

MAINE STATE LEGISLATURE

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Annual Report

Maine Health & Higher Educational Facilities Authority

2022



MAINE HEALTH AND HIGHER
EDUCATIONAL FACILITIES AUTHORITY



Terry Hayes, *Executive Director*
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TO: INTERESTED PARTIES

FROM: Terry Hayes, Executive Director *TH*

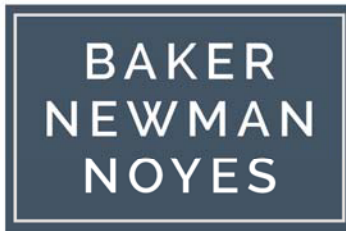
RE: 2022 Maine Health and Higher Educational Facilities Authority Annual Report

This is the annual report for the Maine Health and Higher Educational Facilities Authority for the 2022 fiscal year, running from July 1, 2021 to June 30, 2022. As of June 30, 2022, the Authority has \$1,143,587,778 outstanding under its general tax exempt conduit resolution and \$600,295,000 outstanding under its tax exempt reserve fund resolution.

During fiscal year 2022, the Authority issued \$86,055,000 under its general tax exempt conduit resolution and \$70,140,000 under its moral obligation reserve fund resolution. These sales accomplished in 6 series for 2 hospitals, 4 educational institutions, 1 residential care facility and 1 community health care facilities.

The Authority's gross bonds outstanding of \$600,295,000 within the Reserve Fund Resolution at June 30, 2022 represents a net decrease of \$12,085,000 or 2.0% from the balance at June 30, 2021. This net decrease is due to the issuance of the 2020C Reserve Fund bonds (par of \$20,435,000), and 2022A and 2022B Reserve Fund bonds (par of \$49,705,000), which partially refunded 2012A Reserve Fund bonds (\$1,195,000). The University of New England refunded \$33,915,000 of Reserve bonds with the issuance of a General Resolution bond. There were also bonds that were in-substance defeased totaling \$16,445,000 and scheduled bond repayments of \$29,875,000. Of the \$17,240,000 in defeased bonds, \$13,810,000 belongs to Covenant Health.

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,
Management's Discussion and Analysis
and Additional Information

*Year Ended June 30, 2022
With Independent Auditors' Report*

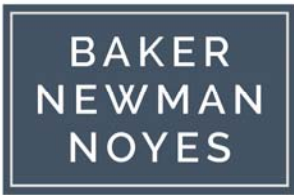
MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

**BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION AND
ANALYSIS AND ADDITIONAL INFORMATION**

For the Year Ended June 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher Educational Facilities Authority

Report on the Financial Statements

Opinions

We have audited the 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, 2022, 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.

In our opinion, the accompanying 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, 2022, and the respective changes in financial position and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

To the Members of
Maine Health and Higher Educational Facilities Authority

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not 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 the 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.

To the Members of
Maine Health and Higher Educational Facilities Authority

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2022 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Baker Newman & Noyes LLC
Portland, Maine
October 6, 2022

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

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, 2022. 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.

Management Overview

The Authority is mid-way through year two of a five-year work plan to grow the Reserve Fund program. Starting from a low in bonds outstanding of \$365 million in October 2020 at the beginning of the five-year plan, the Reserve Fund grew to \$612 million in fiscal year 2021, followed by modest net outflows (2%) in fiscal year 2022. The year ended with gross bonds outstanding of \$600 million on June 30, 2022. The projected outlook for fiscal year 2023 is a net increase of \$150 million with an ending gross bonds outstanding of greater than \$750 million. This would mean achieving a greater than 100% increase from the start of the strategic plan. This first phase of growth has come predominantly from the health care sector with little contribution from educational institutions. New money deals from the College of the Atlantic, Maine Maritime Academy and Cheverus High School (2021C) were more than offset by the University of New England's transition out of the Reserve Fund (par of \$33,915,000) and into the General Resolution fund. The departure of Covenant Health from the tax-exempt market impacted both the Reserve Fund (par of \$13,810,000) and General Resolution (par of \$33,790,000). These outflows were somewhat offset by new money deals by Northern Maine Medical Center (par of \$39,480,000) and Penobscot Community Health Care (par of \$9,145,000) – the latter representing a first-time borrower in the Reserve Fund. MaineHealth was active in the Conduit program with two advance refunding deals – the MaineHealth 2022 issue (par of \$13,755,000) completes a taxable advance refunding that went “off book” and the MaineHealth 2014 issue (par of \$83,060,000) came off our books in a taxable refunding. The MaineHealth 2014 issue is scheduled to come back on our books in April 2024.

