

Maine Governmental Facilities Authority

Basic Financial Statements and Management's Discussion and Analysis

*Year Ended June 30, 2021
With Independent Auditors' Report*

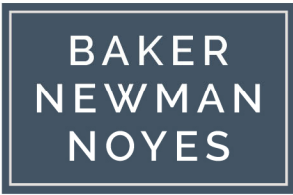
MAINE GOVERNMENTAL FACILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2021

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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, 2021, 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, 2021, 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
September 15, 2021

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021

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, 2021. This discussion and analysis is designed to assist the reader in focusing on the significant financial matters 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 \$620,486 for fiscal year 2021, a decrease of \$756,507 or 54.9% from fiscal year 2020. On June 10, 2021, the Authority's Board of Commissioners (the Board) adopted a Revenue Neutral Fee Policy to ensure continuous operations of the Authority while eliminating surplus cash accumulation. This policy will result in the Authority continuing to spend down previously accumulated surplus until the target reserve balance is achieved.
- Net position in the Authority's Operating Account at June 30, 2021 was \$1,929,745. This represents an increase of \$335,262 or 21.0% over the net position at June 30, 2020.
- The Authority's gross bonds outstanding at June 30, 2021 were \$376,160,000. Bonds outstanding at June 30, 2021 decreased \$5,705,000 from the balance at June 30, 2020. This is the net result of the issuance of 2021A and 2021B bonds totaling \$50,140,000, less principal payments of \$21,535,000 and refunded bonds totaling \$34,310,000.
- The Authority's lease payments receivable from lessee at June 30, 2021 were \$376,011,234. The lease payments are closely related to the bonds outstanding. Therefore, the decrease of \$5,801,581 from the balance at June 30, 2020 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, a component unit of the State of Maine, funds the entirety of its operations through loan servicing and administrative fees from the judicial, legislative, and executive branches of the State of Maine. The administrative fees for new bond issues are unpredictable and dependent upon the project funding needs of the State while the loan servicing fees occur annually and are easy to forecast. Past practice of the Authority was to allow surplus funds to accumulate in the Operating Account to ensure funds for continuous operations.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2021

On June 10, 2021, the Board approved a proposed revenue neutral policy that would provide enough flexibility for continuous operation but would not accumulate any surplus beyond 3 years of budgeted operations (margin of safety). When the net position grows beyond the required margin of safety balance, the Authority will waive annual fees, new issuance fees, or both in order to bring the fund to the target balance. The revenue neutral policy effectively caps the net position of the Authority at \$1.3 million for fiscal year 2022 and puts a new position floor of \$750,000. The stability of the Authority's bond portfolio allows for the effective execution of this policy.

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. However, the value of net position is less significant in a revenue neutral policy environment. The key indicator of financial strength for the Authority is the value of its lease portfolio whereby the lease portfolio predicts realizable annual fees. The stability of the total lease assets allows for the smooth execution of the revenue neutral policy. The current net position is \$1,929,745 – a surplus of approximately \$600,000 to the \$1.3 million upper target.

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 \$1,929,745 at June 30, 2021. This represents an increase of \$335,262 or 21.0% over the previous fiscal year. This increase is related to operating revenues exceeding operating expenses in fiscal year 2021. This 21.0% growth within the general operating account led to the adoption of the Revenue Neutral Fee Policy by the Board.

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

June 30, 2021

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

GENERAL OPERATING ACCOUNT

Statements of Net Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>	<u>Percentage Change</u>
Current assets:			
Cash and cash equivalents	\$ 1,008,390	\$ 636,695	58.4%
Investments	1,017,110	1,037,070	(1.9)
Accounts receivable	–	6,895	(100.0)
Other assets	8,000	–	100.0
Accrued interest income receivable	<u>4,761</u>	<u>5,697</u>	<u>(16.4)</u>
Total assets	2,038,261	1,686,357	20.9
Current liabilities:			
Unearned fees	96,421	78,138	23.4
Accounts payable	<u>12,095</u>	<u>13,736</u>	<u>(11.9)</u>
Total liabilities	<u>108,516</u>	<u>91,874</u>	<u>18.1</u>
Net position – unrestricted	<u>\$1,929,745</u>	<u>\$1,594,483</u>	<u>21.0%</u>

