

MAINE STATE LEGISLATURE

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MAINE GOVERNMENTAL FACILITIES AUTHORITY

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TO: INTERESTED PARTIES
FROM: Michael R. Goodwin, Executive Director
RE: 2012 Maine Governmental Facilities Authority Annual Report

This is the annual report for the Maine Governmental Facilities Authority for the 2012 fiscal year, running from July 1, 2011 to June 30, 2012. 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 2012, the Authority issued \$33,000,000 of bonds in one series. Funds made available by this bond sale were used for planning and construction of a new courthouse in Augusta.

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



JAN - 9 2013

BAKER NEWMAN NOYES

Maine Governmental Facilities Authority

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

*Year Ended June 30, 2012
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, 2012

TABLE OF CONTENTS

| | |
|---|---------|
| Independent Auditors' Report | 1 – 2 |
| Management's Discussion and Analysis | 3 – 8 |
| Basic Financial Statements: | |
| Balance Sheet | 9 |
| Statement of Revenues, Expenses and Changes in Net Assets | 10 |
| Statement of Cash Flows | 11 |
| Notes to Financial Statements | 12 – 19 |
| Additional Information: | |
| Schedule 1 – Schedule of Activities | 20 |

BAKER NEWMAN NOYES

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, a component unit of the State of Maine, as of and for the year ended June 30, 2012, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Maine Governmental Facilities Authority's internal control over financial reporting. 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, 2012, 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, 2012 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.

Board of Commissioners
Maine Governmental Facilities Authority

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Bond Bank's basic financial statements. The additional information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



Limited Liability Company

Portland, Maine
October 4, 2012

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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, 2012. 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 \$419,581 for fiscal year 2012, an increase of \$151,804 or 56.7% from fiscal year 2011. This increase was primarily due to an increase in new fees, representing reimbursement of legal fees and other costs incurred related to bonds issued in the General Resolution in fiscal year 2012.
- Net assets in the Authority's Operating Account at June 30, 2012 were \$2,434,608. This represents an increase of \$122,657 or 5.3% over the net assets at June 30, 2011.
- The Authority's gross bonds outstanding at June 30, 2012 were \$187,865,000. Gross bonds outstanding at June 30, 2012 increased \$15,715,000 from the balance at June 30, 2011. This is the net result of the issuance of 2011A bonds totaling \$33,000,000, less principal payments of \$17,285,000.
- The Authority's lease payments receivable from lessee at June 30, 2012 were \$187,297,230. The lease payments are closely related to the bonds outstanding. Therefore, the increase of \$15,964,641 is mainly attributed to the net effect of bonds activity as describe above. The difference between bond principal payments and principal payments received from lessee of \$249,641 relates entirely to the 2010A Series bonds, whereby the Authority receives principal payments on outstanding loans on a schedule that is slightly different than the related required principal repayments on outstanding bonds. 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.

The Authority is considered a component unit of the State of Maine. However, the Authority does not receive any direct State appropriations for its operations. The Authority does receive loan servicing fees (included in administrative fees on the statement of revenues, expenses and changes in net assets) 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, 2012

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. In fiscal 2012, the Authority has contracted with an arbitrage consultant to prepare all rebate calculations that will be filed with the Internal Revenue Service.

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 \$2,434,608 at June 30, 2012. This represents an increase of \$122,657 or 5.3% over the previous fiscal year. This increase is related to operating revenues exceeding operating expenses in fiscal year 2012.

MAINE GOVERNMENTAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

The Authority's financial position for the past two years is summarized as follows:

GENERAL OPERATING ACCOUNT

| | <u>2012</u> | <u>2011</u> | <u>Percentage Change</u> |
|--|--------------------|--------------------|------------------------------|
| Current assets: | | | |
| Cash and cash equivalents | \$1,558,544 | \$1,542,078 | 1.1% |
| Investments, at market rate | 1,500,030 | 1,519,115 | (1.3) |
| Accounts receivable | 156,135 | 88,331 | 76.8 |
| Accrued interest income receivable | <u>163</u> | <u>7,945</u> | <u>(97.9)</u> |
| Total assets | <u>\$3,214,872</u> | <u>\$3,157,469</u> | <u>1.8%</u> |
| Current liabilities: | | | |
| Deferred fees | \$ 105,726 | \$ 101,518 | 4.1% |
| Accounts payable-Maine Municipal Bond Bank | <u>10,186</u> | <u>7,702</u> | <u>32.3</u> |
| Total current liabilities | 115,912 | 109,220 | 6.1 |
| Noncurrent liabilities: | | | |
| Deferred fees | <u>664,352</u> | <u>736,298</u> | <u>(9.8)</u> |
| Total liabilities | 780,264 | 845,518 | (7.7) |
| Unrestricted net assets | <u>2,434,608</u> | <u>2,311,951</u> | <u>5.3</u> |
| Total liabilities and net assets | <u>\$3,214,872</u> | <u>\$3,157,469</u> | <u>1.8%</u> |

