MGFA
MAINE GOVERNMENTAL FACILITIES AUTHORITY

Robert O. Lenna, *Executive Director*
Tel 207-622-9386
Fax 207-623-5359

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **2007 Maine Governmental Facilities Authority Annual Report**

This is the annual report for the Maine Governmental Facilities Authority for the 2007 fiscal year, running from July 1, 2006 to June 30, 2007. Created originally in 1987 as the Maine Court Facilities Authority, the Maine Governmental Facilities amendments to the original legislation were enacted into law in 1997 authorizing the Authority to undertake capital financing activities for structures designated for use as governmental facilities and changing the Authority name to the Maine Governmental Facilities Authority. Each project funded by the Authority requires project specific approval by the Legislature prior to the issuance of bonds for project activities.

In FY 2007, the Authority issued $10,985,000 of bonds in one series. Funds made available by this bond sale were used for upgrades and renovations to various courthouses to meet ADA requirements and construction of a new courthouse in Bangor.

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) 622-9386. Additional information about the Authority is available at our website: www.mgfa.com

3 University Drive • P.O. Box 2268 • Augusta, Maine • 04338-2268 • www.mgfa.com

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION AND ANALYSIS AND ADDITIONAL INFORMATION

For the Year Ended June 30, 2007

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BAKER NEWMAN NOYES LLC

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority
Augusta, Maine

We have audited the accompanying basic financial statements, consisting of the General Operating Account and General Bond Resolution, of Maine Governmental 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, 2007, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. 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 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Governmental Facilities Authority and the individual fund groups referred to above as of June 30, 2007, 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 5, 2007 on our consideration of Maine Governmental Facilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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 – 9 is not a required part of the basic financial statements, but is supplementary information required by the 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Commissioners
Maine Governmental 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 supplementary information included in Schedule I is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information included in Schedule I has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Newman & Noyes

Limited Liability Company

Portland, Maine
October 5, 2007

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

As financial management of the Maine Governmental 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, 2007. 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 its financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating revenue for the Authority's General Operating Account was $392,020 for fiscal year 2007, an increase of $24,689 or 6.7% from fiscal year 2006. This increase is attributed to increased interest income earned in 2007.
- Fund equity in the Authority's Operating Account at June 30, 2007 was $1,469,982. This represents an increase of $164,545 or 12.6% over the fund equity at June 30, 2006 mainly due to an increase in short-term interest rates in 2007 and related increase in interest income from investments, and fee income earned in fiscal year 2007.
- The Authority's gross bonds outstanding at June 30, 2007 were $182,605,000. Gross bonds outstanding at June 30, 2007 decreased $3,610,000 from the balance at June 30, 2006. This decrease consists of the sale of the Series 2007A bonds totaling $10,985,000 less principal payments of $14,595,000 in fiscal year 2007.
- The Authority's lease payments receivable from lessee at June 30, 2007 were $182,605,000. The lease payments are directly related to the bonds outstanding. Therefore, the decrease of $3,610,000 is attributed to the net effect of bonds issued and redeemed during fiscal year 2007. These receivables represent lease payments due from the State of Maine and related entities for the financing, acquisition, construction, improvements, reconstruction and equipping of structures, or facilities, for the use by the judicial, legislative or executive branches of the State of Maine and related entities.

Overview of the Authority

The Authority was created in 1997 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 providing funds to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State of Maine and related entities.

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. The Authority does receive loan servicing fees from the judicial, legislative and executive branches of the State of Maine that are based on the original amount of the lease for each project.

As the result of the Authority issuing tax-exempt debt, it 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's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is 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 fund equity. Over time, increases or decreases in fund equity may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Fund equity increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased fund equity, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in fund equity presents information showing how the Authority's fund equity changed during the fiscal year. All changes in fund equity are generally 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.

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

Fund equity may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $1,469,982 in the general operating account at June 30, 2007. This represents an increase of $164,545 or 12.6% over the previous fiscal year. Most of this increase is related to an additional initial issuance fee for a new bond issue in fiscal 2007, annual administrative fees received and an increase in short-term interest rates and related interest income from investments during fiscal year 2007.

