Maine Governmental Facilities Authority

Basic Financial Statements and
Management's Discussion and Analysis

Year Ended June 30, 2017
With Independent Auditors' Report

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority

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, 2017, 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. 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, 2017, 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 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.

Baker Newman & Noyes LLC

Portland, Maine
September 5, 2017

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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, 2017. 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 $553,925 for fiscal year 2017, a decrease of $65,981 or 10.6% from fiscal year 2016.
- Net position in the Authority's Operating Account at June 30, 2017 was $3,628,422. This represents an increase of $294,333 or 8.8% over the net position at June 30, 2016.
- The Authority's gross bonds outstanding at June 30, 2017 were $167,435,000, a $3,415,000 decrease from the balance at June 30, 2016. This is the net result of the issuance of 2016A and 2015B bonds totaling $42,930,000, less principal payments of $19,525,000 and refunded bonds totaling $26,820,000.
- The Authority's lease payments receivable from lessee at June 30, 2017 were $167,407,558. The lease payments are closely related to the bonds outstanding. Therefore, the decrease of approximately $3,300,000 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 receives 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 administration 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, as necessary. 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, 2017 and there were no arbitrage payments required to be made in fiscal year 2017.

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 $3,628,422 at June 30, 2017. This represents an increase of $294,333 or 8.8% over the previous fiscal year. This increase is related to operating revenues exceeding operating expenses in fiscal year 2017.

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

GENERAL OPERATING ACCOUNT

Statements of Net Position
June 30, 2017 and 2016

	2017	2016	Percentage Change
Current assets:			
Cash and cash equivalents	$ 859,054	$ 624,165	37.6%
Investments	3,144,519	3,169,052	(0.8)
Other assets	5,000	–	–
Accrued interest income receivable	8,211	7,007	17.2
Total assets	4,016,784	3,800,224	5.7
Current liabilities:			
Unearned fees	155,545	136,129	14.3
Accounts payable	11,690	8,794	32.9
Total current liabilities	167,235	144,923	15.4
Noncurrent liabilities:			
Unearned fees	221,127	321,212	(31.2)
Total liabilities	388,362	466,135	(16.7)
Net position – unrestricted	$3,628,422	$3,334,089	8.8%

GENERAL BOND RESOLUTION

Statements of Net Position
June 30, 2017 and 2016

	2017	2016	Percentage Change
Current assets:			
Cash and cash equivalents	$ 46,967	$ 125,058	(62.4)%
Lease payments receivable from lessee	20,196,581	19,322,240	4.5
Interest and other amounts receivable from lessee	1,705,639	1,750,520	(2.6)
Total current assets	21,949,187	21,197,818	3.5
Noncurrent assets:			
Lease payments receivable from lessee	147,210,977	151,412,659	(2.8)
Total assets	169,160,164	172,610,477	(2.0)
Deferred outflow of resources:			
Unamortized deferred loss on refunding	4,435,191	1,522,559	191.3
Current liabilities:			
Bonds payable	21,249,700	20,220,700	5.1
Accrued interest payable	1,718,607	1,759,535	(2.3)
Total current liabilities	22,968,307	21,980,235	4.5
Noncurrent liabilities:			
Bonds payable	150,620,491	152,151,859	(1.0)
Total liabilities	173,588,798	174,132,094	(0.3)
Net position – restricted	$ 6,557	$ 942	596.1%

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, 2017 and 2016

	2017	**2016**	**Percentage Change**
Operating revenues:			
Administrative fees	$ 537,683	$ 598,781	(10.2)%
Interest income from investments	39,476	30,431	29.7
Net decrease in fair value of investments	(23,234)	(9,306)	149.7
Total operating revenues	553,925	619,906	(10.6)
Operating expenses:			
Salaries	77,214	59,650	29.4
Employee benefits	37,955	29,327	29.4
Professional and other fees	39,924	32,588	22.5
Insurance	63,572	59,897	6.1
Office	13,000	9,752	33.3
Accretion of interest on unearned fees	20,524	26,510	(22.6)
Other	7,403	6,348	16.6
Total operating expenses	259,592	224,072	15.9
Operating income	294,333	395,834	(25.6)
Net position, beginning of year	3,334,089	2,938,255	13.5
Net position, end of year	$3,628,422	$3,334,089	8.8%

