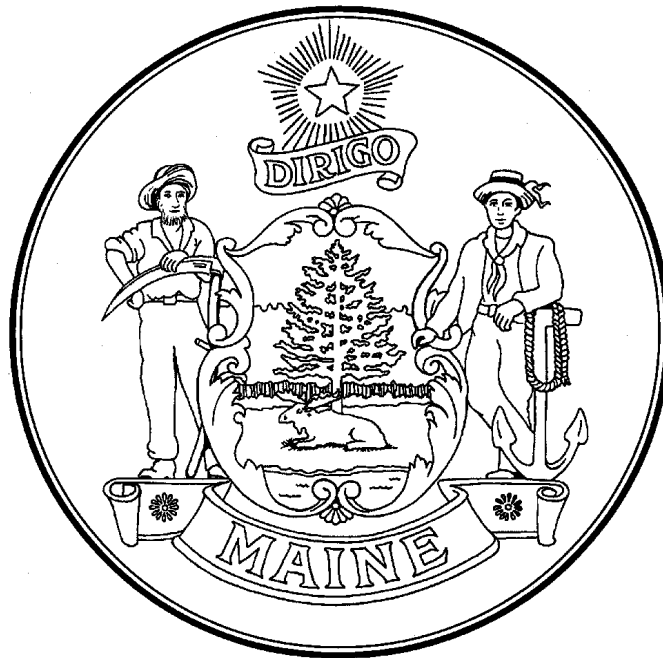


# MAINE STATE LEGISLATURE

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# MGFA

MAINE GOVERNMENTAL FACILITIES AUTHORITY

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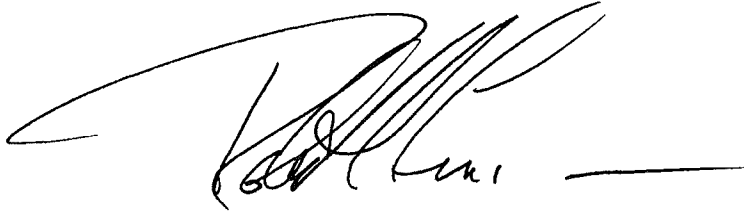
TO: INTERESTED PARTIES  
FROM: Robert O. Lenna, Executive Director  
RE: **2010 Maine Governmental Facilities Authority Annual Report**

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This is the annual report for the Maine Governmental Facilities Authority for the 2010 fiscal year, running from July 1, 2009 to June 30, 2010. 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. Each project funded by the Authority requires project specific approval by the Legislature prior to the issuance of bonds for project activities.

In FY 2010, the Authority issued \$37,560,000 of bonds in two series. Funds made available by the bond sales were used for multiple repair projects at correctional facilities, renovation of a courthouse in Dover-Foxcroft, various capital repairs and improvements projects to state owned facilities throughout the state, and to refinance a portion of the Authority's outstanding bonds.

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](http://www.mgfa.com)



JAN 13 2011

# **Maine Governmental Facilities Authority**

Basic Financial Statements,  
Management's Discussion and Analysis  
and Additional Information

*Year Ended June 30, 2010*  
*With Independent Auditors' Report*

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**  
**BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION**  
**AND ANALYSIS AND ADDITIONAL INFORMATION**

For the Year Ended June 30, 2010

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**INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Maine Governmental Facilities Authority  
Augusta, Maine

We have audited the accompanying financial statements, consisting of the General Operating Account and General Bond Resolution, which collectively comprise the basic financial statements 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, 2010, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Governmental Facilities Authority, as well as the individual fund groups referred to above, as of June 30, 2010, 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 4, 2010 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 – 8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 opinions on the financial statements that comprise the Authority's basic financial statements. The additional information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information 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.