- The Operating Fund produced a loss of \$842,659 for the year. The primary contributor to this loss was the fair market value adjustment to our investment portfolio of \$645,749. This mark down is temporary as the investments will return to par value at maturity thus reversing any previous unrealized losses. Administrative and other fees were strong, despite showing a decline of \$106,310 from fiscal year 2021. Fiscal year 2021 was exceptionally high as a result of new issuance activity of approximately \$375 million while fiscal year 2022 reverted to typical fee income levels.
- The Authority's gross bonds outstanding of \$600,295,000 within the Reserve Fund Resolution at June 30, 2022 represents a net decrease of \$12,085,000 or 2.0% from the balance at June 30, 2021. This net decrease is due to the issuance of the 2020C Reserve Fund bonds (par of \$20,435,000), and 2022A and 2022B Reserve Fund bonds (par of \$49,705,000), which partially refunded 2012A Reserve Fund bonds (\$1,195,000). The University of New England refunded \$33,915,000 of Reserve bonds with the issuance of a General Resolution bond. There were also bonds that were in-substance defeased totaling \$16,445,000 and scheduled bond repayments of \$29,875,000. Of the \$17,240,000 in defeased bonds, \$13,810,000 belongs to Covenant Health.
- The Authority's loans receivable from institutions at June 30, 2022 of \$539,778,505 represents a net decrease of \$5,800,896 or 1.1% from the balance at June 30, 2021. This decrease is the result of the bond issuances described above and repayment of loans by institutions during fiscal year 2022.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2022

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.

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.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2022

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 \$22,957,159 at June 30, 2022. This represents a decrease of \$842,659 or 3.5% over the previous fiscal year. In the case of the Reserve Fund, assets exceeded liabilities by \$25,030,639. This represents a decrease of \$11,316,560 or 31.1% compared to the previous fiscal year. In both cases the reduction in net position is based primarily on the fair market value adjustment of our investment portfolio and not the result of a realized loss on the sale of any securities. Most investment holdings are held to maturity and will return to par value at that time.

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>2022</u>	<u>2021</u>	<u>% Change</u>
Current assets:			
Cash and cash equivalents	\$ 7,082,900	\$ 21,597,035	(67.2)%
Operating investments	15,783,488	2,035,320	675.5
Accrued investment income	33,369	5,088	555.8
Fees and other amounts due from Reserve Fund	49,468	45,702	8.2
Notes, advances and other receivables, net	<u>99,722</u>	<u>139,996</u>	<u>(28.8)</u>
Total current assets	23,048,947	23,823,141	(3.2)
Current liabilities:			
Accounts payable	<u>91,788</u>	<u>23,323</u>	<u>293.6</u>
Total current liabilities	<u>91,788</u>	<u>23,323</u>	<u>293.6</u>
Net position:			
Unrestricted net position	<u>\$22,957,159</u>	<u>\$ 23,799,818</u>	<u>(3.5)%</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2022

Reserve Fund

Statements of Net Position

	<u>2022</u>	<u>2021</u>	<u>% Change</u>
Current assets:			
Investments held by trustee	\$ 18,845,321	\$ 17,183,042	9.7%
Accrued investment income	491,832	255,955	92.2
Loans receivable from institutions	27,147,617	27,135,942	0.0
Interest and other receivables from institutions	<u>185,106</u>	<u>355,578</u>	<u>(47.9)</u>
Total current assets	46,669,876	44,930,517	3.9
Noncurrent assets:			
Investments held by trustee	52,312,611	68,250,852	(23.4)
Supplemental reserve investments	24,795,717	26,587,749	(6.7)
Loans receivable from institutions	<u>512,630,888</u>	<u>518,443,459</u>	<u>(1.1)</u>
Total noncurrent assets	<u>589,739,216</u>	<u>613,282,060</u>	<u>(3.8)</u>
Total assets	636,409,092	658,212,577	(3.3)
Current liabilities:			
Bonds payable	28,775,000	29,875,000	(3.7)%
Interest payable	10,983,631	9,018,859	21.8
Fees and other amounts due to operating fund	49,468	45,702	8.2
Accounts payable	18,691	13,210	41.5
Prepayments from institutions	<u>31,663</u>	<u>407,607</u>	<u>(92.2)</u>
Total current liabilities	39,858,453	39,360,378	1.3
Noncurrent liabilities:			
Bonds payable	<u>571,520,000</u>	<u>582,505,000</u>	<u>(1.9)</u>
Total liabilities	<u>611,378,453</u>	<u>621,865,378</u>	<u>(1.7)</u>
Net position:			
Unrestricted net position	\$ <u>25,030,639</u>	\$ <u>36,347,199</u>	<u>(31.1)%</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2022

