MGFA

MAINE GOVERNMENTAL FACILITIES AUTHORITY

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TO: INTERESTED PARTIES

FROM: Michael R. Goodwin, Executive Director

RE: **2013 Maine Governmental Facilities Authority Annual Report**

This is the annual report for the Maine Governmental Facilities Authority for the 2013 fiscal year, running from July 1, 2012 to June 30, 2013. 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 2013, the Authority issued $30,290,000 of bonds in one series. Funds made available by this bond sale were used for planning and construction of a new courthouse in Augusta and renovations to, and construction of, an addition to a courthouse in Machias.

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

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Certified Public Accountants

Maine Governmental Facilities Authority

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

Year Ended June 30, 2013
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, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements, consisting of the General Operating Account and General Bond Resolution, of Maine Governmental Facilities Authority (the Authority), which comprise the statements of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements. The Authority is a component unit of the State of Maine.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Commissioners
Maine Governmental Facilities Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as well as the individual fund groups referred to above, as of June 30, 2013, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The additional information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Maine Governmental Facilities Authority's internal control over financial reporting and compliance.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
September 6, 2013

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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, 2013. 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 $425,642 for fiscal year 2013, an increase of $6,061 or 1.4% from fiscal year 2012.
- Net position in the Authority's General Operating Account at June 30, 2013 was $2,644,659. This represents an increase of $210,051 or 8.6% over the net position at June 30, 2012.
- The Authority's gross bonds outstanding at June 30, 2013 were $199,910,000. Gross bonds outstanding at June 30, 2013 increased $12,045,000 from the balance at June 30, 2012. This is the net result of the issuance of 2013A bonds totaling $30,290,000, less principal payments of $18,245,000.
- The Authority's lease payments receivable from lessee at June 30, 2013 were $199,529,889. The lease payments are closely related to the bonds outstanding. Therefore, the increase of $12,232,659 is mainly attributed to the net effect of bonds activity as describe above. The difference between bond principal payments and principal payments received from lessee of $187,659 relates entirely to the 2010A Series bonds, whereby the Authority received principal payments on outstanding loans on a schedule that is slightly different than 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.

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 position) 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 contracts with an arbitrage consultant to maintain and prepare all rebate calculations that will be filed with the Internal Revenue Service.

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 statement of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in net position presents information showing how the Authority's net position changed during the fiscal year. All changes in net position 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 position may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority's general operating account, net position totaled $2,644,659 at June 30, 2013. This represents an increase of $210,051 or 8.6% over the previous fiscal year. This increase is related to operating revenues exceeding operating expenses in fiscal year 2013.

The Authority's financial position for the past two years is summarized as follows:

GENERAL OPERATING ACCOUNT

Statements of Net Position
June 30, 2013 and 2012

	2013	2012	Percentage Change
Current assets:			
Cash and cash equivalents	$ 802,185	$1,558,544	(48.5)%
Investments	2,531,895	1,500,030	68.8
Accounts receivable	21,550	156,135	(86.2)
Deferred expenses	5,000	–	–
Accrued interest income receivable	5,375	163	3,197.5
Total current assets	3,366,005	3,214,872	4.7
Current liabilities:			
Deferred fees	118,662	105,726	12.2
Accounts payable	15,189	10,186	49.1
Total current liabilities	133,851	115,912	15.5
Noncurrent liabilities:			
Deferred fees	587,495	664,352	(11.6)
Total liabilities	721,346	780,264	(7.6)
Net position – unrestricted	$2,644,659	$2,434,608	8.6%

