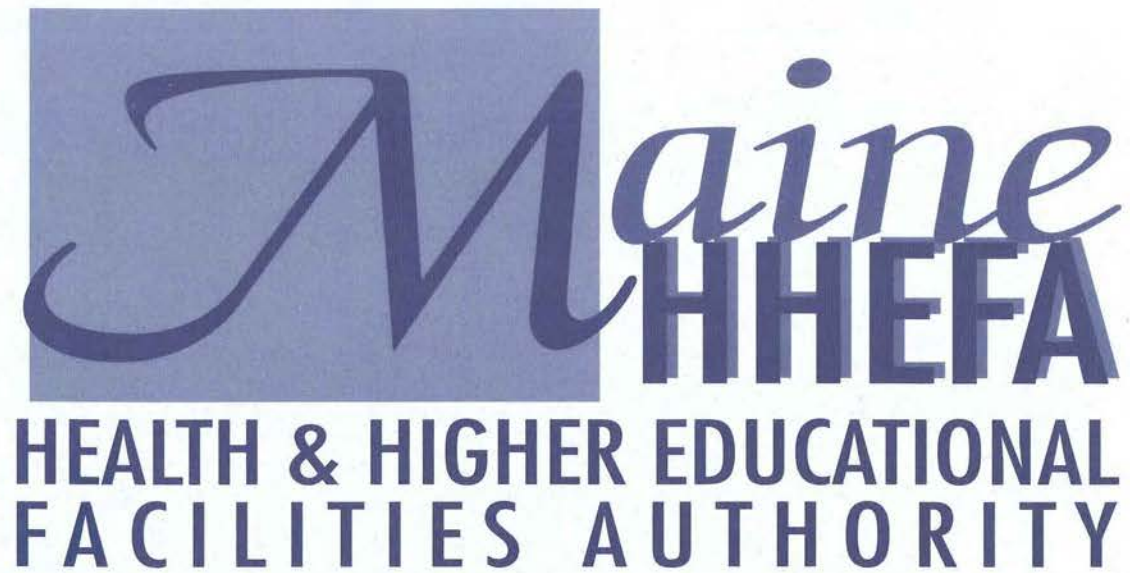


MAINE STATE LEGISLATURE

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2003 Financial Report



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TO: INTERESTED PARTIES
FROM: Robert O. Lenna, Executive Director
SUBJECT: Annual Report

This is the fiscal 2003 report for the Maine Health and Higher Educational Facilities Authority. As of June 30, 2003, the Authority has \$60,350,202 outstanding under its general tax exempt conduit resolution, \$1,000,195,000 outstanding under its tax exempt reserve fund resolution, and \$41,665,000 outstanding under its taxable reserve fund resolution.

During fiscal year 2003 the Authority issued \$127,295,000 of bonds under its tax-exempt reserve fund resolution and \$8,830,000 under its general tax-exempt conduit resolution. These sales were accomplished in three series for nine hospitals, four colleges, and one nursing home.

Started in December of 1991, the Authority's unique health and higher education program, using a state moral obligation reserve fund make-up provision and the ability to intercept funds of borrowers prior to any failure to pay, provides unusual strength to a diversified and dispersed portfolio of loans to health care and higher educational facilities throughout Maine. By making use of our ability to aggregate issues, share costs for bond sales among multiple borrowers and provide the State's moral obligation credit enhancement to eligible institutions, we provide all of Maine's health and higher educational facilities, from the largest to the smallest, with the lowest cost available for the money they borrow to meet their capital needs.

If there is further information you might like or questions you may have concerning the Authority please feel free to give us a call at (207) 622-1958. Additional information about the Authority is available at our website : www.mhhefa.com.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2003

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BAKER NEWMAN & NOYES

LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying basic financial statements, consisting of the consolidating balance sheet – operating fund and the balance sheets – restricted and trustee funds, including the General Resolution, Reserve Fund, Medium Term Financing Reserve Fund and Taxable Financing Reserve Fund, of Maine Health and Higher Educational Facilities Authority as of June 30, 2003, and the related consolidating statement of operations and changes in fund balance – operating fund, statements of changes in fund balance and funds held in trust – restricted and trustee funds and consolidating statement of cash flows – operating fund for the year then ended. These financial statements are the responsibility of the Authority's management. 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority and the individual fund groups referred to above at June 30, 2003, and the results of its operations and cash flows of its operating fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 – 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. The supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Limited Liability Company

Portland, Maine
October 8, 2003

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003

As financial management of the Maine Health and Higher Educational 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, 2003. 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 financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Consolidated operating revenues for the Authority's Operating Fund were \$8,375,642 for fiscal year 2003, a decrease of only \$17,143 from fiscal year 2002. Consolidated operating income for the Authority's Operating Fund was \$2,374,441 for fiscal year 2003, a decrease of \$1,444,576 from fiscal year 2002. This decrease in consolidated operating income was mainly due to added provision of \$1,400,000 in reserves on certain institutional loans and advances during fiscal year 2003.
- Notes receivable from institutions in the Authority's Operating Fund of \$5,548,000 at June 30, 2003 represent subordinate loans that the Authority assumed as part of the refinancing of several taxable nursing home bonds with the U.S. Department of Housing and Urban Development (HUD) during 2002 and 2003 (refer to note 7 of the audited financial statements). The Authority is recording interest income on a cash basis for these loans.
- Loans receivable from operating fund in the Authority's Restricted and Trusteed Funds represent bond principal payments due from Portland Center for Assisted Living (the Center) at June 30, 2003. The Center was acquired by the Authority in 1998 and is 100% owned by the Authority.
- The Authority's loans receivable from institutions in the Restricted and Trusteed Funds at June 30, 2003 of \$1,002,720,341 represents a net increase of \$85,547,622 or 9.3% from the balance at June 30, 2002. This increase is the net result of the bond issuances described below, for which various funds were loaned out during fiscal 2003, and the repayment of loans by institutions during fiscal 2003.
- The Authority's gross bonds outstanding in the Restricted and Trusteed Funds at June 30, 2003 of \$1,102,210,202 represents a net increase of \$92,027,530 or 9.1% from the balance at June 30, 2002. This increase consists of the issuance of \$8,830,000 in Series 2002 general resolution bonds and \$127,295,000 in Series 2002A, 2002B and 2003A reserve fund bonds, less scheduled bond principal payments and certain refundings and refinancings that occurred during fiscal 2003 (refer to note 4 of the audited financial statements). The Authority's bonds are a combination of fixed and variable interest rate and tax-exempt and taxable bonds, although a majority of the bonds are fixed interest rate and tax-exempt.

Overview of the Authority

The Authority was created in 1973 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 assisting Maine health care institutions and institutions of higher education in the undertaking of projects involving the acquisition, construction, improvement, reconstruction and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, also has the power to finance student loan programs of institutions for higher education.

As the result of the Authority issuing tax-exempt debt, the Authority is required to prepare arbitrage rebate calculations for each series of bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority's policy is to prepare and review the calculations every six months for financial statement purposes.

For financial statement reporting purposes, the Authority is considered a component unit of the State of Maine. However, the Authority does not receive any State appropriations for its operations.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which are 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 balance sheets present information on all of the Authority's assets and liabilities, with the difference between the two reported as fund balance and funds held in trust. Over time, increases or decreases in fund balance and funds held in trust may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Fund balance and funds held in trust increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities result in increased fund balance and funds held in trust, which may indicate an improved financial position.