The Authority's financial position and results of operations for the past two years are summarized as follows:

GENERAL OPERATING ACCOUNT

	2007	2006	Percentage Change
Current assets:			
Cash and cash equivalents	$ 666,699	$ 859,029	(22.4)%
Investments, at market rate	1,605,971	1,500,000	7.1
Interest and other amounts receivable from lessee	266,268	6,237	4169.2
Accrued interest income receivable	3,302	30,329	(89.1)
Total assets	$2,542,240	$2,395,595	6.1%
Current liabilities:			
Deferred fees	$ 80,423	$ 48,415	66.1%
Accounts payable	7,566	9,059	(16.5)
Total current liabilities	87,989	57,474	53.1
Noncurrent liabilities:			
Deferred fees	984,269	1,032,684	(4.7)
Total noncurrent liabilities	984,269	1,032,684	(4.7)
Total liabilities	1,072,258	1,090,158	(1.6)
Unrestricted fund equity	1,469,982	1,305,437	12.6
Total liabilities and fund equity	$2,542,240	$2,395,595	6.1%

GENERAL BOND RESOLUTION

	2007	2006	Percentage Change
Current assets:			
Cash and cash equivalents	$ 130,429	$ 250,655	(48.0)%
Lease payments receivable from lessee	14,610,000	14,595,000	0.1
Interest and other amounts receivable from lessee	2,146,922	2,048,872	4.8
Accrued interest income receivable	498	–	–
Total current assets	16,887,849	16,894,527	(0.0)
Noncurrent assets:			
Lease payments receivable from lessee	167,995,000	171,620,000	(2.1)
Total noncurrent assets	167,995,000	171,620,000	(2.1)
Total assets	$ 184,882,849	$ 188,514,527	(1.9)%
Current liabilities:			
Bonds payable, net	$ 14,610,000	$ 14,595,000	0.1%
Accounts payable	3	30	(90.0)
Accrued interest payable	2,046,539	2,115,780	(3.3)
Other deferred revenue	4,000	2,560	56.3
Total current liabilities	16,660,542	16,713,370	(0.3)
Noncurrent liabilities:			
Bonds payable, net	167,995,000	171,620,000	(2.1)
Rebate payable to Internal Revenue Service	225,203	136,182	65.4
Total noncurrent liabilities	168,220,203	171,756,182	(2.1)
Total liabilities	184,880,745	188,469,552	(1.9)
Restricted fund equity	2,104	44,975	(95.3)
Total liabilities and fund equity	$ 184,882,849	$ 188,514,527	(1.9)%

The Authority's results of operations for the past two years are summarized below:

GENERAL OPERATING ACCOUNT

	2007	2006	Percentage Change
Operating revenues:			
Administrative fees	$ 272,918	$ 282,808	(3.5)%
Interest income from investments	119,102	84,523	40.9
Total operating revenue	392,020	367,331	6.7
Operating expenses:			
Salaries	66,815	67,794	(1.4)
Employee benefits	16,613	14,826	12.1
Office	12,116	12,191	(0.6)
Accretion of interest on deferred fees	65,800	68,893	(4.5)
Other	66,131	35,900	84.2
Total operating expenses	227,475	199,604	14.0
Operating income	164,545	167,727	(1.9)
Fund equity, beginning of year	1,305,437	1,137,710	14.7
Fund equity, end of year	$1,469,982	$1,305,437	12.6%

GENERAL BOND RESOLUTION

	2007	2006	Percentage Change
Operating revenues:			
Received and receivable from lessee	$8,223,424	$8,551,552	(3.8)%
Interest income from investments	15,350	30,995	(50.5)
Other revenue	36,652	11,484	219.2
Total operating revenues	8,275,426	8,594,031	(3.7)
Operating expenses:			
Interest expense	7,956,087	8,301,343	(4.2)
Amortization of deferred bond issuance costs	141,407	142,825	(1.0)
Other	220,803	176,741	24.9
Total operating expenses	8,318,297	8,620,909	(3.5)
Operating loss	(42,871)	(26,878)	59.5
Fund equity, beginning of year	44,975	71,853	(37.4)
Fund equity, end of year	$ 2,104	$ 44,975	(95.3)%

General Operating Account

Cash and cash equivalents held in the General Operating Account decreased $192,330 or 22.4% at June 30, 2007 compared to June 30, 2006. The decrease was primarily the result of an advance to purchase land for a courthouse project that was included in the 2007 Series A bond issue (offset by increase in amounts receivable from lessee). Total assets within the General Operating Account increased $146,645 compared to June 30, 2006, which was due mainly to administrative fee income and to an increase in short-term interest rates during fiscal 2007.

Amounts receivable from lessee increased $260,031 or 4169.2% over 2006. The increase was primarily due to an advance to purchase land for a courthouse project that was not repaid to the general operating account until after June 30, 2007.

Deferred fees increased $32,008 or 66.1% over 2006 as the result of the timing of the Authority fees that were collected in fiscal year 2007.

