Maine
MHHEFA
MAINE HEALTH AND HIGHER
EDUCATIONAL FACILITIES AUTHORITY

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TO: INTERESTED PARTIES

FROM: Michael R. Goodwin, Executive Director

RE: **2012 Maine Health and Higher Educational Facilities Authority Annual Report**

This is the annual report for the Maine Health and Higher Educational Facilities Authority for the 2012 fiscal year, running from July 1, 2011 to June 30, 2012. As of June 30, 2012, the Authority has $483,872,133 outstanding under its general tax exempt conduit resolution, $1,261,850,000 outstanding under its tax exempt reserve fund resolution, and $1,615,000 outstanding under its taxable reserve fund resolution.

During fiscal year 2012 the Authority issued $119,635,000 of bonds under its tax-exempt reserve fund resolution and $335,990,000 under its general tax exempt conduit resolution. These sales were accomplished in 9 series for 4 colleges, 12 hospitals, 1 long term care facility, 1 community mental health care facility, 1 continuing care retirement facility, and 1 residential care facility.

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

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

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Certified Public Accountants

Maine Health and Higher Educational Facilities Authority

Basic Financial Statements
and Management's Discussion and Analysis

Year Ended June 30, 2012
With Independent Auditors' Report

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying financial statements which include the Operating Fund, Reserve Fund and Taxable Financing Reserve Fund, which collectively comprise the basic financial statements of Maine Health and Higher Educational Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine, as of and for the year ended June 30, 2012, as listed on the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Maine Health and Higher Educational Facilities Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority, as well as the individual fund groups referred to above, as of June 30, 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 29, 2012 on our consideration of Maine Health and Higher Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Members of
Maine Health and Higher
Educational 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 inquires 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 Maine Health and Higher Educational Facilities Authority's basic financial statements as a whole. The additional information included in Schedule 1 is presented for purposes of additional analysis and is not required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly 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.

Baker Newman + Noyes
Limited Liability Company

Portland, Maine
October 29, 2012

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

As financial management of the Maine Health and Higher Educational Facilities Authority (the Authority), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 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 financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating income for the Authority's Operating Fund was $570,595 for fiscal year 2012, an increase of $118,160 or 26 % over fiscal year 2011. This increase in operating income was due to an increase in administrative fees due to the issuance of several bond refundings as well as an increase in initial fee revenue due to an increase in general resolution bonds issued.

- Total revenues of $58,566,318 for fiscal year 2012 were an increase of $1,947,029 or 3.4% from fiscal year 2011. The increase was due to several refundings and the subsequent cost of issuance fees received and an increase in the overall net increase in the fair market value of investments.

- The Authority's loans receivable from institutions at June 30, 2012 of $1,145,111,809 represents a net decrease of $71,736,302 or 5.9% from the balance at June 30, 2011. This decrease is the result of repayment of loans by institutions during fiscal year 2012 and the refundings described below.

- The Authority's gross bonds outstanding at June 30, 2012 of $1,263,465,000 represent a net decrease of $76,065,000 or 5.7% from the balance at June 30, 2011. This decrease is primarily due to the refunding of $12,950,000 of reserve fund bonds with general resolution bonds and also the net impact of other refundings that occurred in 2012 (refer to note 8 of the audited financial statements) and the scheduled repayments of loans from institutions. The Authority's bonds are a combination of fixed and variable interest rate and tax-exempt and taxable bonds, although a majority of the bonds are fixed interest rate and tax-exempt.

Overview of the Authority

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

As the result of the Authority issuing tax-exempt debt, the Authority is required to prepare arbitrage rebate calculations for each series of 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. In fiscal year 2012, the Authority has contracted with an arbitrage consultant to prepare all rebate calculations that will be filed with the Internal Revenue Service.

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

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $54,369,186 at June 30, 2012. This represents an increase of $5,123,365 or 10.4% over the previous fiscal year, which is the Authority's 2012 operating income.

