Maine HHEFA
MAINE HEALTH AND HIGHER
EDUCATIONAL FACILITIES AUTHORITY

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TO: INTERESTED PARTIES

FROM: Michael R. Goodwin, Executive Director

RE: **2013 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 2013 fiscal year, running from July 1, 2012 to June 30, 2013. As of June 30, 2013, the Authority has $632,150,164 outstanding under its general tax exempt conduit resolution, $1,194,155,000 outstanding under its tax exempt reserve fund resolution, and $1,065,000 outstanding under its taxable reserve fund resolution.

During fiscal year 2013 the Authority issued $64,030,000 of bonds under its tax-exempt reserve fund resolution and $157,390,000 under its general tax exempt conduit resolution. These sales were accomplished in 3 series for 2 colleges, 6 hospitals, 1 long term care facility, 1 community mental health care 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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Maine Health and Higher Educational Facilities Authority

Basic Financial Statements
and Management's Discussion and Analysis

Year Ended June 30, 2013
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, 2013

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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, consisting of the Operating Fund, Reserve Fund and Taxable Financing Reserve Fund of Maine Health and Higher Educational Facilities Authority (the Authority), which comprise the statements of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements. The Authority is a component unit of the State of Maine.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Members of
Maine Health and Higher Educational Facilities Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as well as the individual fund groups referred to above, as of June 30, 2013, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Baker Newman + Noyes
Limited Liability Company

Portland, Maine
October 15, 2013

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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, 2013. 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 $336,209 for fiscal year 2013, a decrease of $234,386 or 41.1 % compared to fiscal year 2012. This decrease in operating income was due to a decrease in initial fees on bond issuances, as there were fewer General Resolution and Reserve Fund bond issuances in 2013 compared to 2012. Additionally, there was an increase in payments for arbitrage/rebate services in 2013, which reduced operating income.

- Total revenues of $48,493,463 for fiscal year 2013 were a decrease of $10,072,855 or 17.2% from fiscal year 2012. The decrease was due primarily to a net decrease in the fair value of investments of $3,066,470 in 2013 compared to a net increase in the fair value of investments of $3,999,456 in 2012. Additionally, interest and other amounts from institutions decreased $3,248,903 from the prior year due to the lower balance of loans outstanding during the year and impact of refundings of loans in the current and prior year.

- The Authority's loans receivable from institutions at June 30, 2013 of $1,079,431,398 represents a net decrease of $65,680,411 or 5.7% from the balance at June 30, 2012. This decrease is the result of repayment of loans by institutions during fiscal year 2013 and the refunding described below.

- The Authority's gross bonds outstanding at June 30, 2013 of $1,195,220,000 represent a net decrease of $68,245,000 or 5.4% from the balance at June 30, 2012. This decrease is primarily due to the refunding of $73,015,000 of reserve fund bonds with the 2013A refunding bond and the scheduled repayments of loans from institutions. The Authority's bonds are a combination of fixed and variable interest rate and tax-exempt and taxable bonds, although a majority of the bonds are fixed interest rate and tax-exempt.

Overview of the Authority

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

As the result of the Authority issuing tax-exempt debt, the Authority is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority contracts with an arbitrage consultant to maintain and prepare all rebate calculations that will be filed with the Internal Revenue Service.

For financial statement reporting purposes, the Authority is considered a component unit of the State of Maine. However, the Authority does not receive any State appropriations for its operations and is funded from fees charged to participating borrowers and interest earnings from 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 statement of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Net position increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities result in increased net position, which may indicate an improved financial position.

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

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

Notes to the Financial Statements

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

Financial Analysis

Net position may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $52,800,464 at June 30, 2013. This represents a decrease of $1,568,722 or 2.9% over the previous fiscal year, which is the Authority's 2013 operating loss.

