Maine HHEFA

HEALTH & HIGHER EDUCATIONAL FACILITIES AUTHORITY

2002 Financial Report

Maine HHEFA
HEALTH & HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

This is the fiscal 2002 report for the Maine Health and Higher Educational Facilities Authority. As of June 30, 2002, the Authority has $52,577,672 outstanding under its general tax exempt conduit resolution, $903,375,000 outstanding under its tax exempt reserve fund resolution, $2,140,000 outstanding under its medium term tax exempt reserve fund resolution and $52,090,000 outstanding under its taxable reserve fund resolution.

During fiscal year 2002 the Authority issued $50,700,000 of bonds under its tax exempt reserve fund resolution and $5,865,635 under its general tax exempt conduit resolution. These sales were accomplished in two series for four hospitals, one college, one nursing home, two residential care facilities and one community mental health facility.

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

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2002

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BAKER NEWMAN & NOYES
LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying basic financial statements, consisting of the consolidating balance sheet – operating fund and the balance sheets – restricted and trusteed funds, including the General Resolution, Reserve Fund, Medium Term Financing Reserve Fund and Taxable Financing Reserve Fund, of Maine Health and Higher Educational Facilities Authority as of June 30, 2002, and the related consolidating statement of operations and changes in fund balance – operating fund, statements of changes in fund balance and funds held in trust – restricted and trusteed funds and consolidating statement of cash flows – operating fund for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority at June 30, 2002, 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.

As described in note 2 to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, for the year ended June 30, 2002. Adoption of Statement No. 34 resulted in a change to the format and content of the basic financial statements and accompanying notes to the financial statements.

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

Baker Newman + Noyes

Limited Liability Company

Portland, Maine
October 11, 2002

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MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

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, 2002. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Consolidated revenues for the Authority's Operating Fund were $8,392,785 for fiscal year 2002, an increase of $290,430 or 3.6% over fiscal year 2001. This increase was caused primarily by additional issuance, annual loan servicing and other fees that the Authority collected in 2002.
- Consolidated fund balance in the Authority's Operating Fund increased $3,819,017 in fiscal year 2002. The Authority had net assets of $13,434,205 at June 30, 2002, an increase of 39.7% over the prior year.
- The Authority's gross bonds outstanding at June 30, 2002 of $1,010,182,672 represents a net decrease of $55,497,328 or 5.2% from the balance at June 30, 2001. This decrease consists of the issuance of the Series 2001 C&D bonds, less scheduled bond principal payments and certain refundings and refinancings that occurred in 2002 (refer to note 7 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.
- Notes receivable from institutions at June 30, 2002 represents subordinate debt that the Authority assumed as part of the refinancing of several taxable nursing home bonds with the U.S. Department of Housing and Urban Development. The refinancing of these bonds reduced the Authority's overall exposure by $27,610,418.
- The account 'Loan receivable from Operating Fund' on the Restricted and Trusteed Funds Balance Sheet represents bond principal payments due from Portland Center for Assisted Living (the Center). The Center is entirely owned by the Authority.

Overview of the Authority

The Authority was created in 1973 by an Act of the Maine Legislature, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Authority was established to issue bonds for the purpose, among other things, of assisting Maine health care institutions and institutions of higher education in the undertaking of projects involving the acquisition, construction, improvement, reconstruction and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, also has the power to finance student loan programs of institutions for higher education.

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

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

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which are comprised of the basic financial statements and the notes to the financial statements.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

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

The statements of operations and changes in fund balance and funds held in trust present information showing how the Authority's fund balance and funds held in trust changed during the fiscal year. Substantially all changes in fund balance and funds held in trust are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Fund balance and funds held in trust may serve, over time, as a useful indicator of an entity's financial position. In the case of the Authority's Operating Fund, assets exceeded liabilities by $13,434,205 at June 30, 2002. This represents an increase of $3,819,017 or 39.7% over the previous fiscal year. Most of this increase is attributable to additional issuance, annual loan servicing and other fees collected from borrowers and reductions in overall operating expenses in 2002.

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

CONSOLIDATED OPERATING FUND

	2002	2001	Percentage Change
Current assets:			
Cash and cash equivalents	$ 3,900,366	$ 5,207,502	(25.1)%
Investments, at fair value	5,072,298	3,552,285	42.8
Accrued investment income	1,279	11,817	(89.2)
Fees receivable from institutions	341,166	74,905	355.5
Fees and other amounts receivable from trusteed funds	1,926,755	1,565,650	23.1
Resident accounts receivable, net of allowance of $31,000	131,998	160,944	(18.0)
Other assets	139,080	112,616	23.5
Total current assets	11,512,942	10,685,719	7.7
Long-term assets:			
Advances receivable from institutions net of allowance of $1,600,000	1,144,753	1,264,867	(9.5)
Notes receivable from institutions	3,174,582	–	100.0
Assets whose use is limited	525,852	468,257	12.3
Fixed and other assets, net	4,326,547	4,605,931	(6.1)
Deferred financing costs, net	212,670	232,755	(8.6)
Total long-term assets	9,384,404	6,571,810	42.8
	$ 20,897,346	$ 17,257,529	21.1%
Current liabilities:			
Current portion of loan payable to trusteed funds	$ 400,000	$ 375,000	6.7%
Note payable to bank	–	4,141	(100.0)
Accounts payable	246,202	253,396	(2.8)
Estimated third-party payor settlements	1,505,960	1,285,388	17.2
Accrued payroll and other expenses	129,751	142,315	(8.8)
Resident funds held in trust	22,826	25,452	(10.3)
Deferred revenue	5,389	3,636	48.2
Total current liabilities	2,310,128	2,089,328	10.6
Long-term liabilities:			
Loan payable to trustee funds	5,153,013	5,553,013	(7.2)
Total liabilities	7,463,141	7,642,341	(2.3)
Fund balance	13,434,205	9,615,188	39.7
Total liabilities and fund balance	$ 20,897,346	$ 17,257,529	21.1%