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

Balance Sheet

	2012	2011	% Change
Current assets:			
Cash and cash equivalents	$ 9,448,150	$ 9,192,430	2.8%
Investments held by trustee, at fair value	31,975,638	33,882,846	(5.6)
Operating investments, at fair value	9,820,136	8,796,092	11.6
Accrued investment income	845,113	784,597	7.7
Loans receivable from institutions	55,390,350	51,795,439	6.9
Interest and other receivables from institutions	42,655	1,553,032	(97.3)
Fees and other amounts due from other funds	1,330,900	2,029,722	(34.4)
Total current assets	108,852,942	108,034,158	0.8
Noncurrent assets:			
Investments held by trustee, at fair value	122,975,560	123,527,652	(0.4)
Supplemental reserve investments, at fair value	24,710,593	24,601,869	0.4
Loans receivable from institutions	1,089,721,459	1,165,052,672	(6.5)
Notes, advances and other receivables from institutions, net of allowance	206,427	217,563	(5.1)
Total noncurrent assets	1,237,614,039	1,313,399,756	(5.8)
Total assets	$1,346,466,981	$1,421,433,914	(5.3)%
Current liabilities:			
Bonds payable	$ 55,450,000	$ 52,300,000	6.0%
Interest payable	24,278,090	26,866,469	(9.6)
Fees and other amounts due to operating fund	1,330,900	2,029,722	(34.4)
Accounts payable	84,371	89,062	(5.3)
Rebate payable to Internal Revenue Service	–	809,756	(100.0)
Deferred revenue	2,620,985	2,734,358	(4.1)
Total current liabilities	83,764,346	84,829,367	(1.3)
Noncurrent liabilities:			
Bonds payable	1,208,015,000	1,287,230,000	(6.2)
Rebate payable to Internal Revenue Service	318,449	128,726	147.4
Total noncurrent liabilities	1,208,333,449	1,287,358,726	(6.1)
Total liabilities	1,292,097,795	1,372,188,093	(5.8)
Net assets:			
Unrestricted net assets	54,369,186	49,245,821	10.4
Total net assets	54,369,186	49,245,821	10.4
Total liabilities and net assets	$1,346,466,981	$1,421,433,914	(5.3)%

Statements of Revenues, Expenses and Changes in Net Assets

	2012	2011	% Change
Operating revenues:			
Interest and other amounts from institutions	$47,197,865	$50,120,595	(5.8)%
Administrative and other fees	1,075,801	833,760	29.0
Income from investments	5,016,987	6,197,349	(19.0)
Net increase (decrease) in the fair value of investments	3,999,456	(664,511)	701.9
Interest income from advances and notes receivable from institutions	12,167	17,990	(32.4)
Other income	1,264,042	114,106	1,007.8
Total operating revenues	58,566,318	56,619,289	3.4
Operating expenses:			
Bond issuance costs	1,124,877	–	–
Interest expense	51,532,451	54,965,662	(6.2)
Operating expenses	767,138	693,471	10.6
Bad debt provision	(98,000)	(93,000)	5.4
Other expenses	116,487	62,040	87.8
Total operating expenses	53,442,953	55,628,173	(3.9)
Operating income	5,123,365	991,116	416.9
Net assets, beginning of year	49,245,821	48,254,705	2.1
Net assets, end of year	$54,369,186	$49,245,821	10.4%

Accrued investment income at June 30, 2012 increased $60,516 or 7.7% from fiscal year 2011 due to an increase in the amount invested in long term municipal bonds. These municipal bonds replaced some of the long term guaranteed investment contracts that were downgraded, liquidated and subsequently invested in money market funds in 2009.

Interest and other receivables from institutions at June 30, 2012 decreased $1,510,377 or 97.3% from fiscal year 2011 due to the capital interest funds being used and transferred mostly in fiscal year 2011 for debt service interest payments and invoicing and collection of funds advanced for rebate being collected.

Interest payable decreased $2,588,379 or 9.6% in fiscal year 2012 over fiscal year 2011. This decrease is due to the refunding of $12,950,000 of reserve fund bonds with general resolution bonds, the net impact of other refundings that occurred in 2012 and the lower rates for fiscal year 2012 on the variable rate bonds.

Fees and other amounts due from other funds decreased $698,822 or 34.4% over fiscal year 2011 primarily due to arbitrage rebate payments paid to the Internal Revenue Service on behalf of the borrowers being reimbursed by the rebate fund.

Deferred revenue decreased $113,373 or 4.1% in fiscal year 2012 compared to fiscal year 2011. The decrease is primarily a result of applying funds that were received from an institution and previously deferred for the 2006H issue for a rebate payment due.

Rebate payable to the Internal Revenue Service at June 30, 2011 decreased $620,033 or 66% from June 30, 2011. This decrease is the result of the net difference between additional accrued liability for fiscal year 2012 and rebate payments to the Internal Revenue Service during fiscal year 2012.