GENERAL BOND RESOLUTION

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2017 and 2016

	2017	2016	Percentage Change
Operating revenues:			
Received and receivable from lessee	$6,893,387	$6,945,838	(0.8)%
Interest income from investments	3,698	543	581.0
Other income	548,549	763,895	(28.2)
Total operating revenues	7,445,634	7,710,276	(3.4)
Operating expenses:			
Interest expense	6,891,470	6,920,646	(0.4)
Costs of issuance	548,549	763,895	(28.2)
Total operating expenses	7,440,019	7,684,541	(3.2)
Operating income	5,615	25,735	(78.2)
Net position, beginning of year	942	(24,793)	103.8
Net position, end of year	$ 6,557	$ 942	596.1%

General Operating Account

Cash and cash equivalents held in the General Operating Account increased $234,889 or 37.6% at June 30, 2017 compared to June 30, 2016. The increase is the primary result of current year net operating income that has yet to be invested.

Unearned fees decreased $80,669 or 17.6% from 2016 primarily as a result of amortization of fees collected in advance in prior years (see note 7 in financial statements).

Administrative fees in fiscal year 2017 decreased by $61,098 or 10.2%. The decrease 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 ($42,930,000 in 2017 versus $62,305,000 in 2016).

Salaries and employee benefits increased by $17,564 and $8,628, respectively, or 29.4% in fiscal year 2017 due to a shift of labor allocation from other Authorities as a result of increased activity.

Net position increased $294,333 or 8.8% in fiscal year 2017. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

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

Cash and cash equivalents held in the General Bond Resolution decreased $78,091 or 62.4% at June 30, 2017 compared to June 30, 2016. The decrease is the result of bond debt service payments made during fiscal year 2017.

Unamortized deferred loss on refunding increased $2,912,632 or 191.3% at June 30, 2017 as compared to June 30, 2106. The increase is attributed to the accounting loss recognized on the 2016A refunding bond issue. Refer to note 5 in the financial statements for additional information.

Other income and cost of issuance expense each decreased $215,346 or 28.2%. The decrease relates entirely to lower costs of issuances in 2017, 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 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, 2017

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$ 859,054	$ 46,967	$ 906,021
Investments (note 3)	3,144,519	–	3,144,519
Lease payments receivable from lessee (note 4)	–	20,196,581	20,196,581
Interest and other amounts receivable from lessee	–	1,705,639	1,705,639
Other assets	5,000	–	5,000
Accrued interest income receivable	8,211	–	8,211
Total current assets	4,016,784	21,949,187	25,965,971
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	147,210,977	147,210,977
Total assets	4,016,784	169,160,164	173,176,948
DEFERRED OUTFLOW OF RESOURCES			
Unamortized deferred loss on refunding (note 5)	–	4,435,191	4,435,191
LIABILITIES			
Current liabilities:			
Bonds payable (note 4)	–	21,249,700	21,249,700
Accrued interest payable	–	1,718,607	1,718,607
Unearned fees (note 7)	155,545	–	155,545
Accounts payable (note 6)	11,690	–	11,690
Total current liabilities	167,235	22,968,307	23,135,542
Noncurrent liabilities:			
Bonds payable (note 4)	–	150,620,491	150,620,491
Unearned fees (note 7)	221,127	–	221,127
Total noncurrent liabilities	221,127	150,620,491	150,841,618
Total liabilities	388,362	173,588,798	173,977,160
NET POSITION:			
Restricted	–	6,557	6,557
Unrestricted	3,628,422	–	3,628,422
Total net position	$3,628,422	$ 6,557	$ 3,634,979

