

# MAINE STATE LEGISLATURE

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Michael R. Goodwin, *Executive Director*  
Tel 207-622-1958  
Fax 207-623-5359

TO: INTERESTED PARTIES  
FROM: Michael R. Goodwin, Executive Director  
RE: **2014 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 2014 fiscal year, running from July 1, 2013 to June 30, 2014. As of June 30, 2014, the Authority has \$842,366,842 outstanding under its general tax exempt conduit resolution, \$972,285,000 outstanding under its tax exempt reserve fund resolution, and \$825,000 outstanding under its taxable reserve fund resolution.

During fiscal year 2014 the Authority issued \$211,933,000 under its general tax exempt conduit resolution. These sales were accomplished in 5 series for 2 colleges, 2 hospitals, and 1 Nursing Home.

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 read 'Michael R. Goodwin'.

**Maine Health and Higher  
Educational Facilities Authority**

Basic Financial Statements and  
Management's Discussion and Analysis

*Year Ended June 30, 2014  
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, 2014

TABLE OF CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	13

**INDEPENDENT AUDITORS' REPORT**

To the Members of  
Maine Health and Higher Educational Facilities Authority

We have audited the accompanying financial statements, consisting of the Operating Fund, Reserve Fund and Taxable Financing Reserve Fund of Maine Health and Higher Educational Facilities Authority (the Authority), which comprise the statements of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents. The Authority is a component unit of the State of Maine.

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

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

***Auditors' Responsibility***

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Members of  
Maine Health and Higher Educational Facilities Authority

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as well as the individual fund groups referred to above, as of June 30, 2014, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Limited Liability Company

Portland, Maine  
October 14, 2014

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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, 2014. 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 was \$503,564 for fiscal year 2014, an increase of \$167,355 or 49.8% compared to fiscal year 2013. This increase in operating income was partially due to an increase in funds transferred from obsolete rebate accounts in the Reserve Fund. Additionally, there was a decrease in operating expenses and increase in bad debt recovery.
- The Authority's loans receivable from institutions at June 30, 2014 of \$874,517,112 represents a net decrease of \$204,914,286 or 19% from the balance at June 30, 2013. This decrease is the result of repayment of loans by institutions during fiscal year 2014 and refundings described below.
- The Authority's gross bonds outstanding at June 30, 2014 of \$973,110,000 represents a net decrease of \$222,110,000 or 18.6% from the balance at June 30, 2013. This decrease is primarily due to the refunding of \$80,245,000 of reserve fund bonds by various general resolution refundings and the scheduled repayments of loans from institutions. 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 tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority contracts with an arbitrage consultant to maintain and prepare all rebate calculations that will be filed with the Internal Revenue Service.

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.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2014

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

The statement of revenues and expenses and changes in net position presents information showing how the Authority's net position changed during the fiscal year. Substantially all changes in net position 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 position may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$55,855,795 at June 30, 2014. This represents an increase of \$3,055,331 or 5.8% over the previous fiscal year, which is the Authority's 2014 operating income.

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2014

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

**Statements of Net Position**

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 8,845,717	\$ 7,986,776	10.8%
Investments held by trustee, at fair value	30,647,510	30,562,515	0.3
Operating investments, at fair value	11,368,220	11,625,245	(2.2)
Accrued investment income	795,704	916,804	(13.2)
Loans receivable from institutions	47,286,276	52,623,581	(10.1)
Interest and other receivables from institutions	34,463	401,445	(91.4)
Fees and other amounts due from other funds	1,224,602	1,268,757	(3.5)
Notes, advances and other receivables from institutions, net of allowance	<u>177,090</u>	<u>203,061</u>	<u>(12.8)</u>
Total current assets	100,379,582	105,588,184	(4.9)
<b>Noncurrent assets:</b>			
Investments held by trustee, at fair value	101,445,577	117,707,581	(13.8)
Supplemental reserve investments, at fair value	24,940,801	24,811,022	0.5
Loans receivable from institutions	<u>827,230,836</u>	<u>1,026,807,817</u>	<u>(19.4)</u>
Total noncurrent assets	<u>953,617,214</u>	<u>1,169,326,420</u>	<u>(18.4)</u>
Total assets	<u>1,053,996,796</u>	<u>1,274,914,604</u>	<u>(17.3)</u>
<b>Current liabilities:</b>			
Bonds payable	51,505,000	52,945,000	(2.7)
Interest payable	20,392,453	22,582,502	(9.7)
Fees and other amounts due to operating fund	1,224,602	1,268,757	(3.5)
Accounts payable	174,054	31,299	456.1
Rebate payable to Internal Revenue Service	-	40,772	(100.0)
Prepayments from institutions	<u>2,804,702</u>	<u>2,668,715</u>	<u>5.1</u>
Total current liabilities	76,100,811	79,537,045	(4.3)
<b>Noncurrent liabilities:</b>			
Bonds payable	921,605,000	1,142,275,000	(19.3)
Rebate payable to Internal Revenue Service	<u>435,190</u>	<u>302,095</u>	<u>44.1</u>
Total noncurrent liabilities	<u>922,040,190</u>	<u>1,142,577,095</u>	<u>(19.3)</u>
Total liabilities	<u>998,141,001</u>	<u>1,222,114,140</u>	<u>(18.3)</u>
<b>Net position:</b>			
Unrestricted net position	\$ <u>55,855,795</u>	\$ <u>52,800,464</u>	<u>5.8%</u>