Fund equity increased $164,545 or 12.6% in fiscal year 2007. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Other operating expenses increased $30,231 or 84.2% in fiscal year 2007 as compared to fiscal year 2006. The increase was due to an increase in the property insurance for the several courthouses and additional legal fees related to the 2007 A bond issuance incurred during the year.

Interest income from investments increased $34,579 or 40.9% in fiscal year 2007 as compared to fiscal year 2006 as a result of an improved short-term interest rate environment.

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

General Bond Resolution

Cash and cash equivalents in the General Bond Resolution decreased $120,226 or 48.0% from balances at June 30, 2006. The decrease is the result of cash and cash equivalents being used to pay expenses of the General Bond Resolution.

Lease payments receivable from lessee are directly related to the bonds outstanding. Both decreased $3,610,000 or 1.9% at June 30, 2007 as compared to balances at June 30, 2006. The decrease is due to the net effect of the issuance of the Series 2007A bonds and scheduled principal payments in fiscal year 2007.

Interest income in the General Bond Resolution for fiscal year 2007 decreased 50.5% from 2006 due to decreases in average cash and cash equivalents balances during fiscal 2007.

Interest expense on the bonds decreased $345,256 or 4.2% in fiscal year 2007 from 2006 reflecting decrease in scheduled payments.

Other operating expenses increased $44,062 or 24.9% in fiscal year 2007 as compared to fiscal year 2006. The majority of this increase is the result of additional rebate liability to the Internal Revenue Service that was recorded in fiscal year 2007.

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 Governmental Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2007

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$ 666,699	$ 130,429	$ 797,128
Investments, at market value (note 3)	1,605,971	–	1,605,971
Lease payments receivable from lessee (note 4)	–	14,610,000	14,610,000
Interest and other amounts receivable from lessee	266,268	2,146,922	2,413,190
Accrued interest income receivable	3,302	498	3,800
Total current assets	2,542,240	16,887,849	19,430,089
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	167,995,000	167,995,000
Total assets	$2,542,240	$ 184,882,849	$ 187,425,089
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Bonds payable, net (note 4)	$ –	$ 14,610,000	$ 14,610,000
Accrued interest payable	–	2,046,539	2,046,539
Deferred fees (note 7)	80,423	4,000	84,423
Accounts payable – Maine Municipal Bond Bank (note 6)	7,566	3	7,569
Total current liabilities	87,989	16,660,542	16,748,531
Noncurrent liabilities:			
Bonds payable, net (note 4)	–	167,995,000	167,995,000
Deferred fees (note 7)	984,269	–	984,269
Rebate payable to Internal Revenue Service	–	225,203	225,203
Total noncurrent liabilities	984,269	168,220,203	169,204,472
Total liabilities	1,072,258	184,880,745	185,953,003
Fund equity:			
Restricted	–	2,104	2,104
Unrestricted	1,469,982	–	1,469,982
Total fund equity	1,469,982	2,104	1,472,086
	$2,542,240	$ 184,882,849	$ 187,425,089

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY

Year Ended June 30, 2007

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$8,223,424	$8,223,424
Administrative fees (note 7)	272,918	–	272,918
Interest income from investments	119,102	15,350	134,452
Other revenue	–	36,652	36,652
Total operating revenue	392,020	8,275,426	8,667,446
Operating expenses (note 6):			
Interest expense	–	7,956,087	7,956,087
Salaries	66,815	–	66,815
Employee benefits	16,613	–	16,613
Office	12,116	–	12,116
Accretion of interest on deferred fees (note 7)	65,800	–	65,800
Amortization of deferred bond issuance costs	–	141,407	141,407
Other	66,131	220,803	286,934
Total operating expenses	227,475	8,318,297	8,545,772
Operating income (loss)	164,545	(42,871)	121,674
Fund equity, beginning of year	1,305,437	44,975	1,350,412
Fund equity, end of year	$1,469,982	$ 2,104	$1,472,086