Operating Fund

Statements of Revenues, Expenses and Changes in Net Position

	<u>2022</u>	<u>2021</u>	<u>% Change</u>
Operating revenues:			
Administrative and other fees	\$ 423,431	\$ 529,741	(20.1)%
Income from investments	123,368	120,529	2.4
Net decrease in the fair value of investments	(645,749)	(68,648)	(840.7)
Interest income from advances and notes receivable from institutions	-	1,985	(100.0)
Other income	<u>112,128</u>	<u>112,647</u>	<u>(0.5)</u>
Total operating revenues	13,178	696,254	(98.1)
Operating expenses:			
Operating expenses	<u>855,837</u>	<u>809,487</u>	<u>5.7</u>
Total operating expenses	<u>855,837</u>	<u>809,487</u>	<u>5.7</u>
Operating loss	(842,659)	(113,233)	(644.2)
Net position, beginning of year	<u>23,799,818</u>	<u>23,913,051</u>	<u>(0.5)</u>
Net position, end of year	<u>\$22,957,159</u>	<u>\$23,799,818</u>	<u>(3.5)%</u>

Reserve Fund

Statements of Revenues, Expenses and Changes in Net Position

	<u>2022</u>	<u>2021</u>	<u>% Change</u>
Operating revenues:			
Interest and other amounts from institutions	\$ 20,945,050	\$ 16,656,708	25.7%
Income from investments	1,796,320	1,639,521	9.6
Net decrease in the fair value of investments	(11,646,970)	(860,025)	(1,254.3)
Other income	<u>1,205,798</u>	<u>2,931,936</u>	<u>(58.9)</u>
Total operating revenues	12,300,198	20,368,140	(39.6)
Operating expenses:			
Bond issuance costs	1,205,798	2,931,936	(58.9)
Interest expense	22,262,795	17,817,077	25.0
Other expenses	<u>148,165</u>	<u>274,860</u>	<u>(46.1)</u>
Total operating expenses	<u>23,616,758</u>	<u>21,023,873</u>	<u>12.3</u>
Operating loss	(11,316,560)	(655,733)	(1,625.8)
Net position, beginning of year	<u>36,347,199</u>	<u>37,002,932</u>	<u>(1.8)</u>
Net position, end of year	<u>\$ 25,030,639</u>	<u>\$36,347,199</u>	<u>(31.1)%</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2022

Operating Fund

Notes, advances and other receivables (net) decreased \$40,274 or 28.8% from fiscal year 2021. On July 28, 2021, a settlement of \$28,000 was reached to pay off funds that had been advanced to Coopers Mills Nursing Home d/b/a Country Manor. The final payment was received on August 6, 2021, and the remainder of the receivable was written off against the bad debt allowance in fiscal year 2021. Authority fees receivable for the General Resolution program decreased by \$12,783 from fiscal year 2021 primarily due to the defeasance of bonds associated with Covenant Health.

Cash and cash equivalents decreased \$14,514,135 while operating investments increased \$13,748,168. Investments are carried at fair market value which experienced a net decrease in fair value of \$645,749. The decrease is the result of fluctuations in the interest rate environment. All investments are carried at fair value, and unrealized gains and losses (primarily due to fluctuations in market interest rates) are recognized in the statement of revenues, expenses, and changes in net position.

Accrued investment income increased \$28,281 or 555.8% from fiscal year 2021, which is the result of the increased investments discussed above.

Accounts payable increased \$68,465 or 293.6% due to the accrual of unbudgeted vacation payouts for two long-term employees who retired at the end of fiscal year 2022 as well as the timing of payment of other expenses.

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 \$617,000 and \$568,000 of expenses under this arrangement in fiscal years 2022 and 2021, respectively.

Reserve Fund

Investments held by trustee decreased by \$14,275,962 or 16.71% from fiscal year 2021 due primarily to the bond payoffs and the refunding of the University of New England Reserve bonds with a general resolution bond issuance, in addition to a net decrease in the fair value of investments.

Accrued investment income increased \$235,877 or 92.2% from fiscal year 2021 as the Authority maximized investments in the rising rate environment.

