Annual Report
Maine Health & Higher Educational Facilities Authority

2006

MAINE HEALTH AND HIGHER
EDUCATIONAL FACILITIES AUTHORITY

Maine HHEFA
MAINE HEALTH AND HIGHER
EDUCATIONAL FACILITIES AUTHORITY

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

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **2006 Maine Health and Higher Educational Facilities Annual Report**

This is the annual report for the Maine Health and Higher Educational Facilities Authority for the 2006 fiscal year, running from July 1, 2005 to June 30, 2006. As of June 30, 2006, the Authority has $31,830,069 outstanding under its general tax exempt conduit resolution, $1,153,005,000 outstanding under its tax exempt reserve fund resolution, $18,940,000 outstanding under it's taxable reserve fund resolution, and $4,250,000 outstanding under its taxable II reserve fund resolution.

During fiscal year 2006 the Authority issued $236,850,000 of bonds under its tax-exempt reserve fund resolution. This sale were accomplished in six series for four colleges, six hospitals, one continuing care retirement community, and one social services 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 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, 2006

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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, 2006. 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 as of June 30, 2006, 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 13, 2006 on our consideration of Maine Health and Higher Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Members of
Maine Health and Higher
Educational Facilities Authority

The Management's Discussion and Analysis on pages 3 – 10 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 13, 2006

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

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, 2006. 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 $9,311,614 for fiscal year 2006, an increase of $340,229 or 3.8% over fiscal year 2005. Consolidated operating income for the Authority's Operating Fund was $4,126,391 for fiscal year 2006, an increase of $72,076 from fiscal year 2005. This increase in consolidated operating income was mainly due to an improving short-term interest rate environment and additional net resident service revenue in 2006.

Notes, advances and other receivables from institutions in the Authority's Operating Fund of $7,101,883 at June 30, 2006 consists of 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 fiscal years 2002 – 2006 (refer to note 8 of the audited financial statements), advances made to financially troubled institutions for required debt service payments and other miscellaneous receivables. The net amount increased $269,834 over fiscal year 2005. The Authority is recording interest income on a cash basis for notes and advances receivable.

Loan receivable from Operating Fund in the Authority's Restricted and Trusteed Funds represents bond principal payments due from Portland Center for Assisted Living (the Center) at June 30, 2006. The Center was acquired by the Authority in 1998 and is entirely owned by the Authority.

The Authority's loans receivable from institutions in the Restricted and Trusteed Funds at June 30, 2006 of $1,083,932,329 represents a net increase of $104,528,952 or 10.7% from the balance at June 30, 2005. This increase is the net result of the bond issuances described below, for which various funds were loaned out during fiscal 2006, repayment of loans by institutions during fiscal 2006 and certain refundings and refinancings that occurred in fiscal 2006.

The Authority's gross bonds outstanding at June 30, 2006 of $1,208,025,068 represents a net increase of $111,984,137 or 10.2% from the balance at June 30, 2005. This increase consists of the issuance of $48,325,000 in Series 2005A reserve fund bonds, $28,325,000 in Series 2005B reserve fund bonds, $51,855,000 in Series 2006A reserve fund bonds, $56,795,000 in Series 2006B reserve fund bonds, $31,575,000 in Series 2006C reserve fund bonds and $19,975,000 in Series 2006D reserve fund bonds, less scheduled bond principal payments and certain refundings and refinancings that occurred in 2006 (refer to notes 4 and 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.

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. Fund balance and funds held in trust increase when revenues and additions exceed expenses and deductions. 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 additions and expenses and deductions 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

In the Authority's Operating Fund, assets exceeded liabilities by $27,920,025 at June 30, 2006. This represents an increase of $4,126,391 or 17.3% over the previous fiscal year, which is the Authority's 2006 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

		2006		2005	Percentage Change
Current assets:					
Cash and cash equivalents	$	10,734,583	$	9,207,276	16.6%
Investments, at fair value		12,428,467		10,996,431	13.0
Accrued investment income		16,478		12,022	37.1
Fees and other amounts receivable from trusteed funds		1,614,912		1,562,297	3.4
Resident accounts receivable, net of allowance of $19,000		328,437		281,279	16.8
Other assets		80,095		151,423	(47.1)
Total current assets		25,202,972		22,210,728	13.5
Long-term assets:					
Notes, advances and other receivables from institutions, net of allowance of $2,050,270		7,101,883		6,832,049	3.9
Assets whose use is limited		705,730		679,996	3.8
Fixed and other assets, net		3,378,900		3,631,598	(7.0)
Deferred financing costs, net		132,330		152,415	(13.2)
Total long-term assets		11,318,843		11,296,058	0.2
Total assets	$	36,521,815	$	33,506,786	9.0%
Current liabilities:					
Current portion of loan payable to trusteed funds	$	530,000	$	495,000	7.1%
Accounts payable		103,747		69,539	49.2
Estimated third-party payor settlements		1,172,317		1,256,051	(6.7)
Accrued payroll and other expenses		100,785		103,170	(2.3)
Resident funds held in trust		40,627		36,097	12.5
Deferred revenue		8,773		2,754	218.6
Total current liabilities		1,956,249		1,962,611	(0.3)
Long-term liabilities:					
Loan payable to trustee funds		3,238,013		3,768,013	(14.1)
Other amounts due to trusteed funds		3,407,528		3,982,528	(14.4)
Total long-term liabilities		6,645,541		7,750,541	(14.3)
Total liabilities		8,601,790		9,713,152	(11.4)
Fund balance		27,920,025		23,793,634	17.3
Total liabilities and fund balance	$	36,521,815	$	33,506,786	9.0%