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

Statements of Net Position

	2013	2012	% Change
Current assets:			
Cash and cash equivalents	$ 7,986,776	$ 9,448,150	(15.5)%
Investments held by trustee, at fair value	30,562,515	31,975,638	(4.4)
Operating investments, at fair value	11,625,245	9,820,136	18.4
Accrued investment income	916,804	845,113	8.5
Loans receivable from institutions	52,623,581	55,390,350	(5.0)
Interest and other receivables from institutions	401,445	42,655	841.1
Fees and other amounts due from other funds	1,268,757	1,330,900	(4.7)
Total current assets	105,385,123	108,852,942	(3.2)
Noncurrent assets:			
Investments held by trustee, at fair value	117,707,581	122,975,560	(4.3)
Supplemental reserve investments	24,811,022	24,710,593	0.4
Loans receivable from institutions	1,026,807,817	1,089,721,459	(5.8)
Notes, advances and other receivables from institutions, net of allowance	203,061	206,427	(1.6)
Total noncurrent assets	1,169,529,481	1,237,614,039	(5.5)
Total assets	1,274,914,604	1,346,466,981	(5.3)
Current liabilities:			
Bonds payable	52,945,000	55,450,000	(4.5)
Interest payable	22,582,502	24,278,090	(7.0)
Fees and other amounts due to operating fund	1,268,757	1,330,900	(4.7)
Accounts payable	31,299	84,371	(62.9)
Rebate payable to Internal Revenue Service	40,772	–	–
Deferred revenue	2,668,715	2,620,985	1.8
Total current liabilities	79,537,045	83,764,346	(5.0)
Noncurrent liabilities:			
Bonds payable	1,142,275,000	1,208,015,000	(5.4)
Rebate payable to Internal Revenue Service	302,095	318,449	(5.1)
Total noncurrent liabilities	1,142,577,095	1,208,333,449	(5.4)
Total liabilities	1,222,114,140	1,292,097,795	(5.4)
Net position:			
Unrestricted	52,800,464	54,369,186	(2.9)
Total net position	$ 52,800,464	$ 54,369,186	(2.9)%

Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	% Change
Operating revenues:			
Interest and other amounts from institutions	$43,948,962	$47,197,865	(6.9)%
Administrative and other fees	916,946	1,075,801	(14.8)
Income from investments	5,803,197	5,016,987	15.7
Net (decrease) increase in the fair value of investments	(3,066,470)	3,999,456	(176.7)
Interest income from advances and notes receivable from institutions	5,849	12,167	(51.9)
Other income	884,979	1,264,042	(30.0)
Total operating revenues	48,493,463	58,566,318	(17.2)
Operating expenses:			
Bond issuance costs	769,439	1,124,877	(31.6)
Interest expense	48,427,295	51,532,451	(6.0)
Operating expenses	858,981	767,138	12.0
Bad debt recovery	(104,000)	(98,000)	6.1
Other expenses	110,470	116,487	(5.2)
Total operating expenses	50,062,185	53,442,953	(6.3)
Operating (loss) income	(1,568,722)	5,123,365	(130.6)
Net position, beginning of year	54,369,186	49,245,821	10.4
Net position, end of year	$52,800,464	$54,369,186	(2.9)%

Cash and cash equivalents at June 30, 2013 decreased $1,461,374 or 15.5% from the balance at June 30, 2012. This decrease was offset by an increase in operating investments of $1,805,109.

Accrued investment income at June 30, 2013 increased $71,691 or 8.5% from fiscal year 2012 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 prior years.

Interest and other receivables from institutions at June 30, 2013 increased $358,790 or 841.1% from fiscal year 2012 primarily as a result of the rebate funds receivable from institutions increasing due to an increase in rebate expense for certain issues.

Investment income increased $786,210 or 15.7% from fiscal year 2012 primarily due to a decrease in arbitrage rebate expense from 2012 which offsets investment income.

The net change in the fair value of investments in 2013 was a decrease of $7,065,926 or 176.7% from June 30, 2012. The decreases experienced during fiscal 2013 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.

Interest expense decreased $3,105,156 or 6% from June 30, 2012. The decrease is the result of a lower balance of bonds outstanding during the year as well as a reduction in interest rates on bonds refunded in the current and prior year.

Administrative and other fees decreased $158,855 or 14.8% from fiscal year 2012 due to a decrease in initial fees and the refunding and payoffs of bonds, resulting in a decrease in Authority fees.

Interest income from advances and notes receivable decreased $6,318 or 51.9% from fiscal year 2012 due to the continuing payoff of the loans to nursing homes.

Other income for fiscal year 2013 decreased $379,063 or 30.0% from fiscal year 2012. This decrease is partially due to a reduction in fees received for Maine Power Options. In addition, bond issuance costs which are reimbursed from the bond issue accounts and are directly related to the volume of bonds issued during the fiscal year and are considered revenue to the Operating Fund, decreased from fiscal year 2012.

