

# MAINE STATE LEGISLATURE

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Robert O. Lenna, *Executive Director*  
Tel 207-622-1958  
Fax 207-623-5359

TO: INTERESTED PARTIES  
FROM: Robert O. Lenna, Executive Director  
RE: **2011 Maine Health and Higher Educational Facilities Authority Annual Report**

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This is the annual report for the Maine Health and Higher Educational Facilities Authority for the 2011 fiscal year, running from July 1, 2010 to June 30, 2011. As of June 30, 2011, the Authority has \$148,345,000 outstanding under its general tax exempt conduit resolution, \$1,337,550,000 outstanding under its tax exempt reserve fund resolution, and \$1,980,000 outstanding under its taxable reserve fund resolution.

During fiscal year 2011 the Authority did not issue any bonds.

Started in December of 1991, the Authority's unique health and higher education program, using a state moral obligation reserve fund make-up provision and the ability to intercept funds of borrowers prior to any failure to pay, provides unusual strength to a diversified and dispersed portfolio of loans to health care and higher educational facilities throughout Maine. By making use of our ability to aggregate issues, share costs for bond sales among multiple borrowers and provide the State's moral obligation credit enhancement to eligible institutions, we provide all of Maine's health and higher educational facilities, from the largest to the smallest, with the lowest cost available for the money they borrow to meet their capital needs.

If there is further information you might like or questions you may have concerning the Authority, please feel free to give us a call at (207) 622-1958. Additional information about the Authority is available at our website: [www.mhhefa.com](http://www.mhhefa.com)

A handwritten signature in black ink, appearing to be 'R. Lenna', written over a horizontal line.

FEB 10 2012

**Maine Health and Higher  
Educational Facilities Authority**

Basic Financial Statements  
and Management's Discussion and Analysis

*Year Ended June 30, 2011  
With Independent Auditors' Report*

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2011

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# BAKER NEWMAN NOYES

## INDEPENDENT AUDITORS' REPORT

To the Members of  
Maine Health and Higher  
Educational Facilities Authority

We have audited the accompanying financial statements which include the Operating Fund, Reserve Fund and Taxable Financing Reserve Fund, which collectively comprise the basic financial statements of Maine Health and Higher Educational Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2011, as listed on the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority, as well as the individual fund groups referred to above, as of June 30, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2011 on our consideration of Maine Health and Higher Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 7 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

To the Members of  
Maine Health and Higher  
Educational Facilities Authority

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The additional information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Limited Liability Company

Portland, Maine  
October 3, 2011

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

As financial management of the Maine Health and Higher Educational Facilities Authority (the Authority), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2011. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

### Financial Highlights

- Operating income for the Authority's Operating Fund before transfers and discontinued operations was \$452,435 for fiscal year 2011, a decrease of \$1,812,079 or 80 % from fiscal year 2010. This decrease in operating income is primarily attributed to two factors. There was a decrease in income from investments of \$274,902 due to the board adopting a resolution establishing a supplemental reserve fund within the Authority's reserve fund resolution, resulting in a transfer of \$24,221,739 of cash and investments from the operating resolution to the reserve fund resolution on March 29, 2010. Secondly, the board approved an 80% reduction in Authority fees charged to the institutions, effective January 1, 2010, which was the primary factor in a total reduction in administrative and other fees revenue of \$1,353,142. Fiscal year 2011 realized the full effects of these two reductions in assets and fees. In addition, the Authority recorded a negative bad debt provision of \$(93,000) in 2011 versus a negative bad debt provision of \$(398,260) in 2010 to reflect cash recoveries on receivables that had been offset by an allowance.
- Total revenues of \$56,619,289 for fiscal year 2011 decreased \$5,420,403 or 8.7% from fiscal year 2010. The decrease was due to a decrease in other income, a board approved decrease in authority fees, and a decrease in the fair value of investments.
- The Authority's loans receivable from institutions at June 30, 2011 of \$1,216,848,111 represents a net decrease of \$62,025,652 or 4.9% from the balance at June 30, 2010. This decrease is the result of repayment of loans by institutions during fiscal year 2011. There were no new loans issued in 2011.
- The Authority's gross bonds outstanding at June 30, 2011 of \$1,339,530,000 represent a net decrease of \$66,760,000 or 4.7% from the balance at June 30, 2010. This decrease is due to the combination of scheduled bond principal repayments and the result of not issuing any new bonds in fiscal year 2011. The Authority's bonds are a combination of fixed and variable interest rate and tax-exempt and taxable bonds, although a majority of the bonds are fixed interest rate and tax-exempt.

### Overview of the Authority

The Authority was created in 1972 by an Act of the Maine Legislature, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Authority was established to issue bonds for the purpose, among other things, of assisting Maine health care institutions and institutions of higher education in the undertaking of projects involving the acquisition, construction, improvement, reconstruction and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority, pursuant to the *Student Loan Corporations Act of 1983*, also has the power to finance student loan programs of institutions for higher education.

As the result of the Authority issuing tax-exempt debt, the Authority is required to prepare arbitrage rebate calculations for each series of bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority's policy is to prepare and review the calculations every six months for financial statement purposes.

For financial statement reporting purposes, the Authority is considered a component unit of the State of Maine. However, the Authority does not receive any State appropriations for its operations and is funded from fees charged to participating borrowers and interest earnings on investments.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which are comprised of the basic financial statements and the notes to the financial statements.

### **Basic Financial Statements**

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Net Assets increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities result in increased net assets, which may indicate an improved financial position.

