

MAINE STATE LEGISLATURE

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MGFA

MAINE GOVERNMENTAL FACILITIES AUTHORITY

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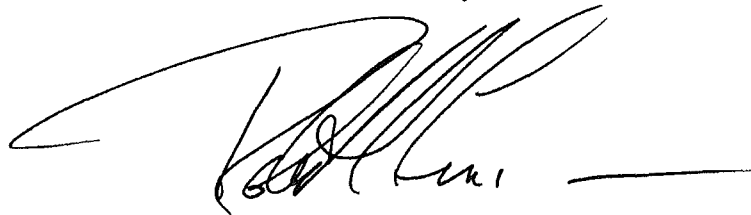
Robert O. Lenna, Executive Director
Tel 207-622-9386
Fax 207-623-5359

TO: INTERESTED PARTIES
FROM: Robert O. Lenna, Executive Director
RE: 2011 Maine Governmental Facilities Authority Annual Report

This is the annual report for the Maine Governmental Facilities Authority for the 2011 fiscal year, running from July 1, 2010 to June 30, 2011. 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 2011, the Authority did not issue any 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 our website: www.mgfa.com



FEB 10 2012

Maine Governmental Facilities Authority

Basic Financial Statements,
Management's Discussion and Analysis
and Additional Information

Year Ended June 30, 2011
With Independent Auditors' Report

MAINE GOVERNMENTAL FACILITIES AUTHORITY
BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION
AND ANALYSIS AND ADDITIONAL INFORMATION

For the Year Ended June 30, 2011

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BAKER NEWMAN NOYES

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority
Augusta, Maine

We have audited the accompanying financial statements, consisting of the General Operating Account and General Bond Resolution, which collectively comprise the basic financial statements 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, 2011, 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, as well as the individual fund groups referred to above, as of June 30, 2011, 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 17, 2011 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 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 additional information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information 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.

A handwritten signature in black ink, reading "Baker Newman Hayes". The signature is written in a cursive, flowing style.

Limited Liability Company

Portland, Maine
October 17, 2011

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

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, 2011. 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 \$267,777 for fiscal year 2011, a decrease of \$246,790 or 48.0% from fiscal year 2010. This decrease was primarily attributed to the Authority not issuing any new bonds in fiscal 2011.
- Net assets in the Authority's Operating Account at June 30, 2011 were \$2,311,951. This represents an increase of \$57,681 or 2.6% over the net assets at June 30, 2010.
- The Authority's gross bonds outstanding at June 30, 2011 were \$172,150,000. Gross bonds outstanding at June 30, 2011 decreased \$16,930,000 from the balance at June 30, 2010 which is entirely attributed to 2011 principal repayments.
- The Authority's lease payments receivable from lessee at June 30, 2011 were \$171,332,589. The lease payments are closely related to the bonds outstanding. Therefore, the decrease of \$17,747,411 is mainly attributed to lease payments used to redeem bonds during fiscal year 2011. The difference between bond principal payments and principal payments received from lessee of \$817,411 relates entirely to the 2010 A Series bonds, whereby the Authority received principal payments on outstanding loans in advance of the related required principal repayments on outstanding bonds. 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 direct State appropriations for its operations. The Authority does receive loan servicing fees (included in administrative fees on the statement of revenues, expenses and changes in net assets) 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.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

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 increase 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's General Operating Account, assets exceeded liabilities by \$2,311,951 at June 30, 2011. This represents an increase of \$57,681 or 2.6% over the previous fiscal year. This increase is related to operating revenues exceeding operating expenses in fiscal year 2011.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

