MGFA
MAINE GOVERNMENTAL FACILITIES AUTHORITY

Robert O. Lenna, *Executive Director*
Tel 207-622-9386
Fax 207-623-5359

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **2005 Maine Governmental Facilities Authority Annual Report**

This is the annual report for the Maine Governmental Facilities Authority for the 2005 fiscal year, running from July 1, 2004 to June 30, 2005. Created originally in 1987 as the Maine Court Facilities Authority, the Maine Governmental Facilities amendments to the original legislation were enacted into law in 1997 authorizing the Authority to undertake capital financing activities for structures designated for use as governmental facilities. Each project funded by the Authority requires project specific approval by the Legislature prior to the issuance of bonds for project activities.

In FY 2005, the Authority issued $54,210,000 of bonds in one series. Funds made available by these bond sales were used to refinance a portion of the Authority's outstanding bonds.

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) 622-9386. Additional information about the Authority is available at out website: www.mgfa.com

MAINE GOVERNMENTAL FACILITIES AUTHORITY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

TABLE OF CONTENTS

BAKER | NEWMAN | NOYES LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority
Augusta, Maine

We have audited the accompanying basic financial statements, consisting of the General Operating Account and General Bond Resolution, of Maine Governmental Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2005, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Governmental Facilities Authority and the individual fund groups referred to above at June 30, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2005 on our consideration of Maine Governmental Facilities 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 2 – 6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
October 14, 2005

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

As financial management of the Maine Governmental 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, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in their financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating revenue for the Authority's General Operating Account was $541,252 for fiscal year 2005, an increase of $83,358 or 18.2% from fiscal year 2004. This increase was caused by an increase in annual loan servicing fees, primarily related to initial issuance fees for a new bond issue in 2005, and an increase in interest income attributed to increases in short-term interest rates during fiscal year 2005.
- Fund equity in the Authority's Operating Account at June 30, 2005 was $1,137,710. This represents an increase of $351,257 or 44.7% over the fund equity at June 30, 2004, mainly due to excess administrative fees collected over operating expenses incurred in 2005, as indicated above.
- The Authority's gross bonds outstanding at June 30, 2005 were $189,570,000. Gross bonds outstanding at June 30, 2005 decreased $8,380,000 from the balance at June 30, 2004. This decrease consists of the sale of the Series 2005 bonds totaling $54,210,000 less principal payments of $11,045,000 and refundings of $51,545,000 in fiscal year 2005.
- The Authority's lease payments receivable from lessee at June 30, 2005 were $189,570,000. The lease payments are directly related to the bonds outstanding. Therefore, the decrease of $8,380,000 is mainly attributed to the net effect of bonds issued, redeemed and refunded during fiscal year 2005. These receivables represent lease payments due from the State of Maine and the County of Cumberland for the financing, acquisition, construction, improvements, reconstruction and equipping of structures, or facilities, for the use by the judicial, legislative or executive branches of the State of Maine and related entities.

Overview of the Authority

The Authority was created in 1997 by an Act of the Maine Legislature, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Authority was established to issue bonds for the purpose, among other things, of providing funds to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State of Maine and related entities.

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. The Authority does receive loan servicing fees from the judicial, legislative and executive branches of the State of Maine that are based on the original amount of the lease for each project.

As the result of the Authority issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is 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 balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in fund equity may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Fund equity increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased fund equity, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in fund equity presents information showing how the Authority's fund equity changed during the fiscal year. All changes in fund equity are generally 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.

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

Fund equity may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $1,137,710 at June 30, 2005. This represents an increase of $351,257 (44.7%) over the previous fiscal year. Most of this increase is attributable to an increase in annual loan servicing fees, primarily related to initial issuance fees for a new bond issue in 2005 and an increase in short-term interest rates during fiscal year 2005.