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2014

**Statements of Revenues, Expenses and Changes in Net Position**

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
<b>Operating revenues:</b>			
Interest and other amounts from institutions	\$40,629,240	\$43,948,962	(7.6)%
Administrative and other fees	872,593	916,946	(4.8)
Income from investments	4,943,352	5,803,197	(14.8)
Net increase (decrease) in the fair value of investments	1,474,697	(3,066,470)	148.1
Interest income from advances and notes receivable from institutions	476	5,849	(91.9)
Other income	<u>176,901</u>	<u>884,979</u>	<u>(80.0)</u>
 Total operating revenues	 48,097,259	 48,493,463	 (0.8)
<b>Operating expenses:</b>			
Bond issuance costs	-	769,439	(100.0)
Interest expense	44,149,356	48,427,295	(8.8)
Operating expenses	789,580	858,981	(8.1)
Bad debt recovery	(156,000)	(104,000)	50.0
Other expenses	<u>258,992</u>	<u>110,470</u>	<u>134.4</u>
 Total operating expenses	 <u>45,041,928</u>	 <u>50,062,185</u>	 <u>(10.0)</u>
 Operating income (loss)	 3,055,331	 (1,568,722)	 294.8
 Net position, beginning of year	 <u>52,800,464</u>	 <u>54,369,186</u>	 <u>(2.9)</u>
 Net position, end of year	 <u>\$55,855,795</u>	 <u>\$52,800,464</u>	 <u>5.8%</u>

Cash and cash equivalents at June 30, 2014 increased \$858,941 or 10.8% from the balance at June 30, 2013. This increase was primarily the net result of a decrease in operating investments of \$257,025 and income in the Operating Fund of \$503,564.

Accrued investment income at June 30, 2014 decreased \$121,100 or 13.2% from fiscal year 2013 due to a decrease of reserve fund investment balances and related reserve fund earnings as a result of refundings and payoffs of loans.

Interest and other receivables from institutions at June 30, 2014 decreased \$366,982 or 91.4% from fiscal year 2013 due to the timing of funds received for debt service payments.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2014

Rebate payable to the Internal Revenue Service at June 30, 2014 increased \$92,323 or 26.9% from June 30, 2013. This increase is the result of the net difference between additional accrued liability, which is caused when investment interest rates increase, for fiscal year 2014 and rebate payments to the Internal Revenue Service during fiscal year 2014.

Interest and other amounts received from institutions at June 30, 2014 decreased \$3,319,722 or 7.6% from fiscal year 2014 primarily as a result of refundings and defeasance of \$221,870,000 of bond principal. Interest expense has also decreased from fiscal year 2013 by \$4,277,939 or 8.8% for the same reason.

The net change in the fair value of investments in 2014 was an increase of \$4,541,167 or 148.1% over June 30, 2013. The increases experienced during fiscal 2014 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 operations and changes in unrestricted net position. The maturities of investments in the debt service reserve funds are scheduled to match debt service payments and are normally held to maturity.

Interest income from advances and notes receivable decreased \$5,373 or 91.9% from fiscal year 2013 due to the continuing payoff of the loans to nursing homes.