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2021

GENERAL BOND RESOLUTION

Statements of Net Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>	<u>Percentage Change</u>
Current assets:			
Cash and cash equivalents	\$ 209,442	\$ 68,471	205.9%
Lease payments receivable from lessee	19,039,961	21,631,581	(12.0)
Interest and other amounts receivable from lessee	<u>3,840,148</u>	<u>4,123,487</u>	<u>(6.9)</u>
Total current assets	23,089,551	25,823,539	(10.6)
Noncurrent assets:			
Lease payments receivable from lessee	<u>356,971,273</u>	<u>360,181,234</u>	<u>(0.9)</u>
Total assets	<u>380,060,824</u>	<u>386,004,773</u>	<u>(1.5)</u>
Deferred outflow of resources:			
Unamortized deferred loss on refunding	<u>1,624,844</u>	<u>2,069,757</u>	<u>(21.5)</u>
Current liabilities:			
Bonds payable	19,388,200	21,979,900	(11.8)
Accrued interest payable	<u>3,887,787</u>	<u>4,173,100</u>	<u>(6.8)</u>
Total current liabilities	23,275,987	26,153,000	(11.0)
Noncurrent liabilities:			
Bonds payable	<u>358,396,644</u>	<u>361,954,857</u>	<u>(1.0)</u>
Total liabilities	<u>381,672,631</u>	<u>388,107,857</u>	<u>(1.7)</u>
Net position – restricted	\$ <u>13,037</u>	\$ <u>(33,327)</u>	<u>139.1%</u>

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2021

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>	<u>Percentage Change</u>
Operating revenues:			
Administrative fees	\$ 618,101	\$1,269,011	(51.3)%
Interest income from investments	22,240	83,135	(73.2)
Net (decrease) increase in fair value of investments	<u>(19,855)</u>	<u>24,847</u>	<u>(179.9)</u>
Total operating revenues	620,486	1,376,993	(54.9)
Operating expenses:			
Administration	139,554	117,758	18.5
Professional and other fees	35,695	40,721	(12.3)
Insurance	92,380	87,720	5.3
Office	13,505	13,129	2.9
Other	<u>4,090</u>	<u>6,480</u>	<u>(36.9)</u>
Total operating expenses	<u>285,224</u>	<u>265,808</u>	<u>7.3</u>
Operating income	335,262	1,111,185	(69.8)
Transfer to State of Maine	<u>—</u>	<u>(4,000,000)</u>	<u>100.0</u>
Change in net position	335,262	(2,888,815)	111.6
Net position, beginning of year	<u>1,594,483</u>	<u>4,483,298</u>	<u>(64.4)</u>
Net position, end of year	<u>\$1,929,745</u>	<u>\$1,594,483</u>	<u>21.0%</u>

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2021

GENERAL BOND RESOLUTION

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>	<u>Percentage Change</u>
Operating revenues:			
Received and receivable from lessee	\$15,768,316	\$12,647,924	24.7%
Interest income from investments	288	29,910	(99.0)
Other income (see note below)	<u>618,751</u>	<u>1,742,441</u>	<u>(64.5)</u>
Total operating revenues	16,387,355	14,420,275	13.6
Operating expenses:			
Cost of issuance	618,751	1,742,441	(64.5)
Interest expense	<u>15,722,240</u>	<u>12,712,574</u>	<u>23.7</u>
Total operating expenses	<u>16,340,991</u>	<u>14,455,015</u>	<u>13.0</u>
Operating income (loss)	46,364	(34,740)	233.5
Net position, beginning of year	<u>(33,327)</u>	<u>1,413</u>	<u>(2,458.6)</u>
Net position, end of year	\$ <u><u>13,037</u></u>	\$ <u><u>(33,327)</u></u>	<u><u>139.1%</u></u>

Note: Other income represents funds received from the bond issue to pay cost of issuance expenses for the issue.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2021

General Operating Account

Cash and cash equivalents held in the General Operating Account increased \$371,695 or 58.4% at June 30, 2021 compared to June 30, 2020. The increase is the primary result of operating income at June 30, 2021 that has not been invested awaiting improved market conditions.

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 to the State of Maine. This transfer prompted the Board to approve the Revenue Neutral Fee Policy to avoid future transfers to the State of Maine.

