

# MAINE STATE LEGISLATURE

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# MGFA

MAINE GOVERNMENTAL FACILITIES AUTHORITY

Michael R. Goodwin, *Executive Director*  
Tel 207-622-9386  
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TO: INTERESTED PARTIES  
FROM: Michael R. Goodwin, Executive Director  
RE: **2014 Maine Governmental Facilities Authority Annual Report**

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This is the annual report for the Maine Governmental Facilities Authority for the 2014 fiscal year, running from July 1, 2013 to June 30, 2014. 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 2014, the Authority issued \$10,055,000 of bonds in one series. Funds made available by this bond sale were used for planning and construction of a new courthouse in Augusta, renovations to various state owned facilities, and to refinance a portion of the Authority's outstanding bonds.

If there is further information you might like or questions you may have concerning the Authority, please feel free to give us a call at (207) 622-9386. Additional information about the Authority is available at our website: [www.mgfa.com](http://www.mgfa.com)



**BAKER | NEWMAN | NOYES**

Certified Public Accountants

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# **Maine Governmental Facilities Authority**

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

*Year Ended June 30, 2014  
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, 2014

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# BAKER | NEWMAN | NOYES

Certified Public Accountants

## 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, 2014, 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.

***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, 2014, 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 October 14, 2014 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.

Portland, Maine  
October 14, 2014

  
Limited Liability Company

# MAINE GOVERNMENTAL FACILITIES AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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, 2014. 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 \$367,592 for fiscal year 2014, a decrease of \$58,050 or 13.6% from fiscal year 2013.
- Net position in the Authority's Operating Account at June 30, 2014 was \$2,802,464. This represents an increase of \$157,805 or 6.0% over the net position at June 30, 2013.
- The Authority's bonds outstanding at June 30, 2014 were \$187,175,000. Bonds outstanding at June 30, 2014 decreased \$12,735,000 from the balance at June 30, 2013. This is the net result of the issuance of 2014A bonds totaling \$10,055,000, less principal payments of \$18,290,000 and a refunding of series 2002 and 2003 bonds outstanding totaling \$4,500,000.
- The Authority's lease payments receivable from lessee at June 30, 2014 were \$186,987,548. The lease payments are closely related to the bonds outstanding. Therefore, the decrease of \$12,542,341 is mainly attributed to the net effect of bonds activity as described above. The difference between bond principal payments and principal payments received from lessee of \$192,659 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.

## MAINE GOVERNMENTAL FACILITIES AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2014

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, deferred outflows of resources, liabilities, deferred inflows of resources and 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 increases 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, assets exceeded liabilities by \$2,802,464 at June 30, 2014. This represents an increase of \$157,805 or 6.0 % over the previous fiscal year. This increase is related to operating revenues exceeding operating expenses in fiscal year 2014.



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

June 30, 2014

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

**GENERAL OPERATING ACCOUNT**

Statements of Net Position  
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
Current assets:			
Cash and cash equivalents	\$ 683,762	\$ 802,185	(14.8)%
Investments	2,757,850	2,531,895	8.9
Accounts receivable	778	21,550	(96.4)
Accrued interest income receivable	2,171	5,375	(59.6)
Other assets	<u>5,000</u>	<u>5,000</u>	<u>---</u>
Total current assets	<u>3,449,561</u>	<u>3,366,005</u>	<u>2.5</u>
Current liabilities:			
Unearned fees	130,350	118,662	9.8
Accounts payable	<u>14,140</u>	<u>15,189</u>	<u>(6.9)</u>
Total current liabilities	144,490	133,851	7.9
Noncurrent liabilities:			
Unearned fees	<u>502,607</u>	<u>587,495</u>	<u>(14.4)</u>
Total liabilities	<u>647,097</u>	<u>721,346</u>	<u>(10.3)</u>
Net position – unrestricted	<u>\$2,802,464</u>	<u>\$2,644,659</u>	<u>6.0%</u>