MAINE GOVERNMENTAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

GENERAL BOND RESOLUTION

| | <u>2012</u> | <u>2011</u> | <u>Percentage Change</u> |
|---|-----------------------|-----------------------|------------------------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ 635,875 | \$ 909,967 | (30.1)% |
| Lease payments receivable from lessee | 18,057,341 | 17,035,359 | 6.0 |
| Interest and other amounts receivable from lessee | <u>1,999,345</u> | <u>1,840,484</u> | <u>8.6</u> |
| Total current assets | 20,692,561 | 19,785,810 | 4.6 |
| Noncurrent assets: | | | |
| Lease payments receivable from lessee | <u>169,239,889</u> | <u>154,297,230</u> | <u>9.7</u> |
| Total assets | <u>\$ 189,932,450</u> | <u>\$ 174,083,040</u> | <u>9.1%</u> |
| Current liabilities: | | | |
| Bonds payable, net | \$ 18,245,000 | \$ 17,285,000 | 5.6% |
| Accrued interest payable | <u>2,028,821</u> | <u>1,865,913</u> | <u>8.7</u> |
| Total current liabilities | 20,273,821 | 19,150,913 | 5.9 |
| Noncurrent liabilities: | | | |
| Bonds payable, net | 169,620,000 | 154,865,000 | 9.5 |
| Rebate payable to Internal Revenue Service | <u>—</u> | <u>2,525</u> | <u>(100.0)</u> |
| Total noncurrent liabilities | <u>169,620,000</u> | <u>154,867,525</u> | <u>9.5</u> |
| Total liabilities | 189,893,821 | 174,018,438 | 9.1 |
| Restricted net assets | <u>38,629</u> | <u>64,602</u> | <u>(40.2)</u> |
| Total liabilities and net assets | <u>\$ 189,932,450</u> | <u>\$ 174,083,040</u> | <u>9.1%</u> |

MAINE GOVERNMENTAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

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

GENERAL OPERATING ACCOUNT

| | <u>2012</u> | <u>2011</u> | <u>Percentage Change</u> |
|---|--------------------|--------------------|------------------------------|
| Operating revenues: | | | |
| Administrative fees | \$ 414,724 | \$ 261,796 | 58.4% |
| Interest income from investments | 24,702 | 7,300 | 238.4 |
| Net decrease in fair value of investments | <u>(19,845)</u> | <u>(1,319)</u> | <u>1,404.5</u> |
| Total operating revenue | 419,581 | 267,777 | 56.7 |
| Operating expenses: | | | |
| Salaries | 59,525 | 60,553 | (1.7) |
| Employee benefits | 19,648 | 18,279 | 7.5 |
| Professional and other fees | 105,473 | 15,300 | 589.4 |
| Insurance | 46,761 | 46,334 | 0.9 |
| Office | 10,736 | 11,057 | (2.9) |
| Accretion of interest on deferred fees | 46,865 | 51,167 | (8.4) |
| Other | <u>7,916</u> | <u>7,406</u> | <u>6.9</u> |
| Total operating expenses | <u>296,924</u> | <u>210,096</u> | <u>41.3</u> |
| Operating income | 122,657 | 57,681 | 112.6 |
| Net assets, beginning of year | <u>2,311,951</u> | <u>2,254,270</u> | <u>2.6</u> |
| Net assets, end of year | <u>\$2,434,608</u> | <u>\$2,311,951</u> | <u>5.3%</u> |

