

MAINE STATE LEGISLATURE

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Annual Report

Maine Health & Higher Educational Facilities Authority

2021





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TO: INTERESTED PARTIES

FROM: Terry Hayes, Executive Director *TH*

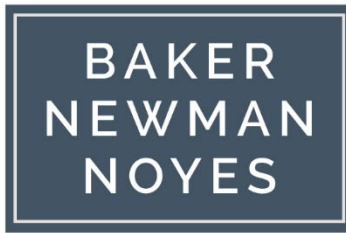
RE: 2021 Maine Health and Higher Educational Facilities Authority Annual Report

This is the annual report for the Maine Health and Higher Educational Facilities Authority for the 2021 fiscal year, running from July 1, 2020 to June 30, 2021. As of June 30, 2021, the Authority has \$1,186,615,758 outstanding under its general tax exempt conduit resolution and \$612,380,000 outstanding under its tax exempt reserve fund resolution.

During fiscal year 2021, the Authority issued \$369,215,000 under its general tax exempt conduit resolution and \$256,040,000 under its moral obligation reserve fund resolution. These sales accomplished in 6 series for 2 colleges, 4 hospitals, and 1 residential care facility.

The Authority's gross bonds outstanding within the Reserve Fund Resolution at June 30, 2021 of \$612,380,000 represents a net increase of \$174,225,000 or 39.8% from the balance at June 30, 2020, the first increase in bonds outstanding within the fund since fiscal year 2010. This net increase is due to the issuance of the 2020B Reserve Fund bonds (par of \$13,105,000), and 2021A and 2021B Reserve Fund bonds (par of \$242,935,000) which partially refunded 2010B Reserve Fund bonds (\$1,060,000). There were also bonds that were in substance defeased totaling \$48,040,000 and scheduled bond repayments were \$32,715,000. 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.

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.



Maine Health and Higher Educational Facilities Authority

Basic Financial Statements and
Management's Discussion and Analysis

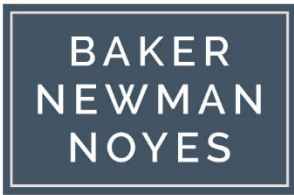
For the Year Ended June 30, 2021

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY
BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2021

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INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher Educational Facilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements, consisting of the Operating Fund and Reserve Fund of Maine Health and Higher Educational Facilities Authority (the Authority), which comprise the statements of net position as of June 30, 2021, 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

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, 2021, 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 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.

Baker Newman & Nayya LLC
Portland, Maine
October 14, 2021

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021

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, 2021. This discussion and analysis is designed to assist the reader in focusing on the significant financial matters and activities of the Authority and to identify any significant changes in net position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating Fund income was negatively impacted by several factors. The Authority's policy decision to waive a portion of the annual fees to provide institutional support during the pandemic resulted in lost revenue of approximately \$89,000 for fiscal year 2021. Investment income also declined \$268,250 due to historically low interest rates and a decision to remain invested primarily in cash equivalents during the year as a risk mitigating strategy. There was also a \$68,648 decrease in the fair market value of investments. The net impact of those factors resulted in an operating loss in the Operating Fund of \$113,233 for the year.
- The Authority's loans receivable from institutions at June 30, 2021 of \$545,579,401 represents a net increase of \$162,082,025 or 42.3% from the balance at June 30, 2020. This increase is the result of the bond issuances described below and repayment of loans by institutions during fiscal year 2021.
- The Authority's gross bonds outstanding within the Reserve Fund Resolution at June 30, 2021 of \$612,380,000 represents a net increase of \$174,225,000 or 39.8% from the balance at June 30, 2020, the first increase in bonds outstanding within the fund since fiscal year 2010. This net increase is due to the issuance of the 2020B Reserve Fund bonds (par of \$13,105,000), and 2021A and 2021B Reserve Fund bonds (par of \$242,935,000) which partially refunded 2010B Reserve Fund bonds (\$1,060,000). There were also bonds that were in substance defeased totaling \$48,040,000 and scheduled bond repayments were \$32,715,000. 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, as 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, although it is not currently doing so.

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, 2021

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's Operating Fund, assets exceeded liabilities by \$23,799,818 at June 30, 2021. This represents a decrease of \$113,233 or 0.5% over the previous fiscal year. In the case of the Reserve Fund, assets exceeded liabilities by \$36,347,199. This represents a decrease of \$655,733 or 1.8% compared to the previous fiscal year.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2021

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

Operating Fund

Statements of Net Position

	<u>2021</u>	<u>2020</u>	<u>% Change</u>
Current assets:			
Cash and cash equivalents	\$ 21,597,035	\$ 19,598,277	10.2%
Operating investments	2,035,320	4,071,900	(50.0)
Accrued investment income	5,088	17,005	(70.1)
Fees and other amounts due from Reserve Fund	45,702	49,183	(7.1)
Notes, advances and other receivables, net	139,996	233,324	(40.0)
Other assets	<u>—</u>	<u>15,000</u>	<u>(100.0)</u>
 Total current assets	 23,823,141	 23,984,689	 (0.7)
Current liabilities:			
Accounts payable	<u>23,323</u>	<u>71,638</u>	<u>(67.4)</u>
 Total current liabilities	 <u>23,323</u>	 <u>71,638</u>	 <u>(67.4)</u>
 Net position:			
Unrestricted net position	\$ <u>23,799,818</u>	\$ <u>23,913,051</u>	<u>(0.5)%</u>