The statement of revenues and expenses and changes in net assets presents information showing how the Authority's net assets changed during the fiscal year. Substantially all changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

The statement of cash flows is presented using the direct method of reporting which reflects cash flows from operating, financing and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

### **Financial Analysis**

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$49,245,821 at June 30, 2011. This represents an increase of \$991,116 or 2.1% over the previous fiscal year, which is the Authority's 2011 operating income.

The Authority's financial position and operations for the past two years are summarized below based on information included in the audited financial statements.

**Balance Sheet**

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 9,192,430	\$ 11,190,323	(17.9)%
Investments held by trustee, at fair value	33,882,846	30,870,224	9.8
Operating investments, at fair value	8,796,092	7,122,830	23.5
Accrued investment income	784,597	599,698	30.8
Loans receivable from institutions	51,795,439	42,791,340	21.0
Interest and other receivables from institutions	1,553,032	2,795,064	(44.4)
Fees and other amounts due from other funds	<u>2,029,722</u>	<u>1,261,877</u>	<u>60.8</u>
Total current assets	108,034,158	96,631,356	11.8
<b>Noncurrent assets:</b>			
Investments held by trustee, at fair value	123,527,652	128,735,865	(4.0)
Supplemental reserve investments, at fair value	24,601,869	24,324,395	1.1
Loans receivable from institutions	1,165,052,672	1,236,082,423	(5.7)
Notes, advances and other receivables from institutions, net of allowance	<u>217,563</u>	<u>216,100</u>	<u>0.7</u>
Total noncurrent assets	<u>1,313,399,756</u>	<u>1,389,358,783</u>	<u>(5.5)</u>
Total assets	<u>\$1,421,433,914</u>	<u>\$1,485,990,139</u>	<u>(4.3)%</u>
<b>Current liabilities:</b>			
Bonds payable	\$ 52,300,000	\$ 43,020,000	21.6%
Interest payable	26,866,469	24,986,302	7.5
Fees and other amounts due to operating fund	2,029,722	1,261,877	60.8
Accounts payable	89,062	397,696	(77.6)
Rebate payable to Internal Revenue Service	809,756	851,204	(4.9)
Deferred revenue	<u>2,734,358</u>	<u>3,163,980</u>	<u>(13.6)</u>
Total current liabilities	84,829,367	73,681,059	15.1
<b>Noncurrent liabilities:</b>			
Bonds payable	1,287,230,000	1,363,270,000	(5.6)
Rebate payable to Internal Revenue Service	<u>128,726</u>	<u>784,375</u>	<u>(83.6)</u>
Total noncurrent liabilities	<u>1,287,358,726</u>	<u>1,364,054,375</u>	<u>(5.6)</u>
Total liabilities	1,372,188,093	1,437,735,434	(4.6)
<b>Net assets:</b>			
Unrestricted net assets	<u>49,245,821</u>	<u>48,254,705</u>	<u>2.1</u>
Total net assets	<u>49,245,821</u>	<u>48,254,705</u>	<u>2.1</u>
Total liabilities and net assets	<u>\$1,421,433,914</u>	<u>\$1,485,990,139</u>	<u>(4.3)%</u>

## Statements of Revenues, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
<b>Operating revenues:</b>			
Interest and other amounts from institutions	\$50,120,595	\$49,815,285	0.6%
Interest on loans receivable from operating fund	-	36,500	(100.0)
Administrative and other fees	833,760	2,186,902	(61.9)
Income from investments	6,197,349	5,551,780	11.6
Net (decrease)increase in the fair value of investments	(664,511)	1,118,720	(159.4)
Interest income from advances and notes receivable			
from institutions	17,990	33,910	(46.9)
Other income	<u>114,106</u>	<u>3,296,595</u>	<u>(96.5)</u>
 Total operating revenues	 56,619,289	 62,039,692	 (8.7)
<b>Operating expenses:</b>			
Bond issuance costs	-	3,193,945	(100.0)
Interest expense	54,965,662	54,844,081	0.2
Operating expenses	693,471	746,763	(7.1)
Bad debt provision	(93,000)	(398,260)	(76.6)
Other expenses	<u>62,040</u>	<u>307,708</u>	<u>(79.8)</u>
 Total operating expenses	 <u>55,628,173</u>	 <u>58,694,237</u>	 <u>(5.2)</u>
 Operating income from continuing operations	 991,116	 3,345,455	 (70.4)
<b>Discontinued operations:</b>			
Operating income from discontinued operations	-	292,543	(100.0)
Gain on sale of Portland Center	<u>-</u>	<u>892,194</u>	<u>(100.0)</u>
 Operating income	 991,116	 4,530,192	 (78.1)
 Net assets, beginning of year	 <u>48,254,705</u>	 <u>43,724,513</u>	 <u>10.4</u>
 Net assets, end of year	 <u>\$49,245,821</u>	 <u>\$48,254,705</u>	 <u>2.1%</u>

Cash and cash equivalents at June 30, 2011 decreased \$1,997,893 or 17.9% from balances at June 30, 2010. This decrease was offset by an increase in operating investments of \$1,673,262.

Accrued investment income at June 30, 2011 increased \$184,899 or 30.8% from fiscal year 2010 due to an increase in the amount invested in long term municipal bonds. These municipal bonds replaced some of the long term guaranteed investment contracts that were previously downgraded and liquated in 2009.

Interest and other receivables from institutions at June 30, 2011 decreased \$1,242,032 or 44.4% from fiscal year 2010 primarily due to the timing of payments deposited to interest funds to make July 1 debt service payments.

Fees and other amounts due from other funds increased \$767,845 or 60.8% over fiscal year 2010 primarily due to arbitrage rebate payments made to the Internal Revenue Service from the Authority's Operating fund that will be reimbursed from the Reserve fund in future years.