The net change in the fair value of investments in 2012 was an increase of $4,663,967 or 701.9% over June 30, 2011. The increases experienced during fiscal 2012 are the result of fluctuations in the interest rate environment. The Authority's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises, municipal bonds and guaranteed investment contracts. All investments are carried at fair value, and unrealized gains and losses (primarily due to fluctuations in market values) are recognized in the statements of operations and changes in unrestricted net assets. The maturities of investments in the debt service reserve funds are scheduled to match debt service payments and are normally held to maturity.

Administrative and other fees increased $242,042 or 29.0% from fiscal year 2011 due to an increase in general resolution bonds issued, resulting in an increase in initial fee revenue.

Income from investments decreased $1,180,362 or 19.0% from fiscal year 2011. This decrease is a result of the timing of investment sales and purchases during the refunding of bonds done during fiscal year 2012, downgrading of a few guaranteed investment contracts and the subsequent investments into municipal bonds.

Interest income from advances and notes receivable decreased $5,823 or 32.4% from fiscal year 2011 due to the continuing payoff of the two remaining nursing home loans.

Other income for fiscal year 2012 increased $1,149,936 or 1007.8% from fiscal year 2011. This increase is the result of no new bonds being issued in the reserve resolution during fiscal year 2011 and therefore no revenue from cost of issuance being received versus several refunding issues for fiscal year 2012 and the related revenue being recognized. The bond issuance costs for fiscal year 2012 have also increased.

Other expenses for fiscal year 2012 increased $54,447 or 87.8% from fiscal year 2011. This increase is a result of residual funds being returned to institutions as a result of their bonds being refunded and also the issuance of an additional two year grant for the Maine Higher Educational Council.

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

Requests for Information

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2012

ASSETS

	Operating Fund	Reserve Fund	Taxable Financing Reserve Fund	Total
Current assets:				
Cash and cash equivalents (note 2)	$ 9,448,150	$ –	$ –	$ 9,448,150
Investments held by trustee, at fair value (note 3)	–	31,679,895	295,743	31,975,638
Operating investments, at fair value (note 3)	9,820,136	–	–	9,820,136
Accrued investment income	4,298	836,773	4,042	845,113
Loans receivable from institutions (note 9)	–	55,000,350	390,000	55,390,350
Interest and other receivables from institutions	–	35,032	7,623	42,655
Fees and other amounts due from other funds	1,330,900	–	–	1,330,900
Total current assets	20,603,484	87,552,050	697,408	108,852,942
Noncurrent assets:				
Investments held by trustee, at fair value (notes 3 and 6)	–	122,660,458	315,102	122,975,560
Supplemental reserve investments, at fair value (notes 1 and 3)	–	24,710,593	–	24,710,593
Loans receivable from institutions (note 9)	–	1,089,004,975	716,484	1,089,721,459
Notes, advances and other receivables from institutions, net of allowance of $426,900 (note 9)	206,427	–	–	206,427
Total noncurrent assets	206,427	1,236,376,026	1,031,586	1,237,614,039
Total assets	$20,809,911	$ 1,323,928,076	$1,728,994	$ 1,346,466,981

LIABILITIES AND NET ASSETS

	Operating Fund	Reserve Fund	Taxable Financing Reserve Fund	Total
Current liabilities:				
Bonds payable (note 4)	$ –	$ 55,060,000	$ 390,000	$ 55,450,000
Interest payable	–	24,272,088	6,002	24,278,090
Fees and other amounts due to operating fund	–	1,238,824	92,076	1,330,900
Accounts payable	77,466	6,905	–	84,371
Deferred revenue	–	2,620,985	–	2,620,985
Total current liabilities	77,466	83,198,802	488,078	83,764,346
Noncurrent liabilities:				
Bonds payable (notes 4 and 8)	–	1,206,790,000	1,225,000	1,208,015,000
Rebate payable to Internal Revenue Service	–	318,449	–	318,449
Total noncurrent liabilities	–	1,207,108,449	1,225,000	1,208,333,449
Total liabilities	77,466	1,290,307,251	1,713,078	1,292,097,795
Net assets:				
Unrestricted net assets	20,732,445	33,620,825	15,916	54,369,186
Total net assets	20,732,445	33,620,825	15,916	54,369,186
Total liabilities and net assets	$20,809,911	$ 1,323,928,076	$1,728,994	$ 1,346,466,981

