

# MAINE STATE LEGISLATURE

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**HEALTH & HIGHER EDUCATIONAL  
FACILITIES AUTHORITY**

**2001 Financial Report**

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## Audited Financial Statements and Other Financial Information

Year Ended June 30, 2001

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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 consolidating balance sheet – operating fund and the combined and combining balance sheet – restricted and trustee funds of Maine Health and Higher Educational Facilities Authority as of June 30, 2001, and the related consolidating statement of operations and changes in fund balance – operating fund, combined and combining statement 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. 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 financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority at June 30, 2001, 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. Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of Maine Health and Higher Educational Facilities Authority at June 30, 2001, and the results of their operations and cash flows of individual operating funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The balance sheets and statements of changes in funds held in trust listed under "other financial information" in the table of contents are presented in accordance with the requirements of Section 5.09 of the General Bond Resolution and are not a required part of the financial statements of the Authority. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Portland, Maine  
October 5, 2001

  
Limited Liability Company

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2001

### ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
<b>Current assets:</b>				
Cash and cash equivalents (note 3)	\$ 4,544,137	\$ 663,365	\$ —	\$ 5,207,502
Investments, at fair value (note 3)	3,552,285	—	—	3,552,285
Accrued investment income	11,817	—	—	11,817
Fees receivable from institutions	74,905	—	—	74,905
Fees and other amounts receivable from trusteed funds	1,565,650	—	—	1,565,650
Advances receivable from institutions net of allowance of \$1,600,000 (note 7)	5,676,271	—	(4,411,404)	1,264,867
Resident accounts receivable, net of allowance of \$45,800	—	160,944	—	160,944
Other assets	—	112,616	—	112,616
<b>Total current assets</b>	<b>15,425,065</b>	<b>936,925</b>	<b>(4,411,404)</b>	<b>11,950,586</b>
<b>Long-term assets:</b>				
Assets whose use is limited	—	468,257	—	468,257
Fixed and other assets, net	—	4,605,931	—	4,605,931
Deferred financing costs, net	—	232,755	—	232,755
<b>Total long-term assets</b>	<b>—</b>	<b>5,306,943</b>	<b>—</b>	<b>5,306,943</b>
	<u><b>\$ 15,425,065</b></u>	<u><b>\$ 6,243,868</b></u>	<u><b>\$ (4,411,404)</b></u>	<u><b>\$ 17,257,529</b></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	\$ —	\$ 375,000	\$ —	\$ 375,000
Note payable to bank	—	4,141	—	4,141
Accounts payable	202,592	50,804	—	253,396
Estimated third-party payor settlements	—	1,285,388	—	1,285,388
Accrued payroll and other expenses	—	142,315	—	142,315
Advances due to Authority's operating fund	—	4,411,404	(4,411,404)	—
Resident funds held in trust	—	25,452	—	25,452
Deferred revenue	—	3,636	—	3,636
Total current liabilities	202,592	6,298,140	(4,411,404)	2,089,328
Long-term liabilities:				
Loan payable to trustee funds	—	5,553,013	—	5,553,013
Total liabilities	202,592	11,851,153	(4,411,404)	7,642,341
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	—	200	(200)	—
Fund balance (deficit)	15,222,473	(5,607,485)	200	9,615,188
	15,222,473	(5,607,285)	—	9,615,188
	\$ 15,425,065	\$ 6,243,868	\$ (4,411,404)	\$ 17,257,529

See accompanying notes.

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

**COMBINED AND COMBINING BALANCE SHEET –  
RESTRICTED AND TRUSTEED FUNDS**

June 30, 2001

**ASSETS**

	<u>General Resolution</u>	<u>Reserve Fund</u>
Cash and cash equivalents (note 3)	\$ 8,607,575	\$ 59,183,813
Investments, at fair value (note 3)	19,035,941	127,925,138
Accrued investment income	437,362	1,602,411
Loans receivable from institutions (note 7)	80,640,000	817,475,979
Loan receivable from operating fund (note 8)	—	—
Other receivables from institutions	295,366	481,310
Other assets	<u>91,444</u>	<u>—</u>
	<u>\$ 109,107,688</u>	<u>\$ 1,006,668,651</u>