Deferred revenue decreased \$429,622 or 13.6% in fiscal year 2011 over fiscal year 2010. The decrease is a result of applying funds previously deferred that were received from institutions in advance of scheduled debt service interest payments.

Accounts payable at June 30, 2011 decreased \$308,634 or 77.6% from June 30, 2010. The decrease was the result of the disbursement of balances to borrowers during fiscal year 2011 that had been accrued in prior years.

Rebate payable to the Internal Revenue Service at June 30, 2011 decreased \$697,097 or 42.6% from June 30, 2010. This decrease is the result of the net difference between additional accrued liability for fiscal year 2011 and rebate payments to the Internal Revenue Service during fiscal year 2011.

The net change in the fair value of investments in 2011 was a net decrease of \$664,511 versus a net increase of \$1,118,720 in 2010. The decreases experienced during fiscal 2011 are the result of fluctuations in the interest rate environment. The Authority's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises, municipal bonds and guaranteed investment contracts. All investments are carried at fair value, and unrealized gains and losses (primarily due to fluctuations in market values) are recognized in the statements of revenues, expenses and changes in net assets. The maturities of investments in the debt service reserve funds are scheduled to match debt service payments and are normally held to maturity.

Interest from loans receivable Operating fund decreased \$36,500 or 100% from fiscal year 2010 due to the sale of Portland Center in fiscal year 2010.

Administrative and other fees decreased \$1,353,142 or 61.9% from fiscal year 2010 primarily due to a board approved decrease in Authority fees charged to the institutions effective January 1, 2010. Fiscal year 2011 was the first full year that this decrease was in effect.

Other income for fiscal year 2011 decreased \$3,182,489 or 96.5% from fiscal year 2010. This decrease is the result of no new bonds being issued during fiscal year 2011 and therefore no revenue from cost of issuance being received. The bond issuance costs for fiscal year 2011 have also decreased.

Other expenses for fiscal year 2011 decreased \$245,668 or 79.8% from fiscal year 2010. This decrease is a result of fewer residual funds being returned to institutions as a result of their refunding.

Income from discontinued operations decreased in fiscal year 2011 due to the completion of the Portland Center sale in fiscal year 2010.

The Authority shares office space and staff with the Maine Municipal Bond Bank. The Authority reimburses the Maine Municipal Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

### **Requests for Information**

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Health and Higher Educational Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

**BALANCE SHEET**

June 30, 2011

ASSETS

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Taxable Financing Reserve Fund</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents (note 2)	\$ 9,192,430	\$ —	\$ —	\$ 9,192,430
Investments held by trustee, at fair value (note 3)	—	33,753,496	129,350	33,882,846
Operating investments, at fair value (note 3)	8,796,092	—	—	8,796,092
Accrued investment income	4,989	779,320	288	784,597
Loans receivable from institutions (note 9)	—	51,430,439	365,000	51,795,439
Interest and other receivables from institutions	—	1,549,187	3,845	1,553,032
Fees and other amounts due from other funds	<u>2,029,722</u>	<u>—</u>	<u>—</u>	<u>2,029,722</u>
Total current assets	20,023,233	87,512,442	498,483	108,034,158
Noncurrent assets:				
Investments held by trustee, at fair value (notes 3 and 6)	—	123,019,136	508,516	123,527,652
Supplemental reserve investments, at fair value (notes 1 and 3)	—	24,601,869	—	24,601,869
Loans receivable from institutions (note 9)	—	1,163,946,188	1,106,484	1,165,052,672
Notes, advances and other receivables from institutions, net of allowance of \$524,900 (note 9)	<u>217,563</u>	<u>—</u>	<u>—</u>	<u>217,563</u>
Total noncurrent assets	<u>217,563</u>	<u>1,311,567,193</u>	<u>1,615,000</u>	<u>1,313,399,756</u>
Total assets	<u>\$20,240,796</u>	<u>\$1,399,079,635</u>	<u>\$2,113,483</u>	<u>\$1,421,433,914</u>

LIABILITIES AND NET ASSETS

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Taxable Financing Reserve Fund</u>	<u>Total</u>
Current liabilities:				
Bonds payable (note 4)	\$ —	\$ 51,935,000	\$ 365,000	\$ 52,300,000
Interest payable	—	26,859,154	7,315	26,866,469
Fees and other amounts due to operating fund	—	1,924,042	105,680	2,029,722
Accounts payable	78,946	6,713	3,403	89,062
Rebate payable to Internal Revenue Service	—	809,756	—	809,756
Deferred revenue	—	<u>2,734,358</u>	—	<u>2,734,358</u>
 Total current liabilities	 78,946	 84,269,023	 481,398	 84,829,367
Noncurrent liabilities:				
Bonds payable (notes 4 and 8)	—	1,285,615,000	1,615,000	1,287,230,000
Rebate payable to Internal Revenue Service	—	<u>128,726</u>	—	<u>128,726</u>
 Total noncurrent liabilities	 —	 <u>1,285,743,726</u>	 <u>1,615,000</u>	 <u>1,287,358,726</u>
 Total liabilities	 78,946	 1,370,012,749	 2,096,398	 1,372,188,093
Net assets:				
Unrestricted net assets	<u>20,161,850</u>	<u>29,066,886</u>	<u>17,085</u>	<u>49,245,821</u>
 Total net assets	 20,161,850	 29,066,886	 17,085	 49,245,821
  Total liabilities and net assets	  <u>\$20,240,796</u>	  <u>\$1,399,079,635</u>	  <u>\$2,113,483</u>	  <u>\$1,421,433,914</u>

See accompanying notes.