Other revenue for fiscal year 2014 decreased \$708,078 or 80.0% from fiscal year 2013. This decrease is due to bond issuance costs, which are reimbursed from the bond issuance accounts and are considered revenue to the operating fund, decreasing from fiscal year 2013. The bond issuance expense decreased by 100.0% as there were no new bonds issued for moral obligation debt within the reserve fund resolution in 2014.

Operating expenses in the Operating Fund decreased \$121,401 or 16.1% from fiscal year 2013 due to a decrease in payments for arbitrage/rebate services and an increase in bad debt recovery.

Other expenses for fiscal year 2014 increased \$148,522 or 134.4% from fiscal year 2013. This increase is a result of reserve fund resolution debt being refunded with general reserve issues and the resulting movement of residual funds to general resolution conduit debt funds.

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**

STATEMENTS OF NET POSITION

June 30, 2014

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Taxable Financing Reserve Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Current assets:				
Cash and cash equivalents (note 2)	\$ 8,845,717	\$ —	\$ —	\$ 8,845,717
Investments held by trustee, at fair value (note 3)	—	30,597,908	49,602	30,647,510
Operating investments, at fair value (note 3)	11,368,220	—	—	11,368,220
Accrued investment income	16,689	774,955	4,060	795,704
Loans receivable from institutions	—	47,031,276	255,000	47,286,276
Interest and other receivables from institutions	—	—	34,463	34,463
Fees and other amounts due from other funds	1,224,602	—	—	1,224,602
Notes, advances and other receivables from institutions, net of allowance of \$115,800 (note 9)	<u>177,090</u>	<u>—</u>	<u>—</u>	<u>177,090</u>
Total current assets	21,632,318	78,404,139	343,125	100,379,582
Noncurrent assets:				
Investments held by trustee, at fair value (notes 3 and 6)	—	101,133,362	312,215	101,445,577
Supplemental reserve investments, at fair value (notes 1 and 3)	—	24,940,801	—	24,940,801
Loans receivable from institutions	<u>—</u>	<u>826,977,984</u>	<u>252,852</u>	<u>827,230,836</u>
Total noncurrent assets	<u>—</u>	<u>953,052,147</u>	<u>565,067</u>	<u>953,617,214</u>
Total assets	<u>21,632,318</u>	<u>1,031,456,286</u>	<u>908,192</u>	<u>1,053,996,796</u>

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2014

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Taxable Financing Reserve Fund</u>	<u>Total</u>
<b><u>LIABILITIES</u></b>				
Current liabilities:				
Bonds payable (note 4)	\$ —	\$ 51,250,000	\$ 255,000	\$ 51,505,000
Interest payable	—	20,390,129	2,324	20,392,453
Fees and other amounts due to operating fund	—	1,157,456	67,146	1,224,602
Accounts payable	60,100	113,695	259	174,054
Prepayments from institutions	<u>—</u>	<u>2,804,702</u>	<u>—</u>	<u>2,804,702</u>
Total current liabilities	60,100	75,715,982	324,729	76,100,811
Noncurrent liabilities:				
Bonds payable (notes 4 and 8)	—	921,035,000	570,000	921,605,000
Rebate payable to Internal Revenue Service	<u>—</u>	<u>435,190</u>	<u>—</u>	<u>435,190</u>
Total noncurrent liabilities	<u>—</u>	<u>921,470,190</u>	<u>570,000</u>	<u>922,040,190</u>
Total liabilities	<u>60,100</u>	<u>997,186,172</u>	<u>894,729</u>	<u>998,141,001</u>
<b><u>NET POSITION</u></b>				
Unrestricted net position	<u>\$21,572,218</u>	<u>\$ 34,270,114</u>	<u>\$ 13,463</u>	<u>\$ 55,855,795</u>

See accompanying notes.