**LIABILITIES, FUNDS HELD IN TRUST AND FUND BALANCE**

Bonds payable (note 4)	\$ 80,640,000	\$ 893,905,000
Interest payable	1,382,490	20,467,442
Fees payable to operating fund	—	708,824
Accounts payable	—	164,822
Rebate payable to Internal Revenue Service	—	1,524,055
Deferred revenue	<u>—</u>	<u>1,128,487</u>
 Total liabilities	 82,022,490	 917,898,630
 Funds held in trust and fund balance:		
Construction/program funds	12,331,752	57,523,483
Expense funds	—	98,771
Debt service funds	6,503,241	29,991,559
Debt service reserve funds	8,247,449	—
Earnings funds	2,756	—
Unrestricted fund balance	<u>—</u>	<u>1,156,208</u>
 Total funds held in trust and fund balance	 <u>27,085,198</u>	 <u>88,770,021</u>
	<u>\$ 109,107,688</u>	<u>\$ 1,006,668,651</u>

See accompanying notes.

Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund	Combined
\$2,556,792	\$ 9,791,862	\$ 80,140,042
836,659	11,345,961	159,143,699
18,212	47,147	2,105,132
1,338,000	69,896,666	969,350,645
—	5,928,013	5,928,013
—	289,857	1,066,533
—	—	91,444
<u>\$4,749,663</u>	<u>\$ 97,299,506</u>	<u>\$ 1,217,825,508</u>
\$3,240,000	\$ 87,895,000	\$ 1,065,680,000
109,086	2,890,314	24,849,332
19,233	837,593	1,565,650
—	85,332	250,154
—	—	1,524,055
<u>8,598</u>	<u>33,814</u>	<u>1,170,899</u>
3,376,917	91,742,053	1,095,040,090
—	2,072,413	71,927,648
1,707	51,590	152,068
1,182,069	3,392,326	41,069,195
—	—	8,247,449
—	—	2,756
<u>188,970</u>	<u>41,124</u>	<u>1,386,302</u>
<u>1,372,746</u>	<u>5,557,453</u>	<u>122,785,418</u>
<u>\$4,749,663</u>	<u>\$ 97,299,506</u>	<u>\$ 1,217,825,508</u>



**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

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

Year Ended June 30, 2001

	Authority's Operating <u>Fund</u>	Portland Center For Assisted Living <u>(note 8)</u>	<u>Elimi- nations</u>	Consolidated Operating <u>Fund</u>
Operating revenues:				
Net resident service revenue	\$ —	\$ 4,611,643	\$ —	\$4,611,643
Administrative and other fees	2,762,572	—	—	2,762,572
Investment income	484,820	—	—	484,820
Net increase in the fair value of investments	8,093	—	—	8,093
Interest income from advances to institutions	637,130	—	(437,895)	199,235
Other income	<u>22,037</u>	<u>13,955</u>	<u>—</u>	<u>35,992</u>
	3,914,652	4,625,598	(437,895)	8,102,355
Operating expenses (note 5):				
Salaries	295,716	—	—	295,716
Employee benefits	73,336	—	—	73,336
Travel	15,188	—	—	15,188
Office expenses	82,035	—	—	82,035
Accounting and auditing	43,200	—	—	43,200
Legal	110,612	—	—	110,612
Telephone	8,133	—	—	8,133
Building lease	54,423	—	—	54,423
Paid to Maine Hospital Association	14,500	—	—	14,500
Assistance paid to borrowing institutions (note 7)	460,445	—	—	460,445
Nursing services	—	1,404,683	—	1,404,683
Administrative services	—	543,129	—	543,129
Dietary services	—	478,506	—	478,506
Depreciation and amortization	—	335,330	—	335,330
Plant operations and maintenance	—	258,572	—	258,572
Housekeeping services	—	145,880	—	145,880
Other services	—	416,156	—	416,156
Interest expense	<u>—</u>	<u>964,671</u>	<u>(437,895)</u>	<u>526,776</u>
	<u>1,157,588</u>	<u>4,546,927</u>	<u>(437,895)</u>	<u>5,266,620</u>
Excess of revenues over expenses	2,757,064	78,671	—	2,835,735
Fund balance (deficit) at beginning of year	<u>12,465,409</u>	<u>(5,686,156)</u>	<u>200</u>	<u>6,779,453</u>
Fund balance (deficit) at end of year	\$ <u>15,222,473</u>	\$ <u>(5,607,485)</u>	\$ <u>200</u>	\$ <u>9,615,188</u>

See accompanying notes.

