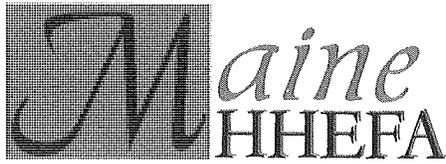


MAINE STATE LEGISLATURE

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MAINE HEALTH AND HIGHER
EDUCATIONAL FACILITIES AUTHORITY

Michael R. Goodwin, *Executive Director*
Tel 207-622-1958
Fax 207-623-5359

TO: INTERESTED PARTIES

FROM: Michael R. Goodwin, Executive Director

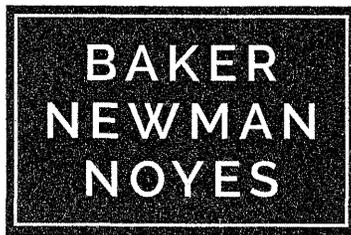
RE: **2015 Maine Health and Higher Educational Facilities Authority Annual Report**

This is the annual report for the Maine Health and Higher Educational Facilities Authority for the 2015 fiscal year, running from July 1, 2014 to June 30, 2015. As of June 30, 2015, the Authority has \$957,357,713 outstanding under its general tax exempt conduit resolution and \$847,645,000 outstanding under its tax exempt reserve fund resolution

During fiscal year 2015, the Authority issued \$123,230,535 under its general tax exempt conduit resolution and \$43,185,000 under its moral obligation reserve fund resolution. These sales were accomplished in 4 series for 2 colleges, 5 hospitals, 1 nursing home, 2 community mental health institutions, and 1 continuing care retirement community.

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

A handwritten signature in black ink, appearing to read 'Michael R. Goodwin', written in a cursive style.



Maine Health and Higher Educational Facilities Authority

Basic Financial Statements and
Management's Discussion and Analysis

*Year Ended June 30, 2015
With Independent Auditors' Report*

Baker Newman & Noyes, LLC

MAINE | MASSACHUSETTS | NEW HAMPSHIRE

800.244.7444 | www.bnn CPA.com

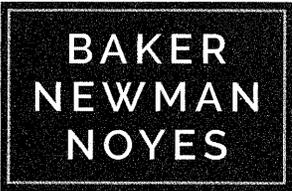
MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2015

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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, 2015, 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, which collectively comprise the Authority's basic financial statements as listed in the table of contents. The Authority is a component unit of the State of Maine.

Management's Responsibility for the Financial Statements

The Authority's 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.

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, 2015, 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.

To the Members of
Maine Health and Higher Educational Facilities Authority

Other Matter

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.

Portland, Maine
October 14, 2015

Limited Liability Company

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

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, 2015. 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 \$357,908 for fiscal year 2015, a decrease of \$145,656 or 28.9% compared to fiscal year 2014. This decrease in operating income was partially due to a decrease in investment income due to fluctuation in the investment market and a decrease in administrative and other fees. Additionally there was a net increase in operating expenses in fiscal year 2015.
- The Authority's loans receivable from institutions at June 30, 2015 of \$756,452,894 represents a net decrease of \$118,064,218 or 13.5% from the balance at June 30, 2014. This decrease is the result of repayment of loans by institutions during fiscal year 2015 and the refundings described below.
- The Authority's bonds outstanding at June 30, 2015 of \$847,645,000 represents a net decrease of \$125,465,000 or 12.9% from the balance at June 30, 2014. This decrease is primarily due to the refunding of \$67,260,000 of reserve fund bonds by various general resolution refundings and the scheduled repayments of loans from institutions. In addition, bonds within the taxable financing reserve fund were paid off in 2015. 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 on investments.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

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, 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 \$56,688,635 at June 30, 2015. This represents an increase of \$832,840 or 1.5% over the previous fiscal year, which is the Authority's 2015 operating income.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