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30, 2014

	<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	\$ -	\$40,571,332	\$57,908	\$40,629,240
Administrative and other fees	872,593	-	-	872,593
Income from investments	181,853	4,749,024	12,475	4,943,352
Net (decrease) increase in the fair value of investments	(110,795)	1,589,683	(4,191)	1,474,697
Interest income from advances and notes receivable from institutions	476	-	-	476
Other income	<u>127,017</u>	<u>49,884</u>	<u>-</u>	<u>176,901</u>
Total operating revenues	1,071,144	46,959,923	66,192	48,097,259
Operating expenses:				
Interest expense	-	44,091,358	57,998	44,149,356
Operating expenses (note 7)	789,580	-	-	789,580
Bad debt recovery	(156,000)	-	-	(156,000)
Other expenses	<u>-</u>	<u>258,992</u>	<u>-</u>	<u>258,992</u>
Total operating expenses	<u>633,580</u>	<u>44,350,350</u>	<u>57,998</u>	<u>45,041,928</u>
Operating income before operating transfers	437,564	2,609,573	8,194	3,055,331
Operating transfers	<u>66,000</u>	<u>(66,000)</u>	<u>-</u>	<u>-</u>
Operating income	503,564	2,543,573	8,194	3,055,331
Net position, beginning of year	<u>21,068,654</u>	<u>31,726,541</u>	<u>5,269</u>	<u>52,800,464</u>
Net position, end of year	<u>\$21,572,218</u>	<u>\$34,270,114</u>	<u>\$13,463</u>	<u>\$55,855,795</u>

See accompanying notes.

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

**STATEMENTS OF CASH FLOWS**

For the Year Ended June 30, 2014

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Taxable Financing Reserve Fund</u>	<u>Total</u>
Operating activities:				
Cash received from institutions	\$ 872,593	\$ 245,798,471	\$ 297,908	\$ 246,968,972
Cash received from other income	127,017	-	-	127,017
Cash payments for operating and other expenses	(756,521)	(145,297)	(3,999)	(905,817)
Cash received from (paid to) other funds	<u>110,155</u>	<u>(82,034)</u>	<u>(28,121)</u>	<u>-</u>
Net cash provided by operating activities	353,244	245,571,140	265,788	246,190,172
Noncapital financing activities:				
Principal paid on bonds payable	-	(221,870,000)	(240,000)	(222,110,000)
Interest paid on bonds payable	<u>-</u>	<u>(46,280,508)</u>	<u>(58,897)</u>	<u>(46,339,405)</u>
Net cash used by noncapital financing activities	-	(268,150,508)	(298,897)	(268,449,405)
Investing activities:				
Purchase of investment securities	(5,353,770)	(377,188,322)	(761,185)	(383,303,277)
Proceeds from sale and maturities of investment securities	5,500,000	394,800,340	781,889	401,082,229
Income received from investments and advances	177,496	5,547,783	12,405	5,737,684
Interest rebate paid to Internal Revenue Service	-	(580,433)	-	(580,433)
Net decrease in notes, advances and other receivables from institutions	<u>181,971</u>	<u>-</u>	<u>-</u>	<u>181,971</u>
Net cash provided by investing activities	<u>505,697</u>	<u>22,579,368</u>	<u>33,109</u>	<u>23,118,174</u>
Increase in cash and cash equivalents	858,941	-	-	858,941
Cash and cash equivalents, beginning of year	<u>7,986,776</u>	<u>-</u>	<u>-</u>	<u>7,986,776</u>
Cash and cash equivalents, end of year	<u>\$ 8,845,717</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,845,717</u>

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2014

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Taxable Financing Reserve Fund</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 503,564	\$ 2,543,573	\$ 8,194	\$ 3,055,331
Adjustments to reconcile operating income to net cash provided by operating activities:				
Investment and interest income	(182,329)	(4,749,024)	(12,475)	(4,943,828)
Net decrease (increase) in the fair value of investments	110,795	(1,589,683)	4,191	(1,474,697)
Bad debt recovery	(156,000)	-	-	(156,000)
Interest expense on bonds payable	-	44,091,358	57,998	44,149,356
Change in assets and liabilities:				
Loans receivable from institutions	-	204,674,286	240,000	204,914,286
Accrued interest and other receivables from institutions	-	366,982	-	366,982
Due to/from other funds	44,155	(16,034)	(28,121)	-
Accounts payable	33,059	113,695	(3,999)	142,755
Prepayments from institutions	-	135,987	-	135,987
Net cash provided by operating activities	<u>\$ 353,244</u>	<u>\$ 245,571,140</u>	<u>\$ 265,788</u>	<u>\$ 246,190,172</u>

See accompanying notes.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

### 1. Organization

Maine Health and Higher Educational Facilities Authority (the Authority) is constituted as an instrumentality and is 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 \$24,940,801 at June 30, 2014, is presented as supplemental reserve investments on the statement of net position.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

### 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 statement of net position. (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, 2014

### 2. Significant Accounting Policies (Continued)

As discussed below, the Authority complies with Governmental Accounting Standards Board (GASB) statements codified under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidelines Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62).

