 |
| Total Depreciation Expense – Governmental Activities | $ 48,136 |

## 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. Title 5 MRSA C. 421, 423, and 425 authorized the establishment and administration of the defined benefit plans. The System administers 2 cost sharing multiple-employer defined benefit plans which provide pension, disability, and death benefits to its members. The State Employees and Teachers Plan (SETP) is a multiple-employer cost sharing plan with a special funding situation. The plan covers employees of the State and public school employees (defined by Maine law as teachers). State of Maine is also a non-employer contributing entity in that the State pays the unfunded actuarial liability on behalf of teachers, while school districts contribute the normal cost, calculated actuarially, for their teacher members. The Participating Local Districts Plan (Consolidated PLD) covers employees of approximately 300 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine, each of which contracts for participation in the System under provisions of the relevant statutes. The System also administers a closed agent, multiple-employer defined benefit plan (Agent PLD) which covers PLD's who previously withdrew from the plan and single employers that could not join the Consolidated PLD Plan. 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, 2014 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

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, 2014, there were 66 employers participating in these plans. The 914 participants individually direct the $25.0 million 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 2 Retiree Health Insurance Post-Employment Benefits Investment Trust Funds. 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 common collective trusts is based on unit values reported by the funds. The fair value of other investments, including private market partnerships, is based on third-party appraisals and valuations provided by the sponsor of the partnerships. 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, 2014:

| | State Employees and Teachers Plan | Consolidated Plan for PLD | Agent Plan for PLD |
|---|---|---|---|
| Active vested and nonvested members | 39,910 | 10,848 | 24 |
| Terminated vested participants | 7,571 | 2,071 | 14 |
| Retirees and benefit recipients | 32,611 | 8,333 | 191 |
| Total | 80,092 | 21,252 | 229 |
| | | | |
| Number of participating employers | 229 | 286 | 13 |
| Number of non-employer contributors | 1 | - | - |

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

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

The UAAL rate as applied to State employee members' compensation is first established through the annual valuation process as an amount that will meet the required unfunded actuarial accrued liability payment

amount; it is then adjusted in the State's budget process to take into account differences in salary growth projections of the State Budget Office. This adjusted rate, expressed as a percentage of payroll, is the actual rate paid by the State as payment of the required UAAL payment amount for State employees. For teachers, the actuarially determined UAAL amount is paid in 12 equal monthly installments. PLD employer contribution rates are the actuarially determined rates.

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 of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and survivor benefits, which are established by statute for State employee and teacher members, and by contract with other participating employers under applicable statutory provisions.

**PARTICIPATING LOCAL DISTRICTS PLAN SPECIFICS**

In the event that a member of the Consolidated PLD Plan withdraws from the System, its individual employee-members can terminate membership or remain contributing members of the Agency PLD plan. 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**

Prior to fiscal year 2014, the State was legally responsible for contributions to the Teacher Group that covers retirees of other governmental entities. The State was the sole "employer" contributor for the teachers; and, therefore, was acting as the employer. Beginning in 2014, the State pays the unfunded actuarial liability on behalf of teachers, while school districts contribute the normal cost, calculated actuarially, for their teacher members.

**FUNDED STATUS AND FUNDING PROGRESS – DEFINED BENEFIT PENSION PLANS**

The funded status of each plan as of June 30, 2014, 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 | 10,083,707 | 12,382,225 | 2,298,518 | 81.4% | 1,711,516 | 134.3% |
| PLD's [1] | 2,415,219 | 2,649,405 | 234,186 | 91.2% | 461,243 | 50.8% |

1 combined Agency and Consolidated PLD Plans

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, 2014 | June 30, 2014 |
| Actuarial cost method | Entry age | Entry age |
| Version | Individual | Individual |
| Amortization method | Level percent closed | Level dollar open |
| Remaining amortization period | 14 [1] | 15 |
| Asset valuation method | 3 - Year smoothed market | 3 - Year smoothed market |
| Asset valuation | additional recognition of past investment gains in the asset smoothing balance FY14 37.5% | |
| Funding | The State is responsible for funding all costs for its employees and the UAAL for teachers. School districts pay the normal costs for teachers. | |
| Actuarial assumptions: | | |
| Investment rate of return | 7.125% | 7.25% |
| Projected salary increases | 3.50% | 3.50% - 9.50% |
| Includes inflation at | 3.50% | 3.50% |
| Cost of living adjustments | no change | 3.12% |
| Former actuarial assumptions: | | |
| Investment rate of return | 7.25% | no change |
| Cost of living adjustments | no change | 2.55% |
| Funding | the State paid all costs for State employees and teachers | |
| Most recent review of plan experience: | 2011 | 2011 |

[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 3 years remained at June 30, 2014.

**CONTRIBUTION RATES – DEFINED BENEFIT PENSION PLANS**

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

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

Contribution rates[1] in effect for 2014 for participating entities:

| | |
|---|---|
| State | |
| Employees [2] | 7.65 - 8.65% |
| Employer [2] | 13.25 - 40.43% |
| Teachers | |
| Employees | 7.65% |
| Employer | 2.65% |
| Non-employer entity | 13.03% |
| Participating Local Entities | |
| Employees [2] | 3.0 - 8.0% |
| Employer [2] | 3.4 - 12.8% |

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

[2] Employer and employee retirement contribution rates vary depending on specific terms of plan benefits for certain classes of employees or, in the case of participating local districts (PLDs), on benefit plan options selected by a particular PLD. 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 and to the UAAL for the teacher members. 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 | $ 264,275 |
| Interest on net pension obligation | 144 |
| Adjustment to annual required contribution | (174) |
| Annual pension cost | 264,245 |
| Contributions made | 264,275 |
| Increase (decrease) in net pension obligation | (30) |
| Net pension obligation beginning of year | 1,989 |
| Net pension obligation end of year | $ 1,959 |

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

| Year | Annual Pension Cost | Percentage Covered | Net Pension Obligation |
|---|---|---|---|
| 2014 | $ 264,245 | 100.01% | $ 1,959 |
| 2013 | 264,360 | 100.01% | 1,989 |
| 2012 | 252,812 | 100.01% | 2,010 |

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

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

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

For State employees and teachers, other options exist. Part-time employees are eligible for prorated benefits 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 was required by GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, to disclose additional information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

PLAN MEMBERSHIP

Membership in the four healthcare plans is as follows:

| | State Employees | Teachers | First Responders | Ancillary Groups |
|---|---|---|---|---|
| Actives | 12,416 | 27,733 | 902 | 77 |
| Retirees | 11,056 | 9,933 | 87 | 38 |
| Total | 23,472 | 37,666 | 989 | 115 |
| | | | | |
| 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. Public Law 2013, Chapter 368 Pt. H §2 amended the starting date for funding teachers. As amended, annually, beginning with the fiscal year starting July 1, 2015, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability at June 30, 2006 for eligible teachers in 30 years or less from July 1, 2007.

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

ANCILLARY GROUP PLAN

The following plan, administered by the State, is financially independent and is not included in the State Retiree Health Internal Service Fund. This multiple-employer agent postemployment benefit plan covers 38 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 | $ 99,000 | $ 45,000 | $ 1,769 |
| Interest on net OPEB obligation | 6,000 | 8,000 | 186 |
| Adjustment to annual required contribution | (13,000) | (15,000) | (344) |
| Annual OPEB cost | 92,000 | 38,000 | 1,611 |
| Contributions made | 63,228 | 24,956 | 593 |
| Increase (decrease) in net healthcare obligation | 28,772 | 13,044 | 1,018 |
| Net healthcare obligation beginning of year | 111,228 | 185,956 | 4,644 |
| Net healthcare obligation end of year | $ 140,000 | $ 199,000 | $ 5,662 |

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 | 6/30/2014 | 92,000 | 68.73% | 140,000 |
| | 6/30/2013 | 87,000 | 78.16% | 111,228 |
| | 6/30/2012 | 123,000 | 59.35% | 92,228 |
| Teachers | 6/30/2014 | 38,000 | 65.67% | 199,000 |
| | 6/30/2013 | 37,000 | 67.57% | 185,956 |
| | 6/30/2012 | 49,000 | 44.90% | 173,956 |
| First Responders | 6/30/2014 | 1,611 | 36.81% | 5,662 |
| | 6/30/2013 | 1,563 | 36.92% | 4,644 |
| | 6/30/2012 | 1,254 | 34.61% | 3,658 |

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plans as of June 30, 2014 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, 2014 | 167 | 1,224 | 1,057 | 13.64% | 543 | 194.66% |
| | June 30, 2013 | 150 | 1,166 | 1,016 | 12.86% | 518 | 196.14% |
| | June 30, 2012 | 136 | 1,316 | 1,180 | 10.33% | 502 | 235.06% |
| Teachers (in millions) | June 30, 2014 | 0 | 684 | 684 | 0.00% | 1,106 | 61.84% |
| | June 30, 2013 | 0 | 685 | 685 | 0.00% | 1,194 | 57.37% |
| | June 30, 2012 | 0 | 665 | 665 | 0.00% | 1,156 | 57.53% |
| First Responders (in thousands) | June 30, 2013 | 0 | 22,369 | 22,369 | 0.00% | 53,366 | 41.92% |
| | June 30, 2012 | 0 | 23,442 | 23,442 | 0.00% | 43,510 | 53.88% |
| | June 30, 2011 | 0 | 21,921 | 21,921 | 0.00% | 42,242 | 51.89% |

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, 2014 | June 30, 2014 | June 30, 2013 |
| 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 | 23 | 23 | 24 |
| Plan changes | 30-year fixed | 30-year fixed | rolling 15 year period |
| Actuarial (gains) /losses | 10-year fixed | 15-year fixed | rolling 15 year period |
| Asset valuation method | investment gains and losses spread over a 5 - year period no less than 80% nor more than 120% of market value | n/a | n/a |
| Actuarial assumptions: | | | |
| Investment rate of return | 4.00% 7.25% ultimate | 4.00% 7.25% ultimate | 4.00% |
| Projected salary increases | 3.25% | 3.25% | 3.5% - 9.5% |
| Inflation rate | 3.00% | 3.00% | 3.00% |
| Healthcare inflation rate | initial - actual premiums ultimate 5.00% [1] | initial - actual premiums ultimate 5.00% [2] | 7.5% at 2014 ultimate 5.00% at 2024 |
| Former actuarial assumptions: | | | |
| Healthcare inflation rate | | | 8.5% in 2011 ultimate 5.00% at 2019 |

[1] Total premium increases for FY14 and FY15 are limited to no more than 1.5 percentage points per year. The total premium increase for fiscal years ending after 6/30/15 is limited to CPI plus 3%.

[2] The State's total cost for retired teachers' health insurance premiums for FY14 and FY15 is budgeted at the FY11 funding level adjusted for projected membership growth. The increase in the State's total cost for fiscal years ending after June 30, 2015 is limited to CPI plus 3%.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CONTRIBUTIONS AND RESERVES

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

INVESTMENTS

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

**POST RETIREMENT GROUP LIFE INSURANCE BENEFIT PLAN**

The Maine Public Employees Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit Group Life Insurance Plan (GLIP) administered by a third party insurance company in accordance with Title 5 MRSA C. 423 and 425. Members include employees of the State, public school employees (defined by Maine law as teachers), members of the Judiciary and the Legislature, that are eligible for membership in the System. Group life insurance benefits are also provided to employees of approximately 400 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine that elect to participate under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2014 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

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

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

BASIS OF ACCOUNTING

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

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

INVESTMENTS

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

FUNDING POLICY

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

ANNUAL OPEB COST

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

(Expressed in Thousands)

| | State Employees | Teachers |
|---|---|---|
| Annual required contribution | $ 4,768 | $ 3,440 |
| Interest on net OPEB obligation | $ (136) | $ - |
| Adjustment to annual required contribution | $ 128 | $ - |
| Annual OPEB cost | $ 4,760 | $ 3,440 |
| Contributions made | $ 4,199 | $ 3,440 |
| Increase (decrease) in net healthcare obligation | $ 561 | $ - |
| Net healthcare (asset) obligation beginning of year | $ (1,871) | $ - |
| Net healthcare (asset) obligation end of year | $ (1,310) | $ - |

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 | 6/30/2014 | 4,760 | 88.21% | (1,310) |
| | 6/30/2013 | 4,562 | 102.43% | (1,871) |
| | 6/30/2012 | 3,224 | 145.29% | (1,760) |
| Teachers | 6/30/2014 | 3,440 | 100.00% | - |
| | 6/30/2013 | 3,099 | 100.00% | - |
| | 6/30/2012 | 2,959 | 100.00% | - |

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of June 30, 2014 was as follows:

(Expressed in Thousands)

| Plan | Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b-a) Unfunded AAL (UAAL) | (a/b) Funded Ratio | (c) Annual Covered Payroll | (b-a)/c) UAAL (as a percentage of covered payroll) |
|---|---|---|---|---|---|---|---|
| State Employees | June 30, 2014 | 31,800 | 87,300 | 55,500 | 36.43% | 563,500 | 9.85% |
| | June 30, 2013 | 27,000 | 83,800 | 56,800 | 32.22% | 572,800 | 9.92% |
| | June 30, 2012 | 24,700 | 80,900 | 56,200 | 30.53% | 553,500 | 10.15% |
| Teachers | June 30, 2014 | 45,100 | 75,600 | 30,500 | 59.66% | 666,200 | 4.58% |
| | June 30, 2013 | 36,000 | 74,200 | 38,200 | 48.52% | 652,800 | 5.85% |
| | June 30, 2012 | 30,100 | 71,000 | 40,900 | 42.39% | 630,800 | 6.48% |

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, 2014 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent |
| | open |
| Asset valuation method | market |
| | |
| Actuarial assumptions: | |
| Investment rate of return | 7.25% PLD's all others 7.125% |
| Projected salary increases | 3.5% - 10.50% |
| Inflation rate | 3.50% |
| Cost of living increases in life benefits | N/A |
| Participation percent for future retirees | 100.00% |
| Form of benefit payment | lump sum |
| | |
| Former actuarial assumptions: | |
| Investment rate of return | 7.25% for all plans |

## NOTE 11 - LONG-TERM OBLIGATIONS

**PRIMARY GOVERNMENT**

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

**GENERAL OBLIGATION BONDS**

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

Changes in general obligation bonds of the primary government during fiscal year 2014 were:

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

| | Balance July 1, 2013 | Additions | Retirements | Balance June 30, 2014 | Due Within One Year |
|---|---|---|---|---|---|
| General Obligation Debt: | | | | | |
| General Fund | $ 261,495 | $ 112,945 | $ 67,445 | $ 306,995 | $ 65,670 |
| Special Revenue Fund | 108,230 | - | 16,035 | 92,195 | 15,275 |
| Total | $ 369,725 | $ 112,945 | $ 83,480 | $ 399,190 | $ 80,945 |

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2014 until maturity, are summarized in the following table:

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

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 80,945 | $ 15,589 | $ 96,534 |
| 2016 | 65,635 | 13,344 | 78,979 |
| 2017 | 60,400 | 10,972 | 71,372 |
| 2018 | 54,290 | 8,619 | 62,909 |
| 2019 | 43,885 | 6,374 | 50,259 |
| 2020 - 2024 | 94,035 | 11,216 | 105,251 |
| Total | $ 399,190 | $ 66,114 | $ 465,304 |

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2014 are as follows:

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

| | Amounts Issued | Outstading June 20, 2014 | Fiscal Year Maturities: First Year | Fiscal Year Maturities: Last Year | Interest Rates |
|---|---|---|---|---|---|
| General Fund: | | | | | |
| Series 2004 | $ 117,275 | $ - | 2005 | 2014 | 2.00% - 5.27% |
| Series 2005 | 137,525 | 15,310 | 2006 | 2015 | 2.00% - 5.27% |
| Series 2006 | 52,390 | 10,470 | 2007 | 2016 | 4.00% - 5.51% |
| Series 2007 | 33,975 | 10,185 | 2008 | 2017 | 4.00% - 5.50% |
| Series 2008 | 46,525 | 18,600 | 2009 | 2018 | 3.00% - 5.13% |
| Series 2009 | 96,035 | 43,545 | 2011 | 2019 | 2.50% - 5.00% |
| Series 2010 | 31,755 | 11,670 | 2011 | 2020 | 1.41% - 4.00% |
| Series 2011 | 86,010 | 46,375 | 2012 | 2021 | 1.625% - 5.00% |
| Series 2012 | 49,265 | 37,895 | 2013 | 2022 | 1.00% - 5.00% |
| Series 2014 | 112,945 | 112,945 | 2015 | 2024 | 0.20% - 5.00% |
| Total General Fund | | $ 306,995 | | | |
| Special Revenue Fund: | | | | | |
| Series 2004 | $ 13,000 | $ - | 2005 | 2014 | 2.00% - 4.00% |
| Series 2007 | 27,000 | 8,100 | 2008 | 2017 | 4.00% - 5.50% |
| Series 2008 | 57,550 | 23,020 | 2009 | 2018 | 3.00% - 5.13% |
| Series 2009 | 37,310 | 23,120 | 2011 | 2019 | 2.50% - 5.00% |
| Series 2010 | 25,080 | 22,475 | 2011 | 2020 | 1.41% - 4.00% |
| Series 2011 | 22,125 | 15,480 | 2012 | 2021 | 1.625% - 5.00% |
| Total Special Revenue | | $ 92,195 | | | |

**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, 2014, general obligations bonds authorized and unissued totaled $127.0 million.

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

The State included $187.2 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority (MGFA), a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by MGFA is not debt of the State or any political subdivision within the State. The State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. MGFA may not issue securities in excess of $347.8 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2014, MGFA issued Series 2014A Bonds, which totaled $10.1 million at an interest rate of 1.98 percent. A portion of the 2014A bonds totaling $4.6 million were used to in-substance defease $4.5 million in certain maturities of outstanding 2002 and 2003 bonds with an average interest rate of 4.75 percent. The net proceeds of approximately $4.6 million, after payment of underwriting fees and other issuance costs, were used to purchase U.S. government securities which will provide for all future debt service payments on the defeased bonds. The economic benefits associated with the refunding inure to the lessee. The Authority reduced its aggregate debt service payments and the lessee's aggregate debt service payments by approximately $0.3 million over the next nine years, resulting in an economic gain to the lessee of approximately $0.3 million. At June 30, 2014, the remaining balance of in-substance defeased bonds total approximately $4.5 million.

**CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS**

The State uses financing companies, Certificates of Participation (COP's), and lease/purchase agreements to finance construction of certain State buildings, to purchase or generate software, and to purchase equipment and vehicles, including school buses. COP's are issued through a trustee, and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State and school districts maintain custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid.

Neither COP's nor the other financing arrangements constitute a legal debt, liability, or contractual obligation in excess of amounts appropriated. The State's obligation to make minimum payments or any other obligation under agreements is subject to, and dependent upon, appropriations being made by the Legislature. The Legislature has no obligation to appropriate the money for future minimum payments or other obligations under any agreement.

**SHORT-TERM OBLIGATIONS**

The State of Maine issued and retired $65 million of Bond Anticipation Notes during fiscal year 2014. Short-term obligations are used to meet temporary operating cash flow needs. At June 30, 2014 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

**OTHER LONG-TERM OBLIGATIONS**

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until amounts owed are "due and payable." Fund liabilities are recorded in the proprietary funds when obligations are incurred. In the Statement of Net Position, the State has recorded long-term obligations for its compensated employee absences, net pension obligation, other post-employment benefit obligations, pollution remediation landfill closure and post-closure care costs.

Changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2014, are summarized as follows:

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

| | Balance July 1, 2013 | Additions | Reductions | Balance June 30, 2014 | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| MGFA Revenue Bonds | $ 199,910 | $ 10,055 | $ 22,790 | $ 187,175 | $ 19,205 |
| COP's and Other Financing | 47,938 | 94,052 | 35,180 | 106,810 | 33,333 |
| Compensated Absences | 41,712 | 7,769 | 5,969 | 43,512 | 6,236 |
| Claims Payable | 70,464 | 191,217 | 191,932 | 69,749 | 28,103 |
| Capital Leases | 38,975 | 1,888 | 5,648 | 35,215 | 5,571 |
| Loans Payable to Component Unit | 304,045 | 193,816 | 24,885 | 472,976 | 45,333 |
| Net Pension Obligation | 1,989 | 264,245 | 264,275 | 1,959 | - |
| Other Post-Employment Benefit Obligation | 298,061 | 129,218 | 87,081 | 340,198 | - |
| Pollution Remediation and Landfill | 32,132 | 953 | 5,400 | 27,685 | - |
| Total Governmental Activities | $ 1,035,226 | $ 893,213 | $ 643,160 | $ 1,285,279 | $ 137,781 |
| **Business-Type Activities:** | | | | | |
| Compensated Absences | $ 1,380 | | $ 322 | $ 1,058 | $ 128 |
| Other Post-Employment Benefit Obligation | 3,767 | 2,209 | 1,512 | 4,464 | - |
| Total Business-Type Activities | $ 5,147 | $ 2,209 | $ 1,834 | $ 5,522 | $ 128 |

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2014 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** |
| 2015 | $ 21,850 | $ 88 | $ 21,938 | $ 30,688 | $ 8,098 | $ 38,786 |
| 2016 | 20,987 | 69 | 21,056 | 29,709 | 7,147 | 36,856 |
| 2017 | 20,157 | 37 | 20,194 | 27,278 | 6,190 | 33,468 |
| 2018 | 1,038 | 9 | 1,047 | 22,701 | 5,299 | 28,000 |
| 2019 | - | - | - | 21,515 | 4,479 | 25,994 |
| 2020 - 2024 | - | - | - | 49,237 | 14,407 | 63,644 |
| 2025 - 2029 | - | - | - | 31,310 | 7,090 | 38,400 |
| 2030 - 2034 | - | - | - | 17,515 | 1,550 | 19,065 |
| 2035 - 2039 | - | - | - | - | - | - |
| Total | $ 64,032 | $ 203 | $ 64,235 | $ 229,953 | $ 54,260 | $ 284,213 |

**LOANS PAYABLE TO COMPONENT UNIT**

The State of Maine has pledged various revenue streams, as security for Grant Anticipation Bonds (GARVEE) and Transportation Infrastructure Revenue Bonds (TransCap) issued by the Maine Municipal Bond Bank (MMBB) on behalf of the Maine Department of Transportation to provide financing for qualified transportation projects.

In 2014 the State of Maine pledged the profit from the Alcoholic Beverages Enterprise Fund as security for $220.6 million ($193.8 million net of the debt service reserve) of bonds issued by MMBB. The bonds are special, limited obligations of the MMBB. The proceeds of the bonds were used for the purpose of making payments to health care providers for services provided prior to December 1, 2012 under the MaineCare program. A Due To Other Special Revenue Fund from the Alcoholic Beverages Enterprise Fund was recorded for $183.5 million.

Changes in GARVEE, TransCap and Liquor revenue bonds during fiscal year 2014 were:

**Primary Government - Changes in GARVEE, TransCap and Liquor Revenue Bond Payable**
(Expressed in Thousands)

| | Balance July 1, 2013 | Additions | Retirements | Balance June 30, 2014 | Due Within One Year |
|---|---|---|---|---|---|
| Loans Payable to Components Unit: | | | | | |
| Federal Funds | $ 95,960 | $ - | $ 12,713 | $ 83,247 | $ 13,137 |
| Special Revenue Fund | 208,085 | 193,816 | 12,172 | 389,729 | 32,196 |
| Total | $ 304,045 | $ 193,816 | $ 24,885 | $ 472,976 | $ 45,333 |

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.

Payment of principal and interest on the Liquor bonds shall be made solely from the profit of the Alcoholic Beverages Enterprise Fund. The bonds do not constitute a debt or obligation of the State.

GARVEE, TransCap and Liquor Revenue bonds issued and outstanding at June 30, 2014 are as follows:

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

| | Amounts Issued | Outstanding June 30, 2014 | Fiscal Year Maturities First Year | Fiscal Year Maturities Last Year | Interest Rates |
|---|---|---|---|---|---|
| Federal Funds: | | | | | |
| Series 2004 | $ 48,395 | $ 10,410 | 2005 | 2015 | 2.50% - 5.00% |
| Series 2008 | 50,000 | 31,690 | 2009 | 2020 | 3.25% - 4.00% |
| Series 2010A | 25,915 | 16,175 | 2011 | 2017 | 2.00% - 5.00% |
| Series 2010B | 24,085 | 24,085 | 2018 | 2022 | 4.52% - 5.32% |
| Total Federal Funds | | $ 82,360 | | | |
| Special Revenue Fund: | | | | | |
| Series 2008 | $ 50,000 | $ 37,205 | 2009 | 2023 | 3.00% - 5.50% |
| Series 2009A | 105,000 | 80,890 | 2010 | 2023 | 2.50% - 5.00% |
| Series 2009B | 30,000 | 26,635 | 2010 | 2024 | 2.00% - 5.00% |
| Series 2011A | 55,000 | 53,130 | 2012 | 2026 | 2.00% - 5.00% |
| Series 2013 | 220,660 | 220,660 | 2015 | 2024 | 1.07% - 4.35% |
| Total Special Revenue Funds | | $ 418,520 | | | |

Total principal and interest requirements over the life of the 2004 GARVEE bonds are $60.2 million, with annual requirements of up to $5.5 million; for the 2008 GARVEE bonds total principal and interest requirements are $63.1 million, with annual requirements of up to $5.2 million; for 2010 GARVEE bonds total principal and interest requirements are $66.3 million, with annual requirements of up to $5.6 million. 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 2014 were $211 million. Current year payments to MMBB for GARVEE bonds were $16.0 million (7.6 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 $10.2 million; for the 2009B TransCap Revenue Bonds total principal and interest requirements are $46.2 million, with annual requirements up to $15.9 million. Total principal and interest requirements over the life of the 2011A TransCap Revenue Bond are $84.2 million, with annual requirements up to $20.3 million. Total revenue received for revenue sources used as pledged revenues were $38.6 million in fiscal year 2014.

Total principal and interest requirements over the life of the Liquor Operation Bond are $273.8 million, with annual requirements up to $26.8 million. There were no principal payments paid to MMBB for the Liquor Operation Bond in fiscal year 2014.

**OBLIGATIONS UNDER CAPITAL LEASES**

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

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

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

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, MGFA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by MGFA to construct the assets associated with the leases. Future payments to MGFA are, therefore, not included in the schedule of lease commitments below.

At June 30, 2014 capital assets include capitalized buildings of $74.1 million in Governmental Activities, net of related accumulated depreciation of $42.7 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 $2.8 million during the year.

A summary of the operating and non-cancelable capital lease commitments to maturity follows:

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

| Fiscal Year | Capital Leases | Operating Leases |
|---|---|---|
| 2015 | $ 5,576 | $ 3,298 |
| 2016 | 5,030 | 2,655 |
| 2017 | 4,666 | 2,069 |
| 2018 | 4,569 | 1,668 |
| 2019 | 3,830 | 1,446 |
| 2020 - 2024 | 11,198 | 3,674 |
| 2025 - 2029 | 3,885 | 823 |
| 2030 - 2034 | 1,658 | 580 |
| 2035 - 2039 | - | 548 |
| 2040 - 2044 | - | 628 |
| 2045- 2049 | - | 721 |
| 2050 - 2054 | - | 414 |
| Total Minimum Payments | 40,412 | $ 18,524 |
| Less: Amount Representing Interest | 5,197 | |
| Present Value of Future Minimum Payments | $ 35,215 | |

**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, 2014 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% | 1,400 | 2014 – 2025 |
| Maine Community College System | 3.0 - 5.0% | 23,296 | 2014 - 2037 |
| Maine Health and Higher Educational Facilities Authority | 1.25 - 6.0% | 973,110 | 2014 - 2040 |
| Maine Municipal Bond Bank | .5 - 6.12% | 1,636,960 | 2014 - 2044 |
| Maine State Housing Authority | 0.70 - 5.55% | 1,273,628 | 2014 – 2042 |
| Maine Turnpike Authority | 2.0 - 6.0% | 448,795 | 2014 – 2042 |
| University of Maine System | 2.0 - 5.0% | 165,113 | 2014 – 2037 |

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. At June 30, 2014 there were approximately $118.0 million of in-substance defeased bonds remaining outstanding with respect to all advance-refunding issues within the reserve fund resolution.

On May 23, 2013, UMS issued $65.3 million in revenue bonds to currently refund $10.8 million in revenue bonds and to advance refund $61.3 million in revenue bonds. UMS completed the refunding to reduce its total debt service payments over the following 22 years by $10.5 million and to obtain economic gain (difference between the present values of the old and new debt service payments) of $7.5 million. The principal amount of debt refunded through in-substance defeasance was $72.0 million. The amount still outstanding at June 30, 2014 was $48.3 million. Refunding proceeds of $77.0 million were placed in an escrow account to pay the interest due on the refunded bonds and to retire the bonds on their respective maturity dates which range from fiscal year 2013 through fiscal year 2015. The escrow is invested to yield enough earnings to pay required

future payments, which are $50.6 million as of June 30, 2014. The refunding resulted in a deferred amount of refunding of $3.9 million which represents the difference between the reacquisition price and the carrying value of the refunded bonds. The unamortized portion of the deferred amount on refunding is $3.7 million at June 30, 2014. This amount is included in deferred outflows.

In periods of declining interest rates, MMBB has refunded certain of its bond obligations, reducing aggregate debt service. Where allowed, the bank retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. The U.S. Treasury obligations are deposited with the trustees of the in-substance defeased bonds. At June 30, 2014 the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately $132.9 million.

For the period ended December 31, 2013, MSHA redeemed prior to maturity $435.1 million of its Mortgage Purchase Fund Group bonds from surplus revenues and the proceeds of refunding bonds. Mortgage Purchase Fund losses of $0.7 million were attributed 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 |
|---|---|---|---|---|---|---|---|
| 2015 | $ 807 | $ 122,825 | $ 649 | $ 29,360 | $ 17,820 | $ 7,741 | $ 51,505 |
| 2016 | 58 | 136,407 | 671 | 35,965 | 18,655 | 7,837 | 46,515 |
| 2017 | 58 | 130,604 | 698 | 42,485 | 19,445 | 8,140 | 46,835 |
| 2018 | 59 | 127,434 | 729 | 51,215 | 20,365 | 9,122 | 46,765 |
| 2019 | 59 | 126,805 | 756 | 47,690 | 21,315 | 8,557 | 47,855 |
| 2020 - 2024 | 307 | 534,115 | 4,305 | 246,845 | 80,410 | 41,749 | 242,925 |
| 2025 - 2029 | 52 | 312,821 | 5,440 | 322,300 | 102,540 | 35,105 | 216,200 |
| 2030 - 2034 | - | 79,510 | 6,488 | 243,470 | 81,975 | 32,055 | 161,210 |
| 2035 - 2039 | - | 8,125 | 2,947 | 220,285 | 44,660 | 4,136 | 100,655 |
| 2040 - 2044 | - | 3,575 | - | 35,975 | 15,950 | - | 12,645 |
| 2045 - 2049 | - | 560 | - | - | - | - | - |
| Net unamortized premium or (deferred amount) | - | 54,179 | 613 | (1,962) | 25,660 | 10,671 | - |
| Total Principal Payments | $ 1,400 | $1,636,960 | $ 23,296 | $1,273,628 | $ 448,795 | $ 165,113 | $ 973,110 |

## NOTE 12 - SELF-INSURANCE

### A. RISK MANAGEMENT

The State maintains several types of insurance plans and accounts for them in two funds that are combined for financial statement purposes as the Risk Management Fund. The Risk Management Division provides insurance advice and services to State governmental agencies. The State-Administered Fund offers similar services to quasi-governmental entities. Statute requires the Self-Insurance Fund to be replenished by appropriation if the fund balance drops below $1 million. The State-Administered Fund balance has no similar provision; however, statutes prevent it from being used for any purpose other than providing insurance services.

