Annual Report
Maine Health & Higher Educational Facilities Authority

2005

Maine HHEFA
MAINE HEALTH AND HIGHER
EDUCATIONAL FACILITIES AUTHORITY

Maine HHEFA
MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **2005 Maine Health and Higher Educational Facilities Annual Report**

This is the annual report for the Maine Health and Higher Educational Facilities Authority for the 2005 fiscal year, running from July 1, 2004 to June 30, 2005. As of June 30, 2005, the Authority has \$33,205,931 outstanding under its general tax exempt conduit resolution, \$1,031,340,000 outstanding under its tax exempt reserve fund resolution, \$25,885,000 outstanding under it's taxable reserve fund resolution, and \$5,610,000 outstanding under its taxable II reserve fund resolution.

During fiscal year 2005 the Authority issued \$42,265,000 of bonds under its tax-exempt reserve fund resolution. This sale were accomplished in one series for two hospitals, one community mental health care facility, one residential care facility, and one continuing care retirement community.

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

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2005

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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, Taxable Financing Reserve Fund and Taxable Financing Reserve Fund II, 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 of Maine Health and Higher Educational Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2005. 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 contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority and the individual fund groups referred to above at June 30, 2005, and the results of their 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2005 on our consideration of Maine Health and Higher Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should considered in assessing the results of our audit.

To the Members of
Maine Health and Higher
Educational Facilities Authority

The Management's Discussion and Analysis on pages 3 – 9 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Baker Newman & Noyes

Limited Liability Company

Portland, Maine
October 7, 2005

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

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, 2005. 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 $8,971,385 for fiscal year 2005, an increase of $219,220 or 2.5% over fiscal year 2004. Consolidated operating income for the Authority's Operating Fund was $4,054,315 for fiscal year 2005, an increase of $123,642 from fiscal year 2004. This increase in consolidated operating income was mainly due to an improving short-term interest rate environment and additional interest income earned from advances to institutions in 2005.
- Notes receivable from institutions in the Authority's Operating Fund of $6,697,849 at June 30, 2005 represent subordinate loans that the Authority assumed as part of the refinancing of several taxable nursing home bonds with the U.S. Department of Housing and Urban Development (HUD) during 2005, 2004, 2003 and 2002 (refer to note 8 of the audited financial statements). The notes receivable increased $38,133 (net) over fiscal year 2004. The Authority is recording interest income on a cash basis for these loans.
- Loan receivable from Operating Fund in the Authority's Restricted and Trusteed Funds represent bond principal payments due from Portland Center for Assisted Living (the Center) at June 30, 2005. The Center was acquired by the Authority in 1998 and is 100% owned by the Authority.
- The Authority's loans receivable from institutions in the Restricted and Trusteed funds at June 30, 2005 of $979,403,377 represents a net decrease of $31,166,243 or 3.1% from the balance at June 30, 2004. This decrease is the net result of the bond issuances described below, for which various funds were loaned out during fiscal 2005, and the repayment of loans by institutions during fiscal 2005.
- The Authority's gross bonds outstanding at June 30, 2005 of $1,096,040,931 represents a net decrease of $21,247,685 or 1.9% from the balance at June 30, 2004. This decrease consists of the issuance of $42,265,000 in Series 2004B reserve fund bonds less scheduled bond principal payments and certain refundings and refinancings that occurred in 2005 (refer to notes 4 and 7 of the audited financial statements). Also, note that the Authority issued $138,660,000 less in new bonds within the various resolutions in 2005 compared to 2004. The Authority's bonds are a combination of fixed and variable interest rate and tax-exempt and taxable bonds, although a majority of the bonds are fixed interest rate and tax-exempt.

Overview of the Authority

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

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

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

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

As indicated above, fund balance and funds held in trust may serve, over time, as a useful indicator of an entity's financial position. In the case of the Authority's Operating Fund, assets exceeded liabilities by $23,793,634 at June 30, 2005. This represents an increase of $4,054,315 or 20.5% over the previous fiscal year, which is the Authority's 2005 operating income within the Operating Fund.

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

CONSOLIDATED OPERATING FUND

	2005	2004	Percentage Change
Current assets:			
Cash and cash equivalents	$ 9,207,276	$ 7,705,389	19.5%
Investments, at fair value	10,996,431	8,558,586	28.5
Accrued investment income	12,022	6,438	86.7
Fees and other amounts receivable from trusteed funds	1,562,297	1,642,565	(4.9)
Resident accounts receivable, net of allowance	281,279	151,355	85.8
Other assets	151,423	144,364	4.9
Total current assets	22,210,728	18,208,697	22.0
Long-term assets:			
Advances receivable from institutions net of allowance	134,200	1,255,553	(89.3)
Notes receivable from institutions	6,697,849	6,659,716	0.6
Assets whose use is limited	679,996	705,519	(3.6)
Fixed and other assets, net	3,631,598	3,837,457	(5.4)
Deferred financing costs, net	152,415	172,500	(11.6)
Total long-term assets	11,296,058	12,630,745	(10.6)
Total assets	$ 33,506,786	$ 30,839,442	8.6%
Current liabilities:			
Current portion of loan payable to trusteed funds	$ 495,000	$ 460,000	7.6%
Accounts payable	69,539	134,646	(48.4)
Estimated third-party payor settlements	1,256,051	1,050,687	19.5
Accrued payroll and other expenses	103,170	207,163	(50.2)
Resident funds held in trust	36,097	52,987	(31.9)
Deferred revenue	2,754	4,099	(32.8)
Total current liabilities	1,962,611	1,909,582	2.8
Long-term liabilities:			
Loan payable to trusteed funds	3,768,013	4,263,013	(11.6)
Other amounts due to trusteed funds	3,982,528	4,927,528	(19.2)
Total long-term liabilities	7,750,541	9,190,541	(15.7)
Total liabilities	9,713,152	11,100,123	(12.5)
Fund balance	23,793,634	19,739,319	20.5
Total liabilities and fund balance	$ 33,506,786	$ 30,839,442	8.6%

