

Maine Governmental Facilities Authority

Basic Financial Statements and Management's Discussion and Analysis

*Year Ended June 30, 2020
With Independent Auditors' Report*

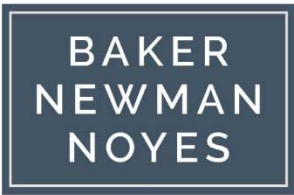
MAINE GOVERNMENTAL FACILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2020

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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, 2020, 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, 2020, 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.

Board of Commissioners
Maine Governmental Facilities Authority

Other Matter

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.

Baker Newman & Noyes LLC

Portland, Maine
August 28, 2020

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

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, 2020. 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 \$1,376,993 for fiscal year 2020, an increase of \$641,816 or 87.3% from fiscal year 2019.
- During 2020, the Authority transferred \$4,000,000 from the General Operating Account to the State of Maine. The amount has been treated as a special item outside of operating income on the 2020 statement of revenues, expenses and changes in net position.
- Net position in the Authority's Operating Account at June 30, 2020 was \$1,594,483. This represents a decrease of \$2,888,815 or 64.4% from the net position at June 30, 2019.
- The Authority's gross bonds outstanding at June 30, 2020 were \$381,865,000, bonds outstanding at June 30, 2020 increased \$147,790,000 from the balance at June 30, 2019. This is the net result of the issuance of 2020A \$170,995,000, less principal payments of \$23,205,000.
- The Authority's lease payments receivable from lessee at June 30, 2020 were \$381,812,815. The lease payments are closely related to the bonds outstanding. Therefore, the increase of approximately \$147,738,400 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 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, 2020

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. There were no arbitrage liabilities at June 30, 2020 and there were no arbitrage payments required to be made in fiscal 2020.

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 \$1,594,483 at June 30, 2020. This represents a decrease of \$2,888,815 or 64.4% from the previous fiscal year. This decrease is related primarily to a \$4,000,000 transfer of funds to the State of Maine in fiscal year 2020.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2020

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

GENERAL OPERATING ACCOUNT

Statements of Net Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Percentage Change</u>
Current assets:			
Cash and cash equivalents	\$ 636,695	\$1,419,394	(55.1)%
Investments	1,037,070	3,246,975	(68.1)
Accounts receivable	6,895	1,638	320.9
Accrued interest income receivable	<u>5,697</u>	<u>7,714</u>	<u>(26.1)</u>
Total assets	1,686,357	4,675,721	(63.9)
Current liabilities:			
Unearned fees	78,138	179,618	(56.5)
Accounts payable	<u>13,736</u>	<u>12,805</u>	<u>7.3</u>
Total liabilities	<u>91,874</u>	<u>192,423</u>	<u>(52.3)</u>
Net position – unrestricted	<u>\$1,594,483</u>	<u>\$4,483,298</u>	<u>(64.4)%</u>

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2020

GENERAL BOND RESOLUTION

Statements of Net Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Percentage Change</u>
Current assets:			
Cash and cash equivalents	\$ 68,471	\$ 39,752	72.2%
Lease payments receivable from lessee	21,631,581	23,256,581	(7.0)
Interest and other amounts receivable from lessee	<u>4,123,487</u>	<u>2,432,755</u>	<u>69.5</u>
Total current assets	25,823,539	25,729,088	0.4
Noncurrent assets:			
Lease payments receivable from lessee	<u>360,181,234</u>	<u>210,817,815</u>	<u>70.8</u>
Total assets	<u>386,004,773</u>	<u>236,546,903</u>	<u>63.2</u>
Deferred outflow of resources:			
Unamortized deferred loss on refunding	<u>2,069,757</u>	<u>2,624,331</u>	<u>(21.1)</u>
Current liabilities:			
Bonds payable	21,979,900	23,759,500	(7.5)
Accrued interest payable	<u>4,173,100</u>	<u>2,470,490</u>	<u>68.9</u>
Total current liabilities	26,153,000	26,229,990	(0.3)
Noncurrent liabilities:			
Bonds payable	<u>361,954,857</u>	<u>212,939,831</u>	<u>70.0</u>
Total liabilities	<u>388,107,857</u>	<u>239,169,821</u>	<u>62.3</u>
Net position – restricted	\$ <u>(33,327)</u>	\$ <u>1,413</u>	<u>(2,458.6)%</u>