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

Year Ended June 30, 2011

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Taxable Financing Reserve Fund</u>	<u>Total</u>
Operating revenues:				
Interest and other amounts from institutions	\$ -	\$ 49,964,665	\$ 155,930	\$ 50,120,595
Administrative and other fees	833,760	-	-	833,760
Income from investments	226,840	5,945,815	24,694	6,197,349
Net decrease in the fair value of investments	(139,790)	(524,721)	-	(664,511)
Interest income from advances and notes receivable from institutions	17,990	-	-	17,990
Other income	<u>114,106</u>	<u>-</u>	<u>-</u>	<u>114,106</u>
Total operating revenues	1,052,906	55,385,759	180,624	56,619,289
Operating expenses:				
Interest expense	-	54,797,488	168,174	54,965,662
Operating expenses (note 7)	693,471	-	-	693,471
Bad debt provision	(93,000)	-	-	(93,000)
Other expenses	<u>-</u>	<u>42,421</u>	<u>19,619</u>	<u>62,040</u>
Total operating expenses	<u>600,471</u>	<u>54,839,909</u>	<u>187,793</u>	<u>55,628,173</u>
Operating income (loss)	452,435	545,850	(7,169)	991,116
Net assets, beginning of year	<u>19,709,415</u>	<u>28,521,036</u>	<u>24,254</u>	<u>48,254,705</u>
Net assets, end of year	<u>\$20,161,850</u>	<u>\$ 29,066,886</u>	<u>\$ 17,085</u>	<u>\$49,245,821</u>

See accompanying notes.

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2011

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Taxable Financing Reserve Fund</u>	<u>Total</u>
Operating activities:				
Cash received from institutions	\$ 833,760	\$ 111,941,972	\$ 1,016,685	\$ 113,792,417
Cash received from other income	114,106	-	-	114,106
Cash payments for operating expenses	(707,589)	(338,845)	(17,711)	(1,064,145)
Cash received from (paid to) other funds	<u>(767,845)</u>	<u>838,694</u>	<u>(70,849)</u>	<u>-</u>
Net cash (used) provided by operating activities	(527,568)	112,441,821	928,125	112,842,378
Noncapital financing activities:				
Principal paid on bonds payable	-	(65,460,000)	(1,300,000)	(66,760,000)
Interest paid on bonds payable	<u>-</u>	<u>(52,914,953)</u>	<u>(170,542)</u>	<u>(53,085,495)</u>
Net cash used by noncapital financing activities	-	(118,374,953)	(1,470,542)	(119,845,495)
Investing activities:				
Purchase of investment securities	(10,571,523)	(368,612,803)	(4,124,583)	(383,308,909)
Proceeds from sale and maturities of investment securities	8,758,471	369,489,099	4,641,683	382,889,253
Income received from investments and advances	251,190	5,867,144	25,317	6,143,651
Interest rebate paid to U.S. Government	-	(810,308)	-	(810,308)
Net decrease in notes, advances and other receivable from institutions	<u>91,537</u>	<u>-</u>	<u>-</u>	<u>91,537</u>
Net cash (used) provided by investing activities	<u>(1,470,325)</u>	<u>5,933,132</u>	<u>542,417</u>	<u>5,005,224</u>
Decrease in cash and cash equivalents	(1,997,893)	-	-	(1,997,893)
Cash and cash equivalents, beginning of year	<u>11,190,323</u>	<u>-</u>	<u>-</u>	<u>11,190,323</u>
Cash and cash equivalents, end of year	<u>\$ 9,192,430</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,192,430</u>
Reconciliation of operating income (loss) to net cash (used) provided by operating activities:				
Operating income (loss)	\$ 452,435	\$ 545,850	\$ (7,169)	\$ 991,116
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:				
Investment and interest income	(244,830)	(5,945,815)	(24,694)	(6,215,339)
Net decrease in the fair value of investments	139,790	524,721	-	664,511
Bad debt provision	(93,000)	-	-	(93,000)
Interest expense on bonds payable	-	54,797,488	168,174	54,965,662
Change in assets and liabilities:				
Loans receivable from institutions	-	61,160,259	865,393	62,025,652
Accrued interest and other receivables from institutions	-	1,244,111	(2,079)	1,242,032
Due to/from other funds	(767,845)	838,694	(70,849)	-
Accounts payable	(14,118)	(296,424)	1,908	(308,634)
Deferred revenue	<u>-</u>	<u>(427,063)</u>	<u>(2,559)</u>	<u>(429,622)</u>
Net cash (used) provided by operating activities	<u>\$ (527,568)</u>	<u>\$ 112,441,821</u>	<u>\$ 928,125</u>	<u>\$ 112,842,378</u>

See accompanying notes.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### 1. Organization

Maine Health and Higher Educational Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Title 22, Chapter 413, Sections 2051 to 2074, inclusive and as amended by Chapter 584 of the Public Laws of 1991.

The purpose of the Authority, among others, is to assist Maine health care institutions and institutions for higher education (the institutions) in the undertaking of projects involving the acquisition, construction, improvement, reconstruction and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority, pursuant to the *Student Loan Corporations Act of 1983*, also has the power to finance student loan programs of institutions for higher education.

Debt issued by the Authority is not debt of the State of Maine or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority is exempt from federal and State of Maine income taxes.

Legislation enacted in 1991 permitted the Authority to establish a reserve fund which will benefit from a "moral obligation" reserve fund replenishment mechanism from the State of Maine. Although the legislation does not bind or obligate the State, it does permit the legislature to appropriate and pay the Authority the amount necessary to restore the reserve fund to the required amount in the event the fund goes below the statutorily established minimum balance of one year's debt service on outstanding bonds. The legislation also allows the Authority to implement a State funding intercept mechanism which permits the Authority to cause the Treasurer of the State of Maine to withhold funds in the Treasurer's custody that otherwise would be paid to a borrower that has failed or may fail to make a debt service payment and to direct the Treasurer to apply those funds as debt service to the applicable bonds or notes. The State funding intercept is applicable to all future borrowings as well as currently outstanding bond issues, whether or not secured by the "moral obligation" reserve fund replenishment mechanism.