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

GENERAL OPERATING ACCOUNT

	<u>2011</u>	<u>2010</u>	<u>Percentage Change</u>
Current assets:			
Cash and cash equivalents	\$1,542,078	\$1,098,756	40.3%
Investments	1,519,115	2,053,646	(26.0)
Accounts receivable	88,331	20,000	341.7
Accrued interest income receivable	<u>7,945</u>	<u>39</u>	<u>20,271.8</u>
Total assets	<u>\$3,157,469</u>	<u>\$3,172,441</u>	<u>(0.5)%</u>
Current liabilities:			
Deferred fees	\$ 101,518	\$ 108,126	(6.1)%
Accounts payable – Maine Municipal Bond Bank	<u>7,702</u>	<u>6,398</u>	<u>20.4</u>
Total current liabilities	109,220	114,524	(4.6)
Noncurrent liabilities:			
Deferred fees	<u>736,298</u>	<u>803,647</u>	<u>(8.4)</u>
Total liabilities	845,518	918,171	(7.9)
Unrestricted net assets	<u>2,311,951</u>	<u>2,254,270</u>	<u>2.6</u>
Total liabilities and net assets	<u>\$3,157,469</u>	<u>\$3,172,441</u>	<u>(0.5)%</u>

MAINE GOVERNMENTAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

GENERAL BOND RESOLUTION

	<u>2011</u>	<u>2010</u>	<u>Percentage Change</u>
Current assets:			
Cash and cash equivalents	\$ 909,967	\$ 172,647	427.1%
Lease payments receivable from lessee	17,035,359	17,747,410	(4.0)
Interest and other amounts receivable from lessee	<u>1,840,484</u>	<u>2,098,941</u>	<u>(12.3)</u>
Total current assets	19,785,810	20,018,998	(1.2)
Noncurrent assets:			
Lease payments receivable from lessee	<u>154,297,230</u>	<u>171,332,590</u>	<u>(9.9)</u>
Total assets	<u>\$ 174,083,040</u>	<u>\$ 191,351,588</u>	<u>(9.0)%</u>
Current liabilities:			
Bonds payable, net	\$ 17,285,000	\$ 16,930,000	2.1%
Accrued interest payable	<u>1,865,913</u>	<u>2,044,167</u>	<u>(8.7)</u>
Total current liabilities	19,150,913	18,974,167	0.9
Noncurrent liabilities:			
Bonds payable, net	154,865,000	172,150,000	(10.0)
Rebate payable to Internal Revenue Service	<u>2,525</u>	<u>213,426</u>	<u>(98.8)</u>
Total noncurrent liabilities	<u>154,867,525</u>	<u>172,363,426</u>	<u>(10.2)</u>
Total liabilities	174,018,438	191,337,593	(9.1)
Restricted net assets	<u>64,602</u>	<u>13,995</u>	<u>361.6</u>
Total liabilities and net assets	<u>\$ 174,083,040</u>	<u>\$ 191,351,588</u>	<u>(9.0)%</u>

MAINE GOVERNMENTAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

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

GENERAL OPERATING ACCOUNT

	<u>2011</u>	<u>2010</u>	<u>Percentage Change</u>
Operating revenues:			
Administrative fees	\$ 261,796	\$ 482,144	(45.7)%
Interest income from investments	7,300	32,423	(77.5)
Net decrease in fair market value of investments	<u>(1,319)</u>	<u>—</u>	<u>—</u>
Total operating revenue	267,777	514,567	(48.0)
Operating expenses:			
Salaries	60,553	65,870	(8.1)
Employee benefits	18,279	17,118	6.8
Office	11,057	11,341	(2.5)
Accretion of interest on deferred fees	51,167	55,195	(7.3)
Other	<u>69,040</u>	<u>69,518</u>	<u>(0.7)</u>
Total operating expenses	<u>210,096</u>	<u>219,042</u>	<u>(4.1)</u>
Operating income	57,681	295,525	(80.5)
Net assets, beginning of year	<u>2,254,270</u>	<u>1,958,745</u>	<u>15.1</u>
Net assets, end of year	<u>\$2,311,951</u>	<u>\$2,254,270</u>	<u>2.6%</u>

GENERAL BOND RESOLUTION

	<u>2011</u>	<u>2010</u>	<u>Percentage Change</u>
Operating revenues:			
Received and receivable from lessee	\$7,694,279	\$8,478,718	(9.3)%
Other revenue	<u>—</u>	<u>243,861</u>	<u>(100.0)</u>
Total operating revenues	7,694,279	8,722,579	(11.8)
Operating expenses:			
Cost of issuance expense	—	187,770	(100.0)
Interest expense	7,449,528	8,340,447	(10.7)
Amortization of deferred bond issuance costs	189,468	153,696	23.3
Other	<u>4,676</u>	<u>30,924</u>	<u>(84.9)</u>
Total operating expenses	<u>7,643,672</u>	<u>8,712,837</u>	<u>(12.3)</u>
Operating income	50,607	9,742	419.5
Net assets, beginning of year	<u>13,995</u>	<u>4,253</u>	<u>229.1</u>
Net assets, end of year	<u>\$ 64,602</u>	<u>\$ 13,995</u>	<u>361.6%</u>