Operating expenses increased $91,843 or 12.0% from fiscal year 2012 due to an increase in payments for arbitrage/rebate services.

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

Requests for Information

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2013

ASSETS	Operating Fund	Reserve Fund	Taxable Financing Reserve Fund	Total
Current assets:				
Cash and cash equivalents (note 2)	$ 7,986,776	$ –	$ –	$ 7,986,776
Investments held by trustee, at fair value (note 3)	–	30,486,209	76,306	30,562,515
Operating investments, at fair value (note 3)	11,625,245	–	–	11,625,245
Accrued investment income	11,856	900,958	3,990	916,804
Loans receivable from institutions (note 9)	–	52,383,581	240,000	52,623,581
Interest and other receivables from institutions	–	366,982	34,463	401,445
Fees and other amounts due from other funds	1,268,757	–	–	1,268,757
Total current assets	20,892,634	84,137,730	354,759	105,385,123
Noncurrent assets:				
Investments held by trustee, at fair value (notes 3 and 6)	–	117,397,175	310,406	117,707,581
Supplemental reserve investments, at fair value (notes 1 and 3)	–	24,811,022	–	24,811,022
Loans receivable from institutions (note 9)	–	1,026,299,965	507,852	1,026,807,817
Notes, advances and other receivables from institutions, net of allowance of $273,259 (note 9)	203,061	–	–	203,061
Total noncurrent assets	203,061	1,168,508,162	818,258	1,169,529,481
Total assets	21,095,695	1,252,645,892	1,173,017	1,274,914,604

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2013

	Operating Fund	Reserve Fund	Taxable Financing Reserve Fund	Total
LIABILITIES				
Current liabilities:				
Bonds payable (note 4)	$ –	$ 52,705,000	$ 240,000	$ 52,945,000
Interest payable	–	22,579,279	3,223	22,582,502
Fees and other amounts due to operating fund	–	1,173,490	95,267	1,268,757
Accounts payable	27,041	–	4,258	31,299
Rebate payable to Internal Revenue Service	–	40,772	–	40,772
Deferred revenue	–	2,668,715	–	2,668,715
Total current liabilities	27,041	79,167,256	342,748	79,537,045
Noncurrent liabilities:				
Bonds payable (notes 4 and 8)	–	1,141,450,000	825,000	1,142,275,000
Rebate payable to Internal Revenue Service	–	302,095	–	302,095
Total noncurrent liabilities	–	1,141,752,095	825,000	1,142,577,095
Total liabilities	27,041	1,220,919,351	1,167,748	1,222,114,140
NET POSITION				
Unrestricted net position	$21,068,654	$ 31,726,541	$ 5,269	$ 52,800,464

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30, 2013

	Operating Fund	Reserve Fund	Taxable Financing Reserve Fund	Total
Operating revenues:				
Interest and other amounts from institutions	$ –	$ 43,879,957	$ 69,005	$43,948,962
Administrative and other fees	916,946	–	–	916,946
Income from investments	162,657	5,628,217	12,323	5,803,197
Net decrease in the fair value of investments	(109,802)	(2,945,972)	(10,696)	(3,066,470)
Interest income from advances and notes receivable from institutions	5,849	–	–	5,849
Other income	115,540	769,439	–	884,979
Total operating revenues	1,091,190	47,331,641	70,632	48,493,463
Operating expenses:				
Bond issuance costs	–	769,439	–	769,439
Interest expense	–	48,352,425	74,870	48,427,295
Operating expenses (note 7)	858,981	–	–	858,981
Bad debt recovery	(104,000)	–	–	(104,000)
Other expenses	–	104,061	6,409	110,470
Total operating expenses	754,981	49,225,925	81,279	50,062,185
Operating income (loss)	336,209	(1,894,284)	(10,647)	(1,568,722)
Net position, beginning of year	20,732,445	33,620,825	15,916	54,369,186
Net position, end of year	$21,068,654	$ 31,726,541	$ 5,269	$52,800,464