RESTRICTED AND TRUSTEED FUNDS

	2002	2001	Percentage Change
Current assets:			
Cash and cash equivalents	$ 80,742,875	$ 80,140,042	0.8%
Investments, at fair value	25,114,693	66,925,729	(62.5)
Accrued investment income	831,632	2,105,132	(60.5)
Loans receivable from institutions	33,115,470	34,506,225	(4.0)
Loan receivable from operating fund	400,000	375,000	6.7
Other receivables from institutions	378,459	1,066,533	(64.5)
Other assets	–	91,444	(100.0)
Total current assets	140,583,129	185,210,105	(24.1)
Noncurrent assets:			
Investments, at fair value	88,235,930	92,217,970	(4.3)
Loans receivable from institutions	884,057,249	934,844,420	(5.4)
Loan receivable from operating fund	5,153,013	5,553,013	(7.2)
Total noncurrent assets	977,446,192	1,032,615,403	(5.3)
Total assets	$ 1,118,029,321	$ 1,217,825,508	(8.2)%
Current liabilities:			
Bonds payable	$ 35,417,470	$ 32,845,000	7.8%
Interest payable	23,538,659	24,849,332	(5.3)
Fees payable to operating fund	1,926,755	1,565,650	23.1
Accounts payable	482,009	250,154	92.7
Rebate payable to Internal Revenue Service	863,140	76,184	1,033.0
Deferred revenue	2,212,036	1,170,899	88.9
Total current liabilities	64,440,069	60,757,219	6.1
Noncurrent liabilities:			
Bonds payable	974,765,202	1,032,835,000	(5.6)
Rebate payable to Internal Revenue Service	1,401,310	1,447,871	(3.2)
Total noncurrent liabilities	976,166,512	1,034,282,871	(5.6)
Total liabilities	1,040,606,581	1,095,040,090	(5.0)
Funds held in trust and fund balance:			
Construction/program funds	33,341,295	71,927,648	(53.6)
Expense funds	37,537	152,068	(75.3)
Debt service funds	36,616,140	41,069,195	(10.8)
Debt service reserve funds	6,561,627	8,247,449	(20.4)
Earnings funds	10,194	2,756	269.9
Redemption funds	220,867	–	100.0
Unrestricted fund balance	635,080	1,386,302	(54.2)
Total funds held in trust and fund balance	77,422,740	122,785,418	(36.9)
	$ 1,118,029,321	$ 1,217,825,508	(8.2)%

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

CONSOLIDATED OPERATING FUND

	2002	2001	Percentage Change
Operating revenues:			
Net resident service revenue	$ 4,126,937	$ 4,611,643	(10.5)%
Administrative and other fees	3,725,857	2,762,572	34.9
Investment income	283,246	484,820	(41.6)
Net decrease in the fair value of investments	(14,062)	8,093	(273.8)
Interest income from advances to institutions	172,854	199,235	(13.2)
Other income	97,953	35,992	172.2
	8,392,785	8,102,355	3.6
Operating expenses:			
Salaries	322,888	295,716	9.2
Employee benefits	87,948	73,336	19.9
Travel	2,614	15,188	(82.8)
Office expenses	101,727	82,035	24.0
Accounting and auditing	45,000	43,200	4.2
Legal	51,179	110,612	(53.7)
Telephone	6,103	8,133	(25.0)
Building lease	54,535	54,423	0.2
Paid to Maine Hospital Association	13,708	14,500	(5.5)
Assistance paid to borrowing institutions	–	460,445	(100.0)
Nursing services	1,377,333	1,404,683	(1.9)
Administrative services	417,378	543,129	(23.2)
Dietary services	531,325	478,506	11.0
Depreciation and amortization	332,192	335,330	(0.9)
Plant operations and maintenance	293,005	258,572	13.3
Housekeeping services	94,241	145,880	(35.4)
Other services	347,332	416,156	(16.5)
Interest expense	495,260	526,776	(6.0)
	4,573,768	5,266,620	(13.2)
Operating income	3,819,017	2,835,735	34.7
Fund balance at beginning of year	9,615,188	6,779,453	41.8
Fund balance at end of year	$ 13,434,205	$ 9,615,188	39.7%

