Annual Report

Maine Health & Higher Educational Facilities Authority

2023

MHHEFA

Maine Health & Higher Educational Facilities Authority

MHHEFA
Maine Health & Higher Educational Facilities Authority

Terry Hayes, Executive Director
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127 Community Drive | Augusta, ME 04330

November 16,2023

The Honorable Troy D. Jackson
President of the Maine Senate
3 State House Station
Augusta, Maine 04333

Dear President Jackson:

Pursuant to M.R.S.A. Title 22, Chapter 413, Section 2069, on behalf of the Board and staff of the Maine Health and Higher Educational Facilities Authority, I am pleased to provide you with our Fiscal Year 2023 Annual Report.

The Maine Health and Higher Educational Facilities Authority was established by the legislature in 1972. Since its inception, the Authority has issued in excess of $6.78 billion to meet the capital needs of Maine's healthcare and higher educational institutions.

During fiscal year 2023, the Authority issued $85,760,000 under its general tax-exempt conduit resolution and $85,585,000 under its moral obligation reserve fund resolution. These sales accomplished in 3 series for 6 hospitals, 2 educational institutions.

The Authority's gross bonds outstanding of $655,865,000 within the Reserve Fund Resolution at June 30, 2023 represents a net increase of $55,570,000 or 9.3% from the balance at June 30, 2022. This net increase is due to the issuance of the 2022C Reserve Fund bonds (par of $85,585,000). There were also bonds that were in-substance defeased totaling $1,240,000 and scheduled bond repayments of $28,775,000.

In addition, Pursuant to M.R.S.A Title 22, Chapter 413, Section 2075, paragraph 1C, the Authority certifies that our reserve fund investments exceed the reserve fund requirement at June 30, 2023.

We look forward to continuing our commitment of providing low cost financing to the communities we serve.

Sincerely,

Terry Hayes

Terry Hayes
Executive Director

Enclosure:
2023 Audited Financials

Maine Health and Higher Educational Facilities Authority

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2023
With Independent Auditors' Report

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2023

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INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher Educational Facilities Authority

Report on the Audit of 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, 2023, 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, 2023, 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). 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 opinions.

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.

To the Members of
Maine Health and Higher Educational Facilities Authority

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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 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, 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.

To the Members of
Maine Health and Higher Educational Facilities Authority

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 GAAS, 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.

Baker Newman & Noyes LLC
Portland, Maine
October 10, 2023

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, 2023. 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 three 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 $656 million in fiscal year 2023. The projected outlook for fiscal year 2024 is a net increase of $550 million with an ending gross bonds outstanding of greater than $1.15 billion. This would mean achieving a greater than 300% increase from the start of the strategic plan. The total 2024 projection is slightly skewed due to the 2023A issue closing in July of 2023 rather than June and subsequently pushing the $72 million issue into fiscal year 2024. The majority of the growth of the Authority's funds is attributed to the two largest healthcare institutions in the State – Northern Light Health and MaineHealth. In 2024 the Authority will see more participation from the smaller regional hospitals, Federally Qualified Health Centers (FQHC) and finally, Educational Institutions. FQHCs represent the fastest growing segment in terms of new borrowers and accounting for over $50 million of bonds issued to date in fiscal year 2024. The FQHCs and small private schools have helped broaden the Authority's diversification and counteract the consolidation trend amongst the large healthcare institutions.

Market dynamics have limited participation in the conduit program in fiscal year 2023 and the outlook for fiscal year 2024 is also muted. The steep rise in interest rates and tighter lending standards by banks has limited the options for potential conduit borrowers. The institutions with the best credits were very active in fiscal year 2022 when they took advantage of very low rates and favorable bank financing. MaineHealth had $83 million go "off book" as part of a taxable forward refunding in fiscal year 2022 and that $83 million is forecasted to come back on the Authority's book in April of 2024.