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).

#### Accounting Method

As stated above, the Authority uses the accrual basis of accounting and, accordingly, recognizes revenues as earned and expenses as incurred.

#### Federal Income Taxes

It is the opinion of management that the Authority is exempt from federal income taxes under Internal Revenue Code (IRC) Section 115, and that the Authority has maintained its tax-exempt status and has no uncertain tax positions that require adjustment or disclosure in these financial statements. However, because the Authority issues tax-exempt bonds, it is subject to the arbitrage rebate requirements of Section 148 of the IRC. Section 148 requires that any arbitrage profit earned on the proceeds of tax-exempt bonds issued after 1985 must be rebated to the federal government at least once every five years, with the balance rebated no later than 60 days after the retirement of the bonds.

Arbitrage rebate expense, which is presented as a reduction in the amount of interest income from investments, for the year ended June 30, 2014 was approximately \$673,000.

#### 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, 2014 is \$250,000 of insured and \$879,661 noninsured deposits with a bank and \$2,653,264 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, 2014, the Authority had \$5,062,792 invested in the Treasurer’s Cash Pool, which is included in cash and cash equivalents on the statement of net position.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

### 2. Significant Accounting Policies (Continued)

#### Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statement of revenues, expenses and changes in net position. The cost of guaranteed investment contracts approximates fair value as the Authority can withdraw funds at par during the contract periods. Reserve fund investments that are not expected to be utilized to fund principal and interest payments until after June 30, 2014 have been classified as long-term.

#### 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, therefore, are not recorded.

#### 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.

#### Implementation of New Accounting Standards

The Authority adopted the following new accounting standards in 2014:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It requires that bond issuance costs be immediately expensed in the period incurred, and for the reclassification of amounts previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources or to expenses or revenues. There was no impact on the Authority's financial statements as a result of the adoption of GASB 65.

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was amended by Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements establish standards for reporting a pension asset or liability on the statement of net position for a defined benefit plan that is based on the fiduciary plan net position, rather than plan funding. The provisions of these statements are effective for periods beginning after June 15, 2014. Management is currently evaluating the impact these statements will have 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, 2014, investments are categorized as follows:

	<u>Fair Value</u>
<u>Operating Fund</u>	
Operating investments:	
U.S. Government-sponsored enterprises bonds and notes	\$ <u>11,368,220</u>
	\$ <u>11,368,220</u>
 <u>Reserve Fund</u>	
Investments held by trustee:	
Guaranteed investment contracts	\$ 38,403,836
Municipal bonds	59,562,568
Cash and cash equivalents	<u>33,764,866</u>
	\$ <u>131,731,270</u>
 Supplemental Reserve Investments:	
U.S. Government-sponsored enterprises bonds and notes	\$ 24,931,129
Cash and cash equivalents	<u>9,672</u>
	\$ <u>24,940,801</u>
 <u>Taxable Financing Reserve Fund</u>	
Investments held by trustee:	
Municipal bonds	\$ 299,989
Cash and cash equivalents	<u>61,828</u>
	\$ <u>361,817</u>

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

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, 2014:

	<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>11,368,220</u>	\$ <u>6,010,730</u>	\$ <u>5,357,490</u>	\$ <u>—</u>	\$ <u>—</u>
<u>Reserve Fund</u>					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	\$ 24,931,129	\$ 8,052,250	\$ 16,878,879	\$ —	\$ —
Guaranteed investment contracts	38,403,836	—	—	665,769	37,738,067
Municipal bonds	<u>59,562,568</u>	<u>1,118,414</u>	<u>2,700,717</u>	<u>11,537,771</u>	<u>44,205,666</u>
	\$ <u>122,897,533</u>	\$ <u>9,170,664</u>	\$ <u>19,579,596</u>	\$ <u>12,203,540</u>	\$ <u>81,943,733</u>
<u>Taxable Financing Reserve Fund</u>					
Municipal bonds	\$ <u>299,989</u>	\$ <u>5,118</u>	\$ <u>294,871</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, 2014.

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).