The statements of operations and changes in fund balance and funds held in trust present information showing how the Authority's fund balance and funds held in trust changed during the fiscal year. Substantially all changes in fund balance and funds held in trust are 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

As indicated above, fund balance and funds held in trust may serve, over time, as a useful indicator of an entity's financial position. In the case of the Authority's Operating Fund, assets exceeded liabilities by \$15,808,646 at June 30, 2003. This represents an increase of \$2,374,441 or 17.7% over the previous fiscal year, which is the Authority's 2003 operating income within the Operating Fund.

The Authority's financial position and operations for the past two years are summarized below based on information included in the audited financial statements.

CONSOLIDATED OPERATING FUND

	2003	2002	Percentage Change
Current assets:			
Cash and cash equivalents	\$ 5,535,760	\$ 3,900,366	41.9%
Investments, at fair value	2,792,895	5,072,298	(44.9)
Accrued investment income	7,946	1,279	521.3
Fees receivable from institutions	346,367	341,166	1.5
Fees and other amounts receivable from trusteed funds	1,775,310	1,926,755	(7.9)
Resident accounts receivable, net of allowance	215,528	131,998	63.3
Other assets	132,749	139,080	(4.6)
Total current assets	10,806,555	11,512,942	(6.1)
Long-term assets:			
Advances receivable from institutions net of allowance	1,328,004	1,144,753	16.0
Notes receivable from institutions	5,548,000	3,174,582	74.8
Assets whose use is limited	611,061	525,852	16.2
Fixed and other assets, net	4,037,146	4,326,547	(6.7)
Deferred financing costs, net	192,585	212,670	(9.4)
Total long-term assets	11,716,796	9,384,404	24.9
Total assets	\$ 22,523,351	\$ 20,897,346	7.8%
Current liabilities:			
Current portion of loan payable to trustee funds	\$ 430,000	\$ 400,000	7.5%
Accounts payable	106,329	246,202	(56.8)
Estimated third-party payor settlements	1,272,342	1,505,960	(15.5)
Accrued payroll and other expenses	148,740	129,751	14.6
Resident funds held in trust	32,839	22,826	43.9
Deferred revenue	1,442	5,389	(73.2)
Total current liabilities	1,991,692	2,310,128	(13.8)
Long-term liabilities:			
Loan payable to trustee funds	4,723,013	5,153,013	(8.3)
Total liabilities	6,714,705	7,463,141	(10.0)
Fund balance	15,808,646	13,434,205	17.7
Total liabilities and fund balance	\$ 22,523,351	\$ 20,897,346	7.8%

RESTRICTED AND TRUSTEED FUNDS:

	2003	2002	Percentage Change
Current assets:			
Cash and cash equivalents held by trustee	\$ 78,710,083	\$ 80,742,875	(2.5%)
Investments held by trustee	40,910,591	25,114,693	62.9
Accrued interest receivable	747,887	831,632	(10.1)
Loans receivable from institutions	35,941,587	33,115,470	8.5
Loan receivable from operating fund	430,000	400,000	7.5
Other receivables from institutions	<u>416,533</u>	<u>378,459</u>	<u>10.1</u>
Total current assets	157,156,681	140,583,129	11.8
Noncurrent assets:			
Investments held by trustee	95,761,556	88,235,930	8.5
Loans receivable from institutions	966,778,754	884,057,249	9.4
Loan receivable from operating fund	<u>4,723,014</u>	<u>5,153,013</u>	<u>(8.3)</u>
Total noncurrent assets	<u>1,067,263,324</u>	<u>977,446,192</u>	<u>9.2</u>
Total Assets	\$ <u>1,224,420,005</u>	\$ <u>1,118,029,321</u>	<u>9.5%</u>
Current liabilities:			
Bonds payable	\$ 36,371,587	\$ 35,417,470	2.7%
Interest Payable	25,102,171	23,538,659	6.6
Fees payable to operating fund	1,775,310	1,926,755	(7.9)
Accounts payable	186,305	482,009	(61.3)
Rebate to the IRS	577,498	863,140	(33.1)
Deferred revenue	<u>1,777,461</u>	<u>2,212,036</u>	<u>(19.6)</u>
Total current liabilities	65,790,332	64,440,069	2.1
Noncurrent liabilities:			
Bonds payable	1,065,838,615	974,765,202	9.3
Rebate payable to the IRS	<u>1,489,912</u>	<u>1,401,310</u>	<u>6.3</u>
Total noncurrent liabilities	<u>1,067,328,527</u>	<u>976,166,512</u>	<u>9.3</u>
Total liabilities	<u>1,133,118,859</u>	<u>1,040,606,581</u>	<u>8.9</u>
Funds held in trust and fund balance:			
Construction Funds	42,801,148	33,341,295	28.4
Expense Funds	3,842	37,537	(89.8)
Debt Service Funds	41,115,480	36,616,140	12.3
Debt Service Reserve Funds	6,522,587	6,561,627	(0.6)
Earnings and Rebate funds	1,507	10,194	(85.2)
Redemption Funds	361,730	220,867	63.8
Unrestricted Fund Balance	<u>494,852</u>	<u>635,080</u>	<u>(22.1)</u>
Total funds held in trust and fund balance	<u>91,301,146</u>	<u>77,422,740</u>	<u>17.9</u>
	\$ <u>1,224,420,005</u>	\$ <u>1,118,029,321</u>	<u>9.5%</u>

The Authority's results of operations for the past two years is summarized below based on information included in the audited financial statements.

CONSOLIDATED OPERATING FUND

	<u>2003</u>	<u>2002</u>	<u>Percentage Change</u>
Operating Revenues:			
Net resident service revenue	\$ 4,251,743	\$ 4,126,937	3.0%
Administrative and other fees	3,505,119	3,725,857	(5.9)
Investment income	189,738	283,246	(33.0)
Net decrease in the fair value of investments	(10,772)	(14,062)	23.4
Interest income from advances to institutions	310,989	172,854	79.9
Other income	128,825	97,953	31.5
	<u>8,375,642</u>	<u>8,392,785</u>	<u>(0.2)</u>
Operating expenses:			
Salaries	348,959	322,888	8.1
Employee benefits	93,221	87,948	6.0
Travel	8,816	2,614	237.3
Office expenses	56,003	101,727	(44.9)
Accounting and auditing	50,000	45,000	11.1
Legal	71,642	51,179	40.0
Telephone	8,471	6,103	38.8
Building lease	54,535	54,535	0.0
Paid to Maine Hospital Association	-	13,708	(100.0)
Assistance paid to borrowing institutions	1,400,000	-	-
Nursing services	1,429,456	1,377,333	3.8
Administrative services	421,262	417,378	0.9
Dietary services	555,041	531,325	4.5
Depreciation and amortization	338,921	332,192	2.0
Plant operations and maintenance	294,566	293,005	0.5
Housekeeping services	98,167	94,241	4.2
Other services	322,197	347,332	(7.2)
Interest expense	449,944	495,260	(9.1)
	<u>6,001,201</u>	<u>4,573,768</u>	<u>31.2</u>
Operating income	2,374,441	3,819,017	(37.8)
Fund balance at beginning of year	<u>13,434,205</u>	<u>9,615,188</u>	<u>39.7</u>
Fund balance at end of year	<u>\$ 15,808,646</u>	<u>\$ 13,434,205</u>	<u>17.7%</u>