The Authority's financial position and results of operations for the past two years are summarized as follows:

GENERAL OPERATING ACCOUNT

	2005	2004	Percentage Change
Current assets:			
Cash and cash equivalents	$ 2,265,718	$ 1,953,353	16.0%
Interest and other amounts receivable from lessee	6,239	2,576	142.2
Total assets	$ 2,271,957	$ 1,955,929	16.2
Current liabilities:			
Deferred fees	$ 45,322	$ 42,427	6.8
Accounts payable	7,826	5,235	49.5
Total current liabilities	53,148	47,662	11.5
Noncurrent liabilities:			
Deferred fees	1,081,099	1,121,814	(3.6)
Total noncurrent liabilities	1,081,099	1,121,814	(3.6)
Total liabilities	1,134,247	1,169,476	(3.0)
Undesignated fund equity	1,137,710	786,453	44.7
Total liabilities and fund equity	$ 2,271,957	$ 1,955,929	16.2%

GENERAL BOND RESOLUTION

	2005	2004	Percentage Change
Current assets:			
Cash and cash equivalents	$ 937,746	$ 1,170,155	(19.9)%
Lease payments receivable from lessee	12,245,000	11,044,585	10.9
Interest and other amounts receivable from lessee	2,192,324	2,217,719	(1.1)
Total current assets	15,375,070	14,432,459	6.5
Noncurrent assets:			
Lease payments receivable from lessee	177,325,000	186,905,415	(5.1)
Total noncurrent assets	177,325,000	186,905,415	(5.1)
Total assets	$ 192,700,070	$ 201,337,874	(4.3)%
Current liabilities:			
Bonds payable, net	$ 12,245,000	$ 11,044,585	10.9%
Accounts payable	6,243	10,175	(38.6)
Accrued interest payable	2,303,328	2,337,117	(1.4)
Other deferred revenue	–	14,532	(100.0)
Rebate payable to Internal Revenue Service	743,321	8,032	9154.5
Total current liabilities	15,297,892	13,414,441	14.0
Noncurrent liabilities:			
Bonds payable, net	177,325,000	186,905,415	(5.1)
Rebate payable to Internal Revenue Service	5,325	742,843	(99.3)
Total noncurrent liabilities	177,330,325	187,648,258	(5.5)
Total liabilities	192,628,217	201,062,699	(4.2)
Designated fund equity	71,853	275,175	(73.9)
Total liabilities and fund equity	$ 192,700,070	$ 201,337,874	(4.3)%

The Authority's results of operations for the past two years are summarized below:

GENERAL OPERATING ACCOUNT

	2005	2004	Percentage Change
Operating revenues:			
Administrative fees	$ 501,804	$ 433,755	15.7%
Interest income from investments	39,448	24,139	63.4
Total operating revenue	541,252	457,894	18.2
Operating expenses:			
Salaries	63,769	50,901	25.3
Employee benefits	13,970	10,667	31.0
Office	10,808	22,793	(52.6)
Accretion of interest on deferred fees	71,788	74,499	(3.6)
Other	29,660	26,245	13.0
Total operating expenses	189,995	185,105	2.6
Operating income	351,257	272,789	28.8
Fund equity, beginning of year	786,453	513,664	53.1
Fund equity, end of year	$ 1,137,710	$ 786,453	44.7%

GENERAL BOND RESOLUTION

	2005	2004	Percentage Change
Operating revenues:			
Received and receivable from lessee	$ 7,657,033	$ 10,221,274	(25.1)%
Interest income from investments	19,119	14,494	31.9
Other income	–	64,689	(100.0)
Total operating revenues	7,676,152	10,300,457	(25.5)
Operating expenses:			
Bond issuance costs	–	356,976	(100.0)
Interest expense	7,633,604	9,724,877	(21.5)
Amortization of deferred bond issuance costs	83,587	–	–
Other	162,283	114,710	41.5
Total operating expenses	7,879,474	10,196,563	(22.7)
Operating (loss) income	(203,322)	103,894	(295.7)
Fund equity, beginning of year	275,175	171,281	60.7
Fund equity, end of year	$ 71,853	$ 275,175	(73.9)%

General Operating Account

Cash and cash equivalents held in the General Operating Account increased $312,365 or 16% at June 30, 2005 compared to June 30, 2004. The increase was mainly the result of an increase in administrative fees collected by the Authority over 2004 and an increase in short-term interest rates during fiscal year 2005.