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2017

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$6,893,387	$6,893,387
Administrative fees (note 7)	537,683	–	537,683
Interest income from investments	39,476	3,698	43,174
Net decrease in fair value of investments	(23,234)	–	(23,234)
Other income	–	548,549	548,549
Total operating revenues	553,925	7,445,634	7,999,559
Operating expenses (note 6):			
Interest expense	–	6,891,470	6,891,470
Costs of issuance	–	548,549	548,549
Salaries	77,214	–	77,214
Employee benefits	37,955	–	37,955
Professional and other fees	39,924	–	39,924
Insurance	63,572	–	63,572
Office	13,000	–	13,000
Accretion of interest on unearned fees (note 7)	20,524	–	20,524
Other	7,403	–	7,403
Total operating expenses	259,592	7,440,019	7,699,611
Operating income	294,333	5,615	299,948
Net position, beginning of year	3,334,089	942	3,335,031
Net position, end of year	$3,628,422	$ 6,557	$3,634,979

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2017

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 431,490	$ 26,375,609	$ 26,807,099
Cash received from other income	–	548,549	548,549
Cash deposited to construction funds	–	(17,980,000)	(17,980,000)
Cash paid for bond issuance costs	–	(548,549)	(548,549)
Cash paid for operating expenses	(236,172)	–	(236,172)
Net cash provided by operating activities	195,318	8,395,609	8,590,927
Noncapital financing activities:			
Proceeds from bonds payable	–	46,804,986	46,804,986
Deposit paid to refunding escrow	–	(28,824,986)	(28,824,986)
Principal paid on bonds payable	–	(19,525,000)	(19,525,000)
Interest paid on bonds payable	–	(6,932,398)	(6,932,398)
Net cash used by noncapital financing activities	–	(8,477,398)	(8,477,398)
Investing activities:			
Purchases of investment securities	(998,700)	–	(998,700)
Proceeds from sales and maturities of investment securities	1,000,000	–	1,000,000
Cash received from interest income	38,271	3,698	41,969
Net cash provided by investing activities	39,571	3,698	43,269
Increase (decrease) in cash and cash equivalents	234,889	(78,091)	156,798
Cash and cash equivalents at beginning of year	624,165	125,058	749,223
Cash and cash equivalents at end of year	$ 859,054	$ 46,967	$ 906,021
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 294,333	$ 5,615	$ 299,948
Adjustments to reconcile operating income to net cash provided by operating activities:			
Accretion of interest on unearned fees	20,524	–	20,524
Amortization of unearned fees and costs	(114,215)	–	(114,215)
Interest expense	–	6,891,470	6,891,470
Interest income	(39,476)	(3,698)	(43,174)
Net decrease in fair value of investments	23,234	–	23,234
Changes in operating assets and liabilities:			
Interest and other amounts receivable from lessee	–	44,881	44,881
Accounts payable	2,896	–	2,896
Other unearned fees	13,022	–	13,022
Other assets	(5,000)	–	(5,000)
Lease payments receivable from lessee	–	1,457,341	1,457,341
Net cash provided by operating activities	$ 195,318	$ 8,395,609	$ 8,590,927

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 $616,135,000 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 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. 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.

There was no arbitrage rebate expense for the year ended June 30, 2017.

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 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 year ended June 30, 2017 was $962,354.

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.

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 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. The statement is effective for reporting periods beginning after December 15, 2019, with earlier application permitted. 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.

At June 30, 2017**,** investments and cash and cash equivalents are as follows (at fair value):

General operating account:	
U.S. Government-sponsored enterprise bonds	$3,144,519
Cash and cash equivalents	859,054
	$4,003,573
General bond resolution:	
Cash and cash equivalents	$ 46,967

The following table provides information on future maturities of the Authority's investment in U.S. Government sponsored enterprises as of June 30, 2017:

	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 enterprise bonds	$3,144,519	$1,152,399	$1,992,120	$ –	$ –

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, 2017.

The cash of the general operating account at June 30, 2017 consists of $250,000 insured deposit and $422,217 of uninsured deposits with Camden National Bank. Cash equivalents consist of $186,837 in money market funds secured by short-term U.S. Treasury obligations.

Cash and cash equivalents of the General Bond Resolution at June 30, 2017 consist primarily of money market funds secured by short-term U.S. Treasury obligations.