Prepayments from institutions decreased \$375,944 or 92.2% from fiscal year 2021 due to previous fiscal year excess funds being used for debt service payments and subsequently recognized as revenue in fiscal year 2022.

Interest and other amounts received from institutions in fiscal year 2022 increased \$4,288,342 or 25.7% from fiscal year 2021. This increase is the result of the issuances of the 2021BC bonds late in fiscal year 2021 and the subsequent interest payments due in fiscal year 2022. Correspondingly, interest expense has also increased from fiscal year 2021 by \$4,445,718 or 25.0% and interest payable has increased 21.8% or \$1,964,772.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2022

The fair market value of investments in fiscal year 2022 decreased by \$11,646,970 compared to a net decrease of \$860,025 in fiscal year 2021. The rapid and steep increase in interest rates dramatically impacted holdings. All investments are carried at fair market 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 position. The investments in the debt service reserve funds are primarily longer dated maturities as they are required to match the underlying bonds for each issue. Longer-term maturities are most vulnerable to fair market value markdowns in a rapidly rising rate environment. As these holdings mature, they will revert to par value thus eliminating these unrealized losses. As a matter of policy, in cases where a bond issue pays off early and investments must be sold at market value, the borrowers, not the Authority, are required to make up any valuation shortfalls.

As a result of the decrease in new bond issuances, other income and bond issuance costs decreased \$1,726,138 or 58.9% from fiscal year 2021. The decrease relates entirely to lower costs of issuance in 2022, which are reimbursed from the bond issuance accounts and are considered revenue to the Reserve Fund Resolution.

Other expenses decreased by \$126,695 from fiscal year 2021. This decrease is due to funds being returned to institutions due to bond payoffs in fiscal year 2021.

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 requests 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, 2022

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 7,082,900	\$ –	\$ 7,082,900
Investments held by trustee	–	18,845,321	18,845,321
Operating investments	15,783,488	–	15,783,488
Accrued investment income	33,369	491,832	525,201
Loans receivable from institutions	–	27,147,617	27,147,617
Interest and other receivables from institutions	–	185,106	185,106
Fees and other amounts due from Reserve Fund	49,468	–	49,468
Notes, advances and other receivables	<u>99,722</u>	<u>–</u>	<u>99,722</u>
Total current assets	23,048,947	46,669,876	69,718,823
Noncurrent assets:			
Investments held by trustee	–	52,312,611	52,312,611
Supplemental reserve investments	–	24,795,717	24,795,717
Loans receivable from institutions	<u>–</u>	<u>512,630,888</u>	<u>512,630,888</u>
Total noncurrent assets	<u>–</u>	<u>589,739,216</u>	<u>589,739,216</u>
Total assets	<u>23,048,947</u>	<u>636,409,092</u>	<u>659,458,039</u>
<u>LIABILITIES</u>			
Current liabilities:			
Bonds payable	–	28,775,000	28,775,000
Interest payable	–	10,983,631	10,983,631
Fees and other amounts due to Operating Fund	–	49,468	49,468
Accounts payable	91,788	18,691	110,479
Prepayments from institutions	<u>–</u>	<u>31,663</u>	<u>31,663</u>
Total current liabilities	91,788	39,858,453	39,950,241
Noncurrent liabilities:			
Bonds payable	<u>–</u>	<u>571,520,000</u>	<u>571,520,000</u>
Total liabilities	<u>91,788</u>	<u>611,378,453</u>	<u>611,470,241</u>
<u>NET POSITION</u>			
Unrestricted net position	<u>\$22,957,159</u>	<u>\$ 25,030,639</u>	<u>\$ 47,987,798</u>

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2022

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Operating revenues:			
Interest and other amounts from institutions	\$ -	\$ 20,945,050	\$ 20,945,050
Administrative and other fees	423,431	-	423,431
Income from investments	123,368	1,796,320	1,919,688
Net decrease in the fair value of investments	(645,749)	(11,646,970)	(12,292,719)
Other income	<u>112,128</u>	<u>1,205,798</u>	<u>1,317,926</u>
Total operating revenues	13,178	12,300,198	12,313,376
Operating expenses:			
Bond issuance costs	-	1,205,798	1,205,798
Interest expense	-	22,262,795	22,262,795
Operating expenses	855,837	-	855,837
Other expenses	<u>-</u>	<u>148,165</u>	<u>148,165</u>
Total operating expenses	<u>855,837</u>	<u>23,616,758</u>	<u>24,472,595</u>
Operating loss	(842,659)	(11,316,560)	(12,159,219)
Net position, beginning of year	<u>23,799,818</u>	<u>36,347,199</u>	<u>60,147,017</u>
Net position, end of year	<u>\$22,957,159</u>	<u>\$ 25,030,639</u>	<u>\$ 47,987,798</u>