RESTRICTED AND TRUSTEED FUNDS

	2005	2004	Percentage Change
Current assets:			
Cash and cash equivalents	$ 78,832,376	$ 73,709,873	6.9%
Investments, at fair value	15,647,818	36,799,117	(57.5)
Accrued investment income	582,716	2,172,156	(73.2)
Loans receivable from institutions	40,490,863	37,107,684	9.1
Loan receivable from operating fund	495,000	460,000	7.6
Other receivables from institutions	192,926	147,815	30.5
Total current assets	136,241,699	150,396,645	(9.4)
Noncurrent assets:			
Cash and cash equivalents	795,600	795,600	0.0
Investments, at fair value	107,421,051	98,759,044	8.8
Loans receivable from institutions	938,912,514	973,461,936	(3.6)
Loan receivable from operating fund	3,768,013	4,263,013	(11.6)
Other amounts due from operating fund	3,982,528	4,927,528	(19.2)
Total noncurrent assets	1,054,879,706	1,082,207,121	(2.5)
Total assets	$ 1,191,121,405	$ 1,232,603,766	(3.4)%
Current liabilities:			
Bonds payable	$ 40,985,863	$ 37,567,684	9.1%
Interest Payable	24,198,633	23,090,263	4.8
Fees payable to operating fund	1,562,297	1,642,565	(4.9)
Accounts payable	86,372	125,812	(31.3)
Rebate payable to the Internal Revenue Service	782,496	505,018	54.9
Deferred revenue	1,478,589	1,454,751	1.6
Total current liabilities	69,094,250	64,386,093	7.3
Noncurrent liabilities:			
Bonds payable	1,055,055,068	1,079,720,932	(2.3)
Rebate payable to the Internal Revenue Service	943,539	1,278,542	(26.2)
Total noncurrent liabilities	1,055,998,607	1,080,999,474	(2.3)
Total liabilities	1,125,092,857	1,145,385,567	(1.8)
Funds held in trust:			
Construction Funds	20,196,994	41,429,700	(51.2)
Expense Funds	(38,467)	(45,106)	14.7
Debt Service Funds	40,157,022	38,782,886	3.5
Debt Service Reserve Funds	4,217,758	6,511,554	(35.2)
Earnings and Rebate funds	451	1,606	(71.9)
Redemption Funds	58,964	362,863	(83.8)
Unrestricted Fund Balance	1,435,826	174,696	721.9
Total funds held in trust and fund balance	66,028,548	87,218,199	(24.3)
	$ 1,191,121,405	$ 1,232,603,766	(3.4)%

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 ACCOUNT

	2005	2004	Percentage Change
Operating revenues:			
Net resident service revenue	$ 4,441,652	$ 4,248,433	4.5%
Administrative and other fees	3,120,087	3,672,515	(15.0)
Investment income	451,099	232,107	94.3
Net decrease in the fair value of investments	(72,588)	(181,360)	60.0
Interest income from advances and notes receivable from institutions	917,160	644,568	42.3
Other income	113,975	135,902	(16.1)
	8,971,385	8,752,165	2.5
Operating expenses:			
Salaries	314,869	370,479	(15.0)
Employee benefits	78,018	87,839	(11.2)
Travel	4,948	8,200	(39.7)
Office expenses	64,594	64,801	(0.3)
Accounting and auditing	48,500	47,100	3.0
Legal	29,537	113,890	(74.1)
Telephone	6,818	7,093	(3.9)
Building lease	54,535	54,535	0.0
Bad debt expense	–	15,559	(100.0)
Paid to trusteed funds	143,593	81,696	75.8
Nursing services	1,427,703	1,473,923	(3.1)
Administrative services	467,220	439,579	6.3
PNMI Service Provider Tax	188,087	–	–
Dietary services	595,700	586,747	1.5
Depreciation and amortization	330,900	335,330	(1.3)
Plant operations and maintenance	289,385	266,937	8.4
Housekeeping services	142,155	102,880	38.2
Other services	351,199	344,120	2.1
Loss on disposal of equipment	158	–	100.0
Interest expense	379,151	420,784	(9.9)
	4,917,070	4,821,492	2.0
Operating income	4,054,315	3,930,673	3.1
Fund balance at beginning of year	19,739,319	15,808,646	24.9
Fund balance at end of year	$ 23,793,634	$ 19,739,319	20.5%

RESTRICTED & TRUSTEED FUNDS

	2005	2004	Percentage Change
Fund balance and funds held in trust, beginning of year	$ 87,218,199	$ 91,301,146	(4.5)%
Additions:			
Bond proceeds	42,265,000	180,925,000	(76.6)
Received and receivable from institutions	89,693,651	94,712,779	(5.3)
Received and receivable from operating fund	303,593	746,696	(59.3)
Transfer from debt service reserves	152,957	1,356,416	(88.7)
Income from investments	7,270,771	7,198,988	1.0
Net increase (decrease) in the fair value of investments	490,715	(1,049,837)	146.7
Other income	293,912	152,516	92.7
Total additions	140,470,599	284,042,558	(50.5)
Deductions:			
Construction and program costs	35,415,860	51,952,807	(31.8)
Bond issuance costs	886,602	2,400,529	(63.1)
Principal payments	37,727,685	37,036,586	1.9
Interest expense	51,231,366	54,226,457	(5.5)
Paid to institutions	3,267,422	1,580,529	106.7
Paid to refunding & refinancing escrows	30,565,650	129,650,060	(76.4)
Paid to operating fund	–	5,639,400	(100.0)
Transfer to debt service reserves	1,861,516	5,177,942	(64.0)
Other deductions	704,149	461,195	52.7
Total deductions	161,660,250	288,125,505	(43.9)
Decrease in fund balance and funds held in trust	(21,189,651)	(4,082,947)	(419.0)
Fund balance and funds held in trust, end of year	$ 66,028,548	$ 87,218,199	(24.3)%

Operating Fund consolidated cash and cash equivalents at June 30, 2005 increased $1,501,887 or 19.5% from balances at June 30, 2004. This increase was the result of investing excess funds into short-term investments.