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

| | <u>2015</u> | <u>2014</u> | <u>% Change</u> |
|---|----------------------|----------------------|-----------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ 8,497,658 | \$ 8,845,717 | (3.9)% |
| Investments held by trustee | 28,019,907 | 30,647,510 | (8.6) |
| Operating investments | 12,056,580 | 11,368,220 | 6.1 |
| Accrued investment income | 777,692 | 795,704 | (2.3) |
| Loans receivable from institutions | 40,525,304 | 47,286,276 | (14.3) |
| Interest and other receivables from institutions | 34,994 | 34,463 | 1.5 |
| Fees and other amounts due from other funds | 1,174,365 | 1,224,602 | (4.1) |
| Notes, advances and other receivables from institutions, net of allowance | <u>219,132</u> | <u>177,090</u> | <u>23.7</u> |
| Total current assets | 91,305,632 | 100,379,582 | (9.0) |
| Noncurrent assets: | | | |
| Investments held by trustee | 94,438,597 | 101,445,577 | (6.9) |
| Supplemental reserve investments | 25,059,046 | 24,940,801 | 0.5 |
| Loans receivable from institutions | <u>715,927,590</u> | <u>827,230,836</u> | <u>(13.5)</u> |
| Total noncurrent assets | <u>835,425,233</u> | <u>953,617,214</u> | <u>(12.4)</u> |
| Total assets | <u>926,730,865</u> | <u>1,053,996,796</u> | <u>(12.1)</u> |
| Current liabilities: | | | |
| Bonds payable | 41,935,000 | 51,505,000 | (18.6) |
| Interest payable | 18,677,404 | 20,392,453 | (8.4) |
| Fees and other amounts due to operating fund | 1,174,365 | 1,224,602 | (4.1) |
| Accounts payable | 64,333 | 174,054 | (63.0) |
| Rebate payable to Internal Revenue Service | 256,638 | - | - |
| Prepayments from institutions | <u>1,918,383</u> | <u>2,804,702</u> | <u>(31.6)</u> |
| Total current liabilities | 64,026,123 | 76,100,811 | (15.9) |
| Noncurrent liabilities: | | | |
| Bonds payable | 805,710,000 | 921,605,000 | (12.6) |
| Rebate payable to Internal Revenue Service | <u>306,107</u> | <u>435,190</u> | <u>(29.7)</u> |
| Total noncurrent liabilities | <u>806,016,107</u> | <u>922,040,190</u> | <u>(12.6)</u> |
| Total liabilities | <u>870,042,230</u> | <u>998,141,001</u> | <u>(12.8)</u> |
| Net position: | | | |
| Unrestricted net position | \$ <u>56,688,635</u> | \$ <u>55,855,795</u> | <u>1.5%</u> |

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

Statements of Revenues, Expenses and Changes in Net Position

| | <u>2015</u> | <u>2014</u> | <u>% Change</u> |
|---|-------------------------|-------------------------|-------------------|
| Operating revenues: | | | |
| Interest and other amounts from institutions | \$35,400,527 | \$40,629,240 | (12.9)% |
| Administrative and other fees | 835,143 | 872,593 | (4.3) |
| Income from investments | 4,591,423 | 4,943,352 | (7.1) |
| Net (decrease) increase in the fair value of investments | (714,393) | 1,474,697 | (148.4) |
| Interest income from advances and notes receivable from institutions | 10,462 | 476 | 2,097.9 |
| Other income | <u>660,185</u> | <u>176,901</u> | <u>273.2</u> |
| Total operating revenues | 40,783,347 | 48,097,259 | (15.2) |
| Operating expenses: | | | |
| Bond issuance costs | 536,592 | - | - |
| Interest expense | 38,542,927 | 44,149,356 | (12.7) |
| Operating expenses | 726,571 | 789,580 | (8.0) |
| Bad debt recovery | - | (156,000) | (100.0) |
| Other expenses | <u>144,417</u> | <u>258,992</u> | <u>(44.2)</u> |
| Total operating expenses | <u>39,950,507</u> | <u>45,041,928</u> | <u>(11.3)</u> |
| Operating income | 832,840 | 3,055,331 | (72.7) |
| Net position, beginning of year | <u>55,855,795</u> | <u>52,800,464</u> | <u>5.8</u> |
| Net position, end of year | <u>\$56,688,635</u> | <u>\$55,855,795</u> | <u>1.5%</u> |

Cash and cash equivalents at June 30, 2015 decreased \$348,059 or 3.9% from the balance at June 30, 2014. This decrease was offset by an increase in operating investments of \$688,360.

Rebate payable to the Internal Revenue Service at June 30, 2015 increased \$127,555 or 29.3% from June 30, 2014. This increase is the result of the net difference between additional accrued liability, which is caused when investment interest rates increase, for fiscal year 2015 and rebate payments to the Internal Revenue Service during fiscal year 2015.

Interest and other amounts received from institutions at June 30, 2015 decreased \$5,228,713 or 12.9% from fiscal year 2014 primarily as a result of continued decreases in outstanding loans receivable from institutions due to repayments and refundings. Interest expense has also decreased from fiscal year 2014 by \$5,606,429 or 12.7%, for the same reason, but as it related to outstanding bonds payable.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

The net decrease in the fair value of investments in 2015 was \$714,393, as compared to a net increase of \$1,474,697 in 2014. The decreases experienced during fiscal 2015 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 revenues, expenses and changes in net position. The maturities of investments in the debt service reserve funds are scheduled to closely match debt service payments and are normally held to maturity.

Interest income from advances and notes receivable from institutions increased \$9,986 or 2097.9% from fiscal year 2014 due to the continuing payoff of the loans to nursing homes and subsequent recognition of interest income as the cash payments are received.

Other revenue for fiscal year 2015 increased \$483,284 or 273.2% from fiscal year 2014. This increase is due to bond issuance costs, that are reimbursed from the bond issuance accounts and are considered revenue to the Authority. The bond issuance costs increased in 2015 as there were no bonds issued for moral obligation debt in fiscal year 2014.