- The Operating Fund produced a gain of $140,793 for the year due to increased fee revenue and investment income.
- The Authority's gross bonds outstanding of $655,865,000 within the Reserve Fund Resolution at June 30, 2023 represents a net increase of $55,570,000 or 9.3% from the balance at June 30, 2022. This net increase is due to the issuance of the 2022C Reserve Fund bonds (par of $85,585,000). There were also bonds that were in-substance defeased totaling $1,240,000 and scheduled bond repayments of $28,775,000.
- The Authority's loans receivable from institutions at June 30, 2023 of $591,250,000 represents a net increase of $51,471,695 or 9.5% from the balance at June 30, 2022. This increase is the net result of the bond issuances described above and repayment of loans by institutions during fiscal year 2023.

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.

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 $23,097,952 at June 30, 2023. This represents an increase of $140,793 or 0.6% over the previous fiscal year. This increase is the net effect of increases in fees received and investment income and a decrease in expenses. In the case of the Reserve Fund, assets exceeded liabilities by $24,147,080. This represents a decrease of $883,559 or 3.5% compared to the previous fiscal year. 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

	2023	2022	% Change
Current assets:			
Cash and cash equivalents	$ 7,136,314	$ 7,082,900	0.8%
Operating investments	15,737,098	15,783,488	(0.3)
Accrued investment income	31,850	33,369	(4.6)
Fees and other amounts due from Reserve Fund	57,973	49,468	17.2
Other receivables from institutions	156,813	99,722	57.3
Total current assets	23,120,048	23,048,947	0.3
Current liabilities:			
Accounts payable	22,096	91,788	(75.9)
Total current liabilities	22,096	91,788	(75.9)
Net position:			
Unrestricted net position	$23,097,952	$ 22,957,159	0.6%

Reserve Fund

Statements of Net Position

	2023	2022	% Change
Current assets:			
Investments held by trustee	$ 19,069,925	$ 18,845,321	1.2%
Accrued investment income	667,412	491,832	35.7
Loans receivable from institutions	30,239,287	27,147,617	11.4
Interest and other receivables from institutions	953,733	185,106	415.2
Total current assets	50,930,357	46,669,876	9.1
Noncurrent assets:			
Investments held by trustee	59,530,067	52,312,611	13.8
Supplemental reserve investments	22,282,856	24,795,717	(10.1)
Loans receivable from institutions	561,010,913	512,630,888	9.4
Total noncurrent assets	642,823,836	589,739,216	9.0
Total assets	693,754,193	636,409,092	9.0
Current liabilities:			
Bonds payable	30,995,000	28,775,000	7.7%
Interest payable	13,648,629	10,983,631	24.3
Fees and other amounts due to operating fund	57,973	49,468	17.2
Accounts payable	21,970	18,691	17.5
Prepayments from institutions	13,541	31,663	(57.2)
Total current liabilities	44,737,113	39,858,453	12.2
Noncurrent liabilities:			
Bonds payable	624,870,000	571,520,000	9.3
Total liabilities	669,607,113	611,378,453	9.5
Net position:			
Unrestricted net position	$ 24,147,080	$ 25,030,639	(3.5)%

Operating Fund

Statements of Revenues, Expenses and Changes in Net Position

	2023	2022	% Change
Operating revenues:			
Administrative and other fees	$ 533,060	$ 423,431	25.9%
Income from investments	315,666	123,368	155.9
Net decrease in the fair value of investments	(40,693)	(645,749)	(93.7)
Other income	116,346	112,128	3.8
Total operating revenues	924,379	13,178	6,914.6
Operating expenses:			
Operating expenses	783,586	855,837	(8.4)
Total operating expenses	783,586	855,837	(8.4)
Operating income (loss)	140,793	(842,659)	(116.7)
Net position, beginning of year	22,957,159	23,799,818	(3.5)
Net position, end of year	$23,097,952	$22,957,159	0.6%

Reserve Fund

Statements of Revenues, Expenses and Changes in Net Position

	2023	2022	% Change
Operating revenues:			
Interest and other amounts from institutions	$ 23,804,712	$ 20,945,050	13.7%
Income from investments	3,043,208	1,796,320	69.4
Net decrease in the fair value of investments	(1,950,519)	(11,646,970)	(83.3)
Other income	1,346,140	1,205,798	11.6
Total operating revenues	26,243,541	12,300,198	113.4
Operating expenses:			
Bond issuance costs	1,346,140	1,205,798	11.6
Interest expense	25,673,818	22,262,795	15.3
Other expenses	107,142	148,165	(27.7)
Total operating expenses	27,127,100	23,616,758	14.9
Operating loss	(883,559)	(11,316,560)	(92.2)
Net position, beginning of year	25,030,639	36,347,199	(31.1)
Net position, end of year	$ 24,147,080	$ 25,030,639	(3.5)%