Insurance plans offered include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professionals, and a variety of other insurance products. These plans have limits of liability of as much as $2 million per occurrence.

In some cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $400 million per occurrence. The State retains $2 million of this risk per occurrence. A private insurance carrier covers the remaining risk (excess insurance). Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Coverage, risk retention, and excess insurance amounts for major types of insurance are listed below:

| Type of Insurance | Coverage Per Occurrence | Risk Retention Per Occurrence | Excess Insurance Per Occurrence |
|---|---|---|---|
| Property * | $400 million | $ 2 million | $400 million |
| Ocean Marine Boat Liability *[1] | 10 million | 10 thousand | 10 million |
| Boiler and Machinery* | 150 million | 2 million | 150 million |
| General Liability Including Employment Practices | 400 thousand | 400 thousand | none |
| Police Professionals | 400 thousand | 400 thousand | none |
| Vehicular Liability [2] | 400 thousand | 400 thousand | 600 thousand |
| Bonding | 500 thousand | 500 thousand | none |
| Foster Parents | 300 thousand | 300 thousand | none |
| Inland Marine (various policies) | 500 thousand | 500 thousand | none |
| Aircraft Liability*[3] | 3 million | none | 3 million |

* These lines of insurance have commercial excess insurance covering losses above the risk retention amount up to the per occurrence amount listed. All other insurance programs are wholly self-insured.
[1] $10 million is the maximum limit for per occurrence coverage. Some agencies have chosen $400 thousand.
[2] Excess insurance is only for out of state travel.
[3] $3 million is the maximum limit for per occurrence coverage. Some agencies have chosen $500 thousand.

The plan funds the cost of providing claims servicing and claims payment by charging a premium to each agency based on a review of past losses and estimated losses for the current period.

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of March 31, 2014.

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, 2014 and 2013, the present value of the claims payable for the State's self-insurance plan was estimated at $4.3 million and $4.0 million, respectively. The actuary calculated this based on the State's rate on investments.

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

| | 2014 | 2013 |
|---|---|---|
| Liability at Beginning of Year | $ 4,032 | $ 3,770 |
| Current Year Claims and Changes in Estimates | 1,706 | 686 |
| Claims Payments | 1,444 | 424 |
| Liability at End of Year | $ 4,294 | $ 4,032 |

As of June 30, 2014, fund assets of $26.1 million exceeded fund liabilities of $4.6 million by $21.5 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

### B. UNEMPLOYMENT INSURANCE

The State is self-insured for unemployment compensation. As a direct reimbursement employer, the State recognizes all costs for unemployment compensation as claims are paid. These costs totaled $1.3 million for the fiscal year ended June 30, 2014.

### 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, 2014:

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

| | 2014 | 2013 |
|---|---|---|
| Liability at Beginning of Year | $ 43,847 | $ 42,113 |
| Current Year Claims and Changes in Estimates | 9,311 | 11,069 |
| Claims Payments | 8,409 | 9,335 |
| Liability at End of Year | $ 44,749 | $ 43,847 |

Based on the actuarial calculation as of June 30, 2014, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $54.1 million. The discounted amount is $44.7 million and was calculated based on a 3.0 percent interest rate on investments.

**D. EMPLOYEE HEALTH INSURANCE**

The employee health and retiree health insurance programs are accounted for in two Internal Service Funds. The State became self insured for employee and retiree health care coverage on July 1, 2003. A stop loss agreement with Aetna provides catastrophic coverage for individual claims exceeding $500 thousand.

The State retained third-party administration (TPA) services for claims administration, utilization review, and case management services. Premium equivalents are paid to the TPA based upon rates established with the technical assistance of the plan's consulting actuary.

There are two primary health plans available. POS II 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 37,800 covered individuals. This total includes 30,000 active employees and dependents and 7,800 Medicare retirees and dependents.

Claims expenses are recorded when premiums are paid to the claims servicing contractor. At the end of the period, the total of these premium payments are compared with the actual claims paid and claims expense is adjusted for any overage or shortage with an offsetting receivable or liability recorded. For the period ending June 30, 2014 the State recorded a receivable of $6.9 million for an overpayment of health care premiums.

Expenses and liabilities for incurred but not reported claims, based on an actuarial analysis of claim lag pattern, have been recorded as liabilities in the amount of $20.7 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2014 follows (in thousands):

| | Employee Health Fund | Retiree Health Fund |
|---|---|---|
| Liability at Beginning of Year | $ 16,939 | $ 5,646 |
| Current Year Claims and Changes in Estimates | 154,540 | 25,660 |
| Claims Payments | 155,949 | 26,130 |
| Liability at End of Year | $ 15,530 | $ 5,176 |

The table above reflects actual activity of the employee health and retiree health insurance programs. In accordance with GASB Statement No. 45, certain costs reported above were reclassified for financial statement purposes. Retiree healthcare costs of $48.3 million were reclassified from the internal service fund to the OPEB Trust Fund, a fiduciary fund. Additionally, $15.0 million of active employee healthcare costs 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 2014, 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 | $ 15,777 |
| Noncurrent Assets | 33,794 |
| Total Assets | $ 49,571 |
| | |
| Current Liabilities | $ 13,165 |
| Long-term Liabilities | 26,634 |
| Total Liabilities | 39,799 |
| | |
| Designated Prize Reserves | 4,346 |
| Reserve for Unrealized Gains | 5,426 |
| Total Net Position | 9,772 |
| Total Liabilities and Net Position | $ 49,571 |
| | |
| Total Revenue | $ 56,123 |
| Total Expenses | 37,658 |
| Allocation to Member States | 18,465 |
| Change in Unrealized Gain on Investments Held for Resale | (1,381) |
| Change in Net Position | $ (1,381) |

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

Participating lotteries sell Powerball tickets, collect all revenues, and remit prize funds to the MUSL, net of lower tier prize awards. The operating costs of the board are divided equally among all of the participating lotteries. Jackpot prizes payable in installments are satisfied through investments purchased by the MUSL. The MUSL purchases US government obligations which are held in irrevocable trusts established by the MUSL for the benefit of participating State lotteries. Each week the MUSL allocates 50 percent of sales to the prize pool. If no winning ticket is selected, the available jackpot is carried over to the following jackpot drawing.

The Multi-State Lottery Association's financial report for fiscal year 2014 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 | $ 469,342 |
| Investments in US Government Securities | 69,335 |
| US Government Securities Held for Prize Annuities | 140,912 |
| Due from Party Lotteries | 15,717 |
| Patent, net of accumulated amortization | 10,140 |
| Other Assets | 705 |
| Total Assets | $ 706,151 |
| | |
| Amount Held for Future Prizes | $ 552,055 |
| Grand Prize Annuities Payable | 141,057 |
| Other Liabilities | 2,836 |
| | 695,948 |
| | |
| Net Position, Unrestricted | 10,203 |
| Total Liabilities and Net Position | $ 706,151 |
| | |
| Total Revenue | $ 3,170 |
| Total Expenses | 4,991 |
| Excess of revenue over expenses | (1,821) |
| Net Position, beginning | 12,024 |
| Net Position, ending | $ 10,203 |

## NOTE 14 - RELATED PARTY TRANSACTIONS

**PRIMARY GOVERNMENT**

The State of Maine entered into memoranda of understanding with the Wells National Estuarine Research Reserve Management Authority, a jointly governed organization, through the Bureau of Parks and Lands. These agreements outline each entity's responsibilities in relation to the operation of the Reserve and the management of the property included within the boundaries of the Reserve. The Authority's responsibilities are generally to manage the Reserve consistent with the Wells National Estuarine Research Reserve Management Plan dated 2013 to 2018.

**COMPONENT UNITS**

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, $224.2 million; Maine Community College System, $64.2 million; Maine Municipal Bond Bank, $43.0 million; Finance Authority of Maine, $11.0 million; and Maine State Housing Authority, $14.2 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $29.7 million at June 30, 2014, 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 2014, the State expended $2.6 million to FAME for State revolving loan funds. The State also transferred $1 million from its Loan Insurance Reserves to FAME. In fiscal year 2014, State statute required FAME to return $1 million of the Loan Insurance Reserves. As of June 30, 2014, $1 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 $5.8 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 year 2014, the amount billed totaled $6.0 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.

*Aldrich v. LePage*. This matter involves the provision of home- and community-based services to persons with intellectual disabilities and/or autism. The case is before the Superior Court of Maine. The case has just been settled. It will cost the State more than $1 million in the provision of services.

*John F. Murphy Homes v. State of Maine (Me. Superior Court)*. The claim is in the amount of $7+ million for payments allegedly due for educational services over the last dozen years. Discovery is ongoing. We estimate a low-medium chance of losing more than $1 million.

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.

**ENCUMBRANCES**

Encumbrances are reported in the restricted, committed, and assigned fund balances of the governmental funds. General fund, highway fund, federal fund, other special revenue fund and other governmental funds balances are $28.2 million, $2.3 million, $115.0 million, $23.6 million and $1.8 million, respectively.

**FEDERAL GRANTS**

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

**POLLUTION REMEDIATION**

The Department of Environmental Protection (DEP) and Department of Transportation (DOT) have pollution remediation obligations as defined by Governmental Accounting Standards Board (GASB) Statement No. 49. The State's total amount of pollution remediation obligation as of June 30, 2014 is $20.3 million. Superfund sites account for approximately $9.4 million. Superfund is the federal government program to clean up hazardous waste sites.

The following are Superfund sites for which the State has recorded a liability for pollution remediation activities:

*Eastland Woolen Mill* – The State recorded a liability for pollution remediation activities of approximately $1.1 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 $1.4 million. Beginning in August of 2012, the State assumed 100 percent of the operation and maintenance and monitoring costs. As of June 30, 2014 the State has received $2 million in recoveries from the Department of Defense. The State expects to recover additional costs of $321 thousand.

*Callahan Mine* – The State recorded a liability for pollution remediation activities of approximately $6.9 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 $11.5 million (net of unrealized recoveries of $671 thousand) related five uncontrolled hazardous substance sites. The State expects to recover $2.9 million in costs. The Uncontrolled Hazardous Substance Sites Program was created in response to the threats and potential threats to human health and the environment posed primarily by abandoned hazardous waste sites. The Uncontrolled Hazardous Substance Sites program is the State's equivalent to the Federal Superfund Program.

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

**MUNICIPAL SOLID WASTE LANDFILLS**

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

The 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 Position, 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, 2014, represents the cumulative amount reported to date based on the use of 94 percent 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 500 cubic yard to 1,000 cubic yards per year, the estimated remaining landfill life would be 400 to 800 years. Actual costs may be higher due to inflation, changes in technology or changes in applicable laws or regulations.

*Cost-Sharing Program* – Title 38 M.R.S.A., §1310-F establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health.

The State has an obligation to provide cost sharing for remediation and closure activities to municipalities; however this obligation is subject to the availability of funds approved for that purpose. Until fiscal year 2013, there was no solid waste funding available to reimburse municipalities for closure or remediation activities. In 2013, a fee on disposal of Construction and Demolition Debris (CDD) earmarked for landfill closure and remediation came into effect under 38 MRSA §2203-A for these obligations as discussed below. The fee effective January 1, 2013 was $1.00 per ton of CDD and doubled to $2.00 effective January 1, 2014. In fiscal year 2014, during which both rates applied, the CDD fee generated $530 thousand. A full year of that fee at $2.00 per ton is expected to generate $770 thousand.

Regarding landfill closures, changes per PL 2011, c.544 to landfill legislation at 38 MRSA §1310-F(1-B)(E) extended DEP's obligation to reimburse 75% of landfill closure expenses at municipal landfills that incur eligible closure costs until 2015. In fiscal year 2014, $203 thousand was reimbursed to municipalities for closure expenses. As of the end of fiscal year 2014, the DEP has received applications from four municipalities and has a total outstanding obligation, after fiscal year 2014 payments, of $5.2 million in closure expenses. This closure obligation will increase in fiscal year 2015 as one landfill is still undergoing closure construction and will incur additional costs and several other municipalities have landfills that will be eligible for reimbursement of closure costs if they elect to close by the 2015 deadline.

Regarding landfill remediation, under the law the State is obligated to pay up to 90% of the cost of remediation for threats posed by municipal landfills to the public health and the environment after closure. Remediation expenses are ongoing and have no specific timeframe. In fiscal year 2014, $256 thousand was reimbursed to municipalities in remediation expenses. As of the end of fiscal year 2014, the DEP obligation for remediation expenses after fiscal year 2014 payments, total $2.6 million. In light of ongoing investigations at closed landfills that show additional work is necessary and the increasing frequency of residential development near closed municipal landfills, the State's obligation for landfill remediation is expected to increase.

As of June 30, 2014, the DEP's total landfill closure and remediation obligation to municipalities is $7.8 million. A full year of the CDD fee at $2.00 per ton is estimated to generate $770 thousand, indicating that at the current funding rate and obligation, it will take approximately 10 year for the DEP to fully fund its closure and remediation obligation. However, the financial obligation is expected to increase as additional eligible landfills close prior to the 2015 deadline; and as remediation expenses at closed landfills continue, extending this timeline for repayment.

**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 $6.4 million. This consists of approximately $2.1 million for State-owned facilities and approximately $4.3 million for the State's share, under a cost sharing arrangement, for municipal facilities.

**POLLUTION ABATEMENT PROGRAM**

Title 38 MRSA § 411, § 411-A, § 412 establishes within DEP cost-sharing programs for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the planning of municipal pollution abatement facilities; the design, engineering and construction of private, commercial and municipal pollution abatement facilities; and make payments to the Maine Municipal Bond Bank to supply the State's share of the revolving loan fund established by Title 30-A §6006-A. During the 2014 fiscal year, $5.6 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2014, amounts encumbered for pollution abatement projects totaled $620 thousand; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $320 thousand. As of June 30, 2014, 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 46.8 percent of the annual payments. As of June 30, 2014, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $904.3 million.

At June 30, 2014, the Department of Transportation had contractual commitments of approximately $182.8 million for construction of various highway projects. The State's share of that amount is expected to be approximately $40.3 million. Of these amounts, $5.2 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 2014, Maine received a total of $56.4 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, 2014, the Fund included $4.6 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2014 of approximately $200.6 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, 2014, the amount reported in the Fund for claimant liability is $29.1 million. The General Fund shows a $24 million payable to the Escheat Fund.

**CONSTITUTIONAL OBLIGATIONS**

The State of Maine's constitutional obligations represent nonexchange financial guarantees, as defined by GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* The State acts as the guarantor for these ongoing insurance and loan programs operated by 2 discrete component units. The Finance Authority of Maine's mission covers commercial financing and loan insurance to Maine businesses and assistance to Maine students and their parents to finance costs of attendance at institutions of higher education. Maine State Housing Authority's mission encompasses loans to Maine veterans and members of Indian tribes or reservations. Details of the nonexchange financial guarantees are provided below.

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of

the United States, including loans to a business organization owned in whole or in part by resident Maine veterans. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2014, loans outstanding pursuant to these authorizations are $74.4 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, 2014.

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, 2014, 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, 2014.

**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 | $ 973,110 | $ 86,316 | no limit | 22 MRSA § 2075 |
| Finance Authority of Maine | 38,043 | - | $ 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 | 1,269,716 | 148,529 | no limit | 30-A MRSA §6006 |
| Maine Educational Loan Authority * | 132,635 | 13,848 | 225,000 | 20-A MRSA §11424 |
| Maine State Housing Authority | 1,275,590 | 98,147 | 2,150,000 | 30-A MRSA §4906 |
| Total | $ 3,689,094 | $ 346,840 | | |

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

**COMPONENT UNITS**

**CONSTRUCTION CONTRACTS**
At June 30, 2014, UMS had outstanding commitments on uncompleted construction contracts that totaled $9.2 million.

At June 30, 2014, MCCS had $5 million remaining in construction commitments primarily to improve existing academic buildings.

At December 31, 2013, the Maine Turnpike Authority had $19.5 million remaining in on outstanding construction projects for improvements and maintenance.

**MORTGAGE COMMITMENTS**
Mortgage commitments are agreements to lend provided there is no violation of any term or condition of the agreement. Generally, once exercised, the loans made under the terms of such commitments are secured by a lien on the related property and other collateral as deemed necessary. At December 31, 2013 Maine State Housing Authority (MSHA) had outstanding commitments to originate multi-family loans of approximately $24.0 million.

MSHA, under its single-family program, enters into purchase agreements to lenders to purchase mortgage loans. At December 31, 2013, single-family loans being processed by lenders totaled $18.1 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, 2014, FAME had insurance outstanding for commercial loans under the Loan Insurance Program totaling approximately $101.3 million. At June 30, 2014, FAME was insuring loans with an aggregate outstanding principle balance approximating $4.7 million which were 90 or more days delinquent. The aggregate insured balance of these loans was approximately $2.7 million at June 30, 2014. In addition, FAME has entered into commitments to insure loans at some future date. At June 30, 2014, these commitments under the Loan Insurance Program were approximately $8.5 million.

## NOTE 16 - SUBSEQUENT EVENTS

**PRIMARY GOVERNMENT**

In September 2014 the State issued $38.1 million of Bond Anticipation Notes which mature in June 2015.

On November 14, 2014, the Maine Municipal Bond Bank issued $44.8 million of GARVEE grant anticipation revenue bonds on behalf of the Maine Department of Transportation. The bonds bear interest rates from 2.0% to 5.0%, and maturities from 2015 to 2026. The bonds are secured by future receipt of federal transportation funds, subject to continuing federal appropriations of those funds. The bonds do not constitute a debt or obligation of the State.

**COMPONENT UNITS**

Through March 20, 2014, Maine State Housing Authority (MSHA) redeemed at par $65.2 million of bonds in the General Mortgage Purchase Bond Resolution. On February 27, 2014, MSHA issued, at par $51.6 million of bonds in the General Mortgage Purchase Bond Resolution.

On July 24, 2014, Maine Health and Higher Educational Facilities Authority issued series 2014A reserve resolution tax-exempt bonds in the amount of $43.2 million with an average interest rate of 4.43%. A portion of the bonds was used to in-substance defease $47.6 million of outstanding reserve fund maturities within the

1997B, 1998C, 2003A, 2003D and 2004A reserve bond series. The net proceeds of approximately $48.0 million were used to purchase U.S. Government securities that will provide for all future debt service payments on the defeased bonds. The economic benefits associated with the refunding inure to the respective institutions.

## NOTE 17 – SPECIAL ITEMS

Pursuant to Public Law 2011, Chapter 649 Part A, the Marine Ports Enterprise Fund was converted to an Other Special Revenue Fund. Accordingly, the State transferred balances totaling $9.7 million from the Marine Ports Enterprise Fund to the Other Special Revenue Fund. These transfers are recorded as Special Items in the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position ($9.7 million), the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances ($59 thousand), and the Entity-wide Statement of Activities ($9.7 million).

Pursuant to Public Law 2013, Chapter 269, the State of Maine authorized the Maine Municipal Bond Bank (MMBB) to issue Liquor Operation Revenue Bonds on behalf of the State for the purpose of making payments to healthcare providers for services provided prior to December 1, 2012 under the Maine Care program. These bonds were secured by the State of Maine's pledge of the profits from the Alcoholic Beverages Enterprise Fund and the proceeds were deposited into the Health Care Liability Retirement Fund, an Other Special Revenue Fund. The resulting loans payable to MMBB is recorded as a liability in the Governmental Activities column in the Statement of Net Position. The transfer of the future pledged profits from the Enterprise Fund to reduce this liability is recorded as a Special Item in the Proprietary Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Statement of Activities for $183.5 million.

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

Fiscal Year Ended June 30, 2014
(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 | $ 2,924,349 | $ 2,929,821 | $ 2,976,515 | $ 46,694 | $ 210,011 | 211,815 | $ 217,503 | $ 5,688 |
| Assessments and Other | 95,956 | 97,666 | 100,317 | 2,651 | 88,699 | 89,384 | 90,202 | 818 |
| Federal Grants | 1,594 | 1,987 | 1,988 | 1 | - | - | - | - |
| Service Charges | 41,118 | 47,767 | 48,564 | 797 | 6,314 | 6,045 | 6,204 | 159 |
| Income from Investments | 78 | 133 | 469 | 336 | 122 | 53 | 80 | 27 |
| Miscellaneous Revenue | 67,570 | 66,949 | 70,871 | 3,922 | 2,712 | 8,066 | 3,692 | (4,374) |
| **Total Revenues** | 3,130,665 | 3,144,323 | 3,198,724 | 54,401 | 307,858 | 315,363 | 317,681 | 2,318 |
| **Expenditures** | | | | | | | | |
| Governmental Support and Operations | 259,663 | 261,184 | 253,172 | 8,012 | 37,206 | 38,011 | 34,760 | 3,251 |
| Economic Development & Workforce Training | 32,230 | 32,138 | 31,656 | 482 | - | - | - | - |
| Education | 1,422,651 | 1,424,825 | 1,409,592 | 15,233 | - | - | - | - |
| Health and Human Services | 1,108,521 | 1,143,735 | 1,103,755 | 39,980 | - | - | - | - |
| Business Licensing & Regulation | 1,562 | 4,210 | 4,200 | 10 | - | - | - | - |
| Natural Resources Development & Protection | 69,493 | 68,681 | 66,450 | 2,231 | 33 | 33 | 33 | - |
| Justice and Protection | 302,144 | 308,239 | 288,890 | 19,349 | 25,927 | 25,742 | 24,103 | 1,639 |
| Arts, Heritage & Cultural Enrichment | 7,664 | 7,668 | 7,405 | 263 | - | - | - | - |
| Transportation Safety & Development | - | - | - | - | 242,357 | 297,516 | 287,295 | 10,221 |
| **Total Expenditures** | 3,203,928 | 3,250,680 | 3,165,120 | 85,560 | 305,523 | 361,302 | 346,191 | 15,111 |
| **Revenues Over (Under) Expenditures** | (73,263) | (106,357) | 33,604 | 139,961 | 2,335 | (45,939) | (28,510) | 17,429 |
| **Other Financing Sources (Uses)** | | | | | | | | |
| Operating Transfers Net | (81,105) | (83,401) | 21,934 | 105,335 | - | (5,096) | 17,969 | 23,065 |
| Proceeds from Pledged Future Revenues | | | | | | | | |
| **Net Other Financing Sources (Uses)** | (81,105) | (83,401) | 21,934 | 105,335 | - | (5,096) | 17,969 | 23,065 |
| **Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses** | $ (154,368) | $ (189,758) | $ 55,538 | $ 245,296 | $ 2,335 | $ (51,035) | $ (10,541) | $ 40,494 |
| Fund Balances at Beginning of Year | | | 190,661 | | | | 58,774 | |
| Fund Balances at End of Year | | | $ 246,199 | | | | $ 48,233 | |

| Federal Funds | | | | Other Special Revenue Fund | | | |
|---|---|---|---|---|---|---|---|
| Original Budget | Final Budget | Actual | Variance with Final Budget | Original Budget | Final Budget | Actual | Variance with Final Budget |
| $ - | $ - | $ - | $ - | $ 293,507 | $ 292,826 | $ 288,785 | $ (4,041) |
| 4 | 4 | - | (4) | 171,172 | 180,115 | 158,057 | (22,058) |
| 3,236,042 | 3,541,143 | 2,761,743 | (779,400) | 11,373 | 11,448 | 9,707 | (1,741) |
| 434 | 435 | 352 | (83) | 205,083 | 231,839 | 219,650 | (12,189) |
| - | - | 9 | 9 | 1,196 | 1,201 | 324 | (877) |
| 5,553 | 5,479 | 9,406 | 3,927 | 363,832 | 363,366 | 293,198 | (70,168) |
| 3,242,033 | 3,547,061 | 2,771,510 | (775,551) | 1,046,163 | 1,080,795 | 969,721 | (111,074) |
| 6,293 | 8,819 | 5,432 | 3,387 | 138,349 | 148,300 | 138,174 | 10,126 |
| 112,064 | 142,932 | 97,372 | 45,560 | 46,145 | 50,654 | 38,115 | 12,539 |
| 279,940 | 291,457 | 193,762 | 97,695 | 38,334 | 45,670 | 38,208 | 7,462 |
| 2,464,369 | 2,606,691 | 2,100,903 | 505,788 | 734,559 | 746,890 | 674,891 | 71,999 |
| 244 | 203 | 101 | 102 | 76,735 | 77,908 | 66,931 | 10,977 |
| 53,739 | 60,741 | 36,134 | 24,607 | 126,263 | 141,952 | 84,538 | 57,414 |
| 148,699 | 153,579 | 45,550 | 108,029 | 43,249 | 49,753 | 38,929 | 10,824 |
| 3,258 | 3,669 | 2,726 | 943 | 1,861 | 1,942 | 838 | 1,104 |
| 192,685 | 283,304 | 198,839 | 84,465 | 53,305 | 119,671 | 73,351 | 46,320 |
| 3,261,291 | 3,551,395 | 2,680,819 | 870,576 | 1,258,800 | 1,382,740 | 1,153,975 | 228,765 |
| (19,258) | (4,334) | 90,691 | 95,025 | (212,637) | (301,945) | (184,254) | 117,691 |
| (76,353) | (77,137) | (89,158) | (12,021) | (11,864) | (11,703) | (112,259) | (100,556) |
| | | | | 220,035 | 275,035 | 230,884 | (44,151) |
| (76,353) | (77,137) | (89,158) | (12,021) | 208,171 | 263,332 | 118,625 | (144,707) |
| $ (95,611) | $ (81,471) | $ 1,533 | $ 83,004 | $ (4,466) | $ (38,613) | $ (65,629) | $ (27,016) |
| | | 15,174 | | | | 255,342 | |
| | | $ 16,707 | | | | $ 189,713 | |

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

Fiscal Year Ended June 30, 2014
(Expressed in Thousands)

| | General Fund | Highway Fund | Federal Funds | Special Revenue Fund |
|---|---|---|---|---|
| Fund Balances - Non-GAAP Budgetary Basis | $ 246,199 | $ 48,233 | $ 16,707 | $ 189,713 |
| **Basis Differences** | | | | |
| Revenue Accruals/Adjustments: | | | | |
| Taxes Receivable | 209,068 | 778 | - | 9,982 |
| Intergovernmental Receivables | - | - | 256,452 | - |
| Other Receivables | 42,756 | 2,650 | 65,140 | 64,027 |
| Inventories | 2,048 | - | 689 | - |
| Due from Component Units | 1,000 | | 25 | 40,330 |
| Due from Other Funds | 16,854 | 21,690 | 9,796 | 398,336 |
| Other Assets | 1,759 | 55 | 330 | 214 |
| Unearned Revenues | - | (4,916) | (689) | - |
| Deferred Inflows - Taxes and Assessment Revenues | (213,232) | (731) | (722) | (27,314) |
| Deferred Inflows - Unearned Revenue from Enterprise Fund | - | - | - | (183,482) |
| Total Revenue Accruals/Adjustments | 60,253 | 19,526 | 331,021 | 302,093 |
| Expenditure Accruals/Adjustments: | | | | |
| Accounts Payable | (145,594) | (16,705) | (232,871) | (17,829) |
| Due to Component Units | (2,293) | (1,618) | (1,597) | (321) |
| Accrued Liabilities | (20,352) | (7,414) | (6,817) | (9,701) |
| Taxes Payable | (194,055) | (8) | - | - |
| Intergovernmental Payables | (12,972) | - | (73,598) | - |
| Due to Other Funds | (146,622) | (4,224) | (23,554) | (47,682) |
| Total Expenditure Accruals/Adjustments | (521,888) | (29,969) | (338,437) | (75,533) |
| Fund Balances - GAAP Basis | $ (215,436) | $ 37,790 | $ 9,291 | $ 416,273 |

## 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, 2014, the legislature increased appropriations to the General Fund by $26.3 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, fund balance is classified based on existing resources, if any, which will liquidate the encumbrances outstanding at June 30 (shown as restrictions, commitments or assignments of fund balance).

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

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

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

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

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

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2014-2015, 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 26, 2013, 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, 2014 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) |
|---|---|---|---|---|---|---|
| 2014 | 10,083,707 | 12,382,225 | 2,298,518 | 81.4% | 1,711,516 | 134.3% |
| 2013 | 9,238,577 | 11,889,897 | 2,651,320 | 77.7% | 1,671,668 | 158.6% |
| 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% |

Major changes in actuarial assumptions include the following:

| Valuation date | June 30, 2014 | June 30, 2012 | June 30, 2011 | June 30, 2008 |
|---|---|---|---|---|
| Major actuarial assumption changes: | | | | |
| Retirement assumption | The State is responsible for funding all costs for its employees and the UAAL for teachers. School districts pay the normal costs for teachers. | Lowered to reflect the closing of the retirement window for early retiree health coverage | | |
| Version of actuarial cost method | | New entrant | | |
| Asset valuation method | Additional recognition of past investment gains in the asset smoothing balance FY14 37.5% | | | |
| Investment rate of return | 7.125% | | 7.25% | 7.75% |
| Projected salary increases | | | 3.50% | 4.75% - 10.00% |
| Includes inflation at | | | 3.50% | 4.50% |
| Cost of living adjustments | | | 2.25% | 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 percent across the board increase at each year of service. The first 2 fiscal years assume a flat 1.5 percent pay increase across the board. The cap on annual cost of living adjustments was lowered from 4 percent per year to 3 percent 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 2 large cost sharing multiple-employer defined benefit plans and an agent multiple-employer defined benefit plan covering public employees. The June 30, 2014 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 2014 was determined by the 2012 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 3 years remained at June 30, 2014.

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, 2014.

