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MHHEFA
MAINE HEALTH AND HIGHER
EDUCATIONAL FACILITIES AUTHORITY

Robert O. Lenna, *Executive Director*
Tel 207-622-1958
Fax 207-623-5359

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **2010 Maine Health and Higher Educational Facilities Authority Annual Report**

This is the annual report for the Maine Health and Higher Educational Facilities Authority for the 2010 fiscal year, running from July 1, 2009 to June 30, 2010. As of June 30, 2010, the Authority has $148,720,000 outstanding under its general tax exempt conduit resolution, $1,403,010,000 outstanding under its tax exempt reserve fund resolution, and $3,280,000 outstanding under its taxable reserve fund resolution.

During fiscal year 2010 the Authority issued $298,050,000 of bonds under its tax-exempt reserve fund resolution. These sales were accomplished in four series for sixteen hospitals, seven colleges, two community mental health care facilities, and six residential care facilities.

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 out 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 out website: www.mhhefa.com

Maine Health and Higher Educational Facilities Authority

Basic Financial Statements
and Management's Discussion and Analysis

Year Ended June 30, 2010
With Independent Auditors' Report

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying financial statements which include the Consolidated Operating Fund, Reserve Fund and Taxable Financing Reserve Fund, which collectively comprise the basic financial statements of Maine Health and Higher Educational Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2010, as listed on the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 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 opinions.

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, as well as the individual fund groups referred to above, as of June 30, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010 on our consideration of Maine Health and Higher Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 7 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which 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.

To the Members of
Maine Health and Higher
Educational Facilities Authority

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The additional information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
October 28, 2010

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

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, 2010. 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

- On September 30, 2009, the Authority sold the net assets of Portland Center for Assisted Living (the Center), its formerly wholly-owned subsidiary, and recognized a gain on sale of $892,194. Operating results of the Center for the period July 1, 2009 through September 30, 2009, and the gain on sale have been reported as discontinued operations on the 2010 statement of revenues, expenses and changes in net assets in the accompanying financial statements. Refer to note 10 of the financial statements for a summary of the transaction.
- Operating income for the Authority's Operating Fund before transfers and discontinued operations was $2,264,514 for fiscal year 2010, a decrease of $1,804,765 or 44% from fiscal year 2009. This decrease was primarily due to two factors. There was a decrease in income from investments of approximately $575,000 due to the board adopting a resolution establishing a supplemental reserve fund within the Authority's reserve fund resolution, resulting in a transfer of $24,221,739 of cash and investments from the operating resolution to the reserve fund resolution. Secondly, the board approved a decrease in Authority fees charged to the institutions, effective January 1, 2010, which was the primary factor in a total reduction in administrative and other fee revenue of approximately $1,122,900 from 2009.
- Total revenues of $62,039,692 for fiscal year 2010 were a decrease of $4,529,433 or 7% from fiscal year 2009. The decrease was due to a decrease in income from investments, a scheduled reduction in interest received from institutions and a board approved decrease in Authority fees.
- The Authority's loans receivable from institutions at June 30, 2010 of $1,278,873,763 represents a net increase of $76,761,885 or 6% from the balance at June 30, 2009. This increase is the net result of the bond issuances described below, and repayment of loans by institutions during fiscal year 2010.
- The Authority's gross bonds outstanding at June 30, 2010 of $1,406,290,000 represent a net increase of $81,275,000 or 6% from the balance at June 30, 2009. This increase is due to the net impact of the issuance of $92,780,000 in 2009A reserve fund bonds, $97,240,000 in 2010A reserve fund bonds and $108,030,000 in 2010BC reserve funds bonds, a portion of which refunded $162,585,000 of outstanding maturities within the 1993D, 1995A, 1998A, 1998B, 1998C, 1999A, 2000C, 2001A, 2001C and 2001D bond series, less scheduled bond principal payments (refer to notes 4 and 8 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 1972 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 and is funded from fees charged to participating borrowers and interest earnings on investments.

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 sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Net Assets increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities result in increased net assets, which may indicate an improved financial position.

The statement of revenues and expenses and changes in net assets presents information showing how the Authority's net assets changed during the fiscal year. Substantially all changes in net assets 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.

The statement of cash flows is presented using the direct method of reporting which reflects cash flows from operating, financing and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

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 assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $48,254,705 at June 30, 2010. This represents an increase of $4,530,192 or 10.4% over the previous fiscal year, which is the Authority's 2010 operating income.

The Authority's financial position and operations for the past two years are summarized below based on information included in the audited financial statements. We have broken out the 2009 Portland Center total assets, liabilities and net assets on the balance sheet below to facilitate comparison with 2010. We have also reclassified 2009 operating results of Portland Center on the statement of revenues, expenses and changes in net assets below to facilitate comparison with 2010.