#### Operating Fund

The Authority's operating fund records the revenues and expenses generated from its daily operations. The Authority has an arrangement with Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority.

In fiscal 2010, the Authority's Board of Directors adopted a resolution establishing a supplemental reserve fund within the Authority's reserve fund resolution. As part of this resolution, \$24,221,739 of cash and investments were transferred from the operating fund resolution to the reserve fund resolution, which at the discretion of the Authority, shall serve as additional security for one or more series of bonds. At any time that the reserve fund investments exceed the reserve fund requirement (see note 6), the Authority may transfer any amounts held under the supplemental reserve back to the Authority's operating fund. The balance in the supplemental reserve of \$24,601,869 at June 30, 2011, is presented as supplemental reserve investments on the balance sheet.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### 1. Organization (Continued)

Presently, the Authority operates pursuant to three bond resolutions as follows:

#### Reserve Fund

These funds and accounts are established under the Authority's Resolution establishing the Maine Health Facilities' Reserve Fund adopted December 6, 1991. Under this resolution, the Authority issues Bonds exempt from federal and State of Maine income taxes for the purpose of providing financing for Maine health and higher educational facilities. Bonds issued under this resolution are secured by all of the reserve funds within the resolution and benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine. Loans to institutions made with proceeds of bonds issued under this resolution are generally written for the net amount of bond proceeds less debt service reserve funds retained by the Authority.

#### Taxable Financing Reserve Fund

These funds and accounts are established under the Authority's Resolution establishing the Maine Health Facilities' Taxable Financing Reserve Fund Resolution adopted December 15, 1992. Under this resolution, the Authority issues Bonds exempt from State of Maine income taxes. Bonds issued under this resolution are secured by all of the reserve funds within the resolution and benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine. Loans to institutions made with proceeds of bonds issued under this resolution are generally written for the net amount of bond proceeds less debt service reserve funds retained by the Authority.

#### General Resolution

These funds consist of funds and accounts established under the Authority's General Bond Resolution adopted June 5, 1973. Under this resolution, the Authority issues bonds exempt from federal and State of Maine income taxes and assists in financing health care institutions and institutions for higher education. Bonds issued under this resolution may be issued under the original Bond Resolution or under an individual Bond Indenture between the Authority and an institution. Loans to institutions made with proceeds of general resolution bonds are written for the entire amount of the bonds (including debt service reserve funds). Security for these bonds is limited to debt service reserve funds of and the loans to the specific institution for which the bond was issued. Therefore, these bonds are considered conduit debt and are not reflected on the accompanying balance sheet. (See note 5).

### 2. Significant Accounting Policies

#### Proprietary Fund Accounting

The Authority's operations are, for the most part, financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the costs of providing goods and services is financed through user charges. Therefore, it meets the criteria for an enterprise fund and is accounted for under the accrual basis of accounting.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### 2. Significant Accounting Policies (Continued)

The Authority complies with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

The financial statements are prepared in accordance with GASB Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

#### Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with original maturities of three months or less to be cash equivalents. Included in cash and cash equivalents of the Authority's operating fund at June 30, 2011 is \$143,667 of insured deposits with a bank and \$4,034,162 of money market funds held by a custodian and secured by short-term U.S. Treasury obligations.

The Authority invests monies with the State of Maine. The State of Maine sponsors an internal investment pool (the Treasurer's Cash Pool). The Authority's participation is voluntary. The State of Maine Treasurer's Cash Pool is primarily comprised of investment vehicles with short maturities and management of the Authority characterizes the investments within the pool as low risk. The State of Maine's Treasurer's Cash Pool is not rated by external rating agencies. The Authority's management considers this investment vehicle a money market instrument and generally carries the amounts in the pool at cost. At June 30, 2011, the Authority had \$5,014,601 invested in the Treasurer's Cash Pool, which is included in cash and cash equivalents on the balance sheet.

#### Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase (decrease) in the fair value of investments on the statement of revenues, expenses and changes in net assets. The cost of guaranteed investment contracts approximates fair value as the Authority can withdraw funds at par during the contract periods.

#### Bond Discounts, Premiums and Issuance Costs

Costs associated with issuing debt, which are generally paid by means of fees collected from institutions (borrowers), are expensed in the year incurred. To the extent they are used to pay bond issuance costs, premiums remitted to the Authority are recorded as other income. Other premiums and discounts are passed on to the borrowers, and are, therefore, not recorded.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

2. **Significant Accounting Policies (Continued)**

*Interfund Transactions*

Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to another fund are recorded as expenses in the reimbursing fund and as reductions of expenses in the fund that is reimbursed.

All other interfund transactions are reported as operating transfers.

*Management Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

*Total Columns*

The "total" columns contain the totals of the similar accounts of the various funds. The combination of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in the separate funds.

*New Accounting Pronouncements*

In June 2010, GASB Statement No. 59 (GASB 59), *Financial Instruments Omnibus*, was issued. This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. Management has determined that GASB 59 has no effect on the Authority's financial statements.