## 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) |
|---|---|---|---|---|---|---|---|
| | June 30, 2014 | 167 | 1,224 | 1,057 | 13.64% | 543 | 194.66% |
| State Employees | June 30, 2013 | 150 | 1,166 | 1,016 | 12.86% | 518 | 196.14% |
| (in millions) | June 30, 2012 | 136 | 1,316 | 1,180 | 10.33% | 502 | 235.06% |
| Teachers | June 30, 2014 | 0 | 684 | 684 | 0.00% | 1,106 | 61.84% |
| (in millions) | June 30, 2013 | 0 | 685 | 685 | 0.00% | 1,194 | 57.37% |
| | June 30, 2012 | 0 | 665 | 665 | 0.00% | 1,156 | 57.53% |
| | June 30, 2013 | 0 | 22,369 | 22,369 | 0.00% | 53,366 | 41.92% |
| First Responders | June 30, 2012 | 0 | 23,442 | 23,442 | 0.00% | 43,510 | 53.88% |
| (in thousands) | June 30, 2011 | 0 | 21,921 | 21,921 | 0.00% | 42,242 | 51.89% |

### 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) |
|---|---|---|---|---|---|---|---|
| | June 30, 2014 | 31,800 | 87,300 | 55,500 | 36.43% | 563,500 | 9.85% |
| State Employees | June 30, 2013 | 27,000 | 83,800 | 56,800 | 32.22% | 572,800 | 9.92% |
| | June 30, 2012 | 24,700 | 80,900 | 56,200 | 30.53% | 553,500 | 10.15% |
| | June 30, 2014 | 45,100 | 75,600 | 30,500 | 59.66% | 666,200 | 4.58% |
| Teachers | June 30, 2013 | 36,000 | 74,200 | 38,200 | 48.52% | 652,800 | 5.85% |
| | June 30, 2012 | 30,100 | 71,000 | 40,900 | 42.39% | 630,800 | 6.48% |

## Schedule of Employer Contributions

(Expressed in Thousands)

| | State Employees | | Teachers | | First Responders | |
|---|---|---|---|---|---|---|
| Fiscal Year Ended June 30, | Annual Required Contribution | Percentage Contributed | Annual Required Contribution | Percentage Contributed | Annual Required Contribution | Percentage Contributed |
| Healthcare - 2014 | $99,000 | 63.87% | $45,000 | 55.46% | $1,769 | 33.52% |
| Healthcare - 2013 | 94,000 | 72.34% | 44,000 | 56.82% | 1,689 | 34.16% |
| Healthcare - 2012 | 126,000 | 57.94% | 55,000 | 40.00% | 1,350 | 32.15% |
| | | | | | | |
| Group Life - 2014 | 4,768 | 88.07% | 3,440 | 100.00% | N/A | N/A |
| Group Life - 2013 | 4,591 | 101.79% | 3,099 | 100.00% | N/A | N/A |
| Group Life - 2012 | 3,250 | 144.13% | 2,959 | 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 8,827 highway miles or 17,951 lane miles of roads and 2,964 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 vs. Unbuilt roadway) | 15 | A "Built" road is one that has been constructed to a modern standard, usually post 1950. This includes adequate drainage, base, and pavement to carry the traffic load, and adequate sight distance and width to meet current safety standards. "Unbuilt" (backlog) is defined as a roadway section that has not been built to modern standards. Yes or No (15 or 0). |
| Annual Average Daily Traffic divided by the hourly highway capacity (AADT/C) | 10 | This ratio measures how intensely a highway is utilized. As a highway facility's AADT/C ratio increases, the average speed of vehicles on that facility tends to decrease. This decrease in average speed is evidence of reduced mobility. As congestion increases, points decrease (0-10). |
| Posted Speed | 5 | Lower speeds equal fewer points. |
| Paved Shoulder | 5 | In general, roadways with paved shoulders perform at a higher level and last longer than those without shoulders or with only gravel shoulders. Yes or No (5 or 0). |
| | 100 | |

**Bridges**

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

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

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

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

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

| Fiscal Year | Highways | Bridges |
|---|---|---|
| 2014 | 75.5 | 78.0 |
| 2013 | 76.0 | 78.0 |
| 2012 | 75.4 | 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
(Expressed in millions)

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Highways | $ 163.0 [1] | $ 90.5 | $ 91.5 | $ 101.4 | $ 68.6 |
| Bridges | 71.0 [1] | 14.7 | 13.2 | 9.3 | 9.2 |
| Total | $ 234.0 | $ 105.2 | $ 104.7 | $ 110.7 | $ 77.8 |

Estimated Preservation Costs
(Expressed in millions)

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Highways | $ 24.7 | $ 84.1 | $ 155.0 | $ 86.1 | $ 48.5 |
| Bridges | 3.1 | 13.7 | 30.0 | 7.9 | 6.5 |
| Total | $ 27.8 | $ 97.8 | $ 185.0 | $ 94.0 | $ 55.0 |

[1] As restated

In 2014 it was determined that preservation costs were understated due to an incorrect process for determining the associated cost. The actual costs have been restated. The 2014 Estimated Preservation Costs are understated due to the incorrect process.

**Transportation Bonds**

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 697, PL 2011, $26 million in General fund bonds were spent during FY2014.

# STATE OF MAINE
# REPORTS ON INTERNAL CONTROL AND COMPLIANCE
# FOR THE YEAR ENDED JUNE 30, 2014

DIRIGO
MAINE

# STATE OF MAINE
# OFFICE OF THE STATE AUDITOR

66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

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

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

**MARY GINGROW-SHAW, CPA**
DEPUTY STATE AUDITOR
**MICHAEL J. POULIN, CIA**
DIRECTOR OF AUDIT and ADMINISTRATION


## INDEPENDENT AUDITORS' 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 the Honorable Michael D. Thibodeau, President of the Senate and
the Honorable Mark W. Eves, Speaker of the House of Representatives

We have audited, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the State of Maine's basic financial statements, and have issued our report thereon dated December 31, 2014. Our report includes a reference to other auditors who audited 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, Maine Turnpike Authority, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and the University of Maine System, as described in our report on the State of Maine's financial statements. This report does not include the results of the 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 Efficiency Maine Trust, Loring Development Authority, Maine Educational Loan Authority, he Maine Port Authority, the Maine Technology Institute, and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards.*

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Maine's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Maine's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (Finding #14-001).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency (Finding # 14-002).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Maine's financial statements are free from 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.*

**State of Maine's Response to Findings**

The State of Maine's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The State of Maine's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and on the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pola Buckley

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

Augusta, Maine
December 31, 2014

**STATE OF MAINE**
**OFFICE OF THE STATE AUDITOR**
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

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

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# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Michael D. Thibodeau
President of the Senate

Honorable Mark W. Eves
Speaker of the House of Representatives

**Report on Compliance for Each Major Federal Program**

We have audited the State of Maine's compliance with the types of compliance requirements described in the *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, 2014. The State of Maine's major federal programs are identified in the Summary of Auditor's Results section (E-1) of the accompanying Schedule of Findings and Questioned Costs.

The State of Maine's basic financial statements included the operations of the following component units: Child Development Services, Connect ME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Maine Turnpike Authority, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and the University of Maine System. The Federal awards that these component units received are not included in the Schedule of Expenditure of Federal Awards for the year ended June 30, 2014. 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 Circular A-133, if required.

***Management's Responsibility***
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***
Our responsibility is to express an opinion on compliance for each of the State of Maine's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the State of Maine's compliance.

***Basis for Qualified Opinion on the Unemployment Insurance Program***
As described in the accompanying schedule of findings and questioned costs, the State of Maine did not comply with requirements regarding Unemployment Insurance (CFDA #17.225) as described in finding number 2014-039 for Eligibility. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

***Qualified Opinion on the Unemployment Insurance Program***
In our opinion, except for the noncompliance described in the preceding Basis for Qualified Opinion paragraph, the State of Maine complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Unemployment Insurance Program for the year ended June 30, 2014.

***Unmodified Opinion on Each of the Other Major Federal Programs***
In our opinion, the State of Maine complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2014.

***Other Matters***
The results of our auditing procedures disclosed other instances of noncompliance, 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 2014-007, 2014-009,

2014-014, 2014-019, 2014-026, 2014-032, and 2014-039. Our opinion on each major federal program is not modified with respect to these matters.

The State of Maine's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs (Section III). The State of Maine's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**Report on Internal Control Over Compliance**

Management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State of Maine's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 in the accompanying Schedule of Findings and Questioned Costs as item 2014-030 and 2014-039 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 in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-003 through 2014-006, 2014-008 through 2014-029, 2014-031 through 2014-038, and 2014-040 through 2014-043 to be significant deficiencies.

The State of Maine's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The State of Maine's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Pola Buckley

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

Augusta, Maine
March 30, 2014

# STATE OF MAINE
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# FOR THE YEAR ENDED JUNE 30, 2014

DIRIGO
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**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2014**

| Federal Agency CFDA# | Clusters and Program Titles | ARRA | Non-ARRA | CFDA Total | |
|---|---|---|---|---|---|
| **Department of Agriculture** | | | | | |
| 10.025 | Plant and Animal Disease, Pest Control, and Animal Care | | 674,909 | 674,909 | |
| 10.156 | Federal-State Marketing Improvement Program | | 747,040 | 747,040 | |
| 10.162 | Inspection Grading and Standardization | | 850,643 | 850,643 | |
| 10.170 | Specialty Crop Block Grant Program - Farm Bill | | 264,150 | 264,150 | |
| 10.475 | Cooperative Agreements with States for Intrastate Meat and Poultry Inspection | | 251,475 | 251,475 | |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | | 17,827,982 | 17,827,982 | * |
| 10.558 | Child and Adult Care Food Program | | 9,785,366 | 9,785,366 | * |
| 10.560 | State Administrative Expenses for Child Nutrition | | 1,183,782 | 1,183,782 | |
| 10.572 | WIC Farmers' Market Nutrition Program (FMNP) | | 50,348 | 50,348 | |
| 10.576 | Senior Farmers Market Nutrition Program | | 952,390 | 952,390 | |
| 10.578 | WIC Grants To States (WGS) | | 115,417 | 115,417 | |
| 10.579 | Child Nutrition Discretionary Grants Limited Availability | | 146,389 | 146,389 | |
| 10.580 | Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants | | 260,666 | 260,666 | |
| 10.582 | Fresh Fruit and Vegetable Program | | 1,849,785 | 1,849,785 | |
| 10.652 | Forestry Research | | 648,262 | 648,262 | |
| 10.664 | Cooperative Forestry Assistance | | 1,951,412 | 1,951,412 | |
| 10.675 | Urban and Community Forestry Program | | 148,616 | 148,616 | |
| 10.676 | Forest Legacy Program | | 145,918 | 145,918 | |
| 10.678 | Forest Stewardship Program | | 299,413 | 299,413 | |
| 10.680 | Forest Health Protection | | 338,671 | 338,671 | |
| 10.688 | Recovery Act of 2009: Wildland Fire Management | 113,143 | | 113,143 | |
| 10.902 | Soil and Water Conservation | | 8,037 | 8,037 | |
| 10.912 | Environmental Quality Incentives Program | | 16,402 | 16,402 | |
| 10.914 | Wildlife Habitat Incentive Program | | 6 | 6 | |
| 10.999 | Long Term Standing Agreements For Storage, Transportation And Lease | | 134 | 134 | |
| SNAP Cluster | | | | | |
| 10.551 | Supplemental Nutrition Assistance Program | | 336,089,146 | 336,089,146 | * |
| 10.561 | State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | | 11,367,108 | 11,367,108 | * |
| SNAP Cluster Total | | | 347,456,254 | 347,456,254 | |
| Food Distribution Cluster | | | | | |
| 10.565 | Commodity Supplemental Food Program | | 209,321 | 209,321 | |
| 10.568 | Emergency Food Assistance Program (Administrative Costs) | | 272,798 | 272,798 | |
| 10.569 | Emergency Food Assistance Program (Food Commodities) | | 1,925,013 | 1,925,013 | |
| Food Distribution Cluster Total | | | 2,407,132 | 2,407,132 | |
| Child Nutrition Cluster | | | | | |
| 10.555 | National School Lunch Program | | 49,208,027 | 49,208,027 | * |
| 10.559 | Summer Food Service Program for Children | | 254,380 | 254,380 | * |
| Child Nutrition Cluster Total | | | 49,462,406 | 49,462,406 | |
| **Department of Agriculture Total** | | 113,143 | 437,843,007 | 437,956,150 | |
| **Department of Commerce** | | | | | |
| 11.407 | Interjurisdictional Fisheries Act of 1986 | | 171,008 | 171,008 | |
| 11.419 | Coastal Zone Management Administration Awards | | 2,866,501 | 2,866,501 | |
| 11.452 | Unallied Industry Projects | | 180,690 | 180,690 | |
| 11.454 | Unallied Management Projects | | 77,869 | 77,869 | |
| 11.472 | Unallied Science Program [3 & 4] | | 1,762,365 | 1,762,365 | |
| 11.474 | Atlantic Coastal Fisheries Cooperative Management Act | | 559,241 | 559,241 | |
| 11.558 | State Broadband Data and Development Grant Program | 135,973 | | 135,973 | |
| 11.999 | EA133F10CN0075 - Exploratory Fixed Gear Survey in the Inshore Gulf of Maine | | 1,591 | 1,591 | |
| 11.999 | 2012 JEA - Joint Enforcement Cooperative Agreements | | 9,959 | 9,959 | |
| 11.999 | EA-133F-13-BA-0009 - Access Point Angler Intercept Survey Data Collection | | 41,202 | 41,202 | |
| 11.999 | EA-133F-12-SE-0872 - Large Pelagics Intercept and Survey | | 82,826 | 82,826 | |
| **Department of Commerce Total** | | 135,973 | 5,753,251 | 5,889,225 | |
| **Department of Defense** | | | | | |
| 12.113 | State Memorandum of Agreement Program for the Reimbursement of Technical Services | | 535,512 | 535,512 | |
| 12.400 | Military Construction, National Guard | | 1,073,027 | 1,073,027 | |
| 12.401 | National Guard Military Operations and Maintenance (O&M) Projects | | 28,557,433 | 28,557,433 | * |
| 12.999 | CL0609-09-04-10-02 BRAC | | 98,743 | 98,743 | |
| **Department of Defense Total** | | | 30,264,715 | 30,264,715 | |

**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2014**

| Federal Agency CFDA# | Clusters and Program Titles | ARRA | Non-ARRA | CFDA Total |
|---|---|---|---|---|
| **Department of Housing And Urban Development** | | | | |
| 14.171 | Manufactured Home Dispute Resolution | | 4,349 | 4,349 |
| 14.238 | Shelter Plus Care | | 6,742,780 | 6,742,780 |
| 14.401 | Fair Housing Assistance Program State and Local | | 180,181 | 180,181 |
| CDBG - State-Administered CDBG Cluster | | | | |
| 14.228 | Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii | | 10,381,863 | 10,381,863 * |
| CDBG - State-Administered CDBG Cluster Total | | | 10,381,863 | 10,381,863 |
| **Department of Housing And Urban Development Total** | | | 17,309,172 | 17,309,172 |
| **Department of the Interior** | | | | |
| 15.424 | Marine Minerals Activities - Hurricane Sandy | | 23,394 | 23,394 |
| 15.608 | Fish and Wildlife Management Assistance | | 158,953 | 158,953 |
| 15.614 | Coastal Wetlands Planning, Protection and Restoration Program | | 868,247 | 868,247 |
| 15.615 | Cooperative Endangered Species Conservation Fund | | 49,025 | 49,025 |
| 15.616 | Clean Vessel Act Program | | 165,906 | 165,906 |
| 15.622 | Sportfishing and Boating Safety Act | | 216,178 | 216,178 |
| 15.623 | North American Wetlands Conservation Fund | | 230,204 | 230,204 |
| 15.634 | State Wildlife Grants | | 557,884 | 557,884 |
| 15.649 | Service Training and Technical Assistance (Generic Training) | | 36,000 | 36,000 |
| 15.654 | Visitor Facility Enhancements - Refuges and Wildlife | | 6,338 | 6,338 |
| 15.657 | Endangered Species Conservation – Recovery Implementation Funds | | 25,557 | 25,557 |
| 15.808 | U.S. Geological Survey Research and Data Collection | | 42,120 | 42,120 |
| 15.810 | National Cooperative Geologic Mapping Program | | 96,342 | 96,342 |
| 15.817 | National Geospatial Program: Building The National Map | | 30,000 | 30,000 |
| 15.904 | Historic Preservation Fund Grants-In-Aid | | 677,449 | 677,449 |
| 15.916 | Outdoor Recreation Acquisition, Development and Planning | | 110,853 | 110,853 |
| 15.931 | Conservation Activities by Youth Service Organizations | | 75,045 | 75,045 |
| 15.999 | 01-0000 - Fish and Wildlife Enhancement | | 132,921 | 132,921 |
| 15.999 | NER-ACAD-Acadia National Park, Federal Contract | | 86,442 | 86,442 |
| Fish and Wildlife Cluster | | | | |
| 15.605 | Sport Fish Restoration Program | | 3,727,787 | 3,727,787 |
| 15.611 | Wildlife Restoration and Basic Hunter Education | | 4,141,632 | 4,141,632 |
| Fish and Wildlife Cluster Total | | | 7,869,418 | 7,869,418 |
| **Department of the Interior Total** | | | 11,458,276 | 11,458,276 |
| **Department of Justice** | | | | |
| 16.017 | Sexual Assault Services Formula Program | | 216,235 | 216,235 |
| 16.523 | Juvenile Accountability Block Grants | | 210,723 | 210,723 |
| 16.527 | Supervised Visitation, Safe Havens for Children | | 116,158 | 116,158 |
| 16.540 | Juvenile Justice and Delinquency Prevention Allocation to States | | 507,961 | 507,961 |
| 16.543 | Missing Children's Assistance | | 286,037 | 286,037 |
| 16.548 | Title V Delinquency Prevention Program | | 2,900 | 2,900 |
| 16.550 | State Justice Statistics Program for Statistical Analysis Centers | | 35,098 | 35,098 |
| 16.554 | National Criminal History Improvement Program (NCHIP) | | 283,977 | 283,977 |
| 16.575 | Crime Victim Assistance | | 2,168,664 | 2,168,664 |
| 16.576 | Crime Victim Compensation | | 206,068 | 206,068 |
| 16.585 | Drug Court Discretionary Grant Program | | 586,034 | 586,034 |
| 16.588 | Violence Against Women Formula Grants | | 873,326 | 873,326 |
| 16.590 | Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program [2] | | 52,975 | 52,975 |
| 16.593 | Residential Substance Abuse Treatment for State Prisoners | | 4,749 | 4,749 |
| 16.606 | State Criminal Alien Assistance Program | | 31,243 | 31,243 |
| 16.609 | Project Safe Neighborhoods | | 59,075 | 59,075 |
| 16.710 | Public Safety Partnership and Community Policing Grants | | 906,011 | 906,011 |
| 16.726 | Juvenile Mentoring Program [1] | | 2,617 | 2,617 |
| 16.727 | Enforcing Underage Drinking Laws Program | | 417,346 | 417,346 |
| 16.735 | Protecting Inmates and Safeguarding Communities Discretionary Grant Program | | 261,491 | 261,491 |
| 16.741 | DNA Backlog Reduction Program | | 245,737 | 245,737 |
| 16.742 | Paul Coverdell Forensic Sciences Improvement Grant Program | | 84,037 | 84,037 |
| 16.745 | Criminal and Juvenile Justice and Mental Health Collaboration Program | | 2,805 | 2,805 |
| 16.750 | Support for Adam Walsh Act Implementation Grant Program | | 178,354 | 178,354 |
| 16.751 | Edward Byrne Memorial Competitive Grant Program | | 815 | 815 |
| 16.754 | Harold Rogers Prescription Drug Monitoring Program | | 94,661 | 94,661 |
| 16.756 | Court Appointed Special Advocates [1] | | 50,312 | 50,312 |
| 16.800 | Recovery Act - Internet Crimes Against Children Task Force Program (ICAC) | 6,695 | | 6,695 |
| 16.922 | Equitable Sharing Program | | 113,740 | 113,740 |
| 16.999 | 2014-078 Domestic Cannabis Eradication | | 15,055 | 15,055 |

**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2014**

| Federal Agency CFDA# | Clusters and Program Titles | ARRA | Non-ARRA | CFDA Total |
|---|---|---|---|---|
| JAG Program Cluster | | | | |
| 16.738 | Edward Byrne Memorial Justice Assistance Grant Program | | 1,077,330 | 1,077,330 |
| 16.803 | Recovery Act - Eward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories | 15,882 | | 15,882 |
| JAG Program Cluster Total | | 15,882 | 1,077,330 | 1,093,212 |
| **Department of Justice Total** | | 22,577 | 9,091,533 | 9,114,110 |
| **Department of Labor** | | | | |
| 17.002 | Labor Force Statistics | | 1,560,185 | 1,560,185 |
| 17.005 | Compensation and Working Conditions | | 124,388 | 124,388 |
| 17.225 | Unemployment Insurance | 23,972,729 | 181,877,026 | 205,849,754 * |
| 17.235 | Senior Community Service Employment Program | | 477,003 | 477,003 |
| 17.245 | Trade Adjustment Assistance | | 2,357,686 | 2,357,686 |
| 17.261 | WIA Pilots, Demonstrations, and Research Projects | | 194,681 | 194,681 |
| 17.271 | Work Opportunity Tax Credit Program (WOTC) | | 129,414 | 129,414 |
| 17.273 | Temporary Labor Certification for Foreign Workers | | 384,390 | 384,390 |
| 17.275 | Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors | 255,016 | | 255,016 |
| 17.276 | Health Care Tax Credit (HCTC) National Emergency Grants (NEGs) | 39,675 | | 39,675 |
| 17.277 | Workforce Investment Act (WIA) National Emergency Grants | | 306,726 | 306,726 |
| 17.281 | Workforce Investment Act (WIA) Dislocated Worker National Reserve Technical Assistance and Training | | 2,475 | 2,475 |
| 17.504 | Consultation Agreements | | 675,019 | 675,019 |
| 17.505 | OSHA Data Initiative | | 15 | 15 |
| 17.600 | Mine Health and Safety Grants | | 29,274 | 29,274 |
| WIA Cluster | | | | |
| 17.258 | WIA Adult Program | | 2,299,222 | 2,299,222 |
| 17.259 | WIA Youth Activities | | 2,805,531 | 2,805,531 |
| 17.278 | WIA Dislocated Worker Formula Grants | | 2,937,715 | 2,937,715 |
| WIA Cluster Total | | | 8,042,468 | 8,042,468 |
| Employment Service Cluster | | | | |
| 17.207 | Employment Service/Wagner-Peyser Funded Activities | | 4,446,087 | 4,446,087 |
| 17.801 | Disabled Veterans' Outreach Program (DVOP) | | 617,558 | 617,558 |
| 17.804 | Local Veterans' Employment Representative Program | | 303,225 | 303,225 |
| Employment Service Cluster Total | | | 5,366,870 | 5,366,870 |
| **Department of Labor Total** | | 24,267,420 | 201,527,621 | 225,795,041 |
| **Department of Transportation** | | | | |
| 20.106 | Airport Improvement Program | | 1,104,866 | 1,104,866 |
| 20.218 | National Motor Carrier Safety | | 252,317 | 252,317 |
| 20.232 | Commercial Driver's License Program Improvement Grant | | 600,366 | 600,366 |
| 20.233 | Border Enforcement Grants | | 441,765 | 441,765 |
| 20.234 | Safety Data Improvement Program | | 133,740 | 133,740 |
| 20.237 | Commercial Vehicle Information Systems and Networks | | 309,696 | 309,696 |
| 20.505 | Metropolitan Transportation Planning | | 152,190 | 152,190 |
| 20.509 | Formula Grants for Rural Areas | | 6,145,191 | 6,145,191 |
| 20.614 | National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants | | 26,506 | 26,506 |
| 20.700 | Pipeline Safety Program State Base Grant | | 193,949 | 193,949 |
| 20.703 | Interagency Hazardous Materials Public Sector Training and Planning Grants | | 123,435 | 123,435 |
| 20.721 | PHMSA Pipeline Safety Program One Call Grant | | 36,335 | 36,335 |
| 20.932 | Surface Transportation Discretionary Grants for Capital Investment | 30,150 | | 30,150 |
| 20.933 | National Infrastructure Investments | | 2,861,241 | 2,861,241 |
| Transit Services Programs Cluster | | | | |
| 20.513 | Enhanced Mobility of Seniors and Individuals with Disabilities | | 293,500 | 293,500 |
| 20.516 | Job Access And Reverse Commute Program | | 90,121 | 90,121 |
| 20.521 | New Freedom Program | | 1,146,366 | 1,146,366 |
| Transit Services Programs Cluster Total | | | 1,529,987 | 1,529,987 |
| Highway Safety Cluster | | | | |
| 20.600 | State and Community Highway Safety | | 1,880,637 | 1,880,637 |
| 20.601 | Alcohol Impaired Driving Countermeasures Incentive Grants I | | 630,965 | 630,965 |
| 20.602 | Occupant Protection Incentive Grants | | 141,995 | 141,995 |
| 20.609 | Safety Belt Performance Grants | | 12,917 | 12,917 |
| 20.610 | State Traffic Safety Information System Improvement Grants | | 344,454 | 344,454 |
| 20.612 | Incentive Grant Program to Increase Motorcyclist Safety | | 76,373 | 76,373 |
| 20.613 | Child Safety and Child Booster Seats Incentive Grants | | 34,638 | 34,638 |
| Highway Safety Cluster Total | | | 3,121,980 | 3,121,980 |

**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2014**

| Federal Agency CFDA# | Clusters and Program Titles | ARRA | Non-ARRA | CFDA Total |
|---|---|---|---|---|
| Highway Planning and Construction Cluster | | | | |
| 20.205 | Highway Planning and Construction | 120,537 | 216,135,889 | 216,256,427 * |
| 20.219 | Recreational Trails Program | | 1,111,654 | 1,111,654 * |
| Highway Planning and Construction Cluster Total | | 120,537 | 217,247,543 | 217,368,080 |
| Federal Transit Cluster | | | | |
| 20.500 | Federal Transit Capital Investment Grants | | 1,692,074 | 1,692,074 |
| 20.507 | Federal Transit Formula Grants | | 818,014 | 818,014 |
| Federal Transit Cluster Total | | | 2,510,087 | 2,510,087 |
| **Department of Transportation Total** | | 150,687 | 236,791,192 | 236,941,879 |
| **Department of the Treasury** | | | | |
| 21.000 | Treasury Forfeiture Program | | 476,860 | 476,860 |
| 21.999 | ED-8-CO-0037 - NAEP Grant | | 123,851 | 123,851 |
| **Department of the Treasury Total** | | | 600,711 | 600,711 |
| **Equal Employment Opportunity Commission** | | | | |
| 30.001 | Employment Discrimination Title VII of the Civil Rights Act of 1964 | | 244,393 | 244,393 |
| **Equal Employment Opportunity Commission Total** | | | 244,393 | 244,393 |
| **General Services Administration** | | | | |
| 39.003 | Donation of Federal Surplus Personal Property | | 45,685 | 45,685 |
| **General Services Administration Total** | | | 45,685 | 45,685 |
| **Institute Of Museum And Library Services** | | | | |
| 45.310 | Grants to States | | 1,219,095 | 1,219,095 |
| **Institute Of Museum And Library Services Total** | | | 1,219,095 | 1,219,095 |
| **National Endowment For The Arts** | | | | |
| 45.025 | Promotion of the Arts Partnership Agreements | | 809,080 | 809,080 |
| **National Endowment For The Arts Total** | | | 809,080 | 809,080 |
| **Department of Veterans Affairs** | | | | |
| 64.201 | National Cemeteries | | 456,132 | 456,132 |
| 64.203 | State Cemetery Grants | | 405,001 | 405,001 |
| **Department of Veterans Affairs Total** | | | 861,133 | 861,133 |
| **Environmental Protection Agency** | | | | |
| 66.032 | State Indoor Radon Grants | | 222,259 | 222,259 |
| 66.034 | Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act | | 272,552 | 272,552 |
| 66.039 | National Clean Diesel Emissions Reduction Program | | 99,130 | 99,130 |
| 66.040 | State Clean Diesel Grant Program | | 128,109 | 128,109 |
| 66.202 | Congressionally Mandated Projects | | 43,878 | 43,878 |
| 66.432 | State Public Water System Supervision | | 913,105 | 913,105 |
| 66.454 | Water Quality Management Planning | | 113,165 | 113,165 |
| 66.461 | Regional Wetland Program Development Grants | | 99,295 | 99,295 |
| 66.472 | Beach Monitoring and Notification Program Implementation Grants | | 232,025 | 232,025 |
| 66.474 | Water Protection Grants to the States | | 8,176 | 8,176 |
| 66.605 | Performance Partnership Grants | | 7,023,401 | 7,023,401 |
| 66.608 | Environmental Information Exchange Network Grant Program and Related Assistance | | 317,014 | 317,014 |
| 66.802 | Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements | | 1,476,398 | 1,476,398 |
| 66.804 | Underground Storage Tank Prevention, Detection and Compliance Program | | 388,466 | 388,466 |
| 66.805 | Leaking Underground Storage Tank Trust Fund Corrective Action Program | | 581,737 | 581,737 |
| 66.809 | Superfund State and Indian Tribe Core Program Cooperative Agreements | | 217,491 | 217,491 |
| 66.817 | State and Tribal Response Program Grants | | 839,733 | 839,733 |
| 66.818 | Brownfields Assessment and Cleanup Cooperative Agreements | | 271,055 | 271,055 |

