State of Maine

Single Audit Report
Fiscal Year Ended
June 30, 1997

Prepared by
State Department of Audit
Gail M. Chase, CIA, State Auditor

Printed under appropriation 010 27A 1001 012

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 1997

Table of Contents

Table of Contents - Continued

Table of Contents - Continued

(This page intentionally left blank)

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

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

GAIL M. CHASE, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO CPA,CIA
DIRECTOR OF AUDITS
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDITS

Letter of Transmittal

Senator Mark Lawrence
President of the Senate

Representative Elizabeth Mitchell
Speaker of the House of Representatives

The Honorable Angus S. King, Jr.
Governor of Maine

Mr. John Fisher, Manager
National External Audit Review Center
U.S. Department of Health and Human Services

We are pleased to submit the Single Audit of the State of Maine as of and for the fiscal year ended June 30, 1997.

The audit, which covered over $4 billion in expenditures and of which $1.4 billion was for various Federal programs, was conducted pursuant to Title 5 MRSA §243, subsection 1, which authorizes the Department of Audit:

> To perform a postaudit of all accounts and other financial records of the state government or any department or agency thereof, including the judiciary and the Executive Department of the Governor, except the Governor's expense account, and to report annually on this audit, and at such other times as the Legislature may require.

In addition, the audit was conducted to meet the requirements of Title 31, Chapter 75, United States Code, as amended by the Single Audit Act Amendments of 1996, and the associated Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* issued by the U.S. Office of Management and Budget.

The objectives of the audit were:

- To examine the State's financial statements and determine if they were presented fairly and in conformity with generally accepted accounting principles,

- To assess the adequacy of the State's system of internal control over financial reporting and compliance with laws and regulations,

- To assess the State's compliance with laws and regulations, and

- To recommend corrective actions for any deficiencies noted.

We identified certain weaknesses in the State of Maine's internal control structure, and certain instances of noncompliance with laws and regulations that are described in more detail in the accompanying report.

On behalf of the Department of Audit, I would like to express my gratitude to employees throughout State government who have assisted us during the conduct of our audit and in the issuance of this report. We continue our mutual effort to improve financial reporting and accountability to the citizens of our State.

We would be pleased to respond to any questions or comments about the 1997 Single Audit of the State of Maine.

Respectfully submitted,

Gail M. Chase, CIA
State Auditor

August 31, 1998

EXECUTIVE SUMMARY

Introduction

The *Single Audit of the State of Maine* is a financial and compliance audit that fulfills State and Federal requirements. The audit is of the general-purpose financial statements of the State of Maine and includes all funds, organizations, institutions, agencies, departments and offices, as well as ten entities that meet the criteria for component units due to the significance of their operational and/or financial relationships with the State. To satisfy the needs of report users, and to be in compliance with federal regulation, the *Single Audit* is presented in three individual reports, the *Independent Auditor's Report*, the *Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* and the *Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133.* There is also a separately issued management letter.

Results

In general, we found that State financial managers properly managed the funds entrusted to them. However, as further described below, we noted weaknesses in internal control that, in our judgment, could result in errors that are material to the financial statements and not be detected timely. Except as noted in the referenced reports, State managers complied with laws and regulations governing the use of funds. We found no noncompliance that, in our judgment, would be material to the financial statements. We did note one instance of noncompliance with federal rules and regulations that was material to an individual major federal program. We noted other instances of noncompliance, with known or likely questioned costs of over $10,000, that we reported in the accompanying Schedule of Findings and Questioned Costs. Other instances of noncompliance with State and federal laws and regulations, as well as comments and suggestions that may improve internal controls, are included in the separately issued management letter.

Although the State has adequate controls in place to process and record transactions on a budgetary basis, we identified ten significant control weaknesses that adversely affect the State's ability to report in accordance with Generally Accepted Accounting Principles (GAAP). These issues are discussed in more detail in the accompanying report. Two of these areas, capital leases and fixed assets, resulted in modifications to our audit opinion, as adequate records were not available to fairly state the associated values. The State has entered into contracts to address these areas that should result in capital leases and fixed assets being correctly reflected on future State reports. Because of ongoing problems with inadequate systems and insufficient resources for capturing and reporting fiscal information in compliance with GAAP, we recommended that the Department of Administrative and Financial Services commit additional resources to external financial reporting. It should be noted that the Department created and filled one additional position subsequent to the period under audit. We also noted a problem with the accrual of accounts payable, especially those made via an external interface disbursement system. Finally, we noted that a lack of supervisory or management approval for adjustments and journal entries necessitated an audit adjustment of $8.1 million. These control weaknesses had previously been noted in the 1996 audit.

With regard to internal controls over compliance with federal regulations, we reported that the Office of the Treasurer of State did not make periodic reviews of State agency cash management records for compliance with the Cash Management Improvement Act. We reported noncompliance among five other State agencies, which did not restrict their cash drawdowns and those of their subrecipients.

We noted eight instances of State departments with insufficient controls to ensure compliance with their responsibilities as pass-through agencies of federal funds. The agencies did not properly inform subrecipients of federal regulations, did not include required information in contracts for federal awards, did not monitor expenditures (including matching and earmarking requirements) of subrecipients and/or did not have a system to ensure receiving, reviewing and responding to audits of subrecipients. We recommended that those agencies create or improve controls to ensure proper expenditure of federal funds and to avoid jeopardizing future federal support.

Our examination of the State's federal programs resulted in questioned costs of $627,484. Questioned costs represent the amount of federal financial assistance that was not spent in compliance with program rules or regulations or that was insufficiently documented for us to determine compliance. Amounts questioned may result in a State liability to the federal government.

Conclusion

Our audit resulted in a qualified opinion and identified serious weaknesses in systems of internal control, as well as various instances of noncompliance. However, we recognize that State financial managers have initiated action that should resolve many of these issues. While the nature of any audit report is inherently critical, we believe that the State of Maine has improved both its financial position and its systems to ensure accountability.

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

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

GAIL M. CHASE, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO CPA,CIA
DIRECTOR OF AUDITS
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDITS

Independent Auditor's Report

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

We have audited the accompanying general purpose financial statements of the State of Maine, as of and for the year ended June 30, 1997, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the discretely presented component units listed in Note 1, which represent 100 percent of the total assets and 100 percent of the total revenues of the component unit column, 100 percent of the changes in pension plan net assets and 100 percent of the assets and 100 percent of the revenues of the college and university component unit funds. We did not audit the financial statements of the Maine Court Facilities Authority, which represents one percent of the assets and .4 percent of the total revenues of the Special Revenue Fund Type. Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component units and for the Maine Court Facilities Authority, is based solely on the reports of the other auditors.

Except as discussed in the first succeeding paragraph, we conducted our audit in accordance with generally accepted auditing standards and *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 general purpose financial statements are free of material misstatement. The financial statements of the Finance Authority of Maine, the Maine Municipal Bond Bank, the Maine Court Facilities Authority, the Maine Educational Loan Authority and the Maine State Housing Authority were not audited in accordance with *Government Auditing Standards*. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

Because the State of Maine does not maintain adequate systems to identify, classify and report capital leases in conformity with generally accepted accounting principles, we were unable to satisfy ourselves regarding the amounts at which fixed assets (stated at $46.2 million), and obligations under capital leases (stated at $0) are recorded in the Internal Service Fund.

The general purpose financial statements referred to above do not include the General Fixed Assets Account Group which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the General Fixed Assets Account Group is not known.

The general purpose financial statements referred to above do not include financial data of the Maine Turnpike Authority, which should be included in order to conform with generally accepted accounting principles. The financial statements of the Maine Turnpike Authority were audited by other auditors whose report dated March 14, 1997, expressed an unqualified opinion on those statements, which were prepared in accordance with provisions of General Turnpike Revenue Bond Resolutions and the Authority's interpretations of those resolutions. The effect on amounts reported in the discretely presented component unit columns had the omitted component unit been included is not known.

The general purpose financial statements referred to above do not include financial data of the Maine Health and Higher Education Facilities Authority, which should be included in order to conform with generally accepted accounting principles. The financial statements of the Maine Health and Higher Education Facilities Authority were audited by other auditors whose report dated October 17, 1997, expressed an unqualified opinion on those statements. If the omitted component unit had been included, the assets and liabilities of the discretely presented component unit column would have increased by $946 million and $781.5 million, respectively. The effect on revenues and expenditures of the discretely presented component units, had the omitted component unit been included, is not known.

In our opinion, based on our audit and the reports of other auditors, except for the effect on the financial statements of the omissions described in the first, second and third preceding paragraphs, and the effect of such adjustments, if any, as might have been determined to be necessary had records concerning capital leases been adequate (discussed in the fourth preceding paragraph), the general purpose financial statements referred to in the first paragraph (as included in the table of contents) present fairly, in all material respects, the financial position of the State of Maine, as of June 30, 1997, and the results of its operations and the cash flows of its proprietary fund types, nonexpendable trust funds and discretely presented component units, the changes in pension plan net assets, and the changes in fund balances and current funds revenues, expenditures, and other changes of the college and university funds for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 20 to the financial statements, the State of Maine financial reporting entity has changed as the result of implementing Government Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

In accordance with *Government Auditing Standards*, we will issue a report dated April 15, 1998, on our consideration of the State of Maine's internal control structure and on its compliance with laws and regulations, in the *State of Maine Single Audit Report*.

As described in Note 3 to the financial statements, General and Special Revenue Fund fund balances and Internal Service and Enterprise Fund retained earnings have been restated.

Gail M. Chase, CIA
State Auditor

April 15, 1998
(Except for Note 18,
as to which the date
is May 5, 1998)

(This page intentionally left blank)

STATE OF MAINE
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUP and DISCRETELY PRESENTED COMPONENT UNITS

June 30, 1997
(Dollars in Thousands)

	Governmental Fund Types		
	General	**Special Revenue**	**Capital Projects**
Assets and Other Debits			
Cash and Short-Term Investments	$ 171,616	$ 129,832	$ 55,654
Cash with Fiscal Agent	17,305	3,711	-
Investments	-	4,493	-
Restricted Deposits	9,426	-	-
Line of Credit	-	-	-
Investments of Deferred Compensation Plan	-	-	-
Assets Held in Trust	-	-	-
Unemployment Deposits with US Treasury	-	-	-
Receivables, Net of Allowance for Uncollectibles:			
Taxes Receivable	204,519	33,071	-
Due from Other Governments	-	123,059	-
Loans Receivable	1	1,394	-
Notes Receivable	-	-	-
Other Receivable	32,067	47,178	-
Due from Other Funds	2,006	12,955	-
Due from Primary Government	-	-	-
Inventories	2	21,719	-
Fixed Assets - Net of Depreciation Where Applicable	-	-	-
Working Capital Receivable	1,386	13,182	-
Other Assets	1,917	2,045	1
Amount to be Provided for Retirement of General Long-Term Obligations	-	-	-
Total Assets and Other Debits	$ 440,245	$ 392,639	$ 55,655
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	$ 74,062	$ 152,516	$ 5,439
Accrued Payroll	12,356	15,085	-
Compensated Absences	2,639	1,904	-
Tax Refunds Payable	65,486	-	-
Due to Other Governments	38,497	40,025	-
Due to Other Funds	10,019	7,149	-
Due to Component units	16,818	5,023	2,300
Lottery Prizes Payable	-	-	-
Deferred Compensation Payable	-	-	-
Agency Liabilities	-	-	-
Claims Payable	-	-	-
Other Accrued Liabilities	7,442	5,398	-
Certificates of Participation and Other Financing Arrangements	-	-	-
Obligations under Capital Leases	-	-	-
Amounts Held under State Loan Programs			
Deferred Revenue	77,164	32,617	-
Undisbursed Grant and Administrative Funds	-	-	-
Bonds and Notes Payable	2,471	108	-
Working Capital Advances Payable	-	275	-
Total Liabilities	306,954	260,100	7,739
Fund Equity and Other Credits:			
Contributed Capital	-	-	-
Retained Earnings:			
Reserved	-	-	-
Unreserved	-	-	-
Fund Balances (Deficits):			
Reserved for Continuing Appropriations	69,170	171,212	-
Reserved for Unemployment Benefits	-	-	-
Reserved for Nonexpendable Trusts	-	-	-
Reserved for Pension Benefits	-	-	-
Reserved for Debt Service	17,193	-	-
Reserved for Capital Projects	-	-	47,916
Reserved for Tax Relief	44,677	-	-
Other Reservations	15,380	14,572	-
Net Investment in Plant	-	-	-
Unreserved	(13,129)	(53,245)	-
Total Fund Equity and Other Credits	133,291	132,539	47,916
Total Liabilities, Fund Equity and Other Credits	$ 440,245	$ 392,639	$ 55,655

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

Primary Government						
Proprietary Fund Types		Fiduciary Fund Types	Account Group	Total (Memorandum Only)		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Long-Term Obligations	Primary Government	Component Units	Reporting Entity
$ 6,427	$ 33,234	$ 18,842	$ -	$ 415,605	$ 537,054	$ 952,659
-	115	748	-	21,879	3,723	25,602
-	-	44,494	-	48,987	5,325,556	5,374,543
-	-	-	-	9,426	-	9,426
-	-	-	-	-	35,863	35,863
-	-	133,988	-	133,988	1,567	135,555
-	-	40,385	-	40,385	2,660	43,045
-	-	118,405	-	118,405	-	118,405
-	-	-	-	237,590	-	237,590
-	-	-	-	123,059	18,093	141,152
9,323	-	-	-	10,718	1,779,583	1,790,301
-	-	-	-	-	34,848	34,848
7,143	1,635	5,765	-	93,788	37,918	131,706
21	8,680	-	-	23,662	3,140	26,802
-	-	-	-	-	25,622	25,622
3,182	4,476	1	-	29,380	5,560	34,940
54,147	46,167	-	-	100,314	341,738	442,052
-	-	-	-	14,568	-	14,568
127	435	25	-	4,550	22,916	27,466
-	-	-	523,160	523,160	-	523,160
$ 80,370	$ 94,742	$ 362,653	$ 523,160	$ 1,949,464	$ 8,175,841	$ 10,125,305
						-
$ 5,505	$ 6,484	$ 7,203	$ -	$ 251,209	$ 22,725	$ 273,934
429	1,014	-	-	28,884	1,237	30,121
451	936	-	26,180	32,110	196	32,306
-	-	-	-	65,486	-	65,486
-	-	-	-	78,522	9,171	87,693
75	991	5,428	-	23,662	3,140	26,802
1,481	-	-	-	25,622	-	25,622
6,587	-	-	-	6,587	-	6,587
-	-	133,988	-	133,988	1,567	135,555
-	-	40,495	-	40,495	-	40,495
-	55,013	-	-	55,013	-	55,013
1,167	537	692	-	15,236	84,939	100,175
-	19,917	-	6,894	26,811	-	26,811
-	-	-	-	-	5,428	5,428
				-	48,972	48,972
331	1,337	5,752	-	117,201	38,425	155,626
-	-	-	-	-	7,794	7,794
-	-	-	490,086	492,665	1,953,568	2,446,233
1,000	13,293	-	-	14,568	-	14,568
17,026	99,522	193,558	523,160	1,408,059	2,177,162	3,585,221
56,646	15,328	-	-	71,974	-	71,974
-	-	-	-	-	152,312	152,312
6,698	(20,108)	-	-	(13,410)	162,893	149,483
-	-	-	-	240,382	-	240,382
-	-	101,693	-	101,693	-	101,693
-	-	12,355	-	12,355	6,185	18,540
-	-	-	-	-	5,214,197	5,214,197
-	-	-	-	17,193	931	18,124
-	-	-	-	47,916	6,561	54,477
-	-	-	-	44,677	-	44,677
-	-	-	-	29,952	157,190	187,142
-	-	-	-	-	288,632	288,632
-	-	55,047	-	(11,327)	9,778	(1,549)
63,344	(4,780)	169,095	-	541,405	5,998,679	6,540,084
$ 80,370	$ 94,742	$ 362,653	$ 523,160	$ 1,949,464	$ 8,175,841	$ 10,125,305

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

Fiscal Year Ended June 30, 1997
(Dollars in Thousands)

	Primary Government				
	Governmental Fund Types			Fiduciary Fund Type	
	General	Special Revenue	Capital Projects	Expendable Trust	Total (Memorandum Only)
Revenues:					
Taxes	$ 1,803,224	$ 310,487	$ -	$ 116,056	$ 2,229,767
Assessments and Other Revenues	42,225	107,988	-	-	150,213
Federal Grants and Reimbursements	16,524	1,308,182	-	-	1,324,706
Service Charges	26,342	107,544	-	-	133,886
Miscellaneous Revenues	9,838	21,377	3,945	16,176	51,336
Total Revenues	1,898,153	1,855,578	3,945	132,232	3,889,908
Expenditures:					
General Government	162,502	99,099	(1,886)	192	259,907
Economic Development	29,966	63,175	3,000	-	96,141
Education and Culture	723,438	88,792	5,329	-	817,559
Human Services	541,026	1,154,810	1,217	-	1,697,053
Labor	11,274	66,519	-	104,289	182,082
Natural Resources	38,892	48,468	17,215	1,734	106,309
Public Protection	13,514	50,020	338	-	63,872
Transportation	2,715	341,128	21,135	-	364,978
Debt Service:					
Principal Payments	67,537	20,380	-	-	87,917
Interest Payments	26,156	8,202	-	-	34,358
Total Expenditures	1,617,020	1,940,593	46,348	106,215	3,710,176
Revenues over (under) Expenditures	281,133	(85,015)	(42,403)	26,017	179,732
Other Financing Sources (Uses):					
Operating Transfers Net	(5,187)	73,123	(3,687)	(2,325)	61,924
Bond Proceeds	-	-	42,700	-	42,700
Transfers to Component Units	(177,351)	(14,240)	(8,698)	-	(200,289)
Net Other Financing Sources (Uses)	(182,538)	58,883	30,315	(2,325)	(95,665)
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	98,595	(26,132)	(12,088)	23,692	84,067
Fund Balances at Beginning of Year	34,696	158,671	60,004	132,711	386,082
Fund Balances at End of Year	$ 133,291	$ 132,539	$ 47,916	$ 156,403	$ 470,149

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

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES

Fiscal Year Ended June 30, 1997
(Dollars in Thousands)

	General Fund			Special Revenue Fund		
	Actual	Budget	Variance Favorable/ (Unfavorable)	Actual	Budget	Variance Favorable/ (Unfavorable)
Revenues:						
Taxes	$ 1,769,131	$ 1,716,897	$ 52,234	$ 326,505	$ 328,494	$ (1,989)
Assessments and Other Revenues	45,631	50,155	(4,524)	104,571	126,742	(22,171)
Federal Grants and Reimbursements	6,043	9,535	(3,492)	1,215,670	1,517,012	(301,342)
Service Charges	26,604	28,267	(1,663)	82,092	109,783	(27,691)
Miscellaneous Revenues	8,127	6,433	1,694	95,814	110,435	(14,621)
Total Revenues	1,855,536	1,811,287	44,249	1,824,652	2,192,466	(367,814)
Expenditures:						
General Government	232,550	262,055	29,505	123,684	147,963	24,279
Economic Development	29,966	31,703	1,737	63,174	93,220	30,046
Education and Culture	893,688	900,755	7,067	89,165	97,757	8,592
Human Services	546,150	596,630	50,480	1,135,254	1,300,040	164,786
Labor	11,274	15,007	3,733	66,519	112,651	46,132
Natural Resources	38,892	40,728	1,836	48,468	80,563	32,095
Public Protection	13,356	15,731	2,375	50,020	59,938	9,918
Transportation	2,777	3,028	251	328,650	402,119	73,469
Total Expenditures	1,768,653	1,865,637	96,984	1,904,934	2,294,251	389,317
Excess Revenues over (under) Expenditures	86,883	(54,350)	141,233	(80,282)	(101,785)	21,503
Other Financing Sources (Uses):						
Operating Transfers In	71,576	69,085	2,491	77,703	76,113	(1,590)
Operating Transfers Out	(79,237)	(76,855)	(2,382)	(8,388)	(10,135)	(1,747)
Other Budgeted Resources	2,102	18,629	(16,527)	(515)	-	515
Net Other Financing Sources (Uses)	(5,559)	10,859	(16,418)	68,800	65,978	(2,822)
Excess Revenues and Other Sources over (under) Expenditures and Other Uses	81,324	$ (43,491)	$ $124,815	(11,482)	$ (35,807)	$ 24,325
Beginning Fund Balances	137,975			182,919		
Ending Fund Balances	$ 219,299			$ 171,437		

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

(This page intentionally left blank)

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS/ FUND BALANCES, AND CONTRIBUTED CAPITAL
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 1997
(Dollars in Thousands)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Types		
	Enterprise	Internal Service	Nonexpendable Trusts	Total (Memorandum Only)	Component Units
Operating Revenues:					
Charges for Services	$ 221,477	$ 121,697	$ -	$ 343,174	$ 3,307
Interest on Loans Receivable from Governmental Units	-	-	-	-	45,656
Income from Investments	-	-	337	337	30,215
Interest Income from Mortgages and Notes	-	-	-	-	67,630
Grant Revenue from Other Governments	-	-	-	-	59,337
Federal Rent Subsidy Income	-	-	-	-	52,915
Reinsurance Recoveries - Guaranteed Student Loans	-	-	-	-	11,907
Miscellaneous Revenues	-	-	-	-	16,347
Total Operating Revenues	221,477	121,697	337	343,511	287,314
Operating Expenses:					
General Operations	159,028	91,158	-	250,186	16,929
Depreciation	3,938	9,912	-	13,850	373
Interest Expense	150	1,132	-	1,282	120,697
Grant Related Expenses	-	-	-	-	35,729
Federal Rent Subsidy Expense	-	-	-	-	52,915
Claims / Fees Expense	-	16,872	-	16,872	-
Miscellaneous Expenses	-	-	-	-	23,245
Total Operating Expenses	163,116	119,074	-	282,190	249,888
Operating Income (Loss)	58,361	2,623	337	61,321	37,426
Nonoperating Revenue (Expenses):	803	1,192	-	1,995	(2,633)
Income (Loss) before Operating Transfers	59,164	3,815	337	63,317	34,793
Transfers In (Out):					
Transfers In	2,358	25		2,383	8,496
Transfers Out	(64,307)			(64,307)	-
Total Operating Transfers	(61,949)	25	-	(61,924)	8,496
Income (Loss) before Extraordinary Item	(2,785)	3,841	337	1,393	43,289
Income (Loss) from Extraordinary Item:					
Loss on Bond Redemption					(743)
Net Income	(2,785)	3,841	337	1,393	42,546
Add: Depreciation of Fixed Assets Acquired from Contributed Capital	1,833	-	-	1,833	-
Increase (Decrease) in Retained Earnings/Fund Balances	(952)	3,841	337	3,226	42,546
Retained Earnings/Fund Balances at July 1, 1996 (As Restated)	7,650	(23,948)	12,355	(3,943)	272,659
Retained Earnings/Fund Balances at June 30, 1997	$ 6,698	$ (20,108)	$ 12,692	$ (718)	$ 315,205
Contributed Capital at July 1, 1996	55,861	15,328		71,189	
Add: Capital Contributions	2,618	-		2,618	
Less: Depreciation of Fixed Assets Acquired from Contributed Capital	(1,833)	-		(1,833)	
Contributed Capital at June 30, 1997	$ 56,646	$ 15,328		$ 71,974	

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

STATE OF MAINE
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 1997
(Dollars in Thousands)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Type		
	Enterprise	Internal Service	Nonexpend-able Trust	Total (Memorandum Only)	Component Units
Cash Flows from Operating Activities:					
Excess of Revenues Over Expenses/Net Operating Income	$ 58,361	$ 2,623	$ 337	$ 61,321	$ 37,426
Adjustments to Reconcile Excess of Revenues over	-	-	-	-	-
Expenses to Net Cash Provided by Operating Activities:	-	-	-	-	-
Investments and Other Income	-	-	-	-	(32,748)
Depreciation/Amortization	5,771	9,912	-	15,683	373
Amortization					1,969
Accretion on Capital Appreciation of Bonds	-	-	-	-	1,601
Interest Expense on Bonds Payable	-	-	-	-	-
and Deferred Financing Costs	-	-	-	-	118,400
Grants from Federal Government and Primary Government	-	-	-	-	(21,868)
Provision for Losses on Insured Commercial and Student Loans	-	-	-	-	87
Changes in Assets and Liabilities:	-	-	-	-	-
Accounts Receivable	-	-	-	-	(105,080)
Other Receivable	2,654	(1,065)	-	1,589	-
Loans Receivable	550	-	-	550	-
Due from Other Funds	(10)	(199)	-	(209)	-
Inventories	102	670	-	772	-
Loans Receivable from Governmental Units	-	-	-	-	(11,492)
Accrued Interest Receivable from				-	-
Governmental Units	-	-	-	-	295
Other Assets	489	(258)	(4)	227	5,319
Accounts Payable	(630)	2,168	-	1,538	(2,172)
Accrued Payroll	66	84	-	150	-
Compensated Absences	(26)	(49)	-	(75)	-
Due to Other Funds	(1,528)	(785)	-	(2,313)	-
Due to Component Unit	1,481	-	-	1,481	-
Deferred Revenue	(20)	249	-	229	269
Lottery Prizes Payable	(931)	-	-	(931)	-
Claims and Judgments	-	2,329	-	2,329	-
Undisbursed Administrative Funds	-	-	-	-	96
Net of Receipts/(Payments) of Federal Government	-	-	-	-	817
Other Accrued Liabilities	(1,290)	69	2	(1,219)	-
Default Payments (Net of Recoveries) on Commercial and				-	-
Student Loans	-	-	-	-	(2,175)
Principal Payments Received on Notes Receivable	-	-	-	-	11,889
Interest Received on Educational Loans	-	-	-	-	3,102
Disbursements for New Notes Receivable	-	-	-	-	(10,369)
Educational Loans Originated for Sale to Related Party	-	-	-	-	(50,741)
Sale of Educational Loans to Related Party	-	-	-	-	50,741
Increase in Amounts Held in State Revolving Loan Programs	-	-	-	-	5,961
Grant Program Funds Received (Disbursed)	-	-	-	-	(2,948)
Net Cash Provided by Operating Activities	$ 65,039	$ 15,748	335	$ 81,122	$ (1,248)

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

STATE OF MAINE
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 1997
(Dollars in Thousands)
(continued)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Type		
	Enterprise	Internal Service	Nonexpend-able Trust	Total (Memorandum Only)	Component Units
Cash Flows from Noncapital Financing Activities:					
Proceeds from Bonds & Notes Payable	$ 255	$ -	$ -	$ 255	$ 247,912
Principle Paid on Bonds & Notes Payable	-	-	-	-	(139,538)
Amount Deposited in Refunding Escrow Accounts	-	-	-	-	(26,606)
Interest Paid on Bonds & Notes Payable	-	-	-	-	(113,216)
Grant Receipts from Other Governments	-	-	-	-	10,129
Increase in Pledged Collateral Due to Related Party	-	-	-	-	310
Operating Transfers In (Out)	(61,949)	25	-	(61,924)	-
Transfers In from Primary Government					8,496
Equity Transfer In (Out)	(4,225)	4,225	-	-	-
Miscellaneous Noncapital Financing Activities	-	-	-	-	(1,388)
Net Cash Provided by Noncapital Financing Activities	(65,919)	4,250	-	(61,669)	(13,901)
Cash Flows from Capital and Related Financing Activities:					
Additions to Land and Building	(4,487)	(7,873)	-	(12,360)	(119)
Principal Payments on Financing Instruments	-	(2,968)	-	(2,968)	-
Capital Contributions	785	-	-	785	-
Net Cash Provided by Capital and Related Financing Activities	(3,702)	(10,841)	-	(14,543)	(119)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	-	-	-	-	271,909
Purchase of Investments	-	-	(492)	(492)	(257,432)
Income Received from Investments	547	1,192	-	1,739	27,443
Net Cash Provided by Investing Activities	547	1,192	(492)	1,247	41,920
Increase (Decrease) in Cash and Cash Equivalents	(4,035)	10,349	(157)	6,157	26,652
Cash and Cash Equivalents at Beginning of Year	10,462	23,000	913	34,375	189,797
Cash and Cash Equivalents at End of Year	$ 6,427	$ 33,349	$ 756	$ 40,532	$ 216,449

STATE OF MAINE
STATEMENT OF CHANGES IN PLAN NET ASSETS
DISCRETELY PRESENTED COMPONENT UNIT - PENSION PLAN

Fiscal Year Ended June 30, 1997
(Dollars in Thousands)