3. **Investments Held by Trustee and Operating Investments**

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises and certain state and local governments, as well as certain investment contracts and collateralized repurchase agreements. The trustees/custodians invest available cash in accordance with Maine statutes, applicable Series Resolutions and Tax Regulatory Agreements. At June 30, 2011, investments are categorized as follows:

	<u>Fair Value</u>
<u>Operating Fund</u>	
Operating investments:	
U.S. Government-sponsored enterprises bonds and notes	\$ <u>8,796,092</u>
	\$ <u>8,796,092</u>

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**3. Investments Held by Trustee and Operating Investments (Continued)**

	<u>Fair Value</u>
<u>Reserve Fund</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises bonds and notes	\$ 3,626,523
Guaranteed investment contracts	68,948,917
Municipal bonds	46,193,246
Cash and cash equivalents	<u>38,003,946</u>
	\$ <u>156,772,632</u>
Supplemental Reserve Investments:	
U.S. Government-sponsored enterprises bonds and notes	\$ 16,656,558
Cash and cash equivalents	<u>7,945,311</u>
	\$ <u>24,601,869</u>
<u>Taxable Financing Reserve Fund</u>	
Investments held by trustee:	
Guaranteed investment contracts	\$ 191,368
Cash and cash equivalents	<u>446,498</u>
	\$ <u>637,866</u>

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, guaranteed investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Authority to terminate individual contracts at par. The Authority's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Authority's investments in guaranteed investment contracts, U.S. Government-sponsored enterprises and municipal bonds as of June 30, 2011:

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>Authority's Operating Fund</u>					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	\$ <u>8,796,092</u>	\$ <u>3,542,923</u>	\$ <u>5,253,169</u>	\$ <u>—</u>	\$ <u>—</u>

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**3. Investments Held by Trustee and Operating Investments (Continued)**

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>Reserve Fund</u>					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	\$ 20,283,081	\$ 8,534,438	\$ 8,122,120	\$ -	\$ 3,626,523
Guaranteed investment contracts	68,948,917	-	-	-	68,948,917
Municipal bonds	<u>46,193,246</u>	<u>57,642</u>	<u>1,120,137</u>	<u>8,438,247</u>	<u>36,577,220</u>
	<u>\$ 135,425,244</u>	<u>\$ 8,592,080</u>	<u>\$ 9,242,257</u>	<u>\$ 8,438,247</u>	<u>\$ 109,152,660</u>
<u>Taxable Financing Reserve Fund</u>					
Guaranteed investment contracts	\$ <u>191,368</u>	\$ <u>-</u>	\$ <u>191,368</u>	\$ <u>-</u>	\$ <u>-</u>

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are primarily held by U.S. Bank and Bangor Savings Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at either U.S. Bank or Bangor Savings Bank at June 30, 2011.

For an investment, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Authority. The Authority's investment policy limits its investments to those with high credit quality such as U.S. Treasury Obligations, U.S. Government-sponsored enterprises and municipal bonds, as rated by rating agencies such as Moody's Investor Service or Standard and Poor's, or guaranteed investment contracts backed by high credit quality banks and insurance companies (AA-rated or better).

Investments in guaranteed investment contract issuers that represent 5% or more of total guaranteed investment contracts within each respective resolution at June 30, 2011, with their credit quality ratings as issued by Standard & Poor's as of the date of this report, are as follows:

	<u>Rating</u>	
<u>Reserve Fund</u>		
Guaranteed Investment Contracts Provided By:		
FSA Capital Management Services, LLC	AA+	\$49,778,381
Transamerica Life Insurance Company	AA	11,438,906
GE Funding Capital Market Service	AA+	<u>3,447,516</u>
Total		<u>\$64,664,803</u>
<u>Taxable Financing Reserve Fund</u>		
Guaranteed Investment Contracts Provided By:		
Protective Life Insurance Company	AA-	\$ <u>191,368</u>
Total		<u>\$ 191,368</u>

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**3. Investments Held by Trustee and Operating Investments (Continued)**

During prior years, certain guaranteed investment contract providers experienced credit downgrades. As a result, the Authority exercised provisions in the various contracts and received a return of par. Upon liquidation, monies were invested in cash and cash equivalents and municipal bonds. Management of the Authority continues to search for additional investment opportunities to move remaining monies out of cash and cash equivalents into higher yielding investments.

At June 30, 2011, the ratings for investments in debt securities are summarized as follows. These ratings were as of June 30, 2011 and are not necessarily the ratings that existed at time of purchase.

<u>Issuer</u>	<u>Rating</u>	<u>Fair Value</u>
U.S. government-sponsored enterprises <sup>(1)(2)</sup>	AAA	\$29,079,173
Municipal bonds	AAA	1,829,430
Municipal bonds	AA+	9,190,990
Municipal bonds	AA	19,727,815
Municipal bonds	AA-	12,511,303
Municipal bonds	A+	<u>2,933,708</u>
		<u>\$75,272,419</u>

<sup>(1)</sup> Includes FHLMC, FHLB, FFCB, FNMA

<sup>(2)</sup> On August 5, 2011 this category was downgraded to AA+ by Standard and Poor's

Trustee held cash and cash equivalents at June 30, 2011 consist primarily of short-term money market funds invested exclusively in U.S. Treasury obligations.