Investments within the Operating Fund at June 30, 2005 increased $2,437,845 or 28.5% over the balance at June 30, 2004. This increase was the result of investing excess funds into long-term investments. The Authority's Operating Funds' long-term investment portfolio is comprised of U.S. Government agency notes. All investments are carried at fair value, and unrealized gains and losses (due to fluctuations in market values) are recognized in the statements of operations and changes in fund balance.

Investments within the Restricted and Trusteed Funds at June 30, 2005 decreased $12,489,292 or 9.2% from June 30 2004. This decrease is the net result of the investment of bond proceeds from the Series 2004B issue, the disbursement of construction funds to institutions for project costs throughout the year and scheduled draws on debt service reserve fund investments. The Authority's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), agency notes and guaranteed investment contracts. All investments are carried at fair value. Any unrealized gains and losses (due to fluctuations in market values) are recognized in the statements of operations and changes in fund balance and funds held in trust.

Accrued investment income within the Restricted and Trusteed Funds at June 30, 2005 decreased $1,589,440 or 73.2% from June 30 2004. This decrease was primarily the result of timing, whereby the trustee collected interest earned on investments for fiscal year 2005 on or before June 30, 2005 but did not collect the interest earned for fiscal year 2004 until after the end of the fiscal year.

Advances receivable from institutions within the Operating Fund at June 30, 2005 decreased $1,121,353 or 89.3% from June 30, 2004. This decrease was the net result of the continued refinancing of nursing home loans with HUD, which included the payoff of advances, and repayments on advances by the institutions in 2005.

Notes receivable from institutions within the Operating Fund at June 30, 2005 increased $38,133 over balances at June 30, 2004. The increase was the net result of retaining additional subordinate debt related to fiscal 2005 refinancings with HUD in the Taxable Financing Reserve Fund, and repayments on subordinate debt by the institutions during the fiscal year 2005.

Income from investments in 2005 increased 94.3% in the Operating Fund (consolidated) and increased 1.0% in the Restricted and Trusteed Funds from 2004. The increase in the Operating Fund was the result of an increase in the average outstanding investment balance during fiscal 2005 and the improving short-term interest rate environment. The increase in the Restricted and Trusteed Funds was primarily the result of the improving short-term interest rate environment.

Bond and note proceeds for 2005 in the Restricted and Trusteed Funds decreased 76.6% from 2004 as a result of a decrease in loan requests from the borrowers, which resulted in fewer bond issuances during 2005 ($138,660,000 total par reduction from 2004). The decrease in bond and note proceeds, in combination with 2005 scheduled principal payments of $37,727,685 and refunding and refinancing principal reductions of $25,785,000, resulted in a 1.9% decrease in gross bonds outstanding within the Restricted and Trusteed Funds at June 30, 2005 from June 30, 2004. The decrease in new bond issuances in fiscal 2005 also contributed to a decrease in related construction and program costs and bond issue costs from fiscal 2004.

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, 2005

ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living (note 9)	Eliminations	Consolidated Operating Fund
Current assets:				
Cash and cash equivalents (note 3)	$ 8,806,585	$ 400,691	$ –	$ 9,207,276
Investments, at fair value (note 3)	10,996,431	–	–	10,996,431
Accrued investment income	12,022	–	–	12,022
Fees and other amounts receivable from trusteed funds	1,562,297	–	–	1,562,297
Resident accounts receivable, net of allowance of $12,000	–	281,279	–	281,279
Other assets	850	150,573	–	151,423
Total current assets	21,378,185	832,543	–	22,210,728
Long-term assets:				
Advances receivable from institutions net of allowance of $2,050,270 (note 8)	6,400,975	–	(6,266,775)	134,200
Notes receivable from institutions (note 8)	6,697,849	–	–	6,697,849
Assets whose use is limited	–	679,996	–	679,996
Fixed and other assets, net	–	3,631,598	–	3,631,598
Deferred financing costs, net	–	152,415	–	152,415
Total long-term assets	13,098,824	4,464,009	(6,266,775)	11,296,058
	$ 34,477,009	$ 5,296,552	$ (6,266,775)	$ 33,506,786

LIABILITIES AND FUND BALANCE

	Authority's Operating Fund	Portland Center For Assisted Living (note 9)	Eliminations	Consolidated Operating Fund
Current liabilities:				
Current portion of loan payable to trusteed funds	$ –	$ 495,000	$ –	$ 495,000
Accounts payable	44,503	25,036	–	69,539
Estimated third-party payor settlements	–	1,256,051	–	1,256,051
Accrued payroll and other expenses	–	103,170	–	103,170
Resident funds held in trust	–	36,097	–	36,097
Deferred revenue	–	2,754	–	2,754
Total current liabilities	44,503	1,918,108	–	1,962,611
Long-term liabilities:				
Loan payable to trusteed funds	–	3,768,013	–	3,768,013
Other amounts due to trusteed funds	3,982,528	–	–	3,982,528
Advances due to Authority's operating fund	–	6,266,775	(6,266,775)	–
Total long-term liabilities	3,982,528	10,034,788	(6,266,775)	7,750,541
Total liabilities	4,027,031	11,952,896	(6,266,775)	9,713,152
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	–	200	(200)	–
Fund balance (deficit)	30,449,978	(6,656,544)	200	23,793,634
	30,449,978	(6,656,344)	–	23,793,634
	$ 34,477,009	$ 5,296,552	$(6,266,775)	$ 33,506,786

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEETS – RESTRICTED AND TRUSTEED FUNDS