Balance Sheet

	2010	2009	% Change
Current assets:			
Cash and cash equivalents	$ 11,190,323	$ 11,401,459	(1.9)%
Investments held by trustee, at fair value	30,870,224	34,473,356	(10.5)
Board-designated cash and investments	7,122,830	25,122,442	(71.6)
Accrued investment income	599,698	256,621	133.7
Loans receivable from institutions	42,791,340	49,362,675	(13.3)
Loan receivable from operating fund	–	660,000	(100.0)
Interest and other receivables from institutions	2,795,064	2,289,438	22.1
Fees and other amounts due from other funds	1,261,877	2,378,251	(46.9)
Total current assets	96,631,356	125,944,242	(23.3)
Noncurrent assets:			
Investments held by trustee, at fair value	128,735,865	120,845,109	6.5
Board-designated cash and investments	24,324,395	–	–
Loans receivable from institutions	1,236,082,423	1,152,749,203	7.2
Loan receivable from operating fund	–	1,398,013	(100.0)
Notes, advances and other receivables from institutions, net of allowance of $617,900 in 2010 and $732,000 in 2009	216,100	131,744	64.0
Total noncurrent assets	1,389,358,783	1,275,124,069	9.0
Total Portland Center assets	–	5,561,404	(100.0)
Total assets	$ 1,485,990,139	$ 1,406,629,715	5.6%
Current liabilities:			
Bonds payable	$ 43,020,000	$ 50,235,000	(14.4)%
Interest payable	24,986,302	26,652,666	(6.3)
Fees and other amounts due to operating fund	1,261,877	2,378,251	(46.9)
Accounts payable	397,696	358,918	10.8
Rebate payable to Internal Revenue Service	851,204	56,529	1405.8
Deferred revenue	3,163,980	2,845,334	11.2
Other liabilities	–	284,000	(100.0)
Total current liabilities	73,681,059	82,810,698	(11.0)
Noncurrent liabilities:			
Bonds payable	1,363,270,000	1,274,780,000	6.9
Rebate payable to Internal Revenue Service	784,375	1,476,193	(46.9)
Total noncurrent liabilities	1,364,054,375	1,276,256,193	6.9
Total Portland Center liabilities	–	3,838,311	(100.0)
Total liabilities	1,437,735,434	1,362,905,202	5.5
Net assets:			
Unrestricted net assets	48,254,705	42,001,420	14.9
Total Portland Center net assets	–	1,723,093	(100.0)
Total net assets	48,254,705	43,724,513	10.4
Total liabilities and net assets	$ 1,485,990,139	$ 1,406,629,715	5.6%

Statements of Revenues, Expenses and Changes in Net Assets

	2010	2009	% Change
Operating revenues:			
Interest and other amounts from institutions	$ 49,815,285	$ 55,481,214	(10.2)%
Interest on loans receivable from operating fund	36,500	214,155	(83.0)
Administrative and other fees	2,186,902	3,309,779	(33.9)
Income from investments	5,551,780	6,475,237	(14.3)
Net increase in the fair value of investments	1,118,720	120,453	828.8
Interest income from advances and notes receivable from institutions	33,910	35,778	(5.2)
Other income	3,296,595	932,509	253.5
Total operating revenues	62,039,692	66,569,125	(6.8)
Operating expenses:			
Bond issuance costs	3,193,945	788,440	305.1
Interest expense	54,844,081	60,748,835	(9.7)
Operating expenses	746,763	685,497	8.9
Bad debt provision	(398,260)	–	–
Other expenses	307,708	1,117,474	(72.5)
Total operating expenses	58,694,237	63,340,246	(7.3)
Operating income from continuing operations	3,345,455	3,228,879	3.6
Discontinued operations:			
Operating income from discontinued operations	292,543	817,593	(64.2)
Gain on sale of Portland Center	892,194	–	–
Operating income	4,530,192	4,046,472	12.0
Net assets, beginning of year	43,724,513	39,678,041	10.2
Net assets, end of year	$ 48,254,705	$ 43,724,513	10.4%

Accrued investment income at June 30, 2010 increased $343,077 or 133.7% from fiscal year 2009 due to an increase in the amount invested in long term municipal bonds. These municipal bonds replaced some of the long term guaranteed investment contracts that had been downgraded, subsequently liquidated and invested in low yielding cash and cash equivalents in 2009 (see note 3).

Interest and other receivables from institutions at June 30, 2010 increased $505,626 from prior year or 22.1% from balances at June 30, 2009 primarily due to the timing of transfers from capitalized interest accounts held by the trustee.

Loans receivable from operating fund decreased 100% from fiscal year 2009 due to the sale of Portland Center and corresponding payoff of the remaining taxable financing reserve fund loan (see note 10 for details).

Fees and other amounts due from other funds and related fees and other amounts due to the operating fund decreased $1,116,374 or 46.9% over fiscal year 2009 due to a Board authorized decrease in Authority fees charged to institutions, which was effective as of January 1, 2010.

Deferred revenue increased $318,646 or 11.2% in fiscal year 2010 over fiscal year 2009. The increase is a result of deferring monthly debt service installment payments received from institutions that subsequently refunded with the 2010BC reserve issue. The funds will be used against future debt service payments.

Rebate payable to the Internal Revenue Service at June 30, 2010 increased $102,857 or 6.7% from June 30, 2009. This increase is the result of the net difference between additional accrued liability for fiscal year 2010 and rebate payments to the Internal Revenue Service during fiscal year 2010.