Operating Fund

Other receivables from institutions increased $57,091 or 57.3% from fiscal year 2022 primarily due to a board approved increase in authority fees for the general resolution program that was in effect for all of fiscal year 2023. Correspondingly, administrative and other fees increased by $109,629 or 25.9%.

The fair market value of investments in fiscal year 2023 was a net decrease of $40,693 compared to a net decrease of $645,749 in fiscal year 2022, a 93.7% change. The change 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.

Accounts payable decreased $69,692 or 75.9% 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.

Income from investments increased $192,298 or 155.9% from fiscal year 2022. This improvement of investment returns is jointly attributable to the higher interest rate environment in 2023 and to better execution of existing investment policy/strategy through active management of our financial institutions, resulting in lower fees and more timely adjustments to the rate the Authority earns on cash holdings.

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 $573,000 and $617,000 of expenses under this arrangement in fiscal years 2023 and 2022, respectively.

Reserve Fund

Investments held by trustee increased by $7,442,060 or 10.5% from fiscal year 2022 due primarily to the issuance of the 2023C bonds in addition to a reduction in the net decrease in the fair value of investments.

Accrued investment income increased $175,580 or 35.7% from fiscal year 2022 as the Authority maximized investments in the rising rate environment.

Interest and other amounts received from institutions in fiscal year 2023 increased $2,859,662 or 13.7% from fiscal year 2022. This increase is the result of the issuance of the 2022C bonds. Correspondingly, interest expense has also increased from fiscal year 2022 by $3,411,023 or 15.3% and interest payable has increased 24.3% or $2,664,998.

The fair market value of investments in fiscal year 2023 decreased by $1,950,519 compared to a net decrease of $11,646,970 in fiscal year 2022. 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 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 increase in new bond issuances, other income and bond issuance costs increased $140,342 or 11.6% from fiscal year 2022. The increase relates entirely to higher costs of issuance in 2023, which are reimbursed from the bond issuance accounts and are considered revenue to the Reserve Fund Resolution.

Other expenses decreased by $41,023 from fiscal year 2022. This decrease is due to a reduction in funds being returned to institutions due to bond payoffs in fiscal year 2023.

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, 2023

	Operating Fund	Reserve Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 7,136,314	$ –	$ 7,136,314
Investments held by trustee	–	19,069,925	19,069,925
Operating investments	15,737,098	–	15,737,098
Accrued investment income	31,850	667,412	699,262
Loans receivable from institutions	–	30,239,287	30,239,287
Interest and other receivables from institutions	–	953,733	953,733
Fees and other amounts due from Reserve Fund	57,973	–	57,973
Other receivables from institutions	156,813	–	156,813
Total current assets	23,120,048	50,930,357	74,050,405
Noncurrent assets:			
Investments held by trustee	–	59,530,067	59,530,067
Supplemental reserve investments	–	22,282,856	22,282,856
Loans receivable from institutions	–	561,010,913	561,010,913
Total noncurrent assets	–	642,823,836	642,823,836
Total assets	23,120,048	693,754,193	716,874,241
LIABILITIES			
Current liabilities:			
Bonds payable	–	30,995,000	30,995,000
Interest payable	–	13,648,629	13,648,629
Fees and other amounts due to Operating Fund	–	57,973	57,973
Accounts payable	22,096	21,970	44,066
Prepayments from institutions	–	13,541	13,541
Total current liabilities	22,096	44,737,113	44,759,209
Noncurrent liabilities:			
Bonds payable	–	624,870,000	624,870,000
Total liabilities	22,096	669,607,113	669,629,209
NET POSITION			
Unrestricted net position	$23,097,952	$ 24,147,080	$ 47,245,032