June 30, 2005

ASSETS

	General Resolution	Reserve Fund
Current assets:		
Cash and cash equivalents (note 3)	$ 1,618,513	$ 72,344,403
Investments, at fair value (note 3)	5,387,228	10,260,590
Accrued investment income	24,073	542,022
Loans receivable from institutions (note 8)	1,375,863	37,335,000
Loan receivable from operating fund (note 9)	–	–
Other receivables from institutions	18,204	174,560
Total current assets	8,423,881	120,656,575
Noncurrent assets:		
Cash and cash equivalents (note 3)	–	–
Investments, at fair value (note 3)	13,135,276	90,055,521
Loans receivable from institutions (note 8)	23,000,068	900,300,713
Loan receivable from operating fund (note 9)	–	–
Other amounts due from operating fund	–	–
Total noncurrent assets	36,135,344	990,356,234
Total assets	$ 44,559,225	$ 1,111,012,809

LIABILITIES, FUNDS HELD IN TRUST AND FUND BALANCE

	General Resolution	Reserve Fund
Current liabilities:		
Bonds payable (note 4)	$ 1,375,863	$ 37,335,000
Interest payable	88,162	23,496,819
Fees payable to operating fund	4,415	1,010,744
Accounts payable	3,500	56,481
Rebate payable to Internal Revenue Service	–	782,496
Deferred revenue	–	1,377,364
Total current liabilities	1,471,940	64,058,904
Noncurrent liabilities:		
Bonds payable (note 4)	31,830,068	994,005,000
Rebate payable to Internal Revenue Service	–	943,539
Total noncurrent liabilities	31,830,068	994,948,539
Total liabilities	33,302,008	1,059,007,443
Funds held in trust and fund balance:		
Construction/program funds	5,439,767	13,902,337
Expense funds	–	7,601
Debt service funds	1,599,241	36,621,633
Debt service reserve funds	4,217,758	–
Earnings funds	451	–
Redemption funds	–	58,964
Unrestricted fund balance	–	1,414,831
Total funds held in trust and fund balance	11,257,217	52,005,366
	$ 44,559,225	$ 1,111,012,809

See accompanying notes.

Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II	Total
$ 3,993,551	$ 875,909	$ 78,832,376
–	–	15,647,818
14,690	1,931	582,716
1,780,000	–	40,490,863
495,000	–	495,000
162	–	192,926
6,283,403	877,840	136,241,699
–	795,600	795,600
4,230,254	–	107,421,051
15,611,733	–	938,912,514
3,768,013	–	3,768,013
–	3,982,528	3,982,528
23,610,000	4,778,128	1,054,879,706
$ 29,893,403	$ 5,655,968	$ 1,191,121,405
$ 2,275,000	$ –	$ 40,985,863
523,265	90,387	24,198,633
547,138	–	1,562,297
26,391	–	86,372
–	–	782,496
101,225	–	1,478,589
3,473,019	90,387	69,094,250
23,610,000	5,610,000	1,055,055,068
–	–	943,539
23,610,000	5,610,000	1,055,998,607
27,083,019	5,700,387	1,125,092,857
854,890	–	20,196,994
804	(46,872)	(38,467)
1,935,262	886	40,157,022
–	–	4,217,758
–	–	451
–	–	58,964
19,428	1,567	1,435,826
2,810,384	(44,419)	66,028,548
$ 29,893,403	$ 5,655,968	$ 1,191,121,405

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2005

	Authority's Operating Fund	Portland Center For Assisted Living (note 9)	Elimi-nations	Consolidated Operating Fund
Operating revenues:				
Net resident service revenue	$ –	$ 4,441,652	$ –	$ 4,441,652
Administrative and other fees	3,120,087	–	–	3,120,087
Investment income	451,099	–	–	451,099
Net decrease in the fair value of investments	(72,588)	–	–	(72,588)
Interest income from advances and notes receivable from institutions	1,542,525	–	(625,365)	917,160
Other income	110,452	3,523	–	113,975
	5,151,575	4,445,175	(625,365)	8,971,385
Operating expenses (note 6):				
Salaries	314,869	–	–	314,869
Employee benefits	78,018	–	–	78,018
Travel	4,948	–	–	4,948
Office expenses	64,594	–	–	64,594
Accounting and auditing	48,500	–	–	48,500
Legal	29,537	–	–	29,537
Telephone	6,818	–	–	6,818
Building lease	54,535	–	–	54,535
Paid to trusteed funds	143,593	–	–	143,593
Nursing services	–	1,427,703	–	1,427,703
Administrative services	–	467,220	–	467,220
PNMI Service Provider Tax (note 9)	–	188,087	–	188,087
Dietary services	–	595,700	–	595,700
Depreciation and amortization	–	330,900	–	330,900
Plant operations and maintenance	–	289,385	–	289,385
Housekeeping services	–	142,155	–	142,155
Other services	–	351,199	–	351,199
Loss on disposal of equipment	–	158	–	158
Interest expense	–	1,004,516	(625,365)	379,151
	745,412	4,797,023	(625,365)	4,917,070
Operating income (loss)	4,406,163	(351,848)	–	4,054,315
Fund balance (deficit) at beginning of year	26,043,815	(6,304,696)	200	19,739,319
Fund balance (deficit) at end of year	$ 30,449,978	$ (6,656,544)	$ 200	$ 23,793,634

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, 2005

	General Resolution	Reserve Fund
Fund balance (deficit) and funds held in trust, beginning of year	$ 24,450,720	$ 60,089,624
Additions:		
Bond and note proceeds	–	42,265,000
Received and receivable from institutions	4,882,054	80,043,411
Received and receivable from operating fund	–	–
Transfer from debt service reserves	–	–
Income from investments	855,765	6,103,077
Net increase in the fair value of investments	490,715	–
Other income	–	293,912
Total additions	6,228,534	128,705,400
Deductions:		
Construction and program costs	10,830,000	24,474,122
Bond issuance costs	–	886,602
Principal payments	1,147,685	34,210,000
Interest expense	1,159,085	47,993,032
Paid to institutions	2,495,549	771,873
Paid to refunding and refinancing escrows (notes 7 and 8)	–	29,680,650
Transfer to debt service reserves	–	1,861,516
Other deductions	177,853	523,728
Total deductions	15,810,172	140,401,523
Transfer (to) from trusteed funds	(3,611,865)	3,611,865
(Decrease) increase in fund balance and funds held in trust	(13,193,503)	(8,084,258)
Fund balance (deficit) and funds held in trust, end of year	$ 11,257,217	$ 52,005,366

See accompanying notes.

Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II	Total
$ 2,724,393	$ (46,538)	$ 87,218,199
–	–	42,265,000
4,768,186	–	89,693,651
–	303,593	303,593
152,957	–	152,957
298,877	13,052	7,270,771
–	–	490,715
–	–	293,912
5,220,020	316,645	140,470,599
111,738	–	35,415,860
–	–	886,602
2,210,000	160,000	37,727,685
1,924,723	154,526	51,231,366
–	–	3,267,422
885,000	–	30,565,650
–	–	1,861,516
2,568	–	704,149
5,134,029	314,526	161,660,250
–	–	–
85,991	2,119	(21,189,651)
$ 2,810,384	$ (44,419)	$ 66,028,548

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND

Year Ended June 30, 2005

	Authority's Operating Fund	Portland Center For Assisted Living (note 9)	Elimi-nations	Consolidated Operating Fund
Operating activities:				
Cash received from units	$ 3,201,005	$ –	$ –	$ 3,201,005
Cash received from patients	–	4,515,747	–	4,515,747
Cash received from other income	110,452	3,523	–	113,975
Cash payments for interest	–	(1,004,516)	625,365	(379,151)
Cash payments for operating expenses	(798,347)	(3,577,614)	–	(4,375,961)
Cash payments for other assets and liabilities	–	(7,709)	–	(7,709)
Net cash provided (used) by operating activities	2,513,110	(70,569)	625,365	3,067,906
Financing activities:				
Net advances from Authority's operating fund	–	567,936	(567,936)	–
Payments to trusteed funds	(945,000)	–	–	(945,000)
Payments on loan to trusteed funds	–	(460,000)	–	(460,000)
Net cash (used) provided by financing activities	(945,000)	107,936	(567,936)	(1,405,000)
Investing activities:				
Proceeds from sales and maturities of investments	7,013,912	–	–	7,013,912
Purchase of equipment	–	(105,114)	–	(105,114)
Purchase of investments	(9,524,345)	–	–	(9,524,345)
Change in assets whose use is limited	–	8,633	–	8,633
Income received from investments and advances	1,988,040	–	(625,365)	1,362,675
Net advances receivable from institutions	(38,133)	–	–	(38,133)
Decrease in notes receivable from institutions	553,417	–	567,936	1,121,353
Net cash used by investing activities	(7,109)	(96,481)	(57,429)	(161,019)
Increase (decrease) in cash and cash equivalents	1,561,001	(59,114)	–	1,501,887
Cash and cash equivalents at beginning of year	7,245,584	459,805	–	7,705,389
Cash and cash equivalents at end of year	$ 8,806,585	$ 400,691	$ –	$ 9,207,276

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND
(CONTINUED)

Year Ended June 30, 2005

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Elimi- nations	Consolidated Operating Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ 4,406,163	$ (351,848)	$ –	$ 4,054,315
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Investment and interest income	(1,993,624)	–	625,365	(1,368,259)
Net decrease in the fair value of investments	72,588	–	–	72,588
Depreciation and amortization	–	330,900	–	330,900
Loss on disposal of equipment	–	158	–	158
Change in assets and liabilities:				
Decrease in fees and other amounts receivable from trustee funds	80,268	–	–	80,268
Increase in net resident accounts receivable	–	(129,924)	–	(129,924)
Decrease (increase) in other assets	650	(7,709)	–	(7,059)
Decrease in accounts payable	(52,935)	(12,172)	–	(65,107)
Increase in estimated third-party payor settlements	–	205,364	–	205,364
Decrease in accrued payroll and other expenses	–	(103,993)	–	(103,993)
Decrease in deferred revenue	–	(1,345)	–	(1,345)
Net cash provided (used) by operating activities	$ 2,513,110	$ (70,569)	$ 625,365	$ 3,067,906

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*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Title 22, Chapter 413, Sections 2051 to 2074, inclusive and as amended by Chapter 584 of the Public Laws of 1991.

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

Debt issued by the Authority is not debt of the State of Maine or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority is exempt from federal and State of Maine income taxes.

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

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 9). 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.

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.

Taxable Financing Reserve Fund II

These funds and accounts are established under the Authority's Resolution establishing the Maine Health Facilities' Taxable Financing Reserve Fund II adopted July 11, 2003. Under this resolution, the Authority issues Bonds exempt from State of Maine income taxes, which proceeds are used for funding subordinated loans to certain nursing homes in the State of Maine. Bonds issued under this resolution benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine.

1. Organization (Continued)

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

Construction/Program Funds

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

Expense Funds

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

Debt Service Funds

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

Debt Service Reserve Funds

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

Earnings Funds

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

Redemption Funds

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

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 7).

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).

Cash and Cash Equivalents

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

Investments

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

Interfund Transactions

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

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.

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.

Revenue Recognition and Resident Accounts Receivable

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.

Resident accounts receivable of the Center are carried net of an allowance for bad debts, if any is considered necessary by management after considering the nature and circumstances of past due accounts. Accounts are charged off when deemed uncollectible.

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.

2. Significant Accounting Policies (Continued)

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.