**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2014**

| Federal Agency CFDA# | Clusters and Program Titles | ARRA | Non-ARRA | CFDA Total | |
|---|---|---|---|---|---|
| Drinking Water State Revolving Fund Cluster | | | | | |
| 66.468 | Capitalization Grants for Drinking Water State Revolving Funds | | 1,385,622 | 1,385,622 | |
| Drinking Water State Revolving Fund Cluster Total | | | 1,385,622 | 1,385,622 | |
| **Environmental Protection Agency Total** | | | 14,632,611 | 14,632,611 | |
| **Department of Energy** | | | | | |
| 81.041 | State Energy Program | | 3,064,479 | 3,064,479 | |
| 81.122 | Electricity Delivery and Energy Reliability, Research, Development and Analysis | 85,163 | | 85,163 | |
| 81.138 | State Heating Oil and Propane Program | | 6,080 | 6,080 | |
| **Department of Energy Total** | | 85,163 | 3,070,559 | 3,155,723 | |
| **Department of Education** | | | | | |
| 84.002 | Adult Education - Basic Grants to States | | 1,651,299 | 1,651,299 | |
| 84.010 | Title I Grants to Local Educational Agencies | | 51,896,871 | 51,896,871 | * |
| 84.011 | Migrant Education State Grant Program | | 1,297,300 | 1,297,300 | |
| 84.013 | Title I State Agency Program for Neglected and Delinquent Children and Youth | | 130,482 | 130,482 | |
| 84.048 | Career and Technical Education - Basic Grants to States | | 5,193,730 | 5,193,730 | |
| 84.126 | Rehabilitation Services Vocational Rehabilitation Grants to States | | 17,353,680 | 17,353,680 | * |
| 84.161 | Rehabilitation Services Client Assistance Program | | 123,323 | 123,323 | |
| 84.169 | Independent Living State Grants | | 306,705 | 306,705 | |
| 84.177 | Rehabilitation Services Independent Living Services for Older Individuals Who are Blind | | 225,000 | 225,000 | |
| 84.181 | Special Education-Grants for Infants and Families | | 2,072,978 | 2,072,978 | |
| 84.187 | Supported Employment Services for Individuals with the Most Significant Disabilities | | 459,155 | 459,155 | |
| 84.196 | Education for Homeless Children and Youth | | 222,793 | 222,793 | |
| 84.213 | Even Start-State Educational Agencies | | 133,012 | 133,012 | |
| 84.224 | Assistive Technology | | 502,425 | 502,425 | |
| 84.265 | Rehabilitation Training State Vocational Rehabilitation Unit In-Service Training | | 28,327 | 28,327 | |
| 84.287 | Twenty-First Century Community Learning Centers | | 4,899,500 | 4,899,500 | |
| 84.298 | Title V, Part A | | 24,969 | 24,969 | |
| 84.318 | Enhancing Education Through Technology | | 34,350 | 34,350 | |
| 84.323 | Special Education - State Personnel Development | | 787,308 | 787,308 | |
| 84.330 | Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants) | | 92,640 | 92,640 | |
| 84.332 | Discrectionary/Competitive Grants | | 31 | 31 | |
| 84.358 | Rural Education | | 1,427,523 | 1,427,523 | |
| 84.365 | English Language Acquisition State Grants | | 811,670 | 811,670 | |
| 84.366 | Mathematics and Science Partnerships | | 579,608 | 579,608 | |
| 84.367 | Improving Teacher Quality State Grants | | 11,133,896 | 11,133,896 | * |
| 84.369 | Grants for State Assessments and Related Activities | | 2,604,562 | 2,604,562 | |
| 84.371 | Striving Readers | | 63,684 | 63,684 | |
| Teacher Incentive Fund Cluster | | | | | |
| 84.374 | Teacher Incentive Fund | | 1,579,437 | 1,579,437 | |
| Teacher Incentive Fund Cluster Total | | | 1,579,437 | 1,579,437 | |
| Statewide Data Systems Cluster | | | | | |
| 84.384 | Statewide Data Systems, Recovery Act | 1,491,488 | | 1,491,488 | * |
| Statewide Data Systems Cluster Total | | 1,491,488 | | 1,491,488 | |
| Special Education Cluster (IDEA) | | | | | |
| 84.027 | Special Education Grants to States | | 49,578,264 | 49,578,264 | * |
| 84.173 | Special Education Preschool Grants | | 2,337,949 | 2,337,949 | * |
| Special Education Cluster (IDEA) Total | | | 51,916,213 | 51,916,213 | |
| School Improvement Grants Cluster | | | | | |
| 84.377 | School Improvement Grants | | 1,721,185 | 1,721,185 | |
| 84.388 | Office of Elementary and School Improvement Grants, Recovery Act | 2,294,107 | | 2,294,107 | |
| School Improvement Grants Cluster Total | | 2,294,107 | 1,721,185 | 4,015,292 | |
| **Department of Education Total** | | 3,785,595 | 159,273,656 | 163,059,251 | |

**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2014**

| Federal Agency CFDA# | Clusters and Program Titles | ARRA | Non-ARRA | CFDA Total |
|---|---|---|---|---|
| **National Archives And Records Administration** | | | | |
| 89.005 | Cooperative Agreements to Support the Programs of the National Archives and Records Administration | | 36,572 | 36,572 |
| **National Archives And Records Administration Total** | | | 36,572 | 36,572 |
| **U.S. Election Assistance Commission** | | | | |
| 90.401 | Help America Vote Act Requirements Payments | | 798,221 | 798,221 |
| **U.S. Election Assistance Commission Total** | | | 798,221 | 798,221 |
| **Department of Health And Human Services** | | | | |
| 93.041 | Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation | | 21,356 | 21,356 |
| 93.042 | Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals | | 82,214 | 82,214 |
| 93.043 | Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services | | 96,222 | 96,222 |
| 93.048 | Special Programs for the Aging Title IV and Title II Discretionary Projects | | 474,939 | 474,939 |
| 93.051 | Alzheimer's Disease Demonstration Grants to States | | 274,495 | 274,495 |
| 93.052 | National Family Caregiver Support, Title III, Part E | | 548,411 | 548,411 |
| 93.069 | Public Health Emergency Preparedness | | 6,502,171 | 6,502,171 |
| 93.070 | Environmental Public Health and Emergency Response | | 552,535 | 552,535 |
| 93.071 | Medicare Enrollment Assistance Program | | 93,195 | 93,195 |
| 93.079 | Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance | | 20,436 | 20,436 |
| 93.090 | Guardianship Assistance | | 256,876 | 256,876 |
| 93.092 | Affordable Care Act (ACA) Personal Responsibility Education Program | | 254,216 | 254,216 |
| 93.110 | Maternal and Child Health Federal Consolidated Programs | | 267,281 | 267,281 |
| 93.116 | Project Grants and Cooperative Agreements for Tuberculosis Control Programs | | 193,465 | 193,465 |
| 93.136 | Injury Prevention and Control Research and State and Community Based Programs | | 169,176 | 169,176 |
| 93.150 | Projects for Assistance in Transition from Homelessness (PATH) | | 295,454 | 295,454 |
| 93.241 | State Rural Hospital Flexibility Program | | 405,978 | 405,978 |
| 93.243 | Substance Abuse and Mental Health Services Projects of Regional and National Significance | | 2,893,412 | 2,893,412 |
| 93.251 | Universal Newborn Hearing Screening | | 234,118 | 234,118 |
| 93.256 | State Health Access Program | | 358,547 | 358,547 |
| 93.268 | Immunization Cooperative Agreements | | 13,939,340 | 13,939,340 |
| 93.270 | Adult Viral Hepatitis Prevention and Control | | 116,617 | 116,617 |
| 93.283 | Centers for Disease Control and Prevention Investigations and Technical Assistance | | 5,188,686 | 5,188,686 |
| 93.296 | State Partnership Grant Program to Improve Minority Health | | 87,621 | 87,621 |
| 93.301 | Small Rural Hospital Improvement Grant Program | | 203,400 | 203,400 |
| 93.324 | State Health Insurance Assistance Program | | 112,136 | 112,136 |
| 93.505 | Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | | 7,409,797 | 7,409,797 |
| 93.506 | ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers | | 238,042 | 238,042 |
| 93.507 | PPHF 2012 National Public Health Improvement Initiative | | 1,029,895 | 1,029,895 |
| 93.511 | Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review | | 863,383 | 863,383 |
| 93.512 | Affordable Care Act (ACA) Personal and Home Care Aide State Training Program (PHCAST) | | 666,680 | 666,680 |
| 93.517 | Affordable Care Act – Aging and Disability Resource Center | | 82,771 | 82,771 |
| 93.521 | 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; PPHF | | 847,894 | 847,894 |
| 93.531 | PPHF 2012: Community Transfromation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Preventinon and Public Health Funds | | 1,491,739 | 1,491,739 |
| 93.538 | Affordable Care Act - National Environmental Public Health Tracking Program-Network Implementation | | 738,662 | 738,662 |
| 93.539 | 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 | | 602,921 | 602,921 |
| 93.544 | The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program | | 104,473 | 104,473 |
| 93.556 | Promoting Safe and Stable Families | | 1,883,828 | 1,883,828 |
| 93.563 | Child Support Enforcement | | 16,967,247 | 16,967,247 * |

**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2014**

| Federal Agency CFDA# | Clusters and Program Titles | ARRA | Non-ARRA | CFDA Total | |
|---|---|---|---|---|---|
| 93.566 | Refugee and Entrant Assistance State Administered Programs | | 869,362 | 869,362 | |
| 93.569 | Community Services Block Grant | | 3,294,993 | 3,294,993 | |
| 93.576 | Refugee and Entrant Assistance Discretionary Grants | | 494,822 | 494,822 | |
| 93.586 | State Court Improvement Program | | 461,608 | 461,608 | |
| 93.597 | Grants to States for Access and Visitation Programs | | 90,441 | 90,441 | |
| 93.599 | Chafee Education and Training Vouchers Program (ETV) | | 150,696 | 150,696 | |
| 93.603 | Adoption Incentive Payments | | 6,642 | 6,642 | |
| 93.617 | Voting Access for Individuals with Disabilities Grants to States | | 171,475 | 171,475 | |
| 93.624 | ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance | | 7,710,948 | 7,710,948 | |
| 93.630 | Developmental Disabilities Basic Support and Advocacy Grants | | 418,917 | 418,917 | |
| 93.643 | Children's Justice Grants to States | | 138,175 | 138,175 | |
| 93.645 | Stephanie Tubbs Jones Child Welfare Services Program | | 860,926 | 860,926 | |
| 93.658 | Foster Care Title IV-E | | 15,729,888 | 15,729,888 | * |
| 93.659 | Adoption Assistance | | 14,335,676 | 14,335,676 | * |
| 93.667 | Social Services Block Grant | | 14,125,543 | 14,125,543 | * |
| 93.669 | Child Abuse and Neglect State Grants | | 98,413 | 98,413 | |
| 93.671 | Family Violence Prevention and Services/Battered Women's Shelters Grants to States and Indian Tribes | | 773,997 | 773,997 | |
| 93.674 | Chafee Foster Care Independence Program | | 519,061 | 519,061 | |
| 93.708 | ARRA - Head Start | 19,100 | | 19,100 | |
| 93.719 | ARRA - State Grants to Promote Health Information Technology | 697,066 | | 697,066 | |
| 93.735 | State Public Health Approaches for Ensuring Quitline Capacity – Funded in part by 2012 Prevention and Public Health Funds (PPHF-2012) | | 117,152 | 117,152 | |
| 93.748 | PPHF-2012 Cooperative Agreements for Prescription Drug Monitoring Program Electronic Health Record (EHR) Integration and Interoperability Expansion | | 132,395 | 132,395 | |
| 93.767 | Children's Health Insurance Program | | 25,515,387 | 25,515,387 | * |
| 93.779 | Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | | 353,519 | 353,519 | |
| 93.791 | Money Follows the Person Rebalancing Demonstration | | 933,978 | 933,978 | |
| 93.889 | National Bioterrorism Hospital Preparedness Program | | 106,257 | 106,257 | |
| 93.912 | Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program | | 149,303 | 149,303 | |
| 93.913 | Grants to States for Operation of Offices of Rural Health | | 122,313 | 122,313 | |
| 93.917 | HIV Care Formula Grants | | 1,788,279 | 1,788,279 | |
| 93.938 | Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems | | 85,158 | 85,158 | |
| 93.940 | HIV Prevention Activities Health Department Based | | 888,325 | 888,325 | |
| 93.944 | Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance | | 117,310 | 117,310 | |
| 93.945 | Assistance Programs for Chronic Disease Prevention and Control | | 838,879 | 838,879 | |
| 93.946 | Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs | | 165,659 | 165,659 | |
| 93.958 | Block Grants for Community Mental Health Services | | 1,521,280 | 1,521,280 | |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse | | 8,119,535 | 8,119,535 | |
| 93.977 | Preventive Health Services Sexually Transmitted Diseases Control Grants | | 273,376 | 273,376 | |
| 93.991 | Preventive Health and Health Services Block Grant | | 411,981 | 411,981 | |
| 93.994 | Maternal and Child Health Services Block Grant to the States | | 3,308,993 | 3,308,993 | |
| 93.999 | 2010 MEHRPC - Temporary High Risk Insurance Pool | | 1,270,822 | 1,270,822 | |
| 93.999 | 2014PIP - PIP Payment Study | | 920,539 | 920,539 | |
| 93.999 | 2014DASIS - DASIS Federal Agreement MIS Implement of Uniform Alcohol & Drug Abuse Data Collection System | | 31,560 | 31,560 | |
| TANF Cluster | | | | | |
| 93.558 | Temporary Assistance for Needy Families | | 40,596,414 | 40,596,414 | * |
| TANF Cluster Total | | | 40,596,414 | 40,596,414 | |
| Medicaid Cluster | | | | | |
| 93.775 | State Medicaid Fraud Control Units | | 506,774 | 506,774 | * |
| 93.777 | State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare | | 3,872,929 | 3,872,929 | * |
| 93.778 | Medical Assistance Program | 21,368,094 | 1,850,754,230 | 1,872,122,324 | * |
| Medicaid Cluster Total | | 21,368,094 | 1,855,133,934 | 1,876,502,028 | |
| Health Centers Cluster | | | | | |
| 93.224 | Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) | | 181,145 | 181,145 | |
| Health Centers Cluster Total | | | 181,145 | 181,145 | |
| CCDF Cluster | | | | | |
| 93.575 | Child Care and Development Block Grant | | 8,030,766 | 8,030,766 | |
| 93.596 | Child Care Mandatory and Matching Funds of the Child Care and Development Fund | | 4,931,699 | 4,931,699 | |
| CCDF Cluster Total | | | 12,962,465 | 12,962,465 | |

**STATE OF MAINE**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2014**

| Federal Agency CFDA# | Clusters and Program Titles | ARRA | Non-ARRA | CFDA Total |
|---|---|---|---|---|
| Aging Cluster | | | | |
| 93.044 | Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers | | 2,395,986 | 2,395,986 |
| 93.045 | Special Programs for the Aging Title III, Part C Nutrition Services | | 2,615,253 | 2,615,253 |
| 93.053 | Nutrition Services Incentive Program | | 471,092 | 471,092 |
| Aging Cluster Total | | | 5,482,332 | 5,482,332 |
| **Department of Health And Human Services Total** | | 22,084,260 | 2,088,349,502 | 2,110,433,762 |
| **Corporation For National And Community Service** | | | | |
| 94.003 | State Commissions | | 268,340 | 268,340 |
| 94.006 | AmeriCorps | | 1,499,261 | 1,499,261 |
| 94.007 | Program Development and Innovation Grants | | 5,851 | 5,851 |
| 94.009 | Training and Technical Assistance | | 7,430 | 7,430 |
| 94.013 | Volunteers in Service to America | | 32,367 | 32,367 |
| 94.021 | Volunteer Generation Fund | | 279,033 | 279,033 |
| **Corporation For National And Community Service Total** | | | 2,092,281 | 2,092,281 |
| **Executive Office Of The President** | | | | |
| 95.001 | High Intensity Drug Trafficking Areas Program | | 79,789 | 79,789 |
| **Executive Office Of The President Total** | | | 79,789 | 79,789 |
| **Social Security Administration** | | | | |
| Disability Insurance/SSI Cluster | | | | |
| 96.001 | Social Security Disability Insurance | | 8,714,944 | 8,714,944 |
| Disability Insurance/SSI Cluster Total | | | 8,714,944 | 8,714,944 |
| **Social Security Administration Total** | | | 8,714,944 | 8,714,944 |
| **Department of Homeland Security** | | | | |
| 97.012 | Boating Safety Financial Assistance | | 1,270,179 | 1,270,179 |
| 97.023 | Community Assistance Program State Support Services Element (CAP-SSSE) | | 131,305 | 131,305 |
| 97.036 | Disaster Grants - Public Assistance (Presidentially Declared Disasters) | | 2,058,597 | 2,058,597 |
| 97.039 | Hazard Mitigation Grant | | 441,957 | 441,957 |
| 97.041 | National Dam Safety Program | | 57,923 | 57,923 |
| 97.042 | Emergency Management Performance Grants | | 3,523,239 | 3,523,239 |
| 97.045 | Cooperating Technical Partners | | 102,276 | 102,276 |
| 97.047 | Pre-Disaster Mitigation | | 9,232 | 9,232 |
| 97.052 | Emergency Operations Center | | 373,439 | 373,439 |
| 97.055 | Interoperable Emergency Communications | | 215 | 215 |
| 97.067 | Homeland Security Grant Program | | 5,363,276 | 5,363,276 |
| 97.120 | Border Interoperability Demonstration Project | | 657,222 | 657,222 |
| **Department of Homeland Security Total** | | | 13,988,859 | 13,988,859 |
| **Total State of Maine** | | **50,644,818** | **3,244,855,861** | **3,295,500,679** |

The State spent pass-through funds received from:

[1] National CASA
[2] Cumberland County
[3] Gulf of Maine Lobster Foundation
[4] University of New Hampshire/Northeast Consortium

# STATE OF MAINE
## Notes to the Schedule of Expenditures of Federal Awards
## For the Year Ended June 30, 2014

### 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 the 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, 2014, 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-cash federal assistance 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 6 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 9c 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 the USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, the 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 7.05 percent of the USDA's total expenditures for SNAP benefits in the federal fiscal year ended September 30, 2014, except for the period October 1, 2013 through October 15, 2013 when ARRA funds accounted for 100 percent of total issuance.

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 $9.9 million in expenditures, distributions, or issuances for the year ended June 30, 2014. 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 cash basis of accounting, which is consistent with the other Federal grant reports. The fund level financial statements are reported on the modified accrual basis of accounting. Consequently, the schedule's data may not be directly traceable to the financial statements.

**3. Unemployment Insurance Program**

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

| | |
|---|---|
| State Funds | $157,846,355 |
| Federal Funds | 48,003,399 |
| Total | $205,849,754 |

## 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 |
|---|---|---|
| 10.551 | SNAP (Supplemental Nutrition Assistance Program) | 336,089,146 |
| 10.555 | National School Lunch Program | 4,057,794 |
| 10.569 | Emergency Food Assistance Program | 1,925,013 |
| 10.664 | Cooperative Forestry Assistance | 847,943 |
| 12.401 | National Guard Military Operations & Maint. Proj. | 701,350 |
| 12.401 | Readiness Sustainment Maint. Center | 847,206 |
| 39.003 | Donation of Federal Surplus Personal Property | 45,685 |
| 93.268 | Immunization Grants | 11,264,520 |

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# STATE OF MAINE
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2014

## 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: | Unmodified | |
| 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:

Unmodified

Adoption Assistance
CDBG - State-Administered CDBG Cluster
Child and Adult Care Food Program
Child Nutrition Cluster
Child Support Enforcement
Children's Health Insurance Program
Foster Care_Title IV-E
Highway Planning and Construction Cluster
Improving Teacher Quality State Grants
Medicaid Cluster
National Guard Military Operations and Maintenance (O&M) Projects
Rehabilitation Services_Vocational Rehabilitation Grants to States
SNAP Cluster
Social Services Block Grant
Special Education Cluster (IDEA)
Special Supplemental Nutrition Program for Women, Infants, and Children
Statewide Data Systems Cluster
TANF Cluster
Title I Grants to Local Educational Agencies

Qualified

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

***Clusters Identified as Major Programs:***

| **CFDA #** | **Name of Federal Program or Cluster** |
|---|---|
| SNAP Cluster | |
| 10.551 | Supplemental Nutrition Assistance Program (SNAP) |
| 10.561 | State Administrative Matching Grants for the Supplemental Nutrition Assistance Program |
| Child Nutrition Cluster | |
| 10.555 | National School Lunch Program (NSLP) |
| 10.559 | Summer Food Service Program for Children (SFSPC) |
| CDBG - State-Administered CDBG Cluster | |
| 14.228 | Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii |
| Highway Planning and Construction Cluster | |
| 20.205 | Highway Planning and Construction (Federal-Aid Highway Program) |
| 20.219 | Recreational Trails Program |
| Special Education Cluster (IDEA) | |
| 84.027 | Special Education – Grants to States (IDEA, Part B) |
| 84.173 | Special Education – Preschool Grants (IDEA Preschool) |
| Statewide Data Systems Cluster | |
| 84.384 | Statewide Data Systems, Recovery Act |
| TANF Cluster | |
| 93.558 | Temporary Assistance for Needy Families (TANF) |
| Medicaid Cluster | |
| 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 (Medicaid; Title XIX) |

# SECTION I – SUMMARY OF AUDITOR'S RESULTS

***Other Major 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 |
| 84.010 | Title I Grants to Local Educational Agencies |
| 84.126 | Rehabilitation Services_Vocational Rehabilitation Grants to States |
| 84.367 | Improving Teacher Quality State Grants |
| 93.563 | Child Support Enforcement |
| 93.658 | Foster Care_Title IV-E |
| 93.659 | Adoption Assistance |
| 93.667 | Social Services Block Grant |
| 93.767 | Children's Health Insurance Program |

Dollar threshold used to distinguish between type A and type B programs: $9,886,502

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

***Summary of Questioned Costs:***

| **Federal Agency** | **Federal Program** | **Known Questioned Costs** | **Finding Number** |
|---|---|---|---|
| U.S. Department of Health and Human Services | Medicaid Cluster | $ 19 | 2014-007 |
| | | Undeterminable | 2014-009 |
| | | $ 32,572 | 2014-014 |
| | | Undeterminable | 2014-019 |
| | Children's Health Insurance Program (CHIP) | $ 214 | 2014-032 |
| | TANF Cluster | Undeterminable | 2014-026 |
| U.S. Department of Labor | Unemployment Insurance | Undeterminable | 2014-039 |

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# STATE OF MAINE
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2014

## Section II – Financial Statement Findings

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**(2014-001)**

**Title:** Internal controls over financial reporting need improvement

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Administrative and Financial Services
**State Bureau:** Office of the State Controller (OSC)
**Federal Agency:** *not applicable*
**CFDA Title:** *not applicable*
**CFDA #:** *not applicable*
**Federal Award #:** *not applicable*

**Compliance Area:** *not applicable*

**Type of Finding:** Material weakness

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** GASB 34 paragraph 76, GASB 34 paragraph 112, GASB 33 paragraph 16 (clarified by the 2012 edition of the *Governmental Accounting, Auditing, and Financial Reporting*, Chapter 9, pages 128-129), GASB 65 paragraph 30 and paragraph 53, GASB Concept Statement No. 4, GASB 34 paragraph 88

**Condition:** The OSC did not have adequate internal controls in place over the preparation of the State's 2014 Comprehensive Annual Financial Report (CAFR). We noted several significant misstatements in the financial statements including the omission of a major fund, misstatement of the proprietary fund statement of cash flows, misstatement of taxes receivable and the related allowance for uncollectible accounts, and the incorrect implementation of a new accounting standard (GASB Statement 65). These and several other significant misstatements were identified by auditors, discussed with OSC, and the financial statements included in the 2014 CAFR have been adjusted.

**Context:** The CAFR provides financial and other information about State government to the general public, investors and other interested groups. It provides valuable insight into how State government officials manage public funds. The CAFR also provides information used by credit rating services such as Moody's Investors Services and Standard and Poor's to assess the State's

fiscal integrity. This assessment results in the assignment of a credit rating to State of Maine government bonds, which affects the interest rate the State of Maine must pay to borrow money.

**Cause:** Staff turnover

**Effect:** Financial statements and related notes could contain significant errors and omissions.

**Recommendation:** We recommend that the Office of the State Controller implement internal control procedures to ensure that significant errors and omissions in the financial statements and related notes are prevented, or detected and corrected prior to issuance of final financial statements.

**Management's Response/Corrective Action Plan:**

*OSC agrees that control system in place during the FY 2014 CAFR preparation period could be improved and we have already begun taking remedial action to clarify and improve our process. We experienced turnover in the Director of Financial Reporting position just prior to the close of fiscal year 2014. The timing of this change prevented us from conducting comprehensive knowledge transfer regarding the CAFR preparation process. Additionally, we are instituting a cross-training process within the financial reporting staff to ensure that all staff are versed in the process necessary to compile the financial reporting package prior to submission for audit. This will eliminate any single point of failure scenario that may have existed.*

*Several of the more significant adjustments related to the issue of how to report an unusual transaction of material value between a proprietary fund, the governmental funds and a discretely presented component unit. We were not able to determine the appropriate recording of this transaction, due to conflicting guidance from the Governmental Accounting Standards Board (GASB), until very late in the process. In our haste to provide final, draft financial statements to the auditor, we failed to complete a comprehensive final review of the package prior to submission. This resulted in our failure to detect misstatements or incorrect classification of funds and transactions.*

*OSC would never issue "final" financial statements, purported to be prepared in accordance with Generally Accepted Accounting Principles (GAAP), without having those statements subjected to an independent audit. We agree, and have clarified internally, that auditor-initiated corrections, or proposed audit adjustments, should not be considered part of our control system over fair presentation of the financial statements and related notes. In the future, we will ensure that the financial package is reviewed thoroughly, in all material respects, before being submitted to the auditor for review.*

***Contact:*** *Sandra Royce, Director of Financial Reporting and Analysis, OSC, 626-8451*

**(State Number: 14-0104-01)**

**(2014-002)**

**Title:** Controls are not adequate to ensure Cost of Care receivables due from private non-medical institutions (PNMIs) are properly accounted for and recovered

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1106-12 | | | | | | |

**State Department:** Administrative and Financial Services
Health and Human Services
**State Bureau:** Health and Human Services Service Center
Office of MaineCare Services
**Federal Agency:** *not applicable*
**CFDA Title:** *not applicable*
**CFDA #:** *not applicable*
**Federal Award #:** *not applicable*

**Compliance Area:** *not applicable*

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** GASB Concept Statement No. 1, paragraph 64; GASB 33, paragraph 26; State Administrative & Accounting Manual, section 85.20.80

**Condition:** Procedures to ensure proper accounting and recovery of Cost of Care overpaid to PNMIs need to be improved. The Department did not have an adequate subsidiary record to support amounts owed to the State. Additionally, the Department did not record the full amount due from PNMIs in the State's accounting system.

**Context:** As of June 30, 2014, the PNMI Cost of Care receivable balance was estimated to be $35 million.

**Cause:**
- Ineffective recordkeeping
- Not all providers cooperate with the State by reimbursing overpayments

**Effect:**

- The receivable balance recorded in the State's financial statements is not supported by a complete and accurate subsidiary record
- The identification and recoupment of overpayments may be delayed
- Without complete and accurate subsidiary records, it may be difficult to ensure compliance with Federal regulations

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

- Continue efforts to compile a complete and accurate subsidiary record of amounts owed to the State related to PNMI Cost of Care overpayments and to recover these overpayments in a timely manner
- Record the entire receivable balance in the State's accounting system

**Management's Response/Corrective Action Plan:** *The Department of Administrative and Financial Services agree with this finding. The DAFS DHHS Service Center and the Office of MaineCare Services are working together to resolve this condition.*

*Corrective action began May of 2014. As of January 31, 2015, $13 million of the $35 million noted above has been noticed, recorded and collected; and, $2 million more has been fully noticed and recorded with payment plans established. Provider appeals will inherently hamper collections efficiency in some cases, but our goal is to issue notices of debt to all PNMI Cost of Care providers, record the receivables and establish corresponding payment plans where applicable – by June of 2015.*

*Note: Going forward, Cost of Care audits associated with PNMI facilities will be completed by Health Management Systems (HMS).*

***Contact:*** *Jason Grundy, MaineCare Finance Manager, DHHSSC, 287-5917*

**(State Number: 14-0211-05)**

# STATE OF MAINE
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2014

## Section III - Indexes to Federal Program Findings

## INDEXES TO FEDERAL PROGRAM FINDINGS

Index to Federal Findings by Federal Program..... E-15

Index to Federal Findings by State Agency and Federal Compliance Area..... E-19

Index to Federal Findings by Finding Type..... E-23

**INDEX TO FEDERAL FINDINGS**
**BY FEDERAL PROGRAM**


| Program / Finding # | Brief Summary of Finding | State Dept | Page |
|---|---|---|---|
| **SNAP Cluster** CFDA# 10.551, 10.561 | | | |
| 2014-012 | Confidential finding, confidential distribution | DAFS | E-46 |
| 2014-013 | Confidential finding, confidential distribution | DAFS | E-47 |
| 2014-020 | Confidential finding, confidential distribution | DAFS DHHS | E-58 |
| 2014-021 | Confidential finding, confidential distribution | DAFS DHHS | E-59 |
| 2014-022 | Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges | DAFS DHHS | E-60 |
| | | | |
| **Child Nutrition Cluster** CFDA# 10.555, 10.559 | | | |
| 2014-034 | Internal controls over the Federal Funding Accountability and Transparency Act (FFATA) need improvement | DOE | E-82 |
| | | | |
| **Special Supplemental Nutrition Program for Women, Infants, and Children** CFDA# 10.557 | | | |
| 2014-028 | Internal controls over high-risk vendor compliance investigations need improvement | DHHS | E-71 |
| 2014-030 | Federal Funding Accountability and Transparency Act (FFATA) reporting procedures need improvement | DHHS | E-74 |
| | | | |
| **Child and Adult Care Food Program** CFDA# 10.558 | | | |
| 2014-029 | Cash management procedures need improvement | DAFS | E-73 |
| 2014-030 | Federal Funding Accountability and Transparency Act (FFATA) reporting procedures need improvement | DHHS | E-74 |
| | | | |
| **CDBG - State-Administered CDBG Cluster** CFDA# 14.228 | | | |
| 2014-043 | Internal controls over Federal Funding Accountability and Transparency Act (FFATA) reporting need improvement | DECD | E-98 |
| | | | |
| **Unemployment Insurance** CFDA# 17.225 | | | |
| 2014-039 | Inadequate internal control over continuing eligibility | DOL DAFS | E-92 |


*Unemployment Insurance continued on next page*

**INDEX TO FEDERAL FINDINGS**
**BY FEDERAL PROGRAM**


| Program / Finding # | Brief Summary of Finding | State Dept | Page |
|---|---|---|---|
| *Unemployment Insurance continued from previous page* | | | |
| 2014-040 | Confidential finding, confidential distribution | DOL DAFS | E-95 |
| 2014-041 | Confidential finding, confidential distribution | DOL DAFS | E-96 |
| 2014-042 | Confidential finding, confidential distribution | DOL DAFS | E-97 |
| | | | |
| **Title I Grants to Local Educational Agencies** CFDA# 84.010 | | | |
| 2014-033 | Federal Funding Accountability and Transparency Act (FFATA) reporting needs improvement | DAFS | E-80 |
| | | | |
| **Rehabilitation Services – Vocational Rehabilitation Grants to States** CFDA# 84.126 | | | |
| 2014-037 | Procedures to ensure timely eligibility decisions need improvement | DOL | E-87 |
| 2014-038 | Internal controls over suspension and debarment for statewide contracts needs improvement | DOL DAFS | E-89 |
| | | | |
| **Statewide Data Systems Cluster** CFDA# 84.384 | | | |
| 2014-035 | Procedures are not adequate to ensure that payments are made only for allowable costs | DOE | E-84 |
| 2014-036 | Suspension and debarment requirements not met | DOE | E-85 |
| | | | |
| **TANF Cluster** CFDA# 93.558 | | | |
| 2014-020 | Confidential finding, confidential distribution | DAFS DHHS | E-58 |
| 2014-021 | Confidential finding, confidential distribution | DAFS DHHS | E-59 |
| 2014-022 | Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges | DAFS DHHS | E-60 |
| 2014-023 | Inadequate controls over Federal cash management | DAFS OST | E-63 |
| 2014-024 | Insufficient controls over reporting | DAFS | E-65 |
| 2014-025 | Controls over special reporting need improvement | DHHS | E-66 |
| 2014-026 | Controls over eligibility need improvement | DHHS | E-68 |
| 2014-027 | Inadequate procedures to report accurate Unsubsidized Employment data | DHHS | E-69 |