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2012

	Operating Fund	Reserve Fund	Taxable Financing Reserve Fund	Total
Operating revenues:				
Interest and other amounts from institutions	$ –	$ 47,101,138	$ 96,727	$47,197,865
Administrative and other fees	1,075,801	–	–	1,075,801
Income from investments	150,190	4,851,074	15,723	5,016,987
Net increase (decrease) in the fair value of investments	(77,590)	4,077,092	(46)	3,999,456
Interest income from advances and notes receivable from institutions	12,167	–	–	12,167
Other income	139,165	1,124,877	–	1,264,042
Total operating revenues	1,299,733	57,154,181	112,404	58,566,318
Operating expenses:				
Bond issuance costs	–	1,124,877	–	1,124,877
Interest expense	–	51,418,884	113,567	51,532,451
Operating expenses (note 7)	767,138	–	–	767,138
Bad debt provision	(98,000)	–	–	(98,000)
Other expenses	60,000	56,481	6	116,487
Total operating expenses	729,138	52,600,242	113,573	53,442,953
Operating income (loss)	570,595	4,553,939	(1,169)	5,123,365
Net assets, beginning of year	20,161,850	29,066,886	17,085	49,245,821
Net assets, end of year	$20,732,445	$ 33,620,825	$ 15,916	$54,369,186

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

	Operating Fund	Reserve Fund	Taxable Financing Reserve Fund	Total
Operating activities:				
Cash received from institutions	$ 1,075,801	$ 102,904,485	$ 457,949	$ 104,438,235
Cash received from other income	139,165	–	–	139,165
Cash payments for operating expenses	(828,618)	(56,289)	(3,409)	(888,316)
Cash received from (paid to) other funds	698,822	(685,218)	(13,604)	–
Net cash provided by operating activities	1,085,170	102,162,978	440,936	103,689,084
Noncapital financing activities:				
Proceeds from bonds payable	–	124,825,858	–	124,825,858
Other proceeds from institutions in conjunction with bond issuance	–	2,846,698	–	2,846,698
Principal paid on bonds payable	–	(55,220,000)	(365,000)	(55,585,000)
Interest paid on bonds payable	–	(52,240,279)	(114,880)	(52,355,159)
Paid to refunding escrow	–	(129,855,652)	–	(129,855,652)
Transfers to General Resolution	–	(1,631,205)	–	(1,631,205)
Bond and other proceeds passed on to borrowers	–	(337,756)	–	(337,756)
Issuance costs paid	–	(1,124,877)	–	(1,124,877)
Net cash used by noncapital financing activities	–	(112,737,213)	(479,880)	(113,217,093)
Investing activities:				
Purchase of investment securities	(8,775,297)	(739,975,584)	(2,715,036)	(751,465,917)
Proceeds from sale and maturities of investment securities	7,673,663	746,376,231	2,742,011	756,791,905
Income received from investments and advances	163,048	5,650,201	11,969	5,825,218
Cash received from institutions for interest rebate	–	858,691	–	858,691
Interest rebate paid to U.S. Government	–	(2,335,304)	–	(2,335,304)
Net decrease in notes, advances and other receivable from institutions	109,136	–	–	109,136
Net cash provided (used) by investing activities	(829,450)	10,574,235	38,944	9,783,729
Increase in cash and cash equivalents	255,720	–	–	255,720
Cash and cash equivalents, beginning of year	9,192,430	–	–	9,192,430
Cash and cash equivalents, end of year	$ 9,448,150	$ –	$ –	$ 9,448,150

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2012

	Operating Fund	Reserve Fund	Taxable Financing Reserve Fund	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 570,595	$ 4,553,939	$ (1,169)	$ 5,123,365
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Investment and interest income	(162,357)	(4,851,074)	(15,723)	(5,029,154)
Net (increase) decrease in the fair value of investments	77,590	(4,077,092)	46	(3,999,456)
Bad debt provision	(98,000)	–	–	(98,000)
Interest expense on bonds payable	–	51,418,884	113,567	51,532,451
Change in assets and liabilities:				
Loans receivable from institutions	–	54,402,565	365,000	54,767,565
Accrued interest and other receivables from institutions	–	1,514,155	(3,778)	1,510,377
Due to/from other funds	698,822	(685,218)	(13,604)	–
Accounts payable	(1,480)	192	(3,403)	(4,691)
Deferred revenue	–	(113,373)	–	(113,373)
Net cash provided by operating activities	$ 1,085,170	$ 102,162,978	$ 440,936	$ 103,689,084

Summary of noncash transactions:

Loans receivable from institutions and bonds payable in the reserve fund resolution were reduced by $11,318,795 and $12,950,000, respectively as part of a 2012 general resolution refunding.