Reserve Fund

Statements of Net Position

	<u>2021</u>	<u>2020</u>	<u>% Change</u>
Current assets:			
Investments held by trustee	\$ 17,183,042	\$ 17,489,679	(1.8)%
Accrued investment income	255,955	279,140	(8.3)
Loans receivable from institutions	27,135,942	31,473,690	(13.8)
Other receivables from institutions	<u>355,578</u>	<u>—</u>	<u>100.0</u>
 Total current assets	 44,930,517	 49,242,509	 (8.8)
Noncurrent assets:			
Investments held by trustee	68,250,852	56,381,617	21.1
Supplemental reserve investments	26,587,749	26,569,917	0.1
Loans receivable from institutions	<u>518,443,459</u>	<u>352,023,686</u>	<u>47.3</u>
 Total noncurrent assets	 <u>613,282,060</u>	 <u>434,975,220</u>	 <u>41.0</u>
 Total assets	 658,212,577	 484,217,729	 35.9

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>% Change</u>
Current liabilities:			
Bonds payable	\$ 29,875,000	\$ 32,575,000	(8.3)%
Interest payable	9,018,859	8,961,128	0.6
Fees and other amounts due to operating fund	45,702	49,183	(7.1)
Accounts payable	13,210	-	100.0
Prepayments from institutions	<u>407,607</u>	<u>49,486</u>	<u>723.7</u>
 Total current liabilities	 39,360,378	 41,634,797	 (5.5)
Noncurrent liabilities:			
Bonds payable	<u>582,505,000</u>	<u>405,580,000</u>	<u>43.6</u>
 Total liabilities	 <u>621,865,378</u>	 <u>447,214,797</u>	 <u>39.1</u>
Net position:			
Unrestricted net position	\$ <u>36,347,199</u>	\$ <u>37,002,932</u>	<u>(1.8)%</u>

Operating Fund

Statements of Revenues, Expenses and Changes in Net Position

	<u>2021</u>	<u>2020</u>	<u>% Change</u>
Operating revenues:			
Administrative and other fees	\$ 529,741	\$ 411,881	28.6%
Income from investments	120,529	388,779	(69.0)
Net (decrease) increase in the fair value of investments	(68,648)	84,063	(181.7)
Interest income from advances and notes receivable from institutions	1,985	5,112	(61.2)
Other income	<u>112,647</u>	<u>131,303</u>	<u>(14.2)</u>
 Total operating revenues	 696,254	 1,021,138	 (31.8)
Operating expenses:			
Operating expenses	<u>809,487</u>	<u>808,500</u>	<u>0.1</u>
 Total operating expenses	 <u>809,487</u>	 <u>808,500</u>	 <u>0.1</u>
 Operating (loss) income	 (113,233)	 212,638	 (153.3)
 Net position, beginning of year	 <u>23,913,051</u>	 <u>23,700,413</u>	 <u>0.9</u>
 Net position, end of year	 <u>\$23,799,818</u>	 <u>\$23,913,051</u>	 <u>(0.5)%</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2021

Reserve Fund

Statements of Revenues, Expenses and Changes in Net Position

	<u>2021</u>	<u>2020</u>	<u>% Change</u>
Operating revenues:			
Interest and other amounts from institutions	\$16,656,708	\$19,242,336	(13.4)%
Income from investments	1,639,521	2,204,277	(25.6)
Net (decrease) increase in the fair value of investments	(860,025)	745,423	(215.4)
Other income	<u>2,931,936</u>	<u>1,927,973</u>	<u>52.1</u>
 Total operating revenues	 20,368,140	 24,120,009	 (15.6)
Operating expenses:			
Bond issuance costs	2,931,936	1,927,973	52.1
Interest expense	17,817,077	20,664,478	(13.8)
Other expenses	<u>274,860</u>	<u>1,077</u>	<u>25,420.9</u>
 Total operating expenses	 <u>21,023,873</u>	 <u>22,593,528</u>	 <u>(6.9)</u>
 Operating (loss) income	 (655,733)	 1,526,481	 (143.0)
 Net position, beginning of year	 <u>37,002,932</u>	 <u>35,476,451</u>	 <u>4.3</u>
 Net position, end of year	 <u>\$36,347,199</u>	 <u>\$37,002,932</u>	 <u>(1.8)%</u>

Operating Fund

Notes, advances and other receivables (net) decreased \$93,328 or 40.0% from fiscal year 2020. In years prior to 2021, the Authority advanced approximately \$140,000 from its Operating Fund to pay debt service installments related to the outstanding debt of Penobscot Valley Hospital within the 2012A Series Reserve Fund bonds that filed for bankruptcy in 2019. On February 11, 2021, the Authority received full reimbursement on amounts owed. In addition, on July 28, 2021, a settlement was reached to payoff funds that had been advanced to Coopers Mills Nursing Home d/b/a Country Manor for \$28,000. The remainder of the receivable was written off against the bad debt allowance.

