MAINE GOVERNMENTAL FACILITIES AUTHORITY

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

For the Year Ended June 30, 2006

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BAKER NEWMAN NOYES LLC

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, 2006, 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 as of June 30, 2006, 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 September 8, 2006 on our consideration of Maine Governmental Facilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 8 is not a required part of the basic financial statements, but is supplementary information required by the 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Commissioners
Maine Governmental Facilities Authority

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The supplementary information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information included in Schedule 1 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Newman Noyes

Limited Liability Company

Portland, Maine
September 8, 2006

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

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, 2006. 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 $367,331 for fiscal year 2006, a decrease of $173,921 or 32.1% from fiscal year 2005. This decrease was caused by a decrease in annual loan servicing fees, primarily related to initial issuance fees for a small bond issue in fiscal 2006 as compared to fiscal 2005.
- Fund equity in the Authority's Operating Account at June 30, 2006 was $1,305,437. This represents an increase of $167,727 or 14.7% over the fund equity at June 30, 2005, mainly due to administrative fees collected over operating expenses incurred in 2006, and an increase in short-term interest rates in 2006 and related interest income from investments.
- The Authority's gross bonds outstanding at June 30, 2006 were $186,215,000. Gross bonds outstanding at June 30, 2006 decreased $3,355,000 from the balance at June 30, 2005. This decrease consists of the sale of the Series 2005B bonds totaling $8,890,000 less principal payments of $12,245,000 in fiscal year 2006.
- The Authority's lease payments receivable from lessee at June 30, 2006 were $186,215,000. The lease payments are directly related to the bonds outstanding. Therefore, the decrease of $3,355,000 is mainly attributed to the net effect of bonds issued and redeemed during fiscal year 2006. These receivables represent lease payments due from the State of Maine and related entities 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 $1,305,437 at June 30, 2006. This represents an increase of $167,727 or 14.7% over the previous fiscal year. Most of this increase is related to an additional initial issuance fee for a new bond issue in fiscal 2006 and an increase in short-term interest rates and related interest income from investments during fiscal year 2006.

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

GENERAL OPERATING ACCOUNT

	2006	2005	Percentage Change
Current assets:			
Cash and cash equivalents	$ 859,029	$ 2,265,718	(62.1)%
Investments, at market rate	1,500,000	–	–
Interest and other amounts receivable from lessee	6,237	6,239	(0.0)
Accrued interest income receivable	30,329	–	–
Total assets	$ 2,395,595	$ 2,271,957	5.4%
Current liabilities:			
Deferred fees	$ 48,415	$ 45,322	6.8%
Accounts payable	9,059	7,826	15.8
Total current liabilities	57,474	53,148	8.1
Noncurrent liabilities:			
Deferred fees	1,032,684	1,081,099	(4.5)
Total noncurrent liabilities	1,032,684	1,081,099	(4.5)
Total liabilities	1,090,158	1,134,247	(3.9)
Unrestricted fund equity	1,305,437	1,137,710	14.7
Total liabilities and fund equity	$ 2,395,595	$ 2,271,957	5.4%

GENERAL BOND RESOLUTION

	2006	2005	Percentage Change
Current assets:			
Cash and cash equivalents	$ 250,655	$ 937,746	(73.3)%
Lease payments receivable from lessee	14,595,000	12,245,000	19.2
Interest and other amounts receivable from lessee	2,048,872	2,192,324	(6.5)
Total current assets	16,894,527	15,375,070	9.9
Noncurrent assets:			
Lease payments receivable from lessee	171,620,000	177,325,000	(3.2)
Total noncurrent assets	171,620,000	177,325,000	(3.2)
Total assets	$ 188,514,527	$ 192,700,070	(2.2)%
Current liabilities:			
Bonds payable, net	$ 14,595,000	$ 12,245,000	19.2%
Accounts payable	30	6,243	(99.5)
Accrued interest payable	2,115,780	2,303,328	(8.1)
Other deferred revenue	2,560	–	–
Rebate payable to Internal Revenue Service	–	743,321	(100.0)
Total current liabilities	16,713,370	15,297,892	9.3
Noncurrent liabilities:			
Bonds payable, net	171,620,000	177,325,000	(3.2)
Rebate payable to Internal Revenue Service	136,182	5,325	2457.4
Total noncurrent liabilities	171,756,182	177,330,325	(3.1)
Total liabilities	188,469,552	192,628,217	(2.2)
Restricted fund equity	44,975	71,853	(37.4)
Total liabilities and fund equity	$ 188,514,527	$ 192,700,070	(2.2)%