RESTRICTED AND TRUSTEED FUNDS

	2002	2001	Percentage Change
Fund balance and funds held in trust, beginning of year	$ 122,785,418	$ 140,063,155	(12.3)%
Additions:			
Bond and note proceeds	84,130,635	128,740,000	(34.7)
Received and receivable from institutions	141,865,549	90,017,962	57.6
Transfer from debt service reserves	4,441,030	779,668	469.6
Income from investments	9,452,143	13,631,904	(30.7)
Net decrease in the fair value of investments	(28,395)	(15,209)	86.7
Other income	291,003	647,631	(55.1)
Total additions	240,151,965	233,801,956	(2.7)
Deductions:			
Construction and program costs	91,449,843	127,588,785	(28.3)
Bond issuance costs and remarketing fees	2,027,954	2,949,836	(31.3)
Principal payments	86,032,963	38,700,000	122.3
Interest expense	52,962,606	54,882,309	(3.5)
Paid to institutions	7,821,789	4,804,963	62.8
Transfer to debt service reserves	2,301,815	6,977,008	(67.0)
Paid to refunding and refinancing escrows	39,842,785	11,726,391	239.8
Fee expense	1,767,453	1,997,988	(11.5)
Other deductions	1,307,435	1,452,413	(10.0)
Total deductions	285,514,643	251,079,693	13.7
Decrease in fund balance and funds held in trust	(45,362,678)	(17,277,737)	162.5
Fund balance and funds held in trust, end of year	$ 77,422,740	$ 122,785,418	(36.9)%

Operating fund consolidated cash and cash equivalents at June 30, 2002 decreased $1,307,136 or 25.1% from balances at June 30, 2001. This decrease was the result of investing excess funds on hand into higher yielding investments.

Investments within the Restricted and Trusteed Funds at June 30, 2002 decreased $45,793,076 or 28.8% from June 30 2001. This decrease is the net result of the investment of bond proceeds from the Series 2001D issue, and the disbursement of funds to institutions for project costs throughout the year. The Authority's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), agency notes and bank investment contracts. All investments are carried at fair value, and unrealized gains and losses (primarily due to fluctuations in market values) are recognized in the statements of operations and changes in fund balance and funds held in trust.

Income from investments in 2002 decreased 41.6% in the Operating Fund (consolidated) and 30.7% in the Restricted and Trusteed Funds from 2001. The reduction in the Restricted and Trusteed Funds was primarily the result of drawing down investments from the construction funds for ongoing projects costs. Also, fiscal year 2002 experienced a declining interest rate environment, which negatively impacted the investment return in both the Operating Fund and Restricted and Trusteed Funds.

Bond and note proceeds for 2002 in the Restricted and Trusteed Funds decreased 34.7% from 2001 as a result of a decline in loan requests from the borrowers. Also, amounts received and receivable from institutions in 2002 increased 57.6% over 2001 due to increased principal and interest payments received from borrowers to fund scheduled bond principal and interest payments and also certain amounts refinanced by HUD in 2002.

Interest expense in the Restricted and Trusteed Funds in 2002 declined 3.5% from 2001 as a result of the declining interest rate environment in the bond market. The refinancing and refunding of selected bonds with other bonds which carry a lower average interest rate also contributed to reducing the interest expense in 2002.

Accounts payable in the Restricted and Trusteed Funds at June 30, 2002 increased 92.7% from June 30, 2001 as a result of certain residual funds being held by the Authority at the end of fiscal 2002 that will be refunded to the borrowers. The Authority was also able to reduce other receivables from institutions by 64.5% in fiscal year 2002 as result of refinancing and refunding certain taxable nursing home bonds.

The Authority's Operating Fund financial position improved as fund balance and funds held in trust increased 39.7% in fiscal year 2002. The Authority continued to maintain a positive spread of income and fees over operating expenses.

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

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Health and Higher Educational Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2002

ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Current assets:				
Cash and cash equivalents (note 3)	$ 3,071,374	$ 828,992	$ –	$ 3,900,366
Investments, at fair value (note 3)	5,072,298	–	–	5,072,298
Accrued investment income	1,279	–	–	1,279
Fees receivable from institutions	341,166	–	–	341,166
Fees and other amounts receivable from trusteed funds	1,926,755	–	–	1,926,755
Resident accounts receivable, net of allowance of $31,000	–	131,998	–	131,998
Other assets	–	139,080	–	139,080
Total current assets	10,412,872	1,100,070	–	11,512,942
Long-term assets:				
Advances receivable from institutions net of allowance of $1,600,000 (note 7)	5,890,692	–	(4,745,939)	1,144,753
Notes receivable from institutions (note 7)	3,174,582	–	–	3,174,582
Assets whose use is limited	–	525,852	–	525,852
Fixed and other assets, net	–	4,326,547	–	4,326,547
Deferred financing costs, net	–	212,670	–	212,670
Total long-term assets	9,065,274	5,065,069	(4,745,939)	9,384,404
	$ 19,478,146	$ 6,165,139	$ (4,745,939)	$ 20,897,346