RESTRICTED AND TRUSTEED FUNDS

	2003	2002	Percentage Change
Fund balance and funds held in trust, beginning of year	\$ 77,422,740	\$ 122,785,418	(36.9)%
Additions:			
Bond and note proceeds	136,125,000	84,130,635	61.8
Received and receivable from institutions	90,801,426	141,865,549	(36.0)
Transfer from debt service reserves	3,880,418	4,441,030	(12.6)
Income from investments	7,574,238	9,452,143	(19.9)
Net change in the fair value of investments	966,345	(28,395)	-
Other income	312,762	291,003	7.5
	239,660,189	240,151,965	(0.2)
Deductions:			
Construction and program costs	110,876,712	91,449,843	21.2
Bond issuance costs	2,611,988	2,027,954	28.8
Principal payments	44,097,470	86,032,963	(48.7)
Interest expense	53,067,614	52,962,606	0.2
Paid to institutions	4,760,263	9,589,242	(50.4)
Transfer to debt service reserves	9,623,534	2,301,815	318.1
Paid to refunding and refinancing escrows	-	39,842,785	(100.0)
Other deductions	744,202	1,307,435	(43.1)
	225,781,783	285,514,643	(20.9)
Increase (decrease) in funds held in trust	13,878,406	(45,362,678)	130.6
Fund balance and funds held in trust, end of year	91,301,146	77,422,740	17.9%

Operating fund consolidated cash and cash equivalents at June 30, 2003 increased \$1,635,394 or 41.9% from balances at June 30, 2002, while investments decreased \$2,279,403 or 44.9% from balances at June 30, 2002. These changes were primarily the result of investing excess funds on hand into short-term investments during fiscal 2003.

Investments within the Restricted and Trusteed Funds at June 30, 2003 increased \$23,321,524 or 20.6% from June 30 2002. This increase is the net result of investing bond proceeds from the Series 2002A, 2002B, and 2003A issues, and the disbursement of funds to institutions for project costs throughout the year. The Authority's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), agency notes and guaranteed investment contracts. All investments are carried at fair value. Any unrealized gains or losses (primarily due to fluctuations in market values) are recognized in the statements of operations and changes in fund balance and funds held in trust.

Notes receivable from institutions within the Operating Fund at June 30, 2003 increased \$2,373,418 over balances at June 30, 2002 primarily due to the Authority retaining subordinated debt on additional refinancings with HUD in the Taxable Financing Reserve Fund.

Accounts payable in the Restricted and Trusteed Funds at June 30, 2003 decreased 61.3% from June 30, 2002 as a result of certain residual funds being held by the Authority at the end of fiscal 2002 that were refunded to the borrowers during fiscal year 2003.

Income from investments in 2003 decreased 33% in the Operating Fund (consolidated) and 19.9% in the Restricted and Trusteed Funds from 2002. The reduction in the Restricted and Trusteed Funds was primarily the result of drawing down investments from the construction funds for ongoing projects costs, resulting in a lower average investment balance in 2003 as compared to 2002. Also, fiscal year 2003 experienced a declining interest rate environment, which negatively impacted the investment return in both the Operating Fund and Restricted and Trusteed Funds.

Bond and note proceeds for 2003 in the Restricted and Trusteed Funds increased 61.8% from 2002 as a result of an increase in loan requests from the borrowers, which resulted in the bond issues described above during 2003. This also increased loans receivable from institutions and gross bonds outstanding in the Restricted and Trusteed Funds at June 30, 2003 as compared to June 30, 2002. Finally, received and receivable from institutions decreased 36.0% and principal payments decreased 48.7% from 2002 in the Restricted and Trusteed Funds due primarily to a reduction in scheduled principal and interest payments required from institutions during 2003. This reduction was the result of paydowns in prior years, as well as refinancings within the Taxable Financing Reserve Fund during fiscal 2002.

The Authority shares office space and staff with the Maine Municipal Bond Bank. The Authority reimburses the Maine Municipal Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

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 Health and Higher Educational Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2003

ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Current assets:				
Cash and cash equivalents (note 3)	\$ 4,908,606	\$ 627,154	\$ —	\$ 5,535,760
Investments, at fair value (note 3)	2,792,895	—	—	2,792,895
Accrued investment income	7,946	—	—	7,946
Fees receivable from institutions	346,367	—	—	346,367
Fees and other amounts receivable from trusteed funds	1,775,310	—	—	1,775,310
Resident accounts receivable, net of allowance of \$12,000	—	215,528	—	215,528
Other assets	—	132,749	—	132,749
Total current assets	9,831,124	975,431	—	10,806,555
Long-term assets:				
Advances receivable from institutions net of allowance of \$3,000,000 (note 7)	6,518,982	—	(5,190,978)	1,328,004
Notes receivable from institutions (note 7)	5,548,000	—	—	5,548,000
Assets whose use is limited	—	611,061	—	611,061
Fixed and other assets, net	—	4,037,146	—	4,037,146
Deferred financing costs, net	—	192,585	—	192,585
Total long-term assets	12,066,982	4,840,792	(5,190,978)	11,716,796
	<u>\$ 21,898,106</u>	<u>\$ 5,816,223</u>	<u>\$(5,190,978)</u>	<u>\$ 22,523,351</u>

LIABILITIES AND FUND BALANCE

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Current liabilities:				
Current portion of loan payable to trustee funds	\$ —	\$ 430,000	\$ —	\$ 430,000
Accounts payable	72,454	33,875	—	106,329
Estimated third-party payor settlements	—	1,272,342	—	1,272,342
Accrued payroll and other expenses	—	148,740	—	148,740
Resident funds held in trust	—	32,839	—	32,839
Deferred revenue	—	1,442	—	1,442
Total current liabilities	72,454	1,919,238	—	1,991,692
Long-term liabilities:				
Loan payable to trustee funds	—	4,723,013	—	4,723,013
Advances due to Authority's operating fund	—	5,190,978	(5,190,978)	—
Total liabilities	72,454	11,833,229	(5,190,978)	6,714,705
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	—	200	(200)	—
Fund balance (deficit)	<u>21,825,652</u>	<u>(6,017,206)</u>	<u>200</u>	<u>15,808,646</u>
	<u>21,825,652</u>	<u>(6,017,006)</u>	<u>—</u>	<u>15,808,646</u>
	<u>\$ 21,898,106</u>	<u>\$ 5,816,223</u>	<u>\$ (5,190,978)</u>	<u>\$ 22,523,351</u>

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEETS – RESTRICTED AND TRUSTEED FUNDS

June 30, 2003

ASSETS

	<u>General Resolution</u>	<u>Reserve Fund</u>
Current assets:		
Cash and cash equivalents (note 3)	\$ 4,985,937	\$ 66,305,981
Investments, at fair value (note 3)	14,144,141	26,766,450
Accrued investment income	40,595	695,120
Loans receivable from institutions (note 7)	1,096,587	32,640,000
Loans receivable from operating fund (note 8)	–	–
Other receivables from institutions	<u>166,609</u>	<u>120,497</u>
Total current assets	20,433,869	126,528,048
Noncurrent assets:		
Investments, at fair value (note 3)	6,260,475	83,939,662
Loans receivable from institutions (note 7)	59,253,616	880,094,571
Loans receivable from operating fund (note 8)	–	–
Total noncurrent assets	<u>65,514,091</u>	<u>964,034,233</u>
Total assets	<u>\$85,947,960</u>	<u>\$1,090,562,281</u>

LIABILITIES, FUNDS HELD IN TRUST AND FUND BALANCE

Current liabilities:		
Bonds payable (note 4)	\$ 1,096,587	\$ 32,640,000
Interest payable	997,976	23,164,656
Fees payable to operating fund	–	961,240
Accounts payable	81,103	32,724
Rebate payable to Internal Revenue Service	–	577,498
Deferred revenue	<u>–</u>	<u>1,684,600</u>
Total current liabilities	2,175,666	59,060,718
Noncurrent liabilities:		
Bonds payable (note 4)	59,253,615	967,555,000
Rebate payable to Internal Revenue Service	<u>–</u>	<u>1,489,912</u>
Total noncurrent liabilities	<u>59,253,615</u>	<u>969,044,912</u>
Total liabilities	61,429,281	1,028,105,630
Funds held in trust and fund balance:		
Construction/program funds	14,212,749	27,346,341
Expense funds	–	2,879
Debt service funds	3,600,723	34,474,253
Debt service reserve funds	6,522,587	–
Earnings funds	1,507	–
Redemption funds	181,113	180,617
Unrestricted fund balance	<u>–</u>	<u>452,561</u>
Total funds held in trust and fund balance	<u>24,518,679</u>	<u>62,456,651</u>
	<u>\$85,947,960</u>	<u>\$1,090,562,281</u>

See accompanying notes.