RESTRICTED AND TRUSTEED FUNDS

	2006	2005	Percentage Change
Current assets:			
Cash and cash equivalents	$ 74,333,947	$ 78,832,376	(5.7)%
Investments, at fair value	99,715,755	15,647,818	537.3
Accrued interest receivable	2,620,926	582,716	349.8
Loans receivable from institutions	38,066,228	40,490,863	(6.0)
Loan receivable from operating fund	530,000	495,000	7.1
Other receivables from institutions	148,936	192,926	(22.8)
Total current assets	215,415,792	136,241,699	58.1
Noncurrent assets:			
Cash and cash equivalents	795,600	795,600	0.0
Investments, at fair value	115,806,558	107,421,051	7.8
Loans receivable from institutions	1,045,866,101	938,912,514	11.4
Loan receivable from operating fund	3,238,013	3,768,013	(14.1)
Other amounts due from operating fund	3,407,528	3,982,528	(14.4)
Total noncurrent assets	1,169,113,800	1,054,879,706	10.8
Total assets	$ 1,384,529,592	$ 1,191,121,405	16.2%
Current liabilities:			
Bonds payable	$ 38,596,228	$ 40,985,863	(5.8)%
Interest payable	25,487,921	24,198,633	5.3
Fees payable to operating fund	1,614,912	1,562,297	3.4
Accounts payable	2,845,617	86,372	3,194.6
Rebate payable to Internal Revenue Service	397,319	782,496	(49.2)
Deferred revenue	765,082	1,478,589	(48.3)
Total current liabilities	69,707,079	69,094,250	0.9
Noncurrent liabilities:			
Bonds payable	1,169,428,840	1,055,055,068	10.8
Rebate payable to Internal Revenue Service	1,115,834	943,539	18.3
Total noncurrent liabilities	1,170,544,674	1,055,998,607	10.8
Total liabilities	1,240,251,753	1,125,092,857	10.2
Funds held in trust:			
Construction/program funds	94,533,159	20,196,994	368.1
Expense funds	535,333	(38,467)	1,491.7
Debt service funds	43,607,232	40,157,022	8.6
Debt service reserve funds	4,212,512	4,217,758	(0.1)
Earnings funds	235	451	(47.9)
Redemption funds	655,010	58,964	1010.9
Unrestricted fund balance	734,358	1,435,826	(48.9)
Total funds held in trust and fund balance	144,277,839	66,028,548	118.5
	$ 1,384,529,592	$ 1,191,121,405	16.2%

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

	2006	2005	Percentage Change
Operating revenues:			
Net resident service revenue	$ 4,601,173	$ 4,441,652	3.6%
Administrative and other fees	2,995,308	3,120,087	(4.0)
Investment income	753,578	451,099	67.1
Net decrease in the fair value of investments	(5,907)	(72,588)	91.9
Interest income from advances and notes receivable from institutions	855,767	917,160	(6.7)
Other income	111,695	113,975	(2.0)
	9,311,614	8,971,385	3.8
Operating expenses:			
Salaries	330,613	314,869	5.0
Employee benefits	88,335	78,018	13.2
Travel	6,255	4,948	26.4
Office expenses	75,020	64,594	16.1
Accounting and auditing	50,000	48,500	3.1
Legal	98,101	29,537	232.1
Telephone	6,135	6,818	(10.0)
Building lease	52,090	54,535	(4.5)
Paid to trusteed funds	185,591	143,593	29.2
Nursing services	1,413,094	1,427,703	(1.0)
Administrative services	470,520	467,220	0.7
PNMI Service Provider Tax	243,333	188,087	29.4
Dietary services	604,565	595,700	1.5
Depreciation and amortization	328,879	330,900	(0.6)
Plant operations and maintenance	315,451	289,385	9.0
Housekeeping services	138,208	142,155	(2.8)
Other services	370,743	351,199	5.6
Bad debt expense	7,904	–	–
Loss on disposal of equipment	–	158	(100.0)
Interest expense	400,386	379,151	5.6
	5,185,223	4,917,070	5.5
Operating income	4,126,391	4,054,315	1.8
Fund balance at beginning of year	23,793,634	19,739,319	20.5
Fund balance at end of year	$ 27,920,025	$ 23,793,634	17.3%

RESTRICTED & TRUSTEED FUNDS

	2006	2005	Percentage Change
Funds held in trust and fund balance, beginning of year	$ 66,028,548	$ 87,218,199	(24.3)%
Additions:			
Bond proceeds	236,850,000	42,265,000	460.4
Received and receivable from institutions	95,408,914	89,693,651	6.4
Received and receivable from operating fund	1,545,591	303,593	409.1
Transfer from debt service reserves	893,687	152,957	484.3
Income from investments	10,850,310	7,270,771	49.2
Net (decrease) increase in the fair value of investments	(610,189)	490,715	(224.3)
Premium on sale of bonds	5,919,344	–	–
Other income	–	293,912	(100.0)
Total additions	350,857,657	140,470,599	149.8
Deductions:			
Construction and program costs	72,884,614	35,415,860	105.8
Bond issuance costs	3,060,410	886,602	245.2
Principal payments	43,095,863	37,727,685	14.2
Interest expense	54,294,742	51,231,366	6.0
Paid to institutions	4,307,827	3,267,422	31.8
Paid to refunding & refinancing escrows	83,799,576	30,565,650	174.2
Transfer to debt service reserves	10,368,872	1,861,516	457.0
Other deductions	796,462	704,149	13.1
Total deductions	272,608,366	161,660,250	68.6
Increase (decrease) in fund balance and funds held in trust	78,249,291	(21,189,651)	469.3
Funds held in trust and fund balance, end of year	$ 144,277,839	$ 66,028,548	118.5%

Operating Fund consolidated cash and cash equivalents at June 30, 2006 increased $1,527,307 or 16.6% from balances at June 30, 2005. This increase was the result of investing excess funds into short-term investments.