Additions:	
Investment Income:	
Interest	$ 47,118
Dividends	18,410
Other	9,384
Net Appreciation in the Fair Value of Investments	753,103
Less: Investment Expenses	(10,744)
Net Investment Income	817,271
Contributions:	
Members	105,379
State and Local Agencies	267,854
Total Contributions	373,233
Total Additions	1,190,504
Deductions:	
Benefits Paid	290,211
Refunds and Withdrawals	15,717
Administrative Expenses	7,204
Total Deductions	313,132
Net Increase	877,372
Net Assets Held in Trust for Pension Benefits:	
Beginning of Year	4,336,825
End of Year	$ 5,214,197

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

STATE OF MAINE
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
DISCRETELY PRESENTED COMPONENT UNITS - COLLEGE AND UNIVERSITY FUNDS

For the Fiscal Year Ended June 30, 1997
(Dollars in Thousands)

	Current Funds					Total
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Plant Funds	(Memorandum Only)
Revenues and Other Additions:						
Unrestricted Current Fund Revenues	$ 187,231	$ 10,595	$ -	$ -	$ -	$ 197,826
Government Grants and Contracts - Restricted	-	47,546	428	-	880	48,854
Private Gifts, Grants and Contracts - Restricted	-	20,144	210	2,746	3,431	26,531
Endowment Income - Restricted	-	2,680	9	292	-	2,981
Investment Income - Restricted	-	747	41	-	357	1,145
Interest Income on Loans Receivable	-	-	1,006	-	-	1,006
Unrealized Gains on Investments	-	-	131	11,205	-	11,336
Expended for Plant Facilities	-	10	-	-	21,121	21,131
Other Additions	4,538	133	1	45	2,733	7,450
Total Revenues and Other Additions	191,769	81,855	1,826	14,288	28,522	318,260
Expenditures and Other Deductions:						
Educational and General Expenditures	303,544	94,015	-	650	-	398,209
Auxiliary Enterprise Expenditures	49,002	3	-	-	-	49,005
Administrative and Collection Costs	-	100	1,459	212	218	1,989
Interest on Indebtedness	-	-	-	-	2,550	2,550
Disposal of Plant Assets	-	-	-	-	1,537	1,537
Proceeds from New Financing	-	-	-	-	5,281	5,281
Expended for Plant Facilities	-	-	-	-	4,864	4,864
Write Down of Asset Values	-	23	25	-	22,761	22,809
Net Recoveries of Charged-off Loans	-	-	-	-	-	-
Total Expenditures and Other Deductions	352,546	94,141	1,484	862	37,211	486,244
Transfers Amoung Funds - Additions (Deductions):						
Mandatory:						
Principal and Interest	(5,923)	-	-	-	5,923	-
Loan Fund Transfers	(147)	-	147	-	-	-
Restricted Resources Allocated	888	(919)	3	29	499	500
Nonmandatory Transfers from Plant	(5,110)	(499)	-	2	5,108	(499)
Nonmandatory Transfers to Endowment	(1,491)	-	-	1,878	(387)	0
Transfers from Primary Government	170,379	17,716	-	-	3,698	191,793
Other Deductions	(4,759)	(72)	-	-	-	(4,831)
Total Transfers	153,837	16,226	150	1,909	14,841	186,963
Net Increase (Decrease) for the Year	(6,940)	3,940	492	15,335	6,152	18,979
Fund Balance June 30, 1996	39,223	16,779	37,227	65,744	291,325	450,298
Fund Balance June 30, 1997	$ 32,283	$ 20,719	$ 37,719	$ 81,079	$ 297,477	$ 469,277

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

STATE OF MAINE
COMBINED STATEMENT OF CURRENT FUNDS
REVENUES, EXPENDITURES, AND OTHER CHANGES
DISCRETELY PRESENTED COMPONENT UNITS - COLLEGE AND UNIVERSITY FUNDS

For the Fiscal Year Ended June 30, 1997
(Dollars in Thousands)

	Unrestricted	Restricted	Total
Revenues:			
Tuition and Fees	$ 104,708	$ 263	$ 104,971
Federal Appropriations	300	6,363	6,663
Federal Grants and Contracts	559	49,753	50,312
Private Gifts, Grants and Contracts	2,178	21,778	23,956
Endowment Income	339	2,687	3,026
Sales and Services of Auxiliary Enterprise	54,818	-	54,818
Other Income	28,867	816	29,683
Total Current Fund Revenues	191,769	81,660	273,429
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	125,327	6,023	131,350
Research	8,989	21,047	30,036
Public Service	15,174	23,202	38,376
Academic Support	43,566	6,911	50,477
Student Services	30,784	2,289	33,073
Institutional Support	38,903	884	39,787
Operational and Maintenance of Plant	30,531	464	30,995
Scholarships and Fellowships	10,270	33,217	43,487
Total Expenditures	303,544	94,037	397,581
Mandatory Transfers:			
Principal and Interest	3,517	-	3,517
Loan Fund	147	-	147
Total Mandatory Transfers	3,664	-	3,664
Total Educational and General	307,208	94,037	401,245
Auxiliary Enterprises:			
Expenditures	49,002	3	49,005
Mandatory Transfer for Principal and Interest	2,406	-	2,406
Total Auxiliary Enterprises	51,408	3	51,411
Total Expenditures and Mandatory Transfers	358,616	94,040	452,656
Other Transfers and Additions (Deductions):			
Excess of Restricted Receipts over Transfers to Revenues	-	(43)	(43)
Net Allocation of Resources (to) from Other Funds	(5,186)	(1,419)	(6,605)
Transfer from PG	170,379	17,716	188,095
Other Deductions	(5,286)	66	(5,220)
Total Transfers and Additions	159,907	16,320	176,227
Net Increase (Decrease) in Fund Balance	$ (6,940)	$ 3,940	$ (3,000)

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

Notes to the Financial Statements
For Year Ended June 30, 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Maine have been prepared under guidelines established by generally accepted accounting principles (AGAPE) as prescribed by the Governmental Accounting Standards Board (GASB), with certain exceptions. The financial statements do not include the General Fixed Asset Account Group, the reporting of capital leases, and the financial statements of two component units.

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 has included all funds, account groups, organizations, agencies, boards, commissions and authorities that make up the State's legal entity. It has included as component units those legally separate organizations for which the State is financially accountable or for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete.

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The criteria for determining financial accountability include the following: 1) appointment of a voting majority of an organization's governing authority and either the ability of the primary government to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government; or 2) the organization is fiscally dependent on the primary government, or 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.

The State has included ten entities as component units in the reporting entity due to the significance of their operational and/or financial relationships with the State. Agencies that meet the criteria for component units include: the Maine State Retirement System (MSRS), the Maine Technical College System (MTCS), the University of Maine System (UM), the Maine Maritime Academy (MMA), the Finance Authority of Maine (FAME), the Maine State Housing Authority (MSHA), the Maine Educational Loan Authority (MELA), the Loring Development Authority (LDA), the Maine Court Facilities Authority (MCFA), and the Maine Municipal Bond Bank (MMBB). The financial information for these entities is either blended within the State's financial statements, or discretely presented in a separate column or in separate statements. Financial information for the Maine Turnpike Authority, and the Maine Health and Higher Education Facilities Authority (MHHEFA), which are component units, have not been included.

Blended Component Units - Blended component units are entities that are legally separate organizations that provide services entirely, or almost entirely, to the State or otherwise exclusively, or almost exclusively, benefit the State. Therefore, the State reports these organizations' balances and transactions as though they were part of the primary government. The Maine Court Facilities Authority has been blended within the financial statements of the primary government.

The Authority was created in 1987 for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as court facilities in the State. The Authority is included in the Special Revenue Fund type.

Discrete Component Units - Discrete component units are entities that are legally separate from the State but that are either accountable to the State or related so closely to the State that their exclusion would cause the State's financial statements to be misleading or incomplete. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government. It includes the financial data of the following entities:

Proprietary Types:

The Finance Authority of Maine was created in 1983 to provide commercial financing and loan guarantees to Maine businesses and to provide educational financing to Maine students and their parents. Additionally, the Authority provides financial and other services for the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, the Occupational Safety Program Fund Board, and the Small Business Enterprise Growth Fund Board. The 15 voting members of the Authority are appointed by the Governor.

The Maine State Housing Authority is authorized to issue bonds for the purchase of notes and mortgages on single-family and multifamily residential units for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs and collects and disburses federal rent subsidies for low-income housing. The Authority has seven commissioners, five of whom are appointed by the Governor. Its fiscal year ends on December 31.

The Maine Educational Loan Authority was created in 1988 to grant educational loans primarily using funds acquired through issuance of long-term bonds payable. There are seven voting members of the Authority, five of whom are appointed by the Governor. The authority's fiscal year ends on December 31.

The Loring Development Authority was created in 1993, after the President of the United States accepted the recommendation of the Base Closure and Realignment Commission to close Loring Air Force Base. It is entrusted with investigating the acquisition, development and management of the properties within the geographical boundaries of the old Loring Air Force Base. The Board of Trustees consists of thirteen members appointed by the Governor.

The Maine Municipal Bond Bank is authorized to issue bonds to provide funds to counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations within the State. The Bond Bank has a Board of five commissioners, three of whom must be residents of the State and appointed by the Governor.

The State has capital reserve restoration provisions with the Maine Health and Higher Education Facilities Authority, the Maine Municipal Bond Bank, the Loring Development Authority, the Maine State Housing Authority, the Maine Educational Loan Authority, and the Finance Authority of Maine.

The Maine State Retirement System is the administrator of an agent multiple-employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, and employees of approximately 250 local municipalities and other public entities in Maine. The Board has seven voting members, four of whom are appointed by the Governor. Due to the nature and significance of the public employee retirement system to the State, exclusion would cause the State's financial statements to be misleading or incomplete.

Colleges and Universities

The Maine Technical College System is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree.

The University of Maine System is the State University. In 1968 all existing units of the State college system (Orono, Portland, Augusta, and the Law School) were merged by the 103rd Legislature. The result was the creation of the consolidated University of Maine System with a single Board of Trustees. The System now consists of seven campuses, the Maine Public Broadcasting Network, and a central administrative office. The educational and general portion of the total enterprise is supported by two sources, a State appropriation that makes up 55 percent of the System budget, and University revenues (primarily tuition and fees) that make up the budgetary difference of 45 percent.

Maine Maritime Academy is a college specializing in ocean and marine programs at the undergraduate and graduate level. The operation of the Academy is subject to review by the Federal Government. It is supported by State appropriations, student fees, and a subsidy from the Maritime Administration.

The State of Maine provides significant financial resources to these educational institutions.

The component units' financial information included in the reporting entity has been reformatted to conform to the accounting classifications used by the State. Condensed financial statement information for each component unit included in the component units column in the general purpose financial statements is presented in Note 14, Segment Information.

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

Loring Development Authority of Maine
PO Box 457
Limestone, ME 04750-0457

Finance Authority of Maine
83 Western Avenue, PO Box 949
Augusta, ME 04332-0949

Maine Educational Loan Authority
526 Western Avenue, PO Box 549
Augusta, ME 04332

Maine State Retirement System
46 State House Station
Augusta, ME 04333-0046

Maine Municipal Bond Bank
PO Box 2268
Augusta, ME 04338-2268

University of Maine System
107 Maine Avenue
Bangor, ME 04401

Maine Health and Higher Education Facilities Authority
PO Box 2268
Augusta, ME 04338-2268

Maine Court Facilities Authority
PO Box 2268
Augusta, ME 04338-2268

Maine Maritime Academy
Castine, ME 04420

Maine State Housing Authority
89 State House Station, 353 Water Street
Augusta, ME 04330-4633

Maine Technical College System
131 State House Station, 323 State Street
Augusta, ME 04330-0131

Maine Turnpike Authority
450 Riverside Street
Portland, ME 04103

Related Organizations

Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Science and Technology Foundation, the Maine School of Science and Mathematics, the Maine Port Authority, the Maine Veteran's Home, the Maine Sludge and Residuals Utilization Research Foundation, and the Maine Public Utilities Financing Bank. However, the primary government has no material accountability for these organizations beyond making the appointments.

B. Fund Accounting

The State reports its financial position and results of operations in funds and account groups. A fund is a separate accounting entity with a self-balancing set of accounts. Cash and other financial resources, all related liabilities and residual equities or balances, and changes therein, are recorded and segregated. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Transactions between funds, if any, have not been eliminated.

The presentation of component units is not meant to be a consolidation, since transactions within the State entity have not been eliminated. However, appropriations and grants to the component units are recorded as operating transfers out of the applicable fund and as operating transfers into the component unit organization.

Account groups are used to provide accounting control and accountability for the State's general fixed assets and general long-term debt obligations. They are not considered funds because they do not report expendable, available financial resources and related liabilities.

The financial activities of the State of Maine are classified in three fund categories, one account group, and component units, as described below. The fund categories include governmental funds, proprietary funds, and fiduciary funds. The account group is the General Long-term Obligations Account Group. The General Fixed Asset Account Group is not reported.

1. Governmental Funds are used to account for the State's general activities.

   The General Fund is the primary operating fund of the State. It is used to account for all governmental transactions that are not accounted for in other funds.

   Special Revenue Funds account for specific revenue sources and the related current liabilities, other than expendable trusts or major capital projects that are legally restricted to expenditures for specified purposes.

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

2. Proprietary Funds are used to account for the State's ongoing activities that are similar to those found in the private sector.

   Enterprise Funds account for transactions related to resources received and used to finance self-supporting activities of the State. These activities offer products and services on a user-charge basis to the general public.

   Internal Service Funds account for transactions related to the financing and sale of goods or services between State agencies. The costs associated with these goods or services are billed to the recipient agency as user charges.

3. Fiduciary Funds are used to account for assets held by the State, acting as either a trustee or an agent for individuals, organizations, or other funds.

   Expendable Trust Funds account for those assets held in a trustee capacity where the principal and income may be expended in the course of the funds' designated operations.

   Nonexpendable Trust Funds account for those assets held in a trustee capacity by the State for which only income derived from the trust principal may be expended for designated operations. The principal must be preserved intact.

   Agency Funds account for assets the State holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

4. The Account Group consists of the following:

   General Long-Term Obligations Account Group is used to establish control and accountability for long-term obligations of the State not accounted for in proprietary funds or non-expendable trust funds. This includes outstanding, long-term obligations related to general obligation bonds, Certificates of Participation and other financing arrangements, compensated employee absences, and other long-term obligations.

5. The component units include College and University Funds and other proprietary type organizations that are legally separate from the State but are considered part of the reporting entity. There are three College and University Funds.

   The *Current Funds* account for unrestricted funds, over which the governing Boards retain full control in achieving the Institutions' purposes, and for restricted funds, which may be used only in accordance with externally restricted purposes. The funds do not show the results of operations or the net income or loss for the period.

The *Loan, Endowment, and Agency Funds* account for assets for which the Institutions act in a fiduciary capacity.

The *Plant Funds* account for institutional property acquisition, renewal, replacement, and debt service.

C. Measurement Focus and Basis of Accounting

Governmental Funds and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized 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 (within 12 months, or within 60 days for property taxes) to be used to pay liabilities of the current period. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met.

Property taxes levied during the current fiscal year for the subsequent period are recorded as deferred revenue during the current year. Property taxes are assessed by the State Tax Assessor on properties located in the Unorganized Territories of Maine and on telecommunications personal properties statewide. Such taxes are levied by April 1. Prepayment of one-half of the telecommunications tax is due on June 1 and all other property taxes are due on October 1. Formal collection procedures begin on November 1. Unpaid property taxes become a lien on March 15 of the fiscal year for which they are levied.

Significant revenues susceptible to accrual include income, sales and use, and other taxes, federal grants, federal reimbursements, and other reimbursements for use of materials and services. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred. Principal and interest on long-term obligations are recorded as fund liabilities when due.

Proprietary Fund Types and Nonexpendable Trust Funds are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of net income. For all proprietary funds, the State applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting. They are custodial in nature and do not measure results of operations or have a measurement focus.

The Component Unit College and University Funds are an aggregate of the Institutions' separate financial statements and are accounted for on the accrual basis of accounting, with the following exception: the Maine Maritime Academy does not record depreciation expense on physical plant and equipment, which is allowed by governmental accounting standards.

The Maine State Retirement System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment purchases and sales are recorded as of their trade date.

D. Cash and Short-Term Investments, and Investments

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. Cash equivalents consist of short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity. The balances pooled are reported at cost, which approximates market value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds. Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.

Short-term investments reported as Cash and Short-term Investments on the Balance Sheet are comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, and U.S. Treasury Notes. Other investments of the State are carried at the lower of cost or market except for investments of the Deferred Compensation Plan, which are carried at market value. Donated investments are stated at fair market value at the date of donation.

Certain of the component units participate in the cash pool, which transactions they record as an investment. Component units' funds have been removed from the investments of the primary government and shown as component unit investments for purposes of note disclosure. Component units' investments are shown at cost or amortized cost except for the University of Maine System, and the Maine Maritime Academy which carry investments at market value, and the Maine State Retirement System, which carries investments at fair value.

E. Unemployment Deposits with United States Treasury

These deposits represent unemployment tax receipts deposited with the United States Treasury, which are drawn down to pay benefits.

F. Restricted Assets

Restricted assets represent funds that have been invested in a repurchase agreement and Certificates of Deposit at various financial institutions within the State, upon the financial institutions making loans to local commercial and agricultural enterprises to foster economic growth in Maine.

G. Receivables

Receivables consist primarily of amounts due to the State from taxpayers, service providers, and the federal government. Reimbursements due to the State for its expenditures on federally funded reimbursement and grant programs are included in "Due From Other Governments." Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. The receivables in the Component Units column are amounts that have arisen in the normal course of business.

Loans receivable for the primary government represent low interest financing arrangements for the construction and modernization of agricultural storage facilities. Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience and aging of the accounts.

H. Interfund Transactions

Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that certain transactions between funds were not completed as of June 30, 1997, interfund receivables or payables have been recorded. Receivables and payables resulting from transactions between funds are classified as "Due To Other Funds" or "Due From Other Funds" on the balance sheet.

Title 28-A, § 64, and Title 8, § 387, of M.R.S.A. require the Bureau of Alcoholic Beverages and Lottery Operations to transfer all net earnings to the General Fund.

Advances to and from other funds are long-term loans made by one fund to another. The advances are offset by a fund balance reserve indicating that the reserves do not constitute expendable financial resources.

Receivables and payables between the component units and the primary government are classified as "Due To/From Primary Government" or "Due To/From Component Units."

I. Inventories

The costs of materials and supplies of the governmental funds are reported as expenditures when purchased. Food stamps are stated at coupon value and any unexpended balances at fiscal year end are reported as inventory and deferred revenue in the Special Revenue Fund. Revenues and corresponding expenditures are recognized when the food stamps 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, except for those of the Bureau of

Alcoholic Beverages, which are maintained on a current replacement cost basis. Although this basis is not in conformity with GAAP, it does not result in a material misstatement.

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

J. Fixed Assets

For Governmental Funds, fixed asset acquisitions are recorded as expenditures in the acquiring fund**.** Infrastructure assets such as highway curbs, bridges, and lighting systems are not capitalized. Fixed asset acquisitions of Proprietary Funds are accounted for in the acquiring fund and stated net of accumulated depreciation. Depreciation is recorded on a straight-line basis over the assets' estimated useful lives, which are 2-25 years for equipment and 10-40 years for buildings and improvements. No interest has been capitalized on self-constructed assets, as non-capitalization of interest does not have a material effect on the financial statements.

Fixed assets of Component Units are capitalized upon purchase and depreciated over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 3–100 years for structures and improvements, and 3–25 years for equipment, furniture, fixtures and vehicles. The Maine Maritime Academy does not record depreciation, which is allowed by governmental accounting standards.

K. Tax Refunds Payable

Tax refunds payable primarily represent amounts owed to taxpayers because of overpayments of their 1996 calendar year tax liabilities. Tax refunds payable are accrued to the extent they are measurable based on payments and estimates.

L. Claims Payable

Claims payable represent workers' compensation and other claims payable at June 30, 1997. These include actual claims submitted, as well as actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

M. Deferred Revenue

Revenue that does not meet the "availability" criterion for recognition in the current period is classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. In subsequent periods, when the revenue recognition criterion is met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and revenue is recognized. Most of the deferred revenue reported in the General Fund is for property tax assessments on telecommunications equipment. Most of the deferred revenue in the Special Revenue Fund is for food stamps not yet issued.

N. Due From/To Other Governments

At June 30, 1997, payments were due from the State to various municipalities and school districts. These amounts include General Purpose Aid for Local Schools and Municipal Revenue Sharing. The amount owed for General Purpose Aid for Local Schools is recorded in the General Fund. The State also owed the federal government for Medicaid cost recoveries from providers. Municipal Revenue Sharing and Medicaid cost recoveries are recorded in the Special Revenue Fund. Due From Other Governments represents federal grants receivable, which are amounts due for Medicaid claims. Due From Other Governments in the component units column represents money due from other governments for grants or owed for retirement benefits.

O. Compensated Employee Absences

Under the terms of union contracts and personnel administrative policies, employees are granted limited amounts of vacation, sick, and personal days, as well as compensatory time. Upon separation from State service, employees are eligible for compensation for accrued vacation, personal days, compensatory time, and (in some cases) sick leave. For Governmental Funds, vested or accumulated leave expected to be liquidated with current available financial resources is reported as an expenditure and fund liability. Other leave is reported in the General Long-Term Obligations Account Group. Compensated employee absence benefits in the Proprietary Funds are recorded as expenses and liabilities as they accrue.

In the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

P. Other Accrued Liabilities

Other liabilities of the Governmental Funds consist primarily of amounts owed to providers for medical services. The liability for medical services includes an estimate of provider claims for services provided but not billed as of the State's fiscal year end, net of anticipated recoveries.

Contractor retainage is included in Other Accrued Liabilities of the Special Revenue Fund.

Q. Long Term Obligations

Primary Government

The State records Governmental Fund long term debt in the General Long Term Obligations Account Group. This includes the State's general obligation bonds, Certificates of Participation and other financing arrangements, and long term liabilities for compensated employee absences.

Also included in the General Long Term Obligations Account Group, as part of General Obligation Bonds, is $20.6 million in bonds issued by the Maine Court Facilities Authority, a blended component unit. Payment of these bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature.

Long term debt and other obligations of the Proprietary Funds, as well as the related interest payments, are recorded as liabilities in the appropriate funds.

Component Units

Loans, notes, and bonds payable for component units are for commercial financing, educational loans, and loans to counties, cities, towns, school administrative districts, other quasi-municipal corporations, multifamily low income residential units, and for the construction or capital improvement of school facilities.

R. Fund Balances

The State reports fund balances as reserved where legally restricted for a specific future use. Otherwise, these balances are considered unreserved. The State has the following reservations:

> Reserved for Continuing Appropriations - identifies appropriations and encumbrances that the Legislature has specifically authorized to be carried into the next fiscal year if unexpended.
>
> Reserved for Nonexpendable Trusts - identifies the nonexpendable amount of the trust principal.
>
> Reserved for Unemployment Benefits - identifies amounts reserved for payment of unemployment compensation.
>
> Reserved for Debt Service - identifies amounts held by fiscal agents to fund future debt service obligations.
>
> Reserved for Capital Projects - identifies a legally segregated portion of funds available to finance the construction of major capital facilities.
>
> Other Reservations - identifies the amount of fund balance reserved for other specified purposes including working capital needs, long term loans to other funds, and contingency funds from which the Governor may allocate sums for various purposes.

Contributed Capital in Proprietary Fund types represents equity acquired through contributions from other funds.

S. Total Column - Memorandum Only

Total columns included in certain statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented for information only.

T. Future Adoption of Accounting Pronouncements

In November, 1994, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers.* GASB Statement No. 27 establishes standards for the measurement and presentation of pension expenditures and expenses for governmental employers. Measurement is based on the governmental employer's annual required contributions. The State will adopt GASB Statement No. 27 in fiscal year 1998.

In March, 1997, GASB issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The Statement's provisions generally require the State to report its investments at fair value as of the balance sheet date and to reflect changes in the fair value of investments as revenue in the State's operating statements. The Statement also requires the State to report its external investment pool as an investment trust fund. The provisions of this statement, which are effective for fiscal periods beginning after June 15, 1997, will be reflected in the State's financial report for the year ended June 30, 1998. Management has not yet determined the impact that implementation of GASB Statement No. 31 will have on the State's financial statements.

In October, 1997, GASB issued Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* The provisions of this Statement eliminate the requirements that Section 457 plan assets legally remain the assets of the sponsoring government and be reported in an agency fund as assets and liabilities of the government. Only those Section 457 plans that meet the existing criteria for inclusion in fiduciary funds may be reported in the financial statements. For plans in existence at August 20, 1996, the provisions of this statement are effective January 1, 1999. The State plans to implement this Statement for the year ended June 30, 1998. It is anticipated that the Section 457 plan will not be reported on the State's financial statements, as the State does not plan to have significant administrative involvement or perform the investing function.

U. Other Accounting Disclosures

During the fiscal year ended June 30, 1997, the State changed its method of reporting risk financing activities. In fiscal year 1996, risk management activities were reported in two funds. The primary government activities were reported in an Internal Service Fund and the activities of outside entities were presented as a risk pool within the Enterprise Fund. Since approximately 95 percent of the equity in the risk pool is due to component units, reflected in the State's financial statements for the first time, the two funds are now reported as one.

The effect of this change is to decrease current year excess of revenues over expenses and other nonoperating revenues/expenses in the Enterprise Fund and increase the current year excess of revenues over expenses and other nonoperating revenues/expenses in the Internal Service Fund.

NOTE 2 - BUDGETARY PROCESS

In accordance with statute, the Governor presents a biennial budget for the General Fund and the Special Revenue Fund 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 deallotment 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. In 1995, the Revenue Forecasting Committee was established. The Committee submits revenue projections for the General Fund and Highway Fund for the upcoming fiscal biennium and recommends adjustments to the current biennium.

Budgetary control is maintained at the account level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. Budget revisions during the year, reflecting program changes or intradepartmental administrative transfers, must be approved by the Budget Officer, or by the Budget Officer and the Chief Executive. 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. In order to provide sufficient funding for several programs during the year ended June 30, 1997, supplemental appropriations of $29.8 million were required.

Encumbrance accounting, which requires that purchase orders, contracts, and other commitments be recorded to reserve a portion of an appropriation or allocation for expenditure, is employed as an extension of formal budgetary control. Appropriated and allocated balances are available for subsequent expenditure to the extent that encumbrances have been approved by the end of a fiscal year. Encumbrances outstanding at year-end are reported as reservations of fund balances representing those portions of fund balances that are not available for allocation or expenditure, or that are legally segregated for specific future uses. Unencumbered appropriations in the General Fund and in the Highway Fund lapse at year-end unless, by law, they are carried forward to a subsequent year.

The State's budget is prepared primarily on a cash basis that differs from generally accepted accounting principles (GAAP). A reconciliation of the General Fund and the Special Revenue Fund to the GAAP basis is presented in the accompanying tables.

Budget to GAAP Reconciliation

June 30, 1997

(Dollars in Thousands)

	General Fund	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$219,299	$171,437
Basis Differences		
Revenue Accruals/Adjustments:		
Taxes Receivable	136,674	16,101
Intergovernmental Receivables	-	108,195
Other Receivables	12,472	29,887
Due from Other Funds	1,969	3,087
Other Assets	(6,490)	(8,447)
Deferred Revenues	(68,129)	(8,708)
Total Revenue Accruals/Adjustments	76,496	140,115
Expenditure Accruals/Adjustments:		
Accounts Payable	(58,575)	(123,543)
Due to Other Governments	(38,497)	(38,308)
Accrued Liabilities	863	(20,859)
Due to Other Funds	(1,898)	135
Due to Component Units	(1,926)	(529)
Tax Refunds Payable	(65,486)	-
Total Expenditure Accruals/Adjustments	(165,519)	(183,104)
Perspective Differences		
Amounts reported in the Debt Service Fund on the budgetary basis and included in the General Fund on the GAAP basis	3,015	-
Entity Differences		
Blended Component Unit included in the Special Revenue Fund on a GAAP basis but not on a budgetary basis	-	4,091
Fund Balances – GAAP Basis	$133,291	$132,539

NOTE 3 - FUND BALANCE AND RETAINED EARNINGS RESTATEMENTS

Restatement

The restatement of fund balances/retained earnings as of June 30, 1996, is as follows:

Restatement of Fund Balances/Retained Earnings
(Dollars in Thousands)

Fund	Fund Balance/Retained Earnings as Previously Reported, June 30, 1996	Increase (Decrease) for Restatement	Fund Balance/Retained Earnings as Restated, July 1, 1996
General Fund	$ 39,760	$ (5,065)	$ 34,695
Special Revenue Fund	$ 153,700	$ 4,971	$ 158,671
Internal Service Funds	$ (17,563)	$ (6,385)	$ (23,948)
Enterprise Funds	$ 11,653	$ (4,003)	$ 7,650

The General Fund fund balance has been restated due to expenditures that were not accrued at June 30, 1996.