The change in the fair value of investments in 2010 was a net increase of $1,118,720 versus a net increase of $120,453 in 2009. The increases experienced during fiscal 2010 are the result of fluctuations in the interest rate environment which resulted in an increase of the fair value of investments that were purchased in prior periods when interest rates were higher. The Authority's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises, municipal bonds and guaranteed investment contracts. Investments are carried at fair value, and unrealized gains and losses (primarily due to fluctuations in market interest rates) are recognized in the statements of revenues, expenses and changes in net assets. The maturities of investments in the debt service reserve funds are scheduled to match debt service payments and are normally held to maturity.

Interest on loans receivable from operating fund decreased $177,655 or 83% from fiscal year 2009 due to the sale of Portland Center and the corresponding payoff of the remaining taxable financing reserve fund loan.

Income from investments for fiscal year 2010 decreased $923,457 or 14.3% from fiscal year 2009. This decrease is the result of low short term interest rates throughout fiscal 2010 and the full year impact of replacing downgraded GICs in prior year with lower yielding alternatives.

Administrative and other fees decreased $1,122,877 or 33.9% from fiscal year 2009 due to a Board approved decrease in Authority fees charged to the institutions effective January 1, 2010.

Other revenue for fiscal year 2010 increased $2,364,086 or 253.5% from fiscal year 2009. This increase is primarily the result of new bonds being issued during fiscal year 2010, which resulted in additional revenue received from borrowers to pay related costs of issuance. The bond issuance costs for fiscal year 2010 have also increased.

Operating income from discontinued operations is less than 2009 due to there being only three months of operations in 2010.

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

BALANCE SHEET

June 30, 2010

ASSETS

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Current assets:				
Cash and cash equivalents (note 2)	$11,190,323	$ –	$ –	$ 11,190,323
Investments held by trustee, at fair value (note 3)	–	30,658,381	211,843	30,870,224
Board-designated cash and investments, at fair value (note 3)	7,122,830	–	–	7,122,830
Accrued investment income	11,349	587,438	911	599,698
Loans receivable from institutions (note 9)	–	42,186,340	605,000	42,791,340
Interest and other receivables from institutions	–	2,793,298	1,766	2,795,064
Fees and other amounts due from other funds	1,261,877	–	–	1,261,877
Total current assets	19,586,379	76,225,457	819,520	96,631,356
Noncurrent assets:				
Investments held by trustee, at fair value (notes 3 and 6)	–	127,792,742	943,123	128,735,865
Board-designated cash and investments, at fair value (notes 1 and 3)	–	24,324,395	–	24,324,395
Loans receivable from institutions (note 9)	–	1,234,350,546	1,731,877	1,236,082,423
Notes, advances and other receivables from institutions, net of allowance of $617,900 (note 9)	216,100	–	–	216,100
Total noncurrent assets	216,100	1,386,467,683	2,675,000	1,389,358,783
Total assets	$19,802,479	$1,462,693,140	$3,494,520	$1,485,990,139

LIABILITIES AND NET ASSETS

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Current liabilities:				
Bonds payable (note 4)	$ –	$ 42,415,000	$ 605,000	$ 43,020,000
Interest payable	–	24,976,619	9,683	24,986,302
Fees and other amounts due to operating fund	–	1,085,348	176,529	1,261,877
Accounts payable	93,064	303,137	1,495	397,696
Rebate payable to Internal Revenue Service	–	851,204	–	851,204
Deferred revenue	–	3,161,421	2,559	3,163,980
Total current liabilities	93,064	72,792,729	795,266	73,681,059
Noncurrent liabilities:				
Bonds payable (notes 4 and 8)	–	1,360,595,000	2,675,000	1,363,270,000
Rebate payable to Internal Revenue Service	–	784,375	–	784,375
Total noncurrent liabilities	–	1,361,379,375	2,675,000	1,364,054,375
Total liabilities	93,064	1,434,172,104	3,470,266	1,437,735,434
Net assets:				
Unrestricted net assets	19,709,415	28,521,036	24,254	48,254,705
Total net assets	19,709,415	28,521,036	24,254	48,254,705
Total liabilities and net assets	$19,802,479	$1,462,693,140	$3,494,520	$1,485,990,139

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2010

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Operating revenues:				
Interest and other amounts from institutions	$ –	$49,604,680	$210,605	$ 49,815,285
Interest on loans receivable from operating fund	–	–	36,500	36,500
Administrative and other fees	2,186,902	–	–	2,186,902
Income from investments	501,742	4,983,201	66,837	5,551,780
Net increase (decrease) in the fair value of investments	(152,187)	1,270,907	–	1,118,720
Interest income from advances and notes receivable from institutions	33,910	–	–	33,910
Other income	102,650	3,193,945	–	3,296,595
Total operating revenues	2,673,017	59,052,733	313,942	62,039,692
Operating expenses:				
Bond issuance costs	–	3,193,945	–	3,193,945
Interest expense	–	54,554,681	289,400	54,844,081
Operating expenses (note 7)	746,763	–	–	746,763
Bad debt provision	(398,260)	–	–	(398,260)
Other expenses	60,000	221,570	26,138	307,708
Total operating expenses	408,503	57,970,196	315,538	58,694,237
Operating income (loss) from continuing operations before operating transfers	2,264,514	1,082,537	(1,596)	3,345,455
Operating transfers (note 1)	(24,221,739)	24,221,739	–	–
Operating income (loss) from continuing operations	(21,957,225)	25,304,276	(1,596)	3,345,455
Discounted operations:				
Operating income from discontinued operations (note 10)	292,543	–	–	292,543
Gain on sale of Portland Center assets (note 10)	892,194	–	–	892,194
Operating income (loss)	(20,772,488)	25,304,276	(1,596)	4,530,192
Net assets, beginning of year	40,481,903	3,216,760	25,850	43,724,513
Net assets, end of year	$ 19,709,415	$28,521,036	$ 24,254	$ 48,254,705