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2022

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Operating activities:			
Cash received from institutions	\$ 432,449	\$ 61,356,751	\$ 61,789,200
Cash payments to institutions	-	(63,653,988)	(63,653,988)
Cash received from other income	112,128	-	112,128
Cash payments for operating and other expenses	<u>(787,372)</u>	<u>(142,683)</u>	<u>(930,055)</u>
Net cash used by operating activities	(242,795)	(2,439,920)	(2,682,715)
Noncapital financing activities:			
Proceeds from bonds payable	-	76,880,256	76,880,256
Other proceeds from institutions in conjunction with bond issuance	-	70,836	70,836
Principal paid on bonds payable	-	(47,115,000)	(47,115,000)
Interest paid on bonds payable	-	(20,280,448)	(20,280,448)
Transfers to General Resolution	-	(5,183,223)	(5,183,223)
Paid to refunding escrow	-	(1,223,800)	(1,223,800)
Bond and other proceeds passed on to borrowers	-	(5,484,369)	(5,484,369)
Issuance cost paid	<u>-</u>	<u>(1,205,798)</u>	<u>(1,205,798)</u>
Net cash used by noncapital financing activities	-	(3,541,546)	(3,541,546)
Investing activities:			
Purchase of investment securities	(16,574,118)	(278,032,924)	(294,607,042)
Proceeds from sale and maturities of investment securities	2,180,200	282,453,947	284,634,147
Income received from investments and advances	95,087	1,560,443	1,655,530
Net decrease in notes, advances and other receivables from institutions	<u>27,491</u>	<u>-</u>	<u>27,491</u>
Net cash (used) provided by investing activities	<u>(14,271,340)</u>	<u>5,981,466</u>	<u>(8,289,874)</u>
Decrease in cash and cash equivalents	(14,514,135)	-	(14,514,135)
Cash and cash equivalents, beginning of year	<u>21,597,035</u>	<u>-</u>	<u>21,597,035</u>
Cash and cash equivalents, end of year	\$ <u>7,082,900</u>	\$ <u>-</u>	\$ <u>7,082,900</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

Year Ended June 30, 2022

	<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	\$ (842,659)	\$ (11,316,560)	\$ (12,159,219)
Adjustments to reconcile operating income to net cash used by operating activities:			
Investment and interest income	(123,368)	(1,796,320)	(1,919,688)
Net decrease in the fair value of investments	645,749	11,646,970	12,292,719
Interest expense on bonds payable	-	22,262,795	22,262,795
Change in assets and liabilities:			
Loans receivable from institutions	-	(23,040,580)	(23,040,580)
Fees receivable from trustee funds	(3,766)	3,766	-
Accrued interest and other receivables from institutions	-	170,472	170,472
Fees receivable from institutions	12,784	-	12,784
Accounts payable	68,465	5,481	73,946
Prepayments from institutions	<u>-</u>	<u>(375,944)</u>	<u>(375,944)</u>
Net cash used by operating activities	<u>\$ (242,795)</u>	<u>\$ (2,439,920)</u>	<u>\$ (2,682,715)</u>

Summary of noncash transactions:

Within the Reserve Fund Resolution, loans receivable from institutions and bonds payable were reduced by \$28,731,777 and \$33,915,000, respectively, as part of the 2022 General Resolution refunding of an outstanding Reserve Fund bond and the related loan.

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2022

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 \$24,795,717 at June 30, 2022 is presented as supplemental reserve investments on the statements of net position.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2022

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, 2022, Eastern Maine Healthcare comprised 47.3% 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 2022.

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, 2022

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, 2022 is \$256,889 of insured deposits with a bank, and \$314,687 of money market funds held by a custodian and secured by SBA and mortgage bonds. The Authority has also invested \$364,198 at Northeast Bank in an investment program where two 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, 2022

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, 2022, the Authority had \$6,149,502 invested in the Treasurer's Cash Pool, which is included in cash and cash equivalents on the statements 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. Reserve fund investments that are not expected to be utilized to fund principal and interest payments until after June 30, 2023 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. There was no allowance necessary at June 30, 2022.