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2023

	Operating Fund	Reserve Fund	Total
Operating revenues:			
Interest and other amounts from institutions	$ –	$ 23,804,712	$ 23,804,712
Administrative and other fees	533,060	–	533,060
Income from investments	315,666	3,043,208	3,358,874
Net decrease in the fair value of investments	(40,693)	(1,950,519)	(1,991,212)
Other income	116,346	1,346,140	1,462,486
Total operating revenues	924,379	26,243,541	27,167,920
Operating expenses:			
Bond issuance costs	–	1,346,140	1,346,140
Interest expense	–	25,673,818	25,673,818
Operating expenses	783,586	–	783,586
Other expenses	–	107,142	107,142
Total operating expenses	783,586	27,127,100	27,910,686
Operating income (loss)	140,793	(883,559)	(742,766)
Net position, beginning of year	22,957,159	25,030,639	47,987,798
Net position, end of year	$23,097,952	$ 24,147,080	$ 47,245,032

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2023

	Operating Fund	Reserve Fund	Total
Operating activities:			
Cash received from institutions	$ 467,464	$ 51,240,448	$ 51,707,912
Cash payments to institutions	–	(79,685,675)	(79,685,675)
Cash received from other income	116,346	–	116,346
Cash payments for operating and other expenses	(853,278)	(103,863)	(957,141)
Net cash used by operating activities	(269,468)	(28,549,090)	(28,818,558)
Noncapital financing activities:			
Proceeds from bonds payable	–	88,378,066	88,378,066
Principal paid on bonds payable	–	(30,015,000)	(30,015,000)
Interest paid on bonds payable	–	(23,008,820)	(23,008,820)
Bonds and other proceeds passed on to borrowers	–	(1,446,926)	(1,446,926)
Issuance cost paid	–	(1,346,140)	(1,346,140)
Net cash provided by noncapital financing activities	–	32,561,180	32,561,180
Investing activities:			
Purchase of investment securities	(1,059,742)	(236,325,608)	(237,385,350)
Proceeds from sale and maturities of investment securities	1,065,439	229,445,891	230,511,330
Income received from investments and advances	317,185	2,867,627	3,184,812
Net cash provided (used) by investing activities	322,882	(4,012,090)	(3,689,208)
Increase in cash and cash equivalents	53,414	–	53,414
Cash and cash equivalents, beginning of year	7,082,900	–	7,082,900
Cash and cash equivalents, end of year	$ 7,136,314	$ –	$ 7,136,314

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

Year Ended June 30, 2023

	Operating Fund	Reserve Fund	Total
Reconciliation of operating income (loss) to net cash used by operating activities:			
Operating income (loss)	$ 140,793	$ (883,559)	$ (742,766)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Investment and interest income	(315,666)	(3,043,208)	(3,358,874)
Net decrease in the fair value of investments	40,693	1,950,519	1,991,212
Interest expense on bonds payable	–	25,673,818	25,673,818
Change in assets and liabilities:			
Loans receivable from institutions	–	(51,471,695)	(51,471,695)
Fees receivable from trusteed funds	(8,505)	8,505	–
Interest and other receivables from institutions	–	(768,627)	(768,627)
Fees and other receivable from institutions	(57,091)	–	(57,091)
Accounts payable	(69,692)	3,279	(66,413)
Prepayments from institutions	–	(18,122)	(18,122)
Net cash used by operating activities	$ (269,468)	$ (28,549,090)	$ (28,818,558)

See accompanying notes.

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 $22,282,856 at June 30, 2023 is presented as supplemental reserve investments on the statements of net position.

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, 2023, Eastern Maine Healthcare comprised 54.8% 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 2023.

General Resolution

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

2. Significant Accounting Policies

Proprietary Fund Accounting

The Authority's operations are, for the most part, financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the costs of providing goods and services is financed through user charges. Therefore, it meets the criteria for an enterprise fund and is accounted for under the accrual basis of accounting. 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, 2023 is $242,958 of insured deposits with a bank, and $468,084 of money market funds held by a custodian and secured by Small Business Administration (SBA) and mortgage bonds. The Authority has also invested $5,421,168 at Northeast Bank and $1,004,954 at Bar Harbor Trust in investment programs where multiple banks have provided maximum investments of $249,000 which are each covered by Federal Deposit Insurance Corporation (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 FDIC. 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.