Portland, Maine  
October 4, 2010

  
Limited Liability Company

# MAINE GOVERNMENTAL FACILITIES AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

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, 2010. 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 \$514,567 for fiscal year 2010, an increase of \$163,125 or 46.4% from fiscal year 2009. This increase was primarily due to an increase in new fees representing reimbursement of issuance costs in fiscal year 2010.
- Net assets in the Authority's Operating Account at June 30, 2010 were \$2,254,270. This represents an increase of \$295,525 or 15.1% over the net assets at June 30, 2009.
- The Authority's gross bonds outstanding at June 30, 2010 were \$189,080,000. Gross bonds outstanding at June 30, 2010 decreased \$3,855,000 from the balance at June 30, 2009. This decrease is the net result of the issuance of 2009A and 2010A bonds totaling \$37,560,000, less principal payments of \$17,130,000 and bonds refunded totaling \$24,285,000.
- The Authority's lease payments receivable from lessee at June 30, 2010 were \$189,080,000. The lease payments are directly related to the bonds outstanding. Therefore, the decrease of \$3,855,000 is attributed to the net effect of bonds activity as described above. 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.

# MAINE GOVERNMENTAL FACILITIES AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

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 net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets 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**

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority's General Operating Account, assets exceeded liabilities by \$2,254,270 at June 30, 2010. This represents an increase of \$295,525 or 15.1% over the previous fiscal year. This increase is related to operating revenues exceeding operating expenses in fiscal year 2010.



**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

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

**GENERAL OPERATING ACCOUNT**

	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Current assets:			
Cash and cash equivalents	\$1,098,756	\$ 908,403	21.0%
Investments	2,053,646	2,022,300	1.6
Accounts receivable	20,000	-	-
Accrued interest income receivable	39	1,931	(98.0)
Deferred expense	<u>-</u>	<u>5,000</u>	<u>(100.0)</u>
Total assets	<u>\$3,172,441</u>	<u>\$2,937,634</u>	<u>8.0%</u>
Current liabilities:			
Deferred fees	\$ 108,126	\$ 104,015	4.0%
Accounts payable – Maine Municipal Bond Bank	<u>6,398</u>	<u>8,278</u>	<u>(22.7)</u>
Total current liabilities	114,524	112,293	2.0
Noncurrent liabilities:			
Deferred fees	<u>803,647</u>	<u>866,596</u>	<u>(7.3)</u>
Total liabilities	918,171	978,889	(6.2)
Unrestricted net assets	<u>2,254,270</u>	<u>1,958,745</u>	<u>15.1</u>
Total liabilities and net assets	<u>\$3,172,441</u>	<u>\$2,937,634</u>	<u>8.0%</u>

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

**GENERAL BOND RESOLUTION**

	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Current assets:			
Cash and cash equivalents	\$ 172,647	\$ 123,037	40.3%
Lease payments receivable from lessee	17,747,410	17,130,000	3.6
Interest and other amounts receivable from lessee	<u>2,098,941</u>	<u>2,265,735</u>	<u>(7.4)</u>
Total current assets	20,018,998	19,518,772	2.6
Noncurrent assets:			
Lease payments receivable from lessee	<u>171,332,590</u>	<u>175,805,000</u>	<u>(2.5)</u>
Total assets	<u>\$191,351,588</u>	<u>\$195,323,772</u>	<u>(2.0)%</u>
Current liabilities:			
Bonds payable, net	\$ 16,930,000	\$ 17,130,000	(1.2)%
Accrued interest payable	<u>2,044,167</u>	<u>2,202,017</u>	<u>(7.2)</u>
Total current liabilities	18,974,167	19,332,017	(1.9)
Noncurrent liabilities:			
Bonds payable, net	172,150,000	175,805,000	(2.1)
Rebate payable to Internal Revenue Service	<u>213,426</u>	<u>182,502</u>	<u>16.9</u>
Total noncurrent liabilities	<u>172,363,426</u>	<u>175,987,502</u>	<u>(2.1)</u>
Total liabilities	191,337,593	195,319,519	(2.0)
Restricted net assets	<u>13,995</u>	<u>4,253</u>	<u>229.1</u>
Total liabilities and net assets	<u>\$191,351,588</u>	<u>\$195,323,772</u>	<u>(2.0)%</u>