Bond investments decreased \$2,036,580 as the decision was made to leave maturing bonds in cash equivalents until there is a more favorable investment environment for fixed income. The same market dynamics that have created favorable conditions for debt issuance has made it difficult to deploy cash in bond investments. The cash/bond mix for the Operating Fund has been declining for three years, from 70.0% bond investments in 2019 to 17.2% in 2020 and 8.6% in 2021. Investment income has decreased due to this asset allocation shift and the low interest rate environment.

Accounts payable decreased \$48,315 or 67.4% primarily due to costs associated with the 2020A Reserve Fund bond issue that needed to be accrued in fiscal year 2020.

Income from administrative and other fees had a net increase of \$117,860 or 28.6% compared to fiscal year 2020 due to an increase in initial fees on new bond issues, which were partially offset by credits given in the first half of the fiscal year for General and Reserve Resolution administrative fees.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2021

The Maine Municipal Bond Bank (Bond Bank) administers and manages the Maine Health and Higher Educational Facilities Authority program under the direction of the Authority's Board of Commissioners. The Authority reimburses the Bond Bank for its proportionate share of personnel services, office space, equipment rental, and other overhead expenses. The Authority recognized approximately \$568,000 and \$494,000 of expenses under this arrangement in 2021 and 2020, respectively.

Reserve Fund

Investments held by trustee increased by \$11,562,598 or 15.7% from fiscal year 2020 due primarily to the issuance of new bonds.

Loans receivable from institutions increased \$162,082,025 or 42.3% as a result of new bond issuances offset by both scheduled principal payments and refundings during fiscal year 2021.

Bonds payable increased \$174,225,000 or 39.8% as a result of \$256,040,000 of new bond issuances offset by \$81,815,000 in repayments and bonds refunded. See footnote 4 for further information.

Interest and other amounts received from institutions in fiscal 2021 decreased \$2,585,628 or 13.4% from fiscal 2020 primarily as a result of continued lower average outstanding loans and receivables from institutions and lower average interest rates. Correspondingly, interest expense has also decreased from fiscal year 2020 by \$2,847,401 or 13.8%.

Income from investments decreased \$564,756 or 25.6% from fiscal year 2020 due to a continued decrease in interest rates in fiscal year 2021.

The net change in the fair value of investments in fiscal 2021 was a net decrease of \$860,025 compared to a net increase of \$745,423 in fiscal 2020. The decrease is the result of fluctuations in the interest rate environment as compared to the underlying yields in the Authority's investment portfolio. 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 interest rates) are recognized in the statements of revenues, expenses and changes in net assets. The maturities of investments in the debt service reserve funds are scheduled to closely match debt service payments and are normally held to maturity.

As a result of the 39.8% increase in new bond issuance, other income and bond issuance costs increased \$1,003,963 or 52.1% from fiscal year 2020. This increase is due to bond issuance costs that are reimbursed from the bond issuance accounts and are considered revenue to the Reserve Fund. Bond issuances were \$256,040,000 in fiscal year 2021 compared to \$155,070,000 in fiscal year 2020. The cost of issuance rate per million decreased to 1.15% in fiscal year 2021 from 1.24% in fiscal year 2020.

Other expenses increased by \$273,783 from fiscal year 2020. This increase is entirely due to funds being returned to institutions due to bond payoffs.

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, 127 Community Drive, Augusta, Maine 04330.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2021

<u>ASSETS</u>	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$21,597,035	\$ –	\$ 21,597,035
Investments held by trustee	–	17,183,042	17,183,042
Operating investments	2,035,320	–	2,035,320
Accrued investment income	5,088	255,955	261,043
Loans receivable from institutions	–	27,135,942	27,135,942
Interest and other receivables from institutions	–	355,578	355,578
Fees and other amounts due from Reserve Fund	45,702	–	45,702
Notes, advances and other receivables, net	<u>139,996</u>	<u>–</u>	<u>139,996</u>
Total current assets	23,823,141	44,930,517	68,753,658
Noncurrent assets:			
Investments held by trustee	–	68,250,852	68,250,852
Supplemental reserve investments	–	26,587,749	26,587,749
Loans receivable from institutions	<u>–</u>	<u>518,443,459</u>	<u>518,443,459</u>
Total noncurrent assets	<u>–</u>	<u>613,282,060</u>	<u>613,282,060</u>
Total assets	<u>23,823,141</u>	<u>658,212,577</u>	<u>682,035,718</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2021