GENERAL BOND RESOLUTION

Statements of Net Position
June 30, 2013 and 2012

	2013	2012	Percentage Change
Current assets:			
Cash and cash equivalents	$ 414,137	$ 635,875	(34.9)%
Lease payments receivable from lessee	18,097,341	18,057,341	0.2
Interest and other amounts receivable from lessee	1,911,270	1,999,345	(4.4)
Total current assets	20,422,748	20,692,561	(1.3)
Noncurrent assets:			
Lease payments receivable from lessee	181,432,548	169,239,889	7.2
Total assets	201,855,296	189,932,450	6.3
Current liabilities:			
Bonds payable	18,290,000	18,245,000	0.2
Accrued interest payable	1,896,470	2,028,821	(6.5)
Accrued payable	47,980	–	–
Total current liabilities	20,234,450	20,273,821	0.2
Noncurrent liabilities:			
Bonds payable	181,620,000	169,620,000	7.1
Total noncurrent liabilities	181,620,000	169,620,000	7.1
Total liabilities	201,854,450	189,893,821	6.3
Net position – restricted	$ 846	$ 38,629	(97.8)%

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

GENERAL OPERATING ACCOUNT

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2013 and 2012

	2013	**2012**	**Percentage Change**
Operating revenues:			
Administrative fees	$ 423,642	$ 414,724	2.2%
Interest income from investments	22,217	24,702	(10.1)
Net decrease in fair value of investments	(20,217)	(19,845)	1.9
Total operating revenue	425,642	419,581	1.4
Operating expenses:			
Salaries	58,210	59,525	(2.2)
Employee benefits	22,896	19,648	16.5
Professional and other fees	34,992	105,473	(66.8)
Insurance	40,421	46,761	(13.6)
Office	10,176	10,736	(5.2)
Accretion of interest on deferred fees	42,269	46,865	(9.8)
Other	6,627	7,916	(16.3)
Total operating expenses	215,591	296,924	(27.4)
Operating income	210,051	122,657	71.3
Net position, beginning of year	2,434,608	2,311,951	5.3
Net position, end of year	$2,644,659	$2,434,608	8.6%

GENERAL BOND RESOLUTION

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2013 and 2012

	2013	2012	Percentage Change
Operating revenues:			
Received and receivable from lessee	$7,565,814	$7,838,602	(3.5)%
Interest income from investments	154	5	2,980.0
Other income	453,182	577,655	(21.5)
Total operating revenue	8,019,150	8,416,262	(4.7)%
Operating expenses:			
Cost of issuance	453,182	577,655	(21.5)
Interest expense	7,445,763	7,686,853	(3.1)
Amortization of deferred bond issuance costs	157,988	177,727	(11.1)
Total operating expenses	8,056,933	8,442,235	(4.6)
Operating loss	(37,783)	(25,973)	45.5
Net position, beginning of year	38,629	64,602	(40.2)
Net position, end of year	$ 846	$ 38,629	(97.8)%

General Operating Account

Cash and cash equivalents held in the General Operating Account decreased $756,359 or 48.5% at June 30, 2013 compared to June 30, 2012. The decrease is the primarily result of transfer of cash to investments.

Account receivable decreased $134,585 or 86.2% in fiscal year 2013. No rebate arbitrage due from the State of Maine was issued in fiscal 2013.

Deferred fees decreased $63,921 or 8.3% from 2012 as a result of amortization of fees collected in advance in prior years (see note 7 in financial statements).

Net position increased $210,051 or 8.6% in fiscal year 2013. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Professional and other fees decreased $70,481 or 66.8% in fiscal year 2013 as compared to fiscal year 2012. The decrease in 2013 is primarily attributed to final arbitrage calculations and related services provided in 2012 that were not required in 2013.

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 $241,090 or 3.1% in fiscal year 2013 from 2012 based on the scheduled payments. As a result, interest and other amounts received from lessee also decreased in fiscal 2013 by $272,788 or 3.5%.

The Authority's net lease payments receivable from lessee increased $12,232,659 or 6.5% in fiscal year 2013 compared to fiscal year 2012. The increase is the net effect of the Authority issuing the 2013A Series bonds totaling $30,290,000, and the scheduled principal repayment from borrowers of $18,057,341.

Other revenue and cost of issuance expense each decreased by $124,473 or 21.5%. The decrease relates entirely to issuance costs of the 2013A Series bonds that were reimbursed in fiscal 2013 compared to fiscal 2012.