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 trusteed funds	$ –	$ 400,000	$ –	$ 400,000
Accounts payable	202,278	43,924	–	246,202
Estimated third-party payor settlements	–	1,505,960	–	1,505,960
Accrued payroll and other expenses	–	129,751	–	129,751
Resident funds held in trust	–	22,826	–	22,826
Deferred revenue	–	5,389	–	5,389
Total current liabilities	202,278	2,107,850	–	2,310,128
Long-term liabilities:				
Loan payable to trusteed funds	–	5,153,013	–	5,153,013
Advances due to Authority's operating fund	–	4,745,939	(4,745,939)	–
Total liabilities	202,278	12,006,802	(4,745,939)	7,463,141
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	–	200	(200)	–
Fund balance (deficit)	19,275,868	(5,841,863)	200	13,434,205
	19,275,868	(5,841,663)	–	13,434,205
	$ 19,478,146	$ 6,165,139	$(4,745,939)	$ 20,897,346

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEETS – RESTRICTED AND TRUSTEED FUNDS

June 30, 2002

ASSETS

	General Resolution	Reserve Fund
Current assets:		
Cash and cash equivalents (note 3)	$ 8,742,570	$ 63,621,792
Investments, at fair value (note 3)	4,095,434	21,019,259
Accrued investment income	11,083	795,058
Loans receivable from institutions (note 7)	1,057,470	29,415,000
Loan receivable from operating fund (note 8)	–	–
Other receivables from institutions	88,841	167,776
Total current assets	13,995,398	115,018,885
Noncurrent assets:		
Investments, at fair value (note 3)	6,260,475	75,151,350
Loans receivable from institutions (note 7)	51,520,202	795,229,165
Loan receivable from operating fund (note 8)	–	–
Total noncurrent assets	57,780,677	870,380,515
Total assets	$ 71,776,075	$ 985,399,400

LIABILITIES, FUNDS HELD IN TRUST AND FUND BALANCE

	General Resolution	Reserve Fund
Current liabilities:		
Bonds payable (note 4)	$ 1,057,470	$ 29,415,000
Interest payable	1,007,640	21,040,711
Fees payable to operating fund	–	1,015,238
Accounts payable	60,109	241,619
Rebate payable to Internal Revenue Service	–	863,140
Deferred revenue	–	2,185,103
Total current liabilities	2,125,219	54,760,811
Noncurrent liabilities:		
Bonds payable (note 4)	51,520,202	873,960,000
Rebate payable to Internal Revenue Service	–	1,401,310
Total noncurrent liabilities	51,520,202	875,361,310
Total liabilities	53,645,421	930,122,121
Funds held in trust and fund balance:		
Construction/program funds	6,712,338	25,408,017
Expense funds	–	11,017
Debt service funds	4,806,423	29,231,674
Debt service reserve funds	6,561,627	–
Earnings funds	10,194	–
Redemption funds	40,072	180,795
Unrestricted fund balance	–	445,776
Total funds held in trust and fund balance	18,130,654	55,277,279
	$ 71,776,075	$ 985,399,400

See accompanying notes.

Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund	Total
$ 2,448,256	$ 5,930,257	$ 80,742,875
–	–	25,114,693
2,916	22,575	831,632
238,000	2,405,000	33,115,470
–	400,000	400,000
–	121,842	378,459
2,689,172	8,879,674	140,583,129
–	6,824,105	88,235,930
–	37,307,882	884,057,249
–	5,153,013	5,153,013
–	49,285,000	977,446,192
$ 2,689,172	$ 58,164,674	$ 1,118,029,321
$ 2,140,000	$ 2,805,000	$ 35,417,470
75,536	1,414,772	23,538,659
21,148	890,369	1,926,755
35,112	145,169	482,009
–	–	863,140
–	26,933	2,212,036
2,271,796	5,282,243	64,440,069
–	49,285,000	974,765,202
–	–	1,401,310
–	49,285,000	976,166,512
2,271,796	54,567,243	1,040,606,581
–	1,220,940	33,341,295
51	26,469	37,537
270,017	2,308,026	36,616,140
–	–	6,561,627
–	–	10,194
–	–	220,867
147,308	41,996	635,080
417,376	3,597,431	77,422,740
$ 2,689,172	$ 58,164,674	$ 1,118,029,321