**INDEX TO FEDERAL FINDINGS**
**BY FEDERAL PROGRAM**


| Program / Finding # | Brief Summary of Finding | State Dept | Page |
|---|---|---|---|
| **Child Support Enforcement** CFDA# 93.563 | | | |
| 2014-031 | Controls over cash management need improvement | DAFS | E-76 |
| | | | |
| **Social Services Block Grant** CFDA# 93.667 | | | |
| 2014-030 | Federal Funding Accountability and Transparency Act (FFATA) reporting procedures need improvement | DHHS | E-74 |
| | | | |
| **Children's Health Insurance Program** CFDA# 93.767 | | | |
| 2014-005 | Controls over eligibility case reviews included in the Medicaid and CHIP Eligibility Review Pilot Sampling Plan need improvement | DHHS | E-32 |
| 2014-015 | Confidential finding, confidential distribution | DHHS | E-51 |
| 2014-017 | The Decision Support System/Data Warehouse (DSS/DW) is not reconciled to the statewide accounting system | DHHS | E-53 |
| 2014-018 | Confidential finding, confidential distribution | DAFS DHHS | E-55 |
| 2014-022 | Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges | DAFS DHHS | E-60 |
| 2014-032 | Internal controls to ensure the transfer of accurate client eligibility information from the Automated Client Eligibility System (ACES) to the Maine Integrated Health Management Solution (MIHMS) need improvement | DHHS | E-78 |
| | | | |
| **Medicaid Cluster** CFDA# 93.775, 93.777, 93.778 | | | |
| 2014-003 | Procedures related to nursing facility desk reviews need improvement | DHHS | E-29 |
| 2014-004 | Provider eligibility procedures need improvement | DHHS | E-31 |
| 2014-005 | Controls over eligibility case reviews included in the Medicaid and CHIP Eligibility Review Pilot Sampling Plan need improvement | DHHS | E-32 |
| 2014-006 | Decertification of Riverview | DAFS DHHS | E-34 |
| 2014-007 | Controls to ensure payment of the lowest Federally-approved reimbursement rate for pharmacy claims need improvement | DHHS | E-37 |
| 2014-008 | Procedures for the timely refunding of the Federal share of Medicaid overpayments need improvement | DAFS DHHS | E-38 |


*Medicaid Cluster continued on next page*

**INDEX TO FEDERAL FINDINGS**
**BY FEDERAL PROGRAM**


| Program / Finding # | Brief Summary of Finding | State Dept | Page |
|---|---|---|---|
| *Medicaid Cluster continued from previous page* | | | |
| 2014-009 | Procedures to ensure notices of debt are issued in compliance with Federal and State regulations to private non-medical institutions (PNMI) for Cost of Care overpayments need improvement | DHHS | E-40 |
| 2014-010 | Controls to ensure eligibility case reviews are performed in accordance with Federal regulations need improvement | DHHS | E-42 |
| 2014-011 | Surveillance of Medicaid expenditures needs improvement | DHHS | E-43 |
| 2014-012 | Confidential finding, confidential distribution | DAFS | E-46 |
| 2014-013 | Confidential finding, confidential distribution | DAFS | E-47 |
| 2014-014 | Controls to ensure Cost of Care amounts are properly deducted from nursing home and private non-medical (PNMI) provider payments need improvement | DAFS DHHS | E-48 |
| 2014-015 | Confidential finding, confidential distribution | DHHS | E-51 |
| 2014-016 | Automated Data Processing (ADP) risk analysis and system security reviews were not performed | DAFS DHHS | E-52 |
| 2014-017 | The Decision Support System/Data Warehouse (DSS/DW) is not reconciled to the statewide accounting system | DHHS | E-53 |
| 2014-018 | Confidential finding, confidential distribution | DAFS DHHS | E-55 |
| 2014-019 | Procedures to ensure that an individual client's Cost of Care is properly computed need improvement | DAFS DHHS | E-55 |
| 2014-022 | Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges | DAFS DHHS | E-60 |
| 2014-032 | Internal controls to ensure the transfer of accurate client eligibility information from the Automated Client Eligibility System (ACES) to the Maine Integrated Health Management Solution (MIHMS) need improvement | DHHS | E-78 |


**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
DOE Department of Education
DOL Department of Labor
OST Office of the State Treasurer

## INDEX TO FEDERAL FINDINGS
## BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

| Finding # | Program Name | Activities Allowed or Unallowed | Allowable Costs/Cost Principles | Cash Management | Davis-Bacon Act | Eligibility | Equipment and Real Property Management | Matching, Level of Effort, Earmarking | Period of Availability | Procurement and Suspension and Debarment | Program Income | Real Property Acquisition | Reporting | Subrecipient Monitoring | Special Tests and Provisions | Page |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Department of Administrative and Financial Services** | | | | | | | | | | | | | | | | |
| 2014-006 | Medicaid Cluster | | ✓ | | | | | | | | | | | | | E-34 |
| 2014-008 | Medicaid Cluster | | ✓ | | | | | | | | | | | | | E-38 |
| 2014-012 | Multiple Programs | | | | | ✓ | | | | | | | | | | E-46 |
| 2014-013 | Multiple Programs | | | | | ✓ | | | | | | | | | | E-47 |
| 2014-014 | Medicaid Cluster | | ✓ | | | | | | | | | | | | | E-48 |
| 2014-016 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-52 |
| 2014-018 | Multiple Programs | | | | | ✓ | | | | | | | | | | E-55 |
| 2014-019 | Medicaid Cluster | | ✓ | | | | | | | | | | | | | E-55 |
| 2014-020 | Multiple Programs | | | | | ✓ | | | | | | | | | | E-58 |
| 2014-021 | Multiple Programs | | | | | ✓ | | | | | | | | | | E-59 |
| 2014-022 | Multiple Programs | | | | | | | | | | | | | | ✓ | E-60 |
| 2014-023 | TANF Cluster | | | ✓ | | | | | | | | | | | | E-63 |
| 2014-024 | TANF Cluster | | | | | | | | | | | | ✓ | | | E-65 |
| 2014-029 | Child and Adult Care Food Program | | | ✓ | | | | | | | | | | | | E-73 |
| 2014-031 | Child Support Enforcement | | | ✓ | | | | | | | | | | | | E-76 |
| 2014-033 | Title I Grants to Local Educational Agencies | | | | | | | | | | | | ✓ | | | E-80 |
| 2014-038 | Rehabilitation Services – Vocational Rehabilitation Grants to States | | | | | | | | | ✓ | | | | | | E-89 |
| 2014-039 | Unemployment Insurance | | | | | ✓ | | | | | | | | | | E-92 |
| 2014-040 | Unemployment Insurance | | | | | ✓ | | | | | | | | | | E-95 |
| 2014-041 | Unemployment Insurance | | | | | ✓ | | | | | | | | | | E-96 |
| 2014-042 | Unemployment Insurance | | | | | ✓ | | | | | | | | | | E-97 |

## INDEX TO FEDERAL FINDINGS
## BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

| Finding # | Program Name | Activities Allowed or Unallowed | Allowable Costs/Cost Principles | Cash Management | Davis-Bacon Act | Eligibility | Equipment and Real Property Management | Matching, Level of Effort, Earmarking | Period of Availability | Procurement and Suspension and Debarment | Program Income | Real Property Acquisition | Reporting | Subrecipient Monitoring | Special Tests and Provisions | Page |
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| **Department of Education** | | | | | | | | | | | | | | | | |
| 2014-034 | Child Nutrition Cluster | | | | | | | | | | | | ✓ | | | E-82 |
| 2014-035 | Statewide Data Systems Cluster | ✓ | ✓ | | | | | | | | | | | | | E-84 |
| 2014-036 | Statewide Data Systems Cluster | | | | | | | | | ✓ | | | | | | E-85 |
| | | | | | | | | | | | | | | | | |
| **Department of Health and Human Services** | | | | | | | | | | | | | | | | |
| 2014-003 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-29 |
| 2014-004 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-31 |
| 2014-005 | Multiple Programs | | | | | ✓ | | | | | | | | | | E-32 |
| 2014-006 | Medicaid Cluster | | ✓ | | | | | | | | | | | | | E-34 |
| 2014-007 | Medicaid Cluster | ✓ | ✓ | | | | | | | | | | | | | E-37 |
| 2014-008 | Medicaid Cluster | | ✓ | | | | | | | | | | | | | E-38 |
| 2014-009 | Medicaid Cluster | | ✓ | | | | | | | | | | | | | E-40 |
| 2014-010 | Medicaid Cluster | | | | | ✓ | | | | | | | | | | E-42 |
| 2014-011 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-43 |
| 2014-014 | Medicaid Cluster | | ✓ | | | | | | | | | | | | | E-48 |
| 2014-015 | Multiple Programs | ✓ | ✓ | | | | | | | | | | | | | E-51 |
| 2014-016 | Medicaid Cluster | | | | | | | | | | | | | | ✓ | E-52 |
| 2014-017 | Multiple Programs | ✓ | ✓ | | | | | | | | | | | | | E-53 |
| 2014-018 | Multiple Programs | | | | | ✓ | | | | | | | | | | E-55 |
| 2014-019 | Medicaid Cluster | | ✓ | | | | | | | | | | | | | E-55 |
| 2014-020 | Multiple Programs | | | | | ✓ | | | | | | | | | | E-58 |
| 2014-021 | Multiple Programs | | | | | ✓ | | | | | | | | | | E-59 |
| 2014-022 | Multiple Programs | | | | | | | | | | | | | | ✓ | E-60 |
| 2014-025 | TANF Cluster | | | | | | | | | | | | ✓ | | | E-66 |
| 2014-026 | TANF Cluster | | | | | ✓ | | | | | | | | | | E-68 |

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**INDEX TO FEDERAL FINDINGS**
**BY STATE AGENCY AND FEDERAL COMPLIANCE AREA**

| Finding # | Program Name | Activities Allowed or Unallowed | Allowable Costs/Cost Principles | Cash Management | Davis-Bacon Act | Eligibility | Equipment and Real Property Management | Matching, Level of Effort, Earmarking | Period of Availability | Procurement and Suspension and Debarment | Program Income | Real Property Acquisition | Reporting | Subrecipient Monitoring | Special Tests and Provisions | Page |
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| *Department of Health and Human Services continued from previous page* | | | | | | | | | | | | | | | | |
| 2014-027 | TANF Cluster | | | | | | | | | | | | ✓ | | ✓ | E-69 |
| 2014-028 | Special Supplemental Program for Women, Infants, and Children | | | | | | | | | | | | | | ✓ | E-71 |
| 2014-030 | Multiple Programs | | | | | | | | | | | | ✓ | | | E-74 |
| 2014-032 | Multiple Programs | | | | | ✓ | | | | | | | | | | E-78 |
| | | | | | | | | | | | | | | | | |
| **Department of Economic and Community Development** | | | | | | | | | | | | | | | | |
| 2014-043 | CDBG - State-Administered CDBG Cluster | | | | | | | | | | | | ✓ | | | E-98 |
| | | | | | | | | | | | | | | | | |
| **Department of Labor** | | | | | | | | | | | | | | | | |
| 2014-037 | Rehabilitation Services – Vocational Rehabilitation Grants to States | | | | | ✓ | | | | | | | | | | E-87 |
| 2014-038 | Rehabilitation Services – Vocational Rehabilitation Grants to States | | | | | | | | | ✓ | | | | | | E-89 |
| 2014-039 | Unemployment Insurance | | | | | ✓ | | | | | | | | | | E-92 |
| 2014-040 | Unemployment Insurance | | | | | ✓ | | | | | | | | | | E-95 |
| 2014-041 | Unemployment Insurance | | | | | ✓ | | | | | | | | | | E-96 |
| 2014-042 | Unemployment Insurance | | | | | ✓ | | | | | | | | | | E-97 |
| | | | | | | | | | | | | | | | | |
| **Office of the State Treasurer** | | | | | | | | | | | | | | | | |
| 2014-023 | TANF Cluster | | | ✓ | | | | | | | | | | | | E-63 |

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**INDEX TO FEDERAL FINDINGS IN FINDING NUMBER ORDER**
**BY FINDING TYPE**

| Finding # * | Page | Compliance Area | Finding Type | | | |
|---|---|---|---|---|---|---|
| | | | Material Non-compliance | Internal Control | | Known / Likely Questioned Costs |
| | | | | Material Weakness | Significant Deficiency | |
| 2014-003 | E-29 | Special Tests and Provisions | | | ✓ | |
| 2014-004 | E-31 | Special Tests and Provisions | | | ✓ | |
| 2014-005 | E-32 | Eligibility | | | ✓ | |
| 2014-006 | E-34 | Allowable Costs/Cost Principles | | | ✓ | |
| 2014-007 | E-37 | Activities Allowed/Allowable Costs | | | | $19 / $79,364 |
| 2014-008 | E-38 | Allowable Costs/Cost Principles | | | ✓ | |
| 2014-009 | E-40 | Allowable Costs/Cost Principles | | | ✓ | Undeterminable / Undeterminable |
| 2014-010 | E-42 | Eligibility | | | ✓ | |
| 2014-011 | E-43 | Special Tests and Provisions | | | ✓ | |
| 2014-012 | E-46 | Eligibility | | | ✓ | |
| 2014-013 | E-47 | Eligibility | | | ✓ | |
| 2014-014 | E-48 | Allowable Costs/Cost Principles | | | ✓ | $32,572 / $6,800,000 |
| 2014-015 | E-51 | Activities Allowed/Allowable Costs | | | ✓ | |
| 2014-016 | E-52 | Special Tests and Provisions | | | ✓ | |
| 2014-017 | E-53 | Activities Allowed/Allowable Costs | | | ✓ | |

**Findings 2014-001 and 2014-002 relate to financial statement findings and are not included in this index*

**INDEX TO FEDERAL FINDINGS IN FINDING NUMBER ORDER**
**BY FINDING TYPE**

| Finding # | Page | Compliance Area | Finding Type | | | |
|---|---|---|---|---|---|---|
| | | | Material Non-compliance | Internal Control | | Known / Likely Questioned Costs |
| | | | | Material Weakness | Significant Deficiency | |
| 2014-018 | E-55 | Eligibility | | | ✓ | |
| 2014-019 | E-55 | Allowable Costs/Cost Principles | | | ✓ | Undeterminable / Undeterminable |
| 2014-020 | E-58 | Eligibility | | | ✓ | |
| 2014-021 | E-59 | Eligibility | | | ✓ | |
| 2014-022 | E-60 | Special Tests and Provisions | | | ✓ | |
| 2014-023 | E-63 | Cash Management | | | ✓ | |
| 2014-024 | E-65 | Reporting | | | ✓ | |
| 2014-025 | E-66 | Reporting | | | ✓ | |
| 2014-026 | E-68 | Eligibility | | | ✓ | Undeterminable / Undeterminable |
| 2014-027 | E-69 | Reporting/Special Tests and Provisions | | | ✓ | |
| 2014-028 | E-71 | Special Tests and Provisions | | | ✓ | |
| 2014-029 | E-73 | Cash Management | | | ✓ | |
| 2014-030 | E-74 | Reporting | | ✓ | | |
| 2014-031 | E-76 | Cash Management | | | ✓ | |
| 2014-032 | E-78 | Eligibility | | | ✓ | $214 / $305,000 |
| 2014-033 | E-80 | Reporting | | | ✓ | |
| 2014-034 | E-82 | Reporting | | | ✓ | |

**INDEX TO FEDERAL FINDINGS IN FINDING NUMBER ORDER**
**BY FINDING TYPE**

| Finding # | Page | Compliance Area | Finding Type | | | |
|---|---|---|---|---|---|---|
| | | | Material Non-compliance | Internal Control | | Known / Likely Questioned Costs |
| | | | | Material Weakness | Significant Deficiency | |
| 2014-035 | E-84 | Activities Allowed/Allowable Costs | | | ✓ | |
| 2014-036 | E-85 | Procurement and Suspension and Debarment | | | ✓ | |
| 2014-037 | E-87 | Eligibility | | | ✓ | |
| 2014-038 | E-89 | Procurement and Suspension and Debarment | | | ✓ | |
| 2014-039 | E-92 | Eligibility | ✓ | ✓ | | Undeterminable / Undeterminable |
| 2014-040 | E-95 | Eligibility | | | ✓ | |
| 2014-041 | E-96 | Eligibility | | | ✓ | |
| 2014-042 | E-97 | Eligibility | | | ✓ | |
| 2014-043 | E-98 | Reporting | | | ✓ | |

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# STATE OF MAINE
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# FOR THE YEAR ENDED JUNE 30, 2014

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

DIRIGO
MAINE

**(2014-003)**

**Title:** Procedures related to nursing facility desk reviews need improvement

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1106-14 | 12-1106-01 | 11-1106-05 | 10-1106-03 | | | |

**State Department:** Health and Human Services (DHHS)
**State Bureau:** Division of Audit
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
**CFDA #:** 93.775, 93.777, 93.778
**Federal Award #:** 05-1305ME5MAP, 05-1405ME5MAP

**Compliance Area:** Special tests and provisions

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 42 CFR 447.253(g) Audit requirements; MaineCare Benefits Manual, Ch. III, Section 67, subsection 34.1.3, *Uniform desk reviews shall be completed within one-hundred-eighty (180) days after receipt of an acceptable cost report filing, including financial statements and other information requested from the provider except in unusual situations, including but not limited to, delays in obtaining necessary information from a provider.*

**Condition:** The Department did not complete timely desk reviews for nursing facilities in accordance with Federal regulations. These regulations require periodic audits of financial and statistical records for participating providers. Specific audit requirements are to be established by the State. State regulations require DHHS desk reviews to be completed within 180 days after the acceptance of a cost report. Additional time is allowed if there are delays in obtaining necessary information from a provider. In our test of seventeen desk reviews for nursing facilities issued during fiscal year 2014, fifteen were not completed within the 180-day time frame. Completion dates ranged from 122 days late to 954 days late when comparing cost report acceptance dates to the date when the desk review was complete. In fourteen of these fifteen late desk reviews, the Department waited between 213 days and 1,069 days before asking the provider for additional information.

**Context:** Medicaid paid $215 million to nursing facilities during fiscal year 2014.

**Cause:** Lack of staff

**Effect:** Noncompliance with Federal and State regulations

**Recommendation:** We recommend that the Department consistently apply established monitoring controls over the nursing facility desk review process in order to provide reasonable assurance that they are completed within the required 180-day time frame.

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

*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. Beginning in September 2013, and continuing through the State fiscal year, the Division had to divert some staff from Nursing Facility desk reviews in order to eliminate audit backlog in the Day Habilitation program. The Day Habilitation backlog has been eliminated and we are committing those resources to the Nursing Facility 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, DOA, 287-2809*

**(State Number: 14-1106-01)**

**(2014-004)**

**Title:** Provider eligibility procedures need improvement

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1106-09 | 12-1106-14 | 11-1106-12 | 10-1106-11 | 09-1106-08 | | |

**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 #:** 93.775, 93.777, 93.778
**Federal Award #:** Various prior year Medicaid awards

**Compliance Area:** Special tests and provisions

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

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

**Condition:** For provider agreements entered into prior to July 1, 2013, the Department did not ensure that these agreements contained all required provisions related to advance directive requirements and disclosure of certain types of business transactions. As of July 1, 2013, the Department acknowledged that new provider agreements contain the necessary information. However, the Department did not revise older provider agreements.

**Context:** In our initial test of sixty provider agreements, we found that all sixty agreements were entered into prior to July 1, 2013. None of these agreements contained all required provisions. However, we reviewed five provider agreements entered into after July 1, 2013 and found that these agreements did contain the necessary information.

**Cause:** Competing priorities

**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 ensure that all provider agreements meet the advance directive and business transaction requirements.

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

*The Department acknowledges that the missing language was not added to the Provider Enrollment Agreements until June 26, 2013 (CR26347). As the finding notes, the change has been made and is now being used for all new providers.*

*As part of the ACA provider revalidation initiative, re-enrollment for all providers will begin in 2016 with an anticipated re-enrollment of all providers by the end of calendar year 2016.*

***Contact:*** *Beth Ketch, Director of Customer Support, Office of MaineCare Services, 287-4608*

**(State Number: 14-1106-02)**

**(2014-005)**

**Title:** Controls over eligibility case reviews included in the Medicaid and CHIP Eligibility Review Pilot Sampling Plan need improvement

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**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 #:** 93.775, 93.777, 93.778, 93.767
**Federal Award #:** 05-1405ME5MAP, 05-1405ME5021

**Compliance Area:** Eligibility

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** Federally-approved Medicaid and CHIP Eligibility Review Pilot Sampling Plan

**Condition:** The Department was unable to provide supporting documentation that supervisory and peer review was completed in accordance with the Federally-approved Medicaid and CHIP Eligibility Review Pilot Sampling Plan. The sampling plan requires supervisory review for twenty-five percent and peer review for 100 percent of eligibility case reviews. The Department could not provide documentary evidence that the supervisory and peer reviews were performed. Though none of these reviews were documented, a manager verbally acknowledged to the auditor that only about five percent of the required supervisory reviews and all of the necessary peer reviews were performed.

**Context:** With the enactment of the Affordable Care Act, on August 15, 2013, the Centers for Medicare and Medicaid Services (CMS) directed states to implement Medicaid and CHIP Eligibility Review Pilots in place of the Payment Error Rate Measurement (PERM) and Medicaid Eligibility Quality Control (MEQC) eligibility review requirements for fiscal years 2014 through 2016. The Medicaid and CHIP Eligibility Review Pilots will provide more targeted, detailed information on the accuracy of eligibility determinations using the Affordable Care Act's rules and provide states and CMS with critical feedback, which will assist CMS in developing eligibility requirements when PERM resumes in fiscal year 2017.

The Department performed 275 case reviews for the period of October 1, 2013 to March 31, 2014.

**Cause:**

- The supervisor chose not to perform the required number of supervisory reviews and instead relied on the peer reviews.
- There is no process in place to document supervisory and peer reviews.

**Effect:**

- Noncompliance with the Federally-approved Medicaid and CHIP Eligibility Review Sampling Plan
- Without adequate supervision, case reviews may not have been properly conducted

**Recommendation:** We recommend that the Department implement procedures to ensure the required number of supervisory reviews is performed and to retain supporting documentation of any reviews performed.

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

*These oversights occurred in the initial pilot round of eligibility reviews. As of March 11, 2015, we have added a "peer review" column to the reviewers' spreadsheets where the staff will initial, date and record their review findings. In addition, we have added a similar "supervisor review" column for the results of the supervisor's review. In this way, future reviews will contain supporting documentation of peer review of findings. They will also include the appropriate number of supervisory reviews. The Quality Assurance Manager will review the documentation weekly for accuracy.*

***Contact:*** *Roger Bondeson, Director of Operations, Office of MaineCare Services 287-2795*

**(State Number: 14-1106-05)**

**(2014-006)**

**Title:** Decertification of Riverview

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**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 #:** 93.775, 93.777, 93.778
**Federal Award #:** 05-1405ME5MAP

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

**Type of Finding:** Significant deficiency

**Questioned Costs:** See Context

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** CMS State Operations Manual, Section 1000B; Social Security Act 1905(a)(16), 1905(h)(1)(A), 1905(i), 1861(f); 42 CFR 440.140(a) Inpatient hospital services for individuals age 65 or older in institutions for mental diseases; 42 CFR 482.11 Condition of participation: Compliance with Federal, State and local laws; 42 CFR 482.60(b) Special provisions applying to psychiatric hospitals

**Condition:** Riverview became decertified as a Medicare provider of psychiatric hospital services on September 2, 2013. Federal regulations require providers of psychiatric hospital services that participate in the Medicaid program to comply with Medicare conditions of participation requirements that address issues such as licensing, quality of care, safety and patient rights. These providers must meet these requirements in order to receive Federally-matched Medicaid funding.

**Context:** During State fiscal year 2014, the Department drew $10.5 million in Federal funds for Riverview. Since Riverview is decertified as a Medicare provider of psychiatric hospital services, Federal officials are presently in the process of finalizing their decision regarding whether this amount should be disallowed as a Federal expenditure.

**Cause:** The Department obtained legal advice to continue claiming these costs on the CMS-64 report.

**Effect:**

- Possible disallowances
- Possible noncompliance with Federal regulations

**Recommendation:** We recommend that the Department consider not using Federal funds for Riverview until it becomes recertified or otherwise approved by the Federal government.

**Management's Response/Corrective Action Plan:** *The Department disagrees with the facts asserted in the condition. The Department disagrees with the finding and the contention therein that it used funds inappropriately. Furthermore, the Department disputes the cause of this finding.*

*Riverview did not become decertified as a hospital. Riverview continues to be licensed in Maine as a psychiatric hospital. Riverview is defined as an Institution for Mental Disease (known as IMD). An "institution for mental disease" is defined as "a hospital, nursing facility, or other institution of more than 16 beds, that is primarily engaged in providing diagnosis, treatment, or care of persons with mental diseases, including medical attention, nursing care and related services." (§1905(i) of the Social Security Act.) Medicaid Disproportionate Share Hospital (DSH) funding also includes funding for IMDs and other mental health facilities. (§1923(h) of the Social Security Act)*

*Federal Medicaid matching payments for hospital services are prohibited for IMDs that include those levels for the population between the ages of 22 and 64. Not only is an IMD facility precluded from being reimbursed by Medicaid, but individual patients' eligibility for Medicaid is excluded while they are inpatients in an IMD. The State of Maine claims DSH IMD funding and has used those funds, consistent with the flexibility granted to states, for IMDs. The definition of an IMD includes facilities and institutions and is not limited to hospitals. The funding is therefore not limited to hospitals certified by and participating in the Medicare program in order to be eligible for DSH IMD funding.*

*Further, the Department believes the decertification of Riverview was unjustified, and it is currently challenging that decertification in court. Moreover, the Department does not believe that Federal law or rule prohibit it from continuing to use DSH funds to support Riverview.*

*The Department acknowledges that certain Centers for Medicare & Medicaid Services ("CMS") officials have claimed that, due to decertification, Riverview is ineligible to continue using DSH funds to support its operations. The Department disagrees with those assertions. To this point, CMS has not disallowed any claims for Federal Financial Participation ("FFP") relevant to Riverview. Indeed, it is noteworthy that, on the one occasion CMS did move to defer the State's quarterly filing specific to RPC (12/30/2013), CMS ultimately reversed its deferral rather than disallowing funds.*

*Although, in the more than 18 months since CMS decertified Riverview, the agency has not disallowed any Federal funds, the Department has routinely made clear to the Legislature the continued risk associated with using DSH funding for Riverview. During the previous session, the 125th Legislature voted to put money in reserve for Riverview should the Federal government ultimately disallow funds. The Legislature did not opt to replace the DSH funds with general fund support last year. More recently, in March 5 testimony to the Appropriations and Financial Affairs Committee and the Health and Human Services Committee, Commissioner Mayhew reiterated this risk.*

*Nonetheless, whereas (1) CMS has not acted to disallow funds; (2) the Department believes Federal law and Federal rule do not permit the Agency to do so; and (3) the Department is challenging retroactively decertification in court, the Department believes it is appropriate and responsible to continue using DSH funds to support Riverview.*

*As a technical aside, in order to preserve its claim for FFP—while concurrently establishing a basis to appeal CMS' decision(s) surrounding Federal funding for Riverview—the Department is required to spend and submit claims for FFP. This requirement is implicit in the formal processes as outlined in the Code of Federal Regulations (CFR §430.40; §430.42).*

***Contact:*** *Timothy Lawrence, Internal Audit Manager, DOA 287-2779*

**Auditor's Concluding Remarks:** The Office of the State Auditor is not making a determination as to whether or not Riverview should have been decertified as a Medicare provider of psychiatric hospital services. However, we are reporting on the fact that the State continued using Federal funds after Riverview was decertified.

Federal officials are in the process of finalizing their decision regarding the disallowance of these Federal expenditures.

**(State Number: 14-1106-06)**

# MEDICAID CLUSTER

**(2014-007)**

**Title:** Controls to ensure payment of the lowest Federally-approved reimbursement rate for pharmacy claims need improvement

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1140-03 | 12-1106-09 | | | | | |

**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 #:** 93.775, 93.777, 93.778
**Federal Award #:** 05-1305ME5MAP, 05-1405ME5MAP

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

**Type of Finding:** Questioned costs

**Questioned Costs:**

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | $22 | $19 | $4 |
| *Likely* | $128,400 | $79,364 | $49,036 |

Likely questioned costs were derived by: 1) calculating the sample error rate related to Medicaid (Medicaid sample error of $22 costs divided by $35,533 Medicaid sample total); 2) calculating total likely questioned costs (.06 percent error rate multiplied by $214 million total paid Medicaid drug claims); and 3) calculating Federal questioned costs (total likely questioned costs multiplied by the blended FMAP of 61.81 percent).

**Criteria:** MaineCare Benefits Manual Section 80; 2 CFR 225, Appendix A, C(1) Cost Principles for State, Local, and Indian Tribal governments (OMB Circular A-87)

**Condition:** Controls are not adequate to ensure the lowest drug reimbursement rate is paid. In a test of sixty paid claims, the lowest (Wholesale Acquisition Cost (WAC)) price was not considered for four of the claims.

**Context:** The pharmacy claims system processed Medicaid claims totaling over $214 million in fiscal year 2014.

**Cause:** The pharmacy claims system is programmed to ignore WAC prices. The Department's intention was to remove WAC pricing from the MaineCare Benefits Manual reimbursement policy; however, this was not done in fiscal year 2014.

**Effect:**

- Noncompliance with Federal and State rules and regulations
- Drugs are paid at a higher rate than Federally approved
- Potential current and future questioned costs

**Recommendation:** We recommend that the Department ensure that drug pricing complies with Federal and State rules and regulations.