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2010

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Operating activities:				
Cash received from institutions	$ 2,186,902	$ 98,584,157	$ 1,604,736	$ 102,375,795
Cash received from operating fund	–	–	2,094,513	2,094,513
Cash payments to institutions	–	(137,988,554)	–	(137,988,554)
Cash received from other income	102,650	–	–	102,650
Cash payments for operating expenses	(756,378)	(224,548)	(34,767)	(1,015,693)
Cash received from (paid to) other funds	1,116,374	(936,227)	(180,147)	–
Net cash (used) provided by operating activities	2,649,548	(40,565,172)	3,484,335	(34,431,289)
Noncapital financing activities:				
Proceeds from bonds payable	–	306,495,421	–	306,495,421
Other proceeds from institutions in conjunction with bond issuance	–	18,946,878	–	18,946,878
Principal paid on bonds payable	–	(49,390,000)	(4,800,000)	(54,190,000)
Interest paid on bonds payable	–	(53,532,008)	(303,601)	(53,835,609)
Paid to refunding escrows	–	(168,629,662)	–	(168,629,662)
Bond and other proceeds passed-on to borrowers	–	(10,162,447)	–	(10,162,447)
Issuance costs paid	–	(3,193,945)	–	(3,193,945)
Net cash provided (used) by noncapital financing activities	–	40,534,237	(5,103,601)	35,430,636
Investing activities:				
Purchase of investment securities	(20,326,953)	(468,378,152)	(8,354,901)	(497,060,006)
Proceeds from sale and maturities of investment securities	13,952,639	463,709,164	9,904,516	487,566,319
Income received from investments and advances	575,896	4,744,519	69,651	5,390,066
Interest rebate paid to U.S. Government	–	(44,596)	–	(44,596)
Net decrease in notes, advances and other receivable from institutions	29,904	–	–	29,904
Net cash (used) provided by investing activities	(5,768,514)	30,935	1,619,266	(4,118,313)
Cash flows of discontinued operations – operating	255,788	–	–	255,788
Cash flows of discontinued operations – noncapital financing	(2,094,513)	–	–	(2,094,513)
Cash flows of discontinued operations – investing	3,443,262	–	–	3,443,262
Net increase in cash and cash equivalents	1,604,537	–	–	1,604,537
Decrease in cash and cash equivalents	(1,514,429)	–	–	(1,514,429)
Cash and cash equivalents, beginning of year	12,704,752	–	–	12,704,752
Cash and cash equivalents, end of year	$ 11,190,323	$ –	$ –	$ 11,190,323

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS
(CONTINUED)

For the Year Ended June 30, 2010

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Reconciliation of operating income (loss) to net cash (used) provided by operating activities:				
Operating income (loss)	$ (20,772,488)	$ 25,304,276	$ (1,596)	$ 4,530,192
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:				
Income from discontinued operations	(292,543)	–	–	(292,543)
Gain on sale of discontinued operations	(892,194)	–	–	(892,194)
Investment and interest income	(535,652)	(4,983,201)	(66,837)	(5,585,690)
Net (increase) decrease in the fair value of investments	152,187	(1,270,907)	–	(1,118,720)
Transfer of investments to supplemental reserve	24,221,739	(24,221,739)	–	–
Bad debt provision	(398,260)	–	–	(398,260)
Interest expense on bonds payable	–	54,554,681	289,400	54,844,081
Change in assets and liabilities:				
Loans receivable from institutions	–	(88,810,879)	1,382,913	(87,427,966)
Loan receivable from operating fund	–	–	2,058,013	2,058,013
Accrued interest and other receivables from institutions	–	(514,285)	8,659	(505,626)
Due to/from other funds	1,116,374	(936,227)	(180,147)	–
Accounts payable and other liabilities	50,385	(2,978)	(8,629)	38,778
Deferred revenue	–	316,087	2,559	318,646
Net cash (used) provided by operating activities	$ 2,649,548	$ (40,565,172)	$ 3,484,335	$ (34,431,289)

Summary of noncash transactions:

See accompanying notes.

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 (GASB) Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, 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.

Operating Fund

The Authority's operating fund records the revenues and expenses generated from its daily operations, and also included the operations of Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center), from July 1, 2009 through September 30, 2009, at which time all assets of the Center were sold (see note 10). 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.