The Special Revenue Fund fund balance has been restated due to expenditures and tax revenues that were not accrued at June 30, 1996.

Retained earnings of the Enterprise Fund have been restated to remove risk management activities of other entities, due to implementation of GASB Statement No. 14.

The restatement of retained earnings of the Internal Service Funds reflects: (1) the addition of the risk pool portion of risk management activities, which had previously been reported in an Enterprise Fund, and (2) the reporting of contributed equity of the Retiree Health Fund as Contributed Capital rather than as part of Retained Earnings. Beginning Contributed Capital was increased by the same amount for the same reason as shown in the following table:

Restatement of Contributed Capital Balances
June 30, 1996
(Dollars in Thousands)

Fund	Contributed Capital as Previously Reported, June 30, 1996	Increase (Decrease) for Restatement	Contributed Capital As Restated, July 1, 1996
Internal Service Fund:			
Retiree Health	$ -	$10,386	$10,386
All Other Internal Service Funds	4,942	-	4,942
Total Internal Service Fund	$4,942	$10,386	$15,328

NOTE 4 - DEFICIT FUND BALANCES/RETAINED EARNINGS

Two Internal Service Funds, the Workers' Compensation Fund and the Retiree Health Insurance Fund, had deficit Retained Earnings for the fiscal year ended June 30, 1997. The $44.5 million deficit in the Workers' Compensation Fund reflects the accrual of a $51.9 million actuarial liability for claims payable. The $2.1 million deficit in the Retiree Health Insurance Fund is the result of reclassifying a residual equity transfer to Contributed Capital from Retained Earnings. Overall equity in the Retiree Health Insurance Fund is positive. Funds shown as Contributed Capital are available for program purposes.

NOTE 5 - DEPOSITS AND INVESTMENTS

The deposit and investment policies of the State of Maine Office of the Treasurer are governed by Title 5 of the Maine Revised Statutes Annotated (M.R.S.A.). Per 5 M.R.S.A. § 135, the Treasurer of State 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 Treasurer of State 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 U.S. Treasury Bills, bonds, notes, other obligations of the United States that mature not more than 24 months from the date of investment, repurchase agreements secured by obligations of the United States that mature within the succeeding 24 months, prime commercial paper, tax-exempt obligations, or bankers' acceptances. State funds may also be deposited as required by the terms of custodial contracts or agreements negotiated in accordance with the laws of this State.

Investment policies of the permanent trust funds are governed by 5 M.R.S.A. § 138. The Treasurer of State, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Banking, and the Commissioner of Education, may invest the funds in securities that are legal investments in accordance with Title 9-B, M.R.S.A. The investment policies of the Percival Baxter expendable trusts, as stated in the late Governor Baxter's last will and testament, provide only that the funds may be managed, invested, reinvested and administered within the trustees' discretion.

The State Treasurer may also participate in the securities loan market by lending State-owned bonds, notes, or other certificates of indebtedness of the federal government, if the loans are fully collateralized by treasury bills or cash. In addition, the State Treasurer may invest up to four million dollars annually in lending institutions at a two percent lower-than-market yield, provided the financial institutions lend at least the same amount in operating funds to agricultural enterprises in this State at the same rate. The same provisions apply to non-agricultural commercial enterprises approved by the State Treasurer.

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 at any one time. This restriction does not apply to deposits subject to immediate withdrawal to meet the payment of any bonded debts, or interest, or to pay current bills or expenses of the State. Also exempt are those deposits secured by the pledge of certain securities as collateral, and deposits fully covered by insurance. The collateral shall be in an amount equal to the deposit. The Treasurer of State shall determine the value of the securities pledged on the basis of market value.

Deposits

Deposits with financial institutions are classified as to collateral risk into three categories. Category 1 is the amount of State deposits that are fully insured or collateralized with securities held by the State or its agent in the State's name. Category 2 is the amount of deposits that are collateralized with securities held by the pledging financial institution’s trust department or agent in the State's name. Category 3 is the amount of deposits that are not collateralized or insured. Deposits of the Reporting Entity at June 30, 1997 are as follows:

Primary Government - Deposits
June 30, 1997
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 26,129	$ -	$ 12,863	$ 38,992	$ (65,633)
Cash with Fiscal Agent	-	-	21,878	21,878	21,878
Restricted Deposits	-	-	11,298	11,298	11,298
Total	$ 26,129	$ -	$ 46,039	$ 72,169	$ (32,457)

Investments

Investments are classified to indicate the level of risk assumed by the State. Category 1 consists of investments that are insured or registered or for which the securities are held by the State or its agent in the State’s name. Category 2 are those investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the State's name. Investments of the Primary Government at June 30, 1997, are as follows:

Primary Government - Investments
June 30, 1997
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Carrying Amount	Market Value
Short-Term Investments:					
Repurchase Agreements	$ 119,931	$ -	$ -	$ 119,931	$ 120,082
U.S. Treasury Bills and Notes	152,920	-	-	152,920	155,168
Commercial Paper	141,583	-	-	141,583	142,189
Total Short-Term Investments	414,434	-	-	414,434	417,439
Investments:					
U.S. Government Securities	-	6,660	8,318	14,978	14,967
Corporate Bonds and Notes	-	-	5,579	5,579	5,581
Equity Securities	-	6,023	17,130	23,153	36,638
Other	-	3,514	120	3,634	3,634
Total Investments	$ 414,434	$ 16,197	$ 31,147	461,778	$ 478,259
Money Market Investments				1,643	
Deposits with U.S. Treasury				118,405	
Deferred Compensation Plan Assets				133,988	
Assets Held in Trust				40,385	
Total Investments – Primary Government				$ 756,199	

Component Units

Generally, component unit investment policies authorize investments in obligations of the U.S. Government, 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.

Cash and investments of the discretely presented component units at June 30, 1997, are as follows:

Component Units - Cash and Investments
June 30, 1997
(Dollars in thousands)

	Category 1	Category 2	Category 3	Carrying Amount	Market Value
Cash and Short-term Investments:					
Cash and Cash Equivalents	$ 750	$ 37,988	$289,573	$328,311	$ 328,311
Repurchase Agreements	165,388	11,168	12,428	188,984	188,984
Commercial Paper	22,822	-	-	22,822	22,822
Total Cash and Short –term Investments	188,960	49,156	302,001	540,117	540,117
Investments:					
U.S. Government Securities	312,785	157,923		470,708	480,054
Corporate Bonds and Notes	27,933	1,821	20,015	49,769	49,741
Equity Securities	1,368,103	1,302	33,992	1,403,397	1,404,400
Obligations of States and Political Sub-divisions	150	-	-	150	150
Other	16,688	5,788	2,194	24,670	24,660
Total Cash and Investments	$ 1,914,619	$215,990	$ 358,202	$2,488,811	$2,499,122
Real Estate				22	
Limited Partnership				713	
Common/Collective Trusts				3,367,483	
Guaranteed Investment Contracts				5,461	
Other				172	
Deferred Compensation Plan Assets				1,567	
Total Cash and Investments – Component Units				$5,864,229	

NOTE 6 - RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as follows:

Primary Government - Receivables
June 30, 1997
(Dollars in Thousands)

	Taxes	Due from Other Governments	Loans	Other Receivables	Allowance for Uncollectibles	Net Receivables
General Fund	$ 325,478	$ -	$ 1	$ 45,057	$ (133,949)	$ 236,587
Special Revenue Funds	42,533	123,059	1,379	53,752	(16,021)	204,702
Trust and Agency Funds	-	-	-	10,769	(5,004)	5,765
Internal Service Funds	-	-	-	1,645	(10)	1,635
Enterprise Funds	-	-	10,556	7,219	(1,309)	16,466
Subtotal	368,011	123,059	11,936	118,442	$ (156,293)	465,155
Less: Allowance for Uncollectibles	(130,421)	-	(1,218)	(24,654)		-
Net Receivables	$ 237,590	$ 123,059	$ 10,718	$ 93,788		$ 465,155

Component Units - Receivables
June 30, 1997
(Dollars in Thousands)

	Due from Other Governments	Loans and Notes	Other Types	Allowance for Uncollectibles	Net Receivables
Maine Municipal Bond Bank	$ -	$ 753,266	$ 8,050	$ -	$ 761,316
Maine State Housing Authority	2,490	957,427	-	-	959,917
Maine Education Loan Authority	-	34,998	687	(200)	35,485
Loring Development Authority	414	-	66	-	480
University of Maine System	4,705	35,774	13,165	(3,009)	50,635
Maine State Retirement System	10,264	-	11,416	-	21,680
Finance Authority of Maine	-	34,093	1,984	-	36,077
Maine Maritime Academy	220	2,207	372	(125)	2,674
Maine Technical College System	-	-	2,178	-	2,178
Subtotal	18,093	1,817,765	37,918	$(3,334)	1,870,442
Less: Allowance for Uncollectibles	-	(3,334)	-		-
Net Receivables	$ 18,093	$ 1,814,031	$ 37,918		$1,870,442

NOTE 7 - INTERFUND TRANSACTIONS

Due From/Due To Other Funds and Component Units

Due From Other Funds are amounts owed to one State fund by another for goods sold or services received. Similarly, Due From Component Units are amounts owed to the State by a component unit. The following is a summary of amounts due from and due to other funds and component units:

Primary Government - Due To/Due From Other Funds
June 30, 1997
(Dollars in Thousands)

Fund Type	Due From	Due To	Working Capital Advance Receivable	Working Capital Advance Payable
General Fund	$ 2,006	$ 10,019	$ 1,386	$ -
Special Revenue Fund	12,955	7,149	13,182	275
Internal Service Fund	8,680	991	-	13,293
Enterprise Fund	21	75	-	1,000
Trust and Agency Fund	-	5,428	-	-
Total	$ 23,662	$ 23,662	$ 14,568	$ 14,568

Component Units - Due From/Due To

June 30, 1997

(Dollars in Thousands)

	Due From	Due To
General Fund:		
University of Maine System	$ -	$ 1,926
Maine State Retirement System	-	14,892
Finance Authority of Maine	-	-
Loring Development Authority	-	-
Maine Maritime Academy	-	-
Maine Technical College System	-	-
Special Revenue Funds:		
University of Maine System	-	4,494
Maine State Housing Authority	-	529
Capital Project Funds:		
Maine Municipal Bond Bank	-	2,300
Finance Authority of Maine	-	-
Enterprise Funds:		
Finance Authority of Maine	-	-
Maine Technical College System	-	1,481
University of Maine System	-	-
Maine State Housing Authority:		
Special Revenue Funds	529	-
Maine Municipal Bond Bank:		
Capital Project	2,300	-
Finance Authority of Maine:		
Enterprise	1,481	-
University of Maine System:		
General Fund	1,926	-
Special Revenue	4,494	-
Maine State Retirement System:		
General Fund	14,892	-
Total Component Units	$ 25,622	$ 25,622

NOTE 8 - FIXED ASSETS

The following schedule details fixed assets that are not recorded in the General Fixed Assets Account Group:

Primary Government - Fixed Assets
June 30, 1997
(Dollars in Thousands)

	Enterprise Funds	Internal Service Funds
Land	$ 1,523	$ 243
Buildings	10,608	6,131
Equipment	40,407	111,725
Improvements Other Than Buildings	19,977	220
Construction in Progress	3,864	-
Less: Accumulated Depreciation	(22,232)	(72,152)
Total Fixed Assets	$ 54,147	$ 46,167

Component Units - Fixed Assets
June 30, 1997
(Dollars in Thousands)

	Totals
Land and Buildings	$ 361,453
Equipment	129,612
Improvements Other Than Buildings	31,645
Assets Under Capital Leases	325
Library Books	3,443
Construction in Process	5,569
Less: Accumulated Depreciation	(190,309)
Total Fixed Assets	$ 341,738

NOTE 9 - MAINE STATE RETIREMENT SYSTEM

The Maine State Retirement System is the administrator of an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Maine State Retirement System Laws, Title 5 M.R.S.A., C. 421, 423, and 425. The System is a component unit of the State. Financial information for the System is included in the discretely presented component unit column on the combined balance sheet and in the statement of changes in net assets available for pension benefits. Condensed financial statement information is presented in Note 14.

The System provides pension, death, and disability benefits to its members, which include employees of the State, public school employees who are defined by Maine law as teachers for whom the State is the employer for retirement contribution purposes, and employees of approximately 250 local municipalities and other public entities in Maine, each of which contracts for participation in the System under provisions of relevant statutes.

Membership is a condition of employment for State employees and teachers. Membership ceases upon withdrawal of contributions, retirement, or death.

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. The standard retirement benefit is 1/50 of the average of the employees' three highest earning years multiplied by years of membership service and up to 25 years of prior service, reduced for retirement before age 60. Vesting occurs upon the earning of ten year's service credit or the earning of one year's service credit immediately preceding retirement at or after normal retirement age. Normal retirement age is age 60 or 62, determined by whether a member had at least 10 years of creditable service on June 30, 1993.

The System also provides death and disability benefits, which are established by statute for State and public school employees, and by contract with other participating employers under applicable statutory provisions. Group life insurance is provided under a plan that is administered by a third party insurance company. Premiums are set and collected by the System.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited for a five-year period for non-vested members and through the date of refund for vested members. Withdrawal of accumulated contributions results in forfeiture of all benefits. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 6.50 percent.

The total covered payroll for the year ended June 30, 1997, is shown in the following table. The employer's current year covered payroll is 100 percent of the total current year payroll for all employees.

Payroll Covered By MSRS
(Dollars in Thousands)

	State Employees	Teachers	Judicial & Legislative	Total
Vested	$ 248,649	$ 500,888	$ 2,321	$ 751,858
Non-vested	147,566	212,196	3,847	363,609
Totals	$ 396,215	$ 713,084	$ 6,168	$1,115,467

The amount shown in the next table as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the retirement plan on a going-concern basis, gauge the progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the retirement plan.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1997. Significant actuarial assumptions used in the valuation include (a) investment return of 8 percent per year compounded annually, (b) salary increases of 6 percent to 10 percent per year (including inflation of 4 percent), and (c) 4 percent annual cost-of-living post-retirement benefit increases.

As of June 30, 1997, the total unfunded pension benefit obligation was $2.4 billion, as shown in the following table.

MSRS Pension Benefit Obligation

(Dollars in Thousands)

	State Employees	Teachers	Judicial & Legislative	Total
Pension benefit obligation:				
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 1,225,764	$ 1,426,233	$ 17,396	$ 2,669,393
Current employees:				
Accumulated employee contributions, including allocated investment earnings	391,843	644,167	3,894	1,039,904
Employer-financed for vested employees	202,513	795,777	6,202	1,004,492
Employer-financed for nonvested employees	355,632	813,092	2,596	1,171,320
Total pension benefit obligation	2,175,752	3,679,269	30,088	5,885,109
Net assets available for benefits, at cost*	1,461,843	1,987,628	26,390	3,475,861
Total unfunded pension benefit obligation	$ 713,909	$ 1,691,640	$ 5,314	$ 2,409,248
* Net assets available at market	$ 1,679,027	$ 2,282,927	$ 30,311	$ 3,992,265

Retirement benefits are funded by contributions from members and employers, and earnings from investments. Disability and death benefits are funded by employer contributions and investment earnings. Member and employer contributions are a percentage of member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by annual actuarial valuations.

The employer contribution rate is developed using the entry age normal cost method (based on a level percentage of covered payroll). Under this funding method, a total contribution rate is determined that consists of two elements: the normal cost rate and the unfunded actuarial liability rate. The accrued liability and the present value of future normal costs are determined by summing the individual entry age results for each participant. The normal cost is then determined in aggregate by spreading the present value of future normal costs as a level percentage of expected future covered payroll. Entry age is defined as the first day service is credited under the plan. Significant actuarial assumptions used to compute contribution requirements are the same as those used in calculating the actuarial liability.

Funds managed by the System are constitutionally restricted to be held in trust for the payment of pension and related benefits to its participants. 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. There is no legal requirement that any portion of the total assets managed by the System be accumulated and utilized solely for the benefit of certain classes of members or for members who are employees of certain participating entities. Nevertheless, each of the participating entities is responsible for the funding of benefits related to that entity.

The contributions to the System required of employers and employees are based on percentages of covered employees' gross salaries. The actuarially determined contribution rates are as follows:

	1997	1996
State:		
Employees	7.65 - 8.65%	7.65 - 8.65%
Employer	16.09%	16.13%
Teachers:		
Employees	7.65%	7.65%
Employers	19.42%	19.36%

The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and funds accumulated as of the same date is referred to as the unfunded actuarial liability. The unfunded actuarial accrued liability had been amortized on a level percentage of payroll over a 35 year closed period that commenced June 30, 1993.

In November, 1995, voters in the State approved a constitutional amendment that requires the State to retire the unfunded liabilities of the System that are attributed to State employees and teachers over a period of 31 years or less. The creation of new unfunded liabilities is prohibited, except those arising from experience losses, which must be funded over a period of not more than ten years. In addition, the amendment requires use of actuarially sound current-cost accounting, reinforcing the existing statutory requirements. It is effective at the beginning of the 1998 fiscal year.

Actuarially determined contribution requirements and contributions actually made for the 1997 fiscal year are as follows:

	State Employees	Teachers	Judicial	Legislative
Actuarially determined contribution requirement:				
Normal Cost	6.65 %	7.25%	16.00%	0.47%
Unfunded actuarially-determined liability	8.51	12.05	9.57	-
Total	15.16 %	19.30%	25.57%	0.47%
Employer contribution rates applied:				
Normal Cost	6.45%	7.45%	16.59%	9.10%
Unfunded actuarially-determined liability	8.52	12.61	12.13	-
Administration	1.00	0.42	1.00	1.00
Unfunded actuarially-determined liability adjustment	1.98	-	-	-
Total	17.95%	20.48%	29.72%	10.10%

Contributions for the 1997 fiscal year were as follows:

State	$ 73.5 million
Teachers	$133.0 million
Judicial	$ 1.1 million
Legislative	$ 0.1 million
Employee Contributions	$ 25.3 million

Additionally, the State is required by statute to remit 25 percent of the excess of total General Fund revenue received over accepted budget estimates in any fiscal year to the System, in order to reduce any unfunded liability for state employees. Accordingly, for the 1997 fiscal year, the State recorded additional contributions of $18.5 million, of which $14.9 million was due to the System at June 30, 1997.

Three-year trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Combined trend information for the three years ended June 30, 1997, 1996, and 1995 is presented in the next table.

	1997	1996	1995
Net assets available for benefits, as a percentage of pension benefit obligation	59.1%	41.1%	38.9%
Unfunded pension benefit obligation, as a percentage of covered payroll	216.0%	309.0 %	278.0%
Employer contributions, as a percentage of covered payroll	18.5%	17.9%	13.0%

Employer contributions met or exceeded actuarially determined contribution requirements.

Component Unit Pension Description

The component units shown in the following table have defined benefit pension plans. All except the University of Maine System are participants in plans administered by the Maine State Retirement System. Employees of the Maine Technical College System are considered to be State employees for retirement benefit purposes and are included in the pension disclosures of the State.

Pension Benefit Obligation - Component Units
(Dollars in Millions)

	Valuation Date	Pension Benefit Obligation	Net Assets Available for Benefits (at book value)
MMBB [1]	June 30, 1996	$ 341.6	$ 241.0
MMA	June 30, 1996	$ 18.3	$ 17.3
MSRS [1]	June 30, 1996	$ 341.6	$ 241.0
UM[2]	June 30, 1996	$ 42.3	$ 52.8

[1] These component units are participants in a "Consolidated Plan for Participating Local Districts," a cost-sharing, multiple-employer defined benefit pension plan. As such, the disclosures made by individual Participating Local Districts (PLD's) reflect the assets and liabilities of the regular and/or special plan(s) under the Consolidated Plan in which the PLD participates and not those of the PLD itself.

[2] UM net assets are stated at market value.

Employer contributions met actuarially determined contribution requirements.

Other Plans

MTCS also has an optional program with the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), which is a defined contribution plan, to which the MTCS contributes 12.88 percent of total salaries for participating employees.

UM also has a defined program with TIAA-CREF. The University contributes approximately 10 percent of base salary of participants. All full time employees are eligible, and part-time employees are eligible once they have achieved the equivalent of five years of continuous, full-time service. All eligible employees are required to participate in this Plan when they reach thirty years of age.

LDA and FAME have a Simplified Employee Pension Plan. MSHA has a defined contribution plan created under the provisions of the Internal Revenue Code Section 401(a).

NOTE 10 - OTHER POST EMPLOYMENT EMPLOYEE BENEFITS

Post Retirement Health Care Benefits

The State of Maine funds health care benefits for most retirees. Pursuant to 5 M.R.S.A., § 285, most retired State employees and Legislators, and employees of the Maine Turnpike Authority, the Maine Technical College System, the Maine Maritime Academy, and the Maine State Retirement System are eligible for this benefit. Specifically excluded (5 M.R.S.A., § 285 1-B) are members of the Maine Municipal Association and the Maine Teachers Association, and employees of counties and municipalities and their instrumentalities.

The State pays 25 percent of health insurance premiums for retired teachers. Benefits for retired teachers are addressed in 20-A M.R.S.A., § 13451 et seq.

The State pays 100 percent of post retirement health insurance premiums for retirees who were first employed before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than 5 years participation to 100 percent for retirees with 10 or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Retirees eligible for Medicare are covered under supplemental insurance policies. The retiree must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees who are not eligible for Medicare includes basic hospitalization, supplemental major medical and prescription drugs, and costs for treatment of mental health, alcoholism, and substance abuse.

Retiree health care benefits are funded on a pay-as-you go basis. For retired State employees, the State estimates the total amount necessary to pay health insurance premiums. This amount results in an employer contribution rate (4.08 percent for the 1997 fiscal year) that is applied against current employee payrolls. The amounts contributed are reported as expenditures/expense in each of the various funds. For retired teachers, the State estimates the total annual amount necessary to pay its 25 percent share of health insurance premiums. This amount, less any accumulated funds remaining from prior years' estimates, is appropriated and reported as expenditures in the General Fund. Contributions resulting from both sources are accumulated in and reported as revenue of the Retiree Health Insurance Internal Service Fund. The State's share of the premium expense is paid from that fund when retiree payrolls are processed.

For the fiscal year ended June 30, 1997, there were 7,880 retired eligible State and Technical College employees and 5,800 retired teachers. In the 1997 fiscal year, the State paid into the Retiree Health Insurance Fund $15.9 million for retired employees and $2.6 million for retired teachers. Premium charges paid were $13.7 million and $2.5 million, respectively. Overall fund equity increased by $3.3 million, to $8.3 million at June 30, 1997.

Post Retirement Life Insurance Benefits

The Maine State Retirement System (MSRS) provides certain life insurance benefits for retirees who, as active employees, participated in the Group Life Insurance Program for a minimum of 10 years. Payments of claims are made by the MSRS from a fund containing a percentage of the life insurance premiums of active State employees and teachers, plus earnings on the investments of the fund. In addition to the cost of claims, the State pays a monthly retention fee to a life insurance company. Retired State employee and retired teacher life insurance claims totaled $2.5 million for the fiscal year ended June 30, 1997. The number of participants eligible to receive benefits at fiscal year end cannot be readily determined.

NOTE 11 - DEFERRED COMPENSATION

The State offers its employees a Deferred Compensation Plan created in accordance with Internal Revenue Code § 457. The plan, available to all State employees, permits deferral of a portion of salary until future years. Compensation deferred is not available to employees until the employees retire, resign, or otherwise leave State employment.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the deferred compensation account for each participant.

The financial liability of the State is limited in each instance to the payment of premiums and the purchase of shares under the deferred compensation program while the participant remains an employee of the State, and only to the amount of the compensation or portion of compensation held for payment of such premiums or shares. In the past, plan assets have been used only to pay benefits. The State believes that it is highly unlikely that it will use the assets to satisfy the claims of general creditors.

During fiscal 1997, legislation was enacted at the federal and state levels that, under the provisions of Internal Revenue Code §457, will transfer the ownership and rights to the employee or beneficiary if certain procedures are followed, which include establishing a trust for the assets held in the plan. The State is planning on changing the current trust document in fiscal year 1998, at which time it is anticipated that the deferred compensation will not be reported in the State's financial statements.

NOTE 12 - LONG-TERM OBLIGATIONS

Primary Government

The State records its liability for bonds in the General Long-Term Obligations Account Group. Other general long-term obligations recognized by the State are its compensated employee absences and its obligations under Certificates of Participation and other financing arrangements. Payments for these liabilities will be made from the governmental funds.

General Obligation Bonds

Programs for which the State issues general obligation bonds include adaptive equipment loan programs, environmental cleanup and highway projects, and the acquisition, construction, and renovation of major capital facilities. 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.

In June, 1997, the State issued $42.7 million of general obligation bonds, $37.7 million of which will be repaid from the General Fund and $5 million of which will be repaid from the Special Revenue Fund. In addition, $6 million of bonds were issued by the Maine Court Facilities Authority, a blended component unit, for the purpose of financing the acquisition and construction of court facilities for use by the State's Judicial Department. As of June 30, 1997, the State had $53.5 million of authorized but unissued general obligation bonds.

Changes in general obligation bonds during the fiscal year are as follows:

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

	Balance July 1, 1996	Additions	Retirements	Adjustments	Balance June 30, 1997
General Obligation Debt:					
General Fund	$369,458	$37,700	$67,538	$ -	$339,620
Special Revenue Fund	144,440	10,990	21,175	15,400	149,655
Self Liquidating	1,792	-	262	(719)	811
Total	$515,690	$48,690	$(88,975)	$14,681	$490,086

Adjustments to bonds outstanding are the result of the State including component units as part of the reporting entity. This has resulted in bonds of the Maine Technical College System, previously reported in the self liquidating category, being reported with other component units. It has also resulted in the Maine Court Facilities Authority being included in the Special Revenue Fund. At June 30, 1996, these bonds were shown as capital leases in the General Long-Term Obligations Account Group.

The future debt service requirements for the bonds are as follows:

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

Fiscal Year	Principal	Interest	Total
1998	$ 77,536	$ 26,201	$ 103,737
1999	72,070	21,789	93,859
2000	66,080	18,118	84,198
2001	63,865	14,458	78,323
2002	59,535	10,953	70,488
Thereafter	151,000	20,316	171,316
Total	$ 490,086	$ 111,835	$ 601,921

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, 1997, general obligations bonds authorized and unissued totaled $53.5 million.

Bond and Tax Anticipation Notes

During fiscal year 1997, bond anticipation notes (BAN's) totaling $14.7 million were issued by the State. Interest rates ranged from 4.00 percent to 5.90 percent. The BAN's were issued as a temporary financing vehicle for new projects that were ultimately financed with bond issuance proceeds. The BAN's are backed by the full faith and credit of the State. Tax anticipation notes (TAN's) totaling $150 million were issued during fiscal year 1997. As of June 30, 1997, there were no BAN's or TAN's outstanding.

Certificates of Participation and Other Financing Arrangements

The State uses financing companies and Certificates of Participation (COP's) to finance the construction of certain State buildings, and to purchase equipment and vehicles. Certificates of Participation 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 maintains custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid. Neither Certificates of Participation nor the other financing arrangements constitute a legal debt or liability, or a 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.