**4. Bonds Payable**

Total Reserve Fund bonds payable, with original interest rates, consist of the following at June 30, 2011:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2011</u>
<b>Reserve Fund:</b>			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	\$ 44,850,000	\$ 935,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	6,990,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	325,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	110,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	1,115,000
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	8,310,000	6,335,000

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**4. Bonds Payable (Continued)**

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2011</u>
<b>Reserve Fund (continued):</b>			
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	\$ 52,640,000	\$ 675,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	9,710,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	10,735,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	17,035,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	26,200,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	2,270,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	1,430,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	30,280,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	7,120,000
Series 2001D, 3.0% – 5.0%, dated November 1, 2001	2002 – 2031	50,700,000	30,655,000
Series 2002A, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	39,020,000
Series 2002B, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	8,175,000	7,300,000
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	63,080,000	53,675,000
Series 2003B, 2.0% – 5.0%, dated July 1, 2003	2004 – 2033	59,245,000	17,580,000
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	7,050,000	5,650,000
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	35,880,000	23,350,000
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	72,315,000	51,990,000
Series 2004B, 3.00% – 5.00%, dated December 9, 2004	2006 – 2034	42,265,000	36,245,000
Series 2005A, 3.0% – 5.0%, dated August 17, 2005	2006 – 2035	48,325,000	17,555,000
Series 2005B, 3.5% – 5.0%, dated December 29, 2005	2006 – 2030	28,325,000	22,720,000
Series 2006A, 3.5% – 5.0%, dated February 2, 2006	2006 – 2035	51,855,000	41,510,000
Series 2006B, 3.5% – 5.0%, dated April 6, 2006	2007 – 2036	56,795,000	45,260,000

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**4. Bonds Payable (Continued)**

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2011</u>
<b>Reserve Fund (continued):</b>			
Series 2006F, 4.0% – 5.0%, dated September 7, 2006	2007 – 2036	\$ 89,125,000	\$ 83,945,000
Series 2006G, variable rate, dated September 7, 2006	2008 – 2036	14,200,000	13,675,000
Series 2006H, variable rate, dated December 20, 2006	2012 – 2036	68,400,000	68,400,000
Series 2007A, 4.0% – 5.0%, dated July 18, 2007	2008 – 2030	96,495,000	86,075,000
Series 2007B, 4.0% – 5.0%, dated November 1, 2007	2008 – 2037	70,470,000	67,170,000
Series 2008A, variable rate, dated May 22, 2008	2008 – 2036	107,180,000	101,900,000
Series 2008B, variable rate, dated June 19, 2008	2008 – 2014	25,985,000	17,950,000
Series 2008C, 3.0% – 5.0%, dated June 19, 2008	2009 – 2038	49,540,000	47,075,000
Series 2008D, 3.0% – 5.75%, dated December 3, 2008	2009 – 2038	41,735,000	39,870,000
Series 2009A, 2.0% – 5.125%, dated December 10, 2009	2010 – 2039	92,780,000	92,445,000
Series 2010A, 2.5% – 5.25% dated April 22, 2010	2011 – 2040	97,240,000	97,240,000
Series 2010B, 2.5% – 5.25% dated June 24, 2010	2011 – 2031	96,755,000	96,755,000
Series 2010C, 2.5% – 4.0% dated June 24, 2010	2011 – 2023	<u>11,275,000</u>	<u>11,275,000</u>
		<u>\$ 2,126,080,000</u>	1,337,550,000
Current portion			<u>51,935,000</u>
Noncurrent portion			<u>\$1,285,615,000</u>

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**4. Bonds Payable (Continued)**

The outstanding Reserve Fund bonds payable will mature in each of the following years with interest payable semiannually:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 51,935,000	\$ 53,091,436	\$ 105,026,436
2013	56,415,000	51,327,989	107,742,989
2014	56,910,000	49,433,641	106,343,641
2015	59,285,000	47,416,327	106,701,327
2016	55,010,000	45,260,684	100,270,684
2017 – 2021	285,840,000	191,918,579	477,758,579
2022 – 2026	280,300,000	130,337,453	410,637,453
2027 – 2031	244,410,000	74,935,895	319,345,895
2032 – 2036	172,985,000	31,667,975	204,652,975
2037 – 2041	<u>74,460,000</u>	<u>5,797,983</u>	<u>80,257,983</u>
Total	<u>\$1,337,550,000</u>	<u>\$681,187,962</u>	<u>\$2,018,737,962</u>

Taxable Financing Reserve fund bonds payable consist of the following at June 30, 2011:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Outstanding June 30, 2011</u>
<b>Taxable Financing Reserve Fund:</b>			
Series 1993B, variable interest rate, dated October 27, 1993	1994 – 2013	\$25,060,000	\$ 480,000
Series 1996A, variable interest rate, dated February 22, 1996	1996 – 2016	<u>16,440,000</u>	<u>1,500,000</u>
		<u>\$41,500,000</u>	1,980,000
Current portion			<u>365,000</u>
Noncurrent portion			<u>\$1,615,000</u>

The outstanding Taxable Financing Reserve Fund bonds payable will mature in each of the following years with interest payable semiannually:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 365,000	\$126,405	\$ 491,405
2013	390,000	99,850	489,850
2014	400,000	72,066	472,066
2015	255,000	49,034	304,034
2016	275,000	30,405	305,405
2017	<u>295,000</u>	<u>10,369</u>	<u>305,369</u>
	<u>\$1,980,000</u>	<u>\$388,129</u>	<u>\$2,368,129</u>

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**4. Bonds Payable (Continued)**

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2011:

	<u>Reserve Fund</u>	<u>Taxable Financing Reserve Fund</u>
Balance, beginning of year	\$1,403,010,000	\$3,280,000
Redemptions:		
Principal payments	<u>65,460,000</u>	<u>1,300,000</u>
Balance, end of year	<u>\$1,337,550,000</u>	<u>\$1,980,000</u>

Certain outstanding bonds within the Reserve Fund and Taxable Financing Reserve Fund carry variable interest rates. Within the Reserve Fund, variable interest rates are reset to market every 7 days; interest rates range from .08% to .14% at June 30, 2011. Within the Taxable Financing Reserve Funds, variable interest rates are set at LIBOR + .40% for Series 1996A bonds and LIBOR + .80% for Series 1993B bonds, which approximates .59% and .99%, respectively, at June 30, 2011.