Total operating expenses in the Operating Fund increased \$92,991 or 14.7% from fiscal year 2014 primarily due to a bad debt recovery of \$156,000 in 2014.

Other expenses for fiscal year 2015 decreased \$114,575 or 44.2% from fiscal year 2014. This decrease is a result of reserve moral obligation debt being refunded with general reserve issues and the resulting reduction in movement of residual funds to general resolution conduit debt funds.

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, 2015

| | <u>Operating Fund</u> | <u>Reserve Fund</u> | <u>Taxable Financing Reserve Fund</u> | <u>Total</u> |
|---|---------------------------|-------------------------|---|--------------------|
| <u>ASSETS</u> | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (note 2) | \$ 8,497,658 | \$ — | \$ — | \$ 8,497,658 |
| Investments held by trustee (note 3) | — | 28,014,510 | 5,397 | 28,019,907 |
| Operating investments (note 3) | 12,056,580 | — | — | 12,056,580 |
| Accrued investment income | 29,509 | 748,183 | — | 777,692 |
| Loans receivable from institutions | — | 40,525,304 | — | 40,525,304 |
| Interest and other receivables from institutions | — | — | 34,994 | 34,994 |
| Fees and other amounts due from other funds | 1,174,365 | — | — | 1,174,365 |
| Notes, advances and other receivables from institutions, net of allowance of \$115,800 (note 9) | <u>219,132</u> | <u>—</u> | <u>—</u> | <u>219,132</u> |
| Total current assets | 21,977,244 | 69,287,997 | 40,391 | 91,305,632 |
| Noncurrent assets: | | | | |
| Investments held by trustee (notes 3 and 6) | — | 94,438,597 | — | 94,438,597 |
| Supplemental reserve investments (notes 1 and 3) | — | 25,059,046 | — | 25,059,046 |
| Loans receivable from institutions | <u>—</u> | <u>715,927,590</u> | <u>—</u> | <u>715,927,590</u> |
| Total noncurrent assets | — | 835,425,233 | — | 835,425,233 |
| Total assets | <u>21,977,244</u> | <u>904,713,230</u> | <u>40,391</u> | <u>926,730,865</u> |

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2015

| | <u>Operating Fund</u> | <u>Reserve Fund</u> | <u>Taxable Financing Reserve Fund</u> | <u>Total</u> |
|---|---------------------------|-------------------------|---|----------------------|
| <u>LIABILITIES</u> | | | | |
| Current liabilities: | | | | |
| Bonds payable (note 4) | \$ - | \$ 41,935,000 | \$ - | \$ 41,935,000 |
| Interest payable | - | 18,677,404 | - | 18,677,404 |
| Fees and other amounts due to operating fund | - | 1,133,974 | 40,391 | 1,174,365 |
| Accounts payable | 47,118 | 17,215 | - | 64,333 |
| Rebate payable to Internal Revenue Service | - | 256,638 | - | 256,638 |
| Prepayments from institutions | - | <u>1,918,383</u> | - | <u>1,918,383</u> |
| Total current liabilities | 47,118 | 63,938,614 | 40,391 | 64,026,123 |
| Noncurrent liabilities: | | | | |
| Bonds payable (notes 4 and 8) | - | 805,710,000 | - | 805,710,000 |
| Rebate payable to Internal Revenue Service | - | <u>306,107</u> | - | <u>306,107</u> |
| Total noncurrent liabilities | - | <u>806,016,107</u> | - | <u>806,016,107</u> |
| Total liabilities | <u>47,118</u> | <u>869,954,721</u> | <u>40,391</u> | <u>870,042,230</u> |
| <u>NET POSITION</u> | | | | |
| Unrestricted net position | <u>\$21,930,126</u> | <u>\$ 34,758,509</u> | <u>\$ -</u> | <u>\$ 56,688,635</u> |