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. Organization

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

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

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

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

Operating Fund

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

In fiscal 2010, the Authority's Board of Directors adopted a resolution establishing a supplemental reserve fund within the Authority's reserve fund resolution. As part of this resolution, $24,221,739 of cash and investments were transferred from the operating fund resolution to the reserve fund resolution, which at the discretion of the Authority, shall serve as additional security for one or more series of bonds. At any time that the reserve fund investments exceed the reserve fund requirement (see note 6), the Authority may transfer any amounts held under the supplemental reserve back to the Authority's operating fund. The balance in the supplemental reserve of $24,710,593 at June 30, 2012, is presented as supplemental reserve investments on the balance sheet.

1. Organization (Continued)

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

Reserve Fund

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

Taxable Financing Reserve Fund

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

General Resolution

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

2. Significant Accounting Policies

Proprietary Fund Accounting

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

2. Significant Accounting Policies (Continued)

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

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

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with original maturities of three months or less to be cash equivalents. Included in cash and cash equivalents of the Authority's operating fund at June 30, 2012 is $250,000 of insured and $500,631 noninsured deposits with a bank and $3,663,627 of money market funds held by a custodian and secured by short-term U.S. Treasury obligations.

The Authority invests monies with the State of Maine. The State of Maine sponsors an internal investment pool (the Treasurer's Cash Pool). The Authority's participation is voluntary. The State of Maine Treasurer's Cash Pool is primarily comprised of investment vehicles with short maturities and management of the Authority characterizes the investments within the pool as low risk. The State of Maine's Treasurer's Cash Pool is not rated by external rating agencies. The Authority's management considers this investment vehicle a money market instrument and generally carries the amounts in the pool at cost. At June 30, 2012, the Authority had $5,033,892 invested in the Treasurer's Cash Pool, which is included in cash and cash equivalents on the balance sheet.

Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase (decrease) in the fair value of investments on the statement of revenues, expenses and changes in net assets. The cost of guaranteed investment contracts approximates fair value as the Authority can withdraw funds at par during the contract periods. Reserve fund investments that are not expected to be utilized to fund principal and interest payments until after June 30, 2013 have been classified as long-term.

Bond Discounts, Premiums and Issuance Costs

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

2. Significant Accounting Policies (Continued)

Interfund Transactions

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

All other interfund transactions are reported as operating transfers.

Management Estimates

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

Total Columns

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

New Accounting Pronouncements

In June 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.

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.

2. Significant Accounting Policies (Continued)

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.

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 interest in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

2. Significant Accounting Policies (Continued)

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 Held by Trustee and Operating Investments

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises and certain state and local governments, as well as certain investment contracts and collateralized repurchase agreements. The trustees/custodians invest available cash in accordance with Maine statutes, applicable Series Resolutions and Tax Regulatory Agreements. At June 30, 2012, investments are categorized as follows:

	Fair Value
Operating Fund	
Operating investments:	
U.S. Government-sponsored enterprises bonds and notes	$ 9,820,136
	$ 9,820,136
Reserve Fund	
Investments held by trustee:	
Guaranteed investment contracts	$ 54,845,050
Municipal bonds	63,717,211
Cash and cash equivalents	35,778,092
	$ 154,340,353
Supplemental Reserve Investments:	
U.S. Government-sponsored enterprises bonds and notes	$ 15,250,640
Cash and cash equivalents	9,459,953
	$ 24,710,593
Taxable Financing Reserve Fund	
Investments held by trustee:	
Municipal bonds	$ 309,584
Cash and cash equivalents	301,261
	$ 610,845

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

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, guaranteed investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Authority to terminate individual contracts at par. The Authority's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Authority's investments in guaranteed investment contracts, U.S. Government-sponsored enterprises and municipal bonds as of June 30, 2012:

	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than Ten Years
Authority's Operating Fund					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	$ 9,820,136	$5,725,316	$4,094,820	$ –	$ –
Reserve Fund					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	$ 15,250,640	$8,066,960	$7,183,680	$ –	$ –
Guaranteed investment contracts	54,845,050	–	–	–	54,845,050
Municipal bonds	63,717,211	–	1,989,833	13,747,053	47,980,325
	$ 133,812,901	$8,066,960	$9,173,513	$13,747,053	$ 102,825,375
Taxable Financing Reserve Fund					
Municipal bonds	$ 309,584	$ –	$ 309,584	$ –	$ –

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are primarily held by U.S. Bank and Bangor Savings Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at either U.S. Bank or Bangor Savings Bank at June 30, 2012.