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

STATEMENTS OF NET POSITION

June 30, 2013

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$ 802,185	$ 414,137	$ 1,216,322
Investments (note 3)	2,531,895	–	2,531,895
Lease payments receivable from lessee (note 4)	–	18,097,341	18,097,341
Interest and other amounts receivable from lessee	–	1,911,270	1,911,270
Accounts receivable	21,550	–	21,550
Deferred expenses	5,000	–	5,000
Accrued interest income receivable	5,375	–	5,375
Total current assets	3,366,005	20,422,748	23,788,753
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	181,432,548	181,432,548
Total assets	3,366,005	201,855,296	205,221,301
LIABILITIES			
Current liabilities:			
Bonds payable (note 4)	–	18,290,000	18,290,000
Accrued interest payable	–	1,896,470	1,896,470
Deferred fees (note 7)	118,662	–	118,662
Accounts payable (note 6)	15,189	47,980	63,169
Total current liabilities	133,851	20,234,450	20,368,301
Noncurrent liabilities:			
Bonds payable (note 4)	–	181,620,000	181,620,000
Deferred fees (note 7)	587,495	–	587,495
Total noncurrent liabilities	587,495	181,620,000	182,207,495
Total liabilities	721,346	201,854,450	202,575,796
NET POSITION			
Restricted	–	846	846
Unrestricted	2,644,659	–	2,644,659
Total net position	$2,644,659	$ 846	$ 2,645,505

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2013

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$7,565,814	$7,565,814
Administrative fees (note 7)	423,642	–	423,642
Interest income from investments	22,217	154	22,371
Net decrease in fair value of investments	(20,217)	–	(20,217)
Other income	–	453,182	453,182
Total operating revenue	425,642	8,019,150	8,444,792
Operating expenses (note 6):			
Costs of issuance	–	453,182	453,182
Interest expense	–	7,445,763	7,445,763
Salaries	58,210	–	58,210
Employee benefits	22,896	–	22,896
Professional and other fees	34,992	–	34,992
Insurance	40,421	–	40,421
Office	10,176	–	10,176
Accretion of interest on deferred fees (note 7)	42,269	–	42,269
Amortization of deferred bond issuance costs	–	157,988	157,988
Other	6,627	–	6,627
Total operating expenses	215,591	8,056,933	8,272,524
Operating income (loss)	210,051	(37,783)	172,268
Net position, beginning of year	2,434,608	38,629	2,473,237
Net position, end of year	$2,644,659	$ 846	$2,645,505

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2013

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 447,037	$ 27,921,230	$ 28,368,267
Cash received from other income	–	453,182	453,182
Cash deposited to construction funds	–	(32,500,000)	(32,500,000)
Cash paid for operating expenses	(168,319)	–	(168,319)
Cash paid for bond issuance costs	–	(405,202)	(405,202)
Net cash (used by) provided by operating activities	278,718	(4,530,790)	(4,252,072)
Noncapital financing activities:			
Proceeds on bonds payable	–	30,290,000	30,290,000
Principal paid on bonds payable	–	(18,245,000)	(18,245,000)
Interest paid on bonds payable	–	(7,736,102)	(7,736,102)
Net cash provided by noncapital financing activities	–	4,308,898	4,308,898
Investing activities:			
Purchases of investment securities	(2,561,178)	–	(2,561,178)
Proceeds from sales and maturities of investment securities	1,509,096	–	1,509,096
Cash received from interest income	17,005	154	17,159
Net cash (used by) provided by investing activities	(1,035,077)	154	(1,034,923)
Decrease in cash and cash equivalents	(756,359)	(221,738)	(978,097)
Cash and cash equivalents at beginning of year	1,558,544	635,875	2,194,419
Cash and cash equivalents at end of year	$ 802,185	$ 414,137	$ 1,216,322
Reconciliation of operating income (loss) to net cash (used by) provided by operating activities:			
Operating income (loss)	$ 210,051	$ (37,783)	$ 172,268
Adjustments to reconcile operating income (loss) to net cash (used by) provided by operating activities:			
Accretion of interest on deferred fees	42,269	–	42,269
Amortization of deferred fees and costs	(114,215)	157,988	43,773
Interest expense	–	7,445,763	7,445,763
Interest income	(22,217)	(154)	(22,371)
Decrease in fair value of investments	20,217	–	20,217
Changes in operating assets and liabilities:			
Lease payments receivable from lessee	–	(12,232,659)	(12,232,659)
Interest and other amounts receivable from lessee	–	88,075	88,075
Accounts receivable	134,585	–	134,585
Deferred expenses	(5,000)	–	(5,000)
Accounts payable	5,003	47,980	52,983
Other deferred revenue	8,025	–	8,025
Net cash (used by) provided by operating activities	$ 278,718	$ (4,530,790)	$ (4,252,072)