2. Significant Accounting Policies (Continued)

Within the Operating Fund, the Authority invested 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 considered this investment vehicle a money market instrument and generally carries the amounts in the pool at fair value. In March, 2023, the Authority transferred funds previously invested with the State of Maine to Northeast Bank.

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, 2024 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 were no notes receivable and no allowance necessary at June 30, 2023.

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.

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.

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, certificates of deposit, 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, 2023, investments are categorized as follows:

	Fair Value
Operating Fund	
Operating investments:	
Certificates of deposit	$ 196,606
Corporate notes	344,886
U.S. Government-sponsored enterprises bonds and notes	15,195,606
	$15,737,098
Reserve Fund	
Investments held by trustee:	
Municipal bonds	$36,072,672
U.S. Government-sponsored enterprises bonds and notes	11,170,735
Cash and cash equivalents	31,356,585
	$78,599,992

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

	Fair Value
Supplemental Reserve Investments:	
Municipal bonds	$10,372,154
U.S. Government-sponsored enterprises bonds and notes	2,793,575
Corporate notes	4,059,940
Cash and cash equivalents	5,057,187
	$22,282,856

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, 2023:

	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than Ten Years
Operating Fund					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	$15,195,606	$7,478,446	$ 7,717,160	$ –	$ –
Corporate notes	344,886	–	262,191	82,695	–
Certificates of deposit	196,606	196,606	–	–	–
	$15,737,098	$7,675,052	$ 7,979,351	$ 82,695	$ –
Reserve Fund					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	$13,964,310	$3,545,067	$7,909,298	$2,509,945	$ –
Corporate notes	4,059,940	–	1,404,995	2,654,945	–
Municipal bonds	46,444,826	29,742	5,200,836	11,163,132	30,051,116
	$64,469,076	$3,574,809	$14,515,129	$16,328,022	$30,051,116

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 and Bank of New York. Management of the Authority is not aware of any issues with respect to custodial credit risk at these institutions at June 30, 2023.

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, certificates of deposit 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, 2023, the ratings for investments in debt securities are summarized as follows. These ratings were as of June 30, 2023 and are not necessarily the ratings that existed at time of purchase.

Operating Fund and Reserve Fund

Issuer	Rating	Fair Value
U.S. Government-sponsored enterprises [1]	AA+/Aaa	$29,159,916
Certificates of deposit	AAA	196,606
Corporate notes	P-1/AAA	344,886
Corporate notes	A/A-1	468,495
Corporate notes	A-/A1	3,591,445
Municipal bonds	AAA/Aaa – Aa2	962,423
Municipal bonds	AA+/Aaa – Aa3	6,617,030
Municipal bonds	AA/Aa1 – A1	22,836,544
Municipal bonds	AA-/Aa2 – A1	13,694,424
Municipal bonds	A+/A1	1,703,113
Municipal bonds	A3	631,292
		$80,206,174