<u>Medium Term Financing Reserve Fund</u>	<u>Taxable Financing Reserve Fund</u>	<u>Total</u>
\$ 35,488	\$ 7,382,677	\$ 78,710,083
—	—	40,910,591
18	12,154	747,887
—	2,205,000	35,941,587
—	430,000	430,000
—	129,427	416,533
<u>35,506</u>	<u>10,159,258</u>	<u>157,156,681</u>
—	5,561,419	95,761,556
—	27,430,567	966,778,754
—	<u>4,723,014</u>	<u>4,723,014</u>
—	<u>37,715,000</u>	<u>1,067,263,324</u>
<u>\$ 35,506</u>	<u>\$47,874,258</u>	<u>\$1,224,420,005</u>
\$ —	\$ 2,635,000	\$ 36,371,587
—	939,539	25,102,171
18	814,052	1,775,310
35,488	36,990	186,305
—	—	577,498
—	<u>92,861</u>	<u>1,777,461</u>
<u>35,506</u>	<u>4,518,442</u>	<u>65,790,332</u>
—	39,030,000	1,065,838,615
—	—	<u>1,489,912</u>
—	<u>39,030,000</u>	<u>1,067,328,527</u>
35,506	43,548,442	1,133,118,859
—	1,242,058	42,801,148
—	963	3,842
—	3,040,504	41,115,480
—	—	6,522,587
—	—	1,507
—	—	361,730
—	<u>42,291</u>	<u>494,852</u>
—	<u>4,325,816</u>	<u>91,301,146</u>
<u>\$ 35,506</u>	<u>\$47,874,258</u>	<u>\$1,224,420,005</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCE – OPERATING FUND

Year Ended June 30, 2003

	Authority's Operating <u>Fund</u>	Portland Center For Assisted Living (note 8)	Elimi- nations	Consolidated Operating <u>Fund</u>
Operating revenues:				
Net resident service revenue	\$ —	\$ 4,251,743	\$ —	\$ 4,251,743
Administrative and other fees	3,505,119	—	—	3,505,119
Investment income	189,738	—	—	189,738
Net decrease in the fair value of investments	(10,772)	—	—	(10,772)
Interest income from advances and notes receivable from institutions	831,981	—	(520,992)	310,989
Other income	<u>125,365</u>	<u>3,460</u>	<u>—</u>	<u>128,825</u>
	4,641,431	4,255,203	(520,992)	8,375,642
Operating expenses (note 5):				
Salaries	348,959	—	—	348,959
Employee benefits	93,221	—	—	93,221
Travel	8,816	—	—	8,816
Office expenses	56,003	—	—	56,003
Accounting and auditing	50,000	—	—	50,000
Legal	71,642	—	—	71,642
Telephone	8,471	—	—	8,471
Building lease	54,535	—	—	54,535
Assistance paid to borrowing institutions (note 7)	1,400,000	—	—	1,400,000
Nursing services	—	1,429,456	—	1,429,456
Administrative services	—	421,262	—	421,262
Dietary services	—	555,041	—	555,041
Depreciation and amortization	—	338,921	—	338,921
Plant operations and maintenance	—	294,566	—	294,566
Housekeeping services	—	98,167	—	98,167
Other services	—	322,197	—	322,197
Interest expense	<u>—</u>	<u>970,936</u>	<u>(520,992)</u>	<u>449,944</u>
	<u>2,091,647</u>	<u>4,430,546</u>	<u>(520,992)</u>	<u>6,001,201</u>
Operating income (loss)	2,549,784	(175,343)	—	2,374,441
Fund balance (deficit) at beginning of year	<u>19,275,868</u>	<u>(5,841,863)</u>	<u>200</u>	<u>13,434,205</u>
Fund balance (deficit) at end of year	<u>\$21,825,652</u>	<u>\$(6,017,206)</u>	<u>\$ 200</u>	<u>\$15,808,646</u>

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CHANGES IN FUND BALANCE AND FUNDS HELD IN TRUST – RESTRICTED AND TRUSTEED FUNDS

Year Ended June 30, 2003

	<u>General Resolution</u>	<u>Reserve Fund</u>
Fund balance and funds held in trust, beginning of year	\$18,130,654	\$ 55,277,279
Additions:		
Bond and note proceeds	8,830,000	127,295,000
Received and receivable from institutions	6,265,873	71,237,254
Transfer from debt service reserves	—	893,940
Income from investments	855,216	6,308,833
Net increase in the fair value of investments	966,345	—
Other income	<u>—</u>	<u>312,762</u>
Total additions	16,917,434	206,047,789
Deductions:		
Construction and program costs	3,541,720	107,269,751
Bond issuance costs	253,603	2,358,385
Principal payments	1,057,470	30,475,000
Interest expense	3,015,706	46,769,765
Paid to institutions	2,440,554	2,173,932
Transfer to debt service reserves	—	9,623,534
Other deductions	<u>220,356</u>	<u>198,050</u>
Total deductions	10,529,409	198,868,417
Increase (decrease) in fund balance and funds held in trust	<u>6,388,025</u>	<u>7,179,372</u>
Fund balance and funds held in trust, end of year	<u>\$24,518,679</u>	<u>\$ 62,456,651</u>

See accompanying notes.

Medium Term Financing Reserve <u>Fund</u>	Taxable Financing Reserve <u>Fund</u>	<u>Total</u>
\$ 417,376	\$ 3,597,431	\$ 77,422,740
—	—	136,125,000
—	13,298,299	90,801,426
1,902,000	1,084,478	3,880,418
1,740	408,449	7,574,238
—	—	966,345
—	—	<u>312,762</u>
1,903,740	14,791,226	239,660,189
—	65,241	110,876,712
—	—	2,611,988
2,140,000	10,425,000	44,097,470
—	3,282,143	53,067,614
20,196	125,581	4,760,263
—	—	9,623,534
<u>160,920</u>	<u>164,876</u>	<u>744,202</u>
<u>2,321,116</u>	<u>14,062,841</u>	<u>225,781,783</u>
<u>(417,376)</u>	<u>728,385</u>	<u>13,878,406</u>
\$ <u>—</u>	\$ <u>4,325,816</u>	\$ <u>91,301,146</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND