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

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

**GENERAL OPERATING ACCOUNT**

	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Operating revenues:			
Administrative fees	\$ 482,144	\$ 295,103	63.4%
Interest income from investments	<u>32,423</u>	<u>56,339</u>	<u>(42.5)</u>
Total operating revenue	514,567	351,442	46.4
Operating expenses:			
Salaries	65,870	67,804	(2.9)
Employee benefits	17,118	17,197	(0.5)
Office	11,341	12,904	(12.1)
Accretion of interest on deferred fees	55,195	58,966	(6.4)
Other	<u>69,518</u>	<u>49,009</u>	<u>41.8</u>
Total operating expenses	<u>219,042</u>	<u>205,880</u>	<u>6.4</u>
Operating income	295,525	145,562	103.0
Net assets, beginning of year	<u>1,958,745</u>	<u>1,813,183</u>	<u>8.0</u>
Net assets, end of year	<u>\$2,254,270</u>	<u>\$1,958,745</u>	<u>15.1%</u>

**GENERAL BOND RESOLUTION**

Operating revenues:			
Received and receivable from lessee	\$8,478,718	\$8,920,826	(5.0)%
Interest income from investments	-	7,236	(100.0)
Other revenue	<u>243,861</u>	<u>70,411</u>	<u>246.3</u>
Total operating revenues	8,722,579	8,998,473	(3.1)
Operating expenses:			
Cost of issuance expense	187,770	-	-
Interest expense	8,340,447	8,863,497	(5.9)
Amortization of deferred bond issuance costs	153,696	138,138	11.3
Other	<u>30,924</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>8,712,837</u>	<u>9,001,635</u>	<u>(3.2)</u>
Operating income (loss)	9,742	(3,162)	408.1
Net assets, beginning of year	<u>4,253</u>	<u>7,415</u>	<u>(42.6)</u>
Net assets, end of year	<u>\$ 13,995</u>	<u>\$ 4,253</u>	<u>229.1%</u>

# MAINE GOVERNMENTAL FACILITIES AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

### **General Operating Account**

Cash and cash equivalents held in the General Operating Account increased \$190,353 or 21% at June 30, 2010 compared to June 30, 2009. The increase is the result of additional fees collected related to the General Bond Resolution 2009A and 2010A bond issuances.

Deferred fees decreased \$58,838 or 6.1% from 2009 primarily as a result of amortization of fees collected in advance in prior years (see note 7 in financial statements).

Net assets increased \$295,525 or 15.1% in fiscal year 2010. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Other operating expenses increased \$20,509 or 41.8% in fiscal year 2010 as compared to fiscal year 2009. The increase was due to higher legal fees (associated with 2009A and 2010A bond issuances) for fiscal year 2010.

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**

Lease payments receivable from lessee are directly related to the bonds outstanding. Both decreased \$3,855,000 or 2.0% at June 30, 2010 as compared to balances at June 30, 2009 due to activity as described in the "Financial Highlights" section of this Management's Discussion and Analysis.

Interest expense on the bonds decreased \$523,050 or 5.9% in fiscal year 2010 from 2009 based on the scheduled payments and bond refundings in 2010.

Other operating expenses increased \$30,924 as compared to fiscal year 2009. The majority of this change is the result of increased rebate liability to the Internal Revenue Service recorded in fiscal year 2010 as compared with fiscal year 2009.