Administrative fees in fiscal year 2021 decreased by \$650,910 or 51.3%. 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 (\$50,140,000 in 2021 versus \$170,995,000 in 2020). The Authority anticipates that it will not be charging administrative fees in the coming years as it implements the Revenue Neutral Fee Policy.

Net position increased \$335,262 or 21.0% in fiscal year 2021. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses. However, the Authority is projecting that as a result of the implementation of the Revenue Neutral Fee Policy, that the net position will decrease during fiscal 2022, 2023 and 2024 to the target level of the policy.

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, employee benefits, office space, equipment rental and other miscellaneous costs.

General Bond Resolution

Cash and cash equivalents held in the General Bond Resolution increased \$140,971 or 205.9% at June 30, 2021 compared to June 30, 2020. The increase is primarily related to payments received from the lessee in excess of required debt service payments on the 2010A Series bonds as previously described.

Unamortized deferred loss on refunding decreased \$444,913 or 21.5% at June 30, 2021 as compared to June 30, 2020 due to scheduled amortization. The amount relates entirely to the accounting loss recognized as part of the 2015A and 2016A refunding bond issuance net of accumulated amortization. The loss is based just on the principal of the refunding bonds versus the principal balance of the bonds refunded. The refunding of the 2015A and 2016A bonds resulted in net savings which inure to the lessee (State) and not the Authority.

Refer to "Financial Highlights" section on page 3 for change in outstanding bonds payable and lease payments receivable at June 30, 2021 as compared to June 30, 2020.

Interest expense on the bonds increased \$3,009,666 or 23.7% in fiscal year 2021 from 2020 based on the scheduled payments and higher outstanding average balances. As a result, interest and other amounts received from lessee increased in fiscal 2021 by \$3,120,392 or 24.7%.

Other income and cost of issuance expense each decreased \$1,123,690 or 64.5%. The decrease relates entirely to lower costs of issuance in 2021, which are reimbursed from the bond issuance accounts and are considered revenue to the general bond resolution.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2021

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 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, 2021

	<u>General Operating Account</u>	<u>General Bond Resolution</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents (note 3)	\$ 1,008,390	\$ 209,442	\$ 1,217,832
Investments (note 3)	1,017,110	-	1,017,110
Lease payments receivable from lessee	-	19,039,961	19,039,961
Interest and other amounts receivable from lessee	-	3,840,148	3,840,148
Other assets	8,000	-	8,000
Accrued interest income receivable	<u>4,761</u>	<u>-</u>	<u>4,761</u>
Total current assets	2,038,261	23,089,551	25,127,812
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	<u>-</u>	<u>356,971,273</u>	<u>356,971,273</u>
Total assets	<u>2,038,261</u>	<u>380,060,824</u>	<u>382,099,085</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>			
Unamortized deferred loss on refunding (note 5)	<u>-</u>	<u>1,624,844</u>	<u>1,624,844</u>
<u>LIABILITIES</u>			
Current liabilities:			
Bonds payable, net (note 4)	-	19,388,200	19,388,200
Accrued interest payable	-	3,887,787	3,887,787
Unearned fees (note 7)	96,421	-	96,421
Accounts payable (note 6)	<u>12,095</u>	<u>-</u>	<u>12,095</u>
Total current liabilities	108,516	23,275,987	23,384,503
Noncurrent liabilities:			
Bonds payable (note 4)	<u>-</u>	<u>358,396,644</u>	<u>358,396,644</u>
Total liabilities	<u>108,516</u>	<u>381,672,631</u>	<u>381,781,147</u>
<u>NET POSITION</u>			
Restricted	-	13,037	13,037
Unrestricted	<u>1,929,745</u>	<u>-</u>	<u>1,929,745</u>
Total net position	<u>\$ 1,929,745</u>	<u>\$ 13,037</u>	<u>\$ 1,942,782</u>