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2020

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Percentage Change</u>
Operating revenues:			
Administrative fees	\$ 1,269,011	\$ 618,989	105.0%
Interest income from investments	83,135	73,471	13.2
Net increase in fair value of investments	<u>24,847</u>	<u>42,717</u>	<u>(41.8)</u>
Total operating revenues	1,376,993	735,177	87.3
Operating expenses:			
Administration	117,758	124,477	(5.4)
Professional and other fees	40,721	31,889	27.7
Insurance	87,720	82,550	6.3
Office	13,129	13,395	(2.0)
Accretion of interest on unearned fees	-	7,300	(100.0)
Other	<u>6,480</u>	<u>6,878</u>	<u>(5.8)</u>
Total operating expenses	<u>265,808</u>	<u>266,489</u>	<u>0.3</u>
Operating income	1,111,185	468,688	137.1
Transfer to State of Maine	<u>(4,000,000)</u>	<u>-</u>	<u>(100.0)</u>
Net (loss) income	(2,888,815)	468,688	(716.4)
Net position, beginning of year	<u>4,483,298</u>	<u>4,014,610</u>	<u>11.7</u>
Net position, end of year	<u>\$ 1,594,483</u>	<u>\$4,483,298</u>	<u>(64.4)%</u>

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2020

GENERAL BOND RESOLUTION

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Percentage Change</u>
Operating revenues:			
Received and receivable from lessee	\$12,647,924	\$ 9,512,704	33.0%
Interest income from investments	29,910	40,349	(25.9)
Other income	<u>1,742,441</u>	<u>629,305</u>	<u>176.9</u>
Total operating revenues	14,420,275	10,182,358	41.6
Operating expenses:			
Cost of issuance	1,742,441	629,305	176.9
Interest expense	<u>12,712,574</u>	<u>9,564,747</u>	<u>32.9</u>
Total operating expenses	<u>14,455,015</u>	<u>10,194,052</u>	<u>41.8</u>
Operating loss	(34,740)	(11,694)	(197.1)
Net position, beginning of year	<u>1,413</u>	<u>13,107</u>	<u>(89.2)</u>
Net position, end of year	\$ <u>(33,327)</u>	\$ <u>1,413</u>	<u>(2,458.6)%</u>

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2020

General Operating Account

Cash and cash equivalents and investments held in the General Operating Account decreased \$2,992,604 or 64.2% at June 30, 2020 compared to June 30, 2019. The decrease is primarily the result of the transfer of funds to the State of Maine.

Transfer to State of Maine of \$4,000,000 in fiscal year 2020 was a result of the Board of Commissioners approval to return funds back to the State of Maine.

Administrative fees in fiscal year 2020 increased by \$650,022 or 105.0%. The increase is primarily due to initial fees related to bond issuances within the General Bond Resolution, which are based upon the total par amount of bonds issued (\$170,995,000 in 2020 versus \$50,510,000 in 2019).

Net position decreased \$2,888,815 or 64.4% in fiscal year 2020. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses creating net operating income, which was offset by the \$4,000,000 transfer to the State of Maine.

The Maine Municipal Bond Bank (Bond Bank) administers and manages the Maine Governmental Facilities Authority program under the direction of the Authority's Board of Commissioners. The Authority reimburses the Bond Bank for its proportionate share of personnel services, office space, equipment rental, and other overhead expenses.

General Bond Resolution

Cash and cash equivalents held in the General Bond Resolution increased \$28,719 or 72.2% at June 30, 2020 compared to June 30, 2019. The increase is primarily the result of interest income earned during fiscal year 2020.

Unamortized deferred loss on refunding decreased \$554,574 or 21.1% at June 30, 2020 as compared to June 30, 2019. The amount relates entirely to the accounting loss recognized as part of the 2015A and 2016A refunding bond issuance, net of accumulated amortization.

Refer to "Financial Highlights" section on page 3 for change in outstanding bonds payable and lease payments receivable at June 30, 2020 as compared to June 30, 2019.

Interest expense on the bonds increased \$3,147,827 or 32.9% in fiscal year 2020 from 2019 based on the scheduled payments and higher outstanding average balances. As a result, interest and other amounts received from lessee increased in fiscal 2020 by \$3,135,220 or 33.0%.