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
<u>LIABILITIES</u>			
Current liabilities:			
Bonds payable	\$ —	\$ 29,875,000	\$ 29,875,000
Interest payable	—	9,018,859	9,018,859
Fees and other amounts due to Operating Fund	—	45,702	45,702
Accounts payable	23,323	13,210	36,533
Prepayments from institutions	<u>—</u>	<u>407,607</u>	<u>407,607</u>
Total current liabilities	23,323	39,360,378	39,383,701
Noncurrent liabilities:			
Bonds payable	<u>—</u>	<u>582,505,000</u>	<u>582,505,000</u>
Total liabilities	<u>23,323</u>	<u>621,865,378</u>	<u>621,888,701</u>
<u>NET POSITION</u>			
Unrestricted net position	<u>\$23,799,818</u>	<u>\$ 36,347,199</u>	<u>\$ 60,147,017</u>

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2021

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Operating revenues:			
Interest and other amounts from institutions	\$ -	\$16,656,708	\$16,656,708
Administrative and other fees	529,741	-	529,741
Income from investments	120,529	1,639,521	1,760,050
Net decrease in the fair value of investments	(68,648)	(860,025)	(928,673)
Interest income from advances and notes receivable from institutions	1,985	-	1,985
Other income	<u>112,647</u>	<u>2,931,936</u>	<u>3,044,583</u>
Total operating revenues	696,254	20,368,140	21,064,394
Operating expenses:			
Bond issuance costs	-	2,931,936	2,931,936
Interest expense	-	17,817,077	17,817,077
Operating expenses	809,487	-	809,487
Other expenses	<u>-</u>	<u>274,860</u>	<u>274,860</u>
Total operating expenses	<u>809,487</u>	<u>21,023,873</u>	<u>21,833,360</u>
Operating loss	(113,233)	(655,733)	(768,966)
Net position, beginning of year	<u>23,913,051</u>	<u>37,002,932</u>	<u>60,915,983</u>
Net position, end of year	<u>\$23,799,818</u>	<u>\$36,347,199</u>	<u>\$60,147,017</u>

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2021

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Operating activities:			
Cash received from institutions	\$ 489,036	\$ 89,073,103	\$ 89,562,139
Cash payments to institutions	-	(234,197,602)	(234,197,602)
Cash received from other income	112,647	-	112,647
Cash payments for operating and other expenses	<u>(884,177)</u>	<u>(261,650)</u>	<u>(1,145,827)</u>
Net cash used by operating activities	(282,494)	(145,386,149)	(145,668,643)
Noncapital financing activities:			
Proceeds from bonds payable	-	275,864,308	275,864,308
Principal paid on bonds payable	-	(80,755,000)	(80,755,000)
Interest paid on bonds payable	-	(17,745,682)	(17,745,682)
Paid to refunding escrow	-	(1,083,428)	(1,083,428)
Bond and other proceeds passed on to borrowers	-	(17,184,366)	(17,184,366)
Issuance cost paid	<u>-</u>	<u>(2,931,936)</u>	<u>(2,931,936)</u>
Net cash provided by noncapital financing activities	-	156,163,896	156,163,896
Investing activities:			
Purchase of investment securities	(26,362,164)	(402,568,484)	(428,930,648)
Proceeds from sale and maturities of investment securities	28,330,096	390,128,030	418,458,126
Income received from investments and advances	134,432	1,662,707	1,797,139
Net decrease in notes, advances and other receivables from institutions	<u>178,888</u>	<u>-</u>	<u>178,888</u>
Net cash provided (used) by investing activities	<u>2,281,252</u>	<u>(10,777,747)</u>	<u>(8,496,495)</u>
Increase in cash and cash equivalents	1,998,758	-	1,998,758
Cash and cash equivalents, beginning of year	<u>19,598,277</u>	<u>-</u>	<u>19,598,277</u>
Cash and cash equivalents, end of year	\$ <u>21,597,035</u>	\$ <u>-</u>	\$ <u>21,597,035</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

Year Ended June 30, 2021

	<u>Operating</u> <u>Fund</u>	<u>Reserve</u> <u>Fund</u>	<u>Total</u>
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	\$ (113,233)	\$ (655,733)	\$ (768,966)
Adjustments to reconcile operating income to net cash used by operating activities:			
Investment and interest income	(122,514)	(1,639,521)	(1,762,035)
Net decrease in the fair value of investments	68,648	860,025	928,673
Bad debt recovery	(41,375)	-	(41,375)
Interest expense on bonds payable	-	17,817,077	17,817,077
Change in assets and liabilities:			
Loans receivable from institutions	-	(161,780,270)	(161,780,270)
Fees receivable from trusted funds	3,480	(3,480)	-
Accrued interest and other receivables from institutions	-	(355,578)	(355,578)
Fees receivable from institutions	(44,185)	-	(44,185)
Other assets	15,000	-	15,000
Accounts payable	(48,315)	13,210	(35,105)
Prepayments from institutions	<u>-</u>	<u>358,121</u>	<u>358,121</u>
Net cash used by operating activities	\$ <u>(282,494)</u>	\$ <u>(145,386,149)</u>	\$ <u>(145,668,643)</u>

Summary of noncash transactions:

Within the Reserve Fund Resolution, loans receivable from institutions and bonds payable were reduced by \$758,245 and \$1,060,000, respectively, as part of fiscal year 2021 refundings.

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

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, although it has not historically and is not currently doing so.