Changes in liabilities reported in the General Long-Term Obligations Account Group are as follows:

Changes in General Long-Term Obligations
June 30, 1997
(Dollars in Thousands)

	Bonds	COP's and Other Financing Arrangements	Compensated Absences	Total
Balance, July 1, 1996	$ 515,690	$ 8,045	$ 26,112	$ 549,847
Issuances	48,690	-	-	48,690
Payments	88,975	1,995	-	90,970
Other Increase (Decrease)	14,681	844	68	15,593
Balance, June 30, 1997	$ 490,086	$ 6,894	$ 26,180	$ 523,160

Changes in COP's and Other Financing Arrangements reported in Proprietary Fund Types are as follows:

Certificates of Participation and Other Financing Arrangements
June 30, 1997
(Dollars in Thousands)

Outstanding July 1, 1996	Additions	Retirements	Outstanding June 30, 1997
$22,885	$4,344	$7,312	$19,917

Debt service on COP's and other financing arrangements are presented in the following table:

Debt Service on Certificates of Participation and Other Financing Arrangements
June 30, 1997
(Dollars In Thousands)

	Minimum Payments			
Funds	**Governmental Funds**		**Internal Service**	
Fiscal Year Ending	COP's	Other Financing Arrangements	COP's	Other Financing Arrangements
1998	$1,901	$197	$ 7,191	$1,311
1999	1,803	197	4,389	2,160
2000	1,703	197	4,168	1,534
2001	1,601	192	-	967
2002	-	-	-	-
Thereafter	-	-	-	-
Total Minimum Payments	7,008	783	15,748	5,972
Less: Amount Representing Interest	808	89	1,253	550
Present Value of Future Minimum Payments	$6,200	$694	$14,495	$5,422

Obligations Under Capital Leases

At June 30, 1997, the State was not able to identify, classify and report capital leases in conformity with generally accepted accounting principles. As such, it is not possible to present the amount of assets recorded under such leases and their accumulated amortization, or disclose the future minimum lease payments at net present value.

Component Units - Bonds outstanding for the component units are as follows:

Component Units Bonds Outstanding
June 30, 1997
(Dollars in Thousands)

	Purpose	Interest Rates	Amount	Maturity Dates
Maine Municipal Bond Bank	General Tax-Exempt Fund Group	3.00 - 9.75%	$ 751,284	1986 - 2020
	Sewer and Water Fund Group	2.75 - 7.30%	56,323	1991 - 2017
	Special Obligation Taxable Fund Group	6.10 - 10.25%	4,105	1991 - 2009
			811,712	
University of Maine System	1993 Series A Revenue Bonds	2.30 - 5.20%	13,175	1994 - 2008
	1993 Series B Refunding Bonds	3.15 - 5.25%	14,655	1995 - 2009
			27,830	
Maine State Housing Authority	Mortgage Purchase Program	2.75 - 9.25%	1,006,378	1997 - 2037
	Mortgage Acquisition Program	5.95 - 9.50%	17,685	1997 - 2021
	Housing Finance Revenue Program	3.95 - 6.80%	33,816	1997 - 2018
			1,057,879	
Other	Construction, Educational Loan, and other Revenue Bonds	1.00 - 9.50%	56,147	1986 - 2037
Total			$1,953,568	

Maturities of principal for component units are as follows. Amounts of principal maturities will not match amounts on the financial statements due to deferred amounts on refunding, and unamortized original issue discount.

Component Units Principal Maturities
June 30, 1997
(Dollars in Thousands)

Fiscal Year Ending June 30 (December 30 for MSHA, MELA)	FAME	MELA	MMA	MTCS	MMBB	UM	MSHA	Totals
1997	$ -	$ 2,910	$ -	$ -	$ -	$ -	$ 11,875	$ 14,785
1998	-	1,665	94	149	70,155	1,940	13,710	87,713
1999	1,797	2,625	101	85	67,885	1,830	18,960	93,283
2000	-	2,525	76	85	64,295	1,515	21,080	89,576
2001	-	2,325	81	85	63,020	1,525	23,260	90,296
2002	-	-	80	85	66,205	1,450	-	67,820
Thereafter		38,406	2,907	230	508,115	20,015	981,840	1,551,513
Less amounts deferred or unamortized	-	-	(164)	-	(27,963)	(445)	(12,846)	(41,418)
Total Principal Payments	$1,797	$50,456	$3,175	$ 719	$811,712	$27,830	$1,057,879	$1,953,568

NOTE 13 - SELF-INSURANCE

A. Risk Management

The State maintains several types of self-insurance plans and accounts for them in an Internal Service Fund. This coverage includes property, vehicle, boat and aircraft, tort, civil rights, employee bonds, and police professionals.

The plan recovers 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 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. Claims liabilities are re-evaluated periodically 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.

Commercial insurance has been purchased for losses that exceed the following limits: buildings, $1 million per occurrence subject to a $2 million annual aggregate, after which a $100,000 per occurrence retention applies; boat hulls, $100,000; aircraft, $50,000; and boat liability, $10,000. Aircraft liability is insured from the first dollar. There is a fund depletion policy that contributes money to the fund when the year's claims exceed $300,000 per occurrence, subject to a $2.5 million aggregate for police professionals, foster parents, vehicle liability, civil rights, and tort.

At June 30, 1997, $3.6 million was reported as the estimated claims payable for the State’s self-insurance plan. The discounted amount is $3.1 million and was calculated based on a 6 percent yield on investments.

Risk Management Fund Changes in Claims Payable
June 30, 1997
(Dollars in Thousands)

	1997	1996	
	Combined Fund	Internal Service Fund	Enterprise Fund
Liability at beginning of year	$2,179	$1,727	$546
Current year claims and changes in estimate	2,403	1,554	104
Claims payments	1,753	1,102	344
Other Adjustment	*306	-	-
Liability at end of year	$3,135	$2,179	$306

* Risk management activities were reported in two separate funds in 1996. Component units were not part of the reporting entity in that year; therefore, risk management activities for those agencies were shown separately in an Enterprise Fund and risk management activities for the primary government were reported in an Internal Service Fund. Approximately 95 percent of entities reported in the risk pool are now included as part of the reporting entity.

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 $1.37 million for the fiscal year ended June 30, 1997.

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.

Annuity contracts have been purchased for the purpose of settling certain claims. Information is insufficient to determine either the amount of the claims liabilities for which annuity contracts have been purchased in the claimant's name, or the amount of the related liabilities that have been removed from the balance sheet.

Changes in the balance of claims and judgments liabilities during fiscal 1997 were as follows:

Workers' Compensation Fund Changes in Claims Payable
June 30, 1997
(Dollars in Thousands)

	1997	1996
Liability at Beginning of Year	$ 50,200	$ 63,874
Current Year Claims and Changes in Estimates	14,468	(1,318)
Claims Payments	(12,790)	(12,356)
Liability at End of Year	$ 51,878	$ 50,200

Based on actuarial calculations as of June 30, 1997, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $71.1 million. The discounted amount is $51.9 million and was calculated based on a 6 percent yield on investments.

D. Health Care

The State of Maine's health insurance plan provides insurance coverage for the active employees of the State and several quasi-governmental agencies, including the Maine Technical College System and the Maine Turnpike Authority. The State is insured as a group plan under a policy from a commercial insurer.

Rates were set to generate working premiums totaling $93.5 million, of which the State was 93 percent. The contract agreement is effective from July 1, 1996 through December 31, 1997. At the termination of the contract, a final cost settlement will be determined. The carrier assumes all risk of any loss. If a gain results, the group receives 75 percent and the carrier retains 25 percent. Contract claims experience through June 30, 1997, indicate that no material receivable will result. For the past three fiscal years, contracts were not fully insured and contract settlements exceeded insurance coverage as follows:

Fiscal Year	Cumulative Deficit (Dollars in Millions)
1994	$6.7[1]
1995	$5.1[2]
1996	$0.6

[1] For the year ended June 30, 1994, the accumulated plan deficit was $10.2 million. Of this deficit, stop loss insurance coverage funded $3.5 million, resulting in a $6.7 million cumulative deficit.
[2] Prior year surpluses of $5.6 million, held by the insurer, were applied to the $6.7 million deficit. Deficits for the year ended June 30, 1995, were $4 million, resulting in a $5.1 million cumulative deficit.

Medicare contributions have been required for all employees hired since April, 1986.

E. Disability

State law allows confidential employees who become temporarily disabled to receive 66.67 percent of their salary for up to 335 calendar days. There were a total of 893 confidential employees at June 30, 1997. The expenditure amount for this benefit cannot be determined.

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS AND COMPONENT UNITS

Primary Government

The State has nine enterprise funds that have been created to provide various services to the general public and are described below:

The Alcoholic Beverages Fund was established to license and regulate the sale of alcoholic beverages. The net profit from the fund is transferred to the State's General Fund and is used for general government purposes.

The Lottery Fund was established to account for all operations of the Maine State Lottery. This includes the Tri-State Lotto Commission, which was established in 1985, and is a joint venture between 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 the price or prices of tickets, the number and size of prizes for winning tickets, and the licensing of agents.

The Potato Marketing Improvement Fund provides low interest loans to potato growers for the modernization of storage facilities and improvements in the handling of the product.

The Seed Potato Board Fund accounts for the growing of nuclear seed for sale to potato growers, for research in disease control, and the development of new product varieties.

The State Ferry Service Fund accounts for the operation of ferry services between the mainland and various islands for the purpose of transporting vehicles, freight, and passengers to and from those islands.

The State Airport Fund accounts for all operations and maintenance of the Maine State Airport. The State, through the Department of Transportation, entered into a lease/purchase agreement with the City of Augusta to operate and eventually own the airport.

The Marine Ports Fund is used to account for the operation and maintenance of port facilities within the jurisdiction of the Department of Transportation.

The Prison Industries Fund accounts for a self-supporting program of job training through the employment of inmates in manufacturing and selling products.

The Community Industrial Building Fund is used to assist a local development corporation to construct a community industrial building by loaning money when the project can reasonably be expected to create new employment. Preference is given to projects in economically deprived areas.

Segment Information
June 30, 1997
(Dollars in Thousands)

	State Lottery Bureau	Bureau of Alcoholic Beverages	Transportation Related	Agriculture Related	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues	$ 147,538	$ 70,575	$ 2,211	$ 330	$ 823	$ 221,477
Depreciation Expense	15	77	3,770	63	13	3,938
Operating Income (Loss)	41,827	22,251	(4,114)	(1,617)	16	58,361
Net Non-operating Revenues	232	-	311	243	19	803
Net Income (Loss)	-	-	(1,680)	(1,140)	35	(2,785)
Net Operating Transfers In (Out)	(42,055)	(22,251)	2,123	235	-	(61,948)
Additions To (From) Property, Plant and Equipment	23	-	4,453	(6)	19	4,489
Total Assets	8,657	6,156	53,856	10,866	835	80,370
Total Long –Term Liabilities	-	1,000	-	-	-	1,000
Total Liabilities	8,657	6,156	435	1,639	139	17,026
Total Equity	-	-	53,421	9,227	696	63,344
Net Working Capital	(59)	775	615	(966)	508	874
Current Capital Contributions	-	-	2,618	-	-	2,618

Component Units

The following tables present condensed financial statements for each of the discretely presented component units. Complete financial statements of the individual component units can be obtained from their respective administrative offices as described in Note 1.

Component Units Condensed Balance Sheet

June 30, 1997

(Dollars in Thousands)

	LDA	MELA	FAME	MSHA	MMBB	MSRS	MMA	MTSC	UM	Total
Assets:										
Cash	$ 1,994	$ 1,336	$ 38,195	$ 174,845	$ 78	$ 263,693	$ 91	$ 4,549	$ 55,996	$ 540,777
Investments	-	14,169	21,252	104,301	166,934	4,927,060	12,567	8,628	70,645	5,325,556
Due from Primary Government	-	-	1,481	529	2,300	14,892	-	-	6,420	25,622
Due from Other Government	414	-	-	2,490	-	10,264	220	-	4,705	18,093
Loans and Notes Receivable	-	34,798	34,093	957,427	753,266	-	2,082	-	32,765	1,814,431
Other Receivables	66	687	1,984	-	8,050	11,416	372	2,178	13,165	37,918
Fixed Assets	71	-	137	933	1,137	2,763	37,673	59,591	239,433	341,738
Other Assets	-	-	738	17,876	42,640	-	2,522	3,174	4,756	71,706
Total Assets	2,545	50,990	97,880	1,258,400	974,405	5,230,088	55,527	78,120	427,885	8,175,841
Liabilities:										
Accounts Payable	224	36	1,999	1,332	1,162	12,069	723	1,383	3,797	22,725
Due to Other Government	1,441	-	-	5,273	2,457	-	-	-	-	9,171
Deferred Revenues	19	155	5,017	23,466	-	-	237	1,040	8,491	38,425
Amounts Held Under State Loan Programs	-	-	48,972	-	-	-	-	-	-	48,972
Bonds and Notes Payable	-	50,456	1,797	1,057,879	811,712	-	3,175	719	27,830	1,953,568
Other Accrued Liabilities	114	636	18,048	26,567	10,254	3,822	2,971	10,051	31,838	104,301
Total Liabilities	1,798	51,283	75,833	1,114,517	825,585	15,891	7,106	13,193	71,956	2,177,162
Equity:										
Retained Earnings:										
Reserved	-	-	8,398	139,243	4,671	-	-	-	-	152,312
Unreserved	747	(293)	13,649	4,639	144,151	-	-	-	-	162,893
Reserved for Debt Service	-	-	-	-	-	-	-	-	931	931
Net Investment in Plant	-	-	-	-	-	-	34,506	55,390	198,736	288,632
Reserved for Pension Benefits	-	-	-	-	-	5,214,197	-	-	-	5,214,197
Other Reservation	-	-	-	-	-	-	9,909	4,29,3	155,734	169,936
Unreserved Fund Balance	-	-	-	-	-	-	4,006	5,244	528	9,778
Total Equity	747	(293)	22,047	143,882	148,822	5,214,197	48,421	64,927	355,929	5,998,679
Total Liabilities and Equity	$2,545	$50,990	$97,880	$1,258,399	$974,407	$5,230,088	$55,527	$78,120	$427,885	$8,175,841

Component Units Statement of Revenue, Expenses, and Changes in Fund Balance
June 30, 1997
(Dollars in Thousands)

	LDA	MELA	FAME	MSHA	MMBB	Total
Operating Revenues	$4,276	$4,247	$35,853	$168,827	$74,111	$287,314
Operating Expenses	4,277	3,770	33,070	156,912	51,859	249,888
Operating Income (Loss)	(1)	477	2,783	11,915	22,252	37,426
Non-Operating Revenues (Expenses)	-	-	(2,496)	(137)	-	(2,633)
Extraordinary Loss	-	(28)	-	(715)	-	(743)
Transfers from Primary Government	384	-	1,574	2,538	4,000	8,496
Net Income (Loss)	383	449	1,861	13,601	26,252	42,546
Retained Earnings, July 1, 1996	365	(742)	20,184	130,282	122,570	272,659
Retained Earnings, June 30, 1997	$ 748	$ (293)	$22,045	$143,883	$148,822	$315,205

NOTE 15 - JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The only material joint venture in which the State participates is the Tri-State Lotto Commission.

The Tri-State Lotto Commission (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.

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. 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 has designated that 50 percent of its operating revenue be aggregated in a common prize pool. 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 are forfeited. All unclaimed prizes are credited to future prize pools. The Commission funds its jackpots through annuity contracts purchased from insurance companies and zero-coupon U.S. Government Treasury Strips.

A proportional share of revenues and expenses are allocated to each State based on the amount of 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, Daily Number expenses that are allocated to each State based on Daily Number ticket sales, and certain other miscellaneous costs that are based on actual charges generated by each state.

The financial statements of the Tri-State Lotto Commission may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333.

As of and for the year ended June 30, 1997, the following selected financial information was reported in the audited financial statements of the Tri-State Lotto Commission:

Tri-State Lotto Commission
June 30, 1997
(Dollars in Thousands)

Current Assets	$ 38,883
Noncurrent Assets	218,748
Total Assets	$ 257,631
Current Liabilities	$ 34,531
Long-term Liabilities	218,104
Total Liabilities	252,635
Retained Earnings (designated prize reserves)	4,996
Total Liabilities and Retained Earnings	$ 257,631
Total Revenue	$ 87,318
Total Expenses	$ 56,478
Allocation of Funds to Member States	$ 30,840
Increase in Retained Earnings	-

NOTE 16 - RELATED PARTY TRANSACTIONS

Primary Government

General Obligation Bonds of the State include $810,000 of self-liquidating bonds of Maine Veteran's Home. The State issues the bonds and the Maine Veteran's Home remits to the State the debt service as it comes due.

Maine Science and Technology Foundation and the Maine School of Science and Mathematics, related organizations, received appropriations of $2.7 million and $1.3 million, respectively.

Component Unit

The University of Maine Foundation (the "Foundation") is an independent non-profit organization and, accordingly, its financial statements are not consolidated with those of the University. Total gifts and income received by the University from the Foundation during fiscal years ending June 30, 1997 and 1996 were approximately $2.2 million and $1.8 million, respectively. The reported fair market value of the Foundation's assets at June 30, 1997 and 1996 was approximately $74 million and $58.6 million, respectively.

The Maine Educational Loan Authority (Authority) acts as an originating lender for a federal loan program for loans ultimately sold to the Maine Educational Loan Marketing Corporation, a related party. The funds necessary to originate the loans are made available to the Authority by Maine Educational Services through advances under a revolving credit agreement. The funds are advanced normally for a one day period. The educational loans are sold at face value plus a fifty basis point premium. In 1996 and 1995, approximately $50.7 million and $43.8 million, respectively, of educational loans were originated by the Authority and purchased by MELMAC as described above. The Authority received approximately $254,000 and $189,000 in 1996 and 1995, respectively, in loan premiums from MELMAC.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

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.

Municipal Solid Waste Landfills

Title 38 M.R.S.A., § 1310-F, establishes within the Department of Environmental Protection a cost-sharing program for the closure and remediation of solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of general obligation bond funds approved for that purpose. At June 30, 1997, $68 million had been authorized for solid waste landfill closure and remediation, of which $66 million had been issued, with $63 million expended or encumbered. In fiscal year 1997, $8.3 million in bond funds was expended for solid waste landfill projects.

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 $38 million through the year 2003. This consists of approximately $18 million for State owned facilities and $20 million for the State's share, under a cost sharing arrangement, for municipal facilities. Program funding depends upon appropriations being made by the State Legislature.

Construction Commitments

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. This portion represents the subsidy for debt service resulting from local outstanding indebtedness for school construction and renovation projects. As of June 30, 1997, outstanding commitments by municipalities for school bond issues that are eligible for state subsidy totaled $645.6 million.

At June 30, 1997, the Department of Transportation had contractual commitments of approximately $80 million for construction of various highway projects. The State's share of that amount is expected to be approximately $17 million. Funding for these future expenditures is expected to be provided from federal funds, State funds, and bond proceeds.

At June 30, 1997, the Department of Environmental Protection had contractual commitments for pollution abatement construction projects as provided by Title 13 MSRA §411. Subject to approval by the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. At June 30, 1997, $108 million general obligation bond funds had been authorized for pollution abatement construction projects, $100.7 million had been issued and $94.5 million expended. The amount of bond funds committed in contracts to these projects at June 30, 1997, was $3.7 million. The estimated cost of future pollution abatement construction projects is not known. In the 1997 fiscal year, $9.4 million in bond funds was expended on pollution abatement projects.

Treatment of Wastewater From the State's Correctional Facilities

At June 30, 1997, the Department of Corrections (DOC) had a contractual commitment with the Warren Sanitary District to provide treatment of wastewater from the State's correctional facilities located in Warren, Maine. Under the terms of the agreement, the DOC is required to make annual payments to the District for the DOC's prorated share of capital costs, debt service, and operation and maintenance costs. Fiscal year 1997 expenditures totaled $317,000. The agreement with the District shall be in effect for as long as the DOC uses the wastewater treatment facility. If the DOC ceases its use, the agreement is in effect until (a) the DOC has paid off its share of the local capital costs of the project and (b) another user acceptable to the Warren Sanitary District assumes the DOC's share of the operations and maintenance costs.

Contingent Receivable

At June 30, 1997, the Maine Department of Transportation (MDOT) had unreimbursed expenditures paid from the Highway Fund in fiscal years 1997 and prior. Based on historical experience, these expenditures are potentially reimbursable, in part, by the federal highway program through project modifications. The MDOT has not determined the probability or estimated the amount of any reimbursement.

Constitutional Obligations

Article 9, § 14-A, of the Maine State Constitution provides that the State may insure the payment of mortgage loans on real estate and personal property within the State for industrial, manufacturing, fishing, agricultural and recreational enterprises. The aggregate of these obligations may not exceed $90 million at any one time. As of June 30, 1997, $61.5 million was committed pursuant to this authorization.

Article 9, § 14-C, of the Maine State Constitution provides that the State may insure the payment of 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. These loans may not exceed $1 million in the aggregate at any one time. As of June 30, 1997, $73,000 was committed pursuant to this authorization.

Article 9, § 14-D, of the Maine State Constitution provides that the State may insure the payment of any mortgage loan 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 a resident Maine veteran. These loans may not exceed $4 million in the aggregate at any one time. As of June 30, 1997, $1.6 million was committed pursuant to this authorization.

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. As of June 30, 1997, there were no amounts issued pursuant to these authorizations.

Moral Obligations

Statutes governing certain public Authorities provide for Capital Reserve Provisions. These provisions authorize the State to make up any deficiencies in their debt service reserve funds, subject to legislative appropriation, effectively constituting a moral obligation to back the Authorities' credit. Since such moral obligations do not constitute full faith and credit obligations of the State, voter approval of such obligations is not required. The State has never been called upon to make any direct payments pursuant to such provisions. As of June 30, 1997, approximately $2.8 billion in moral obligation bonds were outstanding and the required debt service reserve was $278.5 million.

The following table shows the issuing Authorities, the amount of their moral obligation bonds outstanding, the required debt reserve, the debt limit on moral obligation bonds, and the legal citation.

Moral Obligation Bonds
June 30, 1997
(Dollars in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Finance Authority of Maine	$235,553	$34,063	$757,000	10 MRSA § 1032, 1053
Maine Educational Loan Authority	29,040	2,154	50,000	20-A MRSA § 11424
Maine Municipal Bond Bank	839,675	99,461	No Limit	30-A MRSA § 6006
Maine Health and Higher Education Facilities Authority	619,820	58,806	No Limit	22 MRSA § 2075
Loring Development Authority	-	-	100,000	5 MRSA § 13080-N
Maine State Housing Authority	1,137,533	83,982	1,650,000	30-A MRSA § 4906
Total	$2,861,621	$278,466		

NOTE 18 - LITIGATION

The State of Maine, its units and employees are parties to numerous legal proceedings, many of which normally occur in governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, except in the Consent Decrees, the State or its agencies or employees have valid defenses, and that, even if liability is found, the damages awarded will be far less than the amounts sought. The Attorney General is unaware of any case in which it is both probable that the State will incur liability and that the amount of such liability can be reasonably estimated to exceed $1 million. In any given case, however, it is possible that the State could incur a large judgment against it.

Bates v. Peet, et al., is a class action suit that was settled in 1990 by a Consent Decree, applicable to the mental health and mental retardation services provided by the Department of Mental Health and Mental Retardation. On September 7, 1994, the Superior Court found the defendants in contempt for their failure to live up to certain of the obligations contained in the Decree. On March 8, 1996, the Court found that the defendants had not purged themselves of the contempt previously found in the September 1994 order. A receivership was imposed but was stayed on condition that the defendants complied with further milestones by October 31, 1996. On February 8, 1997, the Court determined that the defendants had substantially complied with the term of the March 8, 1996, order and therefore purged themselves of civil contempt. However, the defendants remain under the obligations of the underlying Consent Decree, which may result in costs to the State that cannot be determined at this time.

Consumer Advisory Board, et al., v. Glover was the Consent Decree entered into September 28, 1994. In this case, the Department of Mental Health and Mental Retardation currently expects to be able to comply with terms of the Decree under its existing budget, but it is possible that additional funds could be required as a result of further court orders.

Parker v. Wakelin and *Dzialo v. Perrier* are two lawsuits seeking declaratory judgments that certain legislative changes made to save money in the State Retirement System are unconstitutional. The *Parker* case involves teachers who work for local school districts but who are members of the Maine State Retirement System. The *Dzialo* lawsuit, which involves similar legislative changes as they impact directly on State employees, was filed in December of 1996. On May 4, 1998, the United States Supreme Court denied the petition for certiorari in *Parker v. Wakelin* and, accordingly, the First Circuit's decision upholding the 1993 amendments to the State Retirement statute has become final. The Attorney General believes that the successful outcome of the *Parker* case will be largely dispositive of the claims made in the companion case of *Dzialo v. Perrier,* which raises mostly the same arguments. The *Dzialo* plaintiffs, however, have raised one argument that was not addressed in *Parker*. If that argument were found to be valid, it would affect the constitutionality of only one of the legislative changes made in 1993 – the cap on average final compensation for purposes of computing retirement benefits. The amount at issue would be a fraction of the total amount that was at issue in the *Parker* litigation. At this time, the Attorney General does not believe that, in light of the outcome of *Parker*, it is probable that the State would incur any liability in *Dzialo*.

Central Maine Medical Center (CMMC) has challenged $12.3 million in hospital taxes imposed on CMMC for 1996-1998. CMMC challenges the tax based on both procedural and constitutional grounds. In certain respects, CMMC's situation is similar to that of other hospitals; in other respects, CMMC's situation appears to be unique. If the tax were invalidated on the grounds that were applicable to other hospitals, and if no replacement tax were enacted, it is possible that other hospitals could seek refunds of several hundred million dollars. This case is currently in the discovery stage.

Jackson Brook Institute, Inc. (JBI) has challenged the $2.3 million in hospital taxes imposed on JBI for 1996-1998. JBI challenges the tax based on both procedural and constitutional grounds. Although JBI purports to challenge the entire hospital tax, only one other hospital's tax was calculated in the same manner as JBI's tax. This case is currently in the discovery stage. On March 27, 1998, JBI filed for bankruptcy, and JBI and the State entered into a 90-day standstill agreement to discuss the possible resolution of this and other issues.

At this time, the State has defenses to the challenges from both CMMC and JBI, but the outcome of these cases is uncertain. If the hospital taxes in question were invalidated in whole or in part, however, the Legislature could address the problem by amending and reenacting the taxes in question so as to avoid any major revenue loss to the State.

Bourre, et al., v. State Tax Assessor is an appeal of the State Tax Assessor's decision denying an abatement with respect to Maine income taxes, sought by a New Hampshire resident working at the Portsmouth Naval Shipyard in Kittery, Maine. Bourre has raised a number of constitutional issues and has asserted that the shipyard is in New Hampshire rather than Maine, preventing Maine from taxing his income. This is a test case, and the potential loss of income taxes if the State loses could run in excess of several million dollars. The Attorney General has advised management that the State has valid defenses to this action.

*New Hampshire v. Main*e. The Attorney General has advised us that the State of New Hampshire is preparing to file a lawsuit in the U.S. Supreme Court contending that the Kittery Shipyard is actually located in New Hampshire. The Attorney General believes that if such a suit is filed, the State of Maine will prevail.

The Federal Department of Health and Human Services (HHS) brought an administrative reimbursement action against the State, arising out of a dispute concerning the proper allocation of pension contribution costs between the State and federal government as a result of a federal audit for fiscal years 1992 and 1993. On May 5, 1998, the HHS Departmental Appeals Board ruled against the State on its appeal with respect to the proper allocation of pension contribution costs between the state and federal government. This will cost the State approximately $7 million unless the State goes to court and overturns the agency's decision. At this time, the Attorney General believes that the State has a viable basis for challenging the decision, but the outcome of the court case could go either way.

The Federal Internal Revenue Service has audited various agencies of the State and the IRS has taken the position that the State owes employment taxes on those independent contractors that the IRS believes qualify as employees under federal tax law. This dispute is currently pending before the IRS at the administrative level. It has been estimated that approximately $450,000 is at issue for tax year 1993, and the outcome of the dispute might have an effect on other open tax years.

There are also numerous workers' compensation claims 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.

NOTE 19 - SUBSEQUENT EVENTS

Primary Government

Subsequent to June 30, 1997, the State issued $46.5 million of bond anticipation notes with interest rates ranging from 4.00 percent to 6.25 percent.

In February, 1998, the State entered into a lease financing arrangement for the purchase of approximately 250 vehicles, recorded in the Internal Service Fund. The amount financed was $3.2 million, the term of the lease is 42 months and the interest rate is a fixed 4.50 percent.

The State Legislature enacted legislation effective September, 1997, that created a successor organization to the Maine Court Facilities Authority, a blended component unit. The Maine Governmental Facilities Authority will assume all rights, liabilities, indebtedness and duties of the Court Facilities Authority.

Component Units

On February 12, 1997, the Maine State Housing Authority issued $35 million of bonds, with interest rates ranging from 4.55 percent to 6.20 percent. The bonds mature between the years 2000 and 2037. The Maine State Housing Authority also elected to redeem, on April 1, 1997, at par, $6.3 million of its Mortgage Purchase Bonds.

Subsequent to December 31, 1996, the Maine Educational Loan Authority issued an additional $12.5 million in bonds. On August 14, 1997, the Maine Municipal Bond Bank issued $20.8 million of Sewer and Water Revenue Bonds. The bonds mature between the years 1998 and 2013, and carry interest rates ranging from 3.90 percent to 5.10 percent.