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 196,948	$ 22,721,814	$ 22,918,762
Cash paid for operating expenses	(124,422)	–	(124,422)
Cash received from premium on sale of bonds	–	250,717	250,717
Cash paid for expenses	(38,746)	(131,809)	(170,555)
Cash deposited to construction funds	–	(10,985,000)	(10,985,000)
Cash paid for bond issuance costs	–	(214,065)	(214,065)
Cash advanced to lessee	(266,268)	–	(266,268)
Net cash provided (used) by operating activities	(232,488)	11,641,657	11,409,169
Noncapital financing activities:			
Proceeds from bonds payable	–	10,985,000	10,985,000
Principal paid on bonds payable	–	(14,595,000)	(14,595,000)
Interest paid on bonds payable	–	(8,166,735)	(8,166,735)
Net cash used by noncapital financing activities	–	(11,776,735)	(11,776,735)
Investing activities:			
Purchase of investment securities	(105,971)	–	(105,971)
Cash received from interest income	146,129	14,852	160,981
Net cash provided by investing activities	40,158	14,852	55,010
Decrease in cash and cash equivalents	(192,330)	(120,226)	(312,556)
Cash and cash equivalents at beginning of year	859,029	250,655	1,109,684
Cash and cash equivalents at end of year	$ 666,699	$ 130,429	$ 797,128
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	$ 164,545	$ (42,871)	$ 121,674
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Accretion of interest on deferred fees	65,800	–	65,800
Amortization of deferred fees and costs	(114,215)	141,407	27,192
Interest expense	–	7,956,087	7,956,087
Interest income	(119,102)	(15,350)	(134,452)
Changes in operating assets and liabilities:			
Interest and other amounts receivable from lessee	(260,031)	(98,050)	(358,081)
Accounts payable	(1,493)	(27)	(1,520)
Interest rebate payable to Internal Revenue Service	–	89,021	89,021
Other deferred revenue	32,008	1,440	33,448
Lease payments receivable from lessee	–	3,610,000	3,610,000
Net cash provided (used) by operating activities	$ (232,488)	$ 11,641,657	$ 11,409,169

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

1. Organization

The Maine Governmental 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 (the State), organized and existing under and pursuant to M.R.S.A., Title 4, Chapter 33, Sections 1601 to 1618, inclusive (the Act).

The Authority was created for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction and equipping of structures, or facilities, for use by the judicial, legislative, or executive branches of the State government and related entities. To accomplish its purposes, the Authority is authorized to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State government and related entities. The Authority is also authorized to issue bonds and notes to fulfill its statutory purposes.

The Authority may not issue securities in excess of $263,485,000 outstanding at any one time except for the issuance of certain revenue refunding securities. The State Legislature may increase this limit as necessary to meet the Authority's needs.

Debt issued by the Authority is not debt of the State 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 income taxes. Interest paid on bonds issued by the Authority is exempt from federal and Maine income taxes.

Except for earnings on investments, substantially all of the Authority's revenue is received from lease payments, which are scheduled to closely match required bond principal and interest payments and loan servicing fees from the State for facilities financed by the Authority. The lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the Sate Legislature for such purposes.

2. Significant Accounting Policies

The State of Maine treats the Authority as an "internal service fund" on the State's financial statements. Therefore, the books of accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting.

The Authority complies with Governmental Accounting Standards Board Statement (GASB) 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.

2. Significant Accounting Policies (Continued)

The financial statements are prepared in accordance with Governmental Accounting Standards Board 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 maturities of three months or less to be cash equivalents.

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 statements of revenues, expenses and changes in fund equity.

Bond Issuance Costs

Bond issuance costs resulting from the advance refunding of bonds outstanding have been deferred as part of deferred amounts on refunding and are being amortized over the life of the refunded bonds using the bonds outstanding method. Other bond issuance costs paid by the Authority are expensed as incurred or offset against original issue premiums.

Deferred Amounts on Refunding

The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as a deferred amount on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter, as a component of interest expense using the bonds outstanding method.

Original Issue Premiums

Original issue premiums resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds using a method which approximates the effective interest method. Original issue premiums for other issues are offset against bond issuance costs.

Financing Leases

Projects financed through the issuance of bonds are subsequently leased or subleased to the three branches of state government under financing lease arrangements. The property is not reflected on the accompanying combined financial statements since the lease agreements meet the criteria for financing leases under accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies (Continued)

Use of 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 disclosures 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 those 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 and presentation purposes only.

New Accounting Pronouncements

GASB issued Statement No. 45, *Accounting and Financial Reporting for Employers for Post-Employment Benefits Other Than Pensions*, in June 2004. This statement establishes standards for the measurement, recognition and display of other post-employment benefits (including post-employment healthcare benefits). This statement is expected to be applicable to the Authority beginning in fiscal 2009.

3. Investments and Cash and Cash Equivalents

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and collateralized repurchase agreements. The Authority invests available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested to coincide with the cash needs for operating, debt service and arbitrage rebate requirements.

At June 30, 2007, investments and cash and cash equivalents are as follows (at fair value):

General operating account:	
Certificate of deposit	$1,605,971
Cash and cash equivalents	666,699
	$2,272,670
General bond resolution:	
Cash and cash equivalents	$ 130,429

3. Investments and Cash and Cash Equivalents (Continued)

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 cash equivalents are primarily held by Bank of New York, Bank of America and MBIA. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2007.