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2021

	General Operating <u>Account</u>	General Bond <u>Resolution</u>	<u>Total</u>
Operating revenues:			
Received and receivable from lessee	\$ –	\$15,768,316	\$15,768,316
Administrative fees (note 7)	618,101	–	618,101
Interest income from investments	22,240	288	22,528
Net decrease in fair value of investments	(19,855)	–	(19,855)
Other income	<u> –</u>	<u> 618,751</u>	<u> 618,751</u>
Total operating revenues	620,486	16,387,355	17,007,841
Operating expenses (note 6):			
Interest expense	–	15,722,240	15,722,240
Cost of issuance	–	618,751	618,751
Administration	139,554	–	139,554
Professional and other fees	35,695	–	35,695
Insurance	92,380	–	92,380
Office	13,505	–	13,505
Other	<u> 4,090</u>	<u> –</u>	<u> 4,090</u>
Total operating expenses	<u> 285,224</u>	<u> 16,340,991</u>	<u> 16,626,215</u>
Operating income	335,262	46,364	381,626
Net position, beginning of year	<u> 1,594,483</u>	<u> (33,327)</u>	<u> 1,561,156</u>
Net position, end of year	<u>\$ 1,929,745</u>	<u>\$ 13,037</u>	<u>\$ 1,942,782</u>

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2021

	<u>General Operating Account</u>	<u>General Bond Resolution</u>	<u>Total</u>
Operating activities:			
Cash received from lessee	\$ 635,279	\$ 37,683,236	\$ 38,318,515
Cash received from other income	-	618,751	618,751
Cash deposited to construction funds	-	(12,785,000)	(12,785,000)
Cash paid for bond issuance costs	-	(618,751)	(618,751)
Cash paid for operating expenses	<u>(286,865)</u>	<u>-</u>	<u>(286,865)</u>
Net cash provided by operating activities	348,414	24,898,236	25,246,650
Noncapital financing activities:			
Proceeds from bonds payable	-	51,418,791	51,418,791
Deposit paid to refunding escrow	-	(36,918,791)	(36,918,791)
Bond premium deposited to construction funds	-	(1,715,000)	(1,715,000)
Principal paid on bonds payable	-	(21,535,000)	(21,535,000)
Interest paid on bonds payable	<u>-</u>	<u>(16,007,553)</u>	<u>(16,007,553)</u>
Net cash used by noncapital financing activities	-	(24,757,553)	(24,757,553)
Investing activities:			
Cash received from interest income	<u>23,281</u>	<u>288</u>	<u>23,569</u>
Net cash provided by investing activities	<u>23,281</u>	<u>288</u>	<u>23,569</u>
Increase in cash and cash equivalents	371,695	140,971	512,666
Cash and cash equivalents at beginning of year	<u>636,695</u>	<u>68,471</u>	<u>705,166</u>
Cash and cash equivalents at end of year	<u>\$ 1,008,390</u>	<u>\$ 209,442</u>	<u>\$ 1,217,832</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 335,262	\$ 46,364	\$ 381,626
Adjustments to reconcile operating income to net cash provided by operating activities:			
Interest expense	-	15,722,240	15,722,240
Interest income	(22,240)	(288)	(22,528)
Decrease in fair value of investments	19,855	-	19,855
Changes in operating assets and liabilities:			
Interest and other amounts receivable from lessee	-	283,339	283,339
Accounts receivable	6,895	-	6,895
Accounts payable	(1,641)	-	(1,641)
Unearned fees	18,283	-	18,283
Other assets	(8,000)	-	(8,000)
Lease payments receivable from lessee	<u>-</u>	<u>8,846,581</u>	<u>8,846,581</u>
Net cash provided by operating activities	<u>\$ 348,414</u>	<u>\$ 24,898,236</u>	<u>\$ 25,246,650</u>

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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 bonds outstanding at June 30, 2021 totaled \$376,160,000. 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, 2021

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, 2021.

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, 2021

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 lessee, 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, 2021 was \$444,913.

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. 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.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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, 2021, investments and cash and cash equivalents are as follows (at fair value):

General operating account:		
U.S. Government obligations		\$1,017,110
Cash and cash equivalents		<u>1,008,390</u>
		<u>\$2,025,500</u>
General bond resolution:		
Cash and cash equivalents		<u>\$ 209,442</u>

The following table provides information on future maturities of the Authority’s investment in U.S. Government obligations as of June 30, 2021:

	<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>\$1,017,110</u>	<u>\$1,017,110</u>	<u>\$ —</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, Northeast 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, 2021.

The cash of the general operating accounts at June 30, 2021, consists of \$63,270 insured deposit with Camden National Bank. Cash equivalents consist of \$945,120 in money market funds secured by short-term U.S. Treasury obligations.