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2013

	Operating Fund	Reserve Fund	Taxable Financing Reserve Fund	Total
Operating activities:				
Cash received from institutions	$ 916,946	$ 100,614,436	$ 400,797	$ 101,932,179
Cash received from other income	115,540	–	–	115,540
Cash payments for operating and other expenses	(909,406)	(110,966)	(2,151)	(1,022,523)
Cash received from (paid to) other funds	62,143	(65,334)	3,191	–
Net cash provided by operating activities	185,223	100,438,136	401,837	101,025,196
Noncapital financing activities:				
Proceeds from bonds payable	–	70,834,003	–	70,834,003
Other proceeds from institutions in conjunction with bond issuance	–	2,796,016	–	2,796,016
Principal paid on bonds payable	–	(58,710,000)	(550,000)	(59,260,000)
Interest paid on bonds payable	–	(48,995,262)	(77,649)	(49,072,911)
Paid to refunding escrow	–	(74,740,465)	–	(74,740,465)
Other issuance costs received from borrowers	–	147,994	–	147,994
Issuance costs paid	–	(769,439)	–	(769,439)
Net cash used by noncapital financing activities	–	(109,437,153)	(627,649)	(110,064,802)
Investing activities:				
Purchase of investment securities	(7,614,911)	(418,613,679)	(1,285,668)	(427,514,258)
Proceeds from sale and maturities of investment securities	5,700,000	422,024,246	1,499,105	429,223,351
Income received from investments and advances	160,948	5,594,106	12,375	5,767,429
Interest rebate paid to U.S. Government	–	(5,656)	–	(5,656)
Net decrease in notes, advances and other receivable from institutions	107,366	–	–	107,366
Net cash provided (used) by investing activities	(1,646,597)	8,999,017	225,812	7,578,232
Decrease in cash and cash equivalents	(1,461,374)	–	–	(1,461,374)
Cash and cash equivalents, beginning of year	9,448,150	–	–	9,448,150
Cash and cash equivalents, end of year	$ 7,986,776	$ –	$ –	$ 7,986,776

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2013

	Operating Fund	Reserve Fund	Taxable Financing Reserve Fund	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 336,209	$ (1,894,284)	$ (10,647)	$ (1,568,722)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Investment and interest income	(168,506)	(5,628,217)	(12,323)	(5,809,046)
Net decrease in the fair value of investments	109,802	2,945,972	10,696	3,066,470
Bad debt recovery	(104,000)	–	–	(104,000)
Interest expense on bonds payable	–	48,352,425	74,870	48,427,295
Change in assets and liabilities:				
Loans receivable from institutions	–	57,018,699	358,632	57,377,331
Accrued interest and other receivables from institutions	–	(331,950)	(26,840)	(358,790)
Due to/from other funds	62,143	(65,334)	3,191	–
Accounts payable	(50,425)	(6,905)	4,258	(53,072)
Deferred revenue	–	47,730	–	47,730
Net cash provided by operating activities	$ 185,223	$ 100,438,136	$ 401,837	$ 101,025,196

See accompanying notes.

1. Organization

Maine Health and Higher Educational Facilities Authority (the Authority) is constituted as an instrumentality and is a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Title 22, Chapter 413, Sections 2051 to 2074, inclusive and as amended by Chapter 584 of the Public Laws of 1991.

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

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

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

Operating Fund

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

In fiscal 2010, the Authority's Board of Directors adopted a resolution establishing a supplemental reserve fund within the Authority's reserve fund resolution. As part of this resolution, $24,221,739 of cash and investments were transferred from the operating fund resolution to the reserve fund resolution, which at the discretion of the Authority, shall serve as additional security for one or more series of bonds. At any time that the reserve fund investments exceed the reserve fund requirement (see note 6), the Authority may transfer any amounts held under the supplemental reserve back to the Authority's operating fund. The balance in the supplemental reserve of $24,811,022 at June 30, 2013, is presented as supplemental reserve investments on the statement of net position.

1. Organization (Continued)

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

Reserve Fund

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

Taxable Financing Reserve Fund

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

General Resolution

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

2. Significant Accounting Policies

Proprietary Fund Accounting

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

2. Significant Accounting Policies (Continued)

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

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

Federal Income Taxes

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

Arbitrage rebate expense, which is presented as a reduction in the amount of interest income from investments, for the year ended June 30, 2013 was approximately $30,000.

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with original maturities of three months or less to be cash equivalents. Included in cash and cash equivalents of the Authority's operating fund at June 30, 2013 is $250,000 of insured and $343,386 noninsured deposits with a bank and $2,346,155 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, 2013, the Authority had $5,047,343 invested in the Treasurer's Cash Pool, which is included in cash and cash equivalents on the statement of net position.

