MGFA
MAINE GOVERNMENTAL FACILITIES AUTHORITY

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TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **2008 Maine Governmental Facilities Authority Annual Report**

This is the annual report for the Maine Governmental Facilities Authority for the 2008 fiscal year, running from July 1, 2007 to June 30, 2008. 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 2008, the Authority issued $40,565,000 of bonds in one series. Funds made available by this bond sale were used for renovations to a courthouse in Houlton, planning and construction of a new courthouse in Bangor, and various capital repairs and improvements to state owned facilities throughout the state including the women's re-entry center in Bangor.

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

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

For the Year Ended June 30, 2008

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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, 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 opinions.

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, 2008, 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 25, 2008 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 opinions 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 25, 2008

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

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, 2008. 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 its 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 $569,304 for fiscal year 2008, an increase of $177,284 or 45.2% from fiscal year 2007. This increase was primarily related to increased initial issuance fees received on bonds issued in 2008 over 2007. Initial issuance fees are based on a percentage on the total par of bonds issued, which was an additional $29,580,000 in fiscal 2008 over fiscal 2007.
- Net assets in the Authority's Operating Account at June 30, 2008 were $1,813,183. This represents an increase of $343,201 or 23.3% over the net assets at June 30, 2007 mainly due to an increase in administrative fees and initial issuance fees in 2008.
- The Authority's gross bonds outstanding at June 30, 2008 were $208,560,000. Gross bonds outstanding at June 30, 2008 increased $25,955,000 from the balance at June 30, 2007. This increase consists of the sale of the Series 2008A bonds totaling $40,565,000 less scheduled principal payments of $14,610,000 in fiscal year 2008.
- The Authority's lease payments receivable from lessee at June 30, 2008 were $208,560,000. The lease payments are directly related to the bonds outstanding. Therefore, the increase of $25,955,000 is mainly attributed to the net effect of bonds issued and redeemed during fiscal year 2008. 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 net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets 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

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $1,813,183 at June 30, 2008. This represents an increase of $343,201 or 23.3% over the previous fiscal year. Most of this increase is related to additional initial issuance fees for a new bond issue in fiscal year 2008.

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

GENERAL OPERATING ACCOUNT

	2008	2007	Percentage Change
Current assets:			
Cash and cash equivalents	$1,146,327	$ 666,699	71.9%
Investments, at market value	1,689,482	1,605,971	5.2
Interest and other amounts receivable from lessee	500	266,268	(99.8)
Accrued interest income receivable	2,441	3,302	(26.1)
Total assets	$2,838,750	$2,542,240	11.7%
Current liabilities:			
Deferred fees	$ 48,567	$ 80,423	(39.6)%
Accounts payable	9,848	7,566	30.2
Total current liabilities	58,415	87,989	(33.6)
Noncurrent liabilities:			
Deferred fees	967,152	984,269	(1.7)
Total noncurrent liabilities	967,152	984,269	(1.7)
Total liabilities	1,025,567	1,072,258	(4.4)
Unrestricted net assets	1,813,183	1,469,982	23.3
Total liabilities and net assets	$2,838,750	$2,542,240	11.7%

GENERAL BOND RESOLUTION

	2008	2007	Percentage Change
Current assets:			
Cash and cash equivalents	$ 126,258	$ 130,429	(3.2)%
Lease payments receivable from lessee	15,625,000	14,610,000	6.9
Interest and other amounts receivable from lessee	2,086,741	2,146,922	(2.8)
Accrued interest income receivable	204	498	(59.0)
Total current assets	17,838,203	16,887,849	(5.6)
Noncurrent assets:			
Lease payments receivable from lessee	192,935,000	167,995,000	14.8
Total noncurrent assets	192,935,000	167,995,000	14.8
Total assets	$ 210,773,203	$ 184,882,849	14.0%
Current liabilities:			
Bonds payable, net	$ 15,625,000	$ 14,610,000	6.9%
Accounts payable	–	3	(100.0)
Accrued interest payable	1,952,875	2,046,539	(4.6)
Other deferred revenue	–	4,000	(100.0)
Total current liabilities	17,577,875	16,660,542	5.5
Noncurrent liabilities:			
Bonds payable, net	192,935,000	167,995,000	14.8
Rebate payable to Internal Revenue Service	252,913	225,203	12.3
Total noncurrent liabilities	193,187,913	168,220,203	14.8
Total liabilities	210,765,788	184,880,745	14.0
Restricted net assets	7,415	2,104	252.4
Total liabilities and net assets	$ 210,773,203	$ 184,882,849	14.0%