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2002

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Operating revenues:				
Net resident service revenue	$ –	$ 4,126,937	$ –	$ 4,126,937
Administrative and other fees	3,725,857	–	–	3,725,857
Investment income	283,246	–	–	283,246
Net decrease in the fair value of investments	(14,062)	–	–	(14,062)
Interest income from advances and notes receivable from institutions	650,656	–	(477,802)	172,854
Other income	93,400	4,553	–	97,953
	4,739,097	4,131,490	(477,802)	8,392,785
Operating expenses (note 5):				
Salaries	322,888	–	–	322,888
Employee benefits	87,948	–	–	87,948
Travel	2,614	–	–	2,614
Office expenses	101,727	–	–	101,727
Accounting and auditing	45,000	–	–	45,000
Legal	51,179	–	–	51,179
Telephone	6,103	–	–	6,103
Building lease	54,535	–	–	54,535
Paid to Maine Hospital Association	13,708	–	–	13,708
Nursing services	–	1,377,333	–	1,377,333
Administrative services	–	417,378	–	417,378
Dietary services	–	531,325	–	531,325
Depreciation and amortization	–	332,192	–	332,192
Plant operations and maintenance	–	293,005	–	293,005
Housekeeping services	–	94,241	–	94,241
Other services	–	347,332	–	347,332
Interest expense	–	973,062	(477,802)	495,260
	685,702	4,365,868	(477,802)	4,573,768
Operating income (loss)	4,053,395	(234,378)	–	3,819,017
Fund balance (deficit) at beginning of year	15,222,473	(5,607,485)	200	9,615,188
Fund balance (deficit) at end of year	$ 19,275,868	$ (5,841,863)	$ 200	$ 13,434,205

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2002

	General Resolution	Reserve Fund
Fund balance and funds held in trust, beginning of year	$ 27,085,198	$ 88,770,021
Additions:		
Bond and note proceeds	5,865,635	78,265,000
Received and receivable from institutions	29,143,757	71,970,175
Transfer from debt service reserves	–	–
Income from investments	815,298	7,860,347
Net decrease in the fair value of investments	–	–
Other income	348	290,655
Total additions	35,825,038	158,386,177
Deductions:		
Construction and program costs	13,774,184	77,489,442
Bond issuance costs and remarketing fees	111,060	1,916,894
Principal payments	22,807,963	26,320,000
Interest expense	2,828,648	44,803,997
Paid to institutions	4,501,176	3,220,596
Transfer to debt service reserves	–	2,301,815
Paid to refunding and refinancing escrows (notes 6 and 7)	–	33,793,955
Fee expense	–	1,729,076
Other deductions	756,551	303,144
Total deductions	44,779,582	191,878,919
Decrease in fund balance and funds held in trust	(8,954,544)	(33,492,742)
Fund balance and funds held in trust, end of year	$ 18,130,654	$ 55,277,279

See accompanying notes.

Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund	Total
$1,372,746	$ 5,557,453	$ 122,785,418
–	–	84,130,635
288,944	40,462,673	141,865,549
–	4,441,030	4,441,030
111,881	664,617	9,452,143
(28,395)	–	(28,395)
–	–	291,003
372,430	45,568,320	240,151,965
–	186,217	91,449,843
–	–	2,027,954
1,100,000	35,805,000	86,032,963
151,072	5,178,889	52,962,606
35,112	64,905	7,821,789
–	–	2,301,815
–	6,048,830	39,842,785
38,377	–	1,767,453
3,239	244,501	1,307,435
1,327,800	47,528,342	285,514,643
(955,370)	(1,960,022)	(45,362,678)
$ 417,376	$ 3,597,431	$ 77,422,740

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND

Year Ended June 30, 2002

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Elimi-nations	Consolidated Operating Fund
Operating activities:				
Cash received from units	$ 3,098,491	$ –	$ 477,802	$ 3,576,293
Cash received from patients	–	4,155,883	–	4,155,883
Cash received from other income	93,400	4,553	–	97,953
Cash payments for interest	–	(973,062)	–	(973,062)
Cash payments for operating expenses	(686,016)	(2,860,359)	–	(3,546,375)
Cash paid for other assets and liabilities	–	(26,464)	–	(26,464)
Net cash provided by operating activities	2,505,875	300,551	477,802	3,284,228
Financing activities:				
Net advances from Authority's operating fund	–	334,535	(334,535)	–
Payments on note payable to bank	–	(4,141)	–	(4,141)
Payments on loan to trusteed funds	–	(375,000)	–	(375,000)
Net cash used by financing activities	–	(44,606)	(334,535)	(379,141)
Investing activities:				
Proceeds from sales and maturities of investments	7,245,238	–	–	7,245,238
Purchase of equipment	–	(32,723)	–	(32,723)
Purchase of investments	(8,779,313)	–	–	(8,779,313)
Change in assets whose use is limited	–	(57,595)	–	(57,595)
Income received from investments and advances	944,440	–	(477,802)	466,638
Increase in notes receivable from institutions	(3,174,582)	–	–	(3,174,582)
Net advances receivable from institutions	(214,421)	–	334,535	120,114
Net cash used by investing activities	(3,978,638)	(90,318)	(143,267)	(4,212,223)
(Decrease) increase in cash and cash equivalents	(1,472,763)	165,627	–	(1,307,136)
Cash and cash equivalents at beginning of year	4,544,137	663,365	–	5,207,502
Cash and cash equivalents at end of year	$ 3,071,374	$ 828,992	$ –	$ 3,900,366

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND
(CONTINUED)