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

Investments in guaranteed investment contract issuers that represent 5% or more of total guaranteed investment contracts within each respective resolution at June 30, 2014, with their credit quality ratings as issued by Standard & Poor's as of the date of this report, are as follows:

<u>Reserve Fund</u>	<u>Rating</u>	
Guaranteed Investment Contracts Provided By:		
FSA Capital Management Services, LLC	AA	\$29,452,530
Transamerica Life Insurance Company	AA-	<u>8,840,406</u>
 Total		 <u>\$38,292,936</u>

During prior years, certain guaranteed investment contract providers experienced credit downgrades. As a result, the Authority exercised provisions in the various contracts and redeemed the contracts at par. Upon liquidation, monies were invested in cash and cash equivalents or 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, 2014, the ratings for investments in debt securities are summarized as follows. These ratings were as of June 30, 2014 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)</sup>	AA+	\$36,299,349
Municipal bonds	AAA	4,972,172
Municipal bonds	AA+	13,930,782
Municipal bonds	AA	22,327,749
Municipal bonds	AA-	14,345,721
Municipal bonds	A+	3,739,939
Municipal bonds	A	<u>546,194</u>
		 <u>\$96,161,906</u>

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

Trustee and custodian held cash and cash equivalents at June 30, 2014 consist primarily of short-term money market funds invested exclusively in U.S. Treasury obligations.

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**4. Bonds Payable**

Total Reserve Fund bonds payable, with original interest rates, consist of the following at June 30, 2014:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2014</u>
<b>Reserve Fund:</b>			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	\$ 44,850,000	\$ 755,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	5,815,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	450,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	6,980,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	340,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	9,505,000
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	63,080,000	3,585,000
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	7,050,000	120,000
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	35,880,000	2,965,000
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	72,315,000	40,345,000
Series 2004B, 3.00% – 5.00%, dated December 9, 2004	2006 – 2034	42,265,000	27,905,000
Series 2005B, 3.5% – 5.0%, dated December 29, 2005	2006 – 2030	28,325,000	18,510,000
Series 2006A, 3.5% – 5.0%, dated February 2, 2006	2006 – 2035	51,855,000	34,185,000
Series 2006B, 3.5% – 5.0%, dated April 6, 2006	2007 – 2036	56,795,000	39,195,000
Series 2006F, 4.0% – 5.0%, dated September 7, 2006	2007 – 2036	89,125,000	74,415,000
Series 2007A, 4.0% – 5.0%, dated July 18, 2007	2008 – 2030	96,495,000	69,065,000
Series 2007B, 4.0% – 5.0%, dated November 1, 2007	2008 – 2037	70,470,000	51,235,000
Series 2008A, variable rate, dated May 22, 2008	2008 – 2036	107,180,000	93,370,000
Series 2008B, variable rate, dated June 19, 2008	2008 – 2014	25,985,000	4,725,000

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**4. Bonds Payable (Continued)**

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2014</u>
<b>Reserve Fund (continued):</b>			
Series 2008C, 3.0% – 5.0%, dated June 19, 2008	2009 – 2038	\$ 49,540,000	\$ 32,760,000
Series 2008D, 3.0% – 5.75%, dated December 3, 2008	2009 – 2038	41,735,000	34,755,000
Series 2009A, 2.0% – 5.125%, dated December 10, 2009	2010 – 2039	92,780,000	89,450,000
Series 2010A, 2.5% – 5.25% dated April 22, 2010	2011 – 2040	97,240,000	87,485,000
Series 2010B, 2.5% – 5.25% dated June 24, 2010	2011 – 2031	96,755,000	71,810,000
Series 2011A, 2.0% – 5.0% dated August 31, 2011	2012 – 2031	36,535,000	33,025,000
Series 2011B, 1.25% – 2.3% dated August 31, 2011	2012 – 2015	3,440,000	1,730,000
Series 2011C, 2.0% – 5.0% dated November 30, 2011	2012 – 2031	38,935,000	35,325,000
Series 2012A, 2.0% – 5.0% dated June 28, 2012	2013 – 2032	40,725,000	38,450,000
Series 2013A, 2.0% – 5.0% dated May 23, 2013	2014 – 2033	<u>64,030,000</u>	<u>64,030,000</u>
		<u>\$ 1,619,960,000</u>	972,285,000
Current portion			<u>51,250,000</u>
Noncurrent portion			<u>\$ 921,035,000</u>