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

**COMBINED AND COMBINING STATEMENT OF CHANGES IN FUND BALANCE  
AND FUNDS HELD IN TRUST – RESTRICTED AND TRUSTEED FUNDS**

Year Ended June 30, 2001

	<u>General Resolution</u>	<u>Reserve Fund</u>
Fund balance and funds held in trust, beginning of year	\$ 50,340,980	\$ 83,120,758
Additions:		
Bond and note proceeds	—	128,740,000
Received and receivable from institutions	8,626,752	64,046,747
Transfer from debt service reserves	—	—
Income from investments	2,305,968	10,148,546
Net (decrease) increase in the fair value of investments	(16,381)	—
Other income	<u>—</u>	<u>647,631</u>
Total additions	10,916,339	203,582,924
Deductions:		
Construction and program costs	20,995,109	106,493,727
Bond issuance costs and remarketing fees	—	2,949,836
Principal payments	4,385,000	23,495,000
Interest expense	4,674,462	42,974,155
Paid to institutions	3,577,687	733,927
Transfer to debt service reserves	—	6,977,008
Paid to refunding escrow (note 6)	—	11,726,391
Fee expense	—	1,959,523
Other deductions	<u>539,863</u>	<u>624,094</u>
Total deductions	<u>34,172,121</u>	<u>197,933,661</u>
Increase (decrease) in fund balance and funds held in trust	<u>(23,255,782)</u>	<u>5,649,263</u>
Fund balance and funds held in trust, end of year	\$ <u>27,085,198</u>	\$ <u>88,770,021</u>

See accompanying notes.

Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund	Combined
\$1,360,077	\$ 5,241,340	\$ 140,063,155
—	—	128,740,000
1,220,525	16,123,938	90,017,962
167,500	612,168	779,668
182,707	994,683	13,631,904
1,172	—	(15,209)
<u>—</u>	<u>—</u>	<u>647,631</u>
1,571,904	17,730,789	233,801,956
—	99,949	127,588,785
—	—	2,949,836
1,295,000	9,525,000	38,700,000
218,172	7,015,520	54,882,309
—	493,349	4,804,963
—	—	6,977,008
—	—	11,726,391
38,465	—	1,997,988
<u>7,598</u>	<u>280,858</u>	<u>1,452,413</u>
<u>1,559,235</u>	<u>17,414,676</u>	<u>251,079,693</u>
<u>12,669</u>	<u>316,113</u>	<u>(17,277,737)</u>
<u>\$1,372,746</u>	<u>\$ 5,557,453</u>	<u>\$ 122,785,418</u>

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

**CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND**

Year Ended June 30, 2001

	Authority's Operating <u>Fund</u>	Portland Center For Assisted Living (note 8)	Elimi- nations	Consolidated Operating <u>Fund</u>
Cash flows from operating activities:				
Excess of revenues over expenses	\$ 2,757,064	\$ 78,671	\$ —	\$ 2,835,735
Adjustments to reconcile excess of revenues over expenses to net cash provided by by operating activities:				
Assistance paid to borrowing institutions	460,445	—	—	460,445
Investment and interest income	(1,121,950)	—	437,895	(684,055)
Net increase in the fair value of investments	(8,093)	—	—	(8,093)
Depreciation and amortization	—	335,330	—	335,330
Change in assets and liabilities:				
Decrease in fees receivable from institutions	2,666	—	—	2,666
Increase in fees receivable from trusteed funds	(212,513)	—	—	(212,513)
Decrease in net resident accounts receivable	—	146,306	—	146,306
Increase in other assets	—	(16,186)	—	(16,186)
Increase (decrease) in accounts payable	(25,313)	17,515	—	(7,798)
Decrease in deferred revenue	—	(1,348)	—	(1,348)
Decrease in accrued payroll and other expenses	—	(139,241)	—	(139,241)
Increase in estimated third-party payor settlements	—	111,907	—	111,907
Increase in resident funds held in trust	—	8,898	—	8,898
Net cash provided by operating activities	1,852,306	541,852	437,895	2,832,053
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	6,521,066	—	—	6,521,066
Purchases of investments	(9,615,570)	—	—	(9,615,570)
Income received from investments and advances	1,133,407	—	(437,895)	695,512
Purchases of property and equipment	—	(54,733)	—	(54,733)
Change in assets whose use is limited	—	(74,958)	—	(74,958)
(Increase) decrease in net advances receivable from institutions	(108,389)	—	437,895	329,506
Net cash used by investing activities	(2,069,486)	(129,691)	—	(2,199,177)