NOTE 20 - ACCOUNTING CHANGES

In fiscal year 1997, the State of Maine adopted Governmental Accounting Standard Board (GASB) Statement No. 14, *The Financial Reporting Entity*. See Note 1 for a description of the component units included in the reporting entity.

For the fiscal year ended June 30, 1997, the Maine State Retirement System (a discretely presented component unit) adopted GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. GASB Statement No. 25 establishes reporting and disclosure requirements for defined benefit pension plans. It applies to stand-alone financial reports of pension plans or the public employee retirement systems that administer them. The new Statement contains a major change in the reporting of investments at fair value versus cost. It also requires retroactive restatement of all prior periods presented. As a result, unrealized gains on investments of $925.4 million for 1995 and $660.9 million for 1996 were recorded.

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

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

GAIL M. CHASE, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO CPA,CIA
DIRECTOR OF AUDITS
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDITS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the State of Maine, as of and for the year ended June 30, 1997, and have issued our qualified report thereon dated April 15, 1998. We conducted our audit in accordance with generally accepted auditing standards 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 Finance Authority of Maine, the Maine Court Facilities Authority, the Maine Educational Loan Authority and the Maine State Housing Authority were not audited in accordance with *Government Auditing Standards*.

Compliance

As part of obtaining reasonable assurance about whether the State of Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of the State of Maine in a separate letter dated July 24, 1998.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Maine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Maine's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 97-01 through 97-10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 97-01, 97-02 and 97-03 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the State of Maine in a separate letter dated July 24, 1998.

This report is intended for the information of management, the Legislature and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Gail M. Chase, CIA
State Auditor

April 15, 1998

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

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

GAIL M. CHASE, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO CPA,CIA
DIRECTOR OF AUDITS
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDITS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

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

<u>Compliance</u>

We have audited the compliance of the State of Maine with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1997. The State of Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Maine's management. Our responsibility is to express an opinion on the State of Maine's compliance based on our audit.

The State of Maine's general-purpose financial statements include the operations of the following component units: the Maine State Retirement System, the Maine Technical College System, the University of Maine System, the Maine Maritime Academy, the Finance Authority of Maine, the Maine State Housing Authority, the Maine Educational Loan Authority, the Loring Development Authority, the Maine Court Facilities Authority, and the Maine Municipal Bond Bank. The federal awards that these component units received are not included in the supplementary *Schedule of Expenditures of Federal Awards* for the year ended June 30, 1997. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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, which could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Maine's compliance with those requirements.

As described in item 97-24 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding allowable costs/cost principles that are applicable to its Community Mental Health Services for Children with Serious Emotional Disturbances program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Maine complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1997. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that 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 97-16, 97-18 and 97-21.

Internal Control Over Compliance

The management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Maine's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Maine's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 97-11 through 97-15, and items 97-17, 97-19, 97-20, 97-22, 97-23, and 97-25 through 97-34.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the State of Maine as of and for the year ended June 30, 1997, and have issued our qualified report thereon dated April 15, 1998. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying *Schedule of Expenditures of Federal Awards* is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended for the information of management, the Legislature and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Gail M. Chase, CIA
State Auditor

July 24, 1998
(Except for the *Schedule of Expenditure of Federal Awards* as to which the date is April 15, 1998)

(This page intentionally left blank)

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1997

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1997
U.S. Department of Agriculture				
Direct Federal Programs				
Animal & Plant Health Inspection Service	10.025	Plant and Animal Disease, Pest Control and Animal Care	Agriculture	31,809
Agricultural Marketing Service	10.162	Inspection Grading and Standardization	Agriculture	513,214
Food & Consumer Service	**10.557**	**Special Supplemental Nutrition Program for W.I.C.**	Human Services	**15,156,574**
Food & Consumer Service	**10.558**	**Child Care and Adult Care Food Program**	Human Services	**10,749,985**
Food & Consumer Service	10.560	State Administrative Expenses for Child Nutrition	Human Services	225,349
Food & Consumer Service	10.560	State Administrative Expenses for Child Nutrition	Education	288,944
Food & Consumer Service	10.564	Nutrition and Education Training Programs	Education	16,875
Food & Consumer Service	10.568	Emergency Food Assistance Program (Administrative Costs)	Agriculture	178,860
Food & Consumer Service	10.574	Team Nutrition Grants	Education	39,144
Forest Service	10.664	Cooperative Forestry Assistance	Conservation	929,803
Agriculture, Food Stamp Cluster				
Food & Consumer Service	**10.551**	**Food Stamps**	Human Services	**107,372,644**
Food & Consumer Service	**10.561**	**St Administrative Matching Grnts for Food Stamp Progr**	Human Services	**6,137,416**
Agriculture, Nutrition Cluster				
Food & Consumer Service	**10.553**	**School Breakfast Program**	Education	**3,024,154**
Food & Consumer Service	**10.555**	**National School Lunch Program**	Education	**15,973,925**
Food & Consumer Service	**10.556**	**Special Milk Program for Children**	Education	**110,844**
Food & Consumer Service	**10.559**	**Summer Food Service Program for Children**	Education	**550,318**
Non-Cash Federal Programs				
Food & Consumer Service	10.550	Food Distribution Program (Commodities)	Education	2,537,778
Food & Consumer Service	10.569	Temp Emergency Food Asst Program (Commodities)	Agriculture	1,187,976
Food & Consumer Service	10.570	Nutrition Program for the Elderly (Commodities)	Human Services	696,472
Pass Through Federal Programs				
Food & Consumer Service (through the State Dept. of Labor)	10.550	Food Distribution Program	Education	19,581
Total U.S. Department of Agriculture Federal Programs				$165,741,665
U.S. Department of Commerce				
Direct Federal Programs				
Economic Development Administration	11.307	Special Economic Devl and Adjst Assistance Program	Economic Dev	2,227,578
Economic Development Administration	11.307	Special Economic Devl and Adjst Assistance Program	Marine Resource	46,706
National Oceanic & Atmospheric Administration	11.405	Anadromous Fish Conservation Act Program	Marine Resource	26
National Oceanic & Atmospheric Administration	11.407	Interjurisdictional Fisheries Act of 1986	Marine Resource	428,669
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management Administration Awards	State Planning	1,648,027
National Oceanic & Atmospheric Administration	11.420	Coastal Zone Management Estuarine Research Reserves	Conservation	35,227
National Oceanic & Atmospheric Administration	11.452	Unallied Industry Projects	Marine Resource	269,187
National Oceanic & Atmospheric Administration	11.472	Unallied Science Program	Salmon Comm	185,204
National Oceanic & Atmospheric Administration	11.474	Atlantic Coastal Fisheries Cooperative Management Act	Marine Resource	140,394
Pass Through Federal Programs				
National Oceanic & Atmospheric Administration (through the State Dept. of Environment)	11.419	Coastal Zone Management Administration Awards	State Planning	534,897
National Oceanic & Atmospheric Administration (through the State Dept. of the Attorney General)	11.419	Coastal Zone Management Administration Awards	State Planning	69,097
Other Federal Assistance (through the State Dept. of Marine Resources)	11.999	Petroleum Violation Escrow Funds	State Planning	124,033
Total U.S. Department of Commerce Federal Programs				$5,709,045

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1997

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1997
U.S. Department of Defense				
Direct Federal Programs				
Office of the Assistant Secretary	12.607	Community Economic Adjustment Planning Assistance	Economic Dev	16,697
Total U.S. Department of Defense Federal Programs				$16,697
U.S. Department of Housing and Urban Development				
Direct Federal Programs				
Federal Housing Commissioner	14.174	Housing Development Grants	Transportation	498,756
Federal Housing Commissioner	14.179	Nehemiah Housing Opportunity Grant Program	Mental Health	137,076
Community Planning & Development	14.228	Community Development Block Grants / State's Program	Economic Dev	13,649,531
Other Federal Assistance	14.999	Innovative Homeless Program	Mental Health	231,023
Pass Through Federal Programs				
Community Planning & Development (through the State Dept. of Mental Health)	14.238	Shelter Plus Care	Human Services	1,205,817
Total U.S. Department of Housing and Urban Development Federal Programs				$15,722,203
U.S. Department of the Interior				
Direct Federal Programs				
U.S. Fish & Wildlife Service	15.600	Anadromous Fish Conservation	Salmon Comm	210,268
U.S. Fish & Wildlife Service	15.605	Sportfish Restoration	Marine Resource	580,276
U.S. Fish & Wildlife Service	15.605	Sportfish Restoration	Inland Fisheries	1,466,473
U.S. Fish & Wildlife Service	15.611	Wildlife Restoration	Inland Fisheries	2,281,591
U.S. Fish & Wildlife Service	15.612	Rare and Endangered Species Conservation	Conservation	97,359
U.S. Fish & Wildlife Service	15.612	Rare and Endangered Species Conservation	Inland Fisheries	84,413
U.S. Fish & Wildlife Service	15.614	Coastal Wetlands Planning, Protection and Restoration Act	Inland Fisheries	143,000
U.S. Fish & Wildlife Service	15.616	Clean Vessel Act	State Planning	59,761
Geological Survey	15.808	Geological Survey - Research and Data Acquisition	Conservation	51,811
National Park Service	15.904	Historic Preservation Fund - Grants in Aid	Historic Preserv	460,082
National Park Service	15.904	Historic Preservation Fund - Grants in Aid	State Museum	16,268
National Park Service	15.916	Outdoor Recreation: Acquisition, Development, & Planning	Conservation	111,742
U.S. Fish & Wildlife Service	15.FFC	North American Wetlands Conservation Act	Inland Fisheries	304,990
Pass Through Federal Programs				
U.S. Fish & Wildlife Service (through the State Dept. of Marine Resources)	15.605	Sportfish Restoration	Inland Fisheries	444,342
Total U.S. Department of the Interior Federal Programs				$6,312,376
U.S. Department of Justice				
Direct Federal Programs				
Drug Enforcement Administration	16.005	Public Education on Drug Abuse - Information	Public Safety	82,977
Office of Juvenile Justice & Delinquency Prevention	16.540	1996 Juvenile Justice & Delinquency Prevention	Correction	28,940
Office of Juvenile Justice & Delinquency Prevention	16.540	1994 Juvenile Justice & Delinquency Prevention	Correction	325,091
Office of Juvenile Justice & Delinquency Prevention	16.540	1994 Title V Local Delinquency Prevention Program	Correction	60,955
Office of Juvenile Justice & Delinquency Prevention	16.540	1995 Juvenile Justice & Delinquency Prevention	Correction	221,100
Office of Juvenile Justice & Delinquency Prevention	16.540	1995 Challenge Grant Award	Correction	22,024
Office of Juvenile Justice & Delinquency Prevention	16.540	1995 Title V Local Delinquency Prevention Program	Correction	43,550
Bureau of Justice Statistics	16.554	National Criminal History Improvement Program	Public Safety	408,603
Bureau of Justice Assistance	16.575	Crime Victim Assistance	Human Services	665,785
Bureau of Justice Assistance	16.576	Crime Victim Compensation	Attorney General	36,027
Bureau of Justice Assistance	16.579	Byrne Formula Grant Program	Public Safety	1,910,990

See accompanying notes to the Schedule of Expenditures of Federal Awards

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1997

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1997
U.S. Department of Justice (continued)				
Direct Federal Programs (continued)				
Bureau of Justice Assistance	16.579	Byrne Formula Grant Program	Correction	200,811
Bureau of Justice Assistance	16.588	Violence Against Women - Formula Grants	Public Safety	176,134
Bureau of Justice Assistance	16.592	Local Law Enforcement Block Grants Program	Public Safety	83,798
Bureau of Prisons	16.603	Corrections: Technical Assistance/Clearinghouse	Correction	69,925
Office of Community Oriented Policing Services	16.710	Public Safety Partnership & Community Policing Grants	Public Safety	20,513
Other Federal Assistance	16.999	Enforcement Assistance Discretionary Grant Program	Public Safety	28,982
Pass Through Federal Programs				
Bureau of Justice Assistance (through the State Dept. of the Attorney General)	16.576	Crime Victim Compensation	Human Services	95,494
Bureau of Justice Assistance (through the State Dept. of the Attorney General)	16.579	Byrne Formula Grant Program	Public Safety	547,006
Bureau of Justice Assistance (through the State Dept. of Corrections)	16.579	Byrne Formula Grant Program	Public Safety	447,424
Bureau of Justice Assistance (through the State Dept. of Corrections)	16.586	Violent Offender Incarc & Truth in Sentencing Grants	Public Safety	232,245
Bureau of Justice Assistance (through the State Dept. of the Attorney General)	16.588	Violence Against Women - Formula Grant	Public Safety	5,321
Other Federal Assistance (through the State Administrator of the Courts)	16.999	Court Management System	Public Safety	14,898
Total U.S. Department of Justice Federal Programs				$5,728,593
U.S. Department of Labor				
Direct Federal Programs				
Bureau of Labor Statistics	17.002	Labor Force Statistics	Labor	925,669
Bureau of Labor Statistics	17.005	Compensation and Working Conditions Data	Labor	94,708
Employment & Training Administration	17.202	Cert of Foreign Workers for Temp Agri Employment	Labor	510,484
Employment & Training Administration	**17.207**	**Employment Services**	Labor	**4,264,156**
Employment & Training Administration	**17.225**	**Unemployment Insurance**	Labor	**124,631,821**
Employment & Training Administration	17.235	Senior Community Service Employment Program	Human Services	400,680
Employment & Training Administration	**17.245**	**Trade Adjustment Assistance Workers**	Labor	**3,675,373**
Employment & Training Administration	**17.246**	**Employment & Training Assistance Dislocated Workers**	Labor	**8,893,011**
Employment & Training Administration	17.249	Employment Services and Job Training - Pilot Programs	Labor	258,663
Employment & Training Administration	**17.250**	**Job Training Partnership Act**	Labor	**9,032,903**
Occupational Safety & Health Administration	17.504	Consultation Agreements	Labor	315,628
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.801	Disabled Veterans Outreach Program	Labor	386,945
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.802	Veterans Employment Program	Labor	595,816
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.804	Local Veterans Employment Representative Program	Labor	464,184
Other Federal Assistance	17.999	Maine Occupational Information Coordinating Committee	Labor	36,199
Total U.S. Department of Labor Federal Programs				$154,486,240
U.S. Department of Transportation				
Direct Federal Programs				
United States Coast Guard	20.005	Boating Safety Financial Assistance	Inland Fisheries	409,462
Federal Aviation Administration	20.106	Airport Improvement Program	Transportation	41,372
Federal Highway Administration	20.205	Highway Planning and Construction	Financial Serv	87,856
Federal Highway Administration	20.205	Highway Planning and Construction	Transportation	121,840,991
Federal Highway Administration	20.218	Motor Carrier Safety Assistance Program	State	50,694
Federal Highway Administration	20.218	Motor Carrier Safety Assistance Program	Public Safety	355,794
Federal Highway Administration	20.219	National Recreational Trails Funding Program	Conservation	49,439
Federal Railroad Administration	20.308	Local Rail Freight Assistance	Transportation	261,918
Federal Transit Administration	20.505	Federal Transit Technical Studies Grants	Transportation	198,997
Federal Transit Administration	20.509	Public Transportation for Nonurbanized Areas	Transportation	1,679,308
National Highway Traffic Safety Administration	20.600	State & Community Highway Safety	Transportation	6,000
National Highway Traffic Safety Administration	20.600	State & Community Highway Safety	Public Safety	1,038,270
National Highway Traffic Safety Administration	20.600	State & Community Highway Safety	Human Services	51,087
Other Federal Assistance	20.999	ISTEA	Conservation	19,716

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1997

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1997
U.S. Department of Transportation (continued)				
Direct Federal Programs (continued)				
Federal Transit Administration, Federal Transit Capital Cluster				
Federal Transit Administration	**20.500**	**Federal Transit Capital Improvement Grants**	Transportation	**677,640**
Federal Transit Administration	**20.507**	**Federal Transit Capital and Operating Asst Formula Grts**	Transportation	**1,440,191**
Pass Through Federal Programs				
United States Coast Guard (through the State Dept. of Marine Resources)	20.005	Boating Safety Financial Assistance	Inland Fisheries	136,488
Total U.S. Department of Transportation Federal Programs				$128,345,223
Equal Employment Opportunity Commission				
Direct Federal Programs				
Equal Employment Opportunity Commission	30.002	Empl Discr - St & Loc - Fair Empl Pract Agcy Contracts	Human Rights	187,625
Total Equal Employment Opportunity Commission Federal Programs				$187,625
General Service Administration				
Direct Federal Programs				
Other Federal Assistance	39.999	DICAP	Conservation	42,278
Non-Cash Federal Programs				
General Service Administration	39.003	Donation of Federal Surplus Personal Property	Financial Serv	2,653,597
Total General Service Administration Federal Programs				$2,695,875
National Foundation on the Arts & the Humanities				
Direct Federal Programs				
National Endowment for the Arts	45.002	Promotion of the Arts - Dance	Arts Commission	3,443
National Endowment for the Arts	45.003	Promotion of the Arts - Arts in Education	Arts Commission	48,023
National Endowment for the Arts	45.007	Promotion of the Arts - State and Regional Programs	Arts Commission	289,911
National Endowment for the Arts	45.015	Promotion of the Arts - Folk and Traditional Arts	Arts Commission	5,522
National Endowment for the Arts	45.024	Promotion of the Arts - Grants to Orgs and Individuals	Arts Commission	102,392
National Endowment for the Humanities	45.149	Promo of the Humanities-Div of Presv and Access	State Library	82,218
Institute of Museum & Library Services	45.301	Institute of Museum Services	State Museum	41,826
Total National Foundation on the Arts & the Humanities Federal Programs				$573,335

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1997
National Science Foundation				
Direct Federal Programs				
National Science Foundation	47.050	Geosciences EPSCoR	Conservation	2,049
Total National Science Foundation Federal Programs				$2,049
Small Business Administration				
Direct Federal Programs				
Small Business Administration	59.045	Natural Resource Development	Conservation	55,970
Total Small Business Administration Federal Programs				$55,970
U.S. Department of Veterans Affairs				
Direct Federal Programs				
U.S. Department of Veterans Affairs	64.101	Burial Expenses Allowance for Veterans	Defense	44,904
Total U.S. Department of Veterans Affairs Federal Programs				$44,904
U.S. Environmental Protection Agency				
Direct Federal Programs				
Office of Air & Radiation	66.001	Air Pollution Control Program Support	Environment	464,221
Office of Air & Radiation	66.032	State Indoor Radon Grants	Human Services	105,387
Office of Water	66.419	Water Pollution Control: State/Interstate Program Support	Human Services	66,005
Office of Water	66.419	Water Pollution Control: State/Interstate Program Support	Environment	389,337
Office of Water	66.420	Water Pollution Control-State & Local Manpower Dvlpmnt	Environment	31,024
Office of Water	66.432	State Public Water System Supervision	Human Services	709,240
Office of Water	66.433	State Underground Water Source Protection	Environment	20
Office of Water	66.435	Water Pollution Control-Lake Restoration Coop Agrmnts	Environment	124,807
Office of Water	66.454	Water Quality Management Planning	Environment	193,288
Office of Water	66.460	Nonpoint Source Implementation Grants	Environment	985,515
Office of Water	66.461	Wetlands Protection - State and Tribal Development Grants	Environment	73,703
Office of Water	66.461	Wetlands Protection - State and Tribal Development Grants	Agriculture	1,331
Office of Water	66.461	Wetlands Protection - State and Tribal Development Grants	State Planning	96,229
Office of Water	66.461	Wetlands Protection - State and Tribal Development Grants	Inland Fisheries	22,056
Office of Water	66.463	Ntl Pollutant Discharge Elimination Sys Rel St Prog Grnts	Environment	411,323
Office of Research & Development	66.501	Air Pollution Control Research	State Planning	47,926
Office of Research & Development	66.504	Solid Waste Disposal Research	State Planning	34,395
Office of Research & Development	66.505	Water Pollution Control - Resch, Devl & Demonstration	Environment	599,510
Office of Administration	66.605	Performance Partnership Grants	Environment	2,497,622
Office of Enforcement & Compliance Assurance	66.700	Pesticides Enforcement Program	Environment	72,990
Office of Enforcement & Compliance Assurance	66.700	Pesticides Enforcement Program	Agriculture	300,847
Office of Enforcement & Compliance Assurance	66.701	Toxic Substance Compliance Monitoring Program	Environment	77,167
Office of Enforcement & Compliance Assurance	66.707	TSCA Title IV St Lead Grts-Cert of Lead-Based Paint Prof	Human Services	150,045
Office of Enforcement & Compliance Assurance	66.708	Pollution Prevention Grants Program	Environment	31,191
Office of Solid Waste & Emergency Response	66.801	Hazardous Waste Management State Program Support	Environment	132,319
Office of Solid Waste & Emergency Response	66.802	Superfund State Site-Specific Cooperative Agreements	Environment	131,396
Office of Solid Waste & Emergency Response	66.804	State Underground Storage Tanks Program	Environment	62,094
Office of Solid Waste & Emergency Response	66.805	Leaking Underground Storage Tank Trust Fund Program	Environment	403,414
Office of Solid Waste & Emergency Response	66.809	Superfund State Core Program Cooperative Agreements	Environment	183,262
Other Federal Assistance	66.999	Hazardous Waste Cleanup	Environment	594,902
Other Federal Assistance	66.999	Comparative Risk Program	Environment	32,603
Other Federal Assistance	66.999	Solid Waste Disposal	Environment	5,218

Federal Department / Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1997
U.S. Environmental Protection Agency (continued)				
Pass Through Federal Programs				
Office of Water (through the State Dept. of Environmental Prot.)	66.461	Wetlands Protection - State & Tribal Development Grants	State Planning	324
Total U.S. Environmental Protection Agency Federal Programs				$9,030,711
Nuclear Regulatory Commission				
Direct Federal Programs				
Nuclear Regulatory Commission	77.001	Radiation Control-Training Assistance & Advis Counseling	Human Services	49,137
Total Nuclear Regulatory Commission Federal Programs				$49,137
U.S. Department of Energy				
Direct Federal Programs				
U.S. Department of Energy	81.039	National Energy Information Center	State Planning	9,702
U.S. Department of Energy	81.041	Impact Aid	Economic Dev	322,026
Pass Through Federal Programs				
Other Federal Assistance (through the State Admin. & Financial Services)	81.999	Petroleum Violation Escrow Funds	State Planning	360,590
Other Federal Assistance (through the State Dept. of Environmental Prot.)	81.999	Petroleum Violation Escrow Funds	State Planning	62,356
Other Federal Assistance (through the State Dept. of Econ. & Comm. Devl.)	81.999	Petroleum Violation Escrow Funds	State Planning	54,170
Other Federal Assistance (through the State Dept. of Human Services)	81.999	Petroleum Violation Escrow Funds	State Planning	413,060
Total U.S. Department of Energy Federal Programs				$1,221,904
Federal Emergency Management Agency				
Direct Federal Programs				
Federal Emergency Management Agency	83.105	Community Assistance Program - St Supp Services Element	State Planning	125,205
Federal Emergency Management Agency	**83.516**	**Disaster Assistance**	Transportation	**713,887**
Federal Emergency Management Agency	**83.516**	**Disaster Assistance**	Defense	**5,854,080**
Federal Emergency Management Agency	83.520	Hurricane Program	Defense	103,386
Federal Emergency Management Agency	83.534	Emergency Management - State and Local Assistance	Defense	1,388,179
Other Federal Assistance	83.999	Maine Emergency Management	Inland Fisheries	9,905
Pass Through Federal Programs				
Other Federal Assistance (through the State Dept. of Marine Resources)	83.999	Maine Emergency Management	Inland Fisheries	9,905
Total Federal Emergency Management Agency Federal Programs				$8,204,547

See accompanying notes to the Schedule of Expenditures of Federal Awards

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1997
U.S. Department of Education				
Direct Federal Programs				
U.S. Department of Education	84.002	Adult Education - State Grant Program	Education	1,137,751
U.S. Department of Education	84.004	Civil Rights Training & Advisory Services	Education	40,005
U.S. Department of Education	84.009	Prog for Ed of Hndcp Chldrn in St Oper or Supp Schools	Education	61,614
U.S. Department of Education	84.010	Title I Grants to Local Educational Agencies	Education	25,094,853
U.S. Department of Education	84.011	Migrant Education - Basic State Grant Program	Education	3,455,456
U.S. Department of Education	84.012	Educationally Deprived Children - State Administration	Education	64
U.S. Department of Education	84.013	Title I Program for Neglected and Delinquent Children	Education	3,208
U.S. Department of Education	**84.027**	**Special Education - Grants to States**	Education	**12,987,592**
U.S. Department of Education	84.029	Special Education - Personnel Development & Parent Trng	Education	89,139
U.S. Department of Education	84.034	Public Library Services	State Library	684,878
U.S. Department of Education	84.035	Interlibrary Cooperation and Resource Sharing	State Library	286,551
U.S. Department of Education	**84.048**	**Vocational Education - Basic Grants to States**	Education	**5,090,067**
U.S. Department of Education	84.086	Special Education-Program for Severely Disabled Children	Education	230,095
U.S. Department of Education	84.126	Rehabilitation Serv-Vocational Rehab Grants to States	Labor	12,604,368
U.S. Department of Education	84.151	Educ Consolidation and Impr Programs-Chapter 2	Education	29,947
U.S. Department of Education	84.154	Public Library Construction and Technology Enhancement	State Library	100,301
U.S. Department of Education	84.158	Secondary Educ and Transitional Serv for Youth with Disab	Education	465,442
U.S. Department of Education	84.162	Immigrant Education	Education	19,322
U.S. Department of Education	84.164	St Gts for Tchr Skls & Inst in Mth, Sci, Fgn Lng, & Cmp Lrng	Education	133,532
U.S. Department of Education	84.168	Eisenhower Professional Development - National Activities	Education	231,226
U.S. Department of Education	84.173	Special Education - Preschool Grants	Education	2,278,003
U.S. Department of Education	84.181	Spec Educ Grants for Infants & Families with Disabilities	Education	1,993,148
U.S. Department of Education	84.185	Byrd Honors Scholarships	Education	130,036
U.S. Department of Education	84.186	Safe and Drug Free Schools & Community - State Grants	Mental Health	434,193
U.S. Department of Education	84.186	Safe and Drug Free Schools & Community - State Grants	Education	106,374
U.S. Department of Education	84.190	Christa McAuliffe Fellowships	Education	4,794
U.S. Department of Education	84.194	Bilingual Education Support Services	Education	98,590
U.S. Department of Education	84.196	Education for Homeless Children and Youth	Education	67,194
U.S. Department of Education	84.213	Even Start - State Educational Agencies	Education	553,266
U.S. Department of Education	84.216	Capital Expenses	Education	10,789
U.S. Department of Education	84.218	State School Improvement Grants	Education	87,033
U.S. Department of Education	84.224	State Grants for Assistive Technology	Education	947,747
U.S. Department of Education	84.243	Tech-Prep Education	Education	519,047
U.S. Department of Education	84.249	Foreign Language Assistance	Education	1,318
U.S. Department of Education	84.255	Literacy Programs for Prisoners	Education	231,958
U.S. Department of Education	84.276	Goals 2000 - St & Loc Education Systemic Impr Grants	Education	2,209,571
U.S. Department of Education	84.278	Career Opport 2000 - St wide School to Work Opportunities	Education	3,204,808
U.S. Department of Education	84.281	Eisenhower Professional Development State Grants	Education	868,184
U.S. Department of Education	84.298	Title VI - Innovative Education Program Strategies	Education	1,353,537
Other Federal Assistance	84.999	Grant Back Funds	Education	32,877
Pass Through Federal Programs				
U.S. Department of Education (through the State Dept. of Corrections)	84.002	Adult Education - State Grant Program	Education	33,081
U.S. Department of Education (through the State Dept. of Corrections)	84.011	Migrant Education - Basic State Grant Program	Education	12,405
U.S. Department of Education (through the State Dept. of Corrections)	84.012	Educationally Deprived Children - State Administration	Education	127,716
U.S. Department of Education (through the State Dept. of Corrections)	84.013	Title I Program for Neglected and Delinquent Children	Education	32,195
U.S. Department of Education (through the State Dept. of Corrections)	**84.027**	**Special Education Grants to States**	Education	**26,515**
U.S. Department of Education (through the State Dept. of Corrections)	**84.048**	**Vocational Education - Basic Grants to States**	Education	**44,868**
U.S. Department of Education (through the State Dept. of Corrections)	84.186	Safe and Drug Free Schools & Community - State Grants	Education	88
U.S. Department of Education (through the State Dept. of Mental Health)	84.186	Safe and Drug Free Schools & Community - State Grants	Education	1,342,116
U.S. Department of Education (through the State Dept. of Corrections)	84.281	Eisenhower Professional Development State Grants	Education	7,050