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

*The language related to the Wholesale Acquisition Cost (WAC) for pharmacy claims was not removed from Chapter 2, Section 180, of the MaineCare Benefits Manual.*

*The Department intends to remove mention of the Wholesale Acquisition Cost (WAC) from MaineCare payment policy. We will submit a State Plan Amendment by June 30, 2015.*

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

**(State Number: 14-1106-08)**

**(2014-008)**

**Title:** Procedures for the timely refunding of the Federal share of Medicaid overpayments need improvement

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1106-17 | | | | | | |

**State Department:** Administrative and Financial Services
Health and Human Services
**State Bureau:** Health and Human Services Service Center
Office of MaineCare Services
Division of Audit
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
**CFDA #:** 93.775, 93.777, 93.778
**Federal Award #:** 05-0705ME5028, 05-1105ME5MAP, 05-1205ME5MAP

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

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 42 CFR 433 Refunding of Federal Share of Medicaid Overpayments to Providers; 2 CFR 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)

**Condition:** Controls to ensure that the Federal government has been refunded its share of Medicaid overpayments on a timely basis are not adequate. Of the sixty overpayments tested, six Cost of Care overpayments to long-term care providers and two audit cost settlement overpayments totaling $106,841 were refunded to the Federal government beyond the one year required timeframe.

**Context:** Identified Cost of Care overpayments to long-term care providers and audit cost settlement overpayments totaled $11.9 million in State fiscal year 2013. Cost of Care refers to deductions that should be taken from long term care provider payments for residents with income and assets that exceed certain limits because these clients have already paid their share to the providers.

**Cause:** In some instances, identified overpayments were not immediately forwarded to the DHHS Service Center so that the Federal share could be refunded timely; in other instances, the DHHS Service Center had received the overpayment within one year from identification but did not refund the Federal government its share timely.

**Effect:**

- Noncompliance with Federal regulations
- Delay in the Federal government receiving its share of the overpayments to providers

**Recommendation:** We recommend that the Department continue to improve its process to ensure the Federal share of Medicaid overpayments is refunded on a timely basis.

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

*A new process was implemented in May, 2014. The Office of MaineCare Services, Division of Audit and DHHS Service Center share a secure site which tracks all information from the overpayment issuance of a Notice of Debt to eventual repayment or recoupment of the overpayment. Because all information is entered in a standard format and tracked centrally, the Federal share of Cost of Care overpayments to long-term care providers and audit cost settlement overpayments will be refunded on a timely basis.*

***Contact:*** *Beth Ketch, Director of Customer Service, Office of MaineCare Services, 287-4078.*

**(State Number: 14-1106-09)**

# MEDICAID CLUSTER

**(2014-009)**

**Title:** Procedures to ensure notices of debt are issued in compliance with Federal and State regulations to private non-medical institutions (PNMI) for Cost of Care overpayments need improvement

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**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 #:** 93.775, 93.777, 93.778
**Federal Award #:** Various prior year Medicaid awards

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

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

**Questioned Costs:**

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | Undeterminable | | |
| *Likely* | Undeterminable | | |

**Criteria:** 42 CFR 433 F Refunding of Federal Share of Medicaid Overpayments to Providers; 22 MRSA 1714-A Debts owed the department by providers; 2 CFR 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)

**Condition:** In accordance with Federal regulations, the State must refund the Federal share of provider overpayments within one year following discovery, whether or not the State has recovered the overpayment from the provider. The State must notify the provider in writing of any overpayment it discovers in accordance with State agency policies and procedures. For Cost of Care overpayments to PNMIs where the Federal share was due within our audit period (overpayments discovered during State fiscal year (FY) 2013), the Department was not consistent in their methods to notify the PNMIs of the identified overpayments. Communication with the PNMIs often occurred via email and official notices of debt were typically only sent to those PNMIs who were not working with the Department to return monies owed to the State. As such, the Department was unable to provide us with a complete and accurate population of overpayments discovered during 2013 where the Federal share should have been refunded during FY 2014.

# MEDICAID CLUSTER

**Context:** Through FY 2013, approximately 200 PNMIs were overpaid. While the Department only issued twenty-three official notices of debt during FY 2013 related to these overpayments, the Department had communicated the other overpayments to PNMIs through other means of communication (mainly email).

**Cause:** The Department did not have adequate procedures to ensure that all identified Cost of Care overpayments to PNMIs were communicated to the provider through an official notice of debt.

**Effect:**

- Noncompliance with Federal and State regulations
- Delay in the Federal government receiving its share of the overpayments to providers

**Recommendation:** We recommend that the Department improve its process to ensure notices of debt are issued consistently, timely, and in compliance with Federal and State regulations to private non-medical institutions for Cost of Care overpayments.

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

*The Department has corrected the process used to notify PNMIs and follow up until full repayment has been made. Previously, the process was largely handled manually by clerical staff, and often covered only partial periods of debt.*

*The new process was implemented in May, 2014. The Office of MaineCare Services and DHHS Service Center share a secure site which tracks all information from the initial issuance of a Notice of Debt to eventual repayment or recoupment of the overpayment. Because all information is entered in a standard format and tracked centrally, there have been no additional cases of incomplete or overdue NODs being issued.*

***Contact:*** *Beth Ketch, Director of Customer Service, Office of MaineCare Services, 287-4078.*

**(State Number: 14-1106-10)**

**(2014-010)**

**Title:** Controls to ensure eligibility case reviews are performed in accordance with Federal regulations need improvement

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Health and Human Services
**State Bureau:** Office for Family Independence
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
**CFDA #:** 93.775, 93.777, 93.778
**Federal Award #:** 05-1305ME5MAP

**Compliance Area:** Eligibility

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** State Medicaid Manual, Sections 7033, 7227, 7230

**Condition:** The Department dropped cases selected for eligibility case review without first referring them to a regional eligibility office or consulting the Federal oversight agency as needed. Of the twenty case reviews we tested, five case reviews were dropped for the following reasons without referral or consultation:

- Member or third party did not cooperate
- Member was deceased

**Context:** The Department performed 189 case reviews for the period of July 1, 2013 to September 30, 2013. Beginning October 1, 2013, with the implementation of the Medicaid and CHIP Eligibility Review Pilot Project, the Office of MaineCare Services became responsible for eligibility case reviews.

**Cause:** The Department was unaware of this Federal requirement.

**Effect:** Noncompliance with Federal regulations

**Recommendation:** We recommend that the Department monitor eligibility case review requirements to prevent future errors.

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

*DHHS OFI agrees that it was not meeting Federal compliance with referral to regional staff or consulting the Federal oversight agency as needed on dropped cases. An operating memorandum informing QA specialists of this requirement will be issued no later than April 15, 2015.*

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

**(State Number: 14-1106-11)**

**(2014-011)**

**Title:** Surveillance of Medicaid expenditures needs improvement

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1106-04 | | | | | | |

**State Department:** Health and Human Services
**State Bureau:** Division of Audit - Program Integrity Unit
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
**CFDA #:** 93.775, 93.777, 93.778
**Federal Award #:** 05-1305ME5MAP; 05-1405ME5MAP

**Compliance Area:** Special tests and provisions

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** State Medicaid Manual (SMM), Part 11 – 11300 General Requirements; SMM, Part 11 – 11310 MMIS Functional Requirements; SMM, Part 11-11335, Surveillance and Utilization Review (SUR) Subsystem

# MEDICAID CLUSTER

**Condition:** Surveillance activities performed to monitor Medicaid expenditures did not fully utilize the Federally approved J-SURS module. This module includes three components: Report Generator (RG), Top N and Advanced Drilldown tools. The Program Integrity Unit is not utilizing the powerful Report Generator as part of its ongoing surveillance activities. The other J-SURS tools and other procedures are not an adequate substitute for systematic use of Report Generator. RG was specifically designed to perform large scale data mining, analytics and exception reporting in accordance with Federal requirements.

During fiscal year 2014, Program Integrity personnel developed an in house system for data analysis that they refer to as "Peer to Peer" (PTP). PTP is a way of integrating the use of the Top N component of the J-SURS module with ACCESS and Excel. However, PTP does not provide adequate coverage of the critical data mining capabilities of Report Generator that are required by Federal regulations.

**Context:** Medicaid expenditures of approximately $3 billion were paid to providers in fiscal year 2014.

Program Integrity personnel invested significant time and effort in fiscal year 2014 making an extensive update to the State's surveillance policies and procedures manual. In addition, personnel formed a Data Team and met regularly to discuss various aspects of data surveillance.

**Cause:** Inadequate resources were assigned to surveillance

**Effect:**

- Increased risk that errors, or fraud, waste and abuse will remain undetected
- Potential disallowance of Federal funds

**Recommendation:** We recommend that the Department take steps to ensure that Program Integrity Unit personnel perform effective and systematic surveillance activities using Report Generator as part of its regular routine. This will more fully aid in the timely detection of potential fraud, waste, and abuse.

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

*This finding is based on a functional requirement of a Surveillance and Utilization Review Subsystem. "By means of computerized exception processing techniques, provide the ability to perform analysis and produce reports responsive to the changing needs". The Department does not dispute that the "powerful" Report Generator according to marketing materials does in fact provide this basic functionality in achieving the defined objectives in the manual. However, Section 11335 also states, "Accomplish the above objectives utilizing a minimum level of manual clerical effort and a maximum level of flexibility with respect to management objectives of the State's Medicaid program."*

*The Office of State Auditor (OSA) issued a similar finding for FY13 and recommended DHHS take steps that ensured surveillance activity regularly takes place which includes large scale*

*data mining, exception reporting and data analysis. We took this recommendation seriously and implemented steps to correct it.*

*We researched the Truven product and found a number of States utilizing it. We found that they have taken a rather unusual approach to utilizing in house software. One State has chosen to contract directly with Truven for additional staff to run report generator. Another State contracts directly with Molina for 30 additional staff to utilize report generator. This supplements the 12 State staff. At the 2013 National Association of Medicaid Program Integrity directors conference in a break out session with Truven the following issues were raised: the difficulty and complexity of the use of the system and when would it be addressed. Truven has developed a new system interface "the Report Wizard" which is being released the second quarter of calendar year 2015 to address these issues.*

*In an effort to address the prior year's finding, DHHS created a data team and had a number of staff trained in the use of Report Generator. DHHS hired an individual that had extensive background in hospital finance and outlier identification of physicians services with McKesson a software distribution company that also had claims surveillance and utilization software. After training in the use of report generator the staff person quickly recognized these same issues and developed a subsystem that DHHS staff could use with just a few minutes of training. This subsystem is the Peer-to-Peer (PTP) mentioned in the finding.*

*The functionality of exception processing in report generator is the ability to assign a specific weight to certain criteria and then uses the scoring of the weight to identify outliers that meet the criteria given group. This is done after an idea of what might be going on is formulated. After putting this information into report generator in 1 to 2 hours you have your report. If you wish to change groups repeat the process.*

*The person hired with extensive background in claims surveillance and utilization software successfully developed a report generator that analyses $2.6 billion dollars in claims, 295 billion units of service and 32.6 million claims, from approximately 30 thousand servicing providers and locations. The report generator includes exception processing, and each DHHS-PI staff person has access to the results. In the Peer-to-Peer exception criteria are identified, select the service you want from a drop down box enter, and the report is created in less than a minute. The report has identified the top 10 outlier providers and serving providers. If you wish to change the service go to the drop down box change the service and in less than a minute you have a new report.*
*It should be noted PI discussed the complexities and difficulties in report generator and the PI solution with a representative for the Center for Medicare and Medicaid Services. The representative indicated that our workaround was fine and even asked if we had considered marketing our workaround.*

***Contact:*** *Greg Nadeau, Program Integrity Manager, DOA, 287-9280*

**Auditor's Concluding Remarks:** It is our understanding that Federal officials expect the State to have a surveillance system and to utilize Report Generator in the State's routine surveillance of Medicaid expenditures. The Report Generator surveillance tool was paid for mostly by the Federal government and was certified by the Center for Medicare and Medicaid Services. The

Department did not demonstrate that Peer to Peer equaled Report Generator's surveillance capabilities nor did the Department utilize Peer to Peer on a consistent basis. Also, and very importantly, the Department could not demonstrate to OSA that any more than an anecdotal number of cases were opened proactively as the result of any system of surveillance. The Department has always opened cases for investigation when there is a complaint or if the Federal government initiates an investigation.

The finding remains as stated.

**(State Number: 14-1106-13)**

**(2014-012)**

**Title:** Confidential finding, confidential distribution

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Administrative and Financial Services
**State Bureau:** Office of Information Technology
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
SNAP Cluster
**CFDA #:** 93.775, 93.777, 93.778, 10.551, 10.561
**Federal Award #:** 05-1405ME5MAP, 4ME400401,
4ME420408, 4ME430421

**Compliance Area:** Eligibility

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**(State Number: 14-0905-07)**

# MEDICAID CLUSTER

**(2014-013)**

**Title:** Confidential finding, confidential distribution

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Administrative and Financial Services
**State Bureau:** Office of Information Technology (OIT)
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
SNAP Cluster
**CFDA #:** 93.775, 93.777, 93.778, 10.551, 10.561
**Federal Award #:** 05-1405ME5MAP, 4ME400401,
4ME420408, 4ME430421

**Compliance Area:** Eligibility

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**(State Number: 14-0905-12)**

# MEDICAID CLUSTER

**(2014-014)**

**Title:** Controls to ensure Cost of Care amounts are properly deducted from nursing home and private non-medical institution (PNMI) provider payments need improvement

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1106-02<br><br>13-1106-19*<br>*Cost of Care, only | 12-1106-12 | 11-1106-14 | 10-1106-10 | | | |

**State Department:** Health and Human Services
Administrative and Financial Services
**State Bureau:** Office of MaineCare Services (OMS)
Health and Human Services Service Center
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
**CFDA #:** 93.775, 93.777, 93.778
**Federal Award #:** 05-1405ME5MAP

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

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

**Questioned Costs:**

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | $56,065 | $32,572 | $23,491 |
| *Likely* | $11,700,000 | $6,800,000 | $4,900,000 |

**Criteria:** 2 CFR 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, Attachment A); Post-eligibility treatment of income of institutionalized individuals in Supplemental Security Income (SSI) states: application of patient income to the Cost of Care (42 CFR 435.725); MaineCare Eligibility Manual, Parts 12,14; MaineCare Benefits Manual, Part 12 and 14

**Condition:** Controls in place to ensure that Cost of Care is properly deducted prior to paying nursing home (NH) and PNMI claims need improvement. To participate in the State's LTC program during the year, $94.0 million was paid by the residents in these facilities as their share of the cost toward their monthly stay. Of this amount, only about $82.3 million was correctly deducted from monthly LTC facility payments to offset these member pre-payments to providers. Not deducting the entire amount results in a State overpayment of approximately

$11.7 million to these providers during the year. We did not audit whether any of this $11.7 million has been returned to the State by the overpaid providers.

In a test of 96 claims from two subsets of claims we judged to be higher risk, Cost of Care was not properly deducted from 65 payments of the claims tested.

- In 30 of 51 NH claims, Cost of Care was not properly deducted
- In 35 of 45 PNMI claims, Cost of Care was not properly deducted

Although the focus of our testing was on two specific error types, results clearly indicated that the causes of the errors were not exclusive to the risk groups selected for testing.

**Context:** Recipients of LTC assistance may be responsible for paying a portion of their Cost of Care. Certain residents with assets or income over the limit allowed for Medicaid participation pay providers a specific agreed-upon amount toward their monthly stay in a LTC facility. LTC providers expect payments they receive from the State to have been reduced by the agreed-upon amount.

**Cause:** Key factors contributing to the $11.7 million in likely overpayments include that:

- MIHMS system edits were not set to pend or deny claims for manual adjustment when under certain totally predictable conditions it was known that MIHMS would overpay the claim.
- Insufficient controls have been established to automatically detect and re-open claims for retroactive adjustments.
- The Department has implemented a “pay and chase” solution for managing overpayments to LTC facility providers.

Also, the assignment of State personnel to regularly generate and review exception reports or to use other tools that can detect the need for retroactive eligibility or Cost of Care assessments or to force resolution of such claims previously paid in error was found to be inadequate.

**Effect:** The lack of edits in place to detect, deny, pend or re-open claims for manual review or adjustment ensures that significant overpayments will continue which will inherently increase the risk of fraud. In addition, potential improper crediting of the Federal share of Cost of Care recoupments may result in current and future disallowances.

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

- Make system corrections and continue to implement additional controls that would allow Cost of Care amounts to be properly deducted from monthly NH and PNMI payments
- Direct the fiscal agent to activate system edits that will cause claims to pend, deny or re-open for manual review, prior to paying LTC providers, which will allow for more offsets against future claims
- Assign more personnel to generate and review exception reports or use other tools to detect and track errors allow for error resolution

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

*The Department believes that significant progress has been made in dealing with appropriate deductions of Cost of Care amounts. During SFY14 system edits were implemented to ensure that Cost of Care is taken from all services lines until the amount has been satisfied. One remaining system change, CR46897, and one action item AI47891, are in the review process to resolve what the auditor described as "totally predictable conditions." Both are expected to be in production by December 2015.*

*The Department has also included PNMIs in the external audit and recoupment efforts performed by the vendor that has traditionally handled Nursing Home overpayments. These reviews will begin in January 2016, after providers have had their mandated 12 months to reverse or adjust claims. The Department believes that it would not be cost-effective to begin this review earlier than that date, because of the 12-month look-back period for the external auditor.*

*The Department disagrees with the audit finding on the number of test claims where Cost of Care was taken inappropriately. Our review showed that only 46, rather than the stated 65, claims had issues where Cost of Care was not appropriately taken on the initial claim. As noted elsewhere in this finding, the Department uses other methods (i.e., pay and chase) to collect this money. We will continue to clarify our rules for Cost of Care billing, payment and recoupment to avoid these disagreements in the future. This will be concluded by June 30, 2015.*

***Contact:*** *Beth Ketch, Director of Customer Service, Office of MaineCare Services 287-4078*

**Auditor's Concluding Remarks:** We agree. The Department has made significant progress in identifying the varying causes for incorrectly or unapplied Cost of Care deductions that result in LTC provider overpayments. Much of the management response above indicates that real solutions have been created to prevent or otherwise resolve certain types of overpayments to LTC providers.

However, we disagree that using a "pay and chase" method is a legitimate solution to this problem. One reason is that there is a multi-year time lag in the collection process by the time the contracted vendor is able to address these overpayments. This is a problem because the longer it takes to collect these overpayments; the less likely it is that the overpaid amounts will be collected.

Another reason is that State reliance on human detection is not reasonable given the volume of claim payments that are processed by MIHMS. It is more cost effective to stop potential overpayments from happening, by using an automated method, rather than dedicating time or financial resources to apply a "pay and chase" solution.

The difference in error rate referred to in the response by the Department was due to our differing interpretation of what is considered to be the first month of stay in a LTC facility. We do agree with OMS that Cost of Care should not be deducted for the first month that a member is admitted into a LTC facility from their home or a hospital. However, without authoritative or

legislative support to the contrary, we must conclude that going from one LTC facility to another LTC facility is a transfer, or ongoing long-term care. Furthermore, our likely questioned cost was not based on a projection of the error rate, but was calculated based on the difference between the $94 million total Cost of Care paid by the residents in the LTC facilities and the $82.3 million that was deducted from LTC facility payments.

The finding remains as stated.

**(State Number: 14-0906-01)**

**(2014-015)**

**Title:** Confidential finding, confidential distribution

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1106-06 | 12-1106-10 | 11-0906-02 | | | | |

**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
**CFDA #:** 93.775, 93.777, 93.778, 93.767
**Federal Award #:** 05-1405ME5MAP, 05-1405ME5021

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

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**(State Number: 14-0906-02)**

# MEDICAID CLUSTER

**(2014-016)**

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

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1106-10 | 12-1106-04 | ML<br>11-1106-09 | | | | |

**State Department:** Administration and Financial Services
Health and Human Services (DHHS)
**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 #:** 93.775, 93.777, 93.778
**Federal Award #:** 05-1405ME5MAP

**Compliance Area:** Special tests and provisions

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

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

**Condition:** The required ADP risk analysis of DHHS systems and biennial system security reviews were not performed.

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

**Cause:**
- 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 by personnel who are organizationally independent.

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

*Significant strides have already been made in the past year in vulnerability management of both MIHMS and ACES.*

***Contact:*** *Cindy Hopkins, Director of Applications, OIT, 592-2191*

**Auditor's Concluding Remarks:** It is possible that procedures implemented by the Department since the end of the fiscal year may now be in the process of addressing this area of non-compliance in the manner required by federal regulations.

However, this was not the case during the audit year ending June 30, 2014.

The finding remains as stated.

**(State Number: 14-0906-04)**

**(2014-017)**

**Title:** The Decision Support System/Data Warehouse (DSS/DW) is not reconciled to the statewide accounting system

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1106-03 | 12-1106-11 | 11-1106-11 | | | | |

**State Department:** Health and Human Services (DHHS)
**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 #:** 93.775, 93.777, 93.778, 93.767
**Federal Award #:** 05-1405ME5MAP, 05-1405ME5021

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

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 2 CFR 225, Appendix A, C(1)(j) Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) 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 2014. Paid claims stored in the DSS/DW 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 agrees with this finding.*

*Currently, staff from the Office of MaineCare Services, the DHHS Service Center and Molina/Truven are in the analysis phase of this project. At this point, the team is reviewing the logic and data flow between the claims engine (QNXT), the data warehouse and the decision support system. As part of the solution phase, the team will implement any needed logic adjustments and develop a monthly reconciliation process. The project should be completed by August 2015.*

***Contact:*** *Charles Bryant, Senior Health Care Financial Analyst, OMS 624-4032*

**(State Number: 14-0906-05)**

# MEDICAID CLUSTER

**(2014-018)**

**Title:** Confidential finding, confidential distribution

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Administrative and Financial Services (DAFS)
Health and Human Services (DHHS)
**State Bureau:** Office of Information Technology Services (OIT)
Office of MaineCare Services (OMS)
Office for Family Independence (OFI)
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
Children's Health Insurance Program (CHIP)
**CFDA #:** 93.775, 93.777, 93.778, 93.767
**Federal Award #:** 05-1405ME5MAP, 05-1405ME5021

**Compliance Area:** Eligibility

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**(State Number: 14-0922-01)**

**(2014-019)**

**Title:** Procedures to ensure that an individual client's Cost of Care is properly computed need improvement

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1106-01 | | | | | | |

**State Department:** Health and Human Services
Administrative and Financial Services
**State Bureau:** Office for Family Independence (OFI)
Office of Information Technology (OIT)

# MEDICAID CLUSTER

**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Medicaid Cluster
**CFDA#:** 93.775, 93.777, 93.778
**Federal Award #:** 05-1205ME5MAP, 05-1305ME5MAP

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

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

**Questioned Costs:**

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | Undeterminable | | |
| *Likely* | Undeterminable | | |

**Criteria:** 2 CFR 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, Attachment A); Post-eligibility treatment of income of institutionalized individuals in Supplemental Security Income (SSI) states: application of patient income to the Cost of Care (42 CFR 435.725); MaineCare Eligibility Manual, Parts 12, 14; MaineCare Benefits Manual, chapter II, section 67, 96, 97 and chapter III, section 67, 96, 97

**Condition:** The Department's controls to ensure Cost of Care is properly computed need improvement. The Automated Client Eligibility System (ACES) incorrectly computes individual clients' Cost of Care because known system errors cause related income/expense information to be incorrect or missing.

In response, the Department established manual workarounds as a compensating control. We observed during the FY13 audit that OFI staff does not always correctly apply these manual fixes. Automated Cost of Care determination was not corrected during FY14.

**Context:** Both Federal and State long term care (LTC) clients are responsible for paying a portion of the cost of their care. The client's share of the cost is known as Cost of Care.

**Cause:**

- Known system errors which occur consistently as ACES computes these costs remain uncorrected. System issues observed in our prior year testing included:
  - SSI recipients: failure to count State Supplement pay ($10 to $234 per month) as income
  - Nursing home (NH) residents: miscalculation of spousal income allocation
  - SSI recipients: not consistently updating all SSI income amounts from State Verification and Exchange System (SVES)
  - SSI recipients: failure to report all instances of SVES failure on the SVES discrepancy report
  - NH residents: Spousal income allocation is incorrect by $33 to $37
- OFI staff does not always detect errors and/or correctly apply manual fixes to ACES records.

**Effect:** Potential underpayments or overpayments to providers

**Recommendation:** We recommend that the Department increase efforts to remediate system problems that occur when ACES automatically computes Cost of Care amounts for clients living in a nursing home and private non-medical institutions.

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

*Cost of Care system errors have been identified and OFI is continuing to have OIT staff work on correcting these issues. Of the current known issues:*

- *Instances of incorrect Cost of Care calculations due to ACES failing to count State Supplement payments and miscalculating spousal income allocations are scheduled for system correction on April 10, 2015.*
- *Boarding home Cost of Care was implemented for system correction in February 2015.*

*While Cost of Care system corrections continue to be worked and implemented into ACES, training and guidance will continue to be provided to eligibility specialists and LTC supervisors in the form of written guidance on how to identify cases where known system design problems may result in an incorrect Cost of Care determination, including key indicators, work around steps for correcting the Cost of Care and workaround steps for correcting spousal income allocations.*

*Additionally, OFI will continue to provide a monthly report for LTC cases with State supplement income and spousal income allocation with a sample review of 5-10 cases by LTC supervisors to ensure accuracy. From these case readings, additional training or guidance will be provided on an individual or group basis if warranted with monthly results shared with the MaineCare Program Manager.*

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

**(State Number: 14-0922-03)**

# SNAP CLUSTER

**(2014-020)**

**Title:** Confidential finding, confidential distribution

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Health and Human Services (DHHS)
Administrative and Financial Services (DAFS)
**State Bureau:** Office for Family Independence
Office of Information Technology
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** SNAP Cluster
TANF Cluster
**CFDA #:** 10.551, 10.561, 93.558
**Federal Award #:** 4ME400401, 4ME420408,
4ME430421, 1302METANF

**Compliance Area:** Eligibility

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**(State Number: 14-0922-02)**

# SNAP CLUSTER

**(2014-021)**

**Title:** Confidential finding, confidential distribution

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Health and Human Services
Administrative and Financial Services
**State Bureau:** Office for Family Independence
Office of Information Technology
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** SNAP Cluster
TANF Cluster
**CFDA #:** 10.551, 10.561, 93.558
**Federal Award #:** 4ME400401, 4ME420408,
4ME430421, 1302METANF

**Compliance Area:** Eligibility

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**(State Number: 14-0922-04)**

# TANF CLUSTER

**(2014-022)**

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

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1111-01 | 12-1111-01 | | | | | |

**State Department:** Administrative and Financial Services (DAFS)
Health and Human Services (DHHS)
**State Bureau:** Office of Information Technology (OIT)
Office for Family Independence (OFI)
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** TANF Cluster
Medicaid Cluster
Children's Health Insurance Program (CHIP)
SNAP Cluster
**CFDA #:** 93.558, 93.775, 93.777, 93.778, 93.767, 10.551, 10.561
**Federal Award #:** Various Medicaid, TANF, CHIP and SNAP awards

**Compliance Area:** Special tests and provisions

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 42 USC 1320 b-7 Income and Eligibility Verification System; State 1634 Agreement with the SSA; State 1843 Agreement for Buy-In with the CMS; 45 CFR 92.20 Standards for Financial Management Systems; State Information Technology Security Policies, Procedures and Guidelines; State Verification and Exchange System (SVES) and State Online Query (SOLQ) Manual, April, 2013; Beneficiary Earnings and Data Exchange (BENDEX) Handbook, May, 2009; State Data Exchange (SDX) Manual, May, 2011; 42 CFR 407.42 and 407.43 State Buy-In Agreements: Coverage Groups-General

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

- A lack of institutional knowledge within OIT regarding IEVS data exchanges
- Outdated and inaccurate documentation at OIT describing methods used to process IEVS data exchanges

- Inadequate monitoring and feedback controls present a risk that some exchanges may be performed ineffectively or in an insecure manner

These problems were identified as root causes of deficiencies identified during current year audit testing of thirty-seven data exchanges; and of a separate test which indicated that there is no control to guarantee that the State will receive all information sent to it from the Social Security Administration (SSA). OIT management stated that corrective actions to resolve these control deficiencies are in progress.

In a test of thirty seven data exchanges, we found that thirty three exchanges ran, but files used to run the data exchanges contained extraneous and unnecessary data. The remaining four exchanges appeared to perform no function—they ran every night but did not exchange any records. In addition, the total records sent by the SSA do not agree with the number of records received by the State for the two largest inbound data exchanges – BEER (Beneficiary Earnings Exchange Report) and BENDEX (Beneficiary Earnings and Data Exchange).

**Context:** OIT did not have controls in place over these exchanges to provide assurance that the State is in compliance with Federal-State IEVS exchange agreements established to comply with Federal TANF, Medicaid, CHIP and SNAP program rules and regulations. The risk to the State is a financial penalty of up to two percent of these Federal assistance grants**.**

**Cause:**

- Ineffective communication between DHHS and OIT to ensure compliance with State and Federal requirements
- Current DAFS-OIT-DHHS technology servicing structure does not hold any person or group accountable for these processes
- An 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 are not being reviewed to ensure ongoing reliability and compliance
- Institutional knowledge at OIT has been lost due to the retirement of one technical person two years ago, and there has not been adequate training of replacement personnel

**Effect:**

- Potential sanctions from the Federal oversight entity
- Potential disallowed Federal expenditures resulting from ineligible clients
- Exchanges may be performed ineffectively or in an insecure manner
- No method is in place to identify deliverables that would ensure DHHS business needs are being met
- Potential overspending in the General Fund associated with the State share of payments for ineligible clients

**Recommendation:** We recommend that OIT:

- Actively design and document procedures relevant to these daily, weekly, bi-weekly, monthly and annual IEVS exchanges to ensure appropriate action is being taken by staff to update and maintain DHHS systems
- Actively manage and periodically monitor the reasonableness of current incoming and outgoing IEVS exchanges to ensure compliance with Federal requirements
- Establish a feedback exchange method to provide assurance that all eligibility records sent from the SSA or the Centers for Medicare and Medicaid Services (CMS) are received by the State; and that all eligibility records sent from the State are received by the SSA or CMS
- Increase the number of OIT personnel assigned to this effort

We recommend that DHHS:

- Establish methods to identify deliverables for which OIT could be held accountable when business needs are not met.

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

*DHHS-OFI will continue an established monthly meeting with OIT representation to remain engaged and informed of progress of corrective actions implemented.*

*From this meeting, OFI and OIT will establish by April 30, 2015 several deliverable requirements that will ensure a bolstered process for ongoing accountability for maintenance and support of these data interfaces.*

*This meeting will also serve as a forum for OIT and DHHS-OFI to ensure appropriate business prioritization on an established IT work plan for effective resourcing through existing or additionally procured technical resources.*

*The meeting will also provide a forum for any guidance necessary to resolve business and policy related questions in regards to these data interfaces.*

*A review document of the deliverable requirements established and implemented by April 30, 2015 will be conducted no later than September 30, 2015 to ensure the issues in this finding have been resolved.*

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

**(State Number: 14-0910-01)**

# TANF CLUSTER

**(2014-023)**

**Title:** Inadequate controls over Federal cash management

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Administrative and Financial Services
Office of the State Treasurer
**State Bureau:** Health and Human Services Service Center
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** TANF Cluster
**CFDA #:** 93.558
**Federal Award #:** 1302METANF

**Compliance Area:** Cash management

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 2014 CMIA Agreement, 31 CFR 205.11 and 31 CFR 205.23

**Condition:** The funding technique authorized in the current Treasury-State Agreement (TSA) for the TANF grant does not approximate the State's expected cash needs. The currently approved funding technique allows the State to draw one-third of the quarterly grant award each month. This funding technique does not require the State to limit the monthly grant request based on remaining Federal cash from the previous month's draw nor does it accommodate infrequent sizable transactions. Federal regulations require that funding techniques used in the TSA limit the amount of Federal funds requested to the minimum required to meet a State's actual and immediate cash needs. For six consecutive months the State held excess Federal cash from the TANF program. Additionally, one monthly draw (for $10 million) exceeded the 1/3rd limit to accommodate an allowable grant transfer to the Social Services Block Grant.