Year Ended June 30, 2002

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 4,053,395	$ (234,378)	$ –	$ 3,819,017
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Investment and interest income	(933,902)	–	477,802	(456,100)
Net decrease in the fair value of investments	14,062	–	–	14,062
Depreciation and amortization	–	332,192	–	332,192
Change in assets and liabilities:				
Increase in fees receivable from institutions	(266,261)	–	–	(266,261)
Increase in fees receivable from trusteed funds	(361,105)	–	–	(361,105)
Decrease in net resident accounts receivable	–	28,946	–	28,946
Increase in other assets	–	(26,464)	–	(26,464)
Decrease in accounts payable	(314)	(6,880)	–	(7,194)
Increase in deferred revenue	–	1,753	–	1,753
Decrease in accrued payroll and other expenses	–	(12,564)	–	(12,564)
Increase in estimated third-party payor settlements	–	220,572	–	220,572
Decrease in resident funds held in trust	–	(2,626)	–	(2,626)
Net cash provided by operating activities	$ 2,505,875	$ 300,551	$ 477,802	$ 3,284,228

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 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 monies as set forth by the Series Resolution and Tax Regulatory Agreement and the application of bond proceeds and institution's deposits as received by the trustee in accordance with the applicable series bond documents.

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.

1. Organization (Continued)

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

Construction/Program Funds

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

Expense Funds

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

Debt Service Funds

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

Debt Service Reserve Funds

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

Earnings Funds

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

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 trusteed 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 trusteed funds) and include the accounts of the operating fund and the accounts of all bond issues currently outstanding that have not been advance refunded (see note 6).

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

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements). The Authority implemented the Statements as of July 1, 2001. The primary impacts of adoption of these Statements resulted in changes in the presentation of the Authority's financial statements to separate assets and liabilities into current and long-term components and the inclusion of "Management's Discussion and Analysis." Adoption of the Statements had no impact on fund equity.

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.

2. Significant Accounting Policies (Continued)

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

Property and Equipment

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

Estimated Third-Party Payor Settlements

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

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

Net Resident Service Revenue

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

Amortization

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

Income Taxes

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

Principles of Consolidation

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

2. Significant Accounting Policies (Continued)

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Total Columns

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

3. Cash and Cash Equivalents and Investments

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

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

The cash and cash equivalents of the Authority's operating fund at June 30, 2002 consist of $300,000 insured and $1,454,304 noninsured deposits with banks and $2,146,062 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, 2002.

3. Cash and Cash Equivalents and Investments (Continued)

At June 30, 2002, cash and investments are categorized as follows (at fair value):

	Cash and Cash Equivalents	Guaranteed Investment Contracts	U.S. Government Obligations	Total
Restricted and trusteed funds:				
General resolution	$ 8,742,570	$ 10,287,346	$ 68,563	$ 19,098,479
Reserve fund	63,621,792	95,810,372	360,237	159,792,401
Medium term financing reserve fund	2,448,256	–	–	2,448,256
Taxable financing reserve fund	5,930,257	6,824,105	–	12,754,362
Total investments held in restricted and trusteed funds	80,742,875	112,921,823	428,800	194,093,498
Operating fund:				
Authority's operating fund	3,071,374	–	5,072,298	8,143,672
Portland Center for Assisted Living	828,992	–	–	828,992
Total operating fund investments	3,900,366	–	5,072,298	8,972,664
	$ 84,643,241	$ 112,921,823	$ 5,501,098	$ 203,066,162

4. Bonds Payable

As of June 30, 2002, the Authority had the following series and amounts of revenue bonds and notes:

	Maturity	Amount Issued	Amount Outstanding June 30, 2002
General resolution:			
VHA of New England Capital Asset Financing Program, 1985 Series A through Series G, variable rate beginning at 6%, dated December 30, 1985	2025	$ 26,100,000	$ 18,700,000
Mt. Desert Island Hospital, Series A, variable interest rate equal to 80% of the prime rate of Fleet Boston, dated December 11, 1986	1988 – 2008	1,800,000	450,000
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	11,885,000	2,045,000

4. Bonds Payable (Continued)

	Maturity	Amount Issued	Amount Outstanding June 30, 2002
General resolution (continued):			
Mt. Desert Island Hospital, Series 1992, variable interest rate equal to 80% of the prime rate of Fleet Boston, dated July 15, 1992	1993 – 2012	$ 1,300,000	$ 910,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	55,000
Piper Shores, Series 1999A, 7.5% – 7.55%, dated December 1, 1999	2006 – 2029	24,900,000	24,900,000
MidCoast, 2001 lease purchase, 4.95%, dated November 15, 2001	2008	5,865,635	5,517,672
		$ 72,165,635	52,577,672
Less current bonds payable			1,057,470
Noncurrent bond payable			$ 51,520,202
Reserve fund:			
Series 1991, 4.5% – 6.375%, dated December 1, 1991	1992 – 2021	$ 40,920,000	$ 1,205,000
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	44,850,000	11,515,000
Series 1993A, 2.5% – 5.60%, dated March 1, 1993	1993 – 2023	50,030,000	17,475,000
Series 1993B, 2.8% – 5.75%, dated May 1, 1993	1994 – 2023	20,000,000	17,215,000
Series 1993C, 2.65% – 5.0%, dated September 1, 1993	1994 – 2013	69,085,000	47,625,000
Series 1993D, 2.60% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	72,555,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	12,240,000
Series 1995A, 4.40% – 5.878%, dated April 11, 1995	1996 – 2025	33,285,000	30,510,000
Series 1995B, variable rate, dated August 2, 1995	1998 – 2025	17,535,000	16,335,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	10,905,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	23,980,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	34,175,000