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

GENERAL OPERATING ACCOUNT

	2006	2005	Percentage Change
Operating revenues:			
Administrative fees	$ 282,808	$ 501,804	(43.6)%
Interest income from investments	84,523	39,448	114.3
Total operating revenue	367,331	541,252	(32.1)
Operating expenses:			
Salaries	67,794	63,769	6.3
Employee benefits	14,826	13,970	6.1
Office	12,191	10,808	12.8
Accretion of interest on deferred fees	68,893	71,788	(4.0)
Other	35,900	29,660	21.0
Total operating expenses	199,604	189,995	5.1
Operating income	167,727	351,257	(52.2)
Fund equity, beginning of year	1,137,710	786,453	44.7
Fund equity, end of year	$1,305,437	$1,137,710	14.7%

GENERAL BOND RESOLUTION

	2006	2005	Percentage Change
Operating revenues:			
Received and receivable from lessee	$8,551,552	$7,657,033	11.7%
Interest income from investments	30,995	19,119	62.1
Other revenue	11,484	–	–
Total operating revenues	8,594,031	7,676,152	12.0
Operating expenses:			
Interest expense	8,301,343	7,633,604	8.7
Amortization of deferred bond issuance costs	142,825	83,587	70.9
Other	176,741	162,283	8.9
Total operating expenses	8,620,909	7,879,474	9.4
Operating loss	(26,878)	(203,322)	(86.8)
Fund equity, beginning of year	71,853	275,175	(73.9)
Fund equity, end of year	$ 44,975	$ 71,853	(37.4)%

General Operating Account

Cash and cash equivalents held in the General Operating Account decreased $1,406,689 or 62.1% at June 30, 2006 compared to June 30, 2005. The decrease was mainly the result of the purchase of a $1,500,000 investment security. Total assets within the General Operating Account increased $123,638 compared to June 30, 2005, which was mainly due to accrued interest income receivable and an increase in short-term interest rates during fiscal 2006.

Fund equity increased $167,727 or 14.7% in fiscal year 2006. 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 decreased $218,996 or 43.6% in fiscal year 2006 from 2005. This decrease was primarily the result of administrative initial issuance fees earned from a smaller bond issue in 2006 as compared to initial issuance fees earned in 2005. Bonds issued in fiscal year 2006 totaled $8,890,000 versus $54,210,000 issued in 2005.

Interest income from investments increased $45,075 or 114.3% in fiscal year 2006 as compared to fiscal 2005 as a result of an improved short-term interest rate environment.

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 $687,091 or 73.3% from balances at June 30, 2005. The decrease is the result of cash and cash equivalents being used to pay expenses of the General Bond Resolution (rebate payment of $669,227 made during fiscal 2006).

Lease payments receivable from lessee are directly related to the bonds outstanding. Both decreased $3,355,000 or 1.8% at June 30, 2006 as compared to balances at June 30, 2005. The decrease is due to the net effect of the issuance of the Series 2005B bonds and scheduled principal payments in fiscal year 2006.

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 81.8% in fiscal year 2006 as the net result of the increase of the annual rebate liability calculation at June 30, 2006 and a rebate payment in fiscal year 2006 totaling $669,227.

Interest income in the General Bond Resolution for fiscal year 2006 increased 62.1% from 2005 as a result of an increase in short-term interest rates during fiscal year 2006.

Interest expense on the bonds increased $667,739 or 8.7% in fiscal year 2006 from 2005 as the result of a full year of interest payments due on the 2005A refunding bonds issued in fiscal 2005, and the interest related to the 2005B bond issues in fiscal 2006. Also, the effect of the timing of the 2005A refunding bonds during fiscal 2005 eliminated scheduled debt service interest payments on the respective refunded bonds in the prior year.