Fund equity increased $351,257 or 44.7% in fiscal year 2005. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Operating revenues are generated principally from fees charged to lessees. Administrative fees increased $68,049 or 15.7% in fiscal year 2005 from 2004. This increase was primarily the result of administrative initial issuance fees earned from a new bond issue in 2005 over initial issuance fees earned in 2004. Bonds issued in fiscal year 2005 totaled $54,210,000 versus $47,925,000 issued in 2004.

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

General Bond Resolution

Cash and cash equivalents in the General Bond Resolution decreased $232,409 or 19.9% from balances at June 30, 2004. The decrease is the result of cash and cash equivalents being used to pay expenses of the General Bond Resolution.

Lease payments receivable from lessee are directly related to the bonds outstanding, both decreased $8,380,000 or 4.2% at June 30, 2005 as compared to balances at June 30, 2004. The decrease is due to the net effect of the issuance of the Series 2005A refunding bonds, scheduled principal payments and bonds defeased in fiscal year 2005.

As the result of the Authority issuing tax-exempt debt, the Authority is required to prepare arbitrage rebate calculations for each series of bonds outstanding and remit payment to the Internal Revenue Service every five years. Rebate payable to Internal Revenue Service decreased .3% in fiscal year 2005 as the net result of the increase of the annual rebate liability calculation at June 30, 2005 and a rebate payment in fiscal year 2005.

Interest income in the General Bond Resolution for fiscal year 2005 increased 31.9% from 2004 as a result of an increase in short-term interest rates during fiscal year 2005.

Interest expense on the bonds decreased $2,091,273 or 21.5% in fiscal year 2005 from 2004 as the result of the 2005A Refunding Bonds which refunded a portion of the Authority's outstanding Lease Rental Revenue Bonds, series 1999, 2000A and 2000B (see note 4). The effect of the timing of the refunding was to eliminate scheduled debt service interest payments on the refunded bonds.

Requests for Information

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

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2005

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$2,265,718	$ 937,746	$ 3,203,464
Lease payments receivable from lessee (note 4)	–	12,245,000	12,245,000
Interest and other amounts receivable from lessee	6,239	2,192,324	2,198,563
Total current assets	2,271,957	15,375,070	17,647,027
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	177,325,000	177,325,000
Total assets	$2,271,957	$ 192,700,070	$ 194,972,027
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Bonds payable, net (note 4)	$ –	$ 12,245,000	$ 12,245,000
Accounts payable	–	6,243	6,243
Accrued interest payable	–	2,303,328	2,303,328
Deferred fees (note 6)	45,322	–	45,322
Rebate payable to Internal Revenue Service	–	743,321	743,321
Accounts payable – Maine Municipal Bond Bank (note 5)	7,826	–	7,826
Total current liabilities	53,148	15,297,892	15,351,040
Noncurrent liabilities:			
Bonds payable, net (note 4)	–	177,325,000	177,325,000
Deferred fees (note 6)	1,081,099	–	1,081,099
Rebate payable to Internal Revenue Service	–	5,325	5,325
Total noncurrent liabilities	1,081,099	177,330,325	178,411,424
Total liabilities	1,134,247	192,628,217	193,762,464
Fund equity:			
Designated	–	71,853	71,853
Undesignated	1,137,710	–	1,137,710
Total fund equity	1,137,710	71,853	1,209,563
	$2,271,957	$ 192,700,070	$ 194,972,027