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

**CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND  
(CONTINUED)**

Year Ended June 30, 2001

	Authority's Operating <u>Fund</u>	Portland Center For Assisted Living <u>(note 8)</u>	Elimi- nations	Consolidated Operating <u>Fund</u>
Cash flows from financing activities:				
Increase in net advances from Authority's operating fund	\$       —	\$ 437,895	\$(437,895)	\$       —
Payments on loan to trustee funds	—	(345,000)	—	(345,000)
Net payments on note payable to bank	<u>—</u>	<u>(7,685)</u>	<u>—</u>	<u>(7,685)</u>
Net cash provided (used) by financing activities	<u>—</u>	<u>85,210</u>	<u>(437,895)</u>	<u>(352,685)</u>
(Decrease) increase in cash and cash equivalents	(217,180)	497,371	—	280,191
Cash and cash equivalents at beginning of year	<u>4,761,317</u>	<u>165,994</u>	<u>—</u>	<u>4,927,311</u>
Cash and cash equivalents at end of year	<u>\$ 4,544,137</u>	<u>\$ 663,365</u>	<u>\$ —</u>	<u>\$ 5,207,502</u>

See accompanying notes.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001

### 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 trusteed 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 moneys 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, 2001

### 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, 2001

### 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 expense 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.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001

### 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 combined 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.

#### 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 expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

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.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001

### 2. Significant Accounting Policies (Continued)

#### 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, 2001

### 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.

#### New Accounting Pronouncements

GASB issued Statement No. 34 in June 1999. This statement will require the Authority to change the format and contents of its financial statements. The statement is expected to be applicable to the Authority beginning in fiscal 2002.

### 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, 2001 consist of \$200,000 insured and \$882,416 noninsured deposits with banks and \$4,125,086 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, 2001.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001

### 3. Cash and Cash Equivalents and Investments (Continued)

At June 30, 2001, cash and investments are categorized as follows (at fair value):

	<u>Cash and Cash Equivalents</u>	<u>Guaranteed Investment Contracts</u>	<u>U.S. Government Obligations</u>	<u>Total</u>
Restricted and trustee funds:				
General resolution	\$ 8,607,575	\$ 18,967,378	\$ 68,563	\$ 27,643,516
Reserve fund	59,183,813	127,564,901	360,237	187,108,951
Medium term financing reserve fund	2,556,792	—	836,659	3,393,451
Taxable financing reserve fund	<u>9,791,862</u>	<u>11,345,961</u>	<u>—</u>	<u>21,137,823</u>
Total investments held in restricted and trustee funds	80,140,042	157,878,240	1,265,459	239,283,741
Operating fund:				
Authority's operating fund	4,544,137	—	3,552,285	8,096,422
Portland Center for Assisted Living	<u>663,365</u>	<u>—</u>	<u>—</u>	<u>663,365</u>
Total operating fund investments	<u>5,207,502</u>	<u>—</u>	<u>3,552,285</u>	<u>8,759,787</u>
	<u>\$ 85,347,544</u>	<u>\$ 157,878,240</u>	<u>\$ 4,817,744</u>	<u>\$ 248,043,528</u>

### 4. Bonds Payable

As of June 30, 2001, the Authority had the following series and amounts of revenue bonds and notes:

	<u>Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2001</u>
<b>General resolution:</b>			
Bowdoin College, Series 1985, variable rate beginning at 5.25%, dated October 1, 1985	1986 – 2010	\$ 9,380,000	\$ 30,000
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	540,000



# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001

### 4. Bonds Payable (Continued)

	<u>Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2001</u>
<b>General resolution (continued):</b>			
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	\$ 11,885,000	\$ 2,150,000
Bowdoin College, Series 1991, 4.75% – 7.1%, dated June 1, 1991	1992 – 2011	8,980,000	6,250,000
Colby College, Series 1991, 4.75% – 7.1%, dated July 1, 1991	1992 – 2011	11,965,000	5,360,000
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	970,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	240,000
Piper Shores, Series 1999A, 7.5% – 7.55%, dated December 1, 1999	2006 – 2029	24,900,000	24,900,000
Piper Shores, Series 1999B, variable rate beginning at 3.9%, dated December 16, 1999	2029	<u>21,500,000</u>	<u>21,500,000</u>
		<u>\$ 118,125,000</u>	<u>\$ 80,640,000</u>
<b>Reserve fund:</b>			
Series 1991, 4.5% – 6.375%, dated December 1, 1991	1992 – 2021	\$ 40,920,000	\$ 21,040,000
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	44,850,000	35,955,000
Series 1993A, 2.5% – 5.60%, dated March 1, 1993	1993 – 2023	50,030,000	18,290,000
Series 1993B, 2.8% – 5.75%, dated May 1, 1993	1994 – 2023	20,000,000	17,615,000
Series 1993C, 2.65% – 5.0%, dated September 1, 1993	1994 – 2013	69,085,000	50,545,000
Series 1993D, 2.60% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	75,685,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	12,555,000
Series 1995A, 4.40% – 5.878%, dated April 11, 1995	1996 – 2025	33,285,000	31,115,000
Series 1995B, variable rate, dated August 2, 1995	1998 – 2025	17,535,000	16,635,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	11,465,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	24,990,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	35,695,000