Investments within the Operating Fund at June 30, 2006 increased $1,432,036 or 13.0% over the balance at June 30, 2005. This increase was the result of investing additional excess revenues over expenses into long-term investments. The Authority's Operating Funds' long-term investment portfolio is comprised of U.S. Government-sponsored enterprise securities. All investments are carried at fair value, and unrealized gains and losses (primarily due to fluctuations in interest rates) are recognized in the statements of operations and changes in fund balance.

Accounts payable within the Operating Fund at June 30, 2006 increased $34,208 or 49.2% from June 30, 2005. The increase was the result of the timing of the payment of accounts payable at fiscal year end.

Notes, advances and other receivables from institutions within the Operating Fund at June 30, 2006 increased $269,834 or 3.9% over balances from June 30, 2005. This increase was primarily the net result of the Authority retaining subordinated debt on additional refinancings with HUD and repayments on the advances and subordinate debt by the institutions in 2006.

Investments within the Restricted and Trusteed Funds at June 30, 2006 increased $92,453,444 or 75.1% from June 30 2005. This increase is the net result of the investment of bond proceeds from the Series 2005A, 2005B, 2006A, 2006B, 2006C and 2006D issues, and the disbursement of funds to institutions for project costs throughout the year. Total bond issuances (par) were up $194,585,000 or 460.4% over fiscal 2005. A significant amount of total bond proceeds were undisbursed at June 30, 2006, and therefore remain in investment balances at this date. The Authority's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprise securities and guaranteed investment contracts. All investments are carried at fair value, and unrealized gains and losses (primarily due to fluctuations in interest rates) are recognized in the statements of operations and changes in fund balance and funds held in trust.

Accrued interest receivable within the Restricted and Trusteed Funds at June 30, 2006 increased $2,038,210 or 349.8% from June 30 2005. This increase was primarily the result of the timing of interest receipts on guaranteed investment contracts within the Reserve Fund Resolution. The increase in short-term interest rates over fiscal 2005 also contributed to the increase.

Accounts payable within the Restricted and Trusteed Funds at June 30, 2006 increased $2,759,245 or 3,194.6% from June 30, 2005. The increase was primarily the result of the timing of the payment of construction draws at fiscal year end (expense and related payable recorded at time of requisition request).

Total rebate payable to the Internal Revenue Service at June 30, 2006 decreased $212,882 or 12.3% from June 30, 2005. This decrease was the net result of additional accrued liability for fiscal year 2006 on all tax-exempt bond issues and the payment to the Internal Revenue Service of the rebate liability for those tax-exempt issues whose rebate payment was due during 2006.

Fund balance within the Restricted and Trusteed Funds increased $78,249,291 or 118.5% at June 30, 2006 over June 30, 2005. This increase is primarily attributed to the net result of the timing of the new bonds issued during fiscal year 2006 within the Reserve Fund Resolution and the related construction funds that have not been disbursed as of June 30, 2006.

The net change in fair value of investments in 2006 was a decrease of $5,907 in the Operating Fund (consolidated) and a decrease of $610,189 in the Restricted and Trusteed Funds. The decreases experienced during fiscal 2006 are the result of an improvement in the interest rate environment which resulted in a decrease of the market value of investments that were purchased in prior periods when interest rates were lower. The Authority's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises and guaranteed 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. The maturities of investments held in the Restricted and Trusteed Funds are scheduled to match debt service payments and anticipated cash flows for construction draws and are normally held to maturity.

Income from investments in 2006 increased 67.1% in the Operating Fund (consolidated) and increased 49.2% in the Restricted and Trusteed Funds from 2005. The increase in the Operating Fund was the result of an increase in average investment balances over fiscal 2005 and an improved short-term interest rate environment during fiscal 2006. The increase in the Restricted and Trusteed Funds was primarily the result of the investment of the proceeds from the several bond issues sold in fiscal year 2006, thereby increasing average investment balances over fiscal 2005. The improving short-term interest rate environment was also a contributing factor.

Bond and note proceeds for 2006 in the Restricted and Trusteed Funds increased 460.4% from 2005 as a result of an increase in loan requests from the borrowers, which resulted in the bond issues described above. This also increased loans receivable from institutions and gross bonds outstanding in the Restricted and Trusteed Funds at June 30, 2006 as compared to June 30, 2005. Received and receivable from institutions increased 6.4% which is the net effect of scheduled principal payments, refundings and refinancings that occurred in 2006 and payments required on new issues. Principal payments increased 14.2% from 2005 in the Restricted and Trusteed Funds due primarily to an increase in scheduled principal payments required from institutions during 2006.

Received and receivable from operating fund in the Restricted and Trusteed Funds for fiscal year 2006 increased $1,241,998 or 409.1% over fiscal year 2005 as a result of the combination of an increase in the variable rate on the debt outstanding in the Taxable II resolution and the operating fund providing additional funds to the Taxable II resolution that were used to make a larger principal payment in fiscal year 2006.

Premium on sale of bonds in the Restricted and Trusteed Funds for fiscal year 2006 increased $5,919,344 over fiscal year 2005. The amount for fiscal year 2006 is premium received from the several bond issues that were sold during the fiscal year. There were no premiums on sale of bonds during fiscal 2005.

Bond issuance costs for fiscal year 2006 increased $2,173,808 or 245.2% over fiscal year 2005 as a result of the number of new series of bonds and the amount of bonds sold in 2006. The proceeds of some of the bonds sold in fiscal year 2006 were used to refund prior bonds outstanding. These proceeds were used to fund refunding & refinancing escrows that will make the future debt service payments on the refunded bonds. As a result of these refundings in fiscal year 2006, paid to refunding & refinancing escrows increased $53,233,926 or 174.2% from 2005.

Construction and program costs for fiscal year 2006 increased $37,468,754 or 105.8% over 2005. These costs represent payment of the construction and program costs for which the bonds were sold. The increase in 2006 costs reflects the increased number of bonds sold in 2006.