Investments

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

2. Significant Accounting Policies (Continued)

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.

Interfund Transactions

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

All other interfund transactions are reported as operating transfers.

Management Estimates

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

Total Columns

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

Implementation of New Accounting Standards

The Authority adopted the following new accounting standards in 2013:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) and AICPA pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. This Statement improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local government so that they derive from a single source. There was no impact on the Authority's financial statements as a result of the adoption of GASB 62.

2. Significant Accounting Policies (Continued)

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). This Statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. Deferred outflows of resources and deferred inflows of resources are now required to be reported separately from assets and liabilities.

The adoption of GASB 63 resulted in a change in the presentation of the Balance Sheet to what is now referred to as the Statement of Net Position and the term "net assets" is changed to "net position" throughout the financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53* (GASB 64). This Statement clarifies the termination provisions in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, when a counterparty of an interest rate or commodity swap is replaced. There was no impact on the Authority's financial statements as a result of the adoption of GASB 64.

Other GASB standards that are under evaluation include:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It requires the reclassification of amounts previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources or to expenses or revenues.

GASB 65 is effective for the year ending June 30, 2014 and the Authority is currently evaluating the impact, if any, this guidance will have on its financial statements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34* and GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62* are effective for the year ending June 30, 2014, GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* are effective for the year ending June 30, 2015, and GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* is effective for the year ending June 30, 2016. The Authority has not yet adopted these standards and is evaluating the impact they may 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, 2013, investments are categorized as follows:

	Fair Value
Operating Fund	
Operating investments:	
U.S. Government-sponsored enterprises bonds and notes	$ 11,625,245
	$ 11,625,245
Reserve Fund	
Investments held by trustee:	
Guaranteed investment contracts	$ 51,393,183
Municipal bonds	64,477,161
Cash and cash equivalents	32,013,040
	$ 147,883,384
Supplemental Reserve Investments:	
U.S. Government-sponsored enterprises bonds and notes	$ 16,108,055
Cash and cash equivalents	8,702,967
	$ 24,811,022
Taxable Financing Reserve Fund	
Investments held by trustee:	
Municipal bonds	$ 304,180
Cash and cash equivalents	82,532
	$ 386,712

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, 2013:

	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.)	$ 11,625,245	$5,621,995	$ 6,003,250	$ –	$ –
Reserve Fund					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	$ 16,108,055	$8,010,425	$ 8,097,630	$ –	$ –
Guaranteed investment contracts	51,393,183	–	–	110,900	51,282,283
Municipal bonds	64,477,161	824,065	3,630,952	13,642,317	46,379,827
	$ 131,978,399	$8,834,490	$11,728,582	$13,753,217	$97,662,110
Taxable Financing Reserve Fund					
Municipal bonds	$ 304,180	$ –	$ 304,180	$ –	$ –

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, 2013.

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, 2013, 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-	$39,534,400
Transamerica Life Insurance Company	AA-	11,438,906
Total		$50,973,306

During prior years, certain guaranteed investment contract providers experienced credit downgrades. As a result, the Authority exercised provisions in the various contracts and redeemed the contracts at par. Upon liquidation, monies were invested in cash and cash equivalents 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, 2013, the ratings for investments in debt securities are summarized as follows. These ratings were as of June 30, 2013 and are not necessarily the ratings that existed at time of purchase.

Issuer	Rating	Fair Value
U.S. government-sponsored enterprises(1)	AA+	$27,733,300
Municipal bonds	AAA	6,018,586
Municipal bonds	AA+	14,856,137
Municipal bonds	AA	28,261,356
Municipal bonds	AA-	12,398,218
Municipal bonds	A+	2,703,425
Municipal bonds	A	543,619
		$92,514,641