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, 2006

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$ 859,029	$ 250,655	$ 1,109,684
Investments, at market value (note 3)	1,500,000	–	1,500,000
Lease payments receivable from lessee (note 4)	–	14,595,000	14,595,000
Interest and other amounts receivable from lessee	6,237	2,048,872	2,055,109
Accrued interest income receivable	30,329	–	30,329
Total current assets	2,395,595	16,894,527	19,290,122
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	171,620,000	171,620,000
Total assets	$2,395,595	$ 188,514,527	$ 190,910,122
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Bonds payable, net (note 4)	$ –	$ 14,595,000	$ 14,595,000
Accounts payable	–	30	30
Accrued interest payable	–	2,115,780	2,115,780
Deferred fees (note 7)	48,415	2,560	50,975
Accounts payable – Maine Municipal Bond Bank (note 6)	9,059	–	9,059
Total current liabilities	57,474	16,713,370	16,770,844
Noncurrent liabilities:			
Bonds payable, net (note 4)	–	171,620,000	171,620,000
Deferred fees (note 7)	1,032,684	–	1,032,684
Rebate payable to Internal Revenue Service	–	136,182	136,182
Total noncurrent liabilities	1,032,684	171,756,182	172,788,866
Total liabilities	1,090,158	188,469,552	189,559,710
Fund equity:			
Restricted	–	44,975	44,975
Unrestricted	1,305,437	–	1,305,437
Total fund equity	1,305,437	44,975	1,350,412
	$2,395,595	$ 188,514,527	$ 190,910,122

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY

Year Ended June 30, 2006

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$ 8,551,552	$ 8,551,552
Administrative fees (note 7)	282,808	–	282,808
Interest income from investments	84,523	30,995	115,518
Other revenue	–	11,484	11,484
Total operating revenue	367,331	8,594,031	8,961,362
Operating expenses (note 6):			
Interest expense	–	8,301,343	8,301,343
Salaries	67,794	–	67,794
Employee benefits	14,826	–	14,826
Office	12,191	–	12,191
Accretion of interest on deferred fees (note 7)	68,893	–	68,893
Amortization of deferred bond issuance costs	–	142,825	142,825
Other	35,900	176,741	212,641
Total operating expenses	199,604	8,620,909	8,820,513
Operating income (loss)	167,727	(26,878)	140,849
Fund equity, beginning of year	1,137,710	71,853	1,209,563
Fund equity, end of year	$1,305,437	$ 44,975	$ 1,350,412

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 168,595	$ 12,052,564	$ 12,221,159
Cash paid for operating expenses	(93,578)	–	(93,578)
Cash received from premium on sale of bonds	–	196,437	196,437
Cash paid for other expenses	(35,900)	(126,191)	(162,091)
Cash paid for bond issuance costs	–	(184,953)	(184,953)
Net cash provided by operating activities	39,117	11,937,857	11,976,974
Noncapital financing activities:			
Proceeds from bonds payable	–	8,890,000	8,890,000
Principal paid on bonds payable	–	(12,245,000)	(12,245,000)
Interest paid on bonds payable	–	(8,631,716)	(8,631,716)
Net cash used by noncapital financing activities	–	(11,986,716)	(11,986,716)
Investing activities:			
Purchase of investment securities	(1,500,000)	–	(1,500,000)
Cash received from interest income	54,194	30,995	85,189
Interest rebate paid to Internal Revenue Service	–	(669,227)	(669,227)
Net cash used by investing activities	(1,445,806)	(638,232)	(2,084,038)
Decrease in cash and cash equivalents	(1,406,689)	(687,091)	(2,093,780)
Cash and cash equivalents at beginning of year	2,265,718	937,746	3,203,464
Cash and cash equivalents at end of year	$ 859,029	$ 250,655	$ 1,109,684
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 167,727	$ (26,878)	$ 140,849
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Accretion of interest on deferred fees	68,893	–	68,893
Amortization of deferred fees and costs	(114,215)	142,825	28,610
Interest expense	–	8,301,343	8,301,343
Interest income	(84,523)	(30,995)	(115,518)
Interest rebate expense	–	56,763	56,763
Changes in operating assets and liabilities:			
Amounts receivable from lessee	2	143,452	143,454
Accounts payable	1,233	(6,213)	(4,980)
Other deferred revenue	–	2,560	2,560
Lease payments receivable from lessee	–	3,355,000	3,355,000
Net cash provided by operating activities	$ 39,117	$ 11,937,857	$ 11,976,974

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 $263,485,000 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. 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 Sate Legislature for such purposes.