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. Government 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.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, guaranteed investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Authority to terminate individual contracts at par. The Authority's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Authority's investments in guaranteed investment contracts, U.S. Government agency bonds and U.S. government obligations as of June 30, 2005:

3. Cash and Cash Equivalents and Investments (Continued)

Authority's Operating Fund	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than Ten Years
U.S. Government agency bonds	$ 10,996,431	$4,966,565	$6,029,866	$ –	$ –
General Resolution					
Guaranteed investment contracts	$ 9,302,228	$9,262,751	$ 39,477	$ –	$ –
U.S. Government obligations	68,563	6,699	61,864	–	–
U.S. Government agency bonds	9,151,713	–	–	–	9,151,713
	$ 18,522,504	$9,269,450	$ 101,341	$ –	$ 9,151,713
Reserve Fund					
Guaranteed investment contracts	$100,102,174	$9,710,263	$ 550,328	$5,358,742	$84,482,841
U.S. Government obligations	213,937	20,901	193,036	–	–
	$100,316,111	$9,731,164	$ 743,364	$5,358,742	$84,482,841
Taxable Financing Reserve Fund					
Guaranteed investment contracts	$ 4,230,254	$ –	$ –	$3,346,440	$ 883,814

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are primarily held by U.S. Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at U.S. Bank at June 30, 2005

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

The Authority's U.S. Government agency bonds at June 30, 2005, consist of $10,996,431 of FHLMC, FHLB and FNMA securities (AAA rated) and $9,151,713 of GNMA securities (which are backed by the full faith and credit guaranty of the United States government). Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

3. Cash and Cash Equivalents and Investments (Continued)

At June 30, 2005, approximately $77,100,000 in guaranteed investment contracts within the reserve fund are with three institutions. Additionally, approximately $9,300,000 and $4,230,000 in guaranteed investment contracts within the general resolution and taxable financing reserve fund, respectively, are with two institutions. The Authority limits its credit risk by investing in guaranteed investment contracts backed by high credit quality banks and insurance companies.

The consolidated cash and cash equivalents of the Authority's operating fund at June 30, 2005 consist of $300,000 insured and $1,487,478 noninsured deposits with banks and $7,419,798 of money market funds held by a trust company. Trustee held cash and cash equivalents at June 30, 2005, consist primarily of money market funds secured by short-term U.S. Treasury obligations.

4. Bonds Payable

Total General Resolution bonds payable consist of the following at June 30, 2005:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2005
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 Bank of America, dated December 11, 1986	1988 – 2008	1,800,000	180,000
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	11,885,000	1,680,000
Mt. Desert Island Hospital, Series 1992, variable interest rate equal to 80% of the prime rate of Bank of America, dated July 15, 1992	1993 – 2012	1,300,000	710,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	25,000
MidCoast, 2001 lease purchase, 4.95%, dated November 15, 2001	2002 – 2008	5,865,635	3,080,931
Midcoast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2006 – 2043	8,830,000	8,830,000
		$ 56,095,635	33,205,931
Current portion			1,375,863
Noncurrent portion			$ 31,830,068

4. Bonds Payable (Continued)

The outstanding General Resolution bonds payable will mature in each of the following years with interest payable semi-annually:

Year Ending	Principal	Interest	Debt Service
2006	$ 1,375,863	$ 977,272	$ 2,353,135
2007	1,336,228	908,865	2,245,093
2008	1,313,890	841,205	2,155,095
2009	599,950	784,782	1,384,732
2010	360,000	762,521	1,122,521
2011 – 2015	1,655,000	3,475,834	5,130,834
2016 – 2020	635,000	3,151,401	3,786,401
2021 – 2025	845,000	2,964,563	3,809,563
2026 – 2030	19,815,000	1,813,056	21,628,056
2031 – 2035	1,490,000	1,250,534	2,740,534
2036 – 2040	1,995,000	790,965	2,785,965
2041 – 2045	1,785,000	198,450	1,983,450
	$ 33,205,931	$ 17,919,448	$ 51,125,379

Total Reserve Fund bonds payable consist of the following at June 30, 2005:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2005
Reserve Fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	$ 44,850,000	$ 1,220,000
Series 1993B, 2.8% – 5.75%, dated May 1, 1993	1994 – 2023	20,000,000	5,340,000
Series 1993C, 2.65% – 5.0%, dated September 1, 1993	1994 – 2013	69,085,000	38,095,000
Series 1993D, 2.6% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	20,240,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	8,820,000
Series 1995A, 4.4% – 5.878%, dated April 11, 1995	1996 – 2025	33,285,000	775,000
Series 1995B, variable rate, dated August 2, 1995	1998 – 2025	17,535,000	15,335,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	1,980,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	21,435,000

4. Bonds Payable (Continued)

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2005
Reserve Fund (continued):			
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	$ 41,855,000	$ 29,180,000
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	8,310,000	7,535,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	39,435,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	64,050,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	80,895,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	27,850,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	83,220,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	39,080,000
Series 2000A, variable rate, dated January 27, 2000	2002 – 2022	11,755,000	10,670,000
Series 2000B, variable rate, dated January 27, 2000	2000 – 2019	12,685,000	9,780,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	48,410,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	61,755,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	9,625,000
Series 2001C, 3.25% – 5.125%, dated May 15, 2001	2002 – 2031	27,565,000	24,470,000
Series 2001D, 3.0% – 5.0%, dated November 1, 2001	2002 – 2031	50,700,000	46,330,000
Series 2002A, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	52,695,000
Series 2002B, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	8,175,000	7,985,000
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	63,080,000	61,835,000
Series 2003B, 2.0% – 5.0%, dated July 1, 2003	2004 – 2033	59,245,000	58,015,000
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	7,050,000	6,960,000

4. Bonds Payable (Continued)

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2005
Reserve Fund (continued):			
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	$ 35,880,000	$ 34,510,000
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	72,315,000	71,550,000
Series 2004B, 3.00% – 5.00%, dated December 9, 2004	2006 – 2034	42,265,000	42,265,000
		$ 1,365,050,000	1,031,340,000
Current portion			37,335,000
Noncurrent portion			$ 994,005,000

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

Year Ending	Principal	Interest	Total
2006	$ 37,335,000	$ 47,908,208	$ 85,243,208
2007	39,765,000	46,330,349	86,095,349
2008	40,720,000	44,749,317	85,469,317
2009	40,930,000	43,102,649	84,032,649
2010	40,940,000	41,396,999	82,336,999
2011 – 2015	224,555,000	177,588,718	402,143,718
2016 – 2020	223,005,000	124,436,664	347,441,664
2021 – 2025	192,940,000	72,212,387	265,152,387
2026 – 2030	145,700,000	29,652,003	175,352,003
2031 – 2035	45,450,000	3,161,515	48,611,515
Total	$ 1,031,340,000	$ 630,538,809	$ 1,661,878,809