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 the Maine Municipal Bond Bank (the Bond Bank) whereby the Bond Bank administers and manages the Authority’s program, resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses of the Authority. The arrangement is approved annually by the Board of Commissioners of the Authority through the budgetary approval process.

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 investment balance in the supplemental reserve of \$26,587,749 at June 30, 2021 is presented as supplemental reserve investments on the statement of net position.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

1. **Organization (Continued)**

Presently, the Authority operates pursuant to the following bond resolutions:

Reserve Fund

These funds and accounts are established under the Authority's Resolution establishing the Maine Health and Higher Educational 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.

The Authority is required to report materially obligated persons, which are borrowers that constitute more than twenty percent of the outstanding loans under the Reserve Fund Resolution. At June 30, 2021, Eastern Maine Healthcare comprised 47.04% of total loans outstanding in the Reserve Fund.

Taxable Financing Reserve Fund

These funds and accounts are established under the Authority's Resolution establishing the Maine Health and Higher Educational 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. All bonds within the taxable reserve fund were paid off in prior years. There was no activity in the resolution for fiscal year 2021.

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).

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

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. Accordingly, the Authority recognizes revenues as earned and expenses as incurred.

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 (income) is presented as a reduction/increase in the amount of interest income from investments.

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, 2021 is \$125,512 of insured deposits with a bank, and \$654,312 of money market funds held by a custodian and secured by SBA and mortgage bonds. The Authority has also invested \$14,605,021 at Northeast Bank in an investment program where 59 banks have provided maximum investments of \$249,000 which are each covered by FDIC insurance. These investments are considered short term and can be liquidated as the Authority has a need for the funds.

Cash includes funds held in interest bearing demand deposit and savings accounts, which is managed in an effort as not to exceed amounts guaranteed by the Federal Deposit Insurance Corporation. The Authority has not experienced any losses in such accounts and management believes the Authority is not exposed to any significant risk of loss on cash.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

2. Significant Accounting Policies (Continued)

Within the Operating Fund, 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 is able to make withdrawals from the State of Maine Investment Pool at par with little advance notice and without penalty. The Authority's management considers this investment vehicle a money market instrument and generally carries the amounts in the pool at fair value. At June 30, 2021, the Authority had \$6,217,893 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 (see note 10). 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, 2022 have been classified as long-term.

Notes and Advances Receivable

Notes and advances receivable within the Authority's Operating Fund are carried at the principal amount outstanding less an allowance for losses. The allowance for losses on notes and advances receivable is established through a provision for losses on notes and advances receivable charged to operations. Notes and advances receivable losses are charged against the allowance when management believes collectability of the loan principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses based on an evaluation of collectability and prior loss experience.

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.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

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

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.

Risks and Uncertainties

The outbreak of the COVID-19 pandemic has caused significant disruptions in the U.S. economy and to health care and higher education institutions in the State of Maine. Institutions that have loan agreements with the Authority have not shown signs of inability to pay future loan payments at the date of these financial statements; however, future uncertainties could impair their ability to fulfill their financial obligations to the Authority. Other financial effects could occur, though such potential impact is unknown at the date of these 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 government municipal bonds, 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, 2021, investments are categorized as follows:

	<u>Fair Value</u>
<u>Operating Fund</u>	
Operating investments:	
U.S. Government-sponsored enterprises bonds and notes	\$ <u>2,035,320</u>
<u>Reserve Fund</u>	
Investments held by trustee:	
Guaranteed investment contracts	\$ 97,995
U.S. Treasury strips	234,399
Municipal bonds	45,173,117
U.S. Government-sponsored enterprises bonds and notes	2,706,340
Cash and cash equivalents	<u>37,222,043</u>
	<u>\$85,433,894</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

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

	<u>Fair Value</u>
Supplemental Reserve Investments:	
Cash and cash equivalents	<u>\$26,587,749</u>

The investments of the Operating Fund are to provide income to supplement administration of current programs, provide a source of capital for new programs and to reduce susceptibility to unanticipated expenditures or revenue shortfalls. Relative to the investment of bond funds within the Reserve Fund, 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 as of June 30, 2021:

	<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>Operating Fund</u>					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	\$ <u>2,035,320</u>	\$ <u>2,035,320</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>
<u>Reserve Fund</u>					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	\$ 2,706,340	\$ 498,316	\$ 2,208,024	\$ —	\$ —
U.S. Treasury Strips	234,399	104,938	129,461	—	—
Guaranteed investment contracts	97,995	—	—	—	97,995
Municipal bonds	<u>45,173,117</u>	<u>1,272,225</u>	<u>5,737,804</u>	<u>7,647,967</u>	<u>30,515,121</u>
	<u>\$48,211,851</u>	<u>\$1,875,479</u>	<u>\$ 8,075,289</u>	<u>\$7,647,967</u>	<u>\$30,613,116</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, Bangor Savings Bank and Northeast 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, 2021.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

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

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, municipal bonds or guaranteed investment contracts backed by high credit quality banks and insurance companies as rated by rating agencies such as Moody's Investor Service or Standard & Poor's, rated at AA- or better, or municipal bonds rated at A- or better.