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>
2015	\$ 51,250,000	\$ 40,599,993	\$ 91,849,993
2016	46,240,000	38,852,459	85,092,459
2017	46,540,000	37,050,949	83,590,949
2018	46,765,000	35,147,500	81,912,500
2019	47,855,000	33,217,977	81,072,977
2020 – 2024	242,925,000	134,934,719	377,859,719
2025 – 2029	216,200,000	83,992,137	300,192,137
2030 – 2034	161,210,000	40,619,018	201,829,018
2035 – 2039	100,655,000	13,141,434	113,796,434
2040 – 2041	<u>12,645,000</u>	<u>489,875</u>	<u>13,134,875</u>
Total	<u>\$ 972,285,000</u>	<u>\$ 458,046,061</u>	<u>\$ 1,430,331,061</u>

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**4. Bonds Payable (Continued)**

Taxable Financing Reserve fund bonds payable consist of the following at June 30, 2014:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Outstanding June 30, 2014</u>
<b>Taxable Financing Reserve Fund:</b>			
Series 1996A, variable interest rate, dated February 22, 1996	1996 – 2016	\$16,440,000	\$ 825,000
		<u>\$16,440,000</u>	825,000
Current portion			<u>255,000</u>
Noncurrent portion			\$ <u>570,000</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>
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>\$825,000</u>	<u>\$89,808</u>	<u>\$914,808</u>

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2014:

	<u>Reserve Fund</u>	<u>Taxable Financing Reserve Fund</u>
Balance, beginning of year	\$ 1,194,155,000	\$1,065,000
Principal payments	<u>(221,870,000)</u>	<u>( 240,000)</u>
Balance, end of year	\$ <u>972,285,000</u>	\$ <u>825,000</u>

The Authority's bonds payable are to be repaid through collection of outstanding loans receivable from institutions and liquidation of reserve fund investments (see note 6). 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 were .07% at June 30, 2014. Within the Taxable Financing Reserve Funds, variable interest rates are set at LIBOR + .40% for Series 1996A bonds, which approximates .55% at June 30, 2014.

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

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**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, 2014:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2014</u>
<b>General Resolution:</b>			
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	19,750,000	19,750,000
Maine General Health, Series 2011, 4.0% – 7.5%, dated August 11, 2011	2015 – 2041	280,750,000	280,750,000
Maine College of Art, Series 2011, 3.79%, dated November 4, 2011	2012 – 2021	3,300,000	3,011,235
Colby College, Series 2012, 2.0% – 3.625%, dated January 31, 2012	2012 – 2041	27,670,000	27,260,000
Piper Shores, Series 2012, variable rate, dated March 7, 2012	2012 – 2022	5,000,000	4,181,234
St. Mary's Hospital, Series 2012, 3.42%, dated May 31, 2012	2013 – 2036	19,270,000	19,180,000
St. Joseph's Hospital, Series 2012, 3.43%, dated November 6, 2012	2013 – 2032	13,490,000	13,160,000
Eastern Maine Medical, Series 2013, 3.0% – 5.0%, dated February 13, 2013	2014 – 2043	143,900,000	143,900,000
Bates College, Series 2013, 3.0% – 5.0%, dated November 19, 2013	2014 – 2043	55,410,000	55,410,000
Cedars Nursing Home, Series 2014, 4.02% dated February 27, 2014	2014 – 2039	19,248,000	19,142,000
Penobscot Bay Medical Center, Series 2014, 3.110%, dated March 31, 2014	2014 – 2024	4,800,000	4,697,373
Mercy Health, Series 2014, 3.07% dated April 4, 2014	2014 – 2036	61,055,000	61,055,000
Colby College, Series 2014A, 3.0% – 5.0% dated May 20, 2014	2015 – 2044	66,755,000	66,755,000
Colby College, Series 2014B, 4.341% – 4.441% dated May 20, 2014	2015 – 2044	<u>4,665,000</u>	<u>4,665,000</u>
		<u>\$ 844,513,000</u>	<u>\$ 842,366,842</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

5. **Conduit Debt (Continued)**

The following is a summary of conduit debt activity for the year ended June 30, 2014:

Bonds outstanding as of June 30, 2013	\$ 632,150,164
Plus: Bonds issued during fiscal 2014	211,933,000
Less: Redemptions during fiscal 2014	<u>1,716,322</u>
Bonds outstanding as of June 30, 2014	<u>\$ 842,366,842</u>

On November 19, 2013, the Authority issued series 2013 general resolution tax-exempt bonds in the amount of \$55,410,000 with an average interest rate of 4.88%. A portion of the bonds was used to in-substance defease \$9,755,000 of outstanding reserve fund resolution maturities within the 1997A, 2003B and 2006B reserve bond series. The net proceeds of approximately \$10,265,000 including other sources of funds and after payments 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 institution.