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, 2006

ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living (Note 9)	Eliminations	Consolidated Operating Fund
Current assets:				
Cash and cash equivalents (note 3)	$ 10,355,347	$ 379,236	$ –	$ 10,734,583
Investments, at fair value (note 3)	12,428,467	–	–	12,428,467
Accrued investment income	16,478	–	–	16,478
Fees and other amounts receivable from trusteed funds	1,614,912	–	–	1,614,912
Resident accounts receivable, net of allowance of $19,000	–	328,437	–	328,437
Other assets	–	80,095	–	80,095
Total current assets	24,415,204	787,768	–	25,202,972
Long-term assets:				
Notes, advances and other receivables from institutions, net of allowance of $2,050,270 (note 8)	13,998,399	–	(6,896,516)	7,101,883
Assets whose use is limited	–	705,730	–	705,730
Fixed and other assets, net	–	3,378,900	–	3,378,900
Deferred financing costs, net	–	132,330	–	132,330
Total long-term assets	13,998,399	4,216,960	(6,896,516)	11,318,843
	$ 38,413,603	$ 5,004,728	$ (6,896,516)	$ 36,521,815

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	$ –	$ 530,000	$ –	$ 530,000
Accounts payable	52,198	51,549	–	103,747
Estimated third-party payor settlements	–	1,172,317	–	1,172,317
Accrued payroll and other expenses	–	100,785	–	100,785
Resident funds held in trust	–	40,627	–	40,627
Deferred revenue	–	8,773	–	8,773
Total current liabilities	52,198	1,904,051	–	1,956,249
Long-term liabilities:				
Loan payable to trusteed funds	–	3,238,013	–	3,238,013
Other amounts due to trusteed funds	3,407,528	–	–	3,407,528
Advances due to Authority's operating fund	–	6,896,516	(6,896,516)	–
Total long-term liabilities	3,407,528	10,134,529	(6,896,516)	6,645,541
Total liabilities	3,459,726	12,038,580	(6,896,516)	8,601,790
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	–	200	(200)	–
Fund balance (deficit)	34,953,877	(7,034,052)	200	27,920,025
	34,953,877	(7,033,852)	–	27,920,025
	$ 38,413,603	$ 5,004,728	$ (6,896,516)	$ 36,521,815

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEETS – RESTRICTED AND TRUSTEED FUNDS

June 30, 2006

ASSETS

	General Resolution	Reserve Fund
Current assets:		
Cash and cash equivalents (note 3)	$ 1,579,056	$ 69,314,789
Investments, at fair value (note 3)	7,476,327	92,239,428
Accrued investment income	48,481	2,554,400
Loans receivable from institutions (note 8)	1,336,228	35,450,000
Loan receivable from operating fund (note 9)	–	–
Other receivables from institutions	16,357	126,151
Total current assets	10,456,449	199,684,768
Noncurrent assets:		
Cash and cash equivalents (note 3)	–	–
Investments, at fair value (note 3)	12,457,661	100,012,330
Loans receivable from institutions (note 8)	21,828,841	1,013,481,841
Loan receivable from operating fund (note 9)	–	–
Other amounts due from operating fund	–	–
Total noncurrent assets	34,286,502	1,113,494,171
Total assets	$ 44,742,951	$ 1,313,178,939

LIABILITIES, FUNDS HELD IN TRUST AND FUND BALANCE

	General Resolution	Reserve Fund
Current liabilities:		
Bonds payable (note 4)	$ 1,336,228	$ 35,450,000
Interest payable	108,477	24,788,644
Fees payable to operating fund	4,415	1,299,354
Accounts payable	6,872	2,822,755
Rebate payable to Internal Revenue Service	–	397,319
Deferred revenue	–	656,261
Total current liabilities	1,455,992	65,414,333
Noncurrent liabilities:		
Bonds payable (note 4)	30,493,840	1,117,555,000
Rebate payable to Internal Revenue Service	–	1,115,834
Total noncurrent liabilities	30,493,840	1,118,670,834
Total liabilities	31,949,832	1,184,085,167
Funds held in trust and fund balance (deficit):		
Construction/program funds	6,796,255	86,991,168
Expense funds	(6,096)	586,972
Debt service funds	1,790,213	40,146,949
Debt service reserve funds	4,212,512	–
Earnings funds	235	–
Redemption funds	–	655,010
Unrestricted fund balance	–	713,673
Total funds held in trust and fund balance (deficit)	12,793,119	129,093,772
	$ 44,742,951	$ 1,313,178,939

See accompanying notes.

Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II	Total
$ 3,325,843	$ 114,259	$ 74,333,947
–	–	99,715,755
14,781	3,264	2,620,926
1,280,000	–	38,066,228
530,000	–	530,000
6,428	–	148,936
5,157,052	117,523	215,415,792
–	795,600	795,600
3,336,567	–	115,806,558
10,555,419	–	1,045,866,101
3,238,013	–	3,238,013
–	3,407,528	3,407,528
17,129,999	4,203,128	1,169,113,800
$ 22,287,051	$ 4,320,651	$ 1,384,529,592
$ 1,810,000	$ –	$ 38,596,228
479,594	111,206	25,487,921
311,143	–	1,614,912
15,990	–	2,845,617
–	–	397,319
108,821	–	765,082
2,725,548	111,206	69,707,079
17,130,000	4,250,000	1,169,428,840
–	–	1,115,834
17,130,000	4,250,000	1,170,544,674
19,855,548	4,361,206	1,240,251,753
745,736	–	94,533,159
1,329	(46,872)	535,333
1,666,470	3,600	43,607,232
–	–	4,212,512
–	–	235
–	–	655,010
17,968	2,717	734,358
2,431,503	(40,555)	144,277,839
$ 22,287,051	$ 4,320,651	$ 1,384,529,592