At June 30, 2021, the ratings for investments in debt securities are summarized as follows. These ratings were as of June 30, 2021 and are not necessarily the ratings that existed at time of purchase.

Operating Fund and Reserve Fund

<u>Issuer</u>	<u>Rating</u>	<u>Fair Value</u>
U.S. Government-sponsored enterprises ⁽¹⁾	AA+/Aaa	\$ 4,741,660
U.S. Treasury Strips	AA+/Aaa	234,399
Municipal bonds	AAA/Aaa – Aa2	934,890
Municipal bonds	AA+/Aaa – Aa3	6,341,426
Municipal bonds	AA/Aa1 – A2	20,973,257
Municipal bonds	AA-/Aa1 – A1	12,913,957
Municipal bonds	A+/A1	3,259,737
Municipal bonds	A-/A3	<u>749,850</u>
		<u>\$50,149,176</u>

⁽¹⁾ Includes FHLMC, FHLB, FFCB, FNMA, TVA

Trustee and custodian held cash and cash equivalents at June 30, 2021 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 and maturities, consist of the following at June 30, 2021:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2021</u>
Reserve Fund:			
Series 2007 B, 4.0% – 5.0%, dated November 1, 2007	2008 – 2037	\$ 70,470,000	\$ 180,000
Series 2010 A, 2.5% – 5.25% dated April 22, 2010	2011 – 2040	97,240,000	1,445,000

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2021</u>
Series 2010 B, 2.5% – 5.25% dated June 24, 2010	2011 – 2031	\$ 96,755,000	\$ 4,680,000
Series 2011 A, 2.0% – 5.0% dated August 31, 2011	2012 – 2031	36,535,000	2,090,000
Series 2011 C, 2.0% – 5.0% dated November 30, 2011	2012 – 2031	38,935,000	16,880,000
Series 2012 A, 2.0% – 5.0% dated June 28, 2012	2013 – 2032	40,725,000	5,335,000
Series 2013 A, 2.0% – 5.0% dated May 23, 2013	2014 – 2033	64,030,000	36,700,000
Series 2014 A, 3.0% – 5.0% dated July 24, 2014	2015 – 2032	43,185,000	17,290,000
Series 2015 A, 2.0% – 5.0% dated July 30, 2015	2016 – 2035	27,395,000	4,700,000
Series 2016 A, 3.0% – 5.0% dated June 28, 2016	2017 – 2035	64,840,000	50,025,000
Series 2017 A, 3.0% – 5.0% dated June 27, 2017	2018 – 2031	39,000,000	29,500,000
Series 2017 B, 3.5% – 5.0% dated December 28, 2017	2018 – 2038	43,630,000	38,820,000
Series 2019 A, 3.0% – 5.0% dated July 31, 2019	2020 – 2039	54,640,000	52,275,000
Series 2019 B, 3.0% – 5.0% dated November 6, 2019	2020 – 2049	36,415,000	35,770,000
Series 2019 C, 5.0% dated April 3, 2020	2020 – 2040	42,350,000	38,985,000
Series 2020 A, 4.0% – 5.0% dated June 30, 2020	2021 – 2031	21,665,000	21,665,000
Series 2020 B, 2.75% – 5.0% dated November 10, 2020	2021 – 2031	13,105,000	13,105,000
Series 2021 A, 2.5% – 5.0% dated May 19, 2021	2022 – 2050	86,065,000	86,065,000
Series 2021 B, 0.359% – 3.118% dated May 19, 2021	2022 – 2043	<u>156,870,000</u>	<u>156,870,000</u>
		<u>\$1,073,850,000</u>	612,380,000
Current portion			<u>29,875,000</u>
Noncurrent portion			<u>\$ 582,505,000</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

4. Bonds Payable (Continued)

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

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 29,875,000	\$ 20,552,138	\$ 50,427,138
2023	34,235,000	22,125,564	56,360,564
2024	35,330,000	20,705,130	56,035,130
2025	34,570,000	19,246,242	53,816,242
2026	31,330,000	17,881,441	49,211,441
2027 – 2031	158,445,000	69,712,775	228,157,775
2032 – 2036	132,770,000	38,909,974	171,679,974
2037 – 2041	93,550,000	17,998,277	111,548,277
2042 – 2046	49,945,000	5,359,702	55,304,702
2047 – 2050	<u>12,330,000</u>	<u>1,215,313</u>	<u>13,545,313</u>
Total	<u>\$ 612,380,000</u>	<u>\$ 233,706,556</u>	<u>\$ 846,086,556</u>

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2021:

	<u>Reserve Fund</u>
Balance, beginning of year	\$ 438,155,000
Issuances, at par	256,040,000
Redemptions:	
Principal payments	(80,755,000)
Bonds refunded (notes 5 and 8)	<u>(1,060,000)</u>
Balance, end of year	<u>\$ 612,380,000</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 contain provisions for prepayment at the Authority's option.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