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 or offset against original issue premiums.

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. Original issue premiums for other issues are offset against bond issuance costs.

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. Investments and 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.

At June 30, 2006, investments and cash and cash equivalents are as follows (at fair value):

General operating account:	
Repurchase agreement	$1,500,000
Cash and cash equivalents	859,029
	$2,359,029
General bond resolution:	
Cash and cash equivalents	$ 250,655

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., Bank of America and MBIA. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2006.

3. Investments and Cash and Cash Equivalents (Continued)

All repurchase agreements are continuously and fully secured by permitted investments. It is the Authority's policy to require that collateral be held by the Authority's trustee in the Authority's name or held by the broker, dealer or bank's trustee in the Authority's name. The Authority generally invests in repurchase agreements for short-term investments. On June 30, 2006, $1,500,000 was invested in a short-term repurchase agreement with an interest rate of 4.5% and a maturity date of less than one year. The repurchase agreement is collateralized by U.S. Government-sponsored enterprise securities.

The cash of the general operating account at June 30, 2006, consists of $100,000 insured and $140,341 uninsured deposits with a bank. Cash equivalents consist of $618,688 in money market funds, primarily held at MBIA.

Cash and cash equivalents of the General Bond Resolution at June 30, 2006, 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, 2006, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2006
Series 1999, 4.50% – 5.625%, dated September 1, 1999	2000 – 2019	$ 86,945,000	$ 23,750,000
Series 2000 A, 4.50% – 6.00%, dated June 1, 2000	2001 – 2019	51,855,000	15,470,000
Series 2000 B, 4.30% – 5.375%, dated November 1, 2000	2001 – 2020	6,995,000	2,105,000
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	36,485,000	28,870,000
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	10,860,000	9,225,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	14,980,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	28,715,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	54,210,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	8,890,000
			$ 186,215,000

4. Bonds Payable and Lease Payments Receivable (Continued)

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

Total principal outstanding	$ 186,215,000
Deferred amount on refunding	(4,978,825)
Unamortized original issue premium	6,228,239
Unamortized bond issue costs	(1,249,414)
	186,215,000
Less current portion	14,595,000
Long-term portion	$ 171,620,000

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
2006	$ 14,595,000	$ 4,231,560	$ 18,826,560
2007	14,610,000	7,870,352	22,480,352
2008	14,620,000	7,220,359	21,840,359
2009	14,020,000	6,603,587	20,623,587
2010	14,020,000	5,989,153	20,009,153
2011 – 2015	65,115,000	21,186,116	86,301,116
2016 – 2020	46,890,000	6,726,043	53,616,043
2021 – 2025	2,345,000	182,548	2,527,548
	$ 186,215,000	$ 60,009,718	$ 246,224,718

The following summarizes bond payable activity for Authority for the year ended June 30, 2006:

Balance, beginning of year	$ 189,570,000
Issuances – face value	8,890,000
Redemptions	(12,245,000)
Balance, end of year	$ 186,215,000

5. Refunding Issues

In periods of declining interest rates, Maine Governmental Facilities Authority has refunded its bond obligations, reducing aggregate debt service. Where allowed, Maine Governmental Facilities Authority retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally 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 in-substance defeased bonds. The U.S. Treasury obligations were deposited with the trustees of the in-substance defeased bonds. Maine Governmental Facilities Authority accounted for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and recorded a deferred amount on refunding.

At June 30, 2006, the remaining balances of the in-substance defeased bonds total approximately $79,925,000.

6. 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.

7. Deferred Fees

Deferred fees in the amount of $1,081,099 at June 30, 2006 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, 2006, $114,215 of previously deferred fees was included in revenue.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2006

		Program Revenues				Net Revenue (Expense) and Changes in net assets
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Governmental Facilities Authority	$ (8,820,513)	$ 8,834,360	$30,995	$ –	$ –	$ 44,842
Total	$ (8,820,513)	$ 8,834,360	$30,995	$ –	$ –	44,842
General revenues:						
Unrestricted net assets						84,523
Non program specific grants, contributions and appropriations						–
Miscellaneous income						11,484
Loss on assets held for sale						–
Extraordinary item						–
Total general revenues and extraordinary items						96,007
Changes in net assets						140,849
Net assets, beginning of year						1,209,563
Net assets, end of year						$ 1,350,412