Year Ended June 30, 2003

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Elimi- nations	Consolidated Operating Fund
Operating activities:				
Cash received from units	\$ 3,651,363	\$ —	\$ —	\$ 3,651,363
Cash received from patients	—	4,168,213	—	4,168,213
Cash received from other income	125,365	3,460	—	128,825
Cash payments for interest	—	(970,936)	520,992	(449,944)
Cash payments for operating expenses	(821,471)	(3,339,301)	—	(4,160,772)
Cash received for other assets and liabilities	<u>—</u>	<u>6,331</u>	<u>—</u>	<u>6,331</u>
Net cash provided (used) by operating activities	2,955,257	(132,233)	520,992	3,344,016
Financing activities:				
Net advances from Authority's operating fund	—	445,039	(445,039)	—
Payments on loan to trusteed funds	<u>—</u>	<u>(400,000)</u>	<u>—</u>	<u>(400,000)</u>
Net cash provided (used) by financing activities	—	45,039	(445,039)	(400,000)
Investing activities:				
Proceeds from sales and maturities of investments	12,104,522	—	—	12,104,522
Purchase of equipment	—	(29,435)	—	(29,435)
Purchase of investments	(9,835,891)	—	—	(9,835,891)
Change in assets whose use is limited	—	(85,209)	—	(85,209)
Income received from investments and advances	1,015,052	—	(520,992)	494,060
Increase in notes receivable from institutions	(2,373,418)	—	—	(2,373,418)
Net advances receivable from institutions	<u>(2,028,290)</u>	<u>—</u>	<u>445,039</u>	<u>(1,583,251)</u>
Net cash used by investing activities	<u>(1,118,025)</u>	<u>(114,644)</u>	<u>(75,953)</u>	<u>(1,308,622)</u>
Increase (decrease) in cash and cash equivalents	1,837,232	(201,838)	—	1,635,394
Cash and cash equivalents at beginning of year	<u>3,071,374</u>	<u>828,992</u>	<u>—</u>	<u>3,900,366</u>
Cash and cash equivalents at end of year	\$ <u>4,908,606</u>	\$ <u>627,154</u>	\$ <u>—</u>	\$ <u>5,535,760</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND (CONTINUED)

Year Ended June 30, 2003

	Authority's Operating <u>Fund</u>	Portland Center For Assisted Living <u>(note 8)</u>	<u>Elimi- nations</u>	Consolidated Operating <u>Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 2,549,784	\$ (175,343)	\$ —	\$ 2,374,441
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Assistance paid to borrowing institutions	1,400,000	—	—	1,400,000
Investment and interest income	(1,021,719)	—	520,992	(500,727)
Net decrease in the fair value of investments	10,772	—	—	10,772
Depreciation and amortization	—	338,921	—	338,921
Change in assets and liabilities:				
Increase in fees receivable from institutions	(5,201)	—	—	(5,201)
Decrease in fees receivable from trusteed funds	151,445	—	—	151,445
Increase in net resident accounts receivable	—	(83,530)	—	(83,530)
Decrease in other assets	—	6,331	—	6,331
Decrease in accounts payable	(129,824)	(10,049)	—	(139,873)
Decrease in deferred revenue	—	(3,947)	—	(3,947)
Increase in accrued payroll and other expenses	—	18,989	—	18,989
Decrease in estimated third-party payor settlements	—	(233,618)	—	(233,618)
Increase in resident funds held in trust	—	10,013	—	10,013
Net cash provided (used) by operating activities	<u>\$ 2,955,257</u>	<u>\$ (132,233)</u>	<u>\$ 520,992</u>	<u>\$ 3,344,016</u>

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

1. Organization

Maine Health and Higher Educational Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Title 22, Chapter 413, Sections 2051 to 2074, inclusive and as amended by Chapter 584 of the Public Laws of 1991.

The purpose of the Authority, among others, is to assist Maine health care institutions and institutions for higher education (the institutions) in the undertaking of projects involving the acquisition, construction, improvement, reconstruction and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, also has the power to finance student loan programs of institutions for higher education.

Debt issued by the Authority is not debt of the State of Maine 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 of Maine income taxes.

Legislation enacted in 1991 permitted the Authority to establish a reserve fund which will benefit from a "moral obligation" reserve fund replenishment mechanism from the State of Maine. Although the legislation does not bind or obligate the State, it does permit the legislature to appropriate and pay the Authority the amount necessary to restore the reserve fund to the required amount in the event the fund goes below the statutorily established minimum balance of one year's debt service on outstanding bonds. The legislation also allows the Authority to implement a State funding intercept mechanism which permits the Authority to cause the Treasurer of the State of Maine to withhold funds in the Treasurer's custody that otherwise would be paid to a borrower that has failed or may fail to make a debt service payment and to direct the Treasurer to apply those funds as debt service to the applicable bonds or notes. The State funding intercept is applicable to all future borrowings as well as currently outstanding bond issues, whether or not secured by the "moral obligation" reserve fund replenishment mechanism.

The Authority's operating fund records the revenues and expenses generated from its daily operations, and also includes the operations of Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center), which was acquired by the Authority in 1998 (see note 8). The Authority has a management agreement 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 and payment of direct operating expenses by the Authority. The operating fund is not part of the Authority's resolutions and does not legally act as security for outstanding bonds.

The restricted and trustee funds represent various funds and accounts, established with respect to the applicable series bond documents, held by a trustee. The trustee completes the duties and obligations required by the applicable series resolution including investment of monies as set forth by the Series Resolution and Tax Regulatory Agreement and the application of bond proceeds and institution's deposits as received by the trustee in accordance with the applicable series bond documents.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

1. Organization (Continued)

Presently, the Authority operates pursuant to four bond resolutions as follows:

General Resolution

These funds consist of funds and accounts established under the Authority's General Bond Resolution adopted June 5, 1973. Under this resolution, the Authority issues bonds exempt from federal and State of Maine income taxes and assists in financing health care institutions and institutions for higher education. Bonds issued under this resolution may be issued under the original Bond Resolution or under an individual Bond Indenture between the Authority and an institution. Loans to institutions made with proceeds of general resolution bonds are written for the entire amount of the bonds (including debt service reserve funds).

Reserve Fund

These funds and accounts are established under the Authority's Resolution establishing the Maine Health Facilities' Reserve Fund adopted December 6, 1991. Under this resolution, the Authority issues Bonds exempt from federal and State of Maine income taxes for the purpose of providing financing for Maine health and higher educational facilities. Bonds issued under this resolution benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine. Loans to institutions made with proceeds of bonds issued under this resolution are generally written for the net amount of bond proceeds less debt service reserve funds retained by the Authority.

Medium Term Financing Reserve Fund

These funds and accounts are established under the Authority's Resolution establishing the Maine Health Facilities' Medium Term Financing Reserve Fund adopted March 5, 1992. Under this resolution, the Authority issues Bonds exempt from federal and State of Maine income taxes for the purpose of providing financing for Maine health and higher educational facilities. Bonds issued under this resolution are repaid over a medium term and also benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine. Loans to institutions made with proceeds of bonds issued under this resolution are generally written for the net amount of bond proceeds less debt service reserve funds retained by the Authority.

Taxable Financing Reserve Fund

These funds and accounts are established under the Authority's Resolution establishing the Maine Health Facilities' Taxable Financing Reserve Fund Resolution adopted December 15, 1992. Under this resolution, the Authority issues Bonds exempt from State of Maine income taxes. Bonds issued under this resolution benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine. Loans to institutions made with proceeds of bonds issued under this resolution are generally written for the net amount of bond proceeds less debt service reserve funds retained by the Authority.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

1. Organization (Continued)

The following is a description of the various funds which are held by the trustee as required by the bond resolutions:

Construction/Program Funds

These funds are used to account for the payment of building construction, equipment costs, program expenditures and bond issuance costs. These funds are also used to account for the refunding of existing bond issues.

Expense Funds

These funds are used for the collection and payment of amounts related to expenses of the Authority, the trustee, the paying agent and the registrar. These funds are not subject to lien of the bond indentures.

Debt Service Funds

These funds are used to account for certain bond proceeds and the receipts of cash from the institutions and disbursements thereof for bond interest and principal. Generally, the debt service funds held in trust are restricted for payment of principal and interest.

Debt Service Reserve Funds

These funds are generally required to be maintained at an amount equal to the greatest aggregate amount of principal and interest required to be paid in the current or any future bond year. Funding is often provided directly from the bond proceeds. Generally, any debt service reserve funds held in trust are restricted for payment of debt, and in many cases such funds are used for the last debt payment.