GENERAL BOND RESOLUTION

| | <u>2012</u> | <u>2011</u> | <u>Percentage Change</u> |
|--|------------------|------------------|------------------------------|
| Operating revenues: | | | |
| Received and receivable from lessee | \$7,838,602 | \$7,694,279 | 1.9% |
| Interest income from investments | 5 | - | - |
| Other revenue | <u>577,655</u> | <u>-</u> | <u>-</u> |
| Total operating revenues | 8,416,262 | 7,694,279 | 9.4% |
| Operating expenses: | | | |
| Cost of issuance expense | 577,655 | - | - |
| Interest expense | 7,686,853 | 7,449,528 | 3.2 |
| Amortization of deferred bond issuance costs | 177,727 | 189,468 | (6.2) |
| Other | <u>-</u> | <u>4,676</u> | <u>(100.0)</u> |
| Total operating expenses | <u>8,442,235</u> | <u>7,643,672</u> | <u>10.4</u> |
| Operating (loss) gain | (25,973) | 50,607 | (151.3) |
| Net assets, beginning of year | <u>64,602</u> | <u>13,995</u> | <u>361.6</u> |
| Net assets, end of year | <u>\$ 38,629</u> | <u>\$ 64,602</u> | <u>(40.2)%</u> |

MAINE GOVERNMENTAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

General Operating Account

Cash and cash equivalents held in the General Operating Account increased \$16,466 or 1.1% at June 30, 2012 compared to June 30, 2011. The increase is the result of additional fees collected related to the General Bond Resolution 2011A bond issuance.

Account receivable from lessee has increased \$67,804 or 76.8% in fiscal 2012 as compared to fiscal 2011. This amount is primarily due to rebate arbitrage paid by the Authority that is to be reimbursed by the State of Maine.

Deferred fees decreased \$67,738 or 8.1% from 2011 as a result of amortization of fees collected in advance in prior years (see note 7 in financial statements).

Net assets increased \$122,657 or 5.3% in fiscal year 2012. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Investment income increased \$17,402 or 238.4% compared to fiscal 2011. Fixed government securities purchased in FY 2011 paid a higher rate of interest than the money market funds that they replaced.

Total administrative fees increased \$152,928 or 58.4% in fiscal 2012 as compared to fiscal 2011. Additional fees collected in fiscal 2012 represents reimbursement of issuance costs and related legal fees for the 2011A bond issue.

Professional and other fees increased \$90,173 in fiscal year 2012 as compared to fiscal year 2011. The increase was due to legal fees, rebate arbitrage fees and custody fees for fiscal year 2012.

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

Interest expense on the bonds increased \$237,325 or 3.2% in fiscal year 2012 from 2011 based on the scheduled payments. As a result, interest and other amounts received from Lessee also increased in fiscal 2012 by \$144,323 or 1.9%.

The Authority's net lease payments receivable from lessee increased \$15,964,641 or 9.3% in fiscal year 2012 compared to fiscal year 2011. The increase is the net effect of the Authority issuing the 2011 series A bonds totaling \$33,000,000, and the scheduled principal repayments from borrowers of \$17,035,359.

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, 2012

| <u>ASSETS</u> | <u>General Operating Account</u> | <u>General Bond Resolution</u> | <u>Total</u> |
|--|--|--|-----------------------|
| Current assets: | | | |
| Cash and cash equivalents (note 3) | \$ 1,558,544 | \$ 635,875 | \$ 2,194,419 |
| Investments (note 3) | 1,500,030 | - | 1,500,030 |
| Accounts receivable | 156,135 | - | 156,135 |
| Lease payments receivable from lessee (note 4) | - | 18,057,341 | 18,057,341 |
| Interest and other amounts receivable from lessee | - | 1,999,345 | 1,999,345 |
| Accrued interest income receivable | <u>163</u> | <u>-</u> | <u>163</u> |
| Total current assets | 3,214,872 | 20,692,561 | 23,907,433 |
| Noncurrent assets: | | | |
| Lease payments receivable from lessee (note 4) | <u>-</u> | <u>169,239,889</u> | <u>169,239,889</u> |
| | <u>\$ 3,214,872</u> | <u>\$ 189,932,450</u> | <u>\$ 193,147,322</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | | |
| Current liabilities: | | | |
| Bonds payable, net (note 4) | \$ - | \$ 18,245,000 | \$ 18,245,000 |
| Accrued interest payable | - | 2,028,821 | 2,028,821 |
| Deferred fees (note 7) | 105,726 | - | 105,726 |
| Accounts payable – Maine Municipal Bond Bank (note 6) | <u>10,186</u> | <u>-</u> | <u>10,186</u> |
| Total current liabilities | 115,912 | 20,273,821 | 20,389,733 |
| Noncurrent liabilities: | | | |
| Bonds payable, net (note 4) | - | 169,620,000 | 169,620,000 |
| Deferred fees (note 7) | <u>664,352</u> | <u>-</u> | <u>664,352</u> |
| Total noncurrent liabilities | <u>664,352</u> | <u>169,620,000</u> | <u>170,284,352</u> |
| Total liabilities | 780,264 | 189,893,821 | 190,674,085 |
| Net assets: | | | |
| Restricted | - | 38,629 | 38,629 |
| Unrestricted | <u>2,434,608</u> | <u>-</u> | <u>2,434,608</u> |
| Total net assets | <u>2,434,608</u> | <u>38,629</u> | <u>2,473,237</u> |
| | <u>\$ 3,214,872</u> | <u>\$ 189,932,450</u> | <u>\$ 193,147,322</u> |