[1] Includes FHLMC, FHLB, FFCB, TVA

Trustee and custodian held cash and cash equivalents at June 30, 2023 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, 2023:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2023
Reserve Fund:			
Series 2010 B, 2.5% – 5.25% dated June 24, 2010	2011 – 2031	$ 96,755,000	$ 2,405,000
Series 2011 A, 2.0% – 5.0% dated August 31, 2011	2012 – 2031	36,535,000	1,385,000
Series 2013 A, 2.0% – 5.0% dated May 23, 2013	2014 – 2033	64,030,000	29,120,000
Series 2014 A, 3.0% – 5.0% dated July 24, 2014	2015 – 2032	43,185,000	7,095,000
Series 2015 A, 2.0% – 5.0% dated July 30, 2015	2016 – 2035	27,395,000	3,855,000
Series 2016 A, 3.0% – 5.0% dated June 28, 2016	2017 – 2035	64,840,000	28,215,000
Series 2017 A, 3.0% – 5.0% dated June 27, 2017	2018 – 2031	39,000,000	23,055,000
Series 2017 B, 3.5% – 5.0% dated December 28, 2017	2018 – 2038	43,630,000	30,425,000
Series 2019 A, 3.0% – 5.0% dated July 31, 2019	2020 – 2039	54,640,000	47,990,000
Series 2019 B, 3.0% – 5.0% dated November 6, 2019	2020 – 2049	36,415,000	33,715,000
Series 2019 C, 5.0% dated April 3, 2020	2020 – 2040	42,350,000	34,485,000
Series 2020 A, 4.0% – 5.0% dated June 30, 2020	2021 – 2031	21,665,000	10,660,000
Series 2020 B, 2.75% – 5.0% dated November 10, 2020	2021 – 2031	13,105,000	12,320,000
Series 2021 A, 2.5% – 5.0% dated May 19, 2021	2022 – 2050	86,065,000	83,410,000
Series 2021 B, 0.359% – 3.118% dated May 19, 2021	2022 – 2043	156,870,000	152,635,000
Series 2021 C, 2.5% – 5.0% dated December 2, 2021	2023 – 2051	20,435,000	19,805,000
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	1,395,000	1,395,000
Series 2022 C, 5.0% – 5.5% dated November 15, 2022	2023 – 2052	85,585,000	85,585,000
		$ 982,205,000	655,865,000
Current portion			30,995,000
Noncurrent portion			$ 624,870,000

4. Bonds Payable (Continued)

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

Fiscal Year Ending	Principal	Interest	Total
2024	$ 30,995,000	$ 26,641,787	$ 57,636,787
2025	32,300,000	25,319,255	57,619,255
2026	30,490,000	24,001,348	54,491,348
2027	30,830,000	22,693,932	53,523,932
2028	31,630,000	21,378,066	53,008,066
2029 – 2033	159,255,000	86,544,856	245,799,856
2034 – 2038	133,715,000	56,610,458	190,325,458
2039 – 2043	105,460,000	33,569,306	139,029,306
2044 – 2048	55,405,000	16,864,959	72,269,959
2049 – 2053	45,785,000	5,522,288	51,307,288
Total	$ 655,865,000	$ 319,146,255	$ 975,011,255

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2023:

	Reserve Fund
Balance, beginning of year	$ 600,295,000
Issuances, at par	85,585,000
Redemptions:	
Principal payments and bond defeasance	(30,015,000)
Balance, end of year	$ 655,865,000

The Authority's bonds payable are to be repaid through collection of outstanding loans receivable from institutions and liquidation of reserve fund investments (see note 6).

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

5. Conduit Debt

Conduit debt of the Authority consists of bonds outstanding within the General Resolution. The following is a summary of outstanding conduit debt, with original interest rates, at June 30, 2023:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2023
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
Penobscot Bay Medical, Series 2014, 3.110%, dated March 31, 2014	2014 – 2024	4,800,000	354,983
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	23,225,000
Redington Fairview, Series 2016, 2.85%, dated January 20, 2016	2017 – 2031	7,500,000	4,000,000
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	42,650,000
University of New England, Series 2017 B, 3.0% – 5.0%, dated October 11, 2017	2018 – 2038	40,100,000	33,285,000
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	3,964,079
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	2,006,571
Bowdoin College, Series 2018, 4.0% – 5.0%, dated November 29, 2018	2020 – 2048	28,885,000	27,355,000
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	9,468,000

5. Conduit Debt (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2023
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	16,953,493
Piper Shores, Series 2021 A-2, 2.79–2.88% dated March 25, 2021	2021 – 2041	18,620,000	16,338,230
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	16,625,000
University of New England 2021 A, 2.75% – 5.0%, dated December 15, 2021	2022 – 2051	44,320,000	43,780,000
University of New England 2021 B, 0.73% – 3.045% dated December 15, 2021	2022 – 2043	27,980,000	26,655,000
Maine Health, Series 2022, 1.55% dated April 4, 2022	2022 – 2031	13,755,000	12,470,000
Covenant Health, Series 2023, 4.0% dated March 14, 2023	2037	33,460,000	33,460,000
Bates College, Series 2023, 2.9% dated April 4, 2023	2024-2043	52,300,000	52,300,000
		$ 1,202,047,775	$ 1,162,960,356