4. Bonds Payable (Continued)

Taxable Financing Reserve fund bonds payable consist of the following at June 30, 2005:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2005
Taxable Financing Reserve Fund:			
Series 1993A, variable interest rate, dated January 1, 1993	1993 – 2012	$ 57,125,000	$ 13,195,000
Series 1993B, variable interest rate, dated October 27, 1993	1994 – 2013	25,060,000	5,725,000
Series 1996A, 7.03% fixed interest rate, dated February 22, 1996	1996 – 2016	16,440,000	6,965,000
		$ 98,625,000	25,885,000
Current portion			2,275,000
Noncurrent portion			$ 23,610,000

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

Year Ending	Principal	Interest	Total
2006	$ 2,275,000	$ 1,780,467	$ 4,055,467
2007	2,355,000	1,613,417	3,968,417
2008	2,495,000	1,438,338	3,933,338
2009	2,650,000	1,252,576	3,902,576
2010	2,800,000	1,055,732	3,855,732
2011 – 2015	11,725,000	2,201,793	13,926,793
2016 – 2017	1,585,000	113,359	1,698,359
	$ 25,885,000	$ 9,455,682	$ 35,340,682

Taxable Financing Reserve Fund II bonds payable consist of the following at June 30, 2005:

Taxable Financing Reserve Fund II:			
Series 2003A, variable interest rate, dated September 1, 2003	2014 – 2023	$6,435,000	$5,610,000
Current portion			–
			$5,610,000

4. Bonds Payable (Continued)

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

Year Ending	Principal	Interest	Total
2006	$ –	$ 176,488	$ 176,488
2007	–	156,625	156,625
2008	–	156,625	156,625
2009	–	156,625	156,625
2010	–	156,625	156,625
2011 – 2015	535,000	773,763	1,308,763
2016 – 2020	3,015,000	433,913	3,448,913
2021 – 2022	2,060,000	24,763	2,084,763
	$5,610,000	$2,035,427	$7,645,427

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, 2005:

	General Resolution	Reserve Fund	Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II
Balance, beginning of year	$ 59,253,616	$ 1,023,285,000	$ 28,980,000	$ 5,770,000
Issuances	–	42,265,000	–	–
Redemptions:				
Refundings – see note 7	24,900,000	–	–	–
Refinancing – see note 8	–	–	885,000	–
Principal payments	1,147,685	34,210,000	2,210,000	160,000
Balance, end of year	$ 33,205,931	$ 1,031,340,000	$ 25,885,000	$ 5,610,000

5. Reserve Funds

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

Reserve Fund

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2005, the required debt service reserve was $86,095,349 and the fair value of the debt service reserve assets totaled $93,714,927.

Taxable Financing Reserve Fund

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2005, the required debt service reserve was $4,055,467 and the fair value of the debt service reserve assets totaled $4,230,254.

Taxable Financing Reserve Fund II

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2005, the required debt service reserve was $700,475 and the fair value of the debt service reserve assets totaled $795,600.

6. Operating Expenses

The Authority has a management agreement with Maine Municipal Bond Bank (the Bond Bank) which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead. The Authority recognized approximately $538,000 of expense under this agreement in 2005.

7. Refunded Issues

On December 9, 2004, the Authority issued $42,265,000 in 2004B revenue bonds with an average interest rate of 4.4%, a portion of which was used to in-substance defease $24,900,000 of outstanding 1999 general resolution bonds with an average interest rate of 7.54%. The net proceeds of approximately $29,680,000, including a net original issue discount of approximately $115,000 and after payment of approximately $570,000 in underwriting fees, insurance and other issuance costs, were used to purchase U.S. government securities which will provide for all future debt service payments on the defeased bonds. The authority defeased the above bonds to reduce total interest payments over the next 29 years by approximately $5.9 million. All of this savings inures to the Institution involved with the 1999 bonds.

7. 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 defeased bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations are placed in irrevocable trust accounts with the trustees of the defeased bonds. The gains, losses and economic benefits of these transactions inure to the respective institution and not the Authority, although the Authority may receive an administrative fee. At June 30, 2005, there were approximately $77,595,000 of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues.

8. 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 created cash flow problems.

In 2002, the owners of certain financially troubled nursing homes, with the Authority's concurrence, began refinancing portions of Authority loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of the Authority expects that these refinancings will reduce annual debt service requirements, thereby eliminating the Authority's exposure in its Taxable Financing Reserve Fund and reducing the Authority's overall exposure. Through June 30, 2005, HUD has completed refinancings for nine institutions which, at the time they were refinanced, had combined bond-related loans and advances due the Authority of approximately $44,332,000 (including refinancings with HUD in 2005 totaling approximately $1,090,000). As part of the refinancing completed by HUD, the Authority agreed to issue 8% subordinated notes receivable to these nine institutions from its operating fund. These notes total $6,697,849 at June 30, 2005 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 nine institutions based on the audited financial statements for the previous year. The Authority is recording interest income on a cash basis on these loans. Should these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid. The proceeds from the HUD loans and the subordinated notes were used to pay off the related bonds.

8. Nursing Home Loans (Continued)

In addition to subordinated notes receivable from the nine institutions described above, the Authority has advanced approximately $2,185,000 from the operating fund as of June 30, 2005 to other financially troubled institutions with outstanding loans owed to the Authority of approximately $15,517,000 (including loans of $10,242,000 in the reserve fund at June 30, 2005). 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, 2005, the Authority has established a $2,050,270 reserve in the operating fund related to amounts which have been advanced or are expected to be advanced to troubled institutions.