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2006

	Authority's Operating Fund	Portland Center For Assisted Living (Note 9)	Elimi-nations	Consolidated Operating Fund
Operating revenues:				
Net resident service revenue	$ –	$ 4,601,173	$ –	$ 4,601,173
Administrative and other fees	2,995,308	–	–	2,995,308
Investment income	753,578	–	–	753,578
Net decrease in the fair value of investments	(5,907)	–	–	(5,907)
Interest income from advances and notes receivable from institutions	1,542,656	–	(686,889)	855,767
Other income	110,404	1,291	–	111,695
	5,396,039	4,602,464	(686,889)	9,311,614
Operating expenses (note 6):				
Salaries	330,613	–	–	330,613
Employee benefits	88,335	–	–	88,335
Travel	6,255	–	–	6,255
Office expenses	75,020	–	–	75,020
Accounting and auditing	50,000	–	–	50,000
Legal	98,101	–	–	98,101
Telephone	6,135	–	–	6,135
Building lease	52,090	–	–	52,090
Paid to trusteed funds	185,591	–	–	185,591
Nursing services	–	1,413,094	–	1,413,094
Administrative services	–	470,520	–	470,520
PNMI Service Provider Tax (note 9)	–	243,333	–	243,333
Dietary services	–	604,565	–	604,565
Depreciation and amortization	–	328,879	–	328,879
Plant operations and maintenance	–	315,451	–	315,451
Housekeeping services	–	138,208	–	138,208
Other services	–	370,743	–	370,743
Bad debt expense	–	7,904	–	7,904
Interest expense	–	1,087,275	(686,889)	400,386
	892,140	4,979,972	(686,889)	5,185,223
Operating income (loss)	4,503,899	(377,508)	–	4,126,391
Fund balance (deficit) at beginning of year	30,449,978	(6,656,544)	200	23,793,634
Fund balance (deficit) at end of year	$ 34,953,877	$ (7,034,052)	$ 200	$ 27,920,025

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, 2006

	General Resolution	Reserve Fund
Fund balance (deficit) and funds held in trust, beginning of year	$ 11,257,217	$ 52,005,366
Additions:		
Bond and note proceeds	–	236,850,000
Received and receivable from institutions	4,116,102	84,169,352
Received and receivable from operating fund	–	–
Transfer from debt service reserves	–	–
Income from investments	875,152	9,661,903
Net decrease in the fair value of investments	(610,189)	–
Premium on sale of bonds	–	5,919,344
Total additions	4,381,065	336,600,599
Deductions:		
Construction and program costs	–	72,823,760
Bond issuance costs	–	3,060,410
Principal payments	1,375,863	37,335,000
Interest expense	1,318,128	51,286,907
Paid to institutions	29,437	4,120,678
Paid to refunding and refinancing escrows (notes 7 and 8)	–	79,879,576
Transfer to debt service reserves	–	10,368,872
Other deductions	121,735	636,990
Total deductions	2,845,163	259,512,193
Increase (decrease) in fund balance and funds held in trust	1,535,902	77,088,406
Fund balance (deficit) and funds held in trust, end of year	$ 12,793,119	$ 129,093,772

See accompanying notes.

Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II	Total
$ 2,810,384	$ (44,419)	$ 66,028,548
–	–	236,850,000
7,123,460	–	95,408,914
–	1,545,591	1,545,591
893,687	–	893,687
282,174	31,081	10,850,310
–	–	(610,189)
–	–	5,919,344
8,299,321	1,576,672	350,857,657
60,854	–	72,884,614
–	–	3,060,410
3,025,000	1,360,000	43,095,863
1,476,899	212,808	54,294,742
157,712	–	4,307,827
3,920,000	–	83,799,576
–	–	10,368,872
37,737	–	796,462
8,678,202	1,572,808	272,608,366
(378,881)	3,864	78,249,291
$ 2,431,503	$ (40,555)	$ 144,277,839

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND

Year Ended June 30, 2006

	Authority's Operating Fund	Portland Center For Assisted Living (Note 9)	Elimi-nations	Consolidated Operating Fund
Operating activities:				
Cash received from units	$ 2,943,543	$ –	$ –	$ 2,943,543
Cash received from patients	–	4,476,300	–	4,476,300
Cash received from other income	110,404	1,291	–	111,695
Cash received from other assets and liabilities	–	70,478	–	70,478
Cash payments for interest	–	(1,087,275)	686,889	(400,386)
Cash payments for operating expenses	(884,445)	(3,539,690)	–	(4,424,135)
Net cash provided (used) by operating activities	2,169,502	(78,896)	686,889	2,777,495
Financing activities:				
Net advances from Authority's operating fund	–	629,741	(629,741)	–
Payments to trusteed funds	(575,000)	–	–	(575,000)
Payments on loan to trusteed funds	–	(495,000)	–	(495,000)
Net cash (used) provided by financing activities	(575,000)	134,741	(629,741)	(1,070,000)
Investing activities:				
Proceeds from sales and maturities of investments	6,996,138	–	–	6,996,138
Purchase of equipment	–	(56,096)	–	(56,096)
Purchase of investments	(8,434,081)	–	–	(8,434,081)
Change in assets whose use is limited	–	(21,204)	–	(21,204)
Income received from investments and advances	2,291,778	–	(686,889)	1,604,889
Net increase in notes, advances and other receivables from institutions	(899,575)	–	629,741	(269,834)
Net cash used by investing activities	(45,740)	(77,300)	(57,148)	(180,188)
Increase (decrease) in cash and cash equivalents	1,548,762	(21,455)	–	1,527,307
Cash and cash equivalents at beginning of year	8,806,585	400,691	–	9,207,276
Cash and cash equivalents at end of year	$ 10,355,347	$ 379,236	$ –	$ 10,734,583

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND (CONTINUED)