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, 2021:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2021</u>
General Resolution:			
Bowdoin College, Series 2008, variable rate, dated March 24, 2008	2027	\$ 20,700,000	\$ 20,700,000
Bowdoin College, Series 2009 B, 6.667%, dated May 14, 2009	2035 – 2039	19,750,000	19,750,000
St. Mary’s Hospital, Series 2012, 3.42%, dated May 31, 2012	2013 – 2036	19,270,000	16,465,000
St. Joseph’s Hospital, Series 2012, 3.43%, dated November 6, 2012	2013 – 2032	13,490,000	9,255,000
Bates College, Series 2013, 3.0% – 5.0%, dated November 19, 2013	2014 – 2043	55,410,000	52,990,000
Penobscot Bay Medical, Series 2014, 3.110%, dated March 31, 2014	2014 – 2024	4,800,000	1,417,822
Colby College, Series 2014 B, 4.341% – 4.441%, dated May 20, 2014	2026 – 2044	4,665,000	4,665,000
Penobscot Bay Medical, Series 2014, 2.686%, dated September 25, 2014	2015 – 2022	3,125,535	492,949
Maine Health, Series 2014, 2.0% – 5.0%, dated January 7, 2015	2015 – 2044	85,105,000	83,410,000
Bates College, Series 2015, 3.0% – 5.0%, dated July 8, 2015	2016 – 2036	27,790,000	25,640,000
Redington Fairview, Series 2016, 2.85%, dated January 20, 2016	2017 – 2031	7,500,000	5,000,000
Eastern Maine Health, Series 2016, 4.0% – 5.0%, dated July 13, 2016	2037 – 2046	170,825,000	170,825,000
University of New England, Series 2017 A, 3.0% – 5.0%, dated March 2, 2017	2018 – 2047	46,945,000	44,465,000
St Joseph Hospital, Series 2017 A, 3.560%, dated March 21, 2017	2022 – 2047	3,400,000	3,400,000
St Mary’s Hospital, Series 2017 B, 3.560%, dated March 21, 2017	2022 – 2047	6,000,000	6,000,000
University of New England, Series 2017 B, 3.0% – 5.0%, dated October 11, 2017	2018 – 2038	40,100,000	36,160,000
Bowdoin College, Series 2017, 5.00%, dated December 28, 2017	2035 – 2039	30,435,000	30,435,000
Maine Medical Center, Series 2018 A, 4.0% – 5.0%, dated July 18, 2018	2029 – 2048	164,330,000	164,330,000
Maine Medical Center, Series 2018 B, 3.84% – 3.94% dated July 18, 2018	2027 – 2028	10,930,000	10,930,000

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

5. Conduit Debt (Continued)

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2021</u>
John F. Murphy Homes, Series 2018, 5.50% dated August 1, 2018	2019 – 2039	\$ 4,500,000	\$ 4,252,812
Maine Medical Center, Series 2018 C, variable rate, dated August 1, 2018	2026 – 2036	36,735,000	36,735,000
Maine College of Art, Series 2018, variable rate, dated September 26, 2018	2043	2,202,775	2,117,462
Bowdoin College, Series 2018, 4.0% – 5.0%, dated November 29, 2018	2020 – 2048	28,885,000	28,395,000
Colby College, Series 2019, 2.22%, dated June 12, 2019	2026	25,000,000	25,000,000
Bates College, Series 2019, 1.89%, dated November 20, 2019	2023 – 2028	50,000,000	50,000,000
Bates College, Series 2020, 2.0%, dated May 21, 2020	2021 – 2040	10,325,000	10,325,000
Maine Health, Series 2020A, 4.0% – 5.0% dated July 29, 2020	2026 – 2050	212,700,000	212,700,000
Piper Shores, Series 2021 A-1, 2.31% dated March 25, 2021	2021 – 2041	19,380,000	19,196,522
Piper Shores, Series 2021 A-2, 2.79–2.88% dated March 25, 2021	2021 – 2041	18,620,000	18,448,191
Piper Shores, Series 2021 B-1, 2.30% dated March 25, 2021	2023 – 2024	26,520,000	26,520,000
Piper Shores, Series 2021 B-2, 2.30% dated March 25, 2021	2023 – 2024	25,480,000	25,480,000
Maine Health, Series 2021, 1.467% dated April 5, 2021	2021 – 2030	<u>21,115,000</u>	<u>21,115,000</u>
		<u>\$ 1,216,033,310</u>	<u>\$ 1,186,615,758</u>

The following is a summary of conduit debt activity for the year ended June 30, 2021:

Bonds outstanding as of June 30, 2020	\$ 1,362,364,055
Issuances, at par	369,215,000
Redemptions:	
Bonds redeemed	(531,292,462)
Principal Payments	<u>(13,670,835)</u>
Bonds outstanding as of June 30, 2021	<u>\$ 1,186,615,758</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

5. **Conduit Debt (Continued)**

At June 30, 2021, there were approximately \$495,730,000 of 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, 2021, the required debt service reserve within the Reserve Fund was approximately \$58,000,000 and the fair value of the debt service reserve assets totaled approximately \$68,000,000.