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

General Operating Account

Cash and cash equivalents held in the General Operating Account increased \$443,322 or 40.3% at June 30, 2011 compared to June 30, 2010. The increase is the result of investments being reallocated to cash equivalents during fiscal 2011.

Deferred fees decreased \$73,957 or 8.1% from 2010 primarily as a result of amortization of fees collected in advance in prior years (see note 7 in financial statements).

Net assets increased \$57,681 or 2.6% in fiscal year 2011. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Total administrative fees decreased \$220,348 or 45.7% in fiscal 2011 as compared to fiscal 2010. Fees collected in fiscal 2010 representing reimbursement of issuance costs were not reported in 2011 as there were no bond issuances in the General Bond Resolution in 2011.

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

Interest expense on the bonds decreased \$890,919 or 10.7% in fiscal year 2011 from 2010 based on the scheduled payments. As a result, interest and other amounts received from Lessee also decreased in fiscal 2011 by \$784,439 or 9.3%.

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, 2011

<u>ASSETS</u>	<u>General Operating Account</u>	<u>General Bond Resolution</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents (note 3)	\$1,542,078	\$ 909,967	\$ 2,452,045
Investments (note 3)	1,519,115	-	1,519,115
Accounts receivable	88,331	-	88,331
Lease payments receivable from lessee (note 4)	-	17,035,359	17,035,359
Interest and other amounts receivable from lessee	-	1,840,484	1,840,484
Accrued interest income receivable	<u>7,945</u>	<u>-</u>	<u>7,945</u>
Total current assets	3,157,469	19,785,810	22,943,279
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	<u>-</u>	<u>154,297,230</u>	<u>154,297,230</u>
	<u>\$3,157,469</u>	<u>\$ 174,083,040</u>	<u>\$ 177,240,509</u>
 <u>LIABILITIES AND NET ASSETS</u> 			
Current liabilities:			
Bonds payable, net (note 4)	\$ -	\$ 17,285,000	\$ 17,285,000
Accrued interest payable	-	1,865,913	1,865,913
Deferred fees (note 7)	101,518	-	101,518
Accounts payable – Maine Municipal Bond Bank (note 6)	<u>7,702</u>	<u>-</u>	<u>7,702</u>
Total current liabilities	109,220	19,150,913	19,260,133
Noncurrent liabilities:			
Bonds payable, net (note 4)	-	154,865,000	154,865,000
Deferred fees (note 7)	736,298	-	736,298
Rebate payable to Internal Revenue Service	<u>-</u>	<u>2,525</u>	<u>2,525</u>
Total noncurrent liabilities	<u>736,298</u>	<u>154,867,525</u>	<u>155,603,823</u>
Total liabilities	845,518	174,018,438	174,863,956
Net assets:			
Restricted	-	64,602	64,602
Unrestricted	<u>2,311,951</u>	<u>-</u>	<u>2,311,951</u>
Total net assets	<u>2,311,951</u>	<u>64,602</u>	<u>2,376,553</u>
	<u>\$3,157,469</u>	<u>\$ 174,083,040</u>	<u>\$ 177,240,509</u>