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2012

| | <u>General Operating Account</u> | <u>General Bond Resolution</u> | <u>Total</u> |
|---|--|--|--------------------|
| Operating revenues: | | | |
| Received and receivable from lessee | \$ - | \$7,838,602 | \$7,838,602 |
| Administrative fees (note 7) | 414,724 | - | 414,724 |
| Interest income from investments | 24,702 | 5 | 24,707 |
| Net decrease in fair value of investments | (19,845) | - | (19,845) |
| Other income | <u>-</u> | <u>577,655</u> | <u>577,655</u> |
| Total operating revenue | 419,581 | 8,416,262 | 8,835,843 |
| Operating expenses (note 6): | | | |
| Costs of issuance | - | 577,655 | 577,655 |
| Interest expense | - | 7,686,853 | 7,686,853 |
| Salaries | 59,525 | - | 59,525 |
| Employee benefits | 19,648 | - | 19,648 |
| Professional and other fees | 105,473 | - | 105,473 |
| Insurance | 46,761 | - | 46,761 |
| Office | 10,736 | - | 10,736 |
| Accretion of interest on deferred fees (note 7) | 46,865 | - | 46,865 |
| Amortization of deferred bond issuance costs | - | 177,727 | 177,727 |
| Other | <u>7,916</u> | <u>-</u> | <u>7,916</u> |
| Total operating expenses | <u>296,924</u> | <u>8,442,235</u> | <u>8,739,159</u> |
| Operating income (loss) | 122,657 | (25,973) | 96,684 |
| Net assets, beginning of year | <u>2,311,951</u> | <u>64,602</u> | <u>2,376,553</u> |
| Net assets, end of year | <u>\$2,434,608</u> | <u>\$ 38,629</u> | <u>\$2,473,237</u> |

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

| | General Operating Account | General Bond Resolution | Total |
|---|---------------------------------|-------------------------------|-----------------------|
| Operating activities: | | | |
| Cash received from lessee | \$ 232,317 | \$ 24,407,966 | \$ 24,640,283 |
| Cash received from other income | — | 577,655 | 577,655 |
| Cash deposited to construction funds | — | (32,695,391) | (32,695,391) |
| Cash paid for operating expenses | (247,575) | — | (247,575) |
| Cash paid for bond issuance costs | — | (577,655) | (577,655) |
| Net cash used by operating activities | <u>(15,258)</u> | <u>(8,287,425)</u> | <u>(8,302,683)</u> |
| Noncapital financing activities: | | | |
| Proceeds on bonds payable | — | 33,000,000 | 33,000,000 |
| Principal paid on bonds payable | — | (17,285,000) | (17,285,000) |
| Interest paid on bonds payable | — | (7,701,672) | (7,701,672) |
| Net cash provided by noncapital financing activities | <u>—</u> | <u>8,013,328</u> | <u>8,013,328</u> |
| Investing activities: | | | |
| Purchases of investment securities | (2,502,238) | — | (2,502,238) |
| Proceeds from sales and maturities of investment securities | 2,501,478 | — | 2,501,478 |
| Cash received from interest income | <u>32,484</u> | <u>5</u> | <u>32,489</u> |
| Net cash provided by investing activities | <u>31,724</u> | <u>5</u> | <u>31,729</u> |
| Increase (decrease) in cash and cash equivalents | 16,466 | (274,092) | (257,626) |
| Cash and cash equivalents at beginning of year | <u>1,542,078</u> | <u>909,967</u> | <u>2,452,045</u> |
| Cash and cash equivalents at end of year | <u>\$ 1,558,544</u> | <u>\$ 635,875</u> | <u>\$ 2,194,419</u> |
| Reconciliation of operating income (loss) to net cash used by operating activities: | | | |
| Operating income (loss) | \$ 122,657 | \$ (25,973) | \$ 96,684 |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities: | | | |
| Accretion of interest on deferred fees | 46,865 | — | 46,865 |
| Amortization of deferred fees and costs | (114,215) | 177,727 | 63,512 |
| Interest expense | — | 7,686,853 | 7,686,853 |
| Interest income | (24,702) | (5) | (24,707) |
| Decrease in fair value of investments | 19,845 | — | 19,845 |
| Changes in operating assets and liabilities: | | | |
| Interest and other amounts receivable from lessee | — | (158,861) | (158,861) |
| Accounts receivable | (67,804) | — | (67,804) |
| Accounts payable | 2,484 | — | 2,484 |
| Interest rebate payable to Internal Revenue Service | — | (2,525) | (2,525) |
| Other deferred revenue | (388) | — | (388) |
| Lease payments receivable from lessee | <u>—</u> | <u>(15,964,641)</u> | <u>(15,964,641)</u> |
| Net cash used by operating activities | <u>\$ (15,258)</u> | <u>\$ (8,287,425)</u> | <u>\$ (8,302,683)</u> |

