Annual Report
Maine Health & Higher Educational Facilities Authority

2007

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: **2007 Maine Health and Higher Educational Facilities Annual Report**

This is the annual report for the Maine Health and Higher Educational Facilities Authority for the 2007 fiscal year, running from July 1, 2006 to June 30, 2007. As of June 30, 2007, the Authority has $50,993,840 outstanding under its general tax exempt conduit resolution, $1,370,530,000 outstanding under its tax exempt reserve fund resolution, and $11,545,000 outstanding under it's taxable reserve fund resolution.

During fiscal year 2007 the Authority issued $166,965,000 of bonds under its tax-exempt reserve fund resolution and $20,500,000 under its general tax exempt conduit resolution. These sales were accomplished in three series for four colleges, ten hospitals, two long-term care facilities, two community mental health facilities, one residential care facility, one community health care facility, 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 our ability to aggregate issues, share costs for bond sales among multiple borrowers and provide the State's moral obligation credit enhancement to eligible institutions, we provide all of Maine's health and higher educational facilities, from the largest to the smallest, with the lowest cost available for the money they borrow to meet their capital needs.

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2007

TABLE OF CONTENTS

BAKER NEWMAN NOYES LLC

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying basic financial statements, which include the Consolidated Operating Fund, Reserve Fund, Taxable Reserve Fund and Taxable Financing Reserve Fund II 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, 2007, as listed on the accompanying table of contents. 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, including the individual fund groups referred to above, as of June 30, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2 to the financial statements, in 2007 the Authority changed its method of accounting for its restricted and trusteed funds from fiduciary fund accounting to proprietary fund accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007 on our consideration of Maine Health and Higher Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

To the Members of
Maine Health and Higher
Educational Facilities Authority

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

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
November 30, 2007

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

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, 2007. 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.

The Authority has changed its financial statement presentation for fiscal year 2007, from fiduciary to proprietary accounting. The decision to make this change was not made lightly, but the Authority feels that the new presentation is a more accurate presentation of the Authority's activities. The fiscal year 2006 numbers, presented here, are numbers that have been adjusted to the new presentation format for comparison purposes. See note 2 of the basic financial statements for further information.

Financial Highlights

- Operating income for the Authority's Consolidated Operating Fund was $3,386,106 for fiscal year 2007, a decrease of $740,285 or 17.9% from fiscal 2006. The decrease was primarily attributed to the Authority's decision to refund six months of administrative fees received in fiscal 2007 totaling $1,251,003, and a decrease in interest income from advances and notes receivable of $695,245 or 81.2% from fiscal 2006. These decreases were partially offset by an increase in income from investments of $547,147 or 72.6% from 2006.
- Total consolidated operating revenues were $74,775,927 for fiscal year 2007, an increase of $8,735,417 or 13.2% over fiscal 2006. The increase in consolidated operating revenue was more than offset by an increase in total operating expenses of $8,866,313 or 14.4% from fiscal 2006. The net effect was a decrease in total operating income of $130,896 or 3.0% from fiscal 2006.
- The Authority's loans receivable from institutions at June 30, 2007 of $1,254,352,604 represents a net increase of $193,585,344 or 18.2% from the balance at June 30, 2006. This increase is the net result of the bond issuances described below, for which various funds were loaned out during fiscal 2007, and repayment of loans by institutions during fiscal 2007.
- The Authority's gross bonds outstanding at June 30, 2007 of $1,382,075,000 represents a net increase of $205,880,000 or 17.5% from the balance at June 30, 2006. This increase consists of the issuance of $86,250,000 in Series 2006E reserve fund bonds, $89,125,000 in Series 2006F reserve fund bonds, $14,200,000 in Series 2006G reserve fund bonds and $68,400,000 in Series 2006H reserve fund bonds, less bond principal payments. 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 and is funded from fees charged to participating borrowers and interest earnings on investments.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $34,486,355 at June 30, 2007. This represents an increase of $4,257,594 or 14.1% over the previous fiscal year, which is the Authority's 2007 operating income.

The Authority's financial position and operations for the past two years are summarized below based on information included in the audited financial statements (2006 totals have been adjusted to the new presentation format for comparative purposes).

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY
BALANCE SHEET
JUNE 30, 2007 AND 2006