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, 2015

| | <u>Operating Fund</u> | <u>Reserve Fund</u> | <u>Taxable Financing Reserve Fund</u> | <u>Total</u> |
|--|---------------------------|-------------------------|---|---------------------|
| Operating revenues: | | | | |
| Interest and other amounts from institutions | \$ - | \$35,364,091 | \$ 36,436 | \$35,400,527 |
| Administrative and other fees | 835,143 | - | - | 835,143 |
| Income from investments | 144,989 | 4,435,139 | 11,295 | 4,591,423 |
| Net decrease in the fair value of instruments | (69,052) | (635,157) | (10,184) | (714,393) |
| Interest income from advances and notes receivable from institutions | 10,462 | - | - | 10,462 |
| Other income | <u>123,593</u> | <u>536,592</u> | <u>-</u> | <u>660,185</u> |
| Total operating revenues | 1,045,135 | 39,700,665 | 37,547 | 40,783,347 |
| Operating expenses: | | | | |
| Bond issuance costs | - | 536,592 | - | 536,592 |
| Interest expense | - | 38,504,412 | 38,515 | 38,542,927 |
| Operating expenses (note 7) | 726,571 | - | - | 726,571 |
| Other expenses | <u>-</u> | <u>131,922</u> | <u>12,495</u> | <u>144,417</u> |
| Total operating expenses | <u>726,571</u> | <u>39,172,926</u> | <u>51,010</u> | <u>39,950,507</u> |
| Operating income (loss) before operating transfers | 318,564 | 527,739 | (13,463) | 832,840 |
| Operating transfers | <u>39,344</u> | <u>(39,344)</u> | <u>-</u> | <u>-</u> |
| Operating income (loss) | 357,908 | 488,395 | (13,463) | 832,840 |
| Net position, beginning of year | <u>21,572,218</u> | <u>34,270,114</u> | <u>13,463</u> | <u>55,855,795</u> |
| Net position, end of year | <u>\$21,930,126</u> | <u>\$34,758,509</u> | <u>\$ -</u> | <u>\$56,688,635</u> |

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2015

| | <u>Operating Fund</u> | <u>Reserve Fund</u> | <u>Taxable Financing Reserve Fund</u> | <u>Total</u> |
|--|---------------------------|-------------------------|---|---------------------|
| Operating activities: | | | | |
| Cash received from institutions | \$ 835,143 | \$ 83,426,673 | \$ 553,989 | \$ 84,815,805 |
| Cash received from other income | 123,593 | - | - | 123,593 |
| Cash payments for operating and other expenses | (739,553) | (228,402) | (12,754) | (980,709) |
| Cash received from (paid to) other funds | 89,581 | (62,826) | (26,755) | - |
| Cash paid for other assets and liabilities | <u>-</u> | <u>-</u> | <u>(10,232)</u> | <u>(10,232)</u> |
| Net cash provided by operating activities | 308,764 | 83,135,445 | 504,248 | 83,948,457 |
| Noncapital financing activities: | | | | |
| Proceeds from bonds payable | - | 47,751,560 | - | 47,751,560 |
| Principal paid on bonds payable | - | (52,935,000) | (825,000) | (53,760,000) |
| Interest paid on bonds payable | - | (40,061,111) | (40,839) | (40,101,950) |
| Paid to refunding escrow | - | (48,151,508) | - | (48,151,508) |
| Transfers to General Resolution | - | (2,298,750) | - | (2,298,750) |
| Bonds and other proceeds passed on to borrowers | - | (18,271) | - | (18,271) |
| Issuance costs paid | <u>-</u> | <u>(536,592)</u> | <u>-</u> | <u>(536,592)</u> |
| Net cash used by noncapital financing activities | - | (96,249,672) | (865,839) | (97,115,511) |
| Investing activities: | | | | |
| Purchase of investment securities | (9,007,412) | (352,097,171) | (391,193) | (361,495,776) |
| Proceeds from sale and maturities of investment securities | 8,250,000 | 360,621,932 | 737,429 | 369,609,361 |
| Income received from investments and advances | 142,631 | 4,589,466 | 15,355 | 4,747,452 |
| Net decrease in notes, advances and other receivables from institutions | <u>(42,042)</u> | <u>-</u> | <u>-</u> | <u>(42,042)</u> |
| Net cash (used) provided by investing activities | <u>(656,823)</u> | <u>13,114,227</u> | <u>361,591</u> | <u>12,818,995</u> |
| Decrease in cash and cash equivalents | (348,059) | - | - | (348,059) |
| Cash and cash equivalents, beginning of year | <u>8,845,717</u> | <u>-</u> | <u>-</u> | <u>8,845,717</u> |
| Cash and cash equivalents, end of year | \$ <u>8,497,658</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>8,497,658</u> |

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2015

| | <u>Operating Fund</u> | <u>Reserve Fund</u> | <u>Taxable Financing Reserve Fund</u> | <u>Total</u> |
|--|---------------------------|-------------------------|---|----------------------|
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | | |
| Operating income (loss) | \$ 357,908 | \$ 488,395 | \$ (13,463) | \$ 832,840 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Investment and interest income | (155,451) | (4,435,139) | (11,295) | (4,601,885) |
| Net decrease in the fair value of investments | 69,052 | 635,157 | 10,184 | 714,393 |
| Interest expense on bonds payable | - | 38,504,412 | 38,515 | 38,542,927 |
| Change in assets and liabilities: | | | | |
| Loans receivable from institutions | - | 48,948,901 | 507,852 | 49,456,753 |
| Accrued interest and other receivables from institutions | - | - | 9,701 | 9,701 |
| Due to/from other funds | 50,237 | (23,482) | (26,755) | - |
| Accounts payable | (12,982) | (96,480) | (259) | (109,721) |
| Other assets | - | - | (10,232) | (10,232) |
| Prepayments from institutions | - | (886,319) | - | (886,319) |
| Net cash provided by operating activities | <u>\$ 308,764</u> | <u>\$ 83,135,445</u> | <u>\$ 504,248</u> | <u>\$ 83,948,457</u> |

Summary of noncash transactions:

Within the Reserve Fund Resolution, loans receivable from institutions and bonds payable were reduced by \$64,961,250 and \$67,260,000, respectively, as part of 2015 General Resolution refundings of outstanding Reserve Fund bonds and loans.