In fiscal 2010, the Authority's Board of Directors adopted a resolution establishing a supplemental reserve fund within the Authority's reserve fund resolution. As part of this resolution, $24,221,739 of cash and investments were transferred from the operating fund resolution to the reserve fund resolution, which at the discretion of the Authority, shall serve as additional security for one or more series of bonds. At any time that the reserve fund investments exceed the reserve fund requirement (see note 6), the Authority may transfer any amounts held under the supplemental reserve back to the Authority's operating fund. The balance in the supplemental reserve of $24,324,395 at June 30, 2010, is presented as Board-designated cash and investments on the balance sheet.

1. Organization (Continued)

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

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 are secured by all of the reserve funds within the resolution and 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 are secured by all of the reserve funds within the resolution and 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.

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). Security for these bonds is limited to debt service reserve funds of and the loans to the specific institution for which the bond was issued. Therefore, these bonds are considered conduit debt and are not reflected on the accompanying balance sheet. (See note 5).

2. Significant Accounting Policies

Proprietary Fund Accounting

The Authority's operations are, for the most part, financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the costs of providing goods and services is financed through user charges. Therefore, it meets the criteria for an enterprise fund and is accounted for under the accrual basis of accounting.

2. Significant Accounting Policies (Continued)

The Authority complies with GASB Statement 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 GASB 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).

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. The cash and cash equivalents of the Authority's operating fund at June 30, 2010 consist of approximately $500,000 insured and $1,068,866 noninsured deposits with banks, and $4,616,365 of money market funds held by a custodian and secured by short-term U.S. Treasury obligations.

The Authority invests monies with the State of Maine. The State of Maine sponsors an internal investment pool (the Treasurer's Cash Pool). The Authority's participation is voluntary. The State of Maine Treasurer's Cash Pool is primarily comprised of investment vehicles with short maturities and management of the Authority characterizes the investments within the pool as low risk. The State of Maine's Treasurer's Cash Pool is not rated by external rating agencies. The Authority's management considers this investment vehicle a money market instrument and generally carries the amounts in the pool at cost. At June 30, 2010, the Authority had approximately $5,005,000 invested in the Treasurer's Cash Pool.

Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase (decrease) in the fair value of investments on the statement of revenues, expenses and changes in net assets. The cost of guaranteed investment contracts approximates fair value as the Authority can withdraw funds at par during the contract periods.

Bond Discounts, Premiums and Issuance Costs

Costs associated with issuing debt, which are generally paid by means of fees collected from institutions (borrowers), are expensed in the year incurred. To the extent they are used to pay bond issuance costs, premiums remitted to the Authority are recorded as other income. Other premiums and discounts are passed on to the borrowers, and are, therefore, not recorded.

2. Significant Accounting Policies (Continued)

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.

All other interfund transactions are reported as operating transfers.

Principles of Consolidation

The consolidated operating fund reflects the accounts of the Authority and its formerly wholly-owned subsidiary, the Center. All intercompany transactions and balances have been eliminated in consolidation.

The net assets of the Center were sold in 2010 (see note 10). The income from operations of the Center through the date of sale and the related gain on sale are presented as discontinued operations on the accompanying statement of revenues, expenses and changes in net assets.

Management 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 disclosure 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 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. Investments Held by Trustee and Board-Designated Cash and Investments

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises and certain state and local governments, as well as certain investment contracts and collateralized repurchase agreements. The trustees/custodians invest available cash in accordance with Maine statutes, applicable Series Resolutions and Tax Regulatory Agreements. At June 30, 2010, investments are categorized as follows:

	Fair Value
Consolidated Operating Fund	
Board-designated investments:	
U.S. Government-sponsored enterprises bonds and notes	$ 7,122,830
	$ 7,122,830

3. Investments Held by Trustee and Board-Designated Cash and Investments (Continued)

	Fair Value
Reserve Fund	
Investments held by trustee:	
U.S. Government-sponsored enterprises bonds and notes	$ 7,468,976
Guaranteed investment contracts	69,304,055
Municipal bonds	40,469,490
Cash and cash equivalents	41,208,602
	$158,451,123
Board Designated Cash and Investments:	
U.S. Government-sponsored enterprises bonds and notes	$ 9,649,473
Cash and cash equivalents	14,674,922
	$ 24,324,395
Taxable Financing Reserve Fund	
Investments held by trustee:	
Guaranteed investment contracts	$ 625,975
Cash and cash equivalents	528,991
	$ 1,154,966

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, guaranteed investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Authority to terminate individual contracts at par. The Authority's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Authority's investments in guaranteed investment contracts, U.S. Government-sponsored enterprises and municipal bonds as of June 30, 2010:

	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than Ten Years
Authority's Operating Fund					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	$ 7,122,830	$5,100,950	$2,021,880	$ –	$ –

3. Investments Held by Trustee and Board-Designated Cash and Investments (Continued)

	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than Ten Years
Reserve Fund					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	$ 17,118,449	$2,979,469	$6,670,004	$2,562,225	$ 4,906,751
Guaranteed investment contracts	69,304,055	–	–	–	69,304,055
Municipal bonds	40,469,490	–	–	–	40,469,490
	$126,891,994	$2,979,469	$6,670,004	$2,562,225	$ 114,680,296
Taxable Financing Reserve Fund					
Guaranteed investment contracts	$ 625,975	$ –	$ 625,975	$ –	$ –

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 investments are primarily held by U.S. Bank and Bangor Savings Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at either U.S. Bank or Bangor Savings Bank at June 30, 2010.