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, 2022

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, corporate notes 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, 2022, investments are categorized as follows:

	<u>Fair Value</u>
<u>Operating Fund</u>	
Operating investments:	
Certificates of deposit	\$ 199,245
Corporate notes	349,902
U.S. Government-sponsored enterprises bonds and notes	<u>15,234,341</u>
	<u>\$15,783,488</u>
 <u>Reserve Fund</u>	
Investments held by trustee:	
Municipal bonds	\$44,074,010
U.S. Government-sponsored enterprises bonds and notes	2,413,107
Corporate notes	208,725
Cash and cash equivalents	<u>24,462,090</u>
	<u>\$71,157,932</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2022

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

	<u>Fair Value</u>
Supplemental Reserve Investments:	
Municipal bonds	\$ 3,234,185
U.S. Government-sponsored enterprises bonds and notes	7,481,958
Corporate notes	9,338,703
Cash and cash equivalents	<u>4,740,871</u>
	<u>\$24,795,717</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. 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, 2022:

	<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.)	\$15,234,341	\$1,000,080	\$14,234,261	\$ –	\$ –
Corporate notes	349,902	–	–	349,902	–
Certificates of deposit	<u>199,245</u>	<u>–</u>	<u>199,245</u>	<u>–</u>	<u>–</u>
	<u>\$15,783,488</u>	<u>\$1,000,080</u>	<u>\$14,433,506</u>	<u>\$ 349,902</u>	<u>\$ –</u>
<u>Reserve Fund</u>					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	\$ 9,895,065	\$1,791,847	\$ 4,752,503	\$ 3,350,715	\$ –
Corporate notes	9,547,428	5,209,243	1,405,675	2,723,785	208,725
Municipal bonds	<u>47,308,195</u>	<u>665,776</u>	<u>4,871,438</u>	<u>9,949,804</u>	<u>31,821,177</u>
	<u>\$66,750,688</u>	<u>\$7,666,866</u>	<u>\$11,029,616</u>	<u>\$16,024,304</u>	<u>\$32,029,902</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2022

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

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, Bank of New York and Northeast Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at these institutions at June 30, 2022.

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 corporate notes 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. P-1 ratings for corporate notes reflect a superior rating by Moody's Investor Service to repay short-term obligations.

At June 30, 2022, the ratings for investments in debt securities are summarized as follows. These ratings were as of June 30, 2022 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	\$25,129,406
Certificates of deposit	AAA	199,245
Corporate notes	P-1/A-1+	2,552,497
Corporate notes	P-1/A-1	3,685,978
Corporate notes	A-	3,658,855
Municipal bonds	AAA/Aaa – Aa2	810,335
Municipal bonds	AA+/Aaa – Aa3	5,682,148
Municipal bonds	AA/Aa1 – A1	24,207,186
Municipal bonds	AA-/Aa2 – A1	12,625,240
Municipal bonds	A+/A1	3,364,199
Municipal bonds	A3	<u>619,087</u>
		<u>\$82,534,176</u>

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

Trustee and custodian held cash and cash equivalents at June 30, 2022 consist primarily of short-term money market funds invested exclusively in U.S. Treasury obligations.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2022

4. Bonds Payable

Total Reserve Fund bonds payable, with original interest rates and maturities, consist of the following at June 30, 2022:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2022</u>
Reserve Fund:			
Series 2007 B, 4.0% – 5.0%, dated November 1, 2007	2008 – 2037	\$ 70,470,000	\$ 90,000
Series 2010 B, 2.5% – 5.25% dated June 24, 2010	2011 – 2031	96,755,000	3,430,000
Series 2011 A, 2.0% – 5.0% dated August 31, 2011	2012 – 2031	36,535,000	1,580,000
Series 2013 A, 2.0% – 5.0% dated May 23, 2013	2014 – 2033	64,030,000	31,940,000
Series 2014 A, 3.0% – 5.0% dated July 24, 2014	2015 – 2032	43,185,000	8,905,000
Series 2015 A, 2.0% – 5.0% dated July 30, 2015	2016 – 2035	27,395,000	4,285,000
Series 2016 A, 3.0% – 5.0% dated June 28, 2016	2017 – 2035	64,840,000	31,855,000
Series 2017 A, 3.0% – 5.0% dated June 27, 2017	2018 – 2031	39,000,000	26,955,000
Series 2017 B, 3.5% – 5.0% dated December 28, 2017	2018 – 2038	43,630,000	32,395,000
Series 2019 A, 3.0% – 5.0% dated July 31, 2019	2020 – 2039	54,640,000	50,095,000
Series 2019 B, 3.0% – 5.0% dated November 6, 2019	2020 – 2049	36,415,000	34,760,000
Series 2019 C, 5.0% dated April 3, 2020	2020 – 2040	42,350,000	36,340,000
Series 2020 A, 4.0% – 5.0% dated June 30, 2020	2021 – 2031	21,665,000	11,785,000
Series 2020 B, 2.75% – 5.0% dated November 10, 2020	2021 – 2031	13,105,000	12,805,000
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	156,870,000	156,870,000
Series 2021 C, 2.5% – 5.0% dated December 2, 2021	2023 – 2051	20,435,000	20,435,000
Series 2022 A, 5.0% – 5.5% dated June 2, 2022	2023 – 2052	48,310,000	48,310,000
Series 2022 B, 4.75% dated June 2, 2022	2023 – 2032	<u>1,395,000</u>	<u>1,395,000</u>
		\$ <u>967,090,000</u>	600,295,000
Current portion			<u>28,775,000</u>
Noncurrent portion			\$ <u>571,520,000</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2022