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 an arrangement 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, 2012

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, 2012

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.

New Accounting Pronouncements

In June 2011 GASB issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2011. The Authority is currently evaluating the impact, if any, this guidance will have on its financial statements.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

2. Significant Accounting Policies (Continued)

In December 2010 GASB issued Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for years beginning after December 15, 2011. The Authority is currently evaluating the impact, if any, this guidance will have on its financial statements.

In November 2010 GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

2. Significant Accounting Policies (Continued)

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the “substantively the same governing body” criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for years beginning after June 15, 2012. The Authority is currently evaluating the impact, if any, this guidance will have on its financial statements.

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, 2012, investments and cash and cash equivalents are as follows (at fair value):

| | |
|--|--------------------|
| General Operating Account: | |
| U.S. Government-sponsored enterprise bonds | \$1,500,030 |
| Cash and cash equivalents | <u>1,558,544</u> |
| | <u>\$3,058,574</u> |
| General bond resolution: | |
| Cash and cash equivalents | \$ <u>635,875</u> |

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

3. Investments and Cash and Cash Equivalents (Continued)

The following table provides information on future maturities of the Authority's investments in U.S. Government-sponsored enterprises as of June 30, 2012:

| | <u>Fair</u> <u>Value</u> | <u>Less than</u> <u>One Year</u> | <u>One to</u> <u>Five Years</u> | <u>Six to</u> <u>Ten Years</u> | <u>More than</u> <u>Ten Years</u> |
|----------------------------------|-----------------------------|-------------------------------------|------------------------------------|-----------------------------------|--------------------------------------|
| <u>General Operating Account</u> | | | | | |
| U.S. Government- | | | | | |
| Sponsored enterprises | \$1,500,030 | \$1,500,030 | \$-- | \$-- | \$-- |

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. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2012.

The cash of the general operating account at June 30, 2012 consists of \$67,114 insured deposits with a bank. Cash equivalents consist of \$1,491,430 in money market funds secured by short-term U.S. Treasury obligations.

Cash and cash equivalents of the General Bond Resolution at June 30, 2012, 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, 2012, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

| | <u>Original</u> <u>Maturity</u> | <u>Amount</u> <u>Issued</u> | <u>Amount</u> <u>Outstanding</u> <u>June 30, 2012</u> |
|--|------------------------------------|--------------------------------|---|
| Series 2002, 2.00% – 5.00%, dated November 1, 2002 | 2003 – 2022 | \$10,860,000 | \$ 2,715,000 |
| Series 2003, 2.00% – 5.00%, dated September 11, 2003 | 2004 – 2023 | 18,425,000 | 4,620,000 |
| Series 2004, 2.00% – 5.00%, dated April 22, 2004 | 2004 – 2023 | 29,500,000 | 24,775,000 |
| Series 2005 A, 3.00% – 5.00%, dated March 8, 2005 | 2006 – 2020 | 54,210,000 | 44,605,000 |
| Series 2005 B, 4.00% – 5.00%, dated November 17, 2005 | 2006 – 2015 | 8,890,000 | 3,550,000 |
| Series 2007 A, 4.00% – 5.00%, dated May 31, 2007 | 2009 – 2027 | 10,985,000 | 9,235,000 |
| Series 2008 A, 4.00% – 5.00%, dated June 19, 2008 | 2008 – 2028 | 40,565,000 | 31,985,000 |