### **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, 2010

<u>ASSETS</u>	<u>General Operating Account</u>	<u>General Bond Resolution</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents (note 3)	\$1,098,756	\$ 172,647	\$ 1,271,403
Investments (note 3)	2,053,646	-	2,053,646
Accounts receivable	20,000	-	20,000
Lease payments receivable from lessee (note 4)	-	17,747,410	17,747,410
Interest and other amounts receivable from lessee	-	2,098,941	2,098,941
Accrued interest income receivable	<u>39</u>	<u>-</u>	<u>39</u>
 Total current assets	 3,172,441	 20,018,998	 23,191,439
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	<u>-</u>	<u>171,332,590</u>	<u>171,332,590</u>
	<u>\$3,172,441</u>	<u>\$191,351,588</u>	<u>\$194,524,029</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Bonds payable, net (note 4)	\$ -	\$ 16,930,000	\$ 16,930,000
Accrued interest payable	-	2,044,167	2,044,167
Deferred fees (note 7)	108,126	-	108,126
Accounts payable – Maine Municipal Bond Bank (note 6)	<u>6,398</u>	<u>-</u>	<u>6,398</u>
 Total current liabilities	 114,524	 18,974,167	 19,088,691
Noncurrent liabilities:			
Bonds payable, net (note 4)	-	172,150,000	172,150,000
Deferred fees (note 7)	803,647	-	803,647
Rebate payable to Internal Revenue Service	<u>-</u>	<u>213,426</u>	<u>213,426</u>
 Total noncurrent liabilities	 <u>803,647</u>	 <u>172,363,426</u>	 <u>173,167,073</u>
 Total liabilities	 918,171	 191,337,593	 192,255,764
Net assets:			
Restricted	-	13,995	13,995
Unrestricted	<u>2,254,270</u>	<u>-</u>	<u>2,254,270</u>
 Total net assets	 <u>2,254,270</u>	 <u>13,995</u>	 <u>2,268,265</u>
	<u>\$3,172,441</u>	<u>\$191,351,588</u>	<u>\$194,524,029</u>

See accompanying notes.

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS

Year Ended June 30, 2010

	General Operating <u>Account</u>	General Bond <u>Resolution</u>	<u>Total</u>
Operating revenues:			
Received and receivable from lessee	\$ -	\$8,478,718	\$8,478,718
Administrative fees (note 7)	482,144	-	482,144
Interest income from investments	32,423	-	32,423
Other revenue	<u>-</u>	<u>243,861</u>	<u>243,861</u>
Total operating revenue	514,567	8,722,579	9,237,146
Operating expenses (note 6):			
Cost of issuance expense	-	187,770	187,770
Interest expense	-	8,340,447	8,340,447
Salaries	65,870	-	65,870
Employee benefits	17,118	-	17,118
Office	11,341	-	11,341
Accretion of interest on deferred fees (note 7)	55,195	-	55,195
Amortization of deferred bond issuance costs	-	153,696	153,696
Other	<u>69,518</u>	<u>30,924</u>	<u>100,442</u>
Total operating expenses	<u>219,042</u>	<u>8,712,837</u>	<u>8,931,879</u>
Operating income	295,525	9,742	305,267
Net assets, beginning of year	<u>1,958,745</u>	<u>4,253</u>	<u>1,962,998</u>
Net assets, end of year	<u>\$2,254,270</u>	<u>\$ 13,995</u>	<u>\$2,268,265</u>

See accompanying notes.

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2010

	<u>General Operating Account</u>	<u>General Bond Resolution</u>	<u>Total</u>
Operating activities:			
Cash received from lessee	\$ 353,111	\$ 25,775,512	\$ 26,128,623
Cash paid for operating expenses	(165,727)	-	(165,727)
Cash received from premium on sale of bonds	-	243,861	243,861
Cash deposited to construction funds	-	(11,960,000)	(11,960,000)
Cash paid for bond issuance costs	-	(187,770)	(187,770)
Net cash provided by operating activities	<u>187,384</u>	<u>13,871,603</u>	<u>14,058,987</u>
Noncapital financing activities:			
Proceeds from bonds payable	-	38,160,121	38,160,121
Principal paid on bonds payable	-	(17,130,000)	(17,130,000)
Deposit to refunding escrow	-	(25,821,954)	(25,821,954)
Issuance costs paid with refunding	-	(378,167)	(378,167)
Interest paid on bonds payable	-	(8,651,993)	(8,651,993)
Net cash used by noncapital financing activities	<u>-</u>	<u>(13,821,993)</u>	<u>(13,821,993)</u>
Investing activities:			
Purchase of investment securities	(31,346)	-	(31,346)
Cash received from interest income	<u>34,315</u>	<u>-</u>	<u>34,315</u>
Net cash provided by investing activities	<u>2,969</u>	<u>-</u>	<u>2,969</u>
Increase in cash and cash equivalents	190,353	49,610	239,963
Cash and cash equivalents at beginning of year	<u>908,403</u>	<u>123,037</u>	<u>1,031,440</u>
Cash and cash equivalents at end of year	<u>\$1,098,756</u>	<u>\$ 172,647</u>	<u>\$ 1,271,403</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 295,525	\$ 9,742	\$ 305,267
Adjustments to reconcile operating income to net cash provided by operating activities:			
Accretion of interest on deferred fees	55,195	-	55,195
Amortization of deferred fees and costs	(114,215)	153,696	39,481
Interest expense	-	8,340,447	8,340,447
Interest income	(32,423)	-	(32,423)
Changes in operating assets and liabilities:			
Interest and other amounts receivable from lessee	-	166,794	166,794
Accounts receivable	(20,000)	-	(20,000)
Deferred expenses	5,000	-	5,000
Accounts payable	(1,880)	-	(1,880)
Interest rebate payable to Internal Revenue Service	-	30,924	30,924
Other deferred revenue	182	-	182
Lease payments receivable from lessee	<u>-</u>	<u>5,170,000</u>	<u>5,170,000</u>
Net cash provided by operating activities	<u>\$ 187,384</u>	<u>\$ 13,871,603</u>	<u>\$ 14,058,987</u>