In addition, the Authority maintains a supplemental reserve as described in note 1. The fair value of these assets at June 30, 2021 is approximately \$26,600,000.

7. **Operating Expenses**

The Authority has an arrangement with Maine Municipal Bond Bank (the Bond Bank) which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead. The arrangement is approved annually by the Board through the budgetary approval process. The Authority recognized approximately \$568,000 of expense under this arrangement for the year ended June 30, 2021, and owed the Bond Bank \$17,088 at June 30, 2021.

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 May 19, 2021, the Authority issued \$86,065,000 in 2021A Reserve Resolution Fund bonds with an average interest rate of 4.265%, all of which was used to defease \$1,060,000 in maturities within the 2010B Reserve Resolution and \$85,005,000 in the 2011, 2014 and 2020 General Resolution bond series. The net proceeds of approximately \$97,548,000, including other sources of funds and after payment of underwriting fees 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. Northern Light Health and Maine College of Art realized net present value savings of approximately \$6.1 million and \$0.3 million, respectively, as a result of this bond issuance.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

8. Refunded Issues (Continued)

On May 19, 2021, the Authority issued \$156,870,000 in 2021B Reserve Resolution Fund bonds with an average interest rate of 2.81%, all of which was used to defease certain maturities within the 2013 General Resolution bond series. The net proceeds of approximately \$157,778,000, including other sources of funds and after payment of underwriting fees 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. Northern Light Health realized a net present value savings of approximately \$20.8 million as a result of the bond issuance.

At June 30, 2021, there were approximately \$60,535,000 of defeased bonds remaining outstanding with respect to all advance-refunding issues within the Reserve Fund Resolution.

9. Notes, Advances and Other Receivables – Operating Fund

At June 30, 2021, the Authority has \$28,000 of outstanding advances to an eligible borrower who paid off its bonds within the Taxable Financing Reserve Fund Resolution in prior years. These advances, 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 2021. On July 28, 2021, an agreement was reached to settle the payoff of advanced funds on Coopers Mills Nursing Home, Inc. d/b/a Country Manor. The balance of the loan, at the time of the agreement, was \$56,000. Country Manor and the Authority agreed to a one-time final payment of \$28,000 and the remaining debt was written off against the bad debt allowance.

The Authority had advanced approximately \$140,000 from its Operating Fund to pay debt service installments related to the outstanding debt of Penobscot Valley Hospital, which filed for bankruptcy in 2019, within the 2012A Series Reserve Fund bonds. On February 11, 2021, the Authority received full reimbursement of amounts owed.

The Authority also has approximately \$112,000 of other receivables outstanding within the Operating Fund at June 30, 2021, in relation to semi-annual fees due from institutions within the General Bond Resolution.

10. Fair Value Measurements

The Authority generally holds investments until maturity to pay reserve Fund bonds as they become due, so fluctuations on the fair value of the investments have a minimal long-term effect. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

10. Fair Value Measurements (Continued)

Level 2 – Inputs to the valuation method include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full-term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques).

Each asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measurement at fair value:

Cash equivalents: Fair value approximates the relative book values at June 30, as these financial instruments have short maturities.

Guaranteed Investment Contracts: Fair value approximates cost as the Authority can withdraw funds at par during the contract period.

U.S. Government-sponsored enterprises bonds and notes, U.S. Treasury strips, U.S. Government-Sponsored enterprises strips and municipal bonds: Fair value is determined based on quoted prices in active markets, or by using broker or dealer quotations, external pricing providers, or alternative pricing sources with reasonable levels of price transparency.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Authority believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

10. Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Authority's assets carried at fair value on a recurring basis as of June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<u>Operating Fund</u>			
U.S. Government-sponsored enterprises bonds and notes	\$ <u>—</u>	\$ <u>2,035,320</u>	\$ <u>2,035,320</u>
<u>Reserve Fund</u>			
Investments held by trustee:			
Cash equivalents	\$37,222,043	\$ —	\$37,222,043
U.S. Government-sponsored enterprises bonds and notes	—	2,706,340	2,706,340
U.S. Treasury strips	—	234,399	234,399
Municipal bonds	—	45,173,117	45,173,117
Guaranteed investment contracts	<u>—</u>	<u>97,995</u>	<u>97,995</u>
	<u>\$37,222,043</u>	<u>\$48,211,851</u>	<u>\$85,433,894</u>
Supplemental reserve investments:			
Cash equivalents	\$ <u>—</u>	\$ <u>26,587,749</u>	\$ <u>26,587,749</u>

There were no Level 3 investments as of June 30, 2021.

11. Subsequent Events

On August 31, 2021 Covenant Health defeased certain maturities of Reserve Resolution bonds with a par value of \$13,675,000 within the 2012A, 2014A, 2017B and 2020A series bond issues and General Resolution bonds with a par value of \$33,790,000 within the series 2012, 2017A and 2017B bonds issues with funds from other sources.

On September 21, 2021, College of the Atlantic partially funded a redemption account which with funds from other sources will be used to defease reserve resolution bonds in the 2011C bond issues with a par value of \$675,000. The bonds will be called on November 1, 2021.