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001

### 4. Bonds Payable (Continued)

	<u>Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2001</u>
<b>Reserve fund (continued):</b>			
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	\$ 8,310,000	\$ 8,170,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	47,400,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	73,140,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	93,720,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	30,205,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	95,575,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	41,470,000
Series 2000A, variable rate, dated January 27, 2000	2002 – 2022	11,755,000	11,755,000
Series 2000B, variable rate, dated January 27, 2000	2000 – 2019	12,685,000	12,145,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	51,540,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	66,585,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	<u>10,615,000</u>	<u>10,615,000</u>
		<u>\$ 1,033,685,000</u>	<u>\$ 893,905,000</u>
<b>Medium term financing reserve fund:</b>			
Series 1992, 4% – 8.25%, dated March 1, 1992	1993 – 2003	<u>\$ 14,865,000</u>	<u>\$ 3,240,000</u>
<b>Taxable financing reserve fund:</b>			
Series 1992B, 9.35%, dated December 1, 1992	1994 – 2012	\$ 9,350,000	\$ 7,605,000
Series 1993A, 7.35% fixed interest rate 1993 – 1999, dated January 1, 1993	1993 – 2012	57,125,000	42,500,000
Series 1993B, 7.04% fixed interest rate 1994 – 2003, dated October 27, 1993	1994 – 2013	25,060,000	11,685,000
Series 1995A, 9.34% fixed interest rate 1995 – 2014, dated January 25, 1995	1995 – 2014	13,045,000	11,540,000
Series 1996A, 7.03% fixed interest rate 1996 – 2016, dated February 22, 1996	1996 – 2016	<u>16,440,000</u>	<u>14,565,000</u>
		<u>\$ 121,020,000</u>	<u>\$ 87,895,000</u>

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001

### 4. Bonds Payable (Continued)

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 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>
2001	\$ 32,845,000	\$ 54,094,558	\$ 86,939,558
2002	36,660,000	53,455,693	90,115,693
2003	36,555,000	51,649,952	88,204,952
2004	37,220,000	49,754,348	86,974,348
2005	37,695,000	47,781,978	85,476,978
2006	39,590,000	45,673,631	85,263,631
2007	40,810,000	43,435,941	84,245,941
2008	42,290,000	41,082,768	83,372,768
2009	43,085,000	38,629,395	81,714,395
2010	45,330,000	36,058,773	81,388,773
2011	47,870,000	33,344,446	81,214,446
2012	49,195,000	30,535,694	79,730,694
2013	44,990,000	27,888,059	72,878,059
2014	39,900,000	25,573,723	65,473,723
2015	38,375,000	23,501,736	61,876,736
2016	38,360,000	21,460,378	59,820,378
2017	37,620,000	19,448,018	57,068,018
2018	38,465,000	17,440,995	55,905,995
2019	34,850,000	15,498,314	50,348,314
2020	32,620,000	13,682,022	46,302,022
2021	33,395,000	11,876,147	45,271,147
2022	31,400,000	10,112,550	41,512,550
2023	29,015,000	8,477,942	37,492,942
2024	25,465,000	6,973,472	32,438,472
2025	42,135,000	5,645,769	47,780,769
2026	21,180,000	4,404,024	25,584,024
2027	18,920,000	3,262,659	22,182,659
2028	19,385,000	2,176,720	21,561,720
2029	37,290,000	1,147,278	38,437,278
2030	10,070,000	478,178	10,548,178
2031	<u>3,100,000</u>	<u>97,391</u>	<u>3,197,391</u>
Total	<u>\$1,065,680,000</u>	<u>\$ 744,642,552</u>	<u>\$1,810,322,552</u>

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001

### 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 \$500,706 of expense under this agreement in 2001.

### 6. Refunded Issues

On June 14, 2001, the Authority issued \$10,615,000 in 2001B revenue bonds with an average interest rate of 4.925% to advance refund \$10,240,000 of outstanding reserve fund bonds with an average interest rate of 6.48%. Additionally, approximately \$200,951 in underwriting fees, insurance and other issuance costs were paid. The Authority advance refunded the above bonds to reduce total interest payments over the next 20 years by approximately \$581,769 (projected based upon management's expected average interest rate of 4.925% for the 2001B bond issue).