	2007	2006	% Change
Current assets:			
Cash and cash equivalents	$ 14,898,453	$ 10,734,583	38.8%
Investments held by trustee, at fair value	37,235,110	31,657,607	17.6
Board-designated cash and investment, at fair value	16,292,020	12,428,467	31.1
Accrued investment income	671,508	2,303,232	(70.8)
Loans receivable from institutions	41,970,000	36,730,000	14.3
Loan receivable from operating fund	570,000	530,000	7.5
Interest and other receivables from institutions	3,199,657	1,629,865	96.3
Fees and other amounts due from other funds	1,485,355	1,552,995	(4.4)
Resident accounts receivable, net of allowance of $15,000	406,115	328,437	23.7
Other assets	98,262	80,095	22.7
Total current assets	116,826,480	97,975,281	19.2
Noncurrent assets:			
Investment held by trustee, at fair value	118,648,987	104,144,497	13.9
Loans receivable from institutions	1,212,382,604	1,024,037,260	18.4
Loan receivable from operating fund	2,668,013	6,645,541	(59.9)
Notes, advances and other receivables from institutions, net of allowance of $1,168,782	60,181	7,163,800	(99.2)
Assets whose use is limited	786,656	705,730	11.5
Fixed assets, net	3,262,151	3,378,900	(3.5)
Deferred financing costs, net	112,245	132,330	(15.2)
Total noncurrent assets	1,337,920,837	1,146,208,058	16.7
Total assets	$ 1,454,747,317	$ 1,244,183,339	16.9%
Current liabilities:			
Bonds payable	$ 41,970,000	$ 37,260,000	12.6%
Loan payable to taxable financing reserve fund	570,000	530,000	7.5
Interest payable	27,387,417	25,379,444	7.9
Fees and other amounts due to operating fund	1,485,355	1,552,995	(4.4)
Accounts payable	2,066,260	492,299	319.7
Estimated 3rd party settlements	1,370,710	1,172,317	16.9
Rebate payable to Internal Revenue Service	558,590	380,397	46.8
Deferred revenue	126,112	332,417	(62.1)
Other liabilities	182,309	141,412	28.9
Total current liabilities	75,716,753	67,241,281	12.6
Noncurrent liabilities:			
Bonds payable	1,340,105,000	1,138,935,000	17.7
Loan payable to taxable financing reserve fund	2,668,013	3,238,013	(17.6)
Loan payable to taxable financing reserve fund II	–	3,407,528	(100.0)
Rebate payable to Internal Revenue Service	1,771,196	1,132,756	56.4
Total noncurrent liabilities	1,344,544,209	1,146,713,297	17.3
Total liabilities	1,420,260,962	1,213,954,578	17.0

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY
BALANCE SHEET (CONTINUED)
JUNE 30, 2007 AND 2006

	2007	2006	% Change
Net assets:			
Unrestricted net assets	$ 34,486,355	$ 30,228,761	14.1%
Total net assets	34,486,355	30,228,761	14.1
Total liabilities and net assets	$ 1,454,747,317	$ 1,244,183,339	16.9%

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006	% Change
Interest and other amounts from institutions	$ 55,661,855	$ 46,706,186	19.2%
Interest on loans receivable from operating fund	471,101	585,977	(19.6)
Net resident service revenue	5,307,589	4,601,173	15.4
Administrative and other fees	1,748,395	2,995,308	(41.6)
Income from investments	8,353,633	7,129,901	17.2
Net increase in the fair value of investments	136,060	(5,907)	–
Interest income from advances and notes receivable from institutions	160,522	855,767	(81.2)
Other income	2,936,772	3,172,105	(7.4)
Total operating revenues	74,775,927	66,040,510	13.2
Operating expenses:			
Bond issuance costs	2,826,438	3,060,410	(7.6)
Interest expense	61,679,085	52,976,614	16.4
Interest expense to taxable financing reserve funds	471,101	585,977	(19.6)
Operating expenses	654,013	706,549	(7.4)
Resident service and other operating expenses	4,243,837	3,892,697	9.0
Other expenses	643,859	429,773	49.8
Total operating expenses	70,518,333	61,652,020	14.4
Operating income	4,257,594	4,388,490	(3.0)
Net assets, beginning of year, as restated	30,228,761	25,840,271	17.0
Ending balance	$ 34,486,355	$ 30,228,761	14.1%

Cash and cash equivalents at June 30, 2007 increased $4,163,870 or 38.8% from balances at June 30, 2006. This increase was the result of investing excess funds into short-term investments.

Total short and long-term investments held by trustee at June 30, 2007 increased $20,081,993 or 14.8% over the balance at June 30, 2006. This increase was primarily the result of investing additional excess revenues over expenses and investing the bond proceeds for the debt service reserve funds of the 2006E, 2006F, 2006G and 2006H bond issues. The Authority's investment portfolio is comprised of 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 market values) are recognized in the statements of revenues, expenses and changes in net assets.

Board-designated cash and investments increased $3,863,553 or 31.1% over the balance at June 30, 2006. The increase was primarily the result of the receipt of cash for the pay-off of subordinate loans held by the Authority. See further discussion below.

Accrued investment income at June 30, 2007 decreased $1,631,724 or 70.8% from June 30 2006. This decrease was primarily the result of the timing of interest receipts on guaranteed investment contracts.

Loans receivable from institutions increased $193,585,344 or 18.2% at June 30, 2007 over June 30, 2006. The increase in loans receivable is consistent with the increase in bonds payable, which increased $205,880,000 or 17.5% at June 30, 2007 over June 30, 2006. The increase in the loans receivable and bonds payable in fiscal 2007 consists of the issuance of $86,250,000 in Series 2006E reserve fund bonds, $89,125,000 in Series 2006F reserve fund bonds, $14,200,000 in Series 2006G reserve fund bonds and $68,400,000 in Series 2006H reserve fund bonds, less scheduled principal payments in 2007. New loans receivable are written net of the debt service reserve fund deposit, which are investments held by the Authority.