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1997
U.S. Department of Education (continued)				
Pass Through Federal Programs (continued)				
Other Federal Assistance (through the State Dept. of Corrections)	84.999	Maine Family Literacy - Barbara Bush	Education	7,250
Other Federal Assistance (through the State Dept. of Corrections)	84.999	Innovative Education Program Strategies	Education	4,215
Other Federal Assistance (through the State Dept. of Labor)	84.999	Vocational Education Cooperative Demonstration	Education	304,928
Total U.S. Department of Education Federal Programs				$79,820,305
U.S. Department of Health and Human Services				
Direct Federal Programs				
Administration on Aging	93.041	Spc Prg/Agng-Ttl VII, Ch 3-Pro /Prev of Eld Abu, Neg & Expl	Human Services	4,626
Administration on Aging	93.043	Spc Prg/Agng-Ttl III, Part F-Disease Prev & Hlth Prom Ser	Human Services	78,115
Administration on Aging	93.044	Spc Prg/Agng-Ttl III, Part B-Grnt for Supt Serv & Sen Ctrs	Human Services	1,353,330
Administration on Aging	93.045	Spc Prg/Agng-Ttl III, Part C-Nutrition Services	Human Services	2,256,049
Administration on Aging	93.046	Spc Prg/Agng-Ttl III, Part D-In-Home Serv for Frail Oldr Ind	Human Services	46,315
Administration on Aging	93.048	Spc Prg /Agng-Ttl IV,Trng, Res & Discret Proj & Prog	Human Services	124,067
Administration on Aging	93.049	Spc Prg/Agng-Ttl VII, Ch 6-Alot for Vul Elder Rgts Prot Prg	Human Services	4,488
Public Health Service I	**93.104**	**Comp Comm M. H. Svcs for Child w/Ser Emot Disturb**	Mental Health	**2,586,489**
Public Health Service I	93.110	Maternal & Child Health Federal Consolidated Programs	Human Services	296,421
Public Health Service I	93.116	Proj Grnts and Coop Agreements for Tuberculosis Cont Prog	Human Services	153,093
Public Health Service I	93.119	Grt/Tec Ast Act Rel to Blk Grt/Com Mtl Hlt Srv-Tec Ast Ctr/Evl	Human Services	35,112
Public Health Service I	93.125	Mental Health Planning and Demonstration Projects	Mental Health	125,088
Public Health Service I	93.130	Primary Care Serv-Res Coor & Dev Primary Care Off	Human Services	133,793
Public Health Service I	93.150	Projects for Assistance in Transition from Homelessness	Mental Health	251,117
Public Health Service I	93.165	Grants for State Loan Repayment	Human Services	37,916
Public Health Service I	93.184	Disabilities Prevention	Human Services	135,743
Public Health Service I	93.194	Communities Prevent Coalitions (Partnership) Demo Gts	Mental Health	307,209
Public Health Service I	93.197	Childhood Lead Poisoning Prevention Projects	Human Services	229,768
Public Health Service I	93.268	Childhood Immunization Grants	Human Services	1,451,848
Public Health Service I	93.283	Centers for Disease Control & Prev-Inv & Tech Asst	Human Services	674,083
Public Health Service I	93.393	Cancer Cause and Prevention Research	Human Services	832,057
Public Health Service I	93.399	Cancer Control	Human Services	18,407
Administration for Children & Families	93.554	Emergency Protection Grants - Substance Abuse	Human Services	96,309
Administration for Children & Families	93.556	Family Preservation and Support Services	Human Services	1,074,666
Administration for Children & Families	**93.558**	**Temporary Assistance for Needy Families**	Human Services	**44,079,858**
Administration for Children & Families	**93.560**	**Fam Sup Pmt to St - Asst Pmt(Aid to Fam w/ Dep Chld)**	Human Services	**22,638,160**
Administration for Children & Families	93.561	Job Opportunities and Basic Skills Training	Human Services	2,259,753
Administration for Children & Families	93.562	Assistance Payments - Research	Human Services	455,419
Administration for Children & Families	93.563	Child Support Enforcement	Human Services	8,055,810
Administration for Children & Families	93.566	Refugee and Entrant Asst - State Administered Prog	Human Services	337,892
Administration for Children & Families	93.569	Community Services Block Grant	Human Services	2,044,013
Administration for Children & Families	**93.575**	**Child Care and Development Block Grant**	Human Services	**5,578,333**
Administration for Children & Families	93.576	Refugee and Entrant Assistance - Discretionary Grants	Human Services	86,735
Administration for Children & Families	93.586	State Court Improvement Program	Off of the Courts	80,951
Administration for Children & Families	93.600	Head Start	Human Services	123,086
Administration for Children & Families	93.630	Development Disabilities Basic Supp & Advocacy Grants	Mental Health	442,274
Administration for Children & Families	93.643	Children's Justice Grants to States	Human Services	47,713
Administration for Children & Families	93.645	Child Welfare Services: State Grants	Human Services	1,285,085
Administration for Children & Families	**93.658**	**Foster Care-Title IV-E**	Human Services	**23,425,930**
Administration for Children & Families	**93.659**	**Adoption Assistance**	Human Services	**3,978,300**
Administration for Children & Families	93.667	Social Services Block Grant	Human Services	8,606,899
Administration for Children & Families	93.669	Child Abuse & Neglect: State Grants	Human Services	150,525
Administration for Children & Families	93.671	Family Violence Prev & Serv: Grts to St and Indian Tribes	Human Services	214,784
Administration for Children & Families	93.673	Grants to States for Plan & Dev of Dep Care Prog	Human Services	28,455
Administration for Children & Families	93.674	Independent Living	Human Services	461,101
Health Care Financing Administration	93.779	Health Care Financing Resch, Demo & Evaluations	Human Services	414,638
Health Care Financing Administration	93.779	Health Care Financing Resch, Demo & Evaluations	Health Data	80,607
Public Health Service II	93.902	Model Comp Drug Abuse Trtmt Prog for Critical Pop	Mental Health	39,006

Federal Department / **Major Sub-Divison**	**Federal Catalog Number**	**Program Title**	**State Agency**	**Expenditures 1997**
U.S. Department of Health and Human Services (continued)				
Direct Federal Programs (continued)				
Public Health Service II	93.913	Grants to States for Operation of Offices of Rural Health	Human Services	58,755
Public Health Service II	93.917	HIV Care Formula Grants	Human Services	491,620
Public Health Service II	93.919	Coop Agrmt/St-Based Comp Brst & Cerv Cancer Cont Prog	Human Services	1,061,645
Public Health Service II	93.938	Coop Ag-Sch Hlth Prg/Pvt the Spd of HIV & Oth Imp Hlth Prb	Education	194,555
Public Health Service II	93.940	HIV Prevention Activities - Health Department Based	Human Services	1,019,828
Public Health Service II	93.944	HIV/AIDS Surveillance	Human Services	94,980
Public Health Service II	93.951	Demo Grts to St with Respect to Alzheimer's Disease	Human Services	193,239
Public Health Service II	93.958	Block Grants for Community Mental Health Services	Mental Health	1,244,783
Public Health Service II	**93.959**	**Block Grants for Prev & Trtmnt of Substance Abuse**	Mental Health	**4,386,804**
Public Health Service II	93.977	Preve Health Serv-Sexually Transmitted Diseases Cont Grt	Human Services	304,523
Public Health Service II	93.988	Coop Agrmnt for St Based Diabetes Control Programs	Human Services	266,103
Public Health Service II	93.991	Preventive Health & Health Services Block Grant	Human Services	1,463,909
Public Health Service II	**93.994**	**Maternal & Child Health Services Block Grant to States**	Human Services	**3,904,555**
Public Health Service II	**93.994**	**Maternal & Child Health Services Block Grant to States**	Education	**103,475**
Other Federal Assistance	93.999	CSAT Alc and Drug Abuse - St Demand and Needs Asses	Mental Health	159,888
Other Federal Assistance	93.999	Child Abuse Challenge Grants	Human Services	830
Other Federal Assistance	93.999	Vital Statistics Cooperative Program	Human Services	395,145
Other Federal Assistance	93.999	CSAP Needs Asses Grant (Kansas) - Six State Consortium	Mental Health	114,342
Other Federal Assistance	93.999	Uniform Alcohol and Drug Abuse - Data Systems	Mental Health	34,715
Health & Human Services, Medicaid Cluster				
Health Care Financing Administration	**93.775**	**State Medicaid Fraud Control Units**	Attorney General	**260,125**
Health Care Financing Administration	**93.777**	**St Survey & Cert of Health Care Providers & Suppliers**	Human Services	**1,807,078**
Health Care Financing Administration	**93.778**	**Medical Assistance Program**	Human Services	**680,186,518**
Pass Through Federal Programs				
Public Health Service I (through the State Dept. of Mental Health)	93.242	Mental Health Research Grants	Human Services	184,522
Administration for Children & Families (through the State Dept. of the Attorney General)	**93.560**	**Fam Sup Pmt to St - Asst Pmt(Aid to Fam w/ Dep Chld)**	Human Services	**107,780**
Administration for Children & Families (through the State Dept. of the Attorney General)	93.563	Child Support Enforcement	Human Services	830,786
Administration for Children & Families (through the State Dept. of Corrections)	**93.658**	**Foster Care-Title IV-E**	Human Services	**89,015**
Administration for Children & Families (through the State Dept. of Mental Health)	93.667	Social Services Block Grant	Human Services	1,173,148
Administration for Children & Families (through the State Dept. of the Attorney General)	93.667	Social Services Block Grant	Human Services	474,189
Health Care Financing Administration (through the State Admin. & Financial Services)	**93.778**	**Medical Assistance Program**	Human Services	**3,124,527**
Public Health Service II (through the State Department of Public Safety)	93.991	Preventive Health & Health Services Block Grant	Human Services	132,645
Total U.S. Department of Health and Human Services Federal Programs				$841,085,463
Corporation for National and Community Services				
Direct Federal Programs				
Corporation for National and Community Services	94.003	State Commissions	State Planning	172,084
Corporation for National and Community Services	94.004	Learn & Serve America-School & Com Based Prog	Education	88,576
Corporation for National and Community Services	94.004	Learn & Serve America-School & Com Based Prog	State Planning	138,030
Corporation for National and Community Services	94.006	AmeriCorps	State Planning	288,613
Corporation for National and Community Services	94.009	Training and Technical Assistance	State Planning	102,811
Pass Through Federal Programs				
Corporation for National and Community Services (through the State Dept. of Labor)	94.006	AmeriCorps	State Planning	269,661
Total Corporation for National and Community Services Federal Programs				$1,059,775

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1997

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1997
Social Security Administration				
Direct Federal Programs				
Social Security	96.001	Disability Insurance	Human Services	5,873,385
Total Social Security Administration Federal Programs				$5,873,385
National Archives Reference Service				
Direct Federal Programs				
National Archives Reference Service	97.002	Maine Historical Records Advisory Board Planning Grant	Historical Records	1,916
National Archives Reference Service	97.008	Archives Digital Records Management Program Grant	Historical Records	6,999
Total National Archives Reference Service Federal Programs				$8,915
Total State Expenditures of Federal Awards				**$1,431,975,942**

State of Maine
Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 1997

Legend of State Agency Abbreviations

State Agency Name	Abbreviation Used in the Schedule of Expenditures of Federal Awards
Department of Administrative and Financial Services	Financial Serv
Department of Agriculture	Agriculture
Maine Arts Commission	Arts Commission
Atlantic Sea Run Salmon Commission	Salmon Comm
Department of the Attorney General	Attorney General
Department of Conservation	Conservation
Department of Correction	Correction
Department of Defense and Veterans Services	Defense
Department of Economic and Community Development	Economic Dev
Department of Education	Education
Department of Environmental Protection	Environment
Executive Department - State Planning Office	State Planning
Maine Health Data Organization	Health Data
Maine Historic Preservation Commission	Historic Preserv
Maine Historical Records Advisory Council	Historical Records
Maine Human Rights Commission	Human Rights
Department of Human Services	Human Services
Department of Inland Fisheries and Wildlife	Inland Fisheries
Administrative Office of the Courts	Off of the Courts
Department of Labor	Labor
Maine State Library	State Library
Maine State Museum	State Museum
Department of Marine Resources	Marine Resource
Department of Mental Health, Mental Retardation, and Substance Abuse Services	Mental Health
Department of Public Safety	Public Safety
Department of State	State
Department of Transportation	Transportation

(This page intentionally left blank)

STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1997

1. Purpose of the Schedule

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule to the State's general-purpose financial statements (GPFS) 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 are aggregated by federal agency; direct and pass-through amounts are reported by primary recipient to prevent overstatement of expenditures of federal awards.

Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations requires the Schedule.

2. Significant Accounting Policies

A. *Reporting Entity* - The reporting entity is defined in Note 1 to the State's general purpose financial statements (GPFS). The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 1997, with the exception of the component units identified in Note 1 to the GPFS. The component units engaged other auditors.

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

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

   2) 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 $4.3 million in expenditures, distributions, or issuances for the year ended June 30, 1997. Programs audited as major programs are in bold print 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 General Purpose 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. Program Information

A. Department of Education - Food Distribution Program (CFDA 10.550): The reported total of federal financial assistance represents the value of food commodities distributed to various schools, institutions, and other qualifying entities. The value of inventory as of June 30, 1997 was $61,246.

B. Department of Human Services - Food Stamps (CFDA 10.551): The reported total of federal financial assistance represents the value of food coupons issued. The value of inventory as of June 30, 1997 was $21,718,669.

C. Department of Human Services - Nutrition Program for the Elderly (CFDA 10.570): The amount reported of $696,472 represents cash in lieu of commodities expended in the Elderly Feeding Program.

D. Department of Agriculture - Temporary Emergency Food Assistance - Food Commodities (CFDA 10.569): The reported total of federal financial assistance consists of administrative costs of $178,860 under the Temporary Food Assistance Program (TEFAP). The value of inventory at June 30, 1997 was $279,403.

E. Department of Administrative and Financial Services - Donated Federal Surplus Personal Property (CFDA 39.003): Distributions are reported at fair market value. The value of inventory as of June 30, 1997 was $1,068,996.

4. Unemployment Insurance Program

The expenditures reported on the Schedule for Unemployment Insurance, CFDA Program No. 17.225, include:

State Funds	$104,289,013
Federal Funds	20,472,074
Total	$124,761,087

5. Agriculture Nutrition Cluster

The Office of Management and Budget designated the federal programs with the following CFDA numbers: 10.553, 10.555, 10.556, 10.558, and 10.559 as the Agriculture Nutrition Cluster. Federal program CFDA number 10.558 Child Care and Adult Care Food was audited as a separate Type A program for the fiscal year ended June 30, 1997.

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1997

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditors report issued:	Qualified	
Internal control over financial reporting:		
• Material weaknesses identified?	X YES	NO
• Reportable conditions identified that were not considered to be material weaknesses?	X YES	NO
• Noncompliance material to financial statements noted?	YES	X NO

Federal Awards:

Internal control over major programs:		
• Material weaknesses identified?	YES	X NO
• Reportable conditions identified that were not considered to be material weaknesses?	X YES	NO
Type of auditors' report issued on compliance for major programs:	Unqualified for all major programs except for Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (93.104), which was Qualified.	
Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	X YES	NO

Identification of Major Programs:

CFDA #	Name of Federal Program or Cluster
Food Stamp Cluster	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children

(continued)

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1997

Section I - Summary of Auditor's Results

Identification of Major Programs (continued):

CFDA #	Name of Federal Program or Cluster
Federal Transit Capital Cluster	
20.500	Federal Transit Capital Improvement Grants
20.507	Federal Transit Capital and Operating Assistance Formula Grants
Medicaid Cluster	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program
Other Programs	
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
10.558	Child Care and Adult Care Food Program
17.207	Employment Services
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance Workers
17.246	Employment and Training Assistance - Dislocated Workers
17.250	Job Training Partnership Act
83.516	Disaster Assistance
84.027	Special Education - Grants to States
84.048	Vocational Education - Basic Grants to States
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances
93.558	Temporary Assistance for Needy Families
93.560	Family Support Payments to States - Assistance Payments
93.575	Child Care and Development Block Grant
93.658	Foster Care - Title IV-E
93.659	Adoption Assistance
93.959	Block Grants for the Prevention and Treatment of Substance Abuse
93.994	Maternal and Child Health Services Block Grants to States

Dollar threshold used to distinguish between type A and type B programs $4,295,928

Does Auditee qualify as low risk? __________YES ____X____NO

(continued)

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1997

Section II - Financial Statement Findings

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

(97-01) Bureau of Accounts and Control

Finding: Insufficient procedures and resources for external financial reporting (Prior Year Finding)

Title 5 MRSA § 281 established the Department of Administrative and Financial Services (DAFS) as the principal fiscal department of State government. As such, it is responsible for coordinating financial planning and programming activities of all departments and agencies. DAFS, through the Bureau of Accounts and Control, is responsible for performing specific accounting processes and for preparing the official annual financial report of the State.

During the fiscal year 1997 audit, the following specific problem areas were noted:

1. Year-end entries by Bureau of Accounts and Control personnel were characterized by errors in the adjusted accounts and by journals being recorded without supervisory or management approval. Year-end entries to recognize the transfer of Revenue Sharing money from the General Fund to the Special Revenue Fund caused a misstatement of $8.1 million in the financial records. Revenue was reduced in the General Fund in the month the revenue was received but revenue was not recognized in the Special Revenue Fund until the following month. A payable was established in the General Fund in the month the revenue was received but the receivable was not established in the Special Revenue Fund until the following month. An audit adjustment corrected the financial statements.

2. The system of developing the value of accounts payable at year-end is inadequate. There is no system of posting invoices upon receipt to record the year in which services were rendered or goods were received. For fiscal year 1997, the value of accounts payable was developed by analyzing some payments made in the subsequent period to determine if they should have been accrued, and by requesting that agencies provide the Bureau with a report of the value of accounts payable by fund after the close of fiscal year 1997. Guidelines provided to agencies for analyzing payments for accounts payable values were incorrect in that agencies were directed not to analyze payments which liquidate encumbrances. Our examination of batched payments

revealed that only one of four agencies had analyzed those payments for accounts payable amounts although the codes and system indicators were available for analysis

purposes. Although a large percentage of payments are made by the External Interface (EI) payment process, EI payments contain no codes or system indicators which can be analyzed for accounts payable values. Intragovernmental payables resulting from intragovernmental booked receivables are developed on an analytical basis in September following the close of the fiscal year.

3. The fiscal year-end 1997 entry to correctly value the Reserve for Authorized Expenditures balance sheet account was made in February 1998, nearly eight months after the end of the fiscal year. Working capital advance entries were made with errors, old balances remain on the books, and inappropriate accounting recognition was made when balances were established or repaid.

4. Systems to record and properly reflect general fixed assets and capital leases are not yet in place.

5. Many entries were made to the budgetary accounting system operating accounts that required adjustment for GAAP financial statements. For example, appropriations from reserve fund balance accounts must be recognized as revenues in General Fund accounts in order to be expensed from those accounts.

DAFS remains insufficiently staffed to provide the financial accounting guidance to state agencies, to ensure timely development and completion of the annual financial report and to perform accounting processes in a correct and timely manner.

Recommendation:

We recommend that the Department of Administrative and Financial Services institute procedures within the Bureau of Accounts and Controls to ensure that:

A. Procedures are immediately implemented to ensure adequate review of journal vouchers within the Bureau of Accounts and Control.

B. A computerized procedure is developed to accurately report accounts payable amounts by fund at fiscal year end.

C. Procedures are immediately implemented to ensure that year-end and year beginning adjusting entries are recorded in the MFASIS accounting system in the year appropriate for the entry and that the entry be made in a timely manner.

D. Projects to correctly record general fixed assets and capital leases be completed as soon as possible.

E. Budgetary transactions are reviewed to determine the need for GAAP adjustments.

F. An orderly and planned process, to include sufficient qualified staffing, is developed, and documented, to produce a timely annual financial report in accordance with Generally Accepted Accounting Principles (GAAP).

Auditee Response/Corrective Action Plan:

We agree generally with this finding. At this time the Accounting Systems Analyst is working with a team to identify and implement certain parts of the recommendation, specifically A, B and C, all of which will require contract programming. The funding is available for the programming and the intent is to hire a programming professional on a 6 month contract.

Parts of this finding, however, have already been addressed in separate findings, specifically D, fixed assets and capital leases. Also F. is probably satisfied with the addition of another staff CPA, an Accounting Systems Analyst and a reasonable schedule to complete the annual GAAP financials by December 31, 1998. Part E will resolve with the new staff and carefully scheduled time frame.

(97-02) Bureau of Accounts and Control

Finding: Fixed asset records incomplete (Prior Year Finding)

Title 5 MRSA § 1541 requires the Department of Administrative and Financial Services, Bureau of Accounts and Control, to maintain an official statewide system for fixed assets for all State agencies, and to update and reconcile it annually. During fiscal year 1997, the Bureau did not have detailed records of all land, buildings and equipment owned by the State. As a result, the State's financial statements do not include the General Fixed Assets Account Group, which is required by *Generally Accepted Accounting Principles*. This omission results in a qualified audit opinion.

Accurate records for the General Fixed Asset Account Group are necessary for financial reporting and reducing the risk of misappropriated State property.

Recommendation:

We recommend that the Bureau of Accounts and Control ensure that inventories are current as required as required by State law. Upon completion of a statewide inventory, fixed asset records can be established for financial reporting and control purposes.

Auditee Response/Corrective Action Plan:

Development of a fixed asset records system is in progress and scheduled for a FY99 completion time, which will put Maine's CAFR in compliance with GAAP. Inventories reconciled to the automated fixed asset module will be required of agencies annually. Fixed asset functionality will, of course, protect the State's assets.

(97-03) Bureau of Accounts and Control

Finding: Inadequate internal control system to identify capital leases (Prior Year Finding)

The Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 13, *Accounting for Leases*, defines capital and operating leases, the criteria for classifying each type of lease, and the accounting, reporting and financial statement disclosures required by lessees and lessors.

The Department of Administrative and Financial Services (DAFS) does not evaluate and report leases in accordance with SFAS No. 13. Centralized information is not sufficient to prepare all necessary financial adjustments and required note disclosures. DAFS classifies all leases entered into by the State as operating leases without any documented basis to support the classification.

In fiscal year 1998, the State hired an outside contractor to determine whether Internal Service Fund leases were capital or operating leases. Of those leases analyzed the contractor identified $29.2 million as capital leases at lease inception date. The amount of the financial statement adjustment necessary at June 30, 1997 was not determined and the audit opinion on the financial statements was qualified accordingly.

Recommendation:

We recommend that DAFS complete the procedures necessary to evaluate and record all leases in accordance with SFAS No. 13.

Auditee Response /Corrective Action Plan:

To complete the work necessary to continue categorizing leases properly, the Bureau of Accounts and Control and the Financial and Personnel Services Division staffs will collaborate to purchase necessary automation. There is automation available from several vendors that will categorize the lease, explain the rationale, create monthly depreciation schedules and amortization of interest. Consequently, the state's lease functionality will be compliant with SFAS No.13, since the express purpose of the automation is to provide that compliance.

(97-04) Bureau of the Budget
Division of Employee Health and Benefits
Division of Financial and Personnel Services

Finding: Health insurance funding

The State of Maine contracts with an insurer to offer a group health plan to its employees, former employees, retirees, and to other eligible quasi-state entities in accordance with the provisions of 5 MRSA § 285. Ancillary groups share in any gain or loss; one rate structure is in effect for all participants. We noted the following issues regarding health insurance funding.

Contract deficit funded twice

The contract for the 1995 fiscal year ended with an amount due to the insurer of $5.1 million above premiums paid. Of this amount, $1.1 million was recouped from subscription income in fiscal year 1996. The State budgeted funding for the remaining $4 million deficit twice: 1) In accordance with contract terms, premium rates for the next contract period were increased; and 2) the Legislature approved a Special Appropriation to make a lump sum payment to the insurer.

The increased premiums funded the $4 million deficit and fiscal year 1996 claims, except for $.6 million. The special Legislative appropriation/allocation (1995 PL, Ch. 665, Part F) totaled $3,776,448. The $223,552 difference was to have been obtained from the ancillary groups but was not. The $3.8 million was paid to the insurer in December 1996 and applied against the 1996 deficit. These actions resulted in $3.2 million due from the insurer to the State and State funding of the 1996 deficit with no ancillary participation.

Employer contribution rates too high

Retiree health insurance is funded by charging a contribution rate across payrolls sufficient to fund the total estimated annual premiums due. The employer contribution rate to fund retiree health insurance for both the State and the Maine Technical College System (MTCS) is too high, due to a rate calculation error. The MTCS retirees were included in the estimate of total health insurance premiums to be paid but MTCS payrolls were not included with State payrolls in the base to determine the contribution rate. Had the $20 million MTCS payroll been included, the calculated contribution rate would have been 3.91% rather than 4.08%. The State effectively contributed the total necessary to fund retiree health premiums for both State and MTCS retirees. MTCS, by paying the state rate, also paid in at too high a rate. Overfunding may have occurred since MTCS separated from the State. The excessive contribution rate was a factor in the increase in fund equity in the Retiree Health Insurance Fund.

We also note that the base rate had already been increased by .46% in fiscal year 1996 and by .32% in fiscal year 1997 to restore $3.5 million to reserves that had been depleted by a $4 million transfer to the Maine State Retirement System.

<u>Maine Technical College System funding responsibilities unclear</u>

Title 5 MRSA § 285 authorizes a group health insurance plan for state employees and other eligible participants. Employees of the Maine Technical College System (MTCS) are eligible to participate. The MTCS pays health insurance premiums for current employees directly to the insurer. For retirees, the MTCS assesses the State contribution rate to its Maine State Retirement System eligible payrolls. Amounts resulting from applying the contribution rate are paid into the Retiree Health Insurance Fund that is administered by the Department of Administrative and Financial Services. The moneys accumulated in that Fund are then used to pay retiree health insurance premiums. Amounts paid into the Fund do not necessarily agree with premiums paid.

In the 1997 fiscal year, the MTCS contributed $851,000 to the Fund. Contributions to the Fund are not compared to premiums paid. Records indicate that 67 individuals have retired from the MTCS since its separation from the State. At an individual monthly premium rate of $270/month/employee ($3,240/year), the expected MTCS premium payments, for only its retirees since separation, would be $217,000, a difference of $634,000.

The health insurance program is designed as a pay-as-you-go plan. The State contribution rate is structured to fund annually health insurance costs for all retirees. MTCS personnel believe that they are funding only health insurance costs for MTCS retirees since separation. However, the funding mechanism that the State uses to cover its required contributions bears no relationship to the number of and premium costs associated with MTCS retirees. By paying at the State rate, the MTCS may be funding a portion of the costs for retirees prior to its separation from the State. It is not clear whether this was the Legislative intent. Transition language (PL 1985, Ch. 695) does not specifically address this issue.

We note that MTCS contributions to the Maine State Retirement System also mirror State rates. Employer contribution rates for retirement, as well as health insurance, as described elsewhere, for both State and MTCS retirees were too high, because MTCS payrolls were not included in the base. With regard to employees of the Vocational Technical Institutes, Section 20(5) of PL 1985, Ch. 695 provided that *All personnel shall continue to be treated as state employees for* *purposes of* ***rights and benefits*** *under the Maine State Retirement System. Employer and employee contributions shall be made as determined by current and future collective bargaining agreements.* Maine statute (5 MRSA 17001(40)) also states that MTCS employees continue to be included in the definition of state employee for retirement **benefit** purposes. By paying at the State retirement contribution rate, the MTCS is also **funding** a portion of the retirement costs for retirees prior to its separation from the State. Although an independent entity, the MTCS is not treated as a participating local district with its own actuarial assessment and experience rating.

Recommendation:

We recommend that the State assign responsibility for monitoring compliance with contract terms; recoup a proportionate amount from ancillary participants towards the 1996 deficit; document assumptions and methodologies used; and analyze and monitor financial data to identify unusual trends and account balances.

We recommend that all parties reach an understanding of what is being funded, paid and by whom. We recommend that the State Budget Officer determine Legislative intent with regard to any continuing obligation that the Maine Technical College System may have for future costs associated with its retirees prior to separation. As other agencies are granted quasi-independent status, we recommend that funding responsibility for future benefits already earned be assigned.