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

June 30, 2014

**GENERAL BOND RESOLUTION**

Statements of Net Position  
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
Current assets:			
Cash and cash equivalents	\$ 219,093	\$ 414,137	(47.1)%
Lease payments receivable from lessee	19,042,341	18,097,341	5.2
Interest and other amounts receivable from lessee	<u>1,834,874</u>	<u>1,911,270</u>	<u>(4.0)</u>
Total current assets	21,096,308	20,422,748	3.3
Noncurrent assets:			
Lease payments receivable from lessee	<u>167,945,207</u>	<u>181,432,548</u>	<u>(7.4)</u>
Total assets	<u>189,041,515</u>	<u>201,855,296</u>	<u>(6.3)</u>
Current liabilities:			
Bonds payable	19,205,000	18,290,000	5.0
Accrued interest payable	1,926,813	1,896,470	1.6
Accrued payable	<u>—</u>	<u>47,980</u>	<u>100.0</u>
Total current liabilities	21,131,813	20,234,450	4.4
Noncurrent liabilities:			
Bonds payable	<u>167,970,000</u>	<u>181,620,000</u>	<u>(7.5)</u>
Total noncurrent liabilities	<u>167,970,000</u>	<u>181,620,000</u>	<u>(7.5)</u>
Total liabilities	<u>189,101,813</u>	<u>201,854,450</u>	<u>(6.3)</u>
Net position – restricted	\$ <u>(60,298)</u>	\$ <u>846</u>	<u>(7,227.4)%</u>

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

June 30, 2014

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
Operating revenues:			
Administrative fees	\$ 353,419	\$ 423,642	(16.6)%
Interest income from investments	43,768	22,217	97.0
Net decrease in fair value of investments	<u>(29,595)</u>	<u>(20,217)</u>	<u>46.4</u>
Total operating revenue	367,592	425,642	(13.6)
Operating expenses:			
Salaries	59,304	58,210	1.9
Employee benefits	26,308	22,896	14.9
Professional and other fees	30,856	34,992	(11.8)
Insurance	40,241	40,421	(0.4)
Office	10,105	10,176	(0.7)
Accretion of interest on unearned fees	37,359	42,269	(11.6)
Other	<u>5,614</u>	<u>6,627</u>	<u>(15.3)</u>
Total operating expenses	<u>209,787</u>	<u>215,591</u>	<u>(2.7)</u>
Operating income	157,805	210,051	(24.9)
Net position, beginning of year	<u>2,644,659</u>	<u>2,434,608</u>	<u>8.6</u>
Net position, end of year	<u>\$2,802,464</u>	<u>\$2,644,659</u>	<u>6.0%</u>

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2014

**GENERAL BOND RESOLUTION**

Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
Operating revenues:			
Received and receivable from lessee	\$7,975,937	\$7,565,814	5.4%
Interest income from investments	105	154	(31.8)
Other income	<u>47,632</u>	<u>453,182</u>	<u>(89.5)</u>
Total operating revenue	8,023,674	8,019,150	0.1
Operating expenses:			
Cost of issuance	47,632	453,182	(89.5)
Interest expense	<u>8,037,186</u>	<u>7,603,751</u>	<u>5.7</u>
Total operating expenses	<u>8,084,818</u>	<u>8,056,933</u>	<u>0.3</u>
Operating loss	(61,144)	(37,783)	61.8
Net position, beginning of year	<u>846</u>	<u>38,629</u>	<u>(97.8)</u>
Net position, end of year	\$ <u>(60,298)</u>	\$ <u>846</u>	<u>(7227.4)%</u>

## MAINE GOVERNMENTAL FACILITIES AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2014

#### **General Operating Account**

Cash and cash equivalents held in the General Operating Account decreased \$118,423 or 14.8% at June 30, 2014 compared to June 30, 2013. The decrease is primarily the result of transfer of cash to investments.

Accounts receivable decreased \$20,772 or 96.4% in fiscal year 2014. Amount due from the State of Maine at June 30, 2014 compared to June 30, 2013 decreased as a result of the timing of payments received from the State of Maine.

Unearned fees decreased \$73,200 or 10.4% from 2013 as a result of amortization of fees collected in advance in prior years (see note 7 to the accompanying financial statements).