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

GENERAL OPERATING ACCOUNT

	2008	2007	Percentage Change
Operating revenues:			
Administrative fees	$ 453,311	$ 272,918	66.1%
Interest income from investments	115,993	119,102	(2.6)
Total operating revenue	569,304	392,020	45.2
Operating expenses:			
Salaries	74,527	66,815	11.5
Employee benefits	18,783	16,613	13.1
Office	12,558	12,116	3.6
Accretion of interest on deferred fees	62,496	65,800	(5.0)
Other	57,739	66,131	(12.7)
Total operating expenses	226,103	227,475	(0.6)
Operating income	343,201	164,545	108.6
Net assets, beginning of year	1,469,982	1,305,437	12.6
Net assets, end of year	$1,813,183	$1,469,982	23.3%

GENERAL BOND RESOLUTION

	2008	2007	Percentage Change
Operating revenues:			
Received and receivable from lessee	$7,856,450	$8,091,892	(2.9)%
Interest income from investments	21,171	15,350	37.9
Other revenue	550,677	250,716	119.6
Total operating revenues	8,428,298	8,357,958	0.8
Operating expenses:			
Cost of issuance expense	550,677	214,065	157.2
Interest expense	7,704,447	7,956,087	(3.2)
Amortization of deferred bond issuance costs	139,794	141,407	(1.1)
Other	28,069	89,270	(68.6)
Total operating expenses	8,422,987	8,400,829	0.3
Operating income (loss)	5,311	(42,871)	(112.4)
Net assets, beginning of year	2,104	44,975	(95.3)
Net assets, end of year	$ 7,415	$ 2,104	252.4%

General Operating Account

Cash and cash equivalents held in the General Operating Account increased $479,628 or 71.9% at June 30, 2008 compared to June 30, 2007. The increase was primarily the result of reimbursement from bond proceeds for the cash advance that the Operating Account provided to purchase land for the Bangor Courthouse in June 2007 and also original issuance fees from the 2008A bonds issued in June 2008. Total assets within the General Operating Account increased $296,510 compared to June 30, 2007, which was due mainly to the original issuance fees from the 2008A bond issue.

Accounts receivable from lessee decreased $265,768 or 99.8% from 2007. The decrease was primarily due to reimbursement from the 2007A bond series, in July 2007, for the cash advance that the Operating Account provided to purchase land for the Bangor courthouse project as described above.

Deferred fees decreased $48,973 or 4.6% from 2007 primarily as a result of amortization of fees collected in advance in prior years (see note 7 in financial statements).

Net assets increased $343,201 or 23.3% in fiscal year 2008. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Other operating expenses decreased $8,392 or 12.7% in fiscal year 2008 as compared to fiscal year 2007. The decrease was due to lower legal fees for fiscal year 2008.

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

Lease payments receivable from lessee are directly related to the bonds outstanding. Both increased $25,955,000 or 14.2% at June 30, 2008 as compared to balances at June 30, 2007. The increase is due to the net effect of the issuance of the Series 2008A bonds and scheduled principal payments in fiscal year 2008.

Interest expense on the bonds decreased $251,640 or 3.2% in fiscal year 2008 from 2007 based on the scheduled payments.

Other operating expenses decreased $61,201 or 68.6% in fiscal year 2008 as compared to fiscal year 2007. The majority of this decrease is the result of decreased rebate liability to the Internal Revenue Service recorded in fiscal year 2008 as compared with fiscal year 2007.