For an investment, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Authority. The Authority's investment policy limits its investments to those with high credit quality such as U.S. Treasury Obligations, U.S. Government-sponsored enterprises and municipal bonds, as rated by rating agencies such as Moody's Investor Service or Standard and Poor's, or guaranteed investment contracts backed by high credit quality banks and insurance companies (AA-rated or better).

The Authority limits its credit risk by investing in guaranteed investment contracts backed by high credit quality banks and insurance companies. Investments in guaranteed investment contract issuers that represent 5% or more of total guaranteed investment contracts within each respective resolution at June 30, 2010, with their credit quality ratings as issued by Standard & Poor's as of the date of this report, are as follows:

	Rating	
Reserve Fund		
Guaranteed Investment Contracts Provided By:		
FSA Capital Management Services, LLC	AAA	$50,101,881
Transamerica Life Insurance Company	AA-	11,438,906
GE Funding Capital Market Service	AA+	3,479,154
Total		$65,019,941

3. Investments Held by Trustee and Board-Designated Cash and Investments (Continued)

	Rating	
Taxable Financing Reserve Fund		
Guaranteed Investment Contracts Provided By:		
Transamerica Life Insurance Company	AA-	$ 238,375
Protective Life Insurance Company	AA-	387,600
Total		$ 625,975

During prior years, certain guaranteed investment contract providers experienced credit downgrades. As a result, the Authority exercised provisions in the various contracts and received a return of par. Upon liquidation, monies were invested in cash and cash equivalents and municipal bonds. Management of the Authority continues to search for additional investment opportunities to move remaining monies out of cash and cash equivalents into higher yielding investments.

All municipal bonds within the reserve fund are Standard & Poor's AA- rated or better as of June 30, 2010.

Trustee held cash and cash equivalents at June 30, 2010 consist primarily of short-term money market funds invested exclusively in U.S. Treasury obligations.

4. Bonds Payable

Total Reserve Fund bonds payable consist of the following at June 30, 2010

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2010
Reserve Fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	$ 44,850,000	$ 990,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	7,340,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	505,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	140,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	1,270,000
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	8,310,000	6,560,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	26,370,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	10,035,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2010
Reserve Fund (continued):			
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	$ 100,540,000	$ 11,145,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	17,570,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	27,290,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	2,515,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	1,470,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	31,090,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	7,580,000
Series 2001D, 3.0% – 5.0%, dated November 1, 2001	2002 – 2031	50,700,000	32,310,000
Series 2002A, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	41,130,000
Series 2002B, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	8,175,000	7,425,000
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	63,080,000	55,125,000
Series 2003B, 2.0% – 5.0%, dated July 1, 2003	2004 – 2033	59,245,000	18,155,000
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	7,050,000	5,895,000
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	35,880,000	25,325,000
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	72,315,000	55,465,000
Series 2004B, 3.00% – 5.00%, dated December 9, 2004	2006 – 2034	42,265,000	37,525,000
Series 2005A, 3.0% – 5.0%, dated August 17, 2005	2006 – 2035	48,325,000	17,720,000
Series 2005B, 3.5% – 5.0%, dated December 29, 2005	2006 – 2030	28,325,000	24,020,000
Series 2006A, 3.5% – 5.0%, dated February 2, 2006	2006 – 2035	51,855,000	44,225,000
Series 2006B, 3.5% – 5.0%, dated April 6, 2006	2007 – 2036	56,795,000	46,190,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2010
Reserve Fund (continued):			
Series 2006F, 4.0% – 5.0%, dated September 7, 2006	2007 – 2036	$ 89,125,000	$ 86,000,000
Series 2006G, variable rate, dated September 7, 2006	2008 – 2036	14,200,000	13,850,000
Series 2006H, variable rate, dated December 20, 2006	2012 – 2036	68,400,000	68,400,000
Series 2007A, 4.0% – 5.0%, dated July 18, 2007	2008 – 2030	96,495,000	89,615,000
Series 2007B, 4.0% – 5.0%, dated November 1, 2007	2008 – 2037	70,470,000	68,660,000
Series 2008A, variable rate, dated May 22, 2008	2008 – 2036	107,180,000	104,535,000
Series 2008B, variable rate, dated June 19, 2008	2008 – 2014	25,985,000	22,025,000
Series 2008C, 3.0% – 5.0%, dated June 19, 2008	2009 – 2038	49,540,000	48,505,000
Series 2008D, 3.0% – 5.75%, dated December 3, 2008	2009 – 2038	41,735,000	40,990,000
Series 2009A, 2.0% – 5.125%, dated December 10, 2009	2010 – 2039	92,780,000	92,780,000
Series 2010A, 2.5% – 5.25% dated April 22, 2010	2011 – 2040	97,240,000	97,240,000
Series 2010B, 2.5% – 5.25% dated June 24, 2010	2011 – 2031	96,755,000	96,755,000
Series 2010C, 2.5% – 4.0% dated June 24, 2010	2011 – 2023	11,275,000	11,275,000
		$2,126,080,000	1,403,010,000
Current portion			42,415,000
Noncurrent portion			$1,360,595,000