Net position increased \$157,805 or 6.0% in fiscal year 2014. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Administrative fees in fiscal year 2014 decreased by \$70,223 or 16.6%. The decrease is primarily due to a reduction in initial issuance fees related to bond issuances within the General Bond Resolution.

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**

The Authority's net lease payments receivable from lessee decreased \$12,542,341 or 6.3% in fiscal year 2014 compared to fiscal year 2013. The decrease is the net effect of the Authority issuing the 2014A series bonds totaling \$10,055,000, the scheduled principal repayment from borrowers of \$18,097,341, and loans refunded totaling \$4,500,000.

Interest expense on the bonds increased \$433,435 or 5.7% in fiscal year 2014 from 2013 based on the scheduled payments. As a result, interest and other amounts received from lessee also increased in fiscal 2014 by \$410,123 or 5.4%.

Other revenue and cost of issuance each decreased by \$405,550 or 89.5%. The decrease relates entirely to lower issuance costs in 2014, which are reimbursed.

#### **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, 2014

<u>ASSETS</u>	<u>General Operating Account</u>	<u>General Bond Resolution</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents (note 3)	\$ 683,762	\$ 219,093	\$ 902,855
Investments (note 3)	2,757,850	-	2,757,850
Lease payments receivable from lessee (note 4)	-	19,042,341	19,042,341
Interest and other amounts receivable from lessee	-	1,834,874	1,834,874
Accounts receivable	778	-	778
Accrued interest income receivable	2,171	-	2,171
Other assets	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total current assets	3,449,561	21,096,308	24,545,869
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	<u>-</u>	<u>167,945,207</u>	<u>167,945,207</u>
Total assets	3,449,561	189,041,515	192,491,076
<u>LIABILITIES</u>			
Current liabilities:			
Bonds payable (note 4)	-	19,205,000	19,205,000
Accrued interest payable	-	1,926,813	1,926,813
Unearned fees (note 7)	130,350	-	130,350
Accounts payable (note 6)	<u>14,140</u>	<u>-</u>	<u>14,140</u>
Total current liabilities	144,490	21,131,813	21,276,303
Noncurrent liabilities:			
Bonds payable (note 4)	-	167,970,000	167,970,000
Unearned fees (note 7)	<u>502,607</u>	<u>-</u>	<u>502,607</u>
Total noncurrent liabilities	<u>502,607</u>	<u>167,970,000</u>	<u>168,472,607</u>
Total liabilities	647,097	189,101,813	189,748,910
<u>NET POSITION</u>			
Restricted	-	(60,298)	(60,298)
Unrestricted	<u>2,802,464</u>	<u>-</u>	<u>2,802,464</u>
Total net position	<u>\$2,802,464</u>	<u>\$ (60,298)</u>	<u>\$ 2,742,166</u>

See accompanying notes.

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

Year Ended June 30, 2014

	<u>General Operating Account</u>	<u>General Bond Resolution</u>	<u>Total</u>
Operating revenues:			
Received and receivable from lessee	\$       —	\$7,975,937	\$7,975,937
Administrative fees (note 7)	353,419	—	353,419
Interest income from investments	43,768	105	43,873
Net decrease in fair value of investments	(29,595)	—	(29,595)
Other income	<u>      —</u>	<u>  47,632</u>	<u>  47,632</u>
Total operating revenue	367,592	8,023,674	8,391,266
Operating expenses (note 6):			
Costs of issuance	—	47,632	47,632
Interest expense	—	8,037,186	8,037,186
Salaries	59,304	—	59,304
Employee benefits	26,308	—	26,308
Professional and other fees	30,856	—	30,856
Insurance	40,241	—	40,241
Office	10,105	—	10,105
Accretion of interest on unearned fees (note 7)	37,359	—	37,359
Other	<u>  5,614</u>	<u>      —</u>	<u>  5,614</u>
Total operating expenses	<u>209,787</u>	<u>8,084,818</u>	<u>8,294,605</u>
Operating income (loss)	157,805	(61,144)	96,661
Net position, beginning of year	<u>2,644,659</u>	<u>      846</u>	<u>2,645,505</u>
Net position, end of year	<u>\$2,802,464</u>	<u>\$ (60,298)</u>	<u>\$2,742,166</u>

See accompanying notes.