**Context:**

- The October draw for $10 million exceeded the allowable amount by $3.3 million.
- The State held excessive Federal cash ranging from $1 million to $8.6 million from November to May.

**Cause:**

- State policy changes related to TANF caused Federal cash needs to be less than originally anticipated.
- In regard to the $10 million draw in October, the Department did not judge that TANF funds drawn and subsequently transferred to the Social Services Block Grant were covered under the TSA.

**Effect:** The State was not in compliance with Federal cash management regulations.

**Recommendation:** We recommend that the Department re-estimate the flow of grant funds for TANF and work with the State Treasurer to amend the TSA as necessary. This re-estimation is needed to ensure the funding technique approved for TANF reasonably represents the flow of Federal funds, to ensure the State's Federal cash requests are not excessive, and to more closely resemble the State's actual and immediate cash needs.

**Management's Response/Corrective Action Plan:** *The Management Response from the Department of Health and Human Services is provided below.*

*The Department agrees with the finding.*

*The Service Center will work with the State Treasurer to amend the TSA, along with modifying cash requests to take into consideration cash on hand, effective July 1, 2015.*

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

**Management's Response/Corrective Action Plan:** *The Management Response from the Office of the State Treasurer is provided below.*

*The Office of the State Treasurer is responsible for negotiating the terms of the Treasury-State agreement (TSA) with the U.S. Treasury on behalf of State agencies administering programs deemed as major Federal programs. This responsibility includes filing the TSA and compiling the annual report of interest due to or from the Federal government. This office is not responsible for statewide controls over Federal cash management, but will work with DHHS to amend the funding technique as described above.*

***Contact:*** *Tim Rodriguez, Director of Internal Operations, Treasury, 624-7460*

**(State Number: 14-1111-01)**

# TANF CLUSTER

**(2014-024)**

**Title:** Insufficient controls over reporting

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**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:** TANF Cluster
**CFDA #:** 93.558
**Federal Award #:** 1302METANF

**Compliance Area:** Reporting

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 45 CFR 265.7

**Condition:** The ACF-196 *TANF Financial Report* contained errors for the quarterly report ending September 30, 2013. This report included a manual adjustment to the Federal and State basic assistance expenditures to permit the State to meet the grant's maintenance of effort (MOE) requirements. The related MOE journal recorded in the State's accounting system the following quarter was not consistent with the manual adjustment. While Federal and State expenditures in total were correct, various lines on the report were misstated. In addition, the ACF-204, *Annual Report including the Annual Report on State Maintenance-of-Effort Programs* was misstated because the MOE expenditures for this report are compiled using the quarter ending September 30th ACF-196 report.

**Context:**

- Federal expenditures reported on the Federal Basic Assistance line of the ACF-196 report were understated by $1.8 million. Various other Federal expenditure lines on the report were overstated by an offsetting $1.8 million.
- State expenditures reported on the State MOE Basic Assistance line of the ACF-196 report were overstated by $1.8 million. Various lines for MOE expenditures in Separate State Programs were understated by an offsetting $1.8 million.

- State MOE expenditures reported by program on the annual ACF-204 report Federal fiscal year 2013 were misstated.

**Cause:** A manual MOE adjustment used in the preparation of the ACF-196 report for quarter ending September 30, 2013 was inconsistent with the related MOE journal recorded in the State's accounting system the following quarter.

**Effect:** The various expenditure categories reported on the ACF-196 report and total expenditure for the various MOE programs reported on the ACF-204 report were misstated.

**Recommendation:** We recommend that the Department process MOE journals in a more timely manner to avoid the need to use manual adjustments when preparing the financial reports. We further recommend that the Department revise the ACF-196 and ACF-204 reports as needed.

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

*If our Federal partners require revisions beyond what was already done, we will comply. When the journal was done, this error was known and corrected itself on the next cumulative ACF-196 report. Effective February 2015, revised ACF-204 information will be submitted to DHHS – OFI to revise if required. The Service Center will modify the reporting process to include in the approver checklist an item to ensure that the ACF-204 be updated as applicable, effective for 12/31/14 filed 196 report.*

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

**(State Number: 14-1111-02)**

**(2014-025)**

**Title:** Controls over special reporting need improvement

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**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
**CFDA #:** 93.558
**Federal Award #:** 1302METANF

**Compliance Area:** Reporting

# TANF CLUSTER

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 45 CFR 265.9 - Data Collection and Reporting Requirements

**Condition:** The ACF-204, *Annual Report including the Annual Report on State Maintenance-of-Effort Programs* reported client case count information based on estimates. According to the instructions for the ACF-204 report, States may use reasonable estimates that have a sound basis where actual numbers are not available. However, the process and underlying data used by the Department to estimate the case counts were undocumented and unsupported.

**Context:** The ACF-204 reports case count information for fifteen MOE programs. The Department did not provide supporting documentation for any of the five case counts included in our sample.

**Cause:** Supporting documentation was not retained by the Department.

**Effect:** The reasonableness of the estimated case count information cannot be determined.

**Recommendation:** We recommend that the Department document how estimates are established for client case counts reported in the ACF-204. We further recommend that the Department retain the supporting documentation used to develop those estimates.

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

*We have developed a process for estimates of client counts for those MOE programs where the actual numbers are not available. The Department will document these processes and retain supporting records. This will be completed by June 30, 2015.*

***Contact:*** *Dawn Mulcahey, TANF Program Manager, OFI, 624-4109*

**(State Number: 14-1111-03)**

# TANF CLUSTER

**(2014-026)**

**Title:** Controls over eligibility need improvement

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**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
**CFDA #:** 93.558
**Federal Award #:** 1302METANF

**Compliance Area:** Eligibility

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

**Questioned Costs:**

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | Undeterminable | | |
| *Likely* | Undeterminable | | |

**Criteria:** Public Assistance Manual (TANF), Chapter VI

**Condition:** The Department did not consistently refer TANF cases to Overpayment Specialists in instances where recalculation and/or recoupment were needed. In our sample of forty randomly selected TANF benefit payments, we found two cases where TANF benefits were temporarily paid to clients based on incomplete eligibility information. After the clients failed to subsequently provide the necessary information to support the TANF benefit, the Department suspended future payments. However, the Department did not refer these cases to Overpayment Specialists for recalculation and/or recoupment of the benefits as required.

**Context:** In one instance the client failed to provide proof of wages and in the other instance the client failed to report a non-custodial parent living in the household.

**Cause:**
- Understaffing
- Ineffective process of handling overpayments

**Effect:** Possible overpayment of TANF benefits

**Recommendation:** We recommend that the Department implement procedures to refer TANF cases to Overpayment Specialists where overpayments or potential overpayments have occurred. This should be done in a timely and consistent manner.

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

*The Department has implemented procedures to address the overpayment referral process. The process changed as of October 2014. In October the Overpayment Specialists were moved to the oversight of Fraud, Investigation and Recovery (FIR) Unit. A defined and consistent process was created in writing and distributed statewide. Each overpayment or potential overpayment is entered into ACES and added to the Case Notes. FIR tracks these cases, assigns their workers to the case depending on what is needed and manages the situation.*

*In addition, business process redesign implemented in OFI includes streamlined case referral from eligibility staff to overpayment specialists.*

***Contact:*** *Dawn M. Mulcahey, TANF Program Manager, OFI, 624-4109*

**(State Number: 14-1111-04)**

**(2014-027)**

**Title:** Inadequate procedures to report accurate Unsubsidized Employment data

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1111-04 | | | | | | |

**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
**CFDA #:** 93.558
**Federal Award #:** 1302METANF

**Compliance Area:** Reporting
Special tests and provisions

**Type of Finding:** Significant deficiency

# TANF CLUSTER

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 45 CFR 261.62; 45 CFR 265.7

**Condition:** The ACF-209 *SSP-MOE Data Report* contained errors for the Unsubsidized Employment Hours (full or part-time employment in the public or private sector that is not subsidized by TANF or any other public program). Unsubsidized employment is the primary goal of TANF. In two separate samples of 40 randomly selected cases from the ACF-209, we found six cases where the Unsubsidized Employment Hours were reported in error. In four of the six cases, reported Unsubsidized Employment was understated by a range of 10 to 34 hours. In the remaining two cases, reported Unsubsidized Employment was overstated by 14 and 19 hours.

**Context:** The Administration for Children and Families (ACF) determines whether the State has met the required work participation rates based on the data that is submitted on the ACF-209.

**Cause:** Computer programming in ACES related to Worker Supplement Benefit (WSB) needs to be corrected.

**Effect:** The Federal government may penalize the State by an amount not less than one percent and not more than five percent of the State Family Assistance Grant for violation of this provision.

**Recommendation:** We recommend that the Department work with Office of Information Technology staff to correct the computer programming in ACES related to WSB to ensure that Unsubsidized Employment hours are correctly reported.

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

*ACES has an issue with the accurate capture of individuals included on WSB. There are ACES programming changes in process to address these issues. We anticipate completion of the correction by September 2015.*

***Contact:*** *Michael Frey, Deputy Director, OFI, 624-4102*

**(State Number: 14-1111-05)**

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

**(2014-028)**

**Title:** Internal controls over high-risk vendor compliance investigations need improvement

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Health and Human Services
**State Bureau:** Maine Centers for Disease Control and Prevention
**Federal Agency:** U.S. Department of Agriculture
**CFDA Title:** Special Supplemental Program for Women, Infants and Children (WIC)
**CFDA #:** 10.557
**Federal Award #:** 4ME700701, 4ME700742, 4ME720701

**Compliance Area:** Special tests and provisions

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 7 CFR 246.12 (j)(4)(i)

**Condition:** The Department did not complete the number of compliance investigations that were required by Federal regulations. To meet the minimum five percent Federal requirement, the Department should have completed fourteen vendor compliance investigations. However, only three investigations were completed.

**Context:** The Federal government considers a compliance investigation complete at a point when the State is prepared to discontinue the vendor agreement and payments to a vendor. The State, at its discretion, determined that point to be when the vendor has exhausted its right to appeal a notice of nonrenewal, termination or disqualification. While only three investigations met the State's definition of complete, an additional forty investigations were in progress, including some that were in appeal.

**Cause:**

- Maine WIC vendor management policy
- Staff turnover in Vendor Manager and contract buyer positions
- Changes in program guidance requiring additional training and procedural changes

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

**Effect:** The WIC program was unable to complete the required number of vendor compliance investigations in FFY 2014. Although a number of the forty ongoing investigations are expected to be completed in 2015, the Federal oversight agency, Food and Nutrition Services, is requiring that Maine WIC complete investigations on a minimum of ten percent (twenty-seven) of its vendors during FFY 2015.

**Recommendation:** We recommend that the Department prioritize resources in order to meet the Federal requirement for compliance investigations of high-risk vendors.

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

*The Department has prioritized resources over the past year to address the issue raised by this finding. The vendor manager position was filled December 30, 2013. The vendor manager was trained by USDA in June 2014. The New Hampshire WIC Program, which has a model audit process, provided inventory audit training at the request of USDA for Maine WIC vendor staff in June 2014.*

*Operational adjustment funds from USDA FNS have been utilized for a part-time contracted staff support to assist with processing compliance and audit data and the preparation of information for legal review and appeal hearings.*

*The Office of the Attorney General has been engaged over the past year with review of the investigation findings, rule, regulation and policy implications, preparation of the notifications of action and the appeal process.*

*This compliance process continues to be refined as results from administrative hearings inform the Department of needed policy/rules changes. The WIC Program intends to be in substantial compliance by September 30, 2015.*

***Contact:*** *Lisa Hodgkins, WIC Director, MeCDC, 287-5342*

**(State Number: 14-1113-04)**

# CHILD AND ADULT CARE FOOD PROGRAM (CACFP)

**(2014-029)**

**Title:** Cash management procedures need improvement

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Administrative and Financial Services
**State Bureau:** Health and Human Services Service Center
**Federal Agency:** U.S. Department of Agriculture
**CFDA Title:** Child and Adult Care Food Program
**CFDA #:** 10.558
**Federal Award #:** 4ME300302, 4ME300385

**Compliance Area:** Cash management

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

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

**Condition:** The Department did not minimize the time between drawdown and disbursement of Federal funds in accordance with Federal regulations. The program had excess cash on hand for five months.

**Context:** Average cash on hand ranged from twelve days to sixteen days for five months.

**Cause:** Procedures to minimize the number of days of cash on hand were not adequate.

**Effect:**

- The Federal government may require the use of a more stringent cash drawdown method for the program.
- Potential interest liability

# CHILD AND ADULT CARE FOOD PROGRAM (CACFP)

**Recommendation:** We recommend that the Department improve its procedures ensure that Federal cash is requested based on immediate cash needs.

**Management's Response/Corrective Action Plan:** *The Department agrees with the finding. A change to the daily processing of Accounts Payable invoices was implemented January 2015 that allows for a more timely payment of invoices submitted and drawn for. This change is expected to decrease the amount of days cash on hand.*

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

**(State Number: 14-1115-01)**

**(2014-030)**

**Title:** Federal Funding Accountability and Transparency Act (FFATA) reporting procedures need improvement

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1113-01 | 12-1113-01 | | | | | |

**State Department:** Health and Human Services
**State Bureau:** Division of Program Fiscal Coordination
**Federal Agency:** U.S. Department of Agriculture
U.S. Department of Health and Human Services
**CFDA Title:** Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Child and Adult Care Food Program
Social Services Block Grant
**CFDA #:** 10.557, 10.558, 93.667
**Federal Award #:** 4ME700701, 4ME700742, 4ME720701, 4ME300302, 4ME300385, 1201MESOSR, 1301MESOSR, 1401MESOSR

**Compliance Area:** Reporting

**Type of Finding:** Material weakness

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

# CHILD AND ADULT CARE FOOD PROGRAM (CACFP)

**Criteria:** 2 CFR 170 – Appendix A – Award Term. Paragraph 1; Paragraph 2.11 – For subaward information, report no later than the end of the month following the month in which the obligation is made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported no later than December 31, 2010.)

**Condition:** The Department did not report subaward information in compliance with FFATA reporting requirements. We reviewed a total of twenty-five subawards (for three Federal programs) for compliance with FFATA reporting. Fifteen reports were not filed, three were not filed on a timely basis and three more contained inaccurate data.

**Context:** FFATA requires that prime recipients of Federal grants awarded on or after October 1, 2010 must report on subawards of $25,000 or more made to first-tier subrecipients. The total grant awards subject to FFATA reporting for each program are:

| | |
|---|---|
| WIC (CFDA# 10.557) | $4,192,964 |
| Child and Adult Care Food Program (CFDA# 10.558) | $9,761,825 |
| Social Services Block Grant (CFDA# 93.667) | $6,207,044 |

**Cause:** Ineffective procedures

**Effect:** Possible Federal sanctions for noncompliance with FFATA reporting requirements

**Recommendation:** We recommend that the Department implement procedures to ensure that FFATA reports are filed in accordance with applicable reporting requirements.

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

*The Department will work with the Office of the State Controller to develop methods to report complete and accurate sub-award information in a timely manner. Our completion date is scheduled for June 30, 2015.*

*More specifically and given the limiting nature of blanket contracts, the Department will create a predictive vendor budget derived from historical data and then monthly reconcile and make corrections to reflect actual vendor/grant expenditures. The Department will work with the Department of Administrative and Financial Services to automate this process such that CTB information will be uploaded using the FFATA batch file option.*

***Contact:*** *Glenn Aho, Director of Program and Fiscal Coordination, 287-3737*

**(State Number: 14-1113-02)**

# CHILD SUPPORT ENFORCEMENT

**(2014-031)**

**Title:** Controls over cash management need improvement

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**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:** Child Support Enforcement
**CFDA #:** 93.563
**Federal Award #:** 1304ME4005, 1404ME4005

**Compliance Area:** Cash management

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 31 CFR 205 B – Rules Applicable to Federal Assistance Programs not Included in a Treasury State Agreement

**Condition:** In April 2013, the Department requested grant funds in the amount of $870 thousand based in part on an estimate. This caused a $335 thousand cash balance to remain as of July 1, 2013. The Department did not take this cash balance into consideration when determining future amounts to draw down from the Federal government.

**Context:** The program had excess cash on hand for two of twelve months.

**Cause:** Inaccurate analysis of cash needs

**Effect:**

- The Federal government may require the use of a more stringent cash drawdown method for the program
- Potential interest liability

# CHILD SUPPORT ENFORCEMENT

**Recommendation:** We recommend that the Department consider cash on hand before requesting draws from Federal awards.

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

*A change to the daily processing of Accounts Payable invoices was implemented January 2015 that allows for a more timely payment of invoices submitted and drawn for. This change is expected to decrease the amount of days cash on hand.*

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

**(State Number: 14-1128-02)**

# CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)

**(2014-032)**

**Title:** Internal controls to ensure the transfer of accurate client eligibility information from the Automated Client Eligibility System (ACES) to the Maine Integrated Health Management Solution (MIHMS) need improvement

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1140-04 | 12-1140-03 | 11-1106-16 | 10-1106-16 | 09-1106-14 | 08-57 | 07-69 |

**State Department:** Health and Human Services
**State Bureau:** Office for Family Independence
Office of MaineCare Services
**Federal Agency:** U.S. Department of Health and Human Services
**CFDA Title:** Children's Health Insurance Program (CHIP)
Medicaid Cluster
**CFDA #:** 93.767, 93.775, 93.777, 93.778
**Federal Award #:** 05-1305ME5021, 05-1405ME5021,
05-1305ME5MAP, 05-1405ME5MAP

**Compliance Area:** Eligibility

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

**Questioned Costs:**

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | $293 CHIP<br>($247) Medicaid | $214 CHIP<br>($181) Medicaid | $79 CHIP<br>$(66) Medicaid |
| *Likely* | $416,000 CHIP<br>($351,000) Medicaid | $305,000 CHIP<br>($257,000) Medicaid | $111,000 CHIP<br>($94,000) Medicaid |

**Criteria:** 42 CFR 435 - Eligibility in the States, District of Columbia, and the Northern Mariana Islands, and American Samoa; MaineCare Eligibility Manual; State Plan for Medicaid; State Plan for CHIP

**Condition:** Eligibility determinations in ACES do not always get transferred correctly to the MIHMS system, resulting in payments being charged to the incorrect program.

In our random sample of sixty CHIP claims, we noted that one claim was incorrectly charged to the CHIP program. The associated client was eligible for Medicaid, not CHIP. Medicaid reimburses the State at a lower Federal financial participation rate than CHIP.

# CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)

**Context:** ACES determines eligibility for Federal financial assistance. ACES eligibility information is interfaced to the Data Hub, and then to MIHMS, for the payment of medical claims.

**Cause:**

- Complex methods and criteria are used to determine eligibility for Medicaid and CHIP.
- Electronic logic designed many years ago for use in legacy systems was not updated or designed correctly in ACES. Design features to accommodate the CHIP program were added later and were not tested sufficiently.

**Effect:**

- Costs are charged to an incorrect State or Federal program
- Potential disallowance of Federal funds

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

- Provide the resources necessary to review and resolve logical errors and interface issues related to CHIP and Medicaid
- Monitor eligibility requirements for CHIP and Medicaid to prevent future errors

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

*The Department will pursue implementation of the noted recommendations.*

***Contact**: Timothy Lawrence, Internal Audit Manager, DOA, 287-2779*

**(State Number: 14-1140-01)**

# TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

**(2014-033)**

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

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1200-02 | | | | | | |

**State Department:** Administrative and Financial Services
**State Bureau:** General Government Service Center
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Title I Grants to Local Educational Agencies
**CFDA #:** 84.010
**Federal Award #:** S010A130019

**Compliance Area:** Reporting

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

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

**Condition:** FFATA requires that recipients report information about first tier subawards that result in an obligation of $25,000 or more in Federal funds. Subaward information was not reported under the correct Federal Award Identifier Number (FAIN). This remained undetected because reconciliations to include verification of the correct FAIN number were not always completed.

**Context:** Five of a sample of forty subrecipients were reported under an incorrect FAIN award identification number.

**Cause:** Reconciliations were not always completed while the Financial Analyst position was vacant.

**Effect:** Possible Federal sanctions for noncompliance with FFATA reporting requirements

# TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

**Recommendation:** We recommend that the Department implement procedures that include verification of the correct award identification number to ensure compliance with FFATA reporting requirements.

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

*As a result of the FY14 audit the Department developed reconciliation procedures for FFATA reporting. In May 2014 that reconciliation procedure found that some grant awards were reported to the incorrect federal award identification number (FAIN) for the Title I Grants to Local Education Agencies grant. The Department's grant system (GEM) was immediately corrected to avoid incorrect reporting after May. The correction to the Federal Funding Accountability and Transparency Act Sub-Award Reporting System (FSRS) was completed in September 2014.*

***Contact:*** *Elaine Babb, Budget Director, Department of Education, 624-7413*

**(State Number: 14-1200-01)**

# CHILD NUTRITION CLUSTER

**(2014-034)**

**Title:** Internal controls over the Federal Funding Accountability and Transparency Act (FFATA) need improvement

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1203-01 | 12-1203-01 | 11-1203-04 | | | | |

**State Department:** Education
**State Bureau:** Child Nutrition Services
**Federal Agency:** U.S. Department of Agriculture
**CFDA Title:** Child Nutrition Cluster
**CFDA #:** 10.555, 10.559
**Federal Award #:** 14134ME301N1098

**Compliance Area:** Reporting

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** Required reporting under the Federal Funding Accountability and Transparency Act (2 CFR 170).

**Condition:** The Department did not accurately report information required under 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 $45 million.

**Cause:** During SFY 2014, the Agency did not consistently comply with FFATA reporting requirements.

**Effect:** Potential Federal sanctions for noncompliance with FFATA reporting requirements.

# CHILD NUTRITION CLUSTER

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

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

*DOE has improved procedures to ensure the completeness and accuracy of information reported and assigned the reporting function to a Planning and Research Assistant effective March 2015. DOE will document instances of rejected submissions that appear to be the fault of the federal reporting system as allowed by the "good faith effort" provisions of FFATA.*

***Contact:*** *Walter Beesley, Director, Child Nutrition, 624-6875*

**(State Number: 14-1203-01)**

# STATEWIDE DATA SYSTEMS CLUSTER

**(2014-035)**

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

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1213-03 | | | | | | |

**State Department:** Education
**State Bureau:** School Finance and Operations
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Statewide Data Systems Cluster
**CFDA #:** 84.384
**Federal Award #:** R384A100049

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

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** OMB Circular A-133 Subpart C, §__.300(b), Auditee responsibilities; 2 CFR 200.303 Cost Principles for State, Local and Indian Tribal Governments (Subpart A) which requires that a Department is responsible for maintaining a system of internal control over Federal programs that provides reasonable assurance that the Department is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

**Condition:** Four of the thirteen invoices randomly selected for testing were not properly approved. These invoices were generated from the Office of Information Technology prior to implementation of the Department's corrective action (March 21, 2014) and were paid for without the approval of a knowledgeable individual within the Department. We separately tested three invoices that were generated by the Office of Information Technology after March 21, 2014. We found that all included the approval of a knowledgeable individual within the Department.

**Context:** Office of Information Technology charges amounting to $48,000 were paid during the audit period should have been subjected to a review by a knowledgeable individual within the program.

**Cause:** Procedures were not in place until March 21, 2014 to ensure that a knowledgeable individual within the program approved invoices prior to payment with program funds.

**Effect:** Potential disallowances

**Recommendation:** In our prior year finding, we recommended that the Department implement procedures to ensure that a knowledgeable individual within the program approve the allowability of all program expenditures. The Department responded that corrective action was taken effective March 31, 2014. No further corrective action is recommended.

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

*This finding is similar to the prior year finding 13-1213-03 and corrective action was taken effective March 31, 2014. Procedures were established between DAFS and DOE. A DAFS accountant electronically sends all non-payroll invoices to the SLDS Project Director and School Finance and Operations Team Leader for review and approval. The School Finance and Operations Team Leader sends a hard copy of each invoice with approval signature back to the DAFS accountant for further processing.*

***Contact:*** *William Hurwitch, Director, Statewide Longitudinal Data System, 624-6816*

**(State Number: 14-1213-01)**

**(2014-036)**

**Title:** Suspension and debarment requirements not met

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1213-02 | | | | | | |

**State Department:** Education
**State Bureau:** School Finance and Operations
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Statewide Data Systems Cluster
**CFDA #:** 84.384
**Federal Award #:** R384A100049

**Compliance Area:** Procurement and suspension and debarment

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 2 CFR 180.300 Cost Principles for State, Local and Indian Tribal Governments (C).

**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. Verification procedures to ensure that a contractor receiving significant grant funds was not suspended or debarred were not consistently performed.

**Context:** Of the eleven contracts reviewed, the required suspension and debarment verification procedures were not performed in three instances in which the original contract plus amendments was greater than $25,000.

**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 verification procedures be performed for all contracts for which it is required.

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

*This finding is similar to the prior year finding 13-1213-02 and corrective action was taken effective May 1, 2014. The grant contracts cited in this finding were completed and closed in 2014 and any subsequent grant contracts and amendments comply with the suspension and debarment verification procedures. The Department is working with procurement and the ART (Agreement Review Team) contract review process to identify any new amendments that increase the total value of original contracts to over $25,000. The Fiscal Review and Compliance Team is assisting to ensure compliance with debarred and suspension requirements. The Department implemented the corrective action May 1, 2014.*

***Contact:*** *William Hurwitch, Director, Statewide Longitudinal Data System, 624-6816*

**(State Number: 14-1213-02)**

# REHABILITATION SERVICES_VOCATIONAL REHABILITATION GRANTS TO STATES

**(2014-037)**

**Title:** Procedures to ensure timely eligibility decisions need improvement

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Labor
**State Bureau:** Rehabilitation Services
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Rehabilitation Services_Vocational Rehabilitation Grants to States
**CFDA #:** 84.126
**Federal Award #:** H126A130085, H126A130026,
H126A140085, H126A140026

**Compliance Area:** Eligibility

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 34 CFR 361.41(b) State Vocational Rehabilitation Services Program – Processing referrals and applications

**Condition:** Eligibility decisions were not completed in the sixty day timeframe required by Federal regulations.

**Context:** Eligibility decisions for ten of sixty applicants were made after the required sixty days from the date of application. These ten decisions were made at 65, 65, 68, 70, 91, 94, 98, 105, 111 and 132 days.

**Cause:** Lack of control over the timeliness of eligibility decisions

**Effect:** Eligible participants may not receive services in a timely manner

# REHABILITATION SERVICES_VOCATIONAL REHABILITATION GRANTS TO STATES

**Recommendation:** We recommend that the Department implement controls to improve the timeliness of eligibility decisions.

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

*Although management acknowledges that this remains a compliance issue, the agency reviewed the 10 DVR cases and noted that four of the eligibilities were only a few days over the 60 mark and seemed to be due to counselors not having time to enter them earlier than that in the system. There were four more that were late which could be tied to a higher than normal staff turnover in an office (Lewiston.). Between 2012 - 2014, for a variety of different reasons, two supervisors, a regional manager and several VR counselors turned over which did impact services to clients. Coverage of vacant caseloads was very challenging during this time. Lewiston is now fully staffed, and the hope is that this will improve timeliness of services. In addition, there are notes in a few of the cases that indicate counselors struggled to either meet with a client (due to client and/or counselor cancellations), or gather the needed information to determine eligibility. The counselors in those situations should have requested an extension for eligibility which they did not.*

*DVR continues to address this deficiency in multiple ways, including staff performance expectations, training, supervisory support and efforts to fill vacancies as soon as possible. In addition, DVR just started using a new monthly report which will be shared at monthly regional, supervisor and staff meetings which gives detailed information down to office units tracking counselor performance in meeting their eligibility goals from month to month. DVR has also come up with a plan to complete an in depth analysis of how client services are provided from entrance to exit in the six major offices. Once the analysis is complete, the director will compare the processes with the data of how the offices are meeting the time frames and make some staffing and/or process changes for these offices, which will then be followed by in-depth staff training.*

*Additionally the agency implemented Maine AwareVR, a new electronic case management system, in 2011 that will be further encouraged as a tool for supervisors and counselors to better manage activities due in their large caseloads, including eligibility determinations.*

***Contact:*** *Betsy Hopkins, DVR Director, 623-6745*
*Karen Fraser, Acting BRS Director, 623-7961*

**(State Number:14-1308-01)**

# REHABILITATION SERVICES_VOCATIONAL REHABILITATION GRANTS TO STATES

**(2014-038)**

**Title:** Internal controls over suspension and debarment for statewide contracts needs improvement

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Labor
Administrative and Financial Services
**State Bureau:** Rehabilitation Services
Division of Purchases
**Federal Agency:** U.S. Department of Education
**CFDA Title:** Rehabilitation Services_Vocational Rehabilitation Grants to States
**CFDA #:** 84.126
**Federal Award #:** H126A130085, H126A130026
H126A140085, H126A140026

**Compliance Area:** Procurement and suspension and debarment

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 34 CFR 85 – Government-wide Debarment and Suspension

**Condition:** No procedures were used to prevent financial transactions with suspended or debarred vendors when a contract was negotiated centrally for the benefit of multiple programs and agencies.

**Context:** The program expends more than $25,000 per year each for sign language and cellular phone services. The contracts for these services are managed by the Division of Purchases and are multi-agency contracts.

**Cause:**
- Lack of internal control
- Lack of communication
- Insufficient oversight

**Effect:** Potential Federal sanctions

**Recommendation:** We recommend procedures be established to prevent financial transactions with suspended or debarred vendors when contracts are negotiated at the statewide level.