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>
2023	\$ 28,775,000	\$ 22,406,388	\$ 51,181,388
2024	30,245,000	22,208,812	52,453,812
2025	31,000,000	20,937,980	51,937,980
2026	29,125,000	19,687,148	48,812,148
2027	29,395,000	18,449,732	47,844,732
2028 – 2032	152,550,000	73,263,691	225,813,691
2033 – 2037	127,845,000	44,487,070	172,332,070
2038 – 2042	93,925,000	23,764,712	117,689,712
2043 – 2047	49,590,000	10,088,622	59,678,622
2048 – 2052	24,900,000	3,557,925	28,457,925
2053	<u>2,945,000</u>	<u>80,988</u>	<u>3,025,988</u>
Total	<u>\$ 600,295,000</u>	<u>\$ 258,933,068</u>	<u>\$ 859,228,068</u>

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2022:

	<u>Reserve Fund</u>
Balance, beginning of year	\$ 612,380,000
Issuances, at par	70,140,000
Redemptions:	
Principal payments	(47,115,000)
Bonds refunded (notes 5 and 8)	<u>(35,110,000)</u>
Balance, end of year	<u>\$ 600,295,000</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, 2022

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, 2022:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2022</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
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	894,568
Colby College, Series 2014 B, 4.341% – 4.441%, dated May 20, 2014	2026 – 2044	4,665,000	4,665,000
Bates College, Series 2015, 3.0% – 5.0%, dated July 8, 2015	2016 – 2036	27,790,000	24,455,000
Redington Fairview, Series 2016, 2.85%, dated January 20, 2016	2017 – 2031	7,500,000	4,500,000
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	43,580,000
University of New England, Series 2017 B, 3.0% – 5.0%, dated October 11, 2017	2018 – 2038	40,100,000	34,750,000
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
John F. Murphy Homes, Series 2018, 5.50% dated August 1, 2018	2019 – 2039	4,500,000	4,112,460
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	2,063,194
Bowdoin College, Series 2018, 4.0% – 5.0%, dated November 29, 2018	2020 – 2048	28,885,000	27,885,000
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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2022

5. Conduit Debt (Continued)

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2022</u>
Bates College, Series 2020, 2.0%, dated May 21, 2020	2021 – 2040	\$ 10,325,000	\$ 9,901,000
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	18,090,381
Piper Shores, Series 2021 A-2, 2.79–2.88% dated March 25, 2021	2021 – 2041	18,620,000	17,411,175
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	21,115,000	18,830,000
University of New England 2021 A, 2.75% – 5.0%, dated December 15, 2021	2022 – 2051	44,320,000	44,320,000
University of New England 2021 B, 0.73% – 3.045% dated December 15, 2021	2022 – 2043	27,980,000	27,980,000
Maine Health, Series 2022, 1.55% dated April 4, 2022	2022 – 2031	<u>13,755,000</u>	<u>13,755,000</u>
		<u>\$ 1,171,697,775</u>	<u>\$ 1,143,587,778</u>

The following is a summary of conduit debt activity for the year ended June 30, 2022:

Bonds outstanding as of June 30, 2021	\$ 1,186,615,758
Issuances, at par	86,055,000
Redemptions:	
Bonds redeemed	(116,850,000)
Principal Payments	<u>(12,232,980)</u>
Bonds outstanding as of June 30, 2022	<u>\$ 1,143,587,778</u>