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY

Year Ended June 30, 2005

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$ 7,657,033	$ 7,657,033
Administrative fees (note 6)	501,804	–	501,804
Interest income from investments	39,448	19,119	58,567
Total operating revenue	541,252	7,676,152	8,217,404
Operating expenses (note 5):			
Interest expense	–	7,633,604	7,633,604
Salaries	63,769	–	63,769
Employee benefits	13,970	–	13,970
Office	10,808	–	10,808
Accretion of interest on deferred fees (note 6)	71,788	–	71,788
Amortization of deferred bond issuance costs	–	83,587	83,587
Other	29,660	162,283	191,943
Total operating expenses	189,995	7,879,474	8,069,469
Operating income (loss)	351,257	(203,322)	147,935
Fund equity, beginning of year	786,453	275,175	1,061,628
Fund equity, end of year	$1,137,710	$ 71,853	$ 1,209,563

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2005

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 388,533	$ 16,047,896	$ 16,436,429
Cash paid for operating expenses	(85,956)	–	(85,956)
Cash paid for other expenses	(29,660)	(166,215)	(195,875)
Net cash provided by operating activities	272,917	15,881,681	16,154,598
Noncapital financing activities:			
Proceeds from bonds payable	–	58,520,644	58,520,644
Principal paid on bonds payable	–	(11,045,000)	(11,045,000)
Deposit to refunding escrow	–	(54,879,884)	(54,879,884)
Issue costs paid with refunding	–	(975,760)	(975,760)
Interest paid on bonds payable	–	(7,750,980)	(7,750,980)
Net cash used by noncapital financing activities	–	(16,130,980)	(16,130,980)
Investing activities:			
Cash received from interest income	39,448	16,890	56,338
Net cash provided by investing activities	39,448	16,890	56,338
Increase (decrease) in cash and cash equivalents	312,365	(232,409)	79,956
Cash and cash equivalents at beginning of year	1,953,353	1,170,155	3,123,508
Cash and cash equivalents at end of year	$ 2,265,718	$ 937,746	$ 3,203,464
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 351,257	$ (203,322)	$ 147,935
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Accretion of interest on deferred fees	71,788	–	71,788
Amortization of deferred fees and costs	(109,608)	83,587	(26,021)
Interest expense	–	7,633,604	7,633,604
Interest income	(39,448)	(19,119)	(58,567)
Changes in operating assets and liabilities:			
Accounts receivable	(3,663)	25,395	21,732
Accounts payable	2,591	(3,932)	(1,341)
Other deferred revenue	–	(14,532)	(14,532)
Lease payments receivable from lessee	–	8,380,000	8,380,000
Net cash provided by operating activities	$ 272,917	$ 15,881,681	$ 16,154,598

See accompanying notes.

1. Organization

The Maine Governmental Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine (the State), organized and existing under and pursuant to M.R.S.A., Title 4, Chapter 33, Sections 1601 to 1618, inclusive (the Act).

The Authority was created for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction and equipping of structures, or facilities, for use by the judicial, legislative, or executive branches of the State government and related entities. To accomplish its purposes, the Authority is authorized to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State government and related entities. The Authority is also authorized to issue bonds and notes to fulfill its statutory purposes.

The Authority may not issue securities in excess of $227,485,000 outstanding at any one time except for the issuance of certain revenue refunding securities. The State Legislature may increase this limit as necessary to meet the Authority's needs.

Debt issued by the Authority is not debt of the State 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 income taxes. Interest paid on bonds issued by the Authority is exempt from federal and Maine income taxes.

Except for earnings on investments, substantially all of the Authority's revenue is received from lease payments, which are scheduled to closely match required bond principal and interest payments and loan servicing fees from the State for facilities financed by the Authority.

2. Significant Accounting Policies

The State of Maine treats the Authority as an "internal service fund" on the State's financial statements. Therefore, the books of accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting.

The Authority complies with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

2. Significant Accounting Policies (Continued)

The financial statements are prepared in accordance with Governmental Accounting Standards Board 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).

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with maturities of three months or less to be cash equivalents.

Bond Issuance Costs

Bond issuance costs resulting from the advance refunding of bonds outstanding have been deferred as part of deferred amounts on refunding and are being amortized over the life of the refunded bonds using the bonds outstanding method. Other bond issuance costs paid by the Authority are expensed as incurred.