Earnings Funds

Generally, all investment income or interest earnings on all funds and accounts are transferred upon receipt or recorded by ledger entry by the trustee to the earnings fund. Section 148(f) of the Internal Revenue Code requires the payment to the federal government of the excess of the amount earned on the investment of certain bond proceeds over the amount that would have been earned on such investments had the amount so invested been invested at a rate equal to the yield on the bonds, together with any income attributed to such excess. Amounts remaining in the earnings fund following the required rebate payments are returned to the originating fund and may be transferred or withdrawn in accordance with the bond documents.

Redemption Funds

These funds are used to account for the proceeds from the sale of certain assets by an institution, and are required to be held in trust until the underlying bonds are called, at which point the funds are used for repayment of outstanding principal.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

2. Significant Accounting Policies

The Authority maintains books of accounts for its own operations (the operating fund, including the Center) and for the restricted and trustee funds (the funds) established in connection with each outstanding bond issue. The books of accounts are maintained in accordance with the principles of proprietary (operating fund) and fiduciary (the funds) fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting (operating fund) and modified accrual basis of accounting (restricted and trustee funds) and include the accounts of the operating fund and the accounts of all bond issues currently outstanding that have not been advance refunded (see note 6).

The Authority complies with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements 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* (the Statements). The Authority implemented the Statements as of July 1, 2001.

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments

Investments are carried at fair value (the fair value of guaranteed investment contracts is assumed to equal contract value). Changes in fair value are recorded as net increase (decrease) in the fair value of investments on the statements of operations and changes in fund balances and funds held in trust.

Interfund Transactions

Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to another fund are recorded as expenses in the reimbursing fund and as reductions of expenses in the fund that is reimbursed.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

2. Significant Accounting Policies (Continued)

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Property and Equipment

Property and equipment from the acquisition of the Center is stated at cost. Depreciation expense has been computed using the straight-line method at rates intended to amortize the cost of the related assets over their estimated useful lives.

Estimated Third-Party Payor Settlements

Estimated third-party payor settlements with respect to the Center represent estimates of final settlements under cost-reimbursed programs (Medicare and Medicaid).

Amounts due under the cost reimbursement programs will become determinable and final only upon completion of cost reporting and subsequent audit as required under the terms of agreements with respective third-party reimbursing agencies.

Net Resident Service Revenue

Net resident service revenue of the Center is reported at the estimated net realizable amounts from patients, third-party reimbursing agencies, and others for services rendered, including estimated retroactive adjustments under reimbursement formulas with third-party reimbursing agencies. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Amortization

Deferred financing costs of the Center are amortized using the straight-line method over the term of the respective loans. Financing costs in the restricted and trusteed funds are treated as expenditures as incurred.

Income Taxes

The Center has been granted tax-exempt status under IRS Code Section 501(c)(3) and, as such, is not subject to federal or state income taxes.

Principles of Consolidation

The accompanying consolidated column of the financial statements of the operating fund reflect the accounts of the Authority and its wholly-owned subsidiary, the Center. All intercompany transactions and balances have been eliminated in consolidation.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

2. Significant Accounting Policies (Continued)

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 these estimates.

Total Columns

The "total" columns for the restricted and trustee fund statements contain the totals of the similar accounts of the various funds. The combination of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in the separate funds.

3. Cash and Cash Equivalents and Investments

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and certain state and local governments, as well as certain investment contracts and collateralized repurchase agreements. The trustees invest available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's and Trustees' policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested in securities whose maturities are planned to coincide with the cash needs for operating, debt service and arbitrage requirements.

The cash and cash equivalents of the Authority's operating fund at June 30, 2003 consist of \$300,000 insured and \$1,264,904 noninsured deposits with banks and \$3,970,856 of money market funds held by a trust company.

GASB Statement No. 3 requires investments to be classified into three categories to give an indication of the level of risk assumed by the Authority and the institutions; Category 1 includes investments insured or registered in the Authority's or institution's name or securities held by the Authority or institution or by the Authority's or the institution's agent in the Authority's or institution's name; Category 2 includes investments uninsured and unregistered with securities held by the financial institution's trust department or agent in the Authority's or institution's name; and Category 3 includes uninsured and unregistered, with securities held by the financial institution's trust department or its agent, but not in the Authority's or institution's name. There are no Category 1 or 3 investments held by the Authority or the trustees at June 30, 2003.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

3. Cash and Cash Equivalents and Investments (Continued)

At June 30, 2003, cash and investments are categorized as follows (at fair value):

	Cash and Cash Equivalents	Guaranteed Investment Contracts	U.S. Government Obligations	Total
Restricted and trustee funds:				
General resolution	\$ 4,985,937	\$ 13,251,275	\$ 7,153,341	\$ 25,390,553
Reserve fund	66,305,981	110,345,875	360,237	177,012,093
Medium term financing reserve fund	35,488	—	—	35,488
Taxable financing reserve fund	<u>7,382,677</u>	<u>5,561,419</u>	<u>—</u>	<u>12,944,096</u>
Total investments held in restricted and trustee funds	78,710,083	129,158,569	7,513,578	215,382,230
Operating fund:				
Authority's operating fund	4,908,606	—	2,792,895	7,701,501
Portland Center for Assisted Living	<u>627,154</u>	<u>—</u>	<u>—</u>	<u>627,154</u>
Total operating fund investments	<u>5,535,760</u>	<u>—</u>	<u>2,792,895</u>	<u>8,328,655</u>
	<u>\$ 84,245,843</u>	<u>\$ 129,158,569</u>	<u>\$ 10,306,473</u>	<u>\$ 223,710,885</u>

At June 30, 2003, approximately \$82,500,000 in guaranteed investment contracts within the reserve fund are with three institutions. Additionally, approximately \$13,200,000 and \$5,500,000 in guaranteed investment contracts within the general resolution and taxable financing reserve fund, respectively, are with two institutions.

4. Bonds Payable

As of June 30, 2003, the Authority had the following series and amounts of revenue bonds and notes:

	Maturity	Amount Issued	Amount Outstanding June 30, 2003
General resolution:			
VHA of New England Capital Asset Financing Program, 1985 Series A through Series G, variable rate beginning at 6%, dated December 30, 1985	2025	\$ 26,100,000	\$ 18,700,000
Mt. Desert Island Hospital, Series A, variable interest rate equal to 80% of the prime rate of Fleet Boston, dated December 11, 1986	1988 – 2008	1,800,000	360,000
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	11,885,000	1,930,000

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

4. Bonds Payable (Continued)

	<u>Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2003</u>
General resolution (continued):			
Mt. Desert Island Hospital, Series 1992, variable interest rate equal to 80% of the prime rate of Fleet Boston, dated July 15, 1992	1993 – 2012	\$ 1,300,000	\$ 850,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	35,000
Piper Shores, Series 1999A, 7.5% – 7.55%, dated December 1, 1999	2006 – 2029	24,900,000	24,900,000
MidCoast, 2001 lease purchase, 4.95%, dated November 15, 2001	2008	5,865,635	4,745,202
Midcoast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2005 – 2043	<u>8,830,000</u>	<u>8,830,000</u>
		<u>\$ 80,995,635</u>	<u>60,350,202</u>
Less current bonds payable			<u>1,096,587</u>
Noncurrent bond payable			<u>\$ 59,253,615</u>
Reserve fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	\$ 44,850,000	\$ 11,150,000
Series 1993A, 2.5% – 5.60%, dated March 1, 1993	1993 – 2023	50,030,000	16,620,000
Series 1993B, 2.8% – 5.75%, dated May 1, 1993	1994 – 2023	20,000,000	16,795,000
Series 1993C, 2.65% – 5.0%, dated September 1, 1993	1994 – 2013	69,085,000	44,580,000
Series 1993D, 2.60% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	69,460,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	11,915,000
Series 1995A, 4.40% – 5.878%, dated April 11, 1995	1996 – 2025	33,285,000	29,880,000
Series 1995B, variable rate, dated August 2, 1995	1998 – 2025	17,535,000	16,035,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	10,325,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	23,090,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	32,590,000