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

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

Investments in guaranteed investment contract issuers that represent 5% or more of total guaranteed investment contracts within each respective resolution at June 30, 2012, with their credit quality ratings as issued by Standard & Poor's as of the date of this report, are as follows:

	Rating	
Reserve Fund		
Guaranteed Investment Contracts Provided By:		
FSA Capital Management Services, LLC	AA-	$42,986,267
Transamerica Life Insurance Company	AA-	11,438,906
Total		$54,425,173

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

At June 30, 2012, the ratings for investments in debt securities are summarized as follows. These ratings were as of June 30, 2012 and are not necessarily the ratings that existed at time of purchase.

Issuer	Rating	Fair Value
U.S. government-sponsored enterprises[1]	AA+	$25,070,776
Municipal bonds	AAA	6,194,652
Municipal bonds	AA+	12,787,142
Municipal bonds	AA	29,184,734
Municipal bonds	AA-	12,590,203
Municipal bonds	A+	2,147,222
Municipal bonds	A	1,122,842
		$89,097,571

[1] Includes FHLMC, FHLB, FFCB, FNMA

Trustee held cash and cash equivalents at June 30, 2012 consist primarily of short-term money market funds invested exclusively in U.S. Treasury obligations.

4. Bonds Payable

Total Reserve Fund bonds payable, with original interest rates, consist of the following at June 30, 2012:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2012
Reserve Fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	$ 44,850,000	$ 880,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	6,620,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	310,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	950,000
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	8,310,000	6,100,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	605,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	9,365,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	4,430,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	8,010,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	490,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	2,220,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	10,125,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	3,355,000
Series 2001D, 3.0% – 5.0%, dated November 1, 2001	2002 – 2031	50,700,000	3,780,000
Series 2002A, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	870,000
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	63,080,000	52,175,000
Series 2003B, 2.0% – 5.0%, dated July 1, 2003	2004 – 2033	59,245,000	6,480,000
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	7,050,000	5,400,000
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	35,880,000	21,305,000
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	72,315,000	48,335,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2012
Reserve Fund (continued):			
Series 2004B, 3.00% – 5.00%, dated December 9, 2004	2006 – 2034	$ 42,265,000	$ 34,935,000
Series 2005A, 3.0% – 5.0%, dated August 17, 2005	2006 – 2035	48,325,000	17,380,000
Series 2005B, 3.5% – 5.0%, dated December 29, 2005	2006 – 2030	28,325,000	21,370,000
Series 2006A, 3.5% – 5.0%, dated February 2, 2006	2006 – 2035	51,855,000	38,700,000
Series 2006B, 3.5% – 5.0%, dated April 6, 2006	2007 – 2036	56,795,000	44,295,000
Series 2006F, 4.0% – 5.0%, dated September 7, 2006	2007 – 2036	89,125,000	79,960,000
Series 2006G, variable rate, dated September 7, 2006	2008 – 2036	14,200,000	13,475,000
Series 2006H, variable rate, dated December 20, 2006	2012 – 2036	68,400,000	68,400,000
Series 2007A, 4.0% – 5.0%, dated July 18, 2007	2008 – 2030	96,495,000	82,390,000
Series 2007B, 4.0% – 5.0%, dated November 1, 2007	2008 – 2037	70,470,000	65,625,000
Series 2008A, variable rate, dated May 22, 2008	2008 – 2036	107,180,000	99,165,000
Series 2008B, variable rate, dated June 19, 2008	2008 – 2014	25,985,000	13,700,000
Series 2008C, 3.0% – 5.0%, dated June 19, 2008	2009 – 2038	49,540,000	45,595,000
Series 2008D, 3.0% – 5.75%, dated December 3, 2008	2009 – 2038	41,735,000	38,220,000
Series 2009A, 2.0% – 5.125%, dated December 10, 2009	2010 – 2039	92,780,000	91,830,000
Series 2010A, 2.5% – 5.25% dated April 22, 2010	2011 – 2040	97,240,000	94,300,000
Series 2010B, 2.5% – 5.25% dated June 24, 2010	2011 – 2031	96,755,000	90,510,000
Series 2010C, 2.5% – 4.0% dated June 24, 2010	2011 – 2023	11,275,000	10,560,000
Series 2011A, 2.0% – 5.0% dated August 31, 2011	2012 – 2031	36,535,000	36,535,000
Series 2011B, 1.25% – 2.3% dated August 31, 2011	2012 – 2015	3,440,000	3,440,000
Series 2011C, 2.0% – 5.0% dated November 30, 2011	2012 – 2031	38,935,000	38,935,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2012
Reserve Fund (continued):			
Series 2012A, 2.0% – 5.0% dated June 28, 2012	2013 – 2032	$ 40,725,000	$ 40,725,000
		$2,157,485,000	1,261,850,000
Current portion			55,060,000
Noncurrent portion			$1,206,790,000