4. Bonds Payable (Continued)

	Maturity	Amount Issued	Amount Outstanding June 30, 2002
Reserve fund (continued):			
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	$ 8,310,000	$ 8,020,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	45,530,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	70,765,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	90,225,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	29,675,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	92,480,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	41,245,000
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	11,585,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	50,895,000
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	10,615,000	10,615,000
Series 2001C, 3.25% – 5.125%, dated May 15, 2001	2002 – 2031	27,565,000	27,565,000
Series 2001D, 3.00% – 5.00%, dated November 1, 2001	2002 – 2031	50,700,000	50,700,000
		$ 1,111,950,000	903,375,000
Less current bonds payable			29,415,000
Noncurrent bonds payable			$ 873,960,000
Medium term financing reserve fund:			
Series 1992, 4% – 8.25%, dated March 1, 1992	1993 – 2003	$ 14,865,000	$ 2,140,000

4. Bonds Payable (Continued)

	Maturity	Amount Issued	Amount Outstanding June 30, 2002
Taxable financing reserve fund:			
Series 1993A, 7.35% fixed interest rate 1993 – 1999, dated January 1, 1993	1993 – 2012	$ 57,125,000	$ 19,745,000
Series 1993B, 7.04% fixed interest rate 1994 – 2003, dated October 27, 1993	1994 – 2013	25,060,000	10,340,000
Series 1995A, 9.34% fixed interest rate 1995 – 2014, dated January 25, 1995	1995 – 2014	13,045,000	7,960,000
Series 1996A, 7.03% fixed interest rate 1996 – 2016, dated February 22, 1996	1996 – 2016	16,440,000	14,045,000
		$ 111,670,000	52,090,000
Less current bonds payable			2,805,000
Noncurrent bonds payable			$ 49,285,000

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

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2002:

	General Resolution	Reserve Fund	Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund
Balance, beginning of year	$ 80,640,000	$ 893,905,000	$ 3,240,000	$ 87,895,0000
Issuances	5,865,635	78,265,000	–	–
Redemptions:				
Refinancings – see note 7	–	(23,515,000)	–	(30,785,000)
Principal payments	(22,807,963)	(26,320,000)	(1,100,000)	(5,020,000)
Refunded – see note 6	(11,120,000)	(18,960,000)	–	–
Balance, end of year	$ 52,577,672	$ 903,375,000	$ 2,140,000	$ 52,090,000

4. Bonds Payable (Continued)

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

Due Fiscal Year Ending	Principal	Interest	Total Debt Service
2003	$ 35,417,470	$ 49,431,988	$ 84,849,458
2004	35,416,587	47,832,464	83,249,051
2005	36,082,684	46,226,130	82,308,814
2006	36,330,863	44,568,733	80,899,596
2007	38,236,228	42,754,408	80,990,636
2008 – 2012	204,973,840	184,184,346	389,158,186
2013 – 2017	209,125,000	129,036,732	338,161,732
2018 – 2022	181,140,000	79,533,875	260,673,875
2023 – 2027	155,635,000	38,034,907	193,669,907
2028 – 2032	77,825,000	8,165,852	85,990,852
Total	$ 1,010,182,672	$ 669,769,435	$ 1,679,952,107

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 $504,425 of expense under this agreement in 2002.

6. Refunded Issues

On July 6, 2001, the Authority issued $27,565,000 in 2001C revenue bonds with an average interest rate of 4.877%, a portion of which was used to currently refund $11,120,000 of outstanding general resolution bonds with an average interest rate of 7.05%. Additionally, approximately $322,458 in underwriting fees, insurance and other issuance costs were paid. The Authority refunded the above bonds to reduce total interest payments over the next 11 years by approximately $1,102,646 (projected based upon management's expected average interest rate of 4.877% for the 2001C bond issue).

On November 15, 2001, the Authority issued $50,700,000 in 2001D revenue bonds with an average interest rate of 4.753%, a portion of which was used to currently refund $18,960,000 of outstanding reserve bonds with an average interest rate of 5.50%. Additionally, approximately $897,943 in underwriting fees, insurance and other issuance costs were paid. The Authority refunded the above bonds to reduce total interest payments over the next 20 years by approximately $1,855,907 (projected based upon management's expected average interest rate of 4.753% for the 2001D bond issue).

6. Refunded Issues (Continued)

The proceeds of any advance refunding bonds are primarily used to purchase U.S. Treasury obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the defeased bonds. Neither the U.S. Treasury obligations nor the advance refunded bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations were placed in irrevocable trust accounts with the trustees of the defeased bonds. The gains, losses and economic benefits of these transactions inure to the respective institution and not the Authority, although the Authority may receive an administrative fee. At June 30, 2002, there were $54,685,000 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.