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable and Lease Payments Receivable (Continued)

| | <u>Original Maturity</u> | <u>Amount Issued</u> | <u>Amount Outstanding June 30, 2012</u> |
|--|------------------------------|--------------------------|---|
| Series 2009 A, 3.25% – 5.00% dated October 29, 2009 | 2010 – 2029 | 11,960,000 | \$ 10,965,000 |
| Series 2010A, 2.50% – 5.00%, dated April 1, 2010 | 2010 – 2023 | 25,600,000 | 22,415,000 |
| Series 2011A, 3.00% – 4.50%, dated October 26, 2011 | 2012 – 2031 | 33,000,000 | <u>33,000,000</u> |
| | | | <u>\$ 187,865,000</u> |

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

| | |
|------------------------------------|-----------------------|
| Total principal outstanding | \$ 187,865,000 |
| Deferred amounts on refunding | (1,808,599) |
| Unamortized original issue premium | 2,495,951 |
| Unamortized bond issue costs | <u>(687,352)</u> |
| | 187,865,000 |
| Less current portion | <u>(18,245,000)</u> |
| Long-term portion | <u>\$ 169,620,000</u> |

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> |
|---------------------------------|-----------------------|---------------------|-----------------------|
| 2012 | \$ 18,245,000 | \$ 7,483,164 | \$ 25,728,164 |
| 2013 | 18,290,000 | 7,356,921 | 25,646,921 |
| 2014 | 18,130,000 | 6,612,478 | 24,742,478 |
| 2015 | 17,460,000 | 5,813,216 | 23,273,216 |
| 2016 | 16,545,000 | 5,048,076 | 21,593,076 |
| 2017– 2021 | 59,675,000 | 14,969,848 | 74,644,848 |
| 2022 – 2026 | 23,235,000 | 6,658,402 | 29,893,402 |
| 2027 – 2031 | <u>16,285,000</u> | <u>1,858,344</u> | <u>18,143,344</u> |
| | <u>\$ 187,865,000</u> | <u>\$55,800,449</u> | <u>\$ 243,665,449</u> |

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

The following summarizes bond payable activity for the Authority for the year ended June 30, 2012:

| | |
|----------------------------|-----------------------|
| Balance, beginning of year | \$ 172,150,000 |
| Issuances | 33,000,000 |
| Redemptions | <u>(17,285,000)</u> |
| Balance, end of year | <u>\$ 187,865,000</u> |

The Authority's bonds payables are to be repaid through collection of outstanding lease payments receivable from lessee. Lease payments from lessee are scheduled to closely match required bond principal and interest payments.

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.

At June 30, 2012, the remaining balances of the in-substance defeased bonds total approximately \$3,240,000.

6. **Operating Expenses**

The Authority has an arrangement 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. The arrangement is approved annually by the Board through the budgetary approval process. The Authority recognized approximately \$140,600 of expense under this arrangement in 2012 and owed the Bond Bank \$10,186 at June 30, 2012.

7. **Deferred Fees**

Included in the deferred fees total of \$770,078 at June 30, 2012, is \$736,298 representing the advance payment of the present value of all future required annual fees on certain bond issues by the executive branch of the State of Maine. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2012, \$114,215 of previously deferred fees was included in administrative fee revenue.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2012

| | <u>Program Revenues</u> | | | | | <u>Net Revenue (Expense) and Changes in net assets</u> |
|--|-------------------------|---------------------------------|--|---|--|--|
| | <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> |
| Functions/Programs: | | | | | | |
| Maine Governmental Facilities Authority | \$(8,739,159) | \$8,830,981 | \$ 5 | \$ - | \$ - | \$ 91,827 |
| Total | \$(8,739,159) | \$8,830,981 | \$ 5 | \$ - | \$ - | 91,827 |
| General revenues: | | | | | | |
| Unrestricted interest and investment earnings | | | | | | 4,857 |
| Total general revenues and extraordinary items | | | | | | 4,857 |
| Changes in net assets | | | | | | 96,684 |
| Net assets, beginning of year | | | | | | 2,376,553 |
| Net assets, end of year | | | | | | \$2,473,237 |