See accompanying notes.

# MAINE GOVERNMENTAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### 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 \$325,485,000 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 State Legislature for such purposes.

The Authority's General Operating Account Fund Group records the revenues and expenses generated from its daily operations in administration of the General Bond Resolution. The Authority has a management agreement with the 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.

### 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.



# MAINE GOVERNMENTAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### 2. Significant Accounting Policies (Continued)

The Authority complies with 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.

The financial statements are prepared in accordance with GASB 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

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

#### 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 net assets.

#### Bond Issuance Costs

Bond issuance costs resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds, or the life of the new bonds, whichever is shorter, using the bonds outstanding method. Other bond issuance costs paid by the Authority are expensed as incurred.

#### 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.

# MAINE GOVERNMENTAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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

#### *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, or the life of the new bonds, whichever is shorter, using a method which approximates the effective interest method. Original issue premiums for other issues, to the extent they are used to pay bond issuance costs, are recorded as premium revenue on the statement of revenues, expenses and changes in net assets.

#### *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. Instead, the Authority records the present value of lease receivable as an asset. Interest revenue is accreted over the life of the lease receivable using a method approximating the effective interest method.

#### *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.

### 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.

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

**3. Investments and Cash and Cash Equivalents (Continued)**

At June 30, 2010, investments and cash and cash equivalents are as follows (at fair value):

General operating account:		
Certificate of deposit		\$2,053,646
Cash and cash equivalents		<u>1,098,756</u>
		<u>\$3,152,402</u>
General bond resolution:		
Cash and cash equivalents		\$ <u>172,647</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 cash equivalents are primarily held by Bank of New York, Bank of America and Bangor Savings Bank. The Authority's certificate of deposit is held by Citizen's Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2010.

The cash of the general operating account at June 30, 2010, consists of \$250,000 insured and \$145,934 uninsured deposits with a bank. Cash equivalents consist of \$702,822 in money market funds secured by short-term U.S. Treasury obligations. The certificate of deposit balance of \$2,053,646 at June 30, 2010 is fully collateralized by securities pledged by the issuing bank and matures on May 31, 2011. The fair value of the certificate of deposit approximates cost at June 30, 2010.

Cash and cash equivalents of the General Bond Resolution at June 30, 2010, 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, 2010, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2010</u>
Series 1999, 4.50% – 5.625%, dated September 1, 1999	2000 – 2019	\$86,945,000	\$ 2,120,000
Series 2000 A, 4.50% – 6.00%, dated June 1, 2000	2001 – 2019	51,855,000	2,970,000
Series 2000 B, 4.30% – 5.375%, dated November 1, 2000	2001 – 2020	6,995,000	350,000
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	36,485,000	3,785,000