Deferred Amounts on Refunding

The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as a deferred amount on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter, as a component of interest expense using the bonds outstanding method.

Original Issue Premiums

Original issue premiums resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds using a method which approximates the effective interest method.

Financing Leases

Projects financed through the issuance of bonds are subsequently leased or subleased to the three branches of state government under financing lease arrangements. The property is not reflected on the accompanying combined financial statements since the lease agreements meet the criteria for financing leases under accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies (Continued)

Use of 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 disclosures 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 those 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 and presentation purposes only.

3. Cash and Cash Equivalents

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and collateralized repurchase agreements. The Authority invests available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested to coincide with the cash needs for operating, debt service and arbitrage rebate requirements.

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 cash equivalents are primarily held by JPMorgan Chase Bank, N.A. and Bank of America. Management of the Authority is not aware of any issues with respect to custodial credit risk at either bank at June 30, 2005.

At June 30, 2005, cash and cash equivalents are as follows (at fair value):

General operating account:	
Cash and cash equivalents	$2,265,718
General bond resolution:	
Cash and cash equivalents	$ 937,746

The cash of the general operating account at June 30, 2005, consists of $100,000 insured and $504,523 uninsured deposits with a bank. Cash equivalents consist of $1,661,195 in money market funds, primarily held at Bank of America.

Cash and cash equivalents of the General Bond Resolution at June 30, 2005, consist primarily of money market funds secured by short-term U.S. Treasury obligations, held at JPMorgan Chase Bank, N.A.

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2005, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2005
Series 1999, 4.50% – 5.625%, dated September 1, 1999	2000 – 2019	86,945,000	$ 27,750,000
Series 2000 A, 4.50% – 6.00%, dated June 1, 2000	2001 – 2019	51,855,000	18,150,000
Series 2000 B, 4.30% – 5.375%, dated November 1, 2000	2001 – 2020	6,995,000	2,460,000
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	36,485,000	30,770,000
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	10,860,000	9,770,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	17,120,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	29,340,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	54,210,000
			$ 189,570,000

Such amounts are reflected on the balance sheet of the general bond resolution as follows:

Total principal outstanding	$ 189,570,000
Deferred amount on refunding	(5,562,063)
Unamortized original issue premium	6,954,302
Unamortized bond issue costs	(1,392,239)
	189,570,000
Less current portion	12,245,000
Long-term portion	$ 177,325,000

4. Bonds Payable and Lease Payments Receivable (Continued)

The outstanding bonds payable will mature in each of the following years (in substantially equivalent amounts to payments due from lessees) with interest paid semiannually:

Due Bond Year Ending	Principal	Interest	Total
2005	$ 12,245,000	$ 4,447,013	$ 16,692,013
2006	13,705,000	8,096,408	21,801,408
2007	13,720,000	7,539,239	21,259,239
2008	13,730,000	6,924,846	20,654,846
2009	13,130,000	6,343,674	19,473,674
2010 – 2014	62,365,000	23,376,186	85,741,186
2015 – 2019	55,295,000	9,466,000	64,761,000
2020 – 2024	5,380,000	447,395	5,827,395
	$ 189,570,000	$ 66,640,761	$ 256,210,761

The following summarizes bond payable activity for Authority for the year ended June 30, 2005:

Balance, beginning of year	$ 197,950,000
Issuances – face value	54,210,000
Redemptions	(11,045,000)
Refunded bonds	(51,545,000)
Capitalized issue costs	(975,760)
Capitalized premiums	4,310,644
Deferred amounts on refunding	(3,334,884)
Balance, end of year	$ 189,570,000

The Series 1999 Bonds were issued pursuant to a bond resolution adopted by the Authority on August 18, 1999 for the purpose of financing the acquisition and construction of court facilities for use by the Judicial Department of the State and the renovations of the Statehouse and State office building and construction of correctional facilities for the State of Maine. The bonds are limited revenue obligations of the Authority, payable solely from the lease payments and the funds and accounts established by the resolution. Pursuant to the lease agreement, dated as of August 1, 1999 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