(1) Includes FHLMC, FHLB, FFCB, FNMA

Trustee held cash and cash equivalents at June 30, 2013 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, 2013:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2013
Reserve Fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	$ 44,850,000	$ 820,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	6,230,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	295,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	780,000
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	8,310,000	5,850,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	530,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	9,005,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	4,255,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	7,260,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	415,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	1,720,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	9,820,000
Series 2001D, 3.0% – 5.0%, dated November 1, 2001	2002 – 2031	50,700,000	3,665,000
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	63,080,000	3,705,000
Series 2003B, 2.0% – 5.0%, dated July 1, 2003	2004 – 2033	59,245,000	1,445,000
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	7,050,000	235,000
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	35,880,000	3,495,000
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	72,315,000	44,400,000
Series 2004B, 3.00% – 5.00%, dated December 9, 2004	2006 – 2034	42,265,000	33,575,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2013
Reserve Fund (continued):			
Series 2005A, 3.0% – 5.0%, dated August 17, 2005	2006 – 2035	$ 48,325,000	$ 17,200,000
Series 2005B, 3.5% – 5.0%, dated December 29, 2005	2006 – 2030	28,325,000	19,970,000
Series 2006A, 3.5% – 5.0%, dated February 2, 2006	2006 – 2035	51,855,000	36,120,000
Series 2006B, 3.5% – 5.0%, dated April 6, 2006	2007 – 2036	56,795,000	43,295,000
Series 2006F, 4.0% – 5.0%, dated September 7, 2006	2007 – 2036	89,125,000	77,245,000
Series 2006G, variable rate, dated September 7, 2006	2008 – 2036	14,200,000	13,275,000
Series 2006H, variable rate, dated December 20, 2006	2012 – 2036	68,400,000	66,925,000
Series 2007A, 4.0% – 5.0%, dated July 18, 2007	2008 – 2030	96,495,000	78,555,000
Series 2007B, 4.0% – 5.0%, dated November 1, 2007	2008 – 2037	70,470,000	64,010,000
Series 2008A, variable rate, dated May 22, 2008	2008 – 2036	107,180,000	96,330,000
Series 2008B, variable rate, dated June 19, 2008	2008 – 2014	25,985,000	9,300,000
Series 2008C, 3.0% – 5.0%, dated June 19, 2008	2009 – 2038	49,540,000	44,130,000
Series 2008D, 3.0% – 5.75%, dated December 3, 2008	2009 – 2038	41,735,000	36,525,000
Series 2009A, 2.0% – 5.125%, dated December 10, 2009	2010 – 2039	92,780,000	90,655,000
Series 2010A, 2.5% – 5.25% dated April 22, 2010	2011 – 2040	97,240,000	90,940,000
Series 2010B, 2.5% – 5.25% dated June 24, 2010	2011 – 2031	96,755,000	83,565,000
Series 2010C, 2.5% – 4.0% dated June 24, 2010	2011 – 2023	11,275,000	9,820,000
Series 2011A, 2.0% – 5.0% dated August 31, 2011	2012 – 2031	36,535,000	34,640,000
Series 2011B, 1.25% – 2.3% dated August 31, 2011	2012 – 2015	3,440,000	2,575,000
Series 2011C, 2.0% – 5.0% dated November 30, 2011	2012 – 2031	38,935,000	36,825,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2013
Reserve Fund (continued):			
Series 2012A, 2.0% – 5.0% dated June 28, 2012	2013 – 2032	$ 40,725,000	$ 40,725,000
Series 2013A, 2.0% – 5.0% dated May 23, 2013	2014 – 2033	64,030,000	64,030,000
		$2,154,860,000	1,194,155,000
Current portion			52,705,000
Noncurrent portion			$1,141,450,000

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

Year Ending	Principal	Interest	Total
2014	$ 52,705,000	$ 45,678,512	$ 98,383,512
2015	57,795,000	44,986,089	102,781,089
2016	53,060,000	43,057,465	96,117,465
2017	53,625,000	41,046,966	94,671,966
2018	54,050,000	38,930,104	92,980,104
2019 – 2023	279,200,000	161,113,226	440,313,226
2024 – 2028	256,275,000	104,698,000	360,973,000
2029 – 2033	216,375,000	54,411,579	270,786,579
2034 – 2038	145,380,000	19,482,986	164,862,986
2039 – 2041	25,690,000	1,447,150	27,137,150
Total	$1,194,155,000	$ 554,852,077	$1,749,007,077

Taxable Financing Reserve fund bonds payable consist of the following at June 30, 2013:

	Original Maturity	Original Amount Issued	Outstanding June 30, 2013
Taxable Financing Reserve Fund:			
Series 1996A, variable interest rate, dated February 22, 1996	1996 – 2016	$16,440,000	$1,065,000
		$16,440,000	1,065,000
Current portion			240,000
Noncurrent portion			$ 825,000