Auditee Response /Corrective Action Plan:

Contract Deficit funded twice

At the time the funding request was being developed, extensive discussions were taking place between the insurance carrier and the Division of Employee Health and Benefits regarding the deficit in the plan, prospective rate increases, and the costs of moving from a stop loss plan to a fully funded plan. At this time, the Division of Employee Health and Benefits was positioning the State to solicit bids from all qualified carriers for employee health insurance protection. In order to minimize the State's exposure to increasing deficits and plan liabilities, we chose the prudent course of raising funds to extinguish the outstanding $4.0 million deficit in the plan. After the settlement process was completed during the next plan year, a surplus of funds accrued to the plan; earned interest and were eventually used to offset premium costs to the State.

We agree that the ancillary participants were not billed. When it became evident that a surplus would accrue to the plan in FY 96, the Division of Employee Health and Benefits decided not to recoup from the ancillary groups. We will determine the best method of recouping the money due from these groups.

Retiree Health

The current method of funding the retiree health care program will be examined to determine its adequacy and appropriateness. If a change to an actuarial valuation reveals an unfunded liability, then existing balances would be included to reduce any unfunded liability.

Employer contribution rates too high

The finding is correct with respect to the inadvertent exclusion of the MTCS payroll. The DAFS has taken steps to include the MTCS payroll in all employer retirement rate projections for the biennium, including the Retiree Health Insurance rate.

Maine Technical College System Funding Responsibilities Unclear

The Legislature amended Title 5, section 17001, subsection 40 to include MTCS employees in the definition of "State employee" for the purpose of membership in the Maine State Retirement System. The intent of that language was not meant to allow the MTCS to escape legitimate liabilities for employees who had retired when the system was part of the Department of Education. Instead, the language was provided to ensure the rights of MTCS employees with respect to status as employees for retirement purposes. An argument has not been put forth that the MTCS, by virtue of its independent status, is no longer responsible for payment of the unfunded liability costs of former employees who retired prior to the separation of the system from State government.

(97-05) Bureau of Accounts and Control &
Department of Human Services
Division of Financial Services

Finding: Failure to properly expense Aid to Families with Dependent Children (AFDC) payments/budgetary controls circumvented

Checks for the AFDC program can be printed, distributed and cashed, without being recorded as an expenditure on State accounting records.

The Bureau of Accounts and Control has established a process to permit the timely printing of AFDC checks. The process is to initially charge prepaid expense and then for the Department of Human Services (DHS) to reverse the entry to prepaid expense and to debit expenditures when checks are distributed.

In fiscal year 1997, DHS reversed the entries only to the extent that allotment was available. At the end of each of the first three quarters of the fiscal year, the amounts remaining in prepaid expense that were not charged to an expenditure were as follows:

September:	$1,680,969
December:	1,310,240
March:	1,740,113

At June 30, 1997, General Fund assets (prepaid expense) were overstated and expenditures understated by $1.9 million.

Recommendation:

We recommend that each month DHS expense the full amount of disbursements made. We further recommend that the Bureau of Accounts and Control and the Bureau of the Budget work with DHS to ensure correct financial reporting and compliance with budgetary controls.

Auditee Response /Corrective Action Plan:

Department of Administrative and Financial Services response

We agree. The Accounting Systems Analyst will be responsible for matching the DHS and BAC transactions and taking care of any discrepancies.

Department of Human Services response

The TANF block grant was new in FY 1997. It encompassed a more complex array of programs than the old AFDC grant. Thus, the initial quarterly allotments set up in various appropriations that year were not allocated properly to cover the "payments to beneficiaries" expenditures journals for the quarters nor the year. The Department could not re-allocate block grant funds during the year because according to Title 5, Section 1670, any block grant allocation has to be done legislatively. By the time this situation was discovered, it was too late to be considered by the legislature in session. With a year of historical data behind us, the Department should be able to set up the allotments properly in the future.

DEPARTMENT OF HUMAN SERVICES

(97-06) Bureau of Family Independence
Division of Financial Services

See also (97-34)

Finding: Block grant expenditures incorrectly charged

The Temporary Assistance for Needy Families (TANF) program replaced the Aid to Families with Dependent Children (AFDC) program.

During the 1997 State fiscal year, the TANF block grant allotment was not sufficient to allow the timely processing of some child support payments. The Department of Human Services (DHS) temporarily charged approximately $2.9 million in child support payments to the "old" AFDC accounts, which still had available allotment. At the end of the fiscal year, AFDC expenditures in the General Fund were overstated by approximately $1.1 million and AFDC expenditures in the Federal Fund were overstated by $1.8 million.

In March 1998, DHS prepared journal entries to debit the TANF block grant funds and credit the AFDC accounts. Only $2.7 million of the $2.9 million was reversed.

Recommendation:

We recommend that DHS work with the Bureau of the Budget and with appropriate Legislative committees to ensure that adequate resources are made available to fund program participants at the established benefit levels.

Auditee Response /Corrective Action Plan:

The TANF block grant was new in FY 1997. It encompassed a more complex array of programs than the old AFDC grant. Thus, the initial quarterly allotments set up in various appropriations that year were not allocated properly to cover the "payments to beneficiaries" expenditures journals for the quarters nor the year. The Department could not re-allocate block grant funds during the year because according to Title 5, Section 1670, any block grant allocation has to be done legislatively. By the time this situation was discovered, it was too late to be considered by the legislature in session. With a year of historical data behind us, the Department should be able to set up the allotments properly in the future.

DEPARTMENT OF LABOR

(97-07) Bureau of Unemployment Compensation

<u>**Finding:**</u> Procedures for estimating a reserve for uncollectible receivables are inadequate (Prior Year Finding)

Financial Accounting Standards Board Statement #5, *Accounting for Contingencies*, states that some degree of uncertainty exists with receivables and, as a result, losses from uncollectible receivables should be accrued when it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements, and when the amount of loss can be reasonably estimated.

In addition, management is responsible for establishing a process for preparing accounting estimates. This includes but is not limited to:

1) accumulating relevant, sufficient, and reliable data on which to base the estimate;
2) developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors;
3) determining that the accounting estimate is based on assumptions and other relevant factors;
4) determining that it is presented in conformity with applicable accounting principles; and
5) ensuring that disclosure is adequate.

Maine Department of Labor (MDOL) does not accumulate historical data on which to base an estimate for the amount of receivables deemed to be uncollectible. Currently, the balance in the allowance for doubtful accounts on the State Controller's records consists of actual receivables approved by the Department of Administrative and Financial Services to be written off and accounts where employers have filed for bankruptcy. It does not include an estimate of other amounts that might not be collected.

As of the balance sheet date, the allowance account balance on the State's official accounting records totaled $6.3 million. The receivable balance for that same period totaled $12.8 million. An audit adjustment was made to the financial statements to fairly state the allowance balance at $5 million and the receivable balance at $10.8 million.

<u>**Recommendation**</u>**:**

We recommend that MDOL develop and document procedures to establish an allowance account for uncollectible receivables in accordance with generally accepted accounting principles, and maintain documentation of the methodology and calculation.

Auditee Response /Corrective Action Plan:

MDOL concurs with the above recommendation. A significant problem for MDOL in satisfying this issue has been the reliability of data provided on the Contribution Operation Report (ETA 581). Accordingly, during October of this year, MDOL plans to convene a Process Action Team (PAT) consisting of representatives from BUC, OIP, OAS, and LMI. The function of the PAT team will be to examine all systems and computer programs that are developing data used in preparing the ETA Form 581. The goal of the PAT team will be two fold:

1) *Insure that the ETA 581 report provides consistent and reliable data.*

2) *The methodology and procedures used to establish an allowance account for uncollectible receivables, as reported on the ETA 581 report, are developed in accordance with generally accepted accounting principles.*

It is DOL's intention for the PAT team to complete its work by January 1, 1999.

(97-08) Office of Administrative Services

Finding: Revenue recognition criteria not observed (Prior Year Finding)

The Governmental Accounting and Financial Reporting Standards (GASB) Codification, Section 1600.106, states that revenues are to be recognized in the accounting period in which they become susceptible to accrual and when they become collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The State has further defined "soon enough thereafter" by adopting a policy of considering any collections made on receivables within 60 days after fiscal year end as revenue for the previous fiscal year.

The Maine Department of Labor (MDOL) records as deferred revenue all receivables of the Unemployment Compensation Trust Fund that have not been deemed uncollectible and have been posted to the allowance for uncollectible accounts. No analysis is performed on the year-end receivable balance or subsequent collections to determine whether any of the deferred revenue should be classified as revenue for the current period. Deferred revenue for the 1997 fiscal year totaled $6.5 million. An audit adjustment was made to the financial statements to fairly state deferred revenue at $5.8 million.

Further, MDOL does not estimate, on a timely basis, the receivable and revenue from employers that do not file the Combined Tax Report by the due date. At June 30, 1997, MDOL records indicated that 4,886 employers had not filed the Combined Tax Return for the quarter ending March 31, 1997 (due date of April 30, 1997).

Recommendation:

We recommend that MDOL establish procedures to ensure the revenue is recognized in the proper accounting period.

Auditee Response /Corrective Action Plan:

For clarification purposes, the Bureau of Unemployment Compensation (BUC) experience indicates that the vast majority of the 4,886 employers identified as not having filed the Combined Tax Return for the quarter ending March 31, 1997, are not required to file. Our experience is that approximately 20% of this amount will have a valid receivable.

The ETA 58l Contributions Operations Report is also the principal vehicle used to satisfy this finding. It is our intention to include this issue in the Process Action Team (PAT) being developed to address Finding #078. This team will consist of representatives from BUC, OIP, OAS, and LMI. The goal of the PAT team will be to develop procedures to estimate on a timely basis the receivables and revenue due from employers that do not file the Combined Tax Report.

The Office of Administrative Services (OAS) acknowledges the need to comply with the revenue recognition finding. At this time the data is unavailable to the OAS for compliance. The Office of Administrative Services plans to work closely with Unemployment Compensation Tax and the Department of Administrative & Financial Services to resolve this issue.

OFFICE OF THE TREASURER OF STATE

(97-09) Office of the Treasurer of State

Finding: Untimely reconciliations

The Office of the Treasurer of State maintains demand deposit accounts for the receipt and disbursement of State funds. To properly maintain control over the State's cash, reconciliations should be performed on a regular and timely basis.

The June 30, 1997, balances for three major bank accounts were not reconciled until October, 1997.

Recommendation:

We recommend that the Office of the Treasurer reconcile major bank accounts on a regular and timely basis.

Auditee Response /Corrective Action Plan:

The Treasurer maintains more than thirty bank accounts that are used by state agencies across the state. The reconciliation of these accounts is one of the highest priorities in the department and a major effort is expended daily to keep these up to date. In FY 1997 staff turnover and vacancies caused some work to get behind despite the efforts by other employees to help out. The problem became even more severe with additional retirements of long-term employees in FY 1998. These circumstances are unusual and we have been working hard to train new employees. We are confident that future reconciliations will be ready for audit at an earlier date.

(97-10) Office of the Treasurer of State

Finding: Inadequate accounting of Trust and Agency Funds (Prior Year Finding)

The Office of the Treasurer is responsible for monitoring and recording several types of trust and agency funds, including nonexpendable trust funds, and contract, escrow and guaranty deposits required by various State agencies. We found the following weaknesses in accounting procedures to record and monitor these funds:

1. Nonexpendable Trust Funds

   The Office of the Treasurer had not recorded all activity, and balances at June 30, 1997 did not reconcile to the amounts held in trust per the bank fiduciary statements. An audit adjustment of $397,000 was made to bring the recorded amount of nonexpendable trust funds into agreement with the bank balances.

2. Private Trust Funds

   The Private Trust Fund consists of various deposits and guaranty funds which are held by the Treasurer for safekeeping. The three major accounts are the Insurance Guaranty, Maine Employment Security Commission Guaranty, and Treasurer's Safekeeping.

OFFICE OF THE TREASURER OF STATE

> The Office of the Treasurer and the Controller's office each keep subsidiary records of those insurance companies which are required to have guaranty deposits. These subsidiary lists do not agree with one another, with the amount per the financial statements ($21 million) or with the amounts on deposit per bank statements. We also noted that cost and market values of some accounts at June 30, 1997, were below the required guaranty amount. An audit adjustment of $561,000 was made to reconcile the recorded amount of insurance guaranty deposits with the bank balances.
>
> The Office of the Treasurer and the Department of Labor each keep subsidiary records of companies that maintain guaranty deposits in lieu of making unemployment contributions. Treasury and Department of Labor records do not agree with each other or with the amount per the financial statements ($5.5 million).
>
> The Treasurer's Safekeeping account is used to record deposits required by various State agencies. Although we found several memos supporting contractor deposits, no subsidiary records or control listing was maintained to support the amount in this fund of $2.2 million at June 30, 1997.

Accounting procedures in place at the Office of the Treasurer are not adequate to ensure that all trust and agency funds will be completely recorded and properly valued. The possible effects include misstated amounts on the financial statements, not meeting required guaranty deposits, and weakened ability to adequately monitor funds within the Treasurer's responsibility.

Recommendation

We again recommend that the Office of the Treasurer strengthen controls over trust and agency funds in order to provide reasonable assurance that responsibilities will be met. We recommend that the Office of the Treasury and other State departments reconcile their records, and that the Treasurer ensure agreement with amounts on the financial statements and on bank statements. We further recommend that the Office of the Treasurer monitor guaranty amounts on deposit to ensure that the guaranty amounts required by State agencies are being met.

Auditee Response /Corrective Action Plan:

1) *Nonexpendable Trust Funds - $383,000 of the audit adjustment of $397,000 referred to in the finding is interest and dividend income earned on trusts managed for the state by a bank trust department. This income is recorded by Treasury when it is moved from the bank to Treasury, which occurs semiannually or annually depending on the trust. Our current procedures allow the recording of principal held at the bank in funds 085,087,088, and 089*

and the recording of income held by Treasury in fund 082 but not the recording of income still at the bank. Although this system works very well for Treasury we recognize the problem this might create for GAAP reporting. The Treasurer will examine its procedures and a decision will be made to either draw down all income on June 30 and record it in fund 082 as usual or to record the income at the bank differently.

2) Private Trust Funds - The Office of the Treasurer has already begun a comprehensive review of all procedures related to the handling and accounting of guaranty deposits. This review has indicated the need for consistency in accounting for these deposits. We would note, however, that subsidiary lists in Treasury will not agree with the Controller or the bank because items such as surety bonds issued as guarantees of performance are, and should be, on Treasury's list but are not at the bank and are not to be recorded on the Controller's books. Nevertheless, we will take steps to improve the accounting for guaranty deposits and to make the reconciliation of these items clear.

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1997

Section III - Federal Award Findings and Questioned Costs

U.S. DEPARTMENT OF LABOR

DEPARTMENT OF LABOR

(97-11) Bureau of Employment Services

CFDA #: 17.246/17.250 **Questioned Cost:** None

Grant #: A-5847-6-00-87-50

Job Training Partnership Act (JTPA)

Finding: Debarment and suspension certifications not obtained

Section 98.510 of 29 CFR requires that a *Certification Regarding Debarment, Suspension and Other Responsibility Matters* form be completed and signed for each Job Training Partnership Act (JTPA) contract in excess of $100,000.

The Maine Department of Labor did not require each contractor to sign a certificate, as required.

Recommendation:

We recommend that the Maine Department of Labor require and obtain the necessary certification form.

Auditee Response/Corrective Action Plan:

As of July 1, 1998, the Bureau of Employment Services has included in each JTPA service contract a Certification Regarding Debarment, Suspension and Other Responsibility for each provider to sign and return as part of the contract package.

U.S. DEPARTMENT OF LABOR

(97-12) Bureau of Employment Services

<u>CFDA #</u>: 17.246/17.250 **<u>Questioned Costs</u>:** None

<u>Grant #</u>: A-5847-6-00-87-50

Job Training Partnership Act (JTPA)

<u>Finding</u>: No system to monitor subrecipients

Title 20 CFR 627.475(b)(5) requires the Governor to develop a plan that "ensures that all areas of SDA (Service Delivery Areas) and SSG (substate grantees) operations are monitored on site regularly, but not less than once annually." On site monitoring of the Training Development Center, Training Resource Center and Jobs for Maine Graduates was not performed by the Department of Labor (DOL) in fiscal year 1997.

Title 20 CFR 627.480 and OMB Circular A-133 § 400(d)(5) require recipients of federal funds to receive audit reports of subrecipients, resolve audit findings and ensure that corrective action for all findings is instituted within six months of receipt of the audit report. The Department of Labor reviewed only one of the six audit reports which should have been reviewed and released no management response to the organization whose report was reviewed. The audit report of one non-profit organization and of one Service Delivery Area organization, whose audits were not reviewed, contained a material weakness and a reportable condition.

There is no system within DOL to ensure on-site monitoring, submission and review of subrecipient audit reports, or the evaluation of audit reports, management responses to audit reports, and follow-up on previous findings.

<u>Recommendation</u>:

We recommend that the Department of Labor ensure monitoring and review of JTPA grant award subrecipients.

<u>Auditee Response</u>:

The Bureau of Employment Services has been negligent regarding its on-site monitoring responsibilities; however, it has always done stringent desk reviews of quarterly reports to *monitor financial performance. In order to correct this deficiency, the Bureau of Employment Services' Administrative Division implemented a 2-phase approach to address the monitoring issue. This first phase which was completed as of June 30, 1998 included Management Systems Information monitoring of all SDA's and a sampling of SSG's. The second phase which will commence for FY 1999 will include the addition of financial monitoring of all SDA's and JMG. The Administrative Division is currently revising its monitoring tool as it prepares to commence SDA monitoring.*

As a result of the audit and recommendations of Maine Department of Audit, the Bureau's Administrative Division is currently revising its audit review checklist and will ensure that all audits are reviewed, issues are addressed in a formal manner and that an official response to each entity is completed. As part of this process, the Administrative Division will be completing a policy memorandum regarding the submission and review of subrecipient audit reports, the evaluation of the audit reports, management responses to audit reports and resolution of findings.

(97-13) Office of Administrative Services

CFDA #: 17.999 **Questioned Cost:** None

Grant #: A-584-6-0087-50, VI-9723

Various Federal Programs

Finding: Non-compliance with the Cash Management Improvement Act

The Cash Management Improvement Act (CMIA) agreement between the U.S. Department of the Treasury and the State of Maine prescribes the procedures that are to be used to draw down funds for specific federal program components.

The Department of Labor (DOL) did not draw down federal funds in accordance with the terms of the CMIA agreement, as noted below:

(1) The Agreement requires State departments to use the prorated method to draw down federal funds for payroll costs. Funds are to be drawn on the average day of clearance for payroll checks.

MDOL personnel are not using the average day of clearance.

(2) The Agreement requires, for the Unemployment Insurance Grant (CFDA # 17.225), that DOL draw down federal funds for the payment of unemployment benefits based on the estimated check clearance pattern included in the agreement.

The eleven-day check clearance pattern used by DOL did not comply with the CMIA agreement. Subsequent to the date of the audit, MDOL personnel changed the check clearance pattern to comply with the required clearance pattern.

(3) The Agreement requires, for the Job Partnership Training Act (JPTA) grant (CFDA # 17.246/17.250), that DOL draw funds for indirect costs by applying an approved indirect cost rate to the appropriate direct costs of the prior month.

MDOL draws down funds for indirect costs for JPTA via the Department of Labor Accounting and Reporting System (DOLARS) allocation system, rather than applying an indirect cost rate to direct costs.

Recommendation:

We recommend that DOL work with the Office of the Treasurer to determine the average day of clearance for payroll and to incorporate DOL indirect cost allocation methods into the CMIA agreement.

Auditee Response/Corrective Action Plan:

(1) The Maine Department of Labor (MDOL), Office of Administrative Services (OAS) contacted the Office of the Treasurer on August 26, 1998 to obtain a copy of the CMIA agreement for SFY 1998 and 1999. To comply with the CMIA agreement , the OAS has requested written guidelines for the average day of clearance pattern for payroll checks.

(2) As stated in the finding, MDOL has changed the check clearance pattern to agree with the clearance pattern as required by the CMIA agreement. Periodic monitoring will continue to ensure the pattern is in compliance with the agreement.

(3) The MDOL acknowledges that the indirect cost method used by the department is not consistent with the CMIA agreement for the audit period. MDOL had requested a change in the language used in the current CMIA agreement to reflect the allocation methodology in practice for indirect costs.

FEDERAL EMERGENCY MANAGEMENT AGENCY

(97-14) Department of Defense and Veterans Services
Maine Emergency Management Agency

CFDA # : 83.516 **Questioned Costs:** None

Grant #: B-ME-901-04160, B-ME-0915-4160, B-ME-988-04160

Disaster Assistance

Finding: Inadequate system for reviewing subrecipient audit reports (Prior year finding)

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D, Section 400 (d), specifies requirements of pass-through entities, including:

1. Ensuring that subrecipients expending $300,000 or more in Federal awards ($25,000 in expenditures for those entities subject to OMB A-128) during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year, and

2. Issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensuring that the subrecipient takes appropriate and timely corrective action.

During the audit period, the Maine Emergency Management Agency (MEMA) did not do any desk reviews of subrecipient reports. There is no system in place to identify those entities who, because of the dollars received, are required to submit audit reports. MEMA has an incomplete computer record of reports received and their review status.

For the audit period, there were approximately 65 recipients of $5.8 million of disaster related assistance.

Recommendation:

We recommend that MEMA ensure and document that all necessary audit reports are received and reviewed within the time period required. MEMA should also issue management decisions and ensure that subrecipients take corrective action on reported findings within 6 months after receipt of the audit report.

Auditee Response/Corrective Action Plan:

An Accountant II has been trained in all applicable federal regulations in order to give the Agency the internal capability to perform audits. However, as a result of recent Presidential Declarations, to include Ice Storm 98, that person's time has been diverted to the management of Individual Assistance claims. Additionally, the new desk review audit guidelines for A-133 reviews are not yet available from Thompson Publishing.

MEMA will develop a schedule to ensure that all necessary audit reports and management decisions are done within the time period prescribed in OMB Circular A-133 and A-128.

(97-15) Department of Education
Division of Special Services

<u>CFDA #</u>: 84.027 **<u>Questioned Cost</u>:** None

<u>Grant #</u>: H027A50109-96

Special Education Handicapped - State Grants

<u>Finding</u>: Excessive administration expenditures

Title 34 CFR 300.620 states, "A State may use five percent of the total State allotment in any fiscal year under Part B of the Act or $450,000, whichever is greater, for administrative costs." The grant award for federal fiscal year 1996 was $12,843,687; the maximum allowable amount for administrative costs is $642,185. At June 30, 1997, recorded administrative expenditures totaled $671,899.

The Department of Education subsequently credited the grant for the excess amount charged; therefore, costs are not questioned.

<u>Recommendation</u>:

We make no recommendation, as the Department has adjusted the grant in the current year.

<u>Auditee Response/Corrective Action Plan:</u>

On June 30, 1997, recorded expenditures totaled $671,899 while the 5% allocation for administrative costs under IDEA, Part B, was $642,185. Although FY '97 program expenditures had been adjusted by Finance last year, the oversight occurred when charges to the grant continued after the adjustments were made. This has now been corrected and expenditures have been reduced by $29,714 as recommended by the auditor. Finance has implemented procedures to monitor grant expenditures more closely.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

(97-16) Department of Administrative and Financial Services
Division of Financial and Personnel Services

CFDA #: Various **Questioned Costs:** $365,681

Grant #: N/A

Various Federal Programs

Finding: Working capital and funds disbursement not in compliance, and account structure inadequate (Prior Year Finding)

The State of Maine provides health care benefits for most retirees using the pay-as-you-go method. The Retiree Health Insurance Internal Service Fund is used to collect funds for and to pay health insurance premiums on behalf of retired state employees, retired teachers and for retirees of other participating ancillary groups. At June 30, 1997, the Fund balance was $8.3 million, an increase of $3.3 million from the preceding year.

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, restricts allowable working capital in Internal Service Funds. Generally, working capital in excess of 60 days for cash expenses for normal operations is considered excessive. The Fund disbursed $16.5 million for normal operations in fiscal year 1997. At June 30, 1997, working capital available exceeded that allowed by $5.5 million. The Fund had working capital sufficient for six months rather than two.

Sections 11(f) 1, 5, and 6 of OMB Circular A-87 restrict allowable charges for post-retirement health benefit plans financed on a pay-as-you-go method to actual payments to retirees and their beneficiaries. Post retirement health benefit costs must be paid either to: (a) an insurer or other benefit provider as current year costs or premiums, or (b) an insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing postretirement benefits to retirees and other beneficiaries.

Federal funds contributed 15.75 percent of the 1997 fiscal year $2.3 million increase in fund balance associated with retired state employees. We therefore question $365,681, the federal share of funds paid in excess of those paid to insurers for state retirees.

We also note that Fund accounting records are not structured to identify amounts paid in and premiums paid out by participating group. Agency personnel have not made such comparisons. It is therefore possible that funds paid in by one group or funding source could subsidize other participants without it being known. For the 1997 fiscal year, our examination showed that no such subsidy took place; each group paid in more than was disbursed.

Recommendation:

We recommend that the Division establish accounts within the Fund that will permit identification of amounts received and disbursed on behalf of each participating group. We also recommend that, if the pay-as-you-go method is retained, federal funds be disbursed as required to avoid future questioned costs and that working capital comply with federal ceilings.

Auditee Response/Corrective Action Plan:

Consideration is being given to changing from a pay-as-you-go mechanism to one based on actuarial estimates of the liability. We have retained an actuary to help us assess the liabilities. If an actuarial method of funding is adopted, existing fund balances would be included in the new funding for the program.

An account structure to accommodate the identification of the plan participants will be adopted.

(97-17) Department of Human Services
Bureau of Child and Family Services

CFDA #: 93.575 **Questioned Costs**: None

Grant #: G96-B1-ME CARE

Child Care and Development Block Grant

Finding: Insufficient controls to ensure compliance with earmarking requirements

Title 45 CFR § 98.50 requires a grantee to expend 75 percent of the Child Care and Development Block Grant (CCDBG) funds for: (1) direct child care services, (2) activities to improve the availability and quality of day care and (3) administrative costs. At least 90 percent of these funds must be expended for direct child care services; not more than 10 percent of these same funds may be expended for quality improvement activities and administrative costs. Title 45 CFR § 98.51 further requires the grantee to reserve the remaining 25 percent of the CCDBG funds to be expended in accordance with the following earmarking percentages:

1. not less than 75 percent of this reserve (or 18.75 percent of the total award) must be used for early childhood development and before-and-after-school care;

2. not less than 20 percent of this reserve must be used for quality improvement activities; and

3. the residual can be used at the grantee's discretion.

In 1997, the Department of Human Services (DHS) has no system in place to account for and monitor subrecipient expenditures for compliance with earmarking requirements. DHS allocates funds to subrecipients based on the requirements, and monitors reports and performs site visits, but does not compare reported expenditures to the requirements of 45 CFR § 98.50 and § 98.51.

Recommendation:

To provide reasonable assurance that earmarking requirements are met, we recommend that DHS develop a means to account for and monitor the status of earmarked monies.

Auditee Response/Corrective Action Plan:

Auditee response unavailable at this time.

(97-18) Department of Human Services
Bureau of Child and Family Services

CFDA #: 93.575 **Questioned Costs**: $69,919

Grant #: G96-B1-ME CARE

Child Care and Development Block Grant

Finding: Payroll costs incorrectly charged (Prior Year Finding)

Office of Management and Budget Circular A-87, *Cost Principles for State and Local Governments*, Attachment A, allows costs to be charged to a federal program only to the extent of the benefit received by a cost objective. These costs may be either direct costs or the allocable share of any indirect costs.

Three employees whose salaries are charged entirely to the Child Care and Development Block Grant perform administrative duties that relate to several federal and/or State programs. The

Department of Human Services does not allocate these costs to program areas. Accordingly, we question $69,919 in payroll costs for these employees for the 1997 fiscal year. This questioned cost amount is based on the estimated percentages of time these employees devote to other programs throughout the fiscal year.

Recommendation:

We recommend that the salaries and fringe benefits of employees be allocated to the correct federal and/or State programs based on benefits received.

Auditee Response/Corrective Action Plan:

Auditee response unavailable at this time.

(97-19) Department of Human Services
Bureau of Child and Family Services
Bureau of Health

CFDA #: 93.575 **Questioned Costs**: None

Grant #: G96-B1-MECARE

Child Care and Development Block Grant

Finding: Inadequate cash management procedures

The Department of Human Services (DHS) does not have procedures in place to ensure that advances made to subrecipients are for immediate cash needs only.