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

Year Ending	Principal	Interest	Total
2013	$ 55,060,000	$ 48,672,096	$ 103,732,096
2014	56,445,000	47,634,234	104,079,234
2015	58,470,000	45,763,496	104,233,496
2016	53,565,000	43,724,835	97,289,835
2017	54,220,000	41,619,011	95,839,011
2018 – 2022	281,475,000	174,578,731	456,053,731
2023 – 2027	265,340,000	116,668,711	382,008,711
2028 – 2032	230,400,000	64,155,467	294,555,467
2033 – 2037	165,050,000	25,290,014	190,340,014
2038 – 2041	41,825,000	3,131,603	44,956,603
Total	$1,261,850,000	$611,238,198	$1,873,088,198

Taxable Financing Reserve fund bonds payable consist of the following at June 30, 2012:

	Original Maturity	Original Amount Issued	Outstanding June 30, 2012
Taxable Financing Reserve Fund:			
Series 1993B, variable interest rate, dated October 27, 1993	1994 – 2013	$25,060,000	$ 325,000
Series 1996A, variable interest rate, dated February 22, 1996	1996 – 2016	16,440,000	1,290,000
		$41,500,000	1,615,000
Current portion			390,000
Noncurrent portion			$1,225,000

4. Bonds Payable (Continued)

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

Year Ending	Principal	Interest	Total
2013	$ 390,000	$ 99,850	$ 489,850
2014	400,000	72,066	472,066
2015	255,000	49,034	304,034
2016	275,000	30,405	305,405
2017	295,000	10,369	305,369
	$1,615,000	$261,724	$1,876,724

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

	Reserve Fund	Taxable Financing Reserve Fund
Balance, beginning of year	$1,337,550,000	$1,980,000
Issuances, at par	119,635,000	–
Redemptions:		
Principal payments	55,220,000	365,000
Bonds refunded (note 8)	140,115,000	–
Balance, end of year	$1,261,850,000	$1,615,000

The Authority's bonds payable are to be repaid through collection of outstanding loans receivable from institutions and liquidation of reserve fund investments (see note 6). Certain outstanding bonds within the Reserve Fund and Taxable Financing Reserve Fund carry variable interest rates. Within the Reserve Fund, variable interest rates are reset to market every 7 days; interest rates range from .17% to .18% at June 30, 2012. Within the Taxable Financing Reserve Funds, variable interest rates are set at LIBOR + .40% for Series 1996A bonds and LIBOR + .80% for Series 1993B bonds, which approximates .64% and 1.04%, respectively, at June 30, 2012.

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

5. Conduit Debt

Conduit debt of the Authority consists of bonds outstanding within the general resolution. The following is a summary of outstanding conduit debt, with original interest rates, at June 30, 2012:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2012
General Resolution:			
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	$ 11,885,000	$ 470,000
Mt. Desert Island Hospital, Series 1992, variable interest rate equal to 80% of the prime rate of Bank of America, dated July 15, 1992	1993 – 2012	1,300,000	100,000
Mid Coast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2006 – 2043	8,830,000	8,175,000
Bowdoin College, Series 2008, variable rate, dated March 24, 2008	2032 – 2037	20,700,000	20,700,000
Bowdoin College, Series 2009A, 5% – 5.125%, dated May 14, 2009	2035 – 2039	98,750,000	98,750,000
Bowdoin College, Series 2009B, 6.667%, dated May 14, 2009	2035 – 2039	19,750,000	19,750,000
Maine General Health, Series 2011, 4.0% – 7.5%, dated August 11, 2011	2012 – 2041	280,750,000	280,750,000
Maine College of Art, Series 2011, 3.79%, dated November 4, 2011	2012 – 2021	3,300,000	3,237,133
Colby College, Series 2012, 2.0% – 3.625%, dated January 31, 2012	2012 – 2041	27,670,000	27,670,000
Piper Shores, Series 2012, variable rate, dated March 7, 2012	2012 – 2022	5,000,000	5,000,000
St. Mary's Hospital, Series 2012, 3.42%, dated May 31, 2012	2013 – 2036	19,270,000	19,270,000
		$ 497,205,000	$ 483,872,133