Year Ended June 30, 2006

	Authority's Operating Fund	Portland Center For Assisted Living (Note 9)	Eliminations	Consolidated Operating Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ 4,503,899	$ (377,508)	$ –	$ 4,126,391
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Investment and interest income	(2,296,234)	–	686,889	(1,609,345)
Net decrease in the fair value of investments	5,907	–	–	5,907
Depreciation and amortization	–	328,879	–	328,879
Change in assets and liabilities:				
Increase in fees and other amounts receivable from trustee funds	(52,615)	–	–	(52,615)
Increase in net resident accounts receivable	–	(47,158)	–	(47,158)
Decrease in other assets	850	70,478	–	71,328
Increase in accounts payable	7,695	26,513	–	34,208
Decrease in estimated third-party payor settlements	–	(83,734)	–	(83,734)
Decrease in accrued payroll and other expenses	–	(2,385)	–	(2,385)
Increase in deferred revenue	–	6,019	–	6,019
Net cash provided (used) by operating activities	$ 2,169,502	$ (78,896)	$ 686,889	$ 2,777,495

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 debt service reserve funds 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-sponsored enterprises 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 Resolutions and Tax Regulatory Agreements.

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 obligations and U.S. Government-sponsored enterprises as of June 30, 2006:

3. Cash and Cash Equivalents and Investments (Continued)

	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than Ten Years
Authority's Operating Fund					
U.S. Government-sponsored enterprises	$ 12,428,467	$6,012,047	$ 6,416,420	$ –	$ –
General Resolution					
Guaranteed investment contracts	$ 11,391,326	$ –	$11,321,190	$ –	$ 70,136
U.S. Government obligations	61,864	19,149	42,715	–	–
U.S. Government-sponsored enterprises	8,480,798	–	–	–	8,480,798
	$ 19,933,988	$ 19,149	$11,363,905	$ –	$ 8,550,934
Reserve Fund					
Guaranteed investment contracts	$192,058,722	$ –	$92,239,428	$3,132,500	$96,686,794
U.S. Government obligations	193,036	59,751	133,285	–	–
	$192,251,758	$ 59,751	$92,372,713	$3,132,500	$96,686,794
Taxable Financing Reserve Fund					
Guaranteed investment contracts	$ 3,336,567	$ –	$ –	$3,336,567	$ –

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, 2006.

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-sponsored enterprises, 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).

3. Cash and Cash Equivalents and Investments (Continued)

The Authority's U.S. Government-sponsored enterprise securities at June 30, 2006, consist of $12,428,467 of FHLMC, FHLB and FNMA securities (AAA rated) and $8,480,798 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.

At June 30, 2006, approximately $150,763,000 in guaranteed investment contracts within the reserve fund are with three institutions. Additionally, approximately $11,391,000 and $3,337,000 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, 2006 consist of $300,000 insured and $1,021,344 noninsured deposits with banks and $9,413,239 of money market funds held by a trust company. Trustee held cash and cash equivalents at June 30, 2006, 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, 2006:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2006
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	90,000
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	11,885,000	1,540,000
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	630,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	20,000
Mid Coast Hospital, 2001 lease purchase, 4.95%, dated November 15, 2001	2002 – 2008	5,865,635	2,185,068
Mid Coast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2006 – 2043	8,830,000	8,665,000
		$ 56,095,635	31,830,068
Current portion			1,336,228
Noncurrent portion			$ 30,493,840

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
2007	$ 1,336,228	$ 1,424,622	$ 2,760,850
2008	1,313,890	1,354,265	2,668,155
2009	599,950	1,296,482	1,896,432
2010	360,000	1,272,781	1,632,781
2011	375,000	1,250,150	1,625,150
2012 – 2016	1,395,000	5,905,076	7,300,076
2017 – 2021	670,000	5,642,683	6,312,683
2022 – 2026	19,595,000	5,444,145	25,039,145
2027 – 2031	1,180,000	1,528,765	2,708,765
2032 – 2036	1,580,000	1,169,484	2,749,484
2037 – 2041	2,115,000	681,615	2,796,615
2042 – 2046	1,310,000	108,405	1,418,405
	$ 31,830,068	$ 27,078,473	$ 58,908,541

Total Reserve Fund bonds payable consist of the following at June 30, 2006:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2006
Reserve Fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	$ 44,850,000	$ 1,180,000
Series 1993B, 2.8% – 5.75%, dated May 1, 1993	1994 – 2023	20,000,000	5,175,000
Series 1993D, 2.6% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	4,385,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	8,555,000
Series 1995A, 4.4% – 5.878%, dated April 1, 1995	1996 – 2025	33,285,000	755,000
Series 1995B, variable rate, dated August 2, 1995	1998 – 2025	17,535,000	12,635,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	1,500,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	20,680,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	8,115,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2006
Reserve Fund (continued):			
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	$ 8,310,000	$ 7,360,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	37,030,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	62,305,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	77,925,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	26,580,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	80,220,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	38,285,000
Series 2000A, variable rate, dated January 27, 2000	2002 – 2022	11,755,000	10,265,000
Series 2000B, variable rate, dated January 27, 2000	2000 – 2019	12,685,000	9,135,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	47,490,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	59,785,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	9,245,000
Series 2001C, 3.25% – 5.125%, dated May 15, 2001	2002 – 2031	27,565,000	20,145,000
Series 2001D, 3.0% – 5.0%, dated November 1, 2001	2002 – 2031	50,700,000	44,650,000
Series 2002A, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	50,285,000
Series 2002B, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	8,175,000	7,880,000
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	63,080,000	60,555,000
Series 2003B, 2.0% – 5.0%, dated July 1, 2003	2004 – 2033	59,245,000	55,440,000
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	7,050,000	6,815,000
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	35,880,000	32,750,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2006
Reserve Fund (continued):			
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	$ 72,315,000	$ 68,605,000
Series 2004B, 3.00% – 5.00%, dated December 9, 2004	2006 – 2034	42,265,000	42,265,000
Series 2005A, 3.0% – 5.0%, dated August 17, 2005	2006 – 2035	48,325,000	46,485,000
Series 2005B, 3.5% – 5.0%, dated December 29, 2005	2006 – 2030	28,325,000	28,325,000
Series 2006A, 3.5% – 5.0%, dated February 2, 2006	2006 – 2035	51,855,000	51,855,000
Series 2006B, 3.5% – 5.0%, dated April 6, 2006	2007 – 2036	56,795,000	56,795,000
Series 2006C, variable rate, dated May 18, 2006	2007 – 2014	31,575,000	31,575,000
Series 2006D, variable rate, dated May 18, 2006	2007 – 2026	19,975,000	19,975,000
		$ 1,532,815,000	1,153,005,000
Current portion			35,450,000
Noncurrent portion			$ 1,117,555,000