Certain outstanding bonds contain provisions for prepayment at the Authority's option.

**5. Conduit Debt**

Conduit debt of the Authority consists of bonds outstanding within the general resolution. The following is a summary of outstanding conduit debt, with original interest rates, at June 30, 2011:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2011</u>
<b>General Resolution:</b>			
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	\$ 11,885,000	\$ 680,000
Mt. Desert Island Hospital, Series 1992, variable interest rate equal to 80% of the prime rate of Bank of America, dated July 15, 1992	1993 – 2012	1,300,000	200,000
Mid Coast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2006 – 2043	8,830,000	8,265,000
Bowdoin College, Series 2008, variable rate, dated March 24, 2008	2032 – 2037	20,700,000	20,700,000
Bowdoin College, Series 2009A, 5% – 5.125%, dated May 14, 2009	2035 – 2039	98,750,000	98,750,000
Bowdoin College, Series 2009B, 6.667%, dated May 14, 2009	2035 – 2039	<u>19,750,000</u>	<u>19,750,000</u>
		<u>\$ 161,215,000</u>	<u>\$ 148,345,000</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

5. **Conduit Debt (Continued)**

The following is a summary of conduit debt activity for the year ended June 30, 2011:

Bonds outstanding as of June 30, 2010	\$ 148,720,000
Less: Redemptions during fiscal 2011	<u>375,000</u>
Bonds outstanding as of June 30, 2011	<u>\$ 148,345,000</u>

At June 30, 2011, there were approximately \$13,315,000 of defeased bonds remaining outstanding with respect to advance refunded conduit debt of bond issues of the general resolution.

6. **Reserve Funds**

Each of the following resolutions require the Authority to set up reserve funds (maintain assets) as follows:

*Reserve Fund*

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2011, the required debt service reserve was approximately \$108,679,000 and the fair value of the debt service reserve assets totaled approximately \$123,000,000.

In addition, the Authority maintains a supplemental reserve as described in note 1. The fair value of these assets at June 30, 2011 is approximately \$24,602,000.

*Taxable Financing Reserve Fund*

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2011, the required debt service reserve was approximately \$504,000 and the fair value of the debt service reserve assets totaled approximately \$509,000.

7. **Operating Expenses**

The Authority has an arrangement with the Bond Bank which allocates a portion of Bond Bank payroll and general overhead expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead. The arrangement is approved annually by the Board through the budgetary approval process. The Authority recognized approximately \$483,000 of expense under this agreement in 2011.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### 8. Refunded Issues

In periods of declining interest rates, the Authority has refunded certain bond obligations. The proceeds of any advance refunding bonds are primarily used to purchase U.S. Treasury obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the defeased bonds. Neither the U.S. Treasury obligations nor the defeased bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations are placed in irrevocable trust accounts with the trustees of the defeased bonds. The gains, losses and economic benefits of these transactions inure to the respective Institution and not the Authority, although the Authority may receive an administrative fee.

At June 30, 2011, there were approximately \$123,395,000 of in-substance defeased bonds remaining outstanding with respect to all advance-refunding issues within the reserve fund resolution.

### 9. Nursing Home Loans and Advances

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

The Authority has advanced approximately \$116,000 from its operating fund to an institution with outstanding loans owed to the Authority of approximately \$289,000 within the taxable financing reserve fund resolution, and has loaned from its operating fund approximately \$238,000 to an institution with outstanding loans owed to the Authority of approximately \$8,497,000 within the reserve fund resolution at June 30, 2011. These advances and loans, upon which interest income is recognized only to the extent that cash payments are received, were primarily made to assist these institutions in meeting debt service requirements in years prior to fiscal 2011. The Authority also has approximately \$389,000 of other receivables outstanding within the operating fund at June 30, 2011, primarily related to amounts due from institutions to reimburse the Authority for arbitrage and other payments made on their behalf.

At June 30, 2011, the Authority has established a reserve of \$524,900 in the operating fund related to the above loans, advances and other receivables outstanding.

### 10. Subsequent Events

On August 11, 2011, the Authority issued \$280,750,000 of bonds for Maine General Health under the general bond resolution with an average rate of 6.8% and a final maturity date of July 1, 2041. The borrower also contributed \$104,000,000 of equity for the project. The debt of the general resolution is considered conduit debt and the State of Maine is under no obligation for repayment.

On August 31, 2011, the Authority issued \$39,975,000 in 2011 A and B reserve resolution fund bonds with an average interest rate of 4.6%, all of which was used to in-substance defease \$42,040,000 of certain maturities within the 1998B, 1998C, 1999A and 2001D bond series. The net proceeds of approximately \$42,430,000, including other sources of funds and after payment of underwriting fees, insurance and other issuance costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on defeased bonds. The economic benefits associated with the refunding inure to the respective institutions.

**SUPPLEMENTAL SCHEDULE**

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue and Changes in net assets</u>	
		<u>Charges for Services</u>	<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants/Contributions</u>	<u>Total</u>
<b>Functions/Programs:</b>						
Maine Health and Higher Educational Facilities Authority	\$55,628,173	\$50,972,345	\$5,445,788	\$ —	\$ —	\$ 789,960
Total	\$55,628,173	\$50,972,345	\$5,445,788	\$ —	\$ —	789,960
General revenues:						
Unrestricted interest and investment earnings						87,050
Miscellaneous income						<u>114,106</u>
Total general revenues						<u>201,156</u>
Changes in net assets						991,116
Net assets, beginning of year						<u>48,254,705</u>
Net assets, end of year						<u>\$49,245,821</u>