The cash of the general operating account at June 30, 2007, consists of $100,000 insured and $118,260 uninsured deposits with a bank. Cash equivalents consist of $393,514 in money market funds, primarily held at MBIA. The certificate of deposit balance of $1,605,971 at June 30, 2007 is fully collateralized by securities pledged by the issuing bank and matures on June 19, 2008. The fair value of the certificate of deposit approximates cost at June 30, 2007.

Cash and cash equivalents of the General Bond Resolution at June 30, 2007, consist primarily of money market funds secured by short-term U.S. Treasury obligations, held at Bank of New York.

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2007, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Amount Amount Issued	Outstanding June 30, 2007
Series 1999, 4.50% – 5.625%, dated September 1, 1999	2000 – 2019	$ 86,945,000	$ 19,000,000
Series 2000 A, 4.50% – 6.00%, dated June 1, 2000	2001 – 2019	51,855,000	12,490,000
Series 2000 B, 4.30% – 5.375%, dated November 1, 2000	2001 – 2020	6,995,000	1,750,000
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	36,485,000	26,970,000
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	10,860,000	8,680,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	12,835,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	28,080,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	53,815,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	8,000,000
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	10,985,000	10,985,000
			$ 182,605,000

4. Bonds Payable and Lease Payments Receivable (Continued)

Such amounts are reflected on the balance sheet of the general bond resolution as follows:

Total principal outstanding	$ 182,605,000
Deferred amount on refunding	(4,402,100)
Unamortized original issue premium	5,510,107
Unamortized bond issue costs	(1,108,007)
	182,605,000
Less current portion	14,610,000
Long-term portion	$ 167,995,000

The outstanding bonds payable will mature in each of the following years (in substantially equivalent amounts to payments due from lessees) with interest paid semiannually:

Due Bond Year Ending	Principal	Interest	Total
2007	$ 14,610,000	$ 4,092,978	$ 18,702,978
2008	14,620,000	7,689,853	22,309,853
2009	14,605,000	7,073,080	21,678,080
2010	14,605,000	6,435,246	21,040,246
2011 – 2015	68,015,000	23,067,585	91,082,585
2016 – 2020	49,780,000	8,016,110	57,796,110
2021 – 2025	5,220,000	870,103	6,090,103
2026 – 2027	1,150,000	86,250	1,236,250
	$ 182,605,000	$ 57,331,205	$ 239,936,205

The following summarizes bond payable activity for Authority for the year ended June 30, 2007:

Balance, beginning of year	$ 186,215,000
Issuances – face value	10,985,000
Redemptions	(14,595,000)
Balance, end of year	$ 182,605,000

5. Refunding Issues

In periods of declining interest rates, Maine Governmental Facilities Authority has refunded its bond obligations, reducing aggregate debt service. Where allowed, Maine Governmental Facilities Authority retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally 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 in-substance defeased bonds. The U.S. Treasury obligations were deposited with the trustees of the in-substance defeased bonds. Maine Governmental Facilities Authority accounted for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and recorded a deferred amount on refunding.

At June 30, 2007, the remaining balances of the in-substance defeased bonds total approximately $71,935,000.

6. Operating Expenses

The Authority has a management agreement with Maine Municipal Bond Bank which allocates a portion of Bond Bank 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.

7. Deferred Fees

Included in deferred fees at June 30, 2007, is $1,032,684 representing the advance payment of the present value of all future required annual fees on the 1999 and 2000 A bond issues by the executive branch of the State of Maine in 2002. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2007, $114,215 of previously deferred fees was included in revenue.

SCHEDULE 1

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2007

	Expenses	Program Revenues: Charges for Services	Program Revenues: Program Investment Income	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants/ Contributions	Net Revenue (Expense) and Changes in net assets: Total
Functions/Programs:						
Maine Governmental Facilities Authority	$ (8,545,772)	$ 8,496,342	$15,350	$ –	$ –	$ (34,080)
Total	$ (8,545,772)	$ 8,496,342	$15,350	$ –	$ –	(34,080)
General revenues:						
Unrestricted interest and investment earnings						119,102
Non program specific grants, contributions and appropriations						–
Miscellaneous income						36,652
Loss on assets held for sale						–
Extraordinary item						–
Total general revenues and extraordinary items						155,754
Changes in net assets						121,674
Net assets, beginning of year						1,350,412
Net assets, end of year						$ 1,472,086