Other income and cost of issuance expense each increased \$1,113,136 or 176.9%. The increase relates entirely to higher costs of issuance in 2020, which are reimbursed from the bond issuance accounts and are considered revenue to the general bond resolution.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all of those with an interest in its finances. Questions concerning any of the information provided in this report or requests 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, 2020

	<u>General Operating Account</u>	<u>General Bond Resolution</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents (note 3)	\$ 636,695	\$ 68,471	\$ 705,166
Investments (note 3)	1,037,070	-	1,037,070
Lease payments receivable from lessee	-	21,631,581	21,631,581
Interest and other amounts receivable from lessee	-	4,123,487	4,123,487
Accounts receivable	6,895	-	6,895
Accrued interest income receivable	<u>5,697</u>	<u>-</u>	<u>5,697</u>
Total current assets	1,686,357	25,823,539	27,509,896
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	<u>-</u>	<u>360,181,234</u>	<u>360,181,234</u>
Total assets	<u>1,686,357</u>	<u>386,004,773</u>	<u>387,691,130</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>			
Unamortized deferred loss on refunding (note 5)	<u>-</u>	<u>2,069,757</u>	<u>2,069,757</u>
<u>LIABILITIES</u>			
Current liabilities:			
Bonds payable, net (note 4)	-	21,979,900	21,979,900
Accrued interest payable	-	4,173,100	4,173,100
Unearned fees (note 7)	78,138	-	78,138
Accounts payable (note 6)	<u>13,736</u>	<u>-</u>	<u>13,736</u>
Total current liabilities	91,874	26,153,000	26,244,874
Noncurrent liabilities:			
Bonds payable (note 4)	<u>-</u>	<u>361,954,857</u>	<u>361,954,857</u>
Total liabilities	<u>91,874</u>	<u>388,107,857</u>	<u>388,199,731</u>
<u>NET POSITION</u>			
Restricted	-	(33,327)	(33,327)
Unrestricted	<u>1,594,483</u>	<u>-</u>	<u>1,594,483</u>
Total net position	<u>\$ 1,594,483</u>	<u>\$ (33,327)</u>	<u>\$ 1,561,156</u>

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2020

	General Operating <u>Account</u>	General Bond <u>Resolution</u>	<u>Total</u>
Operating revenues:			
Received and receivable from lessee	\$ -	\$12,647,924	\$12,647,924
Administrative fees (note 7)	1,269,011	-	1,269,011
Interest income from investments	83,135	29,910	113,045
Net increase in fair value of investments	24,847	-	24,847
Other income	<u>-</u>	<u>1,742,441</u>	<u>1,742,441</u>
Total operating revenues	1,376,993	14,420,275	15,797,268
Operating expenses (note 6):			
Interest expense	-	12,712,574	12,712,574
Cost of issuance	-	1,742,441	1,742,441
Administration	117,758	-	117,758
Professional and other fees	40,721	-	40,721
Insurance	87,720	-	87,720
Office	13,129	-	13,129
Other	<u>6,480</u>	<u>-</u>	<u>6,480</u>
Total operating expenses	<u>265,808</u>	<u>14,455,015</u>	<u>14,720,823</u>
Operating income (loss)	1,111,185	(34,740)	1,076,445
Transfer to State of Maine (note 2)	<u>(4,000,000)</u>	<u>-</u>	<u>(4,000,000)</u>
Net loss	(2,888,815)	(34,740)	(2,923,555)
Net position, beginning of year	<u>4,483,298</u>	<u>1,413</u>	<u>4,484,711</u>
Net position, end of year	\$ <u>1,594,483</u>	\$ <u>(33,327)</u>	\$ <u>1,561,156</u>

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2020

	<u>General Operating Account</u>	<u>General Bond Resolution</u>	<u>Total</u>
Operating activities:			
Cash received from lessee	\$ 1,162,272	\$ 34,213,773	\$ 35,376,045
Cash paid for operating expenses	(264,877)	-	(264,877)
Cash received from other income	-	1,742,441	1,742,441
Cash deposited to construction funds	-	(170,995,000)	(170,995,000)
Cash paid for bond issuance costs	-	<u>(1,742,441)</u>	<u>(1,742,441)</u>
Net cash provided (used) by operating activities	897,395	(136,781,227)	(135,883,832)
Noncapital financing activities:			
Bond premium deposited to construction funds	-	(30,314,321)	(30,314,321)
Proceeds from bonds payable	-	201,309,321	201,309,321
Principal paid on bonds payable	-	(23,205,000)	(23,205,000)
Interest paid on bonds payable	-	(11,009,964)	(11,009,964)
Transfer of funds to State of Maine	<u>(4,000,000)</u>	-	<u>(4,000,000)</u>
Net cash (used) provided by noncapital financing activities	(4,000,000)	136,780,036	132,780,036
Investing activities:			
Purchases of investment securities	(6,005,618)	-	(6,005,618)
Proceeds from sales and maturities of investment securities	8,240,370	-	8,240,370
Cash received from interest income	<u>85,154</u>	<u>29,910</u>	<u>115,064</u>
Net cash provided by investing activities	<u>2,319,906</u>	<u>29,910</u>	<u>2,349,816</u>
(Decrease) increase in cash and cash equivalents	(782,699)	28,719	(753,980)
Cash and cash equivalents at beginning of year	<u>1,419,394</u>	<u>39,752</u>	<u>1,459,146</u>
Cash and cash equivalents at end of year	\$ <u>636,695</u>	\$ <u>68,471</u>	\$ <u>705,166</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 1,111,185	\$ (34,740)	\$ 1,076,445
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Amortization of unearned fees and costs	(114,214)	-	(114,214)
Interest expense	-	12,712,574	12,712,574
Interest income	(83,135)	(29,910)	(113,045)
Net increase in fair value of investments	(24,847)	-	(24,847)
Changes in operating assets and liabilities:			
Interest and other amounts receivable from lessee	-	(1,690,732)	(1,690,732)
Accounts receivable	(5,257)	-	(5,257)
Accounts payable	931	-	931
Other unearned fees	12,732	-	12,732
Lease payments receivable from lessee	-	<u>(147,738,419)</u>	<u>(147,738,419)</u>
Net cash provided (used) by operating activities	\$ <u>897,395</u>	\$ <u>(136,781,227)</u>	\$ <u>(135,883,832)</u>