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

4. Bonds Payable (Continued)

	<u>Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2003</u>
Reserve fund (continued):			
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	\$ 8,310,000	\$ 7,865,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	43,940,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	68,300,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	87,150,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	29,085,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	89,320,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	40,560,000
Series 2000A, variable rate, dated January 27, 2000	2002 – 2022	11,755,000	11,415,000
Series 2000B, variable rate, dated January 27, 2000	2000 – 2019	12,685,000	11,005,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	50,130,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	65,275,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	10,335,000
Series 2001C, 3.25% – 5.125%, dated May 15, 2001	2002 – 2031	27,565,000	26,525,000
Series 2001D, 3.00% – 5.00%, dated November 1, 2001	2002 – 2031	50,700,000	49,555,000
Series 2002A, 3.00% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	56,040,000
Series 2002B, 3.00% – 5.00%, dated July 1, 2002	2003 – 2022	8,175,000	8,175,000
Series 2003A, 2.25% – 5.00%, dated January 15, 2003	2004 – 2032	<u>63,080,000</u>	<u>63,080,000</u>
		<u>\$ 1,198,325,000</u>	<u>1,000,195,000</u>
Less current bonds payable			<u>32,640,000</u>
Noncurrent bonds payable			<u>\$ 967,555,000</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

4. Bonds Payable (Continued)

	<u>Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2003</u>
Taxable financing reserve fund:			
Series 1993A, variable interest rate, dated January 1, 1993	1993 – 2012	\$ 57,125,000	\$ 18,495,000
Series 1993B, 7.04% fixed interest rate, dated October 27, 1993	1994 – 2013	25,060,000	9,685,000
Series 1996A, 7.03% fixed interest rate, dated February 22, 1996	1996 – 2016	<u>16,440,000</u>	<u>13,485,000</u>
		<u>\$ 98,625,000</u>	41,665,000
Less current bonds payable			<u>2,635,000</u>
Noncurrent bonds payable			<u>\$ 39,030,000</u>

Each of the above series of bonds of the Authority is payable solely from the revenues from, and is secured by, the project, program or resolution in respect of which it is issued and has no claim of payment from the security or revenues pledged for the payment of the other series of bonds.

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2003:

	<u>General Resolution</u>	<u>Reserve Fund</u>	<u>Medium Term Financing Reserve Fund</u>	<u>Taxable Financing Reserve Fund</u>
Balance, beginning of year	\$ 52,577,672	\$ 903,375,000	\$ 2,140,000	\$ 52,090,000
Issuances	8,830,000	127,295,000	—	—
Redemptions:				
Refinancings – see note 7	—	—	—	7,620,000
Principal payments	<u>1,057,470</u>	<u>30,475,000</u>	<u>2,140,000</u>	<u>2,805,000</u>
Balance, end of year	<u>\$ 60,350,202</u>	<u>\$1,000,195,000</u>	<u>\$ —</u>	<u>\$ 41,665,000</u>

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

4. Bonds Payable (Continued)

The outstanding bonds payable will mature in each of the following years with interest paid semiannually:

<u>Due Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2004	\$ 36,371,587	\$ 50,915,705	\$ 87,287,292
2005	38,797,684	49,067,065	87,864,749
2006	40,080,863	47,370,043	87,450,906
2007	41,621,228	45,536,345	87,157,573
2008	42,733,890	43,582,934	86,316,824
2009 – 2013	227,579,950	186,029,898	413,609,848
2014 – 2018	218,630,000	129,767,859	348,397,859
2019 – 2023	198,200,000	79,293,194	277,493,194
2024 – 2028	169,705,000	36,686,376	206,391,376
2029 – 2033	84,060,000	7,312,081	91,372,081
2034 – 2038	1,775,000	991,575	2,766,575
2039 – 2043	2,375,000	443,070	2,818,070
2044	<u>280,000</u>	<u>7,560</u>	<u>287,560</u>
Total	<u>\$ 1,102,210,202</u>	<u>\$ 677,003,705</u>	<u>\$ 1,779,213,907</u>

5. Operating Expenses

The Authority has a management agreement 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 Authority recognized approximately \$500,000 of expense under this agreement in 2003.

6. Refunded Issues

The proceeds of any advance refunding bonds are primarily used to purchase U.S. Treasury obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the defeased bonds. Neither the U.S. Treasury obligations nor the advance refunded bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations were placed in irrevocable trust accounts with the trustees of the defeased bonds. The gains, losses and economic benefits of these transactions inure to the respective institution and not the Authority, although the Authority may receive an administrative fee. At June 30, 2003, there were \$53,880,000 of advance refunded bonds remaining outstanding with respect to all advance-refunded issues.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

7. Nursing Home Loans

In 1994, the Maine Department of Human Services (DHS) substantially revised the eligibility criteria for Medicaid coverage of nursing facility services, causing a decline in occupancy in nursing facilities. The occupancy decline has not affected each nursing facility equally. In some instances, particularly in proprietary nursing homes borrowing under the taxable financing reserve fund resolution, which consists primarily of loans to nursing homes, these declines in occupancy have created cash flow problems.

In 2002, the owners of certain financially troubled nursing homes, with the Authority's concurrence, began refinancing portions of Authority loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of the Authority expects that these refinancings will reduce annual debt service requirements, thereby eliminating the Authority's exposure in its Taxable Financing Reserve Fund and reducing the Authority's overall exposure. Through June 30, 2003, HUD has completed refinancings for eight institutions which, at the time they were refinanced, had combined bond-related loans and advances due the Authority of approximately \$37,761,000. As part of the refinancing completed by HUD, the Authority agreed to issue 8% subordinated notes receivable to these eight institutions from its operating fund. These notes total \$5,548,000 at June 30, 2003 and are subordinate to all HUD loans. Interest is payable semi-annually and principal payments are due by April 30th of each year in amounts equal to 50% of the excess cash flow generated by the eight institutions based on the audited financial statements for the previous year. The Authority is recording interest income on a cash basis on these loans. Should these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid. The proceeds from the HUD loans and the subordinated notes were used to pay off the related bonds.

Management of the Authority expects that the owners of three other facilities will complete refinancings during fiscal 2004. These three nursing homes have combined loans and advances due the Authority of approximately \$11,700,000 at June 30, 2003. If these anticipated refinancings are not completed and the nursing home industry in Maine continues to suffer from the present reimbursement restrictions, it is likely that a number of nursing homes included in the taxable financing reserve fund resolution will have difficulty in fully meeting their debt service obligations to the Authority.

In addition to subordinated notes receivable from the eight institutions described above, the Authority has advanced approximately \$4,328,000 from the operating fund as of June 30, 2003 to other financially troubled institutions with outstanding loans owed to the Authority of approximately \$28,350,000 (including loans of \$11,700,000 in the reserve fund at June 30, 2003). These advances, upon which interest income is recognized only to the extent that cash payments are received, were primarily made to assist these institutions in meeting debt service requirements. At June 30, 2003, the Authority has established a \$3,000,000 (\$1,400,000 of which was provided for in 2003) reserve in the operating fund related to amounts which have been advanced or are expected to be advanced to troubled institutions.