During 2005, Coopers Mills Nursing Home (d/b/a Robinson Health Care Facility) determined that the facility was no longer a viable operation and closed. The facility had outstanding amounts due the Authority totaling approximately $775,000 at June 30, 2005. Subsequent to June 30, 2005, the Authority recovered $630,000 from the sale of certain assets of the facility, and expects to recover remaining amounts due during 2006 from the sale of real estate formerly owned by the facility.

On October 7, 2005, Riverridge Management, Inc. (the facility) refinanced portions of its outstanding Taxable Financing Reserve Fund loans and Operating Fund advances with the U.S. Department of Housing and Urban Development (HUD). At the time of the refinancing, the facility had combined bond related loans and advances due the Authority of approximately $4,469,000. As part of the refinancing, the Authority issued 8% subordinate notes receivable of approximately $1,400,000, effectively reducing overall exposure to the Authority by approximately $3,069,000.

9. 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 MaineCare, the State of 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.

9. 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 and are invested in cash and money market securities at June 30, 3005. A summary follows:

Principal and interest debt service balances	$643,899
Resident funds	36,097
Total assets whose use is limited	$679,996

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 93% of the residents served in 2005 were beneficiaries of the MaineCare 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 MaineCare program. Settlements do not become final until the cost reports are audited and approved by the Maine Department of Health and Human Services (DHHS). Differences between estimated and actual settlements are recorded as contractual adjustments in the year of final determination.

The estimated settlements to the MaineCare program include amounts which DHHS has determined to be owed based on audited cost reports for years 1995 through 2004, plus an estimated settlement for 2005. 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.

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

Following is a summary of net resident service revenue for the year ended June 30, 2005:

Gross resident service revenue	$ 6,136,286
Contractual adjustments under third-party reimbursement programs	(1,694,634)
Net resident service revenue	$ 4,441,652

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

The State of Maine enacted legislation establishing a PNMI Service Provider Tax (State tax). As a result, the Center was subjected to and recorded $188,087 of State tax in 2005.

Fixed Assets

A summary of fixed assets follows:

	2004	Additions	Deductions	2005
Land	$ 302,291	$ –	$ –	$ 302,291
Building and improvements	7,190,293	57,126	–	7,247,419
Furniture, fixtures and equipment	928,421	47,988	(832)	975,577
Vehicles	21,944	–	–	21,944
	8,442,949	105,114	(832)	8,547,231
Less accumulated depreciation	(4,605,492)	(310,815)	674	(4,915,633)
Fixed assets, net	$ 3,837,457	$(205,701)	$ (158)	$3,631,598

Loan Payable to Trusteed Funds

Loan payable to trusteed funds of $4,263,013 at June 30, 2005 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 payments (including interest at 7.35% per annum) are approximately $860,000, excluding letter of credit and authority fees.

9. 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:

2006	$ 495,000
2007	530,000
2008	570,000
2009	610,000
2010	660,000
Thereafter	1,398,013

Management Agreement

First Atlantic Corp. provided all management and accounting services required by the Center throughout 2005. 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, 2005 were approximately $222,000.

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 $2,923 to the plan for the year ended June 30, 2005.

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, 2005, 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, 2005, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher Educational
Facilities Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Maine Health and Higher Educational Facilities Authority for the year ended June 30, 2005, and have issued our report thereon dated October 7, 2005. We have also audited the balance sheet and statement of changes in funds held in trust of the Maine Health and Higher Educational Facilities Authority, Mt. Desert Island Hospital Issue, Series A for the year ended June 30, 2005. 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 contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In connection with our audit, we have read the provisions of the General Bond Resolution adopted June 5, 1973 by the Authority and the Series Resolution adopted December 11, 1986 authorizing the issuance of $1,800,000 Maine Health and Higher Educational Facilities Authority Revenue Bonds, Mt. Desert Island Hospital Issue, Series A, insofar as they relate to accounting matters solely, to identify any covenant violations or indications of default.

In accordance with Section 5.09 of the General Bond Resolution, we hereby state that during the course of our audit, we obtained no knowledge of any covenant violates or any default in the fulfillment of any of the terms, covenants or provisions of the General Bond Resolution or the applicable Series Resolution. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the entity's financial position and results of operations. Accordingly, these financial statements are not designed for those who are not informed about such matters.

To the Members of
Maine Health and Higher Educational
Facilities Authority

In our opinion, except as noted above, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority, Mt. Desert Island Hospital Issue, Series A at June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the Members of Maine Health and Higher Educational Facilities Authority and the Bond Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Baker Newman & Noyes

Limited Liability Company

Portland, Maine
October 7, 2005

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY, MT. DESERT ISLAND HOSPITAL ISSUE, SERIES A

BALANCE SHEET

June 30, 2005

ASSETS

Current assets:	
Principal payments receivable from Institution	$ 90,000
Investments, at market value	69,603
Due from redemption fund	–
Accrued investment income	39
Total current assets	159,642
Noncurrent assets:	
Principal payments receivable from Institution	90,000
Total assets	$249,642

LIABILITIES AND FUNDS HELD IN TRUST

Current liabilities:	
Bonds payable	$ 90,000
Due to debt service fund	–
Accrued interest payable	2,070
Total current liabilities	92,070
Noncurrent liabilities:	
Bonds payable	90,000
Total liabilities	182,070
Funds held in trust	67,572
Total liabilities and funds held in trust	$249,642

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY,
MT. DESERT ISLAND HOSPITAL ISSUE, SERIES A

STATEMENT OF CHANGES IN FUNDS HELD IN TRUST

Year Ended June 30, 2005

	Debt Service Fund	Redemption Fund	Total
Balances at beginning of year	$ –	$ 67,595	$ 67,595
Additions:			
Received from Institution	82,965	15,000	97,965
Income from investments	138	23	161
Transfer from redemption fund	82,618	–	82,618
	165,721	15,023	180,744
Deductions:			
Principal payment	90,000	–	90,000
Interest expense	7,965	–	7,965
Other deductions	184	–	184
Transfer to debt service fund	–	82,618	82,618
	98,149	82,618	180,767
Balances at end of year	$ 67,572	$ –	$ 67,572

Maine HHEFA
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