See accompanying notes.

1. Organization

The Maine Governmental Facilities Authority (the Authority) is constituted as an instrumentality and 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.

As discussed below, the Authority complies with Governmental Accounting Standards Board (GASB) statements codified under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidelines Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62).

2. Significant Accounting Policies (Continued)

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*.

Accounting Method

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

Federal Income Taxes

It is the opinion of management that the Authority is exempt from federal income taxes under Internal Revenue Code (IRC) Section 115, and that the Authority has maintained its tax-exempt status and has no uncertain tax positions that require adjustment or disclosure in these financial statements. However, the Authority is subject to the arbitrage rebate requirements of Section 148 of the IRC. Section 148 requires that any arbitrage profit earned on the proceeds of tax-exempt bonds issued after 1985 must be rebated to the federal government at least once every five years, with the balance rebated no later than 60 days after the retirement of the bonds.

Arbitrage rebate expense was not significant for the year ended June 30, 2013.

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 position.

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 payments receivable as an asset. Interest revenue is accreted over the life of the lease using a method approximating the effective interest method.

2. Significant Accounting Policies (Continued)

Bond Discounts, Premiums and Issuance Costs

Costs associated with issuing debt, which are generally paid by means of fees collected from lessee, are expensed in the year incurred. To the extent they are used to pay bond issuance costs, premiums remitted to the Authority are recorded as other income. Other premiums and discounts are passed on to the borrowers, and are, therefore, not recorded.

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.

Implementation of New Accounting Standards

The Authority adopted the following new accounting standards in 2013:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) and AICPA pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. This Statement improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local government so that they derive from a single source. There was no impact on the Authority's financial statements as a result of the adoption of GASB 62.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). This Statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial net position. Deferred outflows of resources and deferred inflows of resources are now required to be reported separately from assets and liabilities.

The adoption of GASB 63 resulted in a change in the presentation of the Balance Sheet to what is now referred to as the Statement of Net Position and the term "net assets" is changed to "net position" throughout the financial statements.

2. Significant Accounting Policies (Continued)

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53* (GASB 64). This Statement clarifies the termination provisions in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* when a counterparty of an interest rate or commodity swap is replaced. There was no impact on the Authority's financial statements as a result of the adoption of GASB 64.

Other GASB standards that are under evaluation include:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It requires the reclassification of certain amounts previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources or to expenses or revenues.

GASB 65 is effective for the year ending June 30, 2014 and the Authority has not yet adopted this standard. The Authority is currently evaluating what impact this statement may have on its financial statements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34* and GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62* are effective for the year ending June 30, 2014, GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* are effective for the year ending June 30, 2015, and GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* is effective for the year ending June 30, 2016. The Authority has not yet adopted these standards and is evaluating the impact they may have on its financial statements.

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 Resolutions and Tax Regulatory Agreements.

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.

3. Investments and Cash and Cash Equivalents (Continued)

At June 30, 2013, investments and cash and cash equivalents are as follows (at fair value):

General Operating Account:	
U.S. Government-sponsored enterprise bonds	$2,531,895
Cash and cash equivalents	802,185
	$3,334,080
General Bond Resolution:	
Cash and cash equivalents	$ 414,317

The following table provides information on future maturities of the Authority's investments in U.S. Government-sponsored enterprises as of June 30, 2013:

	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than Ten Years
General Operating Account					
U.S. Government-Sponsored enterprises	$2,531,895	$1,009,870	$1,522,025	$ –	$ –

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 Camden National Bank 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, 2013.