4. **Bonds Payable and Lease Payments Receivable (Continued)**

The Series 2002, 2001 and 2000 A and B Bonds were issued pursuant to bond resolutions adopted by the Authority on August 18, 1999 and supplemental resolutions adopted by the Authority on November 21, 2002, June 25, 2001 and June 21, 2000, respectively, for the purpose of financing a portion of the remaining costs of acquisition and construction of certain governmental facilities for use by the State of Maine. The bonds are limited revenue obligations of the Authority, payable solely from the lease payments and the funds and accounts established by the resolutions. Pursuant to the master lease agreement, dated as of August 1, 1999, and amendments to such agreement, dated November 1, 2002, August 1, 2001, October 1, 2000 and June 1, 2000 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

The Series 2003 Bonds were issued pursuant to a bond resolution adopted by the Authority on August 18, 1999 and a supplemental resolution adopted by the Authority on July 22, 2003 for the purpose of refunding in whole the Authority's outstanding Lease Rental Revenue Bonds, Series 1993, and to finance a portion of the costs of acquisition, construction and equipping of certain governmental facilities for use by the State of Maine. The bonds are limited revenue obligations of the Authority, payable solely from the master lease agreement, dated as of August 1, 1999, and amendments to such agreement, dated June 1, 2000, October 1, 2000, August 1, 2001, November 1, 2002 and September 1, 2003 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

The Series 2004 Bonds were issued pursuant to a bond resolution adopted by the Authority on August 18, 1999 and a supplemental resolution adopted by the Authority on March 25, 2004 for the purpose of refunding in whole the Authority's outstanding Lease Rental Revenue Bonds, series 1996, to refund a portion of the Authority's outstanding Lease Rental Revenue Bonds, series 1999 and 2000, and to finance a portion of the costs of acquisition, construction and equipping of certain governmental facilities for use by the State of Maine. The bonds are limited revenue obligations of the Authority, payable solely from the lease payments and the funds and accounts established by the resolutions. Pursuant to the master lease agreement, dated as of August 1, 1999, and amendments to such agreement, dated June 1, 2000, October 1, 2000, August 1, 2001, November 1, 2002, September 1, 2003 and April 1, 2004 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

4. Bonds Payable and Lease Payments Receivable (Continued)

The Series 2005A Refunding Bonds were issued pursuant to a bond resolution adopted by the Authority on August 18, 1999 and a supplemental resolution adopted by the Authority on March 8, 2005 for the purpose of refunding a portion of the Authority's outstanding Lease Rental Revenue Bonds, series 1999, 2000A and 2000B Lease Rental Revenue Bonds. The bonds are limited revenue obligations of the Authority, payable solely from the lease payments and the funds and accounts established by the resolutions. Pursuant to the master lease agreement, dated as of August 1, 1999, and amendments to such agreement, dated June 1, 2000, October 1, 2000, August 1, 2001, November 1, 2002, September 1, 2003 and April 1, 2004 and March 1, 2005 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

The 2005 Refunding Bonds, which totaled $54,210,000 at an average interest rate of 4.65%, were used to in-substance defease $51,545,000 in Series 1999, 2000A and 2000B bonds with an average interest rate of 5.58%. The net proceeds of approximately $57,545,000, including a bond premium of approximately $4,311,000 and after payment of approximately $976,000 in 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 the defeased bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately $3,335,000 in the year ended June 30, 2005, the Authority in effect reduced its aggregate debt service payments (and payments due from the lessee) by approximately $2,800,000 over the next fifteen years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $2,700,000.

At June 30, 2005, the remaining balances of the insubstance defeased bonds total approximately $81,505,000.

5. Operating Expenses

The Authority has a management agreement with Maine Municipal 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.

6. Deferred Fees

Deferred fees in the amount of $1,126,421 at June 30, 2005 represents the advance payment of the present value of all future required annual fees on the 1999 and 2000 A bond issues by the executive branch of the State of Maine in 2002. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2005, $109,608 of previously deferred fees was included in revenue.