4. Bonds Payable (Continued)

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

Year Ending	Principal	Interest	Total
2011	$ 42,415,000	$ 53,003,784	$ 95,418,784
2012	54,860,000	54,563,132	109,423,132
2013	59,485,000	52,634,059	112,119,059
2014	60,135,000	50,564,926	110,699,926
2015	61,750,000	48,387,257	110,137,257
2016 – 2020	294,125,000	206,335,763	500,460,763
2021 – 2025	285,375,000	143,725,960	429,100,960
2026 – 2030	251,775,000	86,349,755	338,124,755
2031 – 2035	185,455,000	39,047,379	224,502,379
2036 – 2040	104,160,000	9,600,548	113,760,548
2041	3,475,000	86,875	3,561,875
Total	$1,403,010,000	$744,299,438	$2,147,309,438

Taxable Financing Reserve fund bonds payable consist of the following at June 30, 2010:

	Original Maturity	Original Amount Issued	Outstanding June 30, 2010
Taxable Financing Reserve Fund:			
Series 1993A, variable interest rate, dated January 1, 1993	1993 – 2012	$57,125,000	$ 615,000
Series 1993B, variable interest rate, dated October 27, 1993	1994 – 2013	25,060,000	970,000
Series 1996A, variable interest rate, dated February 22, 1996	1996 – 2016	16,440,000	1,695,000
		$98,625,000	3,280,000
Current portion			605,000
Noncurrent portion			$2,675,000

The outstanding Taxable Financing Reserve Fund bonds payable will mature in each of the following years with interest payable semiannually:

Year Ending	Principal	Interest	Total
2011	$ 605,000	$211,068	$ 816,068
2012	655,000	166,124	821,124
2013	700,000	117,791	817,791
2014	495,000	75,410	570,410
2015	255,000	49,034	304,034
2016 – 2017	570,000	40,774	610,774
	$3,280,000	$660,201	$3,940,201

4. Bonds Payable (Continued)

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2010:

	Reserve Fund	Taxable Financing Reserve Fund
Balance, beginning of year	$1,316,935,000	$8,080,000
Issuances, at par	298,050,000	–
Redemptions:		
Principal payments	49,390,000	4,800,000
Bonds refunded (note 8)	162,585,000	–
Balance, end of year	$1,403,010,000	$3,280,000

Certain outstanding bonds within the Reserve Fund and Taxable Financing Reserve Fund carry variable interest rates. Within the Reserve Fund, variable interest rates are reset to market every 7 days; interest rates range from .22% to .42% at June 30, 2010. Within the Taxable Financing Reserve Funds, variable interest rates are set at LIBOR + .40%, which approximates .75% at June 30, 2010.

5. Conduit Debt

Conduit debt of the Authority consists of bonds outstanding within the general resolution. The following is a summary of outstanding conduit debt at June 30, 2010:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2010
General Resolution:			
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	$ 11,885,000	$ 875,000
Mt. Desert Island Hospital, Series 1992, variable interest rate equal to 80% of the prime rate of Bank of America, dated July 15, 1992	1993 – 2012	1,300,000	290,000
Mid Coast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2006 – 2043	8,830,000	8,355,000
Bowdoin College, Series 2008, variable rate, dated March 24, 2008	2032 – 2037	20,700,000	20,700,000
Bowdoin College, Series 2009A, 5% – 5.125%, dated May 14, 2009	2035 – 2039	98,750,000	98,750,000
Bowdoin College, Series 2009B, 6.667%, dated May 14, 2009	2035 – 2039	19,750,000	19,750,000
		$161,215,000	$148,720,000

5. Conduit Debt (Continued)

The following is a summary of conduit debt activity for the year ended June 30, 2010:

Bonds outstanding as of June 30, 2009	$149,080,000
Less: Redemptions during fiscal 2010	360,000
Bonds outstanding as of June 30, 2010	$148,720,000

At June 30, 2010, there were approximately $13,485,000 of defeased bonds remaining outstanding with respect to advance refunded conduit debt of bond issues of the general resolution.

6. Reserve Funds

Each of the following resolutions require the Authority to set up reserve funds (maintain assets) as follows:

Reserve Fund

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2010, the required debt service reserve was approximately $113,141,000 and the fair value of the debt service reserve assets totaled approximately $127,793,000.

In addition, the Authority maintains a supplemental reserve as described in note 1. The fair value of these assets at June 30, 2010 is approximately $24,324,000.

Taxable Financing Reserve Fund

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2010, the required debt service reserve was approximately $844,500 and the fair value of the debt service reserve assets totaled approximately $943,000.

7. Operating Expenses

The Authority has a management agreement with the Bond Bank which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead. The Authority recognized approximately $464,000 of expense under this agreement in 2010.

8. Refunded Issues

In periods of declining interest rates, the Authority has refunded various bond obligations. The proceeds of any advance refunding bonds are primarily used to purchase U.S. Treasury obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the defeased bonds. Neither the U.S. Treasury obligations nor the defeased bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations are placed in irrevocable trust accounts with the trustees of the defeased bonds. The gains, losses and economic benefits of these transactions inure to the respective Institution and not the Authority, although the Authority may receive an administrative fee.