The following is a summary of conduit debt activity for the year ended June 30, 2023:

Bonds outstanding as of June 30, 2022	$ 1,143,587,778
Issuances, at par	85,760,000
Redemptions:	
Bonds Redeemed	(52,990,000)
Principal Payments	(13,397,422)
Bonds outstanding as of June 30, 2023	$ 1,162,960,356

On April 4, 2023, the Authority issued series 2023 Bates General Resolution revenue bonds in the amount of $52,300,000 with an average rate of 2.89%. A portion of the bonds were used to defease $52,090,000 of certain maturities within the 2013 General Resolution series. Net proceeds of approximately $53,984,000 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.

5. Conduit Debt (Continued)

At June 30, 2023, there were approximately $338,215,000 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, 2023, 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 $59,000,000.

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 September 2022 as a result of a funding deficit at the end of fiscal year 2022. In November 2022, an additional $2,344,000 was transferred from the supplemental reserves. These transfers were made for a projected reserve deficit for anticipated fiscal year 2023 bond issuances. Funds in the amount of approximately $8,956,000 were transferred back to the supplemental reserve in June of 2023.

Effective June 14, 2023 the Authority maintains a revolving line of credit with Bar Harbor Bank & Trust, which is available to supplement the Authority's debt service reserve assets. As of June 30, 2023, the total amount available under this line of credit was $1,000,000. There were no borrowings on the line at June 30, 2023 or outstanding during 2023. Interest on borrowings is variable based on the One Month Prime Rate plus 2.00%, and is due monthly, based on the amount outstanding. The line of credit matures on June 14, 2026. The borrowings are secured by collateral pledge of the Authority, held in an account at Bar Harbor Bank & Trust.

The Authority maintains a supplemental reserve as described above and in note 1. The fair value of these assets at June 30, 2023 is approximately $22,300,000.

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 $573,000 of expense under this arrangement for the year ended June 30, 2023, and owed the Bond Bank $19,767 at June 30, 2023.

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.

At June 30, 2023, there were approximately $40,800,000 of defeased bonds remaining outstanding with respect to all advance-refunding issues within the Reserve Fund Resolution.

9. Other Receivables – Operating Fund

The Authority has approximately $157,000 of other receivables outstanding within the Operating Fund at June 30, 2023, approximately $151,000 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.

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.

10. Fair Value Measurements (Continued)

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 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, certificates of deposit, corporate notes 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.

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, 2023:

	Level 1	Level 2	Total
Operating Fund			
U.S. Government-sponsored enterprises bonds and notes	$ –	$15,195,606	$15,195,606
Certificates of deposit	–	196,606	196,606
Corporate notes	–	344,886	344,886
	$ –	$15,737,098	$15,737,098

10. Fair Value Measurements (Continued)

Reserve Fund	Level 1	Level 2	Total
Investments held by trustee:			
Cash equivalents	$31,356,585	$ –	$31,356,585
U.S. Government-sponsored enterprises bonds and notes	–	11,170,735	11,170,735
Municipal bonds	–	36,072,672	36,072,672
	$31,356,585	$47,243,407	$78,599,992
Supplemental reserve investments:			
Cash equivalents	$ 5,057,187	$ –	$ 5,057,187
U.S. Government-sponsored enterprises bonds and notes	–	2,793,575	2,793,575
Corporate notes	–	4,059,940	4,059,940
Municipal bonds	–	10,372,154	10,372,154
	$ 5,057,187	$17,225,669	$22,282,856

There were no Level 3 investments as of June 30, 2023.

11. Subsequent Events

On July 25, 2023, the Authority issued $68,415,000 of Reserve Fund 2023A series bonds with an average interest rate of 4.62%, a portion of which was used to in-substance defease $5,065,000 of certain maturities within the 2013A bond series. A portion of the net proceeds of approximately $72,742,000, including other sources of funds and after payment of underwriting fees, insurance and other issuance costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on defeased bonds. St. Joseph College realized a net present value savings of approximately $255,000 as a result of this bond issuance.