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

1. Organization

The 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 \$25,059,046 at June 30, 2015, is presented as supplemental reserve investments on the statement of net position.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 statements 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.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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).

Accounting Method

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

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, 2015 was approximately \$128,000.

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, 2015 is \$250,000 of insured and \$407,755 of noninsured deposits with a bank and \$2,758,209 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, 2015, the Authority had \$5,081,694 invested in the Treasurer’s Cash Pool, which is included in cash and cash equivalents on the statement of net position.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

2. Significant Accounting Policies (Continued)

Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net 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, 2016 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, therefore, are 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.

Recently Issued Accounting Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. Management is currently evaluating the impact this statement will have on the Authority's financial statements.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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, 2015, investments are categorized as follows:

| | <u>Fair Value</u> |
|--|-----------------------|
| <u>Operating Fund</u> | |
| Operating investments: | |
| U.S. Government-sponsored enterprises bonds and notes | \$ <u>12,056,580</u> |
| | \$ <u>12,056,580</u> |
| <u>Reserve Fund</u> | |
| Investments held by trustee: | |
| Guaranteed investment contracts | \$ 29,703,630 |
| Municipal bonds | 58,991,714 |
| U.S. Government-sponsored enterprises bonds and notes | 4,408,814 |
| Cash and cash equivalents | <u>29,348,949</u> |
| | \$ <u>122,453,107</u> |
| Supplemental Reserve Investments: | |
| U.S. Government-sponsored enterprises bonds and notes | \$ 12,164,102 |
| Cash and cash equivalents | <u>12,894,944</u> |
| | \$ <u>25,059,046</u> |
| <u>Taxable Financing Reserve Fund</u> | |
| Investments held by trustee: | |
| Cash and cash equivalents | \$ <u>5,397</u> |

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 most 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, 2015:

| | <u>Fair Value</u> | <u>Less than One Year</u> | <u>One to Five Years</u> | <u>Six to Ten Years</u> | <u>More than Ten Years</u> |
|--|-----------------------|-------------------------------|------------------------------|-----------------------------|--------------------------------|
| <u>Authority's Operating Fund</u> | | | | | |
| U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.) | \$ <u>12,056,580</u> | \$ <u>3,047,850</u> | \$ <u>9,008,730</u> | \$ <u>—</u> | \$ <u>—</u> |
| <u>Reserve Fund</u> | | | | | |
| U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.) | \$ 16,572,916 | \$ 3,880,012 | \$ 9,775,491 | \$ 2,917,413 | \$ — |
| Guaranteed investment contracts | 29,703,630 | — | — | 110,900 | 29,592,730 |
| Municipal bonds | <u>58,991,714</u> | <u>491,230</u> | <u>4,631,070</u> | <u>12,640,953</u> | <u>41,228,461</u> |
| | \$ <u>105,268,260</u> | \$ <u>4,371,242</u> | \$ <u>14,406,561</u> | \$ <u>15,669,266</u> | \$ <u>70,821,191</u> |

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's 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, 2015.

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).

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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, 2015, with their credit quality ratings as issued by Standard & Poor's as of the date of this report, are as follows:

| <u>Reserve Fund</u> | <u>Rating</u> | |
|--|---------------|-------------------------|
| Guaranteed Investment Contracts Provided By: | | |
| FSA Capital Management Services, LLC | AA | \$20,752,324 |
| Transamerica Life Insurance Company | AA- | <u>8,840,406</u> |
| Total | | <u>\$29,592,730</u> |

At June 30, 2015, the ratings for investments in debt securities are summarized as follows. These ratings were as of June 30, 2015 and are not necessarily the ratings that existed at time of purchase.

| <u>Issuer</u> | <u>Rating</u> | <u>Fair Value</u> |
|--|---------------|-------------------------|
| U.S. government-sponsored enterprises ⁽¹⁾ | AA+ | \$28,629,496 |
| Municipal bonds | AAA | 4,934,569 |
| Municipal bonds | AA+ | 16,526,680 |
| Municipal bonds | AA | 21,355,189 |
| Municipal bonds | AA- | 12,907,573 |
| Municipal bonds | A | <u>3,267,703</u> |
| | | <u>\$87,621,210</u> |