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 \$701,135,000 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. This arrangement, which is renewed each year as part of the budget process, apportions staff, office space and other shared costs to the Authority and provides the Authority with an economic benefit by sharing these costs with a similar organization. The Authority also has direct operating expenses that it pays through the General Operating Account Fund Group.

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.

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, 2020

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.

There was no arbitrage rebate expense for the year ended June 30, 2020.

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, 2020

2. Significant Accounting Policies (Continued)

Bond Discounts, Premiums and Issuance Cost

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. For each refunding, bond premiums are presented as an increase to the face amount of the bonds payable.

Refundings

Under GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt, or the life of the new debt, whichever is shorter, using the bonds outstanding method. The unamortized portion of the deferred amount is reported as a deferred outflow of resources. Amortization for the twelve months ending June 30, 2020 was \$554,574.

The gains, losses and economic benefits of advance refundings completed within the General Bond Resolution inure to the State of Maine and not the Authority. See note 5.

Special Items

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence and are reported outside of the operating indicator on the statement of revenues, expenses and changes in net position. During the year ended June 30, 2020, the Board of Commissioners voted to transfer funds of \$4,000,000 in the General Operating Account to the State of Maine, which qualifies as a special item.

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.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

2. **Significant Accounting Policies (Continued)**

Recently Issued Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. This statement requires government entities that are lessees to recognize the following: (a) a lease liability and (b) an intangible asset representing the lessee's right to use the leased asset, and report in its financial statements: (a) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset; (b) interest expense on the lease liability; and (c) note disclosures about the lease. Government entities that are lessors must recognize the following: (a) a lease receivable and (b) a deferred inflow of resources and continue to report the leased asset in its financial statements, and report in its financial statements: (a) lease revenue, recognized over the term of the lease, corresponding with the reduction of the deferred inflow; (b) interest income on the receivable; and (c) note disclosures about the lease. The statement provides exceptions from the single-approach for short-term leases, financial purchases, leases of assets that are investments, and certain regulated leases. The statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, nonlease components embedded in lease contracts (such as service agreements), and leases with related parties. In May 2020, GASB issued Statement No. 95, which delayed the effective date of Statement No. 87 to reporting periods beginning after June 15, 2021. The Authority is currently evaluating the impact of the pending adoption of this statement on its financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this statement is to eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. The Statement clarifies the existing definition of a conduit debt obligations establishing that a conduit debt obligation is not a liability of the issuer, and establishes standards for accounting and financial reporting of additional and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improves required note disclosures. In May 2020, GASB issued Statement No. 95 which, delayed the effective date of Statement No. 91 to reporting periods beginning after December 15, 2021. The Authority is currently evaluating the impact of the pending adoption of this statement 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.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

3. Investments and Cash and Cash Equivalents (Continued)

At June 30, 2020, investments and cash and cash equivalents are as follows (at fair value):

General operating account:	
U.S. Government obligations	\$1,037,070
Cash and cash equivalents	<u>636,695</u>
	<u>\$1,673,765</u>
General bond resolution:	
Cash and cash equivalents	<u>\$ 68,471</u>

The following table provides information on future maturities of the Authority's investment in U.S. Government obligations as of June 30, 2020:

	<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 obligations	<u>\$1,037,070</u>	<u>\$ —</u>	<u>\$1,037,070</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 Bangor Savings Bank, Camden National Bank and Wilmington Trust. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2020.

The cash of the general operating account at June 30, 2020, consists of a \$250,000 insured deposit and \$1,579 of uninsured deposits with Camden National Bank. Cash equivalents consist of \$385,116 in money market funds secured by short-term U.S. Treasury obligations.