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

**STATEMENTS OF CASH FLOWS**

Year Ended June 30, 2014

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	\$ 263,632	\$ 26,041,140	\$ 26,304,772
Cash deposited to construction funds	-	(5,403,986)	(5,403,986)
Cash paid for operating expenses	(173,477)	-	(173,477)
Cash paid for bond issuance costs	-	(90,460)	(90,460)
Net cash provided by operating activities	<u>90,155</u>	<u>20,546,694</u>	<u>20,636,849</u>
Noncapital financing activities:			
Proceeds on bonds payable	-	10,055,000	10,055,000
Deposit to refunding escrow and cost of issuance fund	-	(4,560,555)	(4,560,555)
Principal paid on bonds payable	-	(18,290,000)	(18,290,000)
Interest paid on bonds payable	-	(7,946,288)	(7,946,288)
Net cash used by noncapital financing activities	<u>-</u>	<u>(20,741,843)</u>	<u>(20,741,843)</u>
Investing activities:			
Purchases of investment securities	(1,757,154)	-	(1,757,154)
Proceeds from sales and maturities of investment securities	1,501,604	-	1,501,604
Cash received from interest income	<u>46,972</u>	<u>105</u>	<u>47,077</u>
Net cash (used by) provided by investing activities	<u>(208,578)</u>	<u>105</u>	<u>(208,473)</u>
Decrease in cash and cash equivalents	(118,423)	(195,044)	(313,467)
Cash and cash equivalents at beginning of year	<u>802,185</u>	<u>414,137</u>	<u>1,216,322</u>
Cash and cash equivalents at end of year	<u>\$ 683,762</u>	<u>\$ 219,093</u>	<u>\$ 902,855</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 157,805	\$ (61,144)	\$ 96,661
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Accretion of interest on unearned fees	37,359	-	37,359
Amortization of unearned fees	(114,215)	-	(114,215)
Interest expense	-	8,037,186	8,037,186
Interest income	(43,768)	(105)	(43,873)
Decrease in fair value of investments	29,595	-	29,595
Changes in operating assets and liabilities:			
Lease payments receivable from lessee	-	12,542,341	12,542,341
Interest and other amounts receivable from lessee	-	76,396	76,396
Accounts receivable	20,772	-	20,772
Accounts payable	(1,049)	(47,980)	(49,029)
Other unearned fees	<u>3,656</u>	<u>-</u>	<u>3,656</u>
Net cash provided by operating activities	<u>\$ 90,155</u>	<u>\$ 20,546,694</u>	<u>\$ 20,636,849</u>

See accompanying notes.



# MAINE GOVERNMENTAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

### 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 \$347,835,000 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).

# MAINE GOVERNMENTAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

### 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, 2014.

#### 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.

# MAINE GOVERNMENTAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

### 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.

#### Recently Issued Accounting Pronouncements

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of this statements is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB 65 requires that bond issuance costs be immediately expensed in the period incurred, and for certain items requires the reclassification of amounts previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources or to expenses or revenues. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The Authority adopted the provisions of this Statement for the year ended June 30, 2014. There was no impact on the accompanying 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.

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**3. Investments and Cash and Cash Equivalents (Continued)**

At June 30, 2014, investments and cash and cash equivalents are as follows (at fair value):

General Operating Account:		
U.S. Government-sponsored enterprise bonds	\$2,757,850	
Cash and cash equivalents	<u>683,762</u>	
		<u>\$3,441,612</u>
General Bond Resolution:		
Cash and cash equivalents		\$ <u>219,093</u>

The following table provides information on future maturities of the Authority's investments in U.S. Government-sponsored enterprises as of June 30, 2014:

	<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>\$2,757,850</u>	<u>\$1,001,920</u>	<u>\$1,755,930</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 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, 2014.

The cash of the general operating account at June 30, 2014 consists of \$250,000 insured and \$155,261 of uninsured deposits with a bank. Cash equivalents consist of \$278,501 in money market funds secured by short-term U.S. Treasury obligations.