On April 22, 2010, the Authority issued $97,240,000 in 2010A reserve fund resolution revenue bonds with an average interest rate of 4.84%, a portion of which was used ($41,125,000) to in-substance defease $44,160,000 of outstanding maturities within the 1998B and 1999A bond series. The net proceeds of approximately $45,349,000, including other sources of funds and after payment of underwriting fees, insurance and other issuance costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on defeased bonds.

On June 24, 2010, the Authority issued $108,030,000 in 2010B and C reserve fund resolution revenue bonds with an average interest rate of 4.36%, all of which was used to in-substance defease $118,425,000 of certain outstanding maturities within the 1993D, 1995A, 1998A, 1998B, 1998C, 1999A, 2000C, 2001A, 2001C and 2001D bond series. The net proceeds of approximately $123,281,000, including other sources of funds and after payment of underwriting fees, insurance and other issuance costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on defeased bonds.

At June 30, 2010, there were approximately $247,610,000 of in-substance defeased bonds remaining outstanding with respect to all advance-refunding issues within the reserve fund resolution.

9. Nursing Home Loans and Advances

In 1994, the Maine Department of Health and Human Services (DHHS) 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 created cash flow problems.

The Authority has advanced approximately $116,000 from its operating fund to an institution with outstanding loans owed to the Authority of approximately $394,000 within the taxable financing reserve fund resolution, and has loaned from its operating fund approximately $331,000 to an institution with outstanding loans owed to the Authority of approximately $8,800,000 within the reserve fund resolution at June 30, 2010. These advances and loans, 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 in years prior to fiscal 2010. The Authority also has approximately $387,000 of other receivables outstanding within the operating fund at June 30, 2010, primarily related to amounts due from institutions to reimburse the Authority for arbitrage and other payments made on their behalf.

At June 30, 2010, the Authority has established a $617,900 reserve in the operating fund related to the above loans, advances and other receivables outstanding.

10. Discontinued Operations

On September 30, 2009, the Authority sold the net assets of Portland Center for Assisted Living to PCAL Devonshire Associates, LLC and recognized a gain on sale of $892,194. The following is a summary of cash consideration received and uses of funds upon sale:

Cash consideration:	
Sales price	$7,405,000
Other miscellaneous proceeds	34,239
Less debt service reserve fund deposit on hand	(886,000)
	6,553,239
Cash used:	
Settlement with Department of Health and Human Services, including depreciation recapture	2,337,999
Pay-off of loan to Taxable Financing Reserve Fund Resolution	1,398,013
	3,736,012
Net proceeds paid to the Authority's Operating Fund Group	$2,817,227

The following represents the Center's balance sheet at time of sale and reconciliation of the gain recognized on sale:

	September 30, 2009
Assets:	
Cash and cash equivalents	$ 3,873,460
Resident accounts receivable	128,226
Assets whose use is limited	504,745
Net property, plant and equipment	2,666,961
Deferred financing costs	67,054
Other assets	45,405
	7,285,851
Liabilities:	
Accounts payable and other liabilities	86,560
Deferred revenue	12,666
Resident funds held in trust	36,487
Estimated third-party payor settlement	1,181,877
Deposit liability	2,645,215
Loans payable to Authority's taxable financing reserve fund	1,398,013
Advances and accrued interest due to the Authority's operating fund	9,350,256
	14,711,074
Net deficit	$(7,425,223)
The net proceeds paid to the Authority were applied as follows:	
Advances and accrued interest due to the Authority's operating fund	$ 9,350,256
Net deficit	(7,425,223)
	1,925,033
Net proceeds paid to the Authority's operating fund group	2,817,227
Recognized gain on sale	$ 892,194

10. Discontinued Operations (Continued)

Amounts included in the consolidated operating fund statement of revenues, expenses and changes in net assets with respect to the discontinued operations of the Center are as follows:

Gross resident service revenue	$ 2,255,912
Contractual adjustments under third-party reimbursement programs	(933,568)
Net resident service revenue	1,322,344
Other income	10,993
Resident service and other operating expenses	(1,004,294)
Income from operations	329,043
Interest expense to taxable financing reserve fund	(36,500)
Net income	$ 292,543

Amounts above do not include interest on loans to the Authority's operating fund.

SUPPLEMENTAL SCHEDULE

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2010

	Expenses	Program Revenues: Charges for Services	Program Revenues: Program Investment Income	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants/ Contributions	Net Revenue (Expense) and Changes in net assets: Total
Functions/Programs:						
Maine Health and Higher Educational Facilities Authority	$(58,694,237)	$55,266,542	$6,320,945	$ –	$ –	$ 2,893,250
Total	$(58,694,237)	$55,266,542	$6,320,945	$ –	$ –	2,893,250
General revenues:						
Unrestricted interest and investment earnings						349,555
Miscellaneous income						102,650
Extraordinary items (discontinued operations)						1,184,737
Total general revenues and extraordinary items						1,636,942
Changes in net assets						4,530,192
Net assets, beginning of year						43,724,513
Net assets, end of year						$48,254,705