Cash and cash equivalents of the General Bond Resolution at June 30, 2021 consist primarily of money market funds secured by short-term U.S. Treasury obligations.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2021, 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, 2021</u>
Series 2010 A, 2.50% – 5.00%, dated April 1, 2010	2010 – 2023	\$ 25,600,000	\$ 1,575,000
Series 2013A, 2.00% – 5.00%, dated June 13, 2013	2014 – 2033	30,290,000	9,315,000
Series 2014A, 1.98%, dated June 19, 2014	2014 – 2024	10,055,000	2,940,000
Series 2014B, 2.10%, dated July 10, 2014	2015 – 2024	2,900,000	1,235,000
Series 2015A, 3.00% – 5.00%, dated July 16, 2015	2015 – 2023	41,115,000	110,000
Series 2015B, 2.00% – 5.00%, dated November 19, 2015	2016 – 2025	21,190,000	11,745,000
Series 2016A, 3.00% – 5.00%, dated October 6, 2016	2018 – 2029	24,950,000	19,935,000
Series 2016B, 3.00% – 5.00%, dated October 6, 2016	2017 – 2036	17,980,000	14,145,000
Series 2017A, 2.50% – 5.00%, dated August 24, 2017	2018 – 2037	58,535,000	52,620,000
Series 2018A, 3.50% – 5.00%, dated September 27, 2018	2019 – 2038	50,510,000	46,635,000
Series 2020 A, 2.50% – 5.00%, dated January 16, 2020	2020 – 2039	170,995,000	165,765,000
Series 2021A, 2.00% – 4.00%, dated February 10, 2021	2023 – 2040	12,785,000	12,785,000
Series 2021B, 0.28% – 2.18%, dated February 10, 2021	2021 – 2033	<u>37,355,000</u>	<u>37,355,000</u>
		<u>\$ 504,260,000</u>	<u>\$ 376,160,000</u>

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

Total principal outstanding	\$ 376,160,000
Unamortized original issue premium on refunding bonds	<u>1,624,844</u>
Total bonds payable	377,784,844
Current portion	<u>19,388,200</u>
Noncurrent portion	<u>\$ 358,396,644</u>

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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>
2021	\$ 19,000,000	\$ 7,775,574	\$ 26,775,574
2022	21,210,000	14,459,332	35,669,332
2023	22,140,000	13,583,378	35,723,378
2024	22,795,000	12,750,412	35,545,412
2025	22,620,000	11,859,571	34,479,571
2026 – 2030	101,735,000	46,900,436	148,635,436
2031 – 2035	96,040,000	26,613,315	122,653,315
2036 – 2040	<u>70,620,000</u>	<u>6,741,000</u>	<u>77,361,000</u>
	<u>\$ 376,160,000</u>	<u>\$ 140,683,018</u>	<u>\$ 516,843,018</u>

The following summarizes bond payable activity for the Authority for the year ended June 30, 2021:

Balance, beginning of year	\$ 383,934,757
Issuances – face value	50,140,000
Amortization of premium on refunding bonds	(444,913)
Refunded bonds	(34,310,000)
Redemptions	<u>(21,535,000)</u>
Balance, end of year	<u>\$ 377,784,844</u>

The Authority's bonds payable 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 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 (if applicable). 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, 2021

5. Refunding Issues (Continued)

On February 10, 2021 the Authority issued \$37,355,000 in 2021B bonds with an average coupon rate of 1.67%, to in-substance defease a total of \$34,310,000 of 2013A and 2011A series bonds. The net proceeds of approximately \$36,919,000 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 2022 through fiscal year 2024. The Authority in effect reduced aggregate debt service approximately \$3.63 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 \$3.57 million. The gain and economic benefit of this transaction inure to the lessee and not the Authority.

At June 30, 2021, the balances of the General Resolution in-substance defeased bonds related to this advanced refunding total \$34,310,000.

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 \$249,000 of expense under this arrangement in 2021, and owed the Bond Bank \$11,167 at June 30, 2021.

7. Unearned Fees

Unearned fees of \$96,421 at June 30, 2021 represent the portion of annual fees paid to the Authority 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.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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; and
- 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 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, 2021:

	<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>1,017,110</u>	\$ <u>—</u>	\$ <u>1,017,110</u>