Cash and cash equivalents of the General Bond Resolution at June 30, 2014, 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, 2014

**4. Bonds Payable and Lease Payments Receivable**

As of June 30, 2014, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2014</u>
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	\$ 29,500,000	\$ 14,445,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	36,905,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	1,770,000
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	10,985,000	8,075,000
Series 2008 A, 4.00% – 5.00%, dated June 19, 2008	2008 – 2028	40,565,000	26,970,000
Series 2009 A, 3.25% – 5.00% dated October 29, 2009	2010 – 2029	11,960,000	9,900,000
Series 2010A, 2.50% – 5.00%, dated April 1, 2010	2010 – 2023	25,600,000	18,050,000
Series 2011A, 3.00% – 4.50%, dated October 26, 2011	2012 – 2031	33,000,000	30,715,000
Series 2013A, 2.00% – 5.00% dated June 13, 2013	2014 – 2033	30,290,000	30,290,000
Series 2014A, 1.98% dated June 19, 2014	2014 – 2024	<u>10,055,000</u>	<u>10,055,000</u>
		<u>\$ 255,055,000</u>	<u>\$ 187,175,000</u>

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

Total principal outstanding	\$ 187,175,000
Less current portion	<u>(19,205,000)</u>
Long-term portion	<u>\$ 167,970,000</u>

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:

**MAINE GOVERNMENTAL FACILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

Due Bond Year <u>Ending October 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 19,205,000	\$ 3,901,315	\$ 23,106,315
2015	19,020,000	7,099,578	26,119,578
2016	18,135,000	6,310,025	24,445,025
2017	17,665,000	5,525,076	23,190,076
2018	17,635,000	4,787,010	22,422,010
2019 – 2023	46,690,000	15,325,725	62,015,725
2024 – 2028	31,310,000	7,760,989	39,070,989
2029 – 2033	<u>17,515,000</u>	<u>1,931,718</u>	<u>19,446,718</u>
	<u>\$ 187,175,000</u>	<u>\$52,641,436</u>	<u>\$ 239,816,436</u>

The following summarizes bond payable activity for the Authority for the year ended June 30, 2014:

Balance, beginning of year	\$ 199,910,000
Issuances	10,055,000
Refunded bonds	(4,500,000)
Redemptions	<u>(18,290,000)</u>
Balance, end of year	<u>\$ 187,175,000</u>

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.

# MAINE GOVERNMENTAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

### 5. Refunding Issues (Continued)

A portion of the 2014A bonds totaling \$4,605,000, at an average interest rate of 1.98%, were used to in-substance defease \$4,500,000 in certain maturities of outstanding 2002 and 2003 bonds with an average interest rate of 4.75%. The net proceeds of approximately \$4,560,000, after payment of underwriting fees and other issuance costs, were used to purchase U.S. government securities which will provide for all future debt service payments on the defeased bonds. The economic benefits associated with the refunding inure to the lessee. The Authority reduced its aggregate debt service payments and the lessee's aggregate debt service payments by approximately \$302,000 over the next nine years, resulting in an economic gain (difference between the present value of the old and new debt service payments) to the lessee of approximately \$276,000.

At June 30, 2014, the remaining balance of in-substance defeased bonds total approximately \$4,500,000.

### 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 \$142,500 of expense under this arrangement in 2014 and owed the Bond Bank approximately \$14,000 at June 30, 2014.

### 7. Unearned Fees

Included in the unearned fees total of \$632,957 at June 30, 2014, is \$584,710 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, 2014, \$114,215 of previously unearned fees was included in administrative fee revenue.

### 8. Subsequent Events

On July 10, 2014, the Authority issued \$2,900,000 in General Resolution bonds. The coupon rate is 2.10% with maturities ranging from 2015 – 2024.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2014

	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
<b>Functions/Programs:</b>						
Maine Governmental Facilities Authority	\$(8,294,605)	\$8,376,988	\$ 105	\$ —	\$ —	\$ 82,488
Total	\$(8,294,605)	\$8,376,988	\$ 105	\$ —	\$ —	82,488
General revenues:						
Unrestricted interest and investment earnings						14,173
Total general revenues and extraordinary items						14,173
Change in net position						96,661
Net position, beginning of year						2,645,505
Net position, end of year						\$2,742,166