**Management's Response/Corrective Action Plan:** *The Management Response from the Department of Labor is provided below.*

*Management agrees with this finding, but notes that these are State of Maine Master Agreements. The Bureau of Rehabilitation Services is not involved in the execution of those types of contracts, but simply selects vendors from the approved list when goods or services are needed. That said, BRS will work with the Division of Purchases to ensure that procedures are established, which will include the inclusion of the Debarment form in contracts involving Federal funds exceeding $25,000.*

***Contact:*** *Betsy Hopkins, DVR Director, 623-6745*
*Karen Fraser, Acting BRS Director, 623-7961*

**Management's Response/Corrective Action Plan:** *The Management Response from the Department of Administrative and Financial Services (DAFS) is provided below.*

*In short, DAFS respectfully disagrees that this should be categorized as a finding against the Division of Purchases. This disagreement was cordially communicated to the Office of the State Auditor on 3/2/2015 via email, and on 3/10/2015 via telephone. The rationale for this is explained below. Despite this disagreement, however, DAFS recognizes that the Division of Purchases plays a unique role in the State's contracting procedures, and is the best entity to facilitate a wide-reaching solution to the issue identified. A Corrective Action is therefore described below, and that Corrective Action has already been put in place in May 2014.*

*DAFS recognizes the importance of internal controls in the procurement process, as well as in other functions of State government. Nevertheless, the concept of debarring a vendor is a sensitive one. Debarring a vendor ultimately means that the government is no longer allowing that vendor to participate in what is otherwise an open process. At present, the State of Maine does not have any statutory language in place that would authorize the Division of Purchases to prevent a specific vendor from participating in the competitive bid process. Due to this fact, the Division of Purchases has historically been very careful about when debarment information is requested and/or acted upon.*

*Previously, and as noted in the finding above, debarment information has only been requested by the Division of Purchases when acting on behalf of a particular State agency in order to comply with that agency's Federal funding requirements. The Division provides the Federal debarment form on its website for State agencies to use when they contract with a vendor for more than $25,000 in Federal funds. When the Division of Purchases has established a statewide contract (i.e. a contract used by multiple departments) in the past, the Division has had no prior knowledge as to whether or not Federal funds will be used by the departments that ultimately purchase from the contracts – and as described above, the Division has generally not sought*

*debarment information when it had no clear/specific reason to do so. To the knowledge of the Director of the Division of Purchases, the State has never committed any actual violation of Federal debarment policies by contracting with a debarred vendor. To summarize, other Federal funding requirements specific to any department that may use a statewide agreement must ultimately be the responsibility of that department (not of the Division of Purchases) – and hence our disagreement with the categorization of the finding. The administrative burden would be too great if the Division were to attempt to encompass all potential Federal funding requirements in its statewide procurements.*

*As a Corrective Action, the Division of Purchases has put in place a debarment form into all of its competitive bidding templates. Therefore, whenever a competitive bidding process is initiated, regardless of the funds to be used, the State will have obtained the bidders' debarment status. In the event that a debarred vendor responds to a competitive bid, the Division can work with the Attorney General's Office to determine the next best course of action, in order to balance Federal requirements (if applicable) and the best interests of the State.*

***Contact:*** *Mark Lutte, Director, DAFS/BGS/Division of Purchases, 624-7332*

**Auditor's Concluding Remarks:** Since this is a Federal assistance program, the State of Maine must comply with Federal requirements. Federal regulations prohibit contracting with entities that have been suspended or debarred.

The finding remains as stated.

**(State Number: 14-1308-02)**

# UNEMPLOYMENT INSURANCE

**(2014-039)**

**Title:** Inadequate internal control over continuing eligibility

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1302-01 | 12-1302-01 | 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
**CFDA #:** 17.225
**Federal Award #:** *not applicable*

**Compliance Area:** Eligibility

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

**Questioned Costs:**

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | Undeterminable | | |
| *Likely* | Undeterminable | | |

**Criteria:** Unemployment Insurance Program Letter (UIPL) No. 5-13; 26 MRSA 1192 Eligibility Conditions; 26 MRSA 1194 Claims for Benefits; Pub. L No. 112-96; SSA Sec. 303(12)[16]; 20 CFR 603.2 and 20 CFR 615.8; 2 CFR 200.303

**Condition:** A state administering the Unemployment Insurance program must have properly designed internal control procedures in place to determine claimants' continuing eligibility. BUC has an internal control process in place in which they audit a random sample of weekly benefit payments for compliance with continuing eligibility work search requirements. We reviewed a random sample of sixty weekly benefit payments from the population of claimants audited by BUC as part of their own internal control process. Twenty nine of the sixty cases we selected from BUC's own audit process represented overpayments because the claimant did not comply with work search requirements. In the event that BUC determined a claim to be denied due to the work search noncompliance of a claimant, there was no formal process in place to respond to the risk that other claims paid to that claimant were also noncompliant.

Although BUC has begun to develop and put into place new procedures to extend the audit to other claims filed by the same noncompliant claimant detected in their work search audits, those procedures were not in place during FY14. The absence of additional internal control procedures to follow-up with noncompliant claimants in FY14 leaves a significant risk that benefits were paid to claimants who were not in compliance with work search requirements, and possibly not actively looking for work.

**Context:** $186 million in benefits were paid in fiscal year 2014. This includes $158 million of employer funded benefit payments and $28 million in Federally funded benefit payments.

**Cause:** Inadequate internal control procedures relating to continuing eligibility

**Effect:** Claims funded by Maine's employers and Federally funded unemployment claims were paid to persons who might not have been actively searching for a job and obtaining timely re-employment. The 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 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:**

*In late FY2013, the Bureau of Unemployment Compensation (BUC) implemented a formal work search audit process in order to better assess claimant compliance with State and Federal work search requirements. The eligibility requirement for actively seeking work each week in which a claim is filed has always been part of the continued claim questions to which a claimant must respond and attest to the truthfulness of his or her response. Our work search audit program was implemented to review and assess documentation of a claimant's activities in seeking work against the responses provided in continued claim(s) filed for specific week(s). Failure to provide the documentation or documentation indicating inadequate work search, results in the denial of benefits for the week(s) audited. A minimum of 200 claimants are randomly selected for work search audit each week (10,400 annually). Maine's work search audit process has been reviewed by the U.S. Department of Labor and has been determined to fully comply with Federal laws pertaining to work search requirements.*

*From a regulatory compliance position, there is nothing in existing State or Federal unemployment insurance laws that mandates further review or additional audit targeting of a specific claimant that has been denied for failure to perform an adequate work search. It is certainly possible that this individual might be randomly selected for work search audit more than once during an active benefit year. However, we agree that processes can be strengthened and that there would be value in changing the make-up of the 200 weekly audits to include some proportion of targeted audits as a follow up with a claimant that has failed to pass a work search audit, to ensure that he or she fully understands and is complying with their responsibilities in this area. In fact, the bureau has already started work in this area through the new work search rules and regulations promulgated in FY2014.*

# UNEMPLOYMENT INSURANCE

*The Unemployment Insurance Program Precedent Committee comprised of individuals representing all levels of the adjudicatory process including the Unemployment Insurance Commission Chair and the Commissioner of the Department of Labor; promulgated revised rules this past winter to be consistent with the new work search audit process and to clarify the work search requirements in Maine statute. The newly promulgated rules went into effect for claims filed for the week ending March 7, 2015. The revised rules now allow for a formal warning process for individuals selected for their* ***first*** *work search audit who fail due to inadequate documentation or work search activity. The work search auditor educates the individual on the requirement to be actively seeking work in order to collect benefits and to ensure that the claimant fully understands this and the consequences for failing to comply. This also ensures that claimants who were unaware or confused about their requirements to seek work and provide the required documentation are not unfairly penalized. The work search audit process has been revised to include procedures for determining when a formalized warning would be appropriate as opposed to benefit disqualification. Additionally, the revised rules mandate that a period of subsequent claims be reviewed to ensure that the claimant both understands and is fully complying with the work search requirements.*

*At this point in time, we cannot make the necessary programming changes to the benefit production system that would change the make-up of the 200 weekly audits from totally random to a combination of random and targeted selection. We are engaged in a tri-state system modernization project to replace our aged unemployment benefit and tax production systems and need to freeze any programming and coding changes to the existing system in order to finalize the coding for the new system and not cause a delay in completing that effort. The mandatory follow up audits associated with the work search warning process outlined above are being manually scheduled and performed in addition to the 200 weekly random audits. This will stretch the capacity of our existing staff resources significantly. However, we agree with the value of checking back on individuals that have been previously denied. Performing follow up audits on those having received a warning must be a priority due to the revised rules; but where possible and as resources permit, we will expand the follow up to include individuals who have previously failed an audit and who are still actively filing for benefits.*

***Contact:*** *Laura Boyett, Director, Bureau Unemployment Compensation, 621-5156*

**Auditor's Concluding Remarks:** During the FY14 audit prepared by the Office of the State Auditor we examined the results of BUC's internally prepared formal work search audit process. In the population of BUC's internally prepared audit of 200 claims per week we noted that BUC calculated an average overpayment rate of approximately thirty percent due to a claimant's noncompliance with the work search requirement. The Office of the State Auditor selected sixty of the claims BUC tested and our separate audit supported the thirty percent overpayment rate. The overpayment rate supports that a substantial portion of the claimant population does not comply with the continuing eligibility/work search requirements and therefore may or may not be actively looking for work.

BUC's audit process represents progress in ensuring claimant compliance by establishing an initial benchmark for effecting change and providing compelling evidence of noncompliance in the claimant population. However, this internal testing process is not complemented with important follow-up procedures to ensure that a noncompliant claimant has not received other benefit payments for which they were not eligible.

Federal laws and guidance require States to maintain laws requiring claimants to actively seek work for each week the claimant files a claim, and to maintain procedures that ensure substantial compliance with this requirement. We do not believe that the current internal control process that results in an exception rate of this magnitude ensures substantial compliance with the continuing eligibility/work search requirements.

The finding remains as stated.

**(State Number: 14-1302-01)**

**(2014-040)**

**Title:** Confidential finding, confidential distribution

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Labor (MDOL)
Administrative and Financial Services (DAFS)
**State Bureau:** Bureau of Unemployment Compensation (BUC)
Office of Information Technology (OIT)
**Federal Agency:** U.S. Department of Labor (US DOL)
**CFDA Title:** Unemployment Insurance
**CFDA #:** 17.225
**Federal Award #:** *not applicable*

**Compliance Area:** Eligibility

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**(State Number: 14-0913-01)**

# UNEMPLOYMENT INSURANCE

**(2014-041)**

**Title:** Confidential finding, confidential distribution

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Labor (MDOL)
Administrative and Financial Services (DAFS)
**State Bureau:** Unemployment Compensation (BUC)
Office of Information Technology (OIT)
**Federal Agency:** U.S. Department of Labor (US DOL)
**CFDA Title:** Unemployment Insurance
**CFDA #:** 17.225
**Federal Award #:** *not applicable*

**Compliance Area:** Eligibility

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**(State Number: 14-0913-03)**

# UNEMPLOYMENT INSURANCE

**(2014-042)**

**Title:** Confidential finding, confidential distribution

**Prior Year Findings:** None

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| | | | | | | |

**State Department:** Labor (MDOL)
Administrative and Financial Services (DAFS)
**State Bureau:** Unemployment Compensation (BUC)
Office of Information Technology (OIT)
**Federal Agency:** U.S. Department of Labor (US DOL)
**CFDA Title:** Unemployment Insurance
**CFDA #:** 17.225
**Federal Award #:** *not applicable*

**Compliance Area:** Eligibility

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**(State Number: 14-0914-02)**

**(2014-043)**

**Title:** Internal controls over Federal Funding Accountability and Transparency Act (FFATA) reporting need improvement

**Prior Year Findings:**

| FY13 | FY12 | FY11 | FY10 | FY09 | FY08 | FY07 |
|---|---|---|---|---|---|---|
| 13-1505-02 | 12-1505-02 | | | | | |

**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-13-DC-23-0001

**Compliance Area:** Reporting

**Type of Finding:** Significant deficiency

**Questioned Costs:** None

| Questioned Costs | Total | Federal | State |
|---|---|---|---|
| *Known* | | | |
| *Likely* | | | |

**Criteria:** 2 CFR 170 Appendix A 1(a)1 requires in part: "…you must report each action that obligates $25,000 or more in Federal funds…" According to the OMB *Open Government Directive – Federal Spending Transparency and Subaward and Compensation Data Reporting* August 27, 2010 Appendix A (F)(6) in part: "…The prime awardee must report information related to a subaward by the end of the month following the month the subaward or obligation was made."

**Condition:** The Department did not consistently comply with FFATA reporting requirements. FFATA requires that recipients report information about obligating acts of first tier subawards that result in an obligation of $25,000 or more in Federal funds. We noted the following:

- Four of a sample of seventeen obligations tested were not reported in a timely manner.
- Two of a sample of seventeen obligations had the wrong subaward number entered.
- Five of forty-seven subrecipient obligations were not reported at all.

**Context:** There were forty-seven obligating actions for this program totaling $11,877,237 requiring FFATA reporting during FY14.

**Cause:**

- A misunderstanding of what encumbrances needed to be reported until February 2014
- Difficulties with internal information technology systems

**Effect:** Potential Federal sanctions for noncompliance with FFATA reporting requirements

**Recommendation:** We recommend that the Department continue to implement the guidance provided, and tools available, to comply with FFATA reporting requirements.

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

*DECD will implement procedures to ensure that:*

- *Subaward obligations are reported in a timely manner;*
- *A secondary review of reported obligations is performed to verify that subaward information is complete and accurate; and,*
- *The entire population of subaward obligations is reported.*

***Contact:*** *Deborah Johnson, Director, Office of Community Development, 624-9817*

**(State Number: 14-1505-01)**

DIRIGO
MAINE

# STATE OF MAINE
# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
# FOR THE YEAR ENDED JUNE 30, 2014

DIRIGO
MAINE

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 11-1106-01 | 93.775<br>93.777<br>93.778 | Health and Human Services | Controls over prompt payment requirements need improvement | Not determinable | Finding no longer applies | ARRA audit requirement not applicable in FY14 |
| 11-1106-02 | 93.775<br>93.777<br>93.778 | Health and Human Services & Administrative and Financial Services | Federal share of paid claims overstated | Not determinable | Corrective action not completed in FY14 | Finding was not repeated |
| 11-1106-03 | 93.775<br>93.777<br>93.778 | Administrative and Financial Services | Procedures relating to uncashed checks need improvement | $26,024 | Corrective action completed in FY14 | Finding was not repeated |
| 11-1106-04 | 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 completed in FY14 | Finding was not repeated |
| 11-1106-05 | 93.775<br>93.777<br>93.778 | Health and Human Services | Inconsistent application of controls over the Medicaid provider desk review process | None | Corrective action not completed in FY14 | 2014-003 |
| 11-1106-06 | 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 completed in FY14 | Finding was not repeated |

*Prepared by the Office of the State Controller*

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 11-1106-07 | 93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services & Administrative and Financial Services | Procedures to ensure payments are made from the correct Federal program need improvement | $223,793 | Corrective action completed in FY14 | Finding was not repeated |
| 11-1106-08 | 93.775<br>93.777<br>93.778 | Health and Human Services | Medicare Part B eligibility verification procedures need improvement | None | Corrective action completed in FY14 | Finding was not repeated |
| 11-1106-11 | 93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | The Decision Support System/Data Warehouse is not reconciled to the Statewide accounting system | None | Corrective action not completed in FY14 | 2014-017 |
| 11-1106-12 | 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 FY14 | 2014-004 |
| 11-1106-14 | 93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services & Administrative and Financial 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 FY14 | 2014-014 |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 11-1106-16 | 93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Incorrect client eligibility determinations | None (Medicaid) / Not determinable (CHIP) | Corrective action not completed in FY14 | 2014-032 |
| 11-1111-01 | 93.558<br>93.714<br>93.775<br>93.777<br>93.778<br>10.551<br>10.561 | Health and Human Services | Income Eligibility and Verification System procedures need improvement | None | Corrective action completed in FY14 | 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 | Noncompliance with subrecipient cash management requirements | None | Corrective action completed in FY14 | Finding was not repeated |
| 11-1201-01 | 84.173<br>84.392 | Education | Noncompliance with Earmarking Requirements | None | Corrective action completed in FY14 | Finding was not repeated |
| 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 completed in FY14 | 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 FY14 | 2014-034 |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 11-1302-02 | 17.225 | Labor & Administrative and Financial Services | Significant improvements are needed to prevent, detect, remediate and recover improper Unemployment Insurance benefit payments | None | Corrective action continued in FY14 | 2014-039 |
| 11-1302-06 | 17.225 | Labor & Administrative and Financial Services | Procedures to determine eligibility need to be improved | $6,532 | Corrective action continued in FY14 | 2014-039 |
| 11-1403-01 | 20.500<br>20.507<br>20.509 | Transportation | Procedures related to subrecipient monitoring requirements need improvement | None | Corrective action completed in FY14 | Finding was not repeated |
| 12-0308-01 | Not applicable | Labor & Administrative and Financial Services | Accounting for the employer-funded unemployment insurance program needs to be improved | Not applicable | Corrective action not completed in FY14 | Management Letter comment issued for FY14 |
| 12-0909-01 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Reversed pharmacy claims payments not recovered | $662,000 | Corrective action not completed in FY14 | Finding was not repeated |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 12-1106-01 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services | Inconsistent application of controls over the Medicaid provider desk review process | None | Corrective action not completed in FY14 | 2014-003 |
| 12-1106-02 | 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 completed in FY14 | Finding was not repeated |
| 12-1106-04 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services & Administrative and Financial Services | Automated Data Processing (ADP) risk analysis and security reviews were not performed | None | Corrective action not completed in FY14 | 2014-016 |
| 12-1106-07 | 93.720<br>93.775<br>93.777<br>93.778 | Administrative and Financial Services | Procedures relating to uncashed checks need improvement | $40,061 | Corrective action completed in FY14 | Finding was not repeated |
| 12-1106-08 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services | Medicare Parts A and B eligibility verification procedures need improvement | Not determinable | Corrective action completed in FY14 | Finding was not repeated |
| 12-1106-09 | 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 FY14 | 2014-007 |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 12-1106-10 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | Access controls over Maine Integrated Health Management Solution (MIHMS) need improvement | None | Corrective action not completed in FY14 | 2014-015 |
| 12-1106-11 | 93.720<br>93.775<br>93.777<br>93.778<br>93.767 | Health and Human Services | The Decision Support System/Data Warehouse is not reconciled to the Statewide accounting system | None | Corrective action not completed in FY14 | 2014-017 |
| 12-1106-12 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services & Administrative and Financial Services | 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 | $803 | Corrective action not completed in FY14 | 2014-008<br>&<br>2014-014 |
| 12-1106-14 | 93.720<br>93.775<br>93.777<br>93.778 | Health and Human Services | Provider eligibility procedures need improvement | None | Corrective action not completed in FY14 | 2014-004 |
| 12-1108-01 | 10.561 | Administrative and Financial Services | Cash management procedures need improvement | None | Corrective action completed in FY14 | Finding was not repeated |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 12-1109-01 | 93.658 | Administrative and Financial Services | Payroll costs not properly documented | None | Corrective action completed in FY14 | Finding was not repeated |
| 12-1111-01 | 93.558<br>93.775<br>93.777<br>93.778<br>10.551<br>10.561 | Administrative and Financial Services | Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges | None | Corrective action not completed in FY14 | 2014-022 |
| 12-1111-02 | 93.558<br>93.775<br>93.777<br>93.778<br>10.551<br>10.561 | Health and Human Services | Income Eligibility and Verification System procedures need improvement | None | Corrective action completed in FY14 | Finding was not repeated |
| 12-1113-01 | 10.557 | Administrative and Financial Services | Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency | None | Corrective action not completed in FY14 | 2014-030 |
| 12-1118-03 | 93.268<br>93.712 | Health and Human Services | Hours worked for the program not adequately documented | None | Corrective action completed in FY14 | Finding was not repeated |
| 12-1140-01 | 93.767 | Administrative and Financial Services | Federal cash management procedures need improvement | None | Corrective action completed in FY14 | Finding was not repeated |
| 12-1140-03 | 93.767 | Health and Human Services | Incorrect client eligibility determinations | $1,321 (CHIP) / $1,124 (Medicaid) | Corrective action not completed in FY14 | 2014-032 |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 12-1200-01 | 84.010<br>84.389<br>84.027<br>84.173<br>84.391<br>84.392<br>84.287<br>84.367 | Education | Noncompliance with subrecipient cash management requirements | None | Corrective action completed in FY14 | Finding was not repeated |
| 12-1200-05 | 84.027<br>84.173<br>84.391<br>84.392<br>84.394 | Education | Control procedures related to period of availability requirements need improvement | Not determinable | Corrective action completed in FY14 | Finding was not repeated |
| 12-1201-02 | 84.027<br>84.173<br>84.391<br>84.392 | Education | During-the-award monitoring procedures need improvement | None | Corrective action completed in FY14 | Finding was not repeated |
| 12-1201-03 | 84.027<br>84.173<br>84.391<br>84.392 | Education | Noncompliance with reporting requirements | None | Corrective action completed in FY14 | Finding was not repeated |
| 12-1201-04 | 84.173 | Education | Noncompliance with Earmarking Requirements | None | Corrective action completed in FY14 | Finding was not repeated |
| 12-1203-01 | 10.553<br>10.555<br>10.556<br>10.559 | Education | Agency did not file reports required under the Federal Funding Accountability and Transparency Act | None | Corrective action not completed in FY14 | 2014-034 |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 12-1302-01 | 17.225 | Labor & Administrative and Financial Services | Procedures to determine continuing eligibility needs improvement | Not determinable | Corrective action continued in FY14 | 2014-039 |
| 12-1401-02 | 20.205<br>20.219 | Transportation | Subrecipient contracts do not contain all information required by Federal regulations | None | Corrective action completed in FY14 | Finding was not repeated |
| 12-1404-01 | 20.932 | Transportation | Procedures to ensure compliance with Federal suspension and debarment requirements need improvement | None | Corrective action completed in FY14 | Finding was not repeated |
| 12-1505-01 | 14.228 | Economic and Community Development | Suspension and debarment requirements overlooked | None | Corrective action completed in FY14 | Finding was not repeated |
| 12-1505-02 | 14.228 | Economic and Community Development | Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency | None | Corrective action not completed in FY14 | 2014-043 |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 13-0308-01 | Not applicable | Labor & Administrative and Financial Services | Accounting for the employer-funded unemployment insurance program needs to be improved | Not applicable | Corrective action not completed in FY14 | Management Letter comment issued for FY14 |
| 13-0906-02 | 93.720<br>93.767<br>93.775<br>93.777<br>93.778 | Health and Human Services | MaineCare Fiscal agent did not submit an action plan to correct Statement on Standards for Attestation Engagements (SSAE) 16 internal control findings related to information technology | None | Corrective action completed in FY14 | Finding was not repeated |
| 13-1106-01 | 93.778 | Health and Human Services & Administrative and Financial Services | Procedures to ensure that an individual client's "cost of care" is properly computed need improvement | Not determinable | Corrective action not completed in FY14 | 2014-019 |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 13-1106-02 | 93.778 | Health and Human Services & Administrative and Financial Services | 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 | $803 | Corrective action not completed in FY14 | 2014-014 |
| 13-1106-03 | 93.778<br>93.767 | Health and Human Services | The Decision Support System/Data Warehouse is not reconciled to the Statewide accounting system | None | Corrective action not completed in FY14 | 2014-017 |
| 13-1106-04 | 93.778 | Health and Human Services | Surveillance activities performed by the Program Integrity Unit to monitor MaineCare expenditures are inadequate | None | Corrective action not completed in FY14 | 2014-011 |
| 13-1106-05 | 93.778<br>93.767 | Health and Human Services | Reversed pharmacy claims payments not recovered | None | Corrective action not completed in FY14 | Finding was not repeated |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 13-1106-06 | 93.778<br>93.767 | Health and Human Services | Access controls over Maine Integrated Health Management Solution (MIHMS) need improvement | None | Corrective action not completed in FY14 | 2014-015 |
| 13-1106-07 | 93.778 | Health and Human Services & Administrative and Financial Services | Federal share of adjustments reported incorrectly | None | Corrective action not completed in FY14 | Finding was not repeated |
| 13-1106-08 | 93.778 | Administrative and Financial Services | Procedures relating to uncashed checks need improvement | $176,444 | Corrective action completed in FY14 | Finding was not repeated |
| 13-1106-09 | 93.777<br>93.778 | Health and Human Services | Provider eligibility procedures need improvement | None | Corrective action not completed in FY14 | 2014-004 |
| 13-1106-10 | 93.778 | Health and Human Services & Administrative and Financial Services | Automated Data Processing (ADP) risk analysis and security reviews were not performed | None | Corrective action not completed in FY14 | 2014-016 |
| 13-1106-11 | 93.778<br>93.767 | Health and Human Services | Independent auditor's report on fiscal agent's internal control over information technology is inadequate | None | Corrective action completed in FY14 | Finding was not repeated |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 13-1106-12 | 93.778 | Health and Human Services & Administrative and Financial Services | Controls are not adequate to ensure "cost of care" receivables due from private non-medical institution (PNMIs) are properly accounted for and recovered | None | Corrective action not completed in FY14 | 2014-002 |
| 13-1106-13 | 93.778 | Health and Human Services | Procedures relating to the hospital audits need to be improved | None | Corrective action completed in FY14 | Finding was not repeated |
| 13-1106-14 | 93.778 | Health and Human Services | Procedures related to nursing facility desk reviews need improvement | None | Corrective action not completed in FY14 | 2014-003 |
| 13-1106-16 | 93.778<br>93.767 | Administrative and Financial Services | Procedures to ensure accurate financial reporting need improvement | $1,243,049 | Corrective action completed in FY14 | Finding was not repeated |
| 13-1106-17 | 93.778 | Administrative and Financial Services | Procedures for the allocation and timely refunding of the Federal share of Medicaid overpayments need improvement | Not determinable | Corrective action not completed in FY14 | 2014-008 |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 13-1106-19 | 93.778<br>93.767 | Health and Human Services & Administrative and Financial Services | Controls in place to detect and correct for known Maine Integrated Health Management System (MIHMS) payment processing errors do not ensure appropriate resolution | Known: $2,038 Medicaid / ($285) CHIP | Corrective action not completed in FY14 | 2014-014 |
| 13-1108-01 | 10.561 | Administrative and Financial Services | Cash management procedures need improvement | None | Corrective action completed in FY14 | Finding was not repeated |
| 13-1109-01 | 93.658 | Administrative and Financial Services | Payroll costs not properly documented | None | Corrective action completed in FY14 | Finding was not repeated |
| 13-1111-01 | 93.558<br>93.767<br>93.778<br>10.551 | Health and Human Services & Administrative and Financial Services | Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges | None | Corrective action not completed in FY14 | 2014-022 |
| 13-1111-02 | 93.558<br>93.767<br>93.778<br>10.551 | Health and Human Services | Income Eligibility and Verification System (IEVS) procedures need improvement | None | Corrective action completed in FY14 | Finding was not repeated |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 13-1111-04 | 93.558 | Health and Human Services | Controls over performance reporting need improvement | None | Corrective action not completed in FY14 | 2014-027 |
| 13-1113-01 | 10.557 | Administrative and Financial Services | Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency | None | Corrective action not completed in FY14 | 2014-030 |
| 13-1113-03 | 10.557 | Administrative and Financial Services | Internal controls over subrecipient cash management need improvement | None | Corrective action not completed in FY14 | Management Letter comment issued for FY14 |
| 13-1140-02 | 93.767 | Administrative and Financial Services | Federal cash management procedures need improvement | None | Corrective action completed in FY14 | Finding was not repeated |
| 13-1140-03 | 93.778<br>93.767 | Health and Human Services | Controls over pharmacy claims processing system need improvement | None | Corrective action not completed in FY14 | 2014-007 |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 13-1140-04 | 93.720<br>93.767<br>93.775<br>93.777<br>93.778 | Health and Human Services | Internal controls were not adequate to ensure the transfer of accurate client eligibility information from the Automated Client Eligibility System (ACES) to the Maine Integrated Health Management Solution (MIHMS) | Known: ($19) Medicaid / $22 CHIP | Corrective action not completed in FY14 | 2014-032 |
| 13-1200-01 | 84.010<br>84.389<br>84.027<br>84.173<br>10.555<br>10.559<br>84.388<br>84.377<br>84.367 | Administrative and Financial Services | Internal controls over subrecipient cash management need improvement | None | Corrective action completed in FY14 | Finding was not repeated |
| 13-1200-02 | 84.010<br>84.027<br>84.367<br>84.377 | Administrative and Financial Services | Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency | None | Corrective action not completed in FY14 | 2014-033 |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 13-1201-01 | 84.173 | Education | Controls over earmarking requirements need improvement | None | Corrective action completed in FY14 | Finding was not repeated |
| 13-1203-01 | 10.555<br>10.559 | Education | Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency | None | Corrective action not completed in FY14 | 2014-034 |
| 13-1213-01 | 84.384 | Education | Payroll Costs not properly documented | None | Corrective action completed in FY14 | Finding was not repeated |
| 13-1213-02 | 84.384 | Education | Suspension and debarment requirements not met | None | Corrective action not completed in FY14 | 2014-036 |
| 13-1213-03 | 84.384 | Education | Procedures not adequate to ensure that payments are made only for allowable costs | None | Corrective action completed in FY14 | 2014-035 |
| 13-1213-04 | 84.384 | Education | Procedures to ensure compliance with matching requirements need improvement | None | Corrective action completed in FY14 | Finding was not repeated |
| 13-1213-05 | 84.384 | Education | Charges for project director's salary exceeded allowed amounts | $154,940 | Corrective action completed in FY14 | Finding was not repeated |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 13-1221-01 | 84.010<br>84.367 | Education | Inadequate procedures to ensure all subrecipient carryover reports have been submitted and balances liquidated | None | Corrective action completed in FY14 | Finding was not repeated |
| 13-1302-01 | 17.225 | Labor & Administrative and Financial Services | Procedures to determine continuing eligibility needs improvement | Not determinable | Corrective action continued in FY14 | 2014-039 |
| 13-1401-03 | 20.205 | Transportation | Subrecipient contracts do not contain all information required by Federal regulations | None | Corrective action completed in FY14 | Finding was not repeated |
| 13-1404-01 | 20.932 | Transportation | Procedures to ensure compliance with Federal suspension and debarment | None | Corrective action completed in FY14 | Finding was not repeated |
| 13-1505-01 | 14.228 | Economic & Community Development | Suspension and debarment requirements overlooked | None | Corrective action completed in FY14 | Finding was not repeated |
| 13-1505-02 | 14.228 | Economic & Community Development | Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency | None | Corrective action not completed in FY14 | 2014-043 |

State of Maine
Summary Schedule of Prior Audit Findings
for Years Prior to Fiscal Year 2014

| Finding Number | CFDA Number | State Agency | Description | Known Questioned Costs | FY14 Status (Refer to auditee's complete corrective action plan) | FY14 Finding |
|---|---|---|---|---|---|---|
| 13-1530-01 | 81.041 | Executive | Subrecipient monitoring procedures need improvement | None | Corrective action not completed in FY14 | Finding was not repeated |

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