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, 2008

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$1,146,327	$ 126,258	$ 1,272,585
Investments, at market value (note 3)	1,689,482	–	1,689,482
Lease payments receivable from lessee (note 4)	–	15,625,000	15,625,000
Interest and other amounts receivable from lessee	500	2,086,741	2,087,241
Accrued interest income receivable	2,441	204	2,645
Total current assets	2,838,750	17,838,203	20,676,953
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	192,935,000	192,935,000
Total assets	$2,838,750	$ 210,773,203	$ 213,611,953
LIABILITIES AND NET ASSETS			
Current liabilities:			
Bonds payable, net (note 4)	$ –	$ 15,625,000	$ 15,625,000
Accrued interest payable	–	1,952,875	1,952,875
Deferred fees (note 7)	48,567	–	48,567
Accounts payable – Maine Municipal Bond Bank (note 6)	9,848	–	9,848
Total current liabilities	58,415	17,577,875	17,636,290
Noncurrent liabilities:			
Bonds payable, net (note 4)	–	192,935,000	192,935,000
Deferred fees (note 7)	967,152	–	967,152
Rebate payable to Internal Revenue Service	–	252,913	252,913
Total noncurrent liabilities	967,152	193,187,913	194,155,065
Total liabilities	1,025,567	210,765,788	211,791,355
Net assets:			
Restricted	–	7,415	7,415
Unrestricted	1,813,183	–	1,813,183
Total net assets	1,813,183	7,415	1,820,598
	$2,838,750	$ 210,773,203	$ 213,611,953

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

Year Ended June 30, 2008

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$7,856,450	$7,856,450
Administrative fees (note 7)	453,311	–	453,311
Interest income from investments	115,993	21,171	137,164
Premium revenue	–	550,677	550,677
Total operating revenue	569,304	8,428,298	8,997,602
Operating expenses (note 6):			
Cost of issuance expense	–	550,677	550,677
Interest expense	–	7,704,447	7,704,447
Salaries	74,527	–	74,527
Employee benefits	18,783	–	18,783
Office	12,558	–	12,558
Accretion of interest on deferred fees (note 7)	62,496	–	62,496
Amortization of deferred bond issuance costs	–	139,794	139,794
Other	57,739	28,069	85,808
Total operating expenses	226,103	8,422,987	8,649,090
Operating income	343,201	5,311	348,512
Net assets, beginning of year	1,469,982	2,104	1,472,086
Net assets, end of year	$1,813,183	$ 7,415	$1,820,598

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 607,610	$ 22,522,631	$ 23,130,241
Cash paid for operating expenses	(132,194)	–	(132,194)
Cash received from premium on sale of bonds	–	550,677	550,677
Cash paid for expenses	(29,131)	(362)	(29,493)
Cash deposited to construction funds	–	(40,565,000)	(40,565,000)
Cash paid for bond issuance costs	–	(550,677)	(550,677)
Net cash provided (used) by operating activities	446,285	(18,042,731)	(17,596,446)
Noncapital financing activities:			
Proceeds from bonds payable	–	40,565,000	40,565,000
Principal paid on bonds payable	–	(14,610,000)	(14,610,000)
Interest paid on bonds payable	–	(7,937,905)	(7,937,905)
Net cash provided by noncapital financing activities	–	18,017,095	18,017,095
Investing activities:			
Purchase of investment securities	(83,511)	–	(83,511)
Cash received from interest income	116,854	21,465	138,319
Net cash provided by investing activities	33,343	21,465	54,808
Increase (decrease) in cash and cash equivalents	479,628	(4,171)	475,457
Cash and cash equivalents at beginning of year	666,699	130,429	797,128
Cash and cash equivalents at end of year	$ 1,146,327	$ 126,258	$ 1,272,585
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	$ 343,201	$ 5,311	$ 348,512
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Accretion of interest on deferred fees	62,496	–	62,496
Amortization of deferred fees and costs	(114,215)	139,794	25,579
Interest expense	–	7,704,447	7,704,447
Interest income	(115,993)	(21,171)	(137,164)
Changes in operating assets and liabilities:			
Interest and other amounts receivable from lessee	265,768	60,181	325,949
Accounts payable	2,282	(3)	2,279
Interest rebate payable to Internal Revenue Service	–	27,710	27,710
Other deferred revenue	2,746	(4,000)	(1,254)
Lease payments receivable from lessee	–	(25,955,000)	(25,955,000)
Net cash provided (used) by operating activities	$ 446,285	$ (18,042,731)	$ (17,596,446)

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 State 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.

2. Significant Accounting Policies (Continued)

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.

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.

Investments

Investments are carried at fair value. 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 assets.

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.

2. Significant Accounting Policies (Continued)

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, to the extent they are used to pay bond issuance costs, are recorded as premium revenue on the statement of revenues, expenses and changes in net assets.