The following is a summary of conduit debt activity for the year ended June 30, 2012:

Bonds outstanding as of June 30, 2011	$ 148,345,000
Plus: Bonds issued during fiscal 2012	335,990,000
Less: Redemptions during fiscal 2012	462,867
Bonds outstanding as of June 30, 2012	$ 483,872,133

5. Conduit Debt (Continued)

On January 31, 2012, the Authority issued series 2012 general resolution tax-exempt bonds in the amount of $27,670,000 with an average interest rate of 3.56%. A portion of the bonds was used to insubstance defease $12,950,000 of outstanding reserve fund resolution maturities with the 2002B and 2003B reserve bond series. The net proceeds of approximately $13,711,000 including other sources of funds and after payments of underwriting fees, insurance and other issuance costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on defeased bonds. The economic benefits associated with the refunding inure to the respective institutions.

At June 30, 2012, there were approximately $13,315,000 of defeased bonds remaining outstanding with respect to advance refunded conduit debt of bond issues of the general resolution.

6. Reserve Funds

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

Reserve Fund

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2012, the required debt service reserve was approximately $105,225,000 and the fair value of the debt service reserve assets totaled approximately $123,000,000.

In addition, the Authority maintains a supplemental reserve as described in note 1. The fair value of these assets at June 30, 2012 is approximately $24,700,000.

Taxable Financing Reserve Fund

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2012, the required debt service reserve was approximately $486,000 and the fair value of the debt service reserve assets totaled approximately $506,000.

7. Operating Expenses

The Authority has an arrangement with the Bond Bank which allocates a portion of Bond Bank payroll and general overhead expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead. The arrangement is approved annually by the Board through the budgetary approval process. The Authority recognized approximately $413,000 of expense under this agreement in fiscal year 2012.

8. Refunded Issues

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

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

On November 30, 2011, the Authority issued $38,935,000 in 2011C reserve resolution fund bonds with an average interest rate of 4.36%, all of which was used to in-substance defease $39,235,000 of certain maturities within the 1998B, 2001A, 2001B and 2001D bond series. The net proceeds of approximately $40,228,000, including other sources of funds and after payment of underwriting fees, insurance and other issuance costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on defeased bonds. The economic benefits associated with the refunding inure to the respective institutions.

On June 28, 2012, the Authority issued $40,725,000 in 2012A reserve resolution fund bonds with an average interest rate of 4.51%, all of which was used to in-substance defease $45,890,000 of certain maturities within the 1999A, 2000C, 2002A and 2002B bond series. The net proceeds of approximately $47,197,000, including other sources of funds and after payment of underwriting fees, insurance and other issuance costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on defeased bonds. The economic benefits associated with the refunding inure to the respective institutions.

At June 30, 2012, there were approximately $141,185,000 of in-substance defeased bonds remaining outstanding with respect to all advance-refunding issues within the reserve fund resolution.

9. Nursing Home Loans and Advances

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

The Authority has advanced approximately $116,000 from its operating fund to an institution with outstanding loans owed to the Authority of approximately $134,000 within the taxable financing reserve fund resolution, and has loaned from its operating fund approximately $141,000 to an institution with outstanding loans owed to the Authority of approximately $8,152,000 within the reserve fund resolution at June 30, 2012. These advances and loans, upon which interest income is recognized only to the extent that cash payments are received, were primarily made to assist these institutions in meeting debt service requirements in years prior to fiscal 2012. The Authority also has approximately $376,000 of other receivables outstanding within the operating fund at June 30, 2012, primarily related to amounts due from institutions to reimburse the Authority for arbitrage and other payments made on their behalf.

At June 30, 2012, the Authority has established a reserve of $426,900 in the operating fund related to the above loans, advances and other receivables outstanding.

SUPPLEMENTAL SCHEDULE

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2012

	Expenses	Program Revenues: Charges for Services	Program Revenues: Program Investment Income	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants/ Contributions	Net Revenue and Changes in net assets: Total
Functions/Programs:						
Maine Health and Higher Educational Facilities Authority	$53,442,953	$49,410,710	$8,943,843	$ –	$ –	$ 4,911,600
Total	$53,442,953	$49,410,710	$8,943,843	$ –	$ –	4,911,600
General revenues:						
Unrestricted interest and investment earnings						72,600
Miscellaneous income						139,165
Total general revenues						211,765
Changes in net assets						5,123,365
Net assets, beginning of year						49,245,821
Net assets, end of year						$54,369,186