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS**

Year Ended June 30, 2011

	<u>General Operating Account</u>	<u>General Bond Resolution</u>	<u>Total</u>
Operating revenues:			
Received and receivable from lessee	\$ —	\$7,694,279	\$7,694,279
Administrative fees (note 7)	261,796	—	261,796
Interest income from investments	7,300	—	7,300
Net decrease in fair value of investments	<u>(1,319)</u>	<u>—</u>	<u>(1,319)</u>
Total operating revenue	267,777	7,694,279	7,962,056
Operating expenses (note 6):			
Interest expense	—	7,449,528	7,449,528
Salaries	60,553	—	60,553
Employee benefits	18,279	—	18,279
Office	11,057	—	11,057
Accretion of interest on deferred fees (note 7)	51,167	—	51,167
Amortization of deferred bond issuance costs	—	189,468	189,468
Other	<u>69,040</u>	<u>4,676</u>	<u>73,716</u>
Total operating expenses	<u>210,096</u>	<u>7,643,672</u>	<u>7,853,768</u>
Operating income	57,681	50,607	108,288
Net assets, beginning of year	<u>2,254,270</u>	<u>13,995</u>	<u>2,268,265</u>
Net assets, end of year	<u>\$2,311,951</u>	<u>\$ 64,602</u>	<u>\$2,376,553</u>

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2011

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	\$ 68,341	\$ 25,682,502	\$ 25,750,843
Cash paid for operating expenses	(157,625)	(4,676)	(162,301)
Interest rebate paid to U.S. Government	<u>—</u>	<u>(193,256)</u>	<u>(193,256)</u>
Net cash (used) provided by operating activities	(89,284)	25,484,570	25,395,286
Noncapital financing activities:			
Principal paid on bonds payable	—	(16,930,000)	(16,930,000)
Interest paid on bonds payable	<u>—</u>	<u>(7,817,250)</u>	<u>(7,817,250)</u>
Net cash used by noncapital financing activities	—	(24,747,250)	(24,747,250)
Investing activities:			
Purchases of investment securities	(1,527,139)	—	(1,527,139)
Proceeds from sales and maturities of investment securities	2,053,646	—	2,053,646
Cash received from interest income	<u>6,099</u>	<u>—</u>	<u>6,099</u>
Net cash provided by investing activities	<u>532,606</u>	<u>—</u>	<u>532,606</u>
Increase in cash and cash equivalents	443,322	737,320	1,180,642
Cash and cash equivalents at beginning of year	<u>1,098,756</u>	<u>172,647</u>	<u>1,271,403</u>
Cash and cash equivalents at end of year	<u>\$ 1,542,078</u>	<u>\$ 909,967</u>	<u>\$ 2,452,045</u>
Reconciliation of operating income to net cash (used) provided by operating activities:			
Operating income	\$ 57,681	\$ 50,607	\$ 108,288
Adjustments to reconcile operating income to net cash (used) provided by operating activities:			
Accretion of interest on deferred fees	51,167	—	51,167
Amortization of deferred fees and costs	(114,215)	189,468	75,253
Interest expense	—	7,449,528	7,449,528
Interest income	(7,300)	—	(7,300)
Decrease in fair value of investments	1,319	—	1,319
Changes in operating assets and liabilities:			
Interest and other amounts receivable from lessee	—	258,457	258,457
Accounts receivable	(68,331)	—	(68,331)
Accounts payable	1,304	—	1,304
Interest rebate payable to Internal Revenue Service	—	(210,901)	(210,901)
Other deferred revenue	(10,909)	—	(10,909)
Lease payments receivable from lessee	<u>—</u>	<u>17,747,411</u>	<u>17,747,411</u>
Net cash (used) provided by operating activities	<u>\$ (89,284)</u>	<u>\$ 25,484,570</u>	<u>\$ 25,395,286</u>

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 \$325,485,000 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.

The Authority's General Operating Account Fund Group records the revenues and expenses generated from its daily operations in administration of the General Bond Resolution. The Authority has an arrangement with the Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses 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.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

2. Significant Accounting Policies (Continued)

The Authority complies with 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 GASB 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).

Accounting Method

The Authority uses the accrual basis of accounting, and accordingly recognizes revenues as earned and expenses as incurred.

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 and are being amortized over the life of the refunded bonds, or the life of the new bonds, whichever is shorter, 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.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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, or the life of the new bonds, whichever is shorter, 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 present value of lease receivable as an asset. Interest revenue is accreted over the life of the lease receivable using a method approximating the effective interest method.