The proceeds of the refunding bonds were 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 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. At June 30, 2001, there were \$112,210,000 of advance refunded bonds remaining outstanding with respect to all advance-refunded issues.

### 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. Under current practice, the Authority, in conjunction with DHS (which administers the Medicaid program, a major source of revenue of the nursing homes), is working with the nursing home industry to make changes necessary to address such cash flow problems.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001

### 7. Nursing Home Loans (Continued)

The owners of certain financially troubled nursing homes, with the Authority's concurrence, have begun negotiating the refinancing of portions of Authority loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of the Authority expects that such refinancings will reduce annual debt service requirements, thereby reducing the Authority's exposure in its Taxable Financing Reserve Fund. Subsequent to June 30, 2001, HUD completed refinancing for three institutions which have combined loans and advances due the Authority of approximately \$6,280,000 at June 30, 2001. The owners of these facilities intend to complete refinancings for approximately six other nursing homes which have combined loans and advances due the Authority of approximately \$34,370,000 at June 30, 2001 during fiscal 2002. 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 significant 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.

The Authority has advanced approximately \$2,865,000 from the operating fund as of June 30, 2001 to certain financially troubled institutions with outstanding loans owed to the Authority of approximately \$39,886,000. These advances were made to assist these institutions in meeting debt service requirements. At June 30, 2001, the Authority has established a \$1,600,000 reserve in the operating fund (with a provision of \$460,445 during the year ended June 30, 2001) related to amounts which have been advanced or are expected to be advanced to troubled institutions.

### 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.

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001

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

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 as follows:

Principal and interest debt service balances	\$442,805
Resident funds	<u>25,452</u>
Total assets whose use is limited	<u>\$468,257</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. Through June 30, 2001, due to operating losses incurred, the Center has been unable to fund the principal and interest debt service accounts as required by the bond issue. Instead, the Authority has advanced funds to these accounts and made all necessary principal and interest payments required by the bond issue through June 30, 2001.

#### 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 95% of the residents served in 2001 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.



# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001

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

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 2000, plus an estimated settlement for 2001. 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, 2001:

Room and board	\$5,325,807
Contractual adjustments under third-party reimbursement programs	<u>(714,164)</u>
Net resident service revenue	<u>\$4,611,643</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.

**Fixed and Other Assets**

These assets consist of the following at June 30, 2001:

Land	\$ 302,291
Building and improvements	7,105,907
Furniture, fixtures and equipment	835,093
Vehicles	<u>21,944</u>
	8,265,235
Less accumulated depreciation	<u>(3,659,304)</u>
Fixed and other assets, net	<u>\$ 4,605,931</u>

**Loan Payable to Trusteed Funds**

Loan payable to trusteed funds of \$5,928,013 at June 30, 2001 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 and interest payments are approximately \$870,000, excluding letter of credit and authority fees. The bonds bear a variable interest rate (7.35% at June 30, 2001).

# MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001

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

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

2002	\$ 375,000
2003	400,000
2004	430,000
2005	460,000
2006	495,000
Thereafter	3,768,013

#### Note Payable to Bank

The note payable to bank of \$4,141 at June 30, 2001 is payable in monthly installments of \$710, including principal and interest, with a fixed rate of 9.95% per annum. The note is secured by a vehicle and matures in 2002.

#### Management Agreement

First Atlantic Corp. provided all management and accounting services required by the Center throughout 2001. 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, 2001 totaled \$230,582.

#### 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 \$4,221 to the plan for the year ended June 30, 2001.

#### 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, 2001, 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, 2001, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

**MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2001

**9. Subsequent Event**

On July 6, 2001, the Authority issued \$27,565,000 of 2001C Series Revenue Bonds from the Reserve Fund. The bonds mature in 2002 – 2031, and carry an interest rate ranging from 3.25% to 5.125%. The bonds are secured by various loans made to institutions within the State of Maine.