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
2014	$ 240,000	$ 66,434	$ 306,434
2015	255,000	49,034	304,034
2016	275,000	30,405	305,405
2017	295,000	10,369	305,369
	$1,065,000	$156,242	$1,221,242

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2013:

	Reserve Fund	Taxable Financing Reserve Fund
Balance, beginning of year	$1,261,850,000	$1,615,000
Issuances, at par	64,030,000	–
Redemptions:		
Principal payments	58,710,000	550,000
Bonds refunded (note 8)	73,015,000	–
Balance, end of year	$1,194,155,000	$1,065,000

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 .06% to .35% at June 30, 2013. Within the Taxable Financing Reserve Funds, variable interest rates are set at LIBOR + .40% for Series 1996A bonds, which approximates .59% at June 30, 2013.

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, 2013:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2013
General Resolution:			
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	$ 11,885,000	$ 245,000
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	3,126,547
Colby College, Series 2012, 2.0% – 3.625%, dated January 31, 2012	2012 – 2041	27,670,000	27,515,000
Piper Shores, Series 2012, variable rate, dated March 7, 2012	2012 – 2022	5,000,000	4,653,617
St. Mary's Hospital, Series 2012, 3.42%, dated May 31, 2012	2013 – 2036	19,270,000	19,270,000
St. Joseph's Hospital, Series 2012, 3.43%, dated November 6, 2012	2013 – 2032	13,490,000	13,490,000
Eastern Maine Medical, Series 2013, 3.0% – 5.0%, dated February 13, 2013	2014 – 2043	143,900,000	143,900,000
		$ 644,465,000	$ 632,150,164

The following is a summary of conduit debt activity for the year ended June 30, 2013:

Bonds outstanding as of June 30, 2012	$ 483,872,133
Plus: Bonds issued during fiscal 2013	157,390,000
Less: Redemptions during fiscal 2013	9,111,969
Bonds outstanding as of June 30, 2013	$ 632,150,164

At June 30, 2013, there were approximately $6,850,000 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, 2013, the required debt service reserve was approximately $104,000,000 and the fair value of the debt service reserve assets totaled approximately $117,000,000.

In addition, the Authority maintains a supplemental reserve as described in note 1. The fair value of these assets at June 30, 2013 is approximately $24,800,000.

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, 2013, the required debt service reserve was approximately $316,000 and the fair value of the debt service reserve assets totaled approximately $310,000. Subsequent to June 30, 2013, $6,000 was transferred to the taxable financing reserve fund to cover the total minimum debt service requirement.

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 $427,000 of expense under this agreement in fiscal year 2013.

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.

8. Refunded Issues (Continued)

On May 23, 2013, the Authority issued $64,030,000 in 2013A reserve resolution fund bonds with an average interest rate of 4.44%, all of which was used to in-substance defease $73,015,000 of certain maturities within the 1998C, 1999B, 2003A, 2003B, 2003C and 2003D bond series. The net proceeds of approximately $74,740,000, 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, 2013, there were approximately $163,925,000 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 eligible borrower who subsequently paid off its bonds within the taxable financing reserve fund resolution. The Authority has also loaned from its operating fund approximately $36,000 to an institution with outstanding loans owed to the Authority of approximately $7,792,000 within the reserve fund resolution at June 30, 2013. 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 2013. The Authority also has approximately $324,000 of other receivables outstanding within the operating fund at June 30, 2013, primarily related to amounts due from institutions to reimburse the Authority for arbitrage and other payments made on their behalf.

At June 30, 2013, the Authority has established a reserve of $273,300 in the operating fund related to the above loans, advances and other receivables outstanding.

10. Subsequent Events

Subsequent to June 30, 2013, several borrowers made payments to the Authority in the amount of $88,920,000 to pay off the balance of their reserve fund bonds.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2013

	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 Change in Net Position: Total
Functions/Programs:						
Maine Health and Higher Educational Facilities Authority	$50,062,185	$45,641,196	$2,683,872	$ –	$ –	$(1,737,117)
Total	$50,062,185	$45,641,196	$2,683,872	$ –	$ –	(1,737,117)
General revenues:						
Unrestricted interest and investment earnings						52,855
Miscellaneous income						115,540
Total general revenues						168,395
Change in net position						(1,568,722)
Net position, beginning of year						54,369,186
Net position, end of year						$52,800,464