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

Year Ending	Principal	Interest	Total
2007	$ 35,450,000	$ 52,918,723	$ 88,368,723
2008	40,430,000	52,314,702	92,744,702
2009	42,475,000	50,646,849	93,121,849
2010	43,235,000	48,876,659	92,111,659
2011	44,695,000	47,012,100	91,707,100
2012 – 2016	255,135,000	201,762,989	456,897,989
2017 – 2021	249,135,000	141,700,929	390,835,929
2022 – 2026	220,485,000	82,906,450	303,391,450
2027 – 2031	163,115,000	34,537,326	197,652,326
2032 – 2036	55,895,000	6,064,666	61,959,666
2037 – 2041	2,955,000	73,531	3,028,531
Total	$ 1,153,005,000	$ 718,814,924	$ 1,871,819,924

4. Bonds Payable (Continued)

Taxable Financing Reserve fund bonds payable consist of the following at June 30, 2006:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2006
Taxable Financing Reserve Fund:			
Series 1993A, variable interest rate, dated January 1, 1993	1993 – 2012	$ 57,125,000	$ 7,995,000
Series 1993B, variable interest rate, dated October 27, 1993	1994 – 2013	25,060,000	4,370,000
Series 1996A, variable interest rate, dated February 22, 1996	1996 – 2016	16,440,000	6,575,000
		$ 98,625,000	18,940,000
Current portion			1,810,000
Noncurrent portion			$ 17,130,000

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
2007	$ 1,810,000	$ 1,292,378	$ 3,102,378
2008	1,915,000	1,158,341	3,073,341
2009	2,040,000	1,016,009	3,056,009
2010	2,160,000	864,824	3,024,824
2011	2,295,000	704,426	2,999,426
2012 – 2016	7,900,000	1,311,688	9,211,688
2017 – 2021	820,000	28,823	848,823
	$ 18,940,000	$ 6,376,489	$ 25,316,489

Taxable Financing Reserve Fund II bonds payable consist of the following at June 30, 2006:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2006
Taxable Financing Reserve Fund II:			
Series 2003A, variable interest rate, dated September 1, 2003	2014 – 2023	$6,435,000	$4,250,000
Current portion			–
			$4,250,000

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
2007	$ –	$ 246,573	$ 246,573
2008	–	246,573	246,573
2009	–	246,573	246,573
2010	–	246,573	246,573
2011	–	246,573	246,573
2012 – 2016	1,090,000	1,173,355	2,263,355
2017 – 2021	3,140,000	513,532	3,653,532
2022 – 2026	20,000	6,750	26,750
	$4,250,000	$2,926,502	$7,176,502

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, 2006:

	General Resolution	Reserve Fund	Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II
Balance, beginning of year	$ 33,205,931	$ 1,031,340,000	$ 25,885,000	$ 5,610,000
Issuances	–	236,850,000	–	–
Redemptions:				
Refundings – see note 7	–	77,850,000	–	–
Refinancing – see note 8	–	–	3,920,000	–
Principal payments	1,375,863	37,335,000	3,025,000	1,360,000
Balance, end of year	$ 31,830,068	$ 1,153,005,000	$ 18,940,000	$ 4,250,000

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, 2006, the required debt service reserve was approximately $95,230,000 and the fair value of the debt service reserve assets totaled approximately $100,000,000.

Taxable Financing Reserve Fund

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2006, the required debt service reserve was approximately $3,140,000 and the fair value of the debt service reserve assets totaled approximately $3,337,000.

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, 2006, the required debt service reserve was approximately $782,000 and the fair value of the debt service reserve assets totaled approximately $796,000.

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 $533,000 of expense under this agreement in 2006.

7. Refunded Issues

On December 29, 2005, the Authority issued $28,325,000 in 2005B revenue bonds with an average interest rate of 4.04%, a portion of which was used to in-substance defease $14,095,000 of outstanding 1993D reserve resolution bonds with an average interest rate of 5.55%. The portion of the proceeds used to in-substance defease the bonds was approximately $14,627,000, including a net premium of approximately $38,000 and after payment of approximately $216,000 in underwriting fees, insurance and other issuance costs, and was used to purchase U.S. government securities which will provide for all future debt service payments on the defeased bonds.

7. Refunded Issues (Continued)

The Authority defeased the above bonds to reduce total interest payments over the next thirteen years by approximately $1.1 million. All of this savings inures to the Institution involved with the 1993D bonds.

On April 6, 2006, the Authority issued $56,795,000 in 2006B revenue bonds with an average interest rate of 4.81%, a portion of which was used to in-substance defease certain reserve resolution maturities within the 1995B, 1998C, 2001C, 2003B and 2005A bond series. The total maturities defeased were approximately $9,000,000 with maturity dates from July 1, 2006 through July 1, 2010. The portion of the proceeds used to in-substance defease the bonds was $8,886,178, including a net premium of approximately $232,000 and after payment of approximately $143,000 of underwriting fees, insurance and other issuance costs, and was 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 maturities to defer principal payments from the Institution involved, with no savings.