Subsequent to year end, Birch Grove Nursing Center closed. The facility had outstanding amounts due the Authority totaling approximately \$373,000 at June 30, 2003. Management of the Authority anticipates selling certain assets of this facility in 2004 to recover all amounts owed by this facility.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

8. Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center)

Effective January 5, 1998, the Authority elected to purchase 100% of the issued and outstanding shares of common stock of the Center. No amounts were paid or are payable to former owners of the Center with respect to this transaction. The Center, as purchased, was a 126-bed facility which provided long-term nursing care to the elderly. The Center was subsequently converted to a 125-bed assisted living facility, which is eligible for reimbursements under the Maine Medicaid program. During fiscal 1998, the Authority recorded a loss of approximately \$3.5 million, representing the excess of the Center's liabilities over the estimated fair value of its assets.

Ultimate realization of recorded amounts with respect to the Center's assets is dependent upon continued operations of the Center, which in turn is dependent upon the Center's ability to meet its financing requirements and the success of its future operations. The Center is highly dependent upon regulatory authorities establishing reimbursement rates that are adequate to sustain the Center's operations. As discussed more fully in the following paragraphs, management believes that actions presently being taken to revise the Center's operating and financial requirements will allow the Center to continue as a going concern and, following such revisions, management plans to sell the Center's assets to an outside party.

In 2000, management completed the process of restructuring the Center so that it now qualifies as a nonprofit entity under Internal Revenue Service code section 501(c)(3). As a result, management may, at their discretion, refinance the existing Authority Revenue Bonds Series 1993A by issuing nontaxable bonds at a lower rate of interest, potentially resulting in interest savings to the Center. Additionally, management of the Authority has indicated their intent to provide resources needed to allow the Center to continue operations through the next fiscal year.

Relevant disclosures for the Center are summarized as follows:

Assets Whose Use is Limited

Assets whose use is limited consist of resident funds held in trust and funds required by the terms of the Authority's Revenue Bonds Series 1993A and are invested in cash and money market securities at June 30, 2003. A summary follows:

Principal and interest debt service balances	\$578,222
Resident funds	<u>32,839</u>
Total assets whose use is limited	<u>\$611,061</u>

The Center is required by the bond issue to make monthly principal and interest payments into debt service accounts which are held by the bond trustee. The funds in these accounts are used to make the semi-annual payments of interest and annual payments of principal to the bond holders.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

8. Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center) (Continued)

Significant Concentration and Estimated Third-Party Payor Settlements

Upon the conversion of the Center to an assisted living facility in December 1998, the Center is no longer eligible for reimbursements under the Federal Medicare program. Approximately 92% of the residents served in 2003 were beneficiaries of the Maine Medicaid program. Under this program, the provider is reimbursed for the care of qualified residents at specified interim contractual rates during the year. Differences between these interim contractual rates and the "cost" of this care, as defined by the Principles of Reimbursement governing the respective programs, are determined and settled on a retroactive basis.

The Center's financial statements reflect the estimated settlements under the Medicaid program. Settlements do not become final until the cost reports are audited and approved by the Maine Department of Human Services (DHS). Differences between estimated and actual settlements are recorded as contractual adjustments in the year of final determination.

The estimated settlements to the Medicaid program include amounts which DHS has determined to be owed based on audited cost reports for years 1995 through 2002, plus an estimated settlement for 2003. Any change in the recorded estimated settlements which may be generated by the resolution of disputed issues or subsequent audits will be recorded as contractual adjustments in the year of final settlement.

Following is a summary of net resident service revenue for the year ended June 30, 2003:

Room and board	\$ 5,563,781
Contractual adjustments under third-party reimbursement programs	<u>(1,312,038)</u>
Net resident service revenue	\$ <u>4,251,743</u>

Due to the large concentration of residents who receive benefits from the Medicaid reimbursement program, the Center is highly dependent upon regulatory authorities establishing reimbursement rates that are adequate to sustain the Center's operations.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

8. Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center) (Continued)

Fixed Assets

A summary of fixed assets follows:

	<u>2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>2003</u>
Land	\$ 302,291	\$ —	\$ —	\$ 302,291
Building and improvements	7,107,913	8,216	—	7,116,129
Furniture, fixtures and equipment	865,810	21,219	—	887,029
Vehicles	<u>21,944</u>	<u>—</u>	<u>—</u>	<u>21,944</u>
	8,297,958	29,435	—	8,327,393
Less accumulated depreciation	<u>(3,971,411)</u>	<u>(318,836)</u>	<u>—</u>	<u>(4,290,247)</u>
Fixed assets, net	\$ <u>4,326,547</u>	\$ <u>(289,401)</u>	\$ <u>—</u>	\$ <u>4,037,146</u>

Loan Payable to Trusteed Funds

Loan payable to trusteed funds of \$5,153,013 at June 30, 2003 consists of amounts due under a portion of the Authority's Revenue Bonds Series 1993A, which is payable in monthly installments of principal and interest to the trustee sufficient to make semi-annual interest payments and annual principal payments sufficient to retire the bonds when due. The annual principal payments (including interest at 7.35% per annum) are approximately \$860,000, excluding letter of credit and authority fees.

Approximate annual maturities on this loan for the next five years are as follows:

2004	\$ 430,000
2005	460,000
2006	495,000
2007	530,000
2008	570,000
Thereafter	2,668,013

Management Agreement

First Atlantic Corp. provided all management and accounting services required by the Center throughout 2003. Based upon an executed management agreement, First Atlantic Corp. charges the Center an annual amount equal to the greater of 5% of net patient service revenues or \$150,000. Management and accounting expenses incurred by the Center under this management agreement for the year ended June 30, 2003 were approximately \$213,000.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

8. Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center) (Continued)

Employee Benefit Plan

The Center sponsors a discretionary contributory profit sharing plan and 401(k) plan which covers substantially all employees. The Center may elect to match employee contributions of up to 5% of the compensation of all eligible participants. The Center may also elect to make additional discretionary contributions. The Center contributed \$3,147 to the plan for the year ended June 30, 2003.

Commitments and Contingencies

The Center has obtained malpractice and general liability coverage from a commercial insurance company on a claims made basis. As of June 30, 2003, there were no known malpractice claims outstanding which, in the opinion of management, will be settled for amounts in excess of insurance coverage, nor are there any unasserted claims or incidents for which a loss accrual has not been made. The Center intends to continue coverage on a claims made basis with a commercial carrier and anticipates that such coverage will be available.

The Center is subject to complaints, claims and litigation which have arisen in the normal course of business. In addition, the Center is subject to compliance with laws and regulations of various government agencies. While no significant regulatory inquiries have been made at June 30, 2003, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

9. Subsequent Events

On July 11, 2003, the Maine Health and Higher Education Facilities Authority passed a resolution establishing the Maine Health Facilities' Taxable Financing Reserve Fund II Resolution. Under this resolution, the Authority issues Bonds exempt from State of Maine income taxes, which proceeds are used for funding subordinated loans and advances to certain financially troubled nursing homes in the State of Maine. Bonds issued under this resolution benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine.

On July 24, 2003, the Authority issued \$65,120,000 of 2003B and 2003C Series Revenue Bonds. The bonds mature in 2004 – 2033 and carry an interest rate ranging from 2.00% to 5.00%. The bonds are secured by various loans made to institutions within the State of Maine.

On August 12, 2003, the Authority issued \$6,435,000 of 2003 Taxable II Series Revenue Bonds. The bonds mature in 2014 – 2023 and carry a variable interest rate. The bonds are secured by subordinated loans to various institutions and the Authority's operating fund.

Subsequent to year end, Birch Grove Nursing Center closed (see note 7).