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

**4. Bonds Payable and Lease Payments Receivable (Continued)**

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2010</u>
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	\$10,860,000	\$ 3,805,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	7,030,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	26,135,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	52,560,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	5,330,000
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	10,985,000	10,400,000
Series 2008 A, 4.00% – 5.00%, dated June 19, 2008	2008 – 2028	40,565,000	37,035,000
Series 2009 A, 3.25% – 5.00%, dated October 29, 2009	2010 – 2029	11,960,000	11,960,000
Series 2010A, 2.50% – 5.00%, dated April 1, 2010	2010 – 2023	25,600,000	<u>25,600,000</u>
			<u>\$189,080,000</u>

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

Total principal outstanding	\$189,080,000
Deferred amounts on refunding	(2,927,761)
Unamortized original issue premium	3,982,307
Unamortized bond issue costs	<u>(1,054,546)</u>
	189,080,000
Less current portion	<u>(16,930,000)</u>
Long-term portion	<u>\$172,150,000</u>

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

**4. Bonds Payable and Lease Payments Receivable (Continued)**

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:

<u>Due Bond Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 16,930,000	\$ 7,443,494	\$ 24,373,494
2011	17,285,000	7,627,651	24,912,651
2012	17,160,000	7,013,045	24,173,045
2013	17,090,000	6,287,233	23,377,233
2014	16,895,000	5,578,790	22,473,790
2015 – 2019	74,080,000	17,086,821	91,166,821
2020 – 2024	18,695,000	4,952,100	23,647,100
2025 – 2029	<u>10,945,000</u>	<u>1,350,556</u>	<u>12,295,556</u>
	<u>\$189,080,000</u>	<u>\$57,339,690</u>	<u>\$246,419,690</u>

The following summarizes bond payable activity for the Authority for the year ended June 30, 2010:

Balance, beginning of year	\$192,935,000
Issuances – face value	37,560,000
Redemptions	(17,130,000)
Refunded bonds	(24,285,000)
Deferred issuance costs	(378,167)
Capitalized premiums	600,121
Deferred amounts on refunding	<u>(221,954)</u>
Balance, end of year	<u>\$189,080,000</u>

**5. Refunding Issues**

In periods of declining interest rates, the Authority has refunded its bond obligations, reducing aggregate debt service. Where allowed, the 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. The 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.

# MAINE GOVERNMENTAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### 5. Refunding Issues (Continued)

The 2010A Refunding Bonds, which totaled \$25,600,000 at an average interest rate of 3.130%, were used to in-substance defease \$24,285,000 in certain maturities of outstanding 1999, 2000A, 2000B, 2001 and 2002 bonds with an average interest rate of 5.75%. The net proceeds of approximately \$25,822,000, including a bond premium of approximately \$600,100 and after payment of approximately \$378,200 in underwriting fees, insurance and other issuance costs, were used to purchase U.S. government securities which will provided for all future debt service payments on the defeased bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately \$222,000 in the year ended June 30, 2010, the Authority in effect reduced its aggregate debt service payments (and payments due from the lessee) by approximately \$906,000 over the next twelve years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$900,000.

At June 30, 2010, the remaining balances of the in-substance defeased bonds total approximately \$51,015,000.

### 6. Operating Expenses

The Authority has a management agreement with the 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 the deferred fees total of \$911,773 at June 30, 2010, is \$866,696 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, 2010, \$114,215 of previously deferred fees was included in administrative fee revenue.

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2010

	Program Revenues					Net Revenue (Expense) and Changes in net assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants/ Contributions</u>	<u>Total</u>
<b>Functions/Programs:</b>						
Maine Governmental Facilities Authority	\$8,931,879	\$8,960,862	\$ —	\$ —	\$ —	\$ 28,983
<b>Total</b>	<u>\$8,931,879</u>	<u>\$8,960,862</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	28,983
General revenues:						
Unrestricted interest and investment earnings						32,423
Miscellaneous income						<u>243,861</u>
Total general revenues and extraordinary items						<u>276,284</u>
Changes in net assets						305,267
Net assets, beginning of year						<u>1,962,998</u>
Net assets, end of year						<u>\$2,268,265</u>