The owners of certain financially troubled nursing homes, with the Authority's concurrence, have begun 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 these refinancings will reduce annual debt service requirements, thereby eliminating the Authority's exposure in its Taxable Financing Reserve Fund and reducing the Authority's overall exposure. In 2002, HUD completed refinancings for seven institutions which, at the time they were refinanced, had combined bond-related loans and advances due the Authority of approximately $30,785,000. As part of the refinancing completed by HUD, the Authority agreed to issue 8% subordinated notes receivable to these seven institutions from its operating fund. These notes total $3,174,582 at June 30, 2002, earn interest only to the extent that cash payments are received and are subordinate to all HUD loans. Interest is payable semi-annually and principal payments are due by April 30th of each year in amounts equal to 50% of the excess cash flow generated by the seven institutions based on the audited financial statements for the previous year. Should these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid. The proceeds from the HUD loans and the subordinated notes were used to pay off the related bonds.

Management of the Authority expects that the owners of two other facilities will complete refinancings during fiscal 2003. These two nursing homes have combined loans and advances due the Authority of approximately $13,400,000 at June 30, 2002. If these anticipated refinancings are not completed for the nursing home industry in Maine continues to suffer from the present reimbursement restrictions, it is likely that a number of nursing homes included in the taxable financing reserve fund resolution will have difficulty in fully meeting their debt service obligations to the Authority.

7. Nursing Home Loans (Continued)

In addition to subordinated notes receivable from the seven institutions described above, the Authority has advanced approximately $2,750,000 from the operating fund as of June 30, 2002 to other financially troubled institutions with outstanding loans owed to the Authority of approximately $28,200,000. These advances, upon which interest income is recognized only to the extent that cash payments are received, were primarily made to assist these institutions in meeting debt service requirements. At June 30, 2002, the Authority has established a $1,600,000 reserve in the operating fund related to amounts which have been advanced or are expected to be advanced to troubled institutions.

Subsequent to year end, the Parkview Nursing Home closed. The facility had outstanding amounts due the Authority totaling approximately $1,217,000 at June 30, 2002. Management of the Authority anticipates selling certain assets of this facility in 2003 to recovering an estimated $800,000 of amounts owed. Included in the $1,600,000 reserve above is $417,000 in losses expected to be realized by the Authority from the sale of the assets of Parkview.

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

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

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

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

Relevant disclosures for the Center are summarized as follows:

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

Assets Whose Use is Limited

Assets whose use is limited consist of resident funds held in trust and funds required by the terms of the Authority's Revenue Bonds Series 1993A and are invested in cash and money market securities at June 30, 3002. A summary follows:

Principal and interest debt service balances	$503,026
Resident funds	22,826
Total assets whose use is limited	$525,852

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.

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 2002 were beneficiaries of the Maine Medicaid program. Under this program, the provider is reimbursed for the care of qualified residents at specified interim contractual rates during the year. Differences between these interim contractual rates and the "cost" of this care, as defined by the Principles of Reimbursement governing the respective programs, are determined and settled on a retroactive basis.

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

The estimated settlements to the Medicaid program include amounts which DHS has determined to be owed based on audited cost reports for years 1995 through 2001, plus an estimated settlement for 2002. 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, 2002:

Room and board	$ 5,425,033
Contractual adjustments under third-party reimbursement programs	(1,298,096)
Net resident service revenue	$ 4,126,937

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

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 Assets

A summary of fixed assets follows:

	2001	Additions	Deductions	2002
Land	$ 302,291	$ –	$ –	$ 302,291
Building and improvements	7,105,907	2,006	–	7,107,913
Furniture, fixtures and equipment	835,093	30,717	–	865,810
Vehicles	21,944	–	–	21,944
	8,265,235	32,723	–	8,297,958
Less accumulated depreciation	(3,659,304)	(312,107)	–	(3,971,411)
Fixed assets, net	$ 4,605,931	$(279,384)	$ –	$ 4,326,547

Loan Payable to Trusteed Funds

Loan payable to trusteed funds of $5,553,013 at June 30, 2002 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 $860,000, excluding letter of credit and authority fees. The bonds bear a variable interest rate (7.35% at June 30, 2002).

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

2003	$ 400,000
2004	430,000
2005	460,000
2006	495,000
2007	530,000
Thereafter	3,238,013

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

Management Agreement

First Atlantic Corp. provided all management and accounting services required by the Center throughout 2002. 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, 2002 were approximately $210,000.

Employee Benefit Plan

The Center sponsors a discretionary contributory profit sharing plan and 401(k) plan which covers substantially all employees. The Center may elect to match employee contributions of up to 5% of the compensation of all eligible participants. The Center may also elect to make additional discretionary contributions. The Center contributed $3,341 to the plan for the year ended June 30, 2002.

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, 2002, 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, 2002, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

9. Subsequent Event

On July 1, 2002, the Authority issued $56,040,000 of 2002A Series and $8,175,000 of 2002B Series Revenue Bonds from the Reserve Fund. The bonds mature in 2003 – 2032, and carry an interest rate ranging from 3.00% to 5.125%. The bonds are secured by various loans made to institutions within the State of Maine.