On December 15, 2021, the Authority issued series 2021AB General Resolution revenue bonds in the amount of \$72,300,000 with an average rate of 3.15%. A portion of the bond was used to defease \$33,915,000 of certain maturities within the 2011C, 2012A, 2013A, 2014A and 2016A Reserve Resolution series. Net proceeds of approximately \$36,504,000 were used to purchase U.S. Government securities which will provide for future debt service payments on the defeased bonds. The economic benefits associated with the refunding inure to the respective institution.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2022

5. Conduit Debt (Continued)

At June 30, 2022, there were approximately \$305,580,000 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, 2022, the required debt service reserve within the Reserve Fund was approximately \$53,000,000 and the fair value of the debt service reserve assets totaled approximately \$52,000,000. The deficit is related to the interest rate environment, which resulted in fair value adjustments to the underlying investment portfolio.

The Authority transferred approximately \$9,056,000 from the supplemental reserve (discussed below), and \$2,100,000 from general funds of previously paid off bond issues in the Reserve Fund, to debt service reserves in fiscal year 2023 as a result of the aforementioned deficit. The transfer was also made for a projected reserve deficit for anticipated fiscal year 2023 bond issuances.

The Authority maintains a supplemental reserve as described above and in note 1. The fair value of these assets at June 30, 2022 is approximately \$24,800,000.

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 \$617,000 of expense under this arrangement for the year ended June 30, 2022, and owed the Bond Bank \$66,120 at June 30, 2022.

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.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2022

8. Refunded Issues (Continued)

On June 2, 2022, the Authority issued \$48,310,000 in 2022A Reserve Resolution fund bonds with an average interest rate of 5.0%, a portion of which was used to defease \$1,080,000 of certain maturities within the 2012A bond series. A portion of the net proceeds of approximately \$52,052,000, 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. Birch Bay Retirement Village realized net present value savings of approximately \$70,000 as a result of this bond issuance.

At June 30, 2022, there were approximately \$68,000,000 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 had \$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 was 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 also has approximately \$100,000 of other receivables outstanding within the Operating Fund at June 30, 2022, approximately \$95,000 of which is 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, 2022

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.

U.S. Government-sponsored enterprises bonds and notes, corporate 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.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2022

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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<u>Operating Fund</u>			
U.S. Government-sponsored enterprises			
bonds and notes	\$ –	\$15,234,341	\$15,234,341
Certificates of deposit	–	199,245	199,245
Corporate notes	–	<u>349,902</u>	<u>349,902</u>
	<u>\$ –</u>	<u>\$15,783,488</u>	<u>\$15,783,488</u>
 <u>Reserve Fund</u>			
Investments held by trustee:			
Cash equivalents	\$24,462,090	\$ –	\$24,462,090
U.S. Government-sponsored enterprises			
bonds and notes	–	2,413,107	2,413,107
Corporate notes	–	208,725	208,725
Municipal bonds	–	<u>44,074,010</u>	<u>44,074,010</u>
	<u>\$24,462,090</u>	<u>\$46,695,842</u>	<u>\$71,157,932</u>
 Supplemental reserve investments:			
Cash equivalents	\$ 4,740,871	\$ –	\$ 4,740,871
U.S. Government-sponsored enterprises			
bonds and notes	–	7,481,958	7,481,958
Corporate notes	–	9,338,703	9,338,703
Municipal bonds	–	<u>3,234,185</u>	<u>3,234,185</u>
	<u>\$ 4,740,871</u>	<u>\$20,054,846</u>	<u>\$24,795,717</u>

There were no Level 3 investments as of June 30, 2022.

SUPPLEMENTAL SCHEDULE

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2022

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Capital Grants/ Contributions</u>	<u>Net Revenue (Expense) and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Program Investment Loss</u>	<u>Operating Grants and Contributions</u>		<u>Total</u>
Functions/Programs:						
Maine Health and Higher Educational Facilities Authority	<u>\$(24,472,595)</u>	<u>\$22,574,279</u>	<u>\$(9,850,650)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$(11,748,966)</u>
Total	<u>\$(24,472,595)</u>	<u>\$22,574,279</u>	<u>\$(9,850,650)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>(11,748,966)</u>
General revenues:						
Unrestricted interest and investment loss						<u>(522,381)</u>
Miscellaneous income						<u>112,128</u>
Total general revenues						<u>(410,253)</u>
Change in net position						<u>(12,159,219)</u>
Net position, beginning of year						<u>60,147,017</u>
Net position, end of year						<u>\$ 47,987,798</u>