Title 45 CFR, Section 98.60 (f), requires that cash advances to subgrantees for the Child Care and Development Block Grant (CCDBG) be limited to the minimum amounts needed, and be timed to meet the actual, immediate cash requirements of the subgrantee for carrying out the purpose of the program. DHS advances CCDBG funds to subgrantees on a monthly basis. The amount advanced each month equals one-twelfth of the total subgrant award and is based on a pre-approved budget rather than actual and immediate cash needs.

U.S. Treasury Circular 1075, Section 205.4(a), requires that Maternal and Child Health Services Block Grant (MCHBG) cash advances made by primary recipient organizations to secondary recipient organizations conform substantially to the same standards of timing and amount as apply to cash advances by federal programs to primary recipient organizations. DHS advances MCHBG funds to secondary recipients on a quarterly basis. The amount advanced each quarter equals one-fourth of the total subgrant award and is based on a pre-approved budget, rather than actual and immediate cash needs as required.

Recommendation:

We recommend that the DHS revise its subgrantee payment procedures to ensure that all advances made to subgrantees are for immediate cash needs only.

Auditee Response/Corrective Action Plan:

The Bureau of Health's Division of Community and Family Health advances cash to subrecipients based on a pre approved budget to alleviate a cash flow problem many of these grantees would experience otherwise. DHS will work with these subgrantees to work out a disbursement schedule that will adhere closer to their actual and immediate cash requirements to carry out the purpose of their grant.

(97-20) Department of Human Services
Bureau of Health
Division of Community and Family Health

CFDA #: 93.994 **Questioned Costs**: None

Grant #: 97-B1-MEMCHS

Maternal and Child Health Services Block Grant

Finding: Inadequate subrecipient monitoring procedures

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, requires recipient agencies that grant federal funds to subrecipient agencies to:

a. Identify federal awards made by informing each subrecipient of the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, and award year,

b. Advise subrecipient of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements, and
a. Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

DHS incorrectly identified, or did not include, the CFDA number in 11 of the 25 contracts reviewed. The Department improperly identified the CFDA title in 10 of the contracts. DHS did not advise subrecipients of, nor include reference to, applicable federal requirements. DHS could not provide documentation of site visits for 15 of the 25 agencies tested.

Recommendation:

We recommend that DHS implement controls to:

1. inform subrecipients of the source of federal funds, by title and CFDA number,
2. inform subrecipients of relevant federal laws and regulations, and
3. ensure that all site visits are performed and documented.

Auditee Response/Corrective Action Plan:

Auditee response unavailable at this time.

(97-21) Department of Human Services
Division of Community and Family Health
Division of Administrative and Financial Services

CFDA #: 93.994 **Questioned Costs:** $33,450

Grant #: 97-B1-MEMCHS

Maternal and Child Health Block Grant

Finding: Funds exceeding the period of availability not returned to the federal government

Title 45 CFR 98.14 requires that amounts unobligated by the State at the end of the Fiscal year in which they were first allotted remain available for obligation during the succeeding fiscal year.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

During fiscal year 1997, the Department of Human Services (DHS) collected $33,450 from Maternal and Child Health Services Block Grant subrecipients for audit findings related to contracts dating back to 1990. These funds were collected after the period of availability had expired and should have been returned to the federal government.

Recommendation:

We recommend that DHS return to the federal government audit recoveries for which the allowable period of expenditures has ended.

Auditee Response/Corrective Action Plan:

The Department of Human Services does not concur with this finding in that all funds obligated during this fiscal period were actually expended. The subsequent collection of $33,450,00, from sub-recipients is viewed as income received during the period in which it was collected and not related to the prior period. Our contention is that the federal government is reimbursed at the time of deposit as these funds go back into the block grant account for appropriate program expenses.

(97-22) Department of Human Services
Bureau of Health
Division of Community and Family Health

CFDA #: 93.994 **Questioned Costs**: None

Grant #: 97-B1-MEMCHS

Maternal and Child Health Services Block Grant

Finding: Inadequate cash management procedures

See finding 97-19 for text of finding.

(97-23) Department of Human Services
Office of Management and Budget
Division of Audit

CFDA #: Various **Questioned Costs:** None

Grant #: N/A
Various Federal Programs

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

<u>Finding</u>: Some responsibilities of pass-through agency not met

The Office of Management and Budget (OMB) Circular A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions* (in effect for the contracts and reports under review), requires recipient agencies that grant federal funds to sub-recipient agencies to:

1. provide Catalog of Federal Domestic Assistance (CFDA) numbers to subrecipients when making awards (§13(c)2),
2. ensure that subrecipients meet the audit requirements of the Circular (§5(a)), including:
   a. that subrecipients have audits performed annually, but not less frequently than every two years (§7),
   b. that audit reports are received no later than 30 days after the completion of the audit, the audit being completed and submitted no later than 13 months after the end of the recipient's fiscal year (§15(h)),
   c. that the audit include a schedule of Federal awards, which lists major programs by CFDA number (§15(c)1),
   d. that the audit was made in accordance with provisions of the Circular, and
3. ensure that appropriate corrective action is taken, in cases of non-compliance with Federal law and regulations, within six months after receipt of the subrecipients' audit reports.

We reviewed data for 40 subrecipients of the Department of Human Services (DHS). DHS issued 21 contracts that contained an incorrect CFDA number; and 7 that contained no CFDA number. DHS issued 20 contracts with the wrong CFDA title and 30 that did not name the applicable federal agency. Nine of the contracts did not reference audit requirements of Circular A-133.

Six subrecipients had not had audits of their federal funds in accordance with Circular A-133. Another five submitted reports after the 13-month time requirement. DHS did not ensure that corrective action was taken within six month time for five subrecipients with federal non-compliance findings in their audits.

<u>Recommendation</u>:

We recommend that DHS implement controls to:
1. inform subrecipients of the source of federal funds, by title and CFDA number,
2. inform subrecipients of the audit requirements of OMB Circular A-133, and
3. ensure that audits are performed timely and in compliance with the Circular.

Auditee Response:

1) *We agree having the correct CFDA number included on every contract as well as a reference to Circular A-133's audit requirements in an appropriate finding. We do not agree it should be directed at the Audit Division as we are not responsible for issuing the contracts. We will however alert contract program management of CFDA updates as OMB issues them.*

2) *We agree to include a finding whenever sub recipients are not reporting within A-133's time filing requirement is necessary. Also, we will issue an audit management notification letters (acceptance/nonacceptance) to all sub recipients within six months regarding the acceptability of their A-133 financial statements submission to complete the Division of Audit's part in the corrective action process.*

Note:

Circular A-133's audit requirements have changed significantly with a new increased dollar threshold (greater than $300,00) triggering the need for a sub recipient to have an A-133 audit. This will significantly decrease the number agencies needing an A-133 audit. Thus, the previous inability of many small sub recipients (less than $300,000) having to pay and have an A-133 audit will disappear and so will that part of the finding.

(97-24) Mental Health, Mental Retardation and Substance Abuse Services

CFDA #: 93.104 **Questioned Costs:** $158,434

Grant #: 6 HS5 SM51411-03-1

Community Mental Health Services for Children with Serious Emotional Disturbances

Finding: Indirect cost rate applied incorrectly

The Department of Mental Health, Mental Retardation and Substance Abuse Services applied a negotiated indirect cost rate to federal funds without excluding subawards from the base, as required by the Indirect Cost Rate Agreement. As subawards make up most of the program expenditures, excessive indirect costs were charged.

In State fiscal year 1997, the Department charged the federal program $170,000 in indirect costs. We calculated questioned costs of $158,434 as the difference between $170,000 and our calculation of allowable indirect costs ($11,566). We applied the approved rate (7.1%) to the allowable base to determine allowable indirect costs. We determined the base by using Budgeted

Direct Charges for grant years ended January 31, 1997 and 1998, deducting subawards, and calculating seven twelfths of the 1997 grant year amount and five twelfths of the 1998 year amount.

Recommendation:

We recommend that the department apply the approved cost rate to the correct base. We also recommend that the provisions of the cost rate agreement be communicated to program managers so that they can appropriately budget expenditures.

Auditee Response/Corrective Action Plan:

The Department disagrees that the indirect costs are excessive. The Department has relied on the information on the grant award to determine if there is an indirect cost available and we used this as the source of availability of funds even though the Department did not take all that was available per the grant award. However, the Department did overlook the Indirect Cost Plan that had language pertaining to sub awards. The Department will be more careful in the future about relying on the grant award alone without taking into account the Indirect Cost Proposal.

(97-25) Mental Health, Mental Retardation and Substance Abuse Services

CFDA #: 93.104 **Questioned Costs:** None

Grant #: 6 HS5 SM51411-03-1

Community Mental Health Services for Children with Serious Emotional Disturbances

Finding: Pass-through responsibilities not met

Subpart C, section 21(b) of the Common Rule, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, requires that "methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR Part 205." Additionally, Subpart C, section 20 (b)(7), requires grantees to "monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

The Department of Mental Health and Mental Retardation (DMHMR) did not establish controls to minimize the amount of federal pass-through cash held by subgrantees. According to audited financial statements, the principal subrecipient of program funding had cash balances of $1.6 million as of June 30, 1996, and $194 thousand as of June 30, 1997. Almost all of the subrecipient's funding consisted of federal grants passed through by DMHMR. For the grant year ended January 31, 1997, DMHMR budgeted program funds of $2.4 million to the subrecipient. The Department disbursed funds according to contract agreement payment dates without considering the subrecipient's cash needs. Additionally, the Department reviewed and accepted the subrecipient's audit, although it disclosed the cash balances and did not cite noncompliance with cash management requirements.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D, Section 400(d) requires pass-through entities to perform certain tasks for the Federal awards that it makes. The Department passed-through most of the program funds to subrecipients but did not comply with the requirements that it:

1. Identify Federal awards made by CFDA title, and

2. Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements.

Recommendation:

We recommend that the Department obtain and comply with all applicable federal regulations.

Auditee Response/Corrective Action Plan:

This particular situation was unique in that this particular agency was mostly funded by federal funds that were passed through to them. In our other agencies where pass-through funds are allocated, the federal funds are a small part of their budget, and wouldn't be a problem. The Department agrees that the responsible program personnel need to be instructed as to the case requirements for future awards and will notify the financial managers in each of the three regions also.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

(97-26) Department of Mental Health, Mental Retardation and Substance Abuse Services Office of Substance Abuse

CFDA #: 93.959 **Questioned Costs:** None

Grant #: 95-B1-MESAPT, 96-B1-MESAPT, 97-B1-MESAPT

Substance Abuse Prevention and Treatment Block Grant (SAPT)

Finding: Failure to meet maintenance of effort requirement for State fiscal year 1997 (Prior Year Finding)

Title 42 USC 300x-30 requires the Office of Substance Abuse (OSA) to maintain aggregate State expenditures for authorized activities at a level that is not less than the average level of such expenditures maintained by the State for the 2-year period preceding the fiscal year for which grant application is being made. In fiscal year 1997, OSA's maintenance of effort was below this level by $1,265,172.

In the subsequent fiscal year, the Department of Mental Health, Mental Retardation and Substance Abuse Services transferred $1,258,373 of General Fund Medicaid matching expenditures into the OSA account to correct the known deficiency. Title 42 USC 300x-31 states that the State will not expend the grant to provide inpatient hospital services, with certain exceptions. The match accounting does not differentiate between expenditures for inpatient hospital services and outpatient services.

Recommendation:

We recommend that OSA consult with appropriate State and Federal officials to determine the acceptability of the General Fund Medicaid matching expenditures and to implement a permanent solution to the maintenance of effort problem.

Auditee Response/Corrective Action Plan:

Prior to and after the submission of the Federal Block Grant application for FFY 1998, the Office of Substance Abuse consulted with appropriate Federal officials regarding the maintenance of effort required for SFY 1997. It was agreed that continuation of the transfer of general fund match into the OSA account would be appropriate to correct the known deficiency. The use of these funds to correct the deficiency was clearly stated in the Block Grant application.

The maintenance of effort requirement requires the principal agency of the State to maintain aggregate State expenditures and does not restrict State general fund expenditures to inpatient or outpatient services. Therefore, even though the match accounting does not differentiate expenditures between inpatient hospital services and outpatient services, it does not appear to be relevant to the compliance requirement. With respect to the maintenance of effort requirement, the general fund match has specifically been earmarked for community services to persons experiencing problems with alcohol, drugs and mental health issues.

(97-27) Department of Mental Health, Mental Retardation and Substance Abuse Services Office of Substance Abuse

CFDA #: 93.959 **Questioned Cost:** None

Grant #: 96-B1-MESAPT

Substance Abuse Prevention and Treatment Block Grant (SAPT)

Finding: Excess federal cash

The U.S. Department of Treasury Circular 1075 states:

> Cash advances to a recipient organization shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization.

We tested three of nine drawdowns in the fourth quarter of State fiscal year 1997. One drawdown included sufficient cash to pay for four future biweekly payrolls. The Office of Substance Abuse (OSA) also drew down $149,549 that was held from 5 to 12 days to pay other expenditures.

Recommendation:

We recommend that OSA manage federal cash in accordance with Circular 1075.

Auditee Response/Corrective Action Plan:

During this audit period, the Office of Substance Abuse participated in the downsizing of State government and as a result, reduced its fiscal management capacity. Although this has been corrected, the Office of Substance Abuse will review all internal procedures relating to cash management and make appropriate changes, as needed, to comply with the Department of Treasury Circular 1075. Also, the Office will do more intense cash balance monitoring and more frequent drawdowns to avoid holding excess cash for payrolls.

In addition, the Office of Substance Abuse will consult with Maine's Bureau of Accounts and Control and Treasury Department regarding new cash management functions implemented in the State Accounting System to assist with our compliance to the Circular. In order to assure compliance, the Office will seek direction from appropriate Federal agencies regarding current cash management regulations and implement suggested recommendations.

(97-28) Department of Mental Health, Mental Retardation and Substance Abuse Services Contracting, Auditing and Licensing Service Center

CFDA #: 93.959 **Questioned Costs:** None

Grant #: 96-B1-MESAPT, 97-B1-MESAPT

Substance Abuse Prevention and Treatment Block Grant (SAPT)

Finding: Excess federal cash held by subrecipient

The U.S. Department of Treasury Circular 1075 states

> Cash advances to a recipient organization shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization.
>
> Cash advances made by primary recipient organizations to secondary recipient organizations shall conform substantially to the same standards of timing and amount as apply to cash advances by Federal program agencies to primary recipient organizations.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

We tested a sample of 22 payments made to Office of Substance Abuse subrecipients. One subrecipient held cash in excess of $84,000 over its reported expenditures from April 1, 1997 to June 30, 1997. For the following nine months, the excess was maintained at a beginning high of $52,000 to an ending low of $18,000.

Subrecipient reports indicate that $80,000 had been placed in an escrow account.

Recommendation:

We recommend that the Contracting Center monitor the cash requirements of subrecipients in accordance with Circular 1075.

Auditee Response/Corrective Action Plan:

In addition to the corrective action stated in the response for the finding on excess Federal cash held by Office of Substance Abuse, the Office will work directly with management of the Department of Human Services' Contract Services Center to ensure better monitoring of subrecipient contract payments and expenditure reports to avoid excess cash on hand. During State fiscal year 1998, the Office implemented a payment tracking system to monitor payments. This system will be continued and data from this system will be made available on a routine basis to contract officers at the DHS Services Center. The Office will also work with DHS management to ensure that corrective action is taken with respect to the monitoring of subrecipient expenditures.

During State fiscal year 1999, the Office of Substance Abuse will review all contract language regarding subrecipient payments, expenditure reports, and cash management in order to improve compliance with Circular 1075. Based on the review, the Office will work with management of the Department of Human Services to clearly define areas of responsibility and ensure that appropriate contract language and guidelines are implemented and monitored for compliance.

(97-29) Department of Mental Health, Mental Retardation and Substance Abuse Services Office of Substance Abuse

CFDA #: 93.959 **Questioned Costs:** None

Grant #: 93-B1-MESAPT, 94-B1-MESAPT, 95-B1-MESAPT

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Substance Abuse Prevention and Treatment Block Grant (SAPT)

Finding: Expenditures beyond allowable period (Prior Year Finding)

Title 42 USC, 300x-62 states that "any amounts paid to a State under the program involved shall be available for obligation until the end of the fiscal year for which the amounts were paid, and if obligated by the end of such year, shall remain available for expenditure until the end of the succeeding fiscal year." Three subrecipients of the Office of Substance Abuse (OSA) had cash in excess of their authorized expenditures after the close out of the grants creating the obligations.

Two of the three subrecipients sent checks totaling $11,649 for funds that were obligated against the federal fiscal year 1994 and 1995 awards. The funds were not returned to the federal grantor. Instead, they were credited against expenditures of a current grant award.

The other subrecipient had excess cash of $42,030 that was obligated against the federal fiscal year 1993 award. OSA agreed to reduce a future subrecipient award by the amount of the excess cash.

Recommendation:

We recommend that OSA consult with the federal grantor regarding disposition of cash remaining from closed out grant awards.

Auditee Response/Corrective Action Plan:

The Office of Substance Abuse will consult with the Federal grantor regarding disposition of cash refunds received back from subrecipients that are from closed grant awards. After receiving instructions from the grantor, the Office will make the necessary accounting adjustments related to the deposits identified in the audit finding. The Office will also request a formal ruling regarding appropriate accounting principles with respect to the audit finding.

(97-30) Department of Mental Health, Mental Retardation and Substance Abuse Services
Office of Substance Abuse

CFDA #: 93.959 **Questioned Costs:** None

Grant #: 95-B1-MESAPT

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Substance Abuse Prevention and Treatment Block Grant (SAPT)

<u>Finding</u>: Failure to obligate funds in proper period (Prior Year Finding)

The Office of Substance Abuse (OSA) obligated $702,635 for subrecipient contracts against the Federal fiscal year 1995 Substance Abuse and Treatment Block Grant after the close of the first fiscal year of the grant, in violation of 42 USC 300x-62.

<u>Recommendation</u>:

We again recommend that OSA obligate funds within the time allowed.

<u>Auditee Response/Corrective Action Plan</u>:

The Office of Substance Abuse took corrective action during State fiscal year 1998. Obligations and expenditures are tracked and monitored routinely. As a result of early planning, obligations were finalized well before the current contract year. Furthermore, the Office improved the current accounting

**(97-31) Department of Mental Health, Mental Retardation and Substance Abuse Services
Office of Substance Abuse**

<u>CFDA #</u>: 93.959 **<u>Questioned Costs</u>:** None

<u>Grant #</u>: 95-B1-MESAPT

Substance Abuse Prevention and Treatment Block Grant (SAPT)

<u>Finding</u>: Set-aside expenditure requirements not met; administrative expenditures not obligated (Prior Year Finding)

Title 42 USC 300x-22, 300x-31, and 300x-62 require the Office of Substance Abuse (OSA) to set aside portions of its block grant for specific purposes and to expend the funds by the end of the succeeding fiscal year if the funds were obligated in the first year of the award. At the end of the two year period (September 30, 1996), there were $390,235 of outstanding obligations against the SAPT grant on subrecipient contracts. These obligations represent budgeted expenditures to satisfy set-aside requirements for substance abuse prevention and for alcohol and drug treatment.

No more than five percent of the grant award can be expended for OSA administrative expenditures. Although budgeted administrative expenditures did not exceed five percent, OSA could not demonstrate that funds were obligated within the first year of the grant award as required.

<u>Recommendation</u>:

We recommend that OSA timely allocate funds to subrecipients so that they may expend funds as required. We also recommend that OSA improve the accounting system to support monitoring of expenditures and required set-aside allocations for each specific block grant award.

<u>Auditee Response</u>:

The Office of Substance Abuse currently plans obligations well in advance of the State fiscal year contract period. The Office has also made several improvements in its accounting system to support monitoring of all Block Grant transactions by specific grant award.

(97-32) Department of Mental Health, Mental Retardation and Substance Abuse Services Office of Substance Abuse

<u>CFDA #</u>: 93.959 **<u>Questioned Costs</u>:** None

<u>Grant #</u>: 95-B1-MESAPT

Substance Abuse Prevention and Treatment Block Grant (SAPT)

<u>Finding</u>: Failure to document expenditures and maintenance of effort

The Office of Substance Abuse (OSA) was one of the State agencies designated by the grantor to provide human immundeficiency virus (HIV) services for federal fiscal year 1995 per Title 42

USC 300x-24. The regulation required OSA to expend 5% of the grant on these services. The regulation also required OSA to maintain expenditures of non-federal amounts for HIV services at a level that was not less than the average level of such expenditures maintained by the State for the 2-year period preceding the first fiscal year for which the State received the grant.

OSA did provide HIV services through subrecipients. However, the subrecipients did not differentiate expenditures for HIV from other drug treatment expenditures. OSA did not document its maintenance of effort.

<u>Recommendation</u>:

We recommend that OSA improve its accounting system to allow documentation of HIV services expenditures and maintenance of effort.

<u>Auditee Response/Corrective Action Plan</u>:

The Office of Substance Abuse improved its accounting system in State fiscal year 1998. First, the Office assigned a unique accounting code in order to track and monitor all obligations and expenditures related to the human immunodeficiency virus requirement. Secondly, a system was implemented to track all Block Grant transactions by grant award.

In addition, the Office has been consulting with Federal officials regarding its "designated State" status and documentation related to maintenance of effort. Unresolved issues include responsibility in terms of notifying a State of its "designated State" status, clarification regarding what constitutes confirmation of a State's status with respect to "the most recent calendar year for which data is available," and differences in the actual number of cases reported which is critical as it is these data that are utilized in determining a State's status.

Most important to the State are the two last issues. Without greater clarification on the most recent calendar year, the State may set-aside funds in the wrong Federal fiscal year which would result in an audit finding of questioned cost. Of even greater importance is the data used in determining the State's status. Federal officials use data reported by the Director of the Centers for Disease Control. The Office of Substance Abuse has used data reported by Maine's Bureau of Health. It does not appear that the data from these two reporting sources match. This is confusing because the Centers for Disease Control receives its data from Maine's Bureau of Health and thus the data generated by the two reporting sources should matc

(97-33) Office of the Treasurer of State

<u>CFDA #</u>: Various Federal Programs **<u>Questioned Costs</u>:** None

<u>Grant #</u>: N/A

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Various Federal Programs

<u>Finding</u>: Internal control not adequate to ensure compliance with Cash Management Improvement Act (Prior Year Finding)

The Office of the Treasurer of State is responsible for administering the Cash Management Improvement Act (CMIA) provisions for the State of Maine. In this capacity, the Treasurer is responsible for the preparation of the CMIA Annual Report and for monitoring State agency compliance with CMIA provisions.

To facilitate preparation of the CMIA Annual Report, a monthly interest liability report is produced by the State's accounting system to automatically calculate monthly interest for pre-issuance funded programs. The Treasurer receives copies of the reports each month. We noted the following:

1. The interest liability reports for the Job Training Partnership Act indicated an annual interest liability in excess of $144,000. However, the Treasurer did not include any interest liability on the CMIA Annual Report for this program because the information was considered unreliable.

2. Reports for the Chapter I program, the JOBS program, and the Social Services Block Grant program showed an unusual negative interest liability for the year.

The Office of the Treasurer of State did not review the monthly interest reports to make timely corrections and properly report the State's interest liability on the CMIA Annual Report.

The Department of Human Services and the Department of Labor did not comply with established procedures for program components using the prorated drawdown method of funding. The prorated drawdown method is interest neutral if drawdowns are made on the average clearance day for State payroll checks. Neither Department made drawdowns as required, nor did they report any exceptions to established drawdown procedures. An interest liability should have been reported on the CMIA Annual Report for prorated drawdowns made prior to the required date.

The Office of the Treasurer did not make periodic reviews of agency cash management records, as required in the State of Maine's CMIA Policy and Procedures Manual, and did not detect noncompliance with established drawdown methods.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Recommendation:

We recommend that the Treasurer implement oversight procedures to assure full compliance with the provisions of the Cash Management Improvement Act, to include a review of the monthly interest liability reports and periodic reviews of agency cash management records.

We also recommend that the Treasurer annually require all State agencies with pre-issuance programs to report the account codes used for each program. This information should be compared to the account codes in the computer program used in calculating the monthly interest liability and any necessary adjustments should be made. The Treasurer should also require agencies to report any account changes in pre issuance programs immediately.

Auditee Response/Corrective Action Plan:

Recent changes in Treasury personnel responsible for CMIA coordination and reporting have made it necessary to review department procedures for this function. The Treasurer agrees that full compliance with the provisions of the CMIA is imperative and is already in the process of improving coordination of the program. Monthly interest liability reports for pre-issuance programs will be reviewed and compared to account codes used in the computer program to calculate that liability and any adjustments needed will be made. Agencies will be required to report any account code changes immediately. Additionally, the Treasurer will work to assure a greater understanding on the part of all agencies involved of the importance of adherence to the prescribed methods and procedures of drawdown each has committed to.

(97-34) Department of Human Services
Bureau of Family Independence
Division of Financial Services

CFDA#: 93.558 **Questioned Costs:** None

Grant #:

Temporary Assistance for Needy Families (TANF)

Finding: Budget process circumvented/overcharges to other funds due to insufficient TANF block grant allotment

See finding (97-6)

(This page intentionally left blank)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 1997

Finding #	CFDA #	Department	Description	Questioned Costs	Status
96-A	N/A	Administrative and Financial Services	Procedures and resources insufficient for financial reporting	None	Not corrected in fiscal year 1997. In fiscal year 1998, a new position will be in place to provide sufficient resources for financial reporting.
96-B	N/A	Administrative and Financial Services	External payment interface disbursements of $15.3 million were not recorded in the accounting system	None	Not corrected in fiscal year 1997. In fiscal year 1998, improved instructions were given to agencies to assist in gathering the required information.
96-C	N/A	Administrative and Financial Services	Fixed asset records incomplete	None	Corrective action in process - the fixed asset software module is in place and agencies are in the process of entering the information.
96-D	N/A	Administrative and Financial Services	No system to identify capital leases	None	Corrective action in process - during fiscal year 1997, a vendor was hired to review leases. Capital leases will be recorded in fiscal year 1998.
96-E	N/A	Administrative and Financial Services	No independent verification of lottery data from vendor	None	Corrected
96-F and 96-G	Various	Office of the Treasurer of State	Internal control not adequate to ensure compliance with CMIA	None	Corrective action in process - agency has included the omitted programs but has not yet implemented corrective action to monitor agencies.
96-H	93.959	Executive	Failure to meet maintenance of effort requirement	None	Corrected
96-I	93.959	Executive	Grant management procedures insufficient	None	Corrected
96-1	Various	Administrative and Financial Services	Excess balances in Retiree Health Insurance Fund	$639,000	Corrective action in progress - during fiscal year 1999 the agency created a new position to provide improved accounting for the fund and will contract with an actuary to determine the correct liability. Questioned costs not resolved
96-15	14.228	Economic and Community Development	Release of grant funds without environmental review	$649,545	Agency drafted a letter dated August 14, 1998 to the U.S. Department of Housing and Urban Development to resolve audit findings and questioned costs. A response has not been received. Questioned costs not resolved

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 1997

Finding #	CFDA #	Department	Description	Questioned Costs	Status
96-16	14.228	Economic and Community Development	Grant administrative procedures should be strengthened	$308,204	Agency drafted a letter dated August 14, 1998 to the U.S. Department of Housing and Urban Development to resolve audit findings and questioned costs. A response has not been received. Questioned costs not resolved
96-17	84.126	Labor	Inadequate support for salary charged to grant	$50,339	Auditee believes the activities of the person in question were directly related to the primary objectives of the program. Questioned costs not resolved
96-23	84.048	Education	Inadequate support for salary charged to grant	$70,184	Agency has verbal approval to continue the current practices and is in the process of obtaining written approval. Questioned costs not resolved
96-25	84.027	Education	Inadequate support for salary charged to grant	$122,000	A system was established to allocate salary; however, it was not used for this audit period. A management letter finding was reported for fiscal year 1997. Questioned costs not resolved
96-28	93.959	Executive	Failure to obligate and expend funds in proper periods	$114,553	Questioned costs resolved
96-59	93.778	Human Services	Failure to make indirect cost adjustments	$114,582	Questioned costs resolved
96-76	20.205	Transportation	Incorrect procedures for recording stockpiled materials	$13,600	Questioned costs resolved
96-78	Various	Transportation	Charges made without documentation	$872,878	Questioned costs resolved
			Total questioned costs	**$2,954,885**	