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2017, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2017
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	$ 10,985,000	$ 580,000
Series 2008 A, 4.00% – 5.00%, dated June 19, 2008	2008 – 2028	40,565,000	4,940,000
Series 2009 A, 3.25% – 5.00%, dated October 29, 2009	2010 – 2029	11,960,000	1,725,000
Series 2010 A, 2.50% – 5.00% dated April 1, 2010	2010 – 2023	25,600,000	11,700,000
Series 2011 A, 3.00% – 4.50% dated October 26, 2011	2012 – 2031	33,000,000	26,870,000
Series 2013A, 2.00% – 5.00% dated June 13, 2013	2014 – 2033	30,290,000	27,195,000
Series 2014A, 1.98% dated June 19, 2014	2014 – 2024	10,055,000	6,000,000
Series 2014B, 2.10% dated July 10, 2014	2015 – 2024	2,900,000	2,380,000
Series 2015A, 3.00% – 5.00% dated July 16, 2015	2015 – 2023	41,115,000	23,520,000
Series 2015B, 2.00% – 5.00% dated November 19, 2015	2016 – 2025	21,190,000	19,595,000
Series 2016A, 3.00% – 5.00% dated October 6, 2016	2018 – 2029	24,950,000	24,950,000
Series 2016B, 3.00% – 5.00% dated October 6, 2016	2017 – 2036	17,980,000	17,980,000
		$ 270,590,000	$ 167,435,000

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

Total principal outstanding	$ 167,435,000
Unamortized original issue premium on refunding bonds	4,435,191
Total bonds payable	171,870,191
Current portion	21,249,700
Noncurrent portion	$ 150,620,491

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 lessee) with interest paid semiannually:

Due Bond Year Ending October 1	Principal	Interest	Total
2017	$ 20,235,000	$ 3,437,216	$ 23,672,216
2018	20,265,000	6,073,440	26,338,440
2019	19,350,000	5,208,269	24,558,269
2020	12,275,000	4,384,957	16,659,957
2021	10,785,000	3,904,742	14,689,742
2022 – 2026	48,315,000	13,304,301	61,619,301
2027 – 2031	28,175,000	5,016,162	33,191,162
2032 – 2036	8,035,000	678,950	8,713,950
	$ 167,435,000	$42,008,037	$ 209,443,037

The following summarizes bond payable activity for the Authority for the year ended June 30, 2017:

Balance, beginning of year	$ 172,372,559
Issuances – face value	42,930,000
Premiums on refunding bonds	3,874,986
Amortization of premium on refunding bonds	(962,354)
Refunded bonds	(26,820,000)
Redemptions	(19,525,000)
Balance, end of year	$ 171,870,191

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.

5. Refunding Issues (Continued)

On October 6, 2016 the Authority issued $24,950,000 in 2016A bonds with an average coupon rate of 4.39%, to in-substance defease a total of $26,820,000 of 2007A, 2008A and 2009A series bonds. The net proceeds of approximately $28,825,000 after payment of underwriting fees and other issuance costs, were used to purchase U.S. Government securities which will provide for all debt service payments on defeased bonds through their respective call dates, from fiscal year 2018 through fiscal year 2020. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately $3.9 million in the year ended June 30, 2017, the Authority in effect reduced aggregate debt service approximately $3.0 million over the next thirteen years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $2.7 million. The gain and economic benefit of this transaction inure to the lessee and not the Authority.

At June 30, 2017, the remaining balances of the General Bond Resolution in-substance defeased bonds totaled $26,820,000.

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 $187,000 of expense under this arrangement in 2017, and owed the Bond Bank approximately $11,600 at June 30, 2017.

7. Unearned Fees

Included in the unearned fees total of $376,672 at June 30, 2017, is $321,212 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, 2017, $114,215 of previously unearned fees was included in administrative fee revenue.

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.

8. Fair Value Measurements (Continued)

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.

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-sponsored enterprise bonds: 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, 2017:

	Level 1	Level 2	Level 3	Total
General Operating Account				
U.S. Government-sponsored enterprise bonds	$ –	$3,144,519	$ –	$3,144,519

9. Subsequent Events

On August 24, 2017, the Authority issued $58,535,000 in General Resolution bonds. The average coupon rate is 4.08% with maturities ranging from 2018 – 2037.