⁽¹⁾ Includes FHLMC, FHLB, FFCB, FNMA

Trustee and custodian held cash and cash equivalents at June 30, 2015 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, 2015:

| | <u>Original Maturity</u> | <u>Original Amount Issued</u> | <u>Amount Outstanding June 30, 2015</u> |
|--|------------------------------|-----------------------------------|---|
| Reserve Fund: | | | |
| Series 1992B, 3.0% – 5.875%, dated September 15, 1992 | 1993 – 2022 | \$ 44,850,000 | \$ 690,000 |
| Series 1994A, 3.3% – 6.0%, dated March 1, 1994 | 1994 – 2024 | 18,380,000 | 5,375,000 |
| Series 1999A, 3.5% – 5.25%, dated April 15, 1999 | 1999 – 2030 | 98,385,000 | 260,000 |

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. Bonds Payable (Continued)

| | <u>Original Maturity</u> | <u>Original Amount Issued</u> | <u>Amount Outstanding June 30, 2015</u> |
|---|------------------------------|-----------------------------------|---|
| Reserve Fund (Continued): | | | |
| Series 2001A, 3.45% – 5.25%, dated February 15, 2001 | 2002 – 2031 | \$ 66,585,000 | \$ 9,175,000 |
| Series 2004B, 3.00% – 5.00%, dated December 9, 2004 | 2006 – 2034 | 42,265,000 | 2,080,000 |
| Series 2005B, 3.5% – 5.0%, dated December 29, 2005 | 2006 – 2030 | 28,325,000 | 16,995,000 |
| Series 2006A, 3.5% – 5.0%, dated February 2, 2006 | 2006 – 2035 | 51,855,000 | 32,170,000 |
| Series 2006B, 3.5% – 5.0%, dated April 6, 2006 | 2007 – 2036 | 56,795,000 | 38,110,000 |
| Series 2006F, 4.0% – 5.0%, dated September 7, 2006 | 2007 – 2036 | 89,125,000 | 71,475,000 |
| Series 2007A, 4.0% – 5.0%, dated July 18, 2007 | 2008 – 2030 | 96,495,000 | 65,630,000 |
| Series 2007B, 4.0% – 5.0%, dated November 1, 2007 | 2008 – 2037 | 70,470,000 | 49,580,000 |
| Series 2008A, variable rate, dated May 22, 2008 | 2008 – 2036 | 107,180,000 | 47,540,000 |
| Series 2008C, 3.0% – 5.0%, dated June 19, 2008 | 2009 – 2038 | 49,540,000 | 31,885,000 |
| Series 2008D, 3.0% – 5.75%, dated December 3, 2008 | 2009 – 2038 | 41,735,000 | 32,930,000 |
| Series 2009A, 2.0% – 5.125%, dated December 10, 2009 | 2010 – 2039 | 92,780,000 | 88,205,000 |
| Series 2010A, 2.5% – 5.25% dated April 22, 2010 | 2011 – 2040 | 97,240,000 | 83,865,000 |
| Series 2010B, 2.5% – 5.25% dated June 24, 2010 | 2011 – 2031 | 96,755,000 | 65,540,000 |
| Series 2011A, 2.0% – 5.0% dated August 31, 2011 | 2012 – 2031 | 36,535,000 | 31,375,000 |
| Series 2011B, 1.25% – 2.3% dated August 31, 2011 | 2012 – 2015 | 3,440,000 | 870,000 |
| Series 2011C, 2.0% – 5.0% dated November 30, 2011 | 2012 – 2031 | 38,935,000 | 33,775,000 |
| Series 2012A, 2.0% – 5.0% dated June 28, 2012 | 2013 – 2032 | 40,725,000 | 36,115,000 |
| Series 2013A, 2.0% – 5.0% dated May 23, 2013 | 2014 – 2033 | 64,030,000 | 60,820,000 |
| Series 2014A, 3.0% – 5.0% dated July 24, 2014 | 2015 – 2032 | <u>43,185,000</u> | <u>43,185,000</u> |
| | | <u>\$ 1,375,610,000</u> | 847,645,000 |
| Current portion | | | <u>41,935,000</u> |
| Noncurrent portion | | | <u>\$ 805,710,000</u> |

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. Bonds Payable (Continued)

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

| <u>Year Ending</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|-----------------------|-----------------------|-------------------------|
| 2016 | \$ 41,935,000 | \$ 36,575,924 | \$ 78,510,924 |
| 2017 | 41,970,000 | 34,917,665 | 76,887,665 |
| 2018 | 41,970,000 | 33,132,173 | 75,102,173 |
| 2019 | 42,445,000 | 31,313,203 | 73,758,203 |
| 2020 | 43,160,000 | 29,508,598 | 72,668,598 |
| 2021 – 2025 | 209,785,000 | 117,751,901 | 327,536,901 |
| 2026 – 2030 | 193,875,000 | 71,535,787 | 265,410,787 |
| 2031 – 2035 | 143,030,000 | 33,304,405 | 176,334,405 |
| 2036 – 2040 | 86,000,000 | 8,938,812 | 94,938,812 |
| 2041 | <u>3,475,000</u> | <u>86,875</u> | <u>3,561,875</u> |
| Total | <u>\$ 847,645,000</u> | <u>\$ 397,065,343</u> | <u>\$ 1,244,710,343</u> |