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.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

3. Investments and Cash and Cash Equivalents (Continued)

At June 30, 2011, investments and cash and cash equivalents are as follows (at fair value):

General Operating Account:	
U.S. Government-sponsored enterprise bonds	\$1,519,115
Cash and cash equivalents	<u>1,542,078</u>
	<u>\$3,061,193</u>
General bond resolution:	
Cash and cash equivalents	\$ <u>909,967</u>

The following table provides information on future maturities of the Authority's investments in U.S. Government-sponsored enterprises as of June 30, 2011:

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>General Operating Account</u>					
U.S. Government- Sponsored enterprises	<u>\$1,519,115</u>	<u>\$1,013,310</u>	<u>\$ 505,805</u>	<u>\$ —</u>	<u>\$ —</u>

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 Bangor Savings Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2011.

The cash of the general operating account at June 30, 2011, consists of \$250,000 insured and \$57,342 uninsured deposits with a bank. Cash equivalents consist of \$1,234,736 in money market funds secured by short-term U.S. Treasury obligations.

Cash and cash equivalents of the General Bond Resolution at June 30, 2011, consist primarily of money market funds secured by short-term U.S. Treasury obligations, held at Bank of New York.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2011, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2011</u>
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	\$36,485,000	\$ 1,890,000
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	10,860,000	3,260,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	5,530,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	25,460,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	52,115,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	4,440,000
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	10,985,000	9,815,000
Series 2008 A, 4.00% – 5.00%, dated June 19, 2008	2008 – 2028	40,565,000	34,510,000
Series 2009 A, 3.25% – 5.00% dated October 29, 2009	2010 – 2029	11,960,000	11,485,000
Series 2010A, 2.50% – 5.00%, dated April 1, 2010	2010 – 2023	25,600,000	<u>23,645,000</u>
			<u>\$172,150,000</u>

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

Total principal outstanding	\$ 172,150,000
Deferred amounts on refunding	(2,348,847)
Unamortized original issue premium	3,213,925
Unamortized bond issue costs	<u>(865,078)</u>
	172,150,000
Less current portion	<u>(17,285,000)</u>
Long-term portion	<u>\$ 154,865,000</u>

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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:

<u>Due Bond Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 17,285,000	\$ 7,463,651	\$ 24,748,651
2013	17,160,000	6,851,045	24,011,045
2014	17,090,000	6,125,233	23,215,233
2015	16,895,000	5,416,790	22,311,790
2016	16,175,000	4,666,928	20,841,928
2017 – 2021	63,605,000	13,019,180	76,624,180
2022 – 2026	15,680,000	3,986,963	19,666,963
2027 – 2030	<u>8,260,000</u>	<u>825,406</u>	<u>9,085,406</u>
	<u>\$ 172,150,000</u>	<u>\$48,355,196</u>	<u>\$ 220,505,196</u>

The following summarizes bond payable activity for the Authority for the year ended June 30, 2011:

Balance, beginning of year	\$ 189,080,000
Redemptions	<u>(16,930,000)</u>
Balance, end of year	<u>\$ 172,150,000</u>

5. Refunding Issues

In periods of declining interest rates, the Authority has refunded its bond obligations, reducing aggregate debt service. Where allowed, the 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. The 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, 2011, the remaining balances of the in-substance defeased bonds total approximately \$20,725,000.

6. Operating Expenses

The Authority has an arrangement with the Bond Bank which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead. The arrangement is approved annually by the Board through the budgetary approval process. The Authority recognized approximately \$140,000 of expense under this arrangement in 2011.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

7. **Deferred Fees**

Included in the deferred fees total of \$837,816 at June 30, 2011, is \$803,648 representing the advance payment of the present value of all future required annual fees on certain bond issues by the executive branch of the State of Maine. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2011, \$114,215 of previously deferred fees was included in administrative fee revenue.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Capital Grants/Contributions</u>	<u>Net Revenue (Expense) and Changes in net assets</u>
		<u>Charges for Services</u>	<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>		<u>Total</u>
Functions/Programs:						
Maine Governmental Facilities Authority	\$ <u>(7,853,768)</u>	\$ <u>7,956,075</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>102,307</u>
Total	\$ <u>(7,853,768)</u>	\$ <u>7,956,075</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	102,307
General revenues:						
Unrestricted interest and investment earnings						<u>5,981</u>
Total general revenues and extraordinary items						<u>5,981</u>
Changes in net assets						108,288
Net assets, beginning of year						<u>2,268,265</u>
Net assets, end of year						<u>\$2,376,553</u>