On February 27, 2014, the Authority issued series 2014 general resolution tax-exempt bonds in the amount of \$19,248,000 with an average interest rate of 4.02%. A portion of the bonds was used to in-substance defease \$8,625,000 of outstanding reserve fund resolution maturities within the 1998A reserve bond series. The net proceeds of approximately \$8,733,000 including other sources of funds and after payments 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 institution.

On May 20, 2014, the Authority issued series 2014A and B general resolution tax-exempt bonds in the amount of \$71,420,000 with an average interest rate of 4.67%. A portion of the bonds was used to in-substance defease \$61,865,000 of outstanding reserve fund resolution maturities within the 2005A, 2006G, 2007A, 2007B, 2008C and 2010B reserve bond series. The net proceeds of approximately \$69,093,000 including other sources of funds and after payments 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 institution.

At June 30, 2014, there were no defeased bonds remaining outstanding with respect to advance refunded conduit debt of bond issues of the general resolution.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

### 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, 2014, the required debt service reserve was approximately \$86,000,000 and the fair value of the debt service reserve assets totaled approximately \$101,000,000.

In addition, the Authority maintains a supplemental reserve as described in note 1. The fair value of these assets at June 30, 2014 is approximately \$24,900,000.

#### 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, 2014, the required debt service reserve was approximately \$316,000 and the fair value of the debt service reserve assets totaled approximately \$312,000 with accrued investment interest receivable due of approximately \$4,000.

### 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 \$445,000 of expense under this agreement in fiscal year 2014.

### 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, 2014, there were approximately \$118,030,000 of in-substance defeased bonds remaining outstanding with respect to all advance-refunding issues within the reserve fund resolution.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

### 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 eligible borrower who subsequently paid off its bonds within the taxable financing reserve fund resolution. These advances and loans, upon which interest income is recognized only to the extent that cash payments are received, were primarily made to assist this institution in meeting debt service requirements in years prior to fiscal 2014. The Authority also has approximately \$177,000 of other receivables outstanding within the operating fund at June 30, 2014, primarily related to amounts due from institutions to reimburse the Authority for arbitrage and other payments made on their behalf.

At June 30, 2014, the Authority has established a reserve of \$115,800 in the operating fund related to the above loans, advances and other receivables outstanding.

### 10. Subsequent Events

On July 24, 2014, the Authority issued series 2014A reserve resolution tax-exempt bonds in the amount of \$43,185,000 with an average interest rate of 4.43%. A portion of the bonds was used to in-substance defease \$47,630,000 of outstanding reserve fund resolution maturities within the 1997B, 1998C, 2003A, 2003D and 2004A reserve bond series. The net proceeds of approximately \$47,995,000 including other sources of funds and after payments 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.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue and</u>
		<u>Charges for</u>	<u>Program</u>	<u>Operating</u>	<u>Change in Net Position</u>
		<u>Services</u>	<u>Investment</u>	<u>Grants and</u>	<u>Total</u>
			<u>Income</u>	<u>Contributions</u>	
				<u>Capital</u>	
				<u>Grants/</u>	
				<u>Contributions</u>	
<b>Functions/Programs:</b>					
Maine Health and Higher Educational Facilities Authority	\$ <u>45,041,928</u>	\$ <u>41,552,193</u>	\$ <u>6,346,991</u>	\$ <u>—</u>	\$ <u>2,857,256</u>
Total	\$ <u>45,041,928</u>	\$ <u>41,552,193</u>	\$ <u>6,346,991</u>	\$ <u>—</u>	2,857,256
General revenues:					
Unrestricted interest and investment earnings					71,058
Miscellaneous income					<u>127,017</u>
Total general revenues					<u>198,075</u>
Change in net position					3,055,331
Net position, beginning of year					<u>52,800,464</u>
Net position, end of year					<u>\$55,855,795</u>