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2015:

| | <u>Reserve Fund</u> | <u>Taxable Financing Reserve Fund</u> |
|--------------------------------|-------------------------|---|
| Balance, beginning of year | \$ 972,285,000 | \$ 825,000 |
| Issuances, at par | 43,185,000 | - |
| Redemptions: | | |
| Principal payments | (52,935,000) | (825,000) |
| Bonds refunded (notes 5 and 8) | (114,890,000) | <u>-</u> |
| Balance, end of year | <u>\$ 847,645,000</u> | <u>\$ -</u> |

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 carry variable interest rates which are reset to market every 7 days. Interest rates were .09% at June 30, 2015.

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. Bonds Payable (Continued)

A borrower within the Reserve Fund Resolution filed for bankruptcy during fiscal 2015. The borrower owed the Authority approximately \$442,000 at June 30, 2015 related to its outstanding 2010B Series Reserve Fund bonds. As part of the bankruptcy filing, there are two secured creditors with claims seeking to recover outstanding debts owed. There is some risk that the Authority will not collect all or any of the \$442,000 it is owed at June 30, 2015. As of June 30, 2015, the Authority has not established an allowance against the outstanding loan receivable as they plan to aggressively pursue full collection of amounts owed.

Subsequent to June 30, 2015, the Authority advanced \$447,000 from its Operating Fund in order to call the outstanding bonds, plus accrued interest. The bonds will be called on October 16, 2015.

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, 2015:

| | <u>Original</u> | <u>Original</u> | <u>Amount</u> |
|---|-----------------|----------------------|----------------------|
| | <u>Maturity</u> | <u>Amount Issued</u> | <u>Outstanding</u> |
| | | | <u>June 30, 2015</u> |
| General Resolution: | | | |
| 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 | 2015 – 2041 | 280,750,000 | 280,750,000 |
| Maine College of Art, Series 2011, 3.79%, dated November 4, 2011 | 2012 – 2021 | 3,300,000 | 2,891,155 |
| Colby College, Series 2012, 2.0% – 3.625%, dated January 31, 2012 | 2012 – 2041 | 27,670,000 | 26,335,000 |
| St. Mary's Hospital, Series 2012, 3.42%, dated May 31, 2012 | 2013 – 2036 | 19,270,000 | 18,975,000 |
| St. Joseph's Hospital, Series 2012, 3.43%, dated November 6, 2012 | 2013 – 2032 | 13,490,000 | 12,655,000 |
| Eastern Maine Medical, Series 2013, 3.0% – 5.0%, dated February 13, 2013 | 2014 – 2043 | 143,900,000 | 143,710,000 |
| Bates College, Series 2013, 3.0% – 5.0%, dated November 19, 2013 | 2014 – 2043 | 55,410,000 | 54,645,000 |
| Cedars Nursing Home, Series 2014, 4.02% dated February 27, 2014 | 2014 – 2039 | 19,248,000 | 18,678,000 |
| Penobscot Bay Medical Center, Series 2014, 3.110%, dated March 31, 2014 | 2014 – 2024 | 4,800,000 | 4,283,023 |

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

5. Conduit Debt (Continued)

| | <u>Original Maturity</u> | <u>Original Amount Issued</u> | <u>Amount Outstanding June 30, 2015</u> |
|--|------------------------------|-----------------------------------|---|
| General Resolution (Continued): | | | |
| Mercy Health, Series 2014, 3.07% dated April 4, 2014 | 2014 – 2036 | \$ 61,055,000 | \$ 60,585,000 |
| Colby College, Series 2014A, 3.0% – 5.0% dated May 20, 2014 | 2015 – 2044 | 66,755,000 | 66,755,000 |
| Colby College, Series 2014B, 4.341% – 4.441% dated May 20, 2014 | 2015 – 2044 | 4,665,000 | 4,665,000 |
| Penobscot Bay Medical, Series 2014, 2.686% dated September 25, 2014 | 2015 – 2022 | 3,125,535 | 3,125,535 |
| Maine Medical Center 2014, 2.0% - 5.0% dated January 7, 2015 | 2015 – 2044 | 85,105,000 | 85,105,000 |
| Piper Shores 2015, 2.79% dated June 17, 2015 | 2015 – 2030 | <u>35,000,000</u> | <u>35,000,000</u> |
| | | <u>\$ 962,743,535</u> | <u>\$ 957,357,713</u> |

The following is a summary of conduit debt activity for the year ended June 30, 2015:

| | |
|---------------------------------------|-----------------------|
| Bonds outstanding as of June 30, 2014 | \$ 842,366,842 |
| Plus: Bonds issued during fiscal 2015 | 123,230,535 |
| Less: Redemptions during fiscal 2015 | <u>8,239,664</u> |
| Bonds outstanding as of June 30, 2015 | <u>\$ 957,357,713</u> |

On January 7, 2015, the Authority issued series 2014 general resolution tax-exempt bonds in the amount of \$85,105,000 with an average interest rate of 4.57%. A portion of the bonds was used to defease \$42,760,000 of outstanding reserve fund resolution maturities within the 2008A reserve bond series. Net proceeds of approximately \$42,760,000 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 bonds were immediately called). The economic benefits associated with the refunding inure to the respective institution.