Cash and cash equivalents of the General Bond Resolution at June 30, 2020 consist primarily of money market funds secured by short-term U.S. Treasury obligations.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2020, the Authority had authorized and has outstanding the following series and amounts of revenue bonds, with original interest rates and maturity dates:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2020</u>
Series 2010 A, 2.50% – 5.00%, dated April 1, 2010	2010 – 2023	\$ 25,600,000	\$ 4,040,000
Series 2011 A, 3.00% – 4.50%, dated October 26, 2011	2012 – 2031	33,000,000	22,605,000
Series 2013A, 2.00% – 5.00%, dated June 13, 2013	2014 – 2033	30,290,000	23,785,000
Series 2014A, 1.98%, dated June 19, 2014	2014 – 2024	10,055,000	3,710,000
Series 2014B, 2.10%, dated July 10, 2014	2015 – 2024	2,900,000	1,530,000
Series 2015A, 3.00% – 5.00%, dated July 16, 2015	2015 – 2023	41,115,000	475,000
Series 2015B, 2.00% – 5.00%, dated November 19, 2015	2016 – 2025	21,190,000	13,830,000
Series 2016A, 3.00% – 5.00%, dated October 6, 2016	2018 – 2029	24,950,000	22,435,000
Series 2016B, 3.00% – 5.00%, dated October 6, 2016	2017 – 2036	17,980,000	15,175,000
Series 2017A, 2.50% – 5.00%, dated August 24, 2017	2018 – 2037	58,535,000	54,675,000
Series 2018A, 3.50% – 5.00%, dated September 27, 2018	2019 – 2038	50,510,000	48,610,000
Series 2020 A, 2.50% – 5.00%, dated January 16, 2020	2020 – 2039	<u>170,995,000</u>	<u>170,995,000</u>
		<u>\$ 487,120,000</u>	<u>\$ 381,865,000</u>

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

Total principal outstanding	\$ 381,865,000
Unamortized original issue premium on refunding bonds	<u>2,069,757</u>
Total bonds payable	383,934,757
Current portion	<u>21,979,900</u>
Noncurrent portion	<u>\$ 361,954,857</u>

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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</u> <u>Year Ending October 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 21,535,000	\$ 8,346,125	\$ 29,881,125
2021	20,470,000	15,809,886	36,279,886
2022	20,705,000	14,928,852	35,633,852
2023	20,955,000	13,994,905	34,949,905
2024	21,525,000	13,115,649	34,640,649
2025– 2029	99,390,000	51,295,162	150,685,162
2030 – 2034	92,855,000	29,692,566	122,547,566
2035 – 2039	<u>84,430,000</u>	<u>9,714,588</u>	<u>94,144,588</u>
	<u>\$ 381,865,000</u>	<u>\$ 156,897,733</u>	<u>\$ 538,762,733</u>

The following summarizes bond payable activity for the Authority for the year ended June 30, 2020:

Balance, beginning of year	\$ 236,699,331
Issuances – face value	170,995,000
Amortization of premium on refunding bonds	(554,574)
Redemptions	<u>(23,205,000)</u>
Balance, end of year	<u>\$ 383,934,757</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. The Authority accounts for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and records a deferred amount on refunding. 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, 2020, there were no in-substance defeased bonds remaining in the General Resolution.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

6. Operating Expenses

The Authority has an arrangement with Maine Municipal Bond Bank which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead. The arrangement is approved annually by the Board through the budgetary approval process. The Authority recognized approximately \$214,000 of expense under this arrangement in 2020, and owed the Bond Bank \$11,394 at June 30, 2020.

7. Unearned Fees

In prior years, the executive branch of the State of Maine made advance payment of the present value of all future required annual fees on certain bond issues. These amounts were amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2020, the final amount of \$114,214 of previously unearned income under this arrangement was included in administrative fee revenue. Remaining unearned fees of \$78,138 at June 30, 2020, represent the portion of annual fees paid in the current fiscal year that relate to the following fiscal year.

8. Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

Level 2 – Inputs to the valuation method include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

8. **Fair Value Measurements (Continued)**

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques).

Each asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

U.S. Government obligations: Fair value is determined based on quoted prices in active markets, or by using broker or dealer quotations, external pricing providers, or alternative pricing sources with reasonable levels of price transparency.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Authority believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Authority’s assets carried at fair value on a recurring basis as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>General Operating Account</u>				
U.S. Government obligations	\$ <u>—</u>	\$ <u>1,037,070</u>	\$ <u>—</u>	\$ <u>1,037,070</u>