On May 18, 2006, the Authority issued $31,575,000 in 2006C revenue bonds with an average interest rate of 3.51%, which was used to in-substance defease $34,625,000 of outstanding 1993C reserve resolution bonds with an average interest rate of 5.0%. The net proceeds of $35,395,000 including other sources of funds of $4,050,000 and after payment of $235,000 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 eight years by approximately $2.5 million. All of this savings inures to the Institution involved with the 1993C bonds.

On May 18, 2006, the Authority issued $19,975,000 in 2006D revenue bonds with an average interest rate of 3.50%, which was used to in-substance defease $20,130,000 of outstanding 1996B reserve resolution bonds with an average interest rate of 5.70%. The net proceeds of $20,970,000 including other sources of funds of $1,152,000 and after payment of approximately $157,000 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 twenty years by approximately $4.7 million. All of this savings inures to the Institution involved with the 1996B bonds.

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, 2006, there were approximately $68,005,000 of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues.

8. Nursing Home Loans and Advances

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, 2006, HUD has completed refinancings for ten institutions which, at the time they were refinanced, had combined bond-related loans and advances due the Authority of approximately $48,386,000 (including refinancings with HUD in 2006 totaling approximately $4,054,000). As part of the refinancing completed by HUD, the Authority agreed to issue 8% subordinated notes receivable to these ten institutions from its operating fund. These notes total $7,822,057 at June 30, 2006 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 ten 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.

In addition to subordinated notes receivable from the ten institutions described above, the Authority has advanced approximately $918,000 from the operating fund as of June 30, 2006 to other financially troubled institutions with outstanding loans owed to the Authority of approximately $11,893,000 (including loans of $9,982,000 in the reserve fund at June 30, 2006). 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. The Authority also has approximately $411,000 of other receivables outstanding with the operating fund at June 30, 2006, primarily related to amounts due from institutions to reimburse the Authority for arbitrage rebate payments made on their behalf.

At June 30, 2006, the Authority has established a $2,050,270 reserve in the operating fund related to the above loans, advances and other receivables outstanding, and for potential future amounts to be advanced to troubled institutions.

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. In May 2006, the Center added an Alzheimer's wing with additional beds which brought the total number of beds to 152.

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

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

Relevant disclosures for the Center are summarized as follows:

Assets Whose Use is Limited

Assets whose use is limited consist of resident funds held in trust and funds required by the terms of the Authority's Revenue Bonds Series 1993A and are invested in cash and money market securities at June 30, 3006. A summary follows:

Principal and interest debt service accounts	$665,103
Resident funds	40,627
Total assets whose use is limited	$705,730

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.

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

Significant Concentration and Estimated Third-Party Payor Settlements

Upon the conversion of the Center to an assisted living facility in December 1998, the Center is no longer eligible for reimbursements under the Federal Medicare program. Approximately 94% of the residents served in 2006 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 and 2006. 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, 2006:

Gross resident service revenue	$ 6,549,750
Contractual adjustments under third-party reimbursement programs	(1,948,577)
Net resident service revenue	$ 4,601,173

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 $243,333 of State tax in 2006. The amount is shown separately on the statement of operations, while the increase of MaineCare reimbursement is reflected as a decrease in the contracted adjustments.

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

Fixed Assets

A summary of fixed assets follows:

	2005	Additions	Deductions	2006
Land	$ 302,291	$ –	$ –	$ 302,291
Building and improvements	7,247,419	13,593	–	7,261,012
Furniture, fixtures and equipment	975,577	42,503	–	1,018,080
Vehicles	21,944	–	–	21,944
	8,547,231	56,096	–	8,603,327
Less accumulated depreciation	(4,915,633)	(308,794)	–	(5,224,427)
Fixed assets, net	$ 3,631,598	$(252,698)	$ –	$ 3,378,900

Loan Payable to Trusteed Funds

Loan payable to trusteed funds of $3,768,013 at June 30, 2006 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.

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

2007	$530,000
2008	570,000
2009	610,000
2010	660,000
2011	705,000
Thereafter	693,013

Management Agreement

First Atlantic Corp. provided all management and accounting services required by the Center throughout 2006. 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, 2006 were approximately $230,000.

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

Employee Benefit Plan

The Center sponsors a discretionary contributory profit sharing plan and 401(k) plan which covers substantially all employees. The Center may elect to match employee contributions of up to 5% of the compensation of all eligible participants. The Center may also elect to make additional discretionary contributions. The Center contributed $4,500 to the plan for the year ended June 30, 2006.

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, 2006, 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, 2006, 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, 2006, and have issued our report thereon dated October 13, 2006. 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, 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In 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 violations 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.

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, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Members of
Maine Health and Higher Educational
Facilities Authority

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 13, 2006

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

BALANCE SHEET

June 30, 2006

ASSETS

Current assets:	
Principal payments receivable from Institution	$ 90,000
Investments, at market value	68,928
Due from redemption fund	–
Accrued investment income	52
Total assets	$158,980

LIABILITIES AND FUNDS HELD IN TRUST

Current liabilities:	
Bonds payable	$ 90,000
Due to debt service fund	–
Accrued interest payable	1,395
Total current liabilities	91,395
Funds held in trust	67,585
Total liabilities and funds held in trust	$158,980

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, 2006

	Total
Balances at beginning of year	$67,572
Additions:	
Received from Institution	96,165
Income from investments	188
Transfer from redemption fund	–
	96,353
Deductions:	
Principal payment	90,000
Interest expense	6,165
Paid to Institutions	175
Other deductions	–
Transfer to debt service fund	–
	96,340
Balances at end of year	$67,585

Maine HHEFA
MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY
P.O. Box 2268 • 3 University Drive
Augusta, Maine 04338