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. Instead, the Authority records the lease receivable as an asset.

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.

New Accounting Pronouncements

GASB issued Statement No. 45, *Accounting and Financial Reporting for Employers for Post-Employment Benefits Other Than Pensions*, in June 2004. This statement establishes standards for the measurement, recognition and display of other post-employment benefits (including post-employment healthcare benefits). This statement is expected to be applicable to the Authority beginning in fiscal 2009.

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.

3. Investments and Cash and Cash Equivalents (Continued)

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, 2008, investments and cash and cash equivalents are as follows (at fair value):

General operating account:	
Certificate of deposit	$1,689,482
Cash and cash equivalents	1,146,327
	$2,835,809
General bond resolution:	
Cash and cash equivalents	$ 126,258

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 Bank of New York, 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, 2008.

The cash of the general operating account at June 30, 2008, consists of $100,000 insured and $374,644 uninsured deposits with a bank. Cash equivalents consist of $671,683 in money market funds invested primarily in U.S. Government-sponsored enterprise securities and commercial paper, held at MBIA. The certificate of deposit balance of $1,689,482 at June 30, 2008 is fully collateralized by securities pledged by the issuing bank and matures on December 10, 2008. The fair value of the certificate of deposit approximates cost at June 30, 2008.

Cash and cash equivalents of the General Bond Resolution at June 30, 2008, consist primarily of money market funds secured by short-term U.S. Treasury obligations, held at Bank of New York.

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2008, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2008
Series 1999, 4.50% – 5.625%, dated September 1, 1999	2000 – 2019	$ 86,945,000	$ 14,250,000
Series 2000 A, 4.50% – 6.00%, dated June 1, 2000	2001 – 2019	51,855,000	9,510,000

4. Bonds Payable and Lease Payments Receivable (Continued)

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2008
Series 2000 B, 4.30% – 5.375%, dated November 1, 2000	2001 – 2020	$ 6,995,000	$ 1,400,000
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	36,485,000	25,070,000
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	10,860,000	8,135,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	10,685,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	27,440,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	53,410,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	7,110,000
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	10,985,000	10,985,000
Series 2008 A, 4.00% – 5.00%, dated June 19, 2008	2008 – 2028	40,565,000	40,565,000
			$ 208,560,000

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

Total principal outstanding	$ 208,560,000
Deferred amount on refunding	(3,832,593)
Unamortized original issue premium	4,800,805
Unamortized bond issue costs	(968,212)
	208,560,000
Less current portion	15,625,000
Long-term portion	$ 192,935,000

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
2008	$ 15,625,000	$ 4,348,100	$ 19,973,100
2009	17,130,000	8,808,787	25,938,787
2010	17,130,000	8,069,953	25,199,953
2011	16,465,000	7,275,843	23,740,843
2012	16,340,000	6,671,986	23,011,986
2013 – 2017	76,140,000	22,557,423	98,697,423
2018 – 2022	37,870,000	6,739,459	44,609,459
2023 – 2027	10,410,000	1,892,794	12,302,794
2028	1,450,000	72,500	1,522,500
	$ 208,560,000	$ 66,436,845	$ 274,996,845

The following summarizes bond payable activity for Authority for the year ended June 30, 2008:

Balance, beginning of year	$ 182,605,000
Issuances – face value	40,565,000
Redemptions	(14,610,000)
Balance, end of year	$ 208,560,000

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.

There were no advance refundings during the year ended June 30, 2008. At June 30, 2008, the remaining balances of the in-substance defeased bonds total approximately $71,935,000.

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

Included in deferred fees at June 30, 2008, is $980,965 representing 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, 2008, $114,215 of previously deferred fees was included in revenue.

SCHEDULE 1

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2008

		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	$ (8,649,090)	$ 8,309,761	$21,171	$ –	$ –	$ (318,158)
Total	$ (8,649,090)	$ 8,309,761	$21,171	$ –	$ –	
General revenues:						
Unrestricted interest and investment earnings						115,993
Non program specific grants, contributions and appropriations						–
Miscellaneous income						550,677
Loss on assets held for sale						–
Extraordinary item						–
Total general revenues and extraordinary items						666,670
Changes in net assets						348,512
Net assets, beginning of year						1,472,086
Net assets, end of year						$ 1,820,598