The cash of the general operating account at June 30, 2013 consists of $314,862 insured deposits with a bank. Cash equivalents consist of $487,323 in money market funds secured by short-term U.S. Treasury obligations.

Cash and cash equivalents of the General Bond Resolution at June 30, 2013, 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, 2013, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2013
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	$ 10,860,000	$ 2,170,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	3,735,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	21,200,000

4. Bonds Payable and Lease Payments Receivable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2013
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	$ 54,210,000	$ 39,145,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	2,660,000
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	10,985,000	8,655,000
Series 2008 A, 4.00% – 5.00%, dated June 19, 2008	2008 – 2028	40,565,000	29,470,000
Series 2009 A, 3.25% – 5.00% dated October 29, 2009	2010 – 2029	11,960,000	10,435,000
Series 2010A, 2.50% – 5.00%, dated April 1, 2010	2010 – 2023	25,600,000	20,235,000
Series 2011A, 3.00% – 4.50%, dated October 26, 2011	2012 – 2031	33,000,000	31,915,000
Series 2013A, 2.00% – 5.00% dated June 13, 2013	2014 – 2033	30,290,000	30,290,000
		$ 274,285,000	$ 199,910,000

Such amounts are reflected on the statement of net position of the general bond resolution as follows:

Total principal outstanding	$ 199,910,000
Less current portion	(18,290,000)
Long-term portion	$ 181,620,000

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

Due Bond Year Ending	Principal	Interest	Total
2013	$ 18,290,000	$ 4,061,765	$ 22,351,765
2014	19,140,000	7,890,160	27,030,160
2015	18,490,000	7,070,697	25,560,697
2016	17,600,000	6,274,655	23,874,655
2017	17,130,000	5,482,551	22,612,551
2018 – 2022	54,975,000	17,584,629	72,559,629
2023 – 2027	30,790,000	9,104,158	39,894,158
2028 – 2032	21,300,000	2,857,781	24,157,781
2033	2,195,000	87,800	2,282,800
	$ 199,910,000	$60,414,196	$ 260,324,196

4. Bonds Payable and Lease Payments Receivable (Continued)

The following summarizes bond payable activity for the Authority for the year ended June 30, 2013:

Balance, beginning of year	$ 187,865,000
Issuances	30,290,000
Redemptions	(18,245,000)
Balance, end of year	$ 199,910,000

The Authority's bonds payables are to be repaid through collection of outstanding lease payments receivable from lessee. Lease payments from lessee are scheduled to closely match required bond principal and interest payments.

5. Refunding Issues

In periods of declining interest rates, the Authority has refunded certain bond obligations. The proceeds of any advance refunding bonds are primarily used to purchase U.S. Treasury obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the defeased bonds. Neither the U.S. Treasury obligations nor the defeased bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations are placed in irrevocable trust accounts with the trustees of the defeased bonds. The gains, losses and economic benefits of these transactions inure to the lessee and not the Authority, although the Authority may receive an administrative fee.

At June 30, 2013, there are no in-substance defeased bonds outstanding.

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 $141,000 of expense under this arrangement in 2013 and owed the Bond Bank approximately $14,600 at June 30, 2013.

7. Deferred Fees

Included in the deferred fees total of $706,157 at June 30, 2013, is $664,352 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, 2013, $114,215 of previously deferred fees was included in administrative fee revenue.

SCHEDULE 1

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2013

		Program Revenues				Net Revenue (Expense) and Changes in Net Position
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Governmental Facilities Authority	$(8,272,524)	$8,442,638	$ 154	$ –	$ –	$ 170,268
Total	$(8,272,524)	$8,442,638	$ 154	$ –	$ –	170,268
General revenues:						
Unrestricted interest and investment earnings						2,000
Total general revenues and extraordinary items						2,000
Changes in net position						172,268
Net position, beginning of year						2,473,237
Net position, end of year						$2,645,505