On June 17, 2015, the Authority issued series 2015 general resolution tax-exempt bonds in the amount of \$35,000,000 with an average interest rate of 2.79%. A portion of the bonds was used to defease \$24,500,000 of outstanding reserve fund resolution maturities within the 2004B reserve bond series. Net proceeds of approximately \$25,075,000 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 bonds were called on July 17, 2015). The economic benefits associated with the refunding inure to the respective institution.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

5. Conduit Debt (Continued)

At June 30, 2015, there were no defeased bonds remaining outstanding with respect to advance refunded conduit debt of bond issues of the general resolution.

6. Reserve Funds

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, 2015, the required debt service reserve within the Reserve Fund was approximately \$78,000,000 and the fair value of the debt service reserve assets totaled approximately \$94,000,000.

In addition, the Authority maintains a supplemental reserve as described in note 1. The fair value of these assets at June 30, 2015 is approximately \$25,000,000.

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 \$451,000 of expense under this agreement in fiscal year 2015.

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 July 24, 2014, the Authority issued \$43,185,000 in 2014A reserve resolution fund bonds with an average interest rate of 4.4%, all of which was used to defease \$47,630,000 of certain maturities within the 1997B, 1998C, 2003A, 2003D and 2004A bond series. The net proceeds of approximately \$47,996,000, 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, 2015, there were approximately \$137,125,000 of defeased bonds remaining outstanding with respect to all advance-refunding issues within the reserve fund resolution.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 consisted primarily of loans to nursing homes, these declines in occupancy created cash flow problems.

The Authority has advanced approximately \$123,000 from its operating fund to an eligible borrower who subsequently paid off its bonds within the taxable financing reserve fund resolution. These advances and loans, upon which interest income is recognized only to the extent that cash payments are received, were primarily made to assist this institution in meeting debt service requirements in years prior to fiscal 2015. The Authority also has approximately \$212,000 of other receivables outstanding within the operating fund at June 30, 2015, primarily related to amounts due from institutions to reimburse the Authority for arbitrage and other payments made on their behalf.

At June 30, 2015, the Authority has established a reserve of \$115,800 in the operating fund related to the above loans, advances and other receivables outstanding.

10. Subsequent Events

On July 14, 2015, the Authority issued \$27,395,000 in 2015A reserve resolution fund bonds with an average interest rate of 4.5%, all of which was used to defease \$31,150,000 of certain maturities within the 2004B and 2006A bond series. The net proceeds of approximately \$31,340,000, 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 July 8, 2015, the Authority issued series 2015 general resolution tax-exempt bonds in the amount of \$27,790,000 with an average interest rate of 3.85%. A portion of the bonds was used to defease \$29,245,000 of outstanding reserve fund resolution maturities within the 2006B reserve bond series. The net proceeds of approximately \$30,565,000 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 institution.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2015

| | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net Revenue and</u> |
|---|-----------------------|-------------------------|----------------------|----------------------|-------------------------------|
| | | <u>Charges for</u> | <u>Program</u> | <u>Operating</u> | <u>Change in Net Position</u> |
| | | <u>Services</u> | <u>Investment</u> | <u>Grants and</u> | |
| | | <u>Income</u> | <u>Contributions</u> | <u>Capital</u> | <u>Total</u> |
| | | | | <u>Grants/</u> | |
| | | | | <u>Contributions</u> | |
| Functions/Programs: | | | | | |
| Maine Health and Higher | | | | | |
| Educational Facilities Authority | <u>\$(39,950,507)</u> | <u>\$36,782,724</u> | <u>\$3,801,093</u> | <u>\$ —</u> | <u>\$ —</u> |
| | | | | | <u>\$ 633,310</u> |
| Total | <u>\$(39,950,507)</u> | <u>\$36,782,724</u> | <u>\$3,801,093</u> | <u>\$ —</u> | <u>\$ —</u> |
| | | | | | <u>633,310</u> |
| General revenues: | | | | | |
| Unrestricted interest and investment earnings | | | | | <u>75,937</u> |
| Miscellaneous income | | | | | <u>123,593</u> |
| | | | | | <u>199,530</u> |
| Total general revenues | | | | | <u>199,530</u> |
| Change in net position | | | | | <u>832,840</u> |
| Net position, beginning of year | | | | | <u>55,855,795</u> |
| Net position, end of year | | | | | <u>\$56,688,635</u> |