Interest and other receivables from institutions at June 30, 2007 increased $1,569,792 or 96.3% from balances at June 30, 2006. This increase was primarily the result of the timing of interest receipts from institutional trustee held capitalized interest accounts.

Notes, advances and other receivables from institutions at June 30, 2007 decreased $7,103,619 or 99.2% from balances at June 30, 2006. This decrease was the result of the reduction of subordinate loans during fiscal 2007 that occurred in conjunction with the sale of nursing homes whose subordinate debt was held by the Authority. This decrease also had a direct effect on the interest income on advances and notes receivable, which decreased 81.2% in fiscal year 2007 from fiscal 2006.

Loan payable to taxable financing reserve fund II decreased $3,407,528 or 100% at June 30, 2007 over June 30, 2006. The proceeds that were received from the pay off of the subordinate debt were used to pay off this loan payable and redeem the outstanding bonds within the taxable financing reserve fund II.

Interest payable at June 30, 2007 increased $2,007,973 or 7.9% from the balance at June 30, 2006. The increase is directly related to the increase of $205,880,000 in total bonds outstanding at June 30, 2007 from June 30, 2006.

Accounts payable at June 30, 2007 increased $1,573,961 or 319.7% from balances at June 30, 2006. This increase is primarily the result of the Authority's decision to refund six months of administrative fees collected from institutions during fiscal 2007. The refund was not paid until fiscal 2008 and is therefore included in accounts payable at June 30, 2007. Further note that this is also the primary contributing factor to the decrease in related administrative and other fees of $1,246,913 or 41.6% from fiscal 2006 (see note 11).

Total rebate payable to the Internal Revenue Service at June 30, 2007 increased $816,633 or 54.0% from June 30, 2006. This increase was the net result of additional accrued liability for fiscal year 2007 on all tax-exempt bond issues and the payment made to the Internal Revenue Service for those tax-exempt issues whose rebate payment was due during 2007.

Income from investments in fiscal year 2007 increased $1,223,732 or 17.2% from fiscal year 2006. The increase was the result of an increase in the average investment balances over fiscal 2006 and an improved short-term interest rate environment during fiscal 2007.

Interest and other amounts from institutions increased $8,955,669 or 19.2% during fiscal 2007 over fiscal 2006. The increase was primarily attributed to increases in average outstanding loan balances during the current fiscal year.

Interest expense increased $8,702,471 or 16.4% during fiscal 2007 from fiscal 2006. Interest expense has a direct relationship with bonds payable, which had a net increase of $205,880,000 in fiscal year 2007 over fiscal year 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

BALANCE SHEET

June 30, 2007

ASSETS

	Consolidated Operating Fund (Note 10)	Reserve Fund
Current assets:		
Cash and cash equivalents (note 2)	$ 14,898,453	$ –
Investments held by trustee, at fair value (note 3)	–	36,598,698
Board-designated cash and investments, at fair value (note 3)	16,292,020	–
Accrued investment income	78,444	586,654
Loans receivable from institutions (note 9)	–	40,530,000
Loan receivable from operating fund (note 10)	–	–
Interest and other receivables from institutions	–	3,182,425
Fees and other amounts due from other funds	1,485,355	–
Resident accounts receivable, net of allowance of $15,000	406,115	–
Other assets	98,262	–
Total current assets	33,258,649	80,897,777
Noncurrent assets:		
Investments held by trustee, at fair value (note 3)	–	116,185,406
Loans receivable from institutions (note 9)	–	1,207,979,198
Loan receivable from operating fund (note 10)	–	–
Notes, advances and other receivables from institutions, net of allowance of $1,064,488 (note 9)	60,181	–
Assets whose use is limited (note 10)	786,656	–
Fixed assets, net (note 10)	3,262,151	–
Deferred financing costs, net	112,245	–
Total noncurrent assets	4,221,233	1,324,164,604
Total assets	$ 37,479,882	$ 1,405,062,381

Taxable Financing Reserve Fund	Total
$ –	$ 14,898,453
636,412	37,235,110
–	16,292,020
6,410	671,508
1,440,000	41,970,000
570,000	570,000
17,232	3,199,657
–	1,485,355
–	406,115
–	98,262
2,670,054	116,826,480
2,463,581	118,648,987
4,403,406	1,212,382,604
2,668,013	2,668,013
–	60,181
–	786,656
–	3,262,151
–	112,245
9,535,000	1,337,920,837
$ 12,205,054	$ 1,454,747,317

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2007

LIABILITIES AND NET ASSETS

	Consolidated Operating Fund (Note 10)	Reserve Fund
Current liabilities:		
Bonds payable (note 4)	$ –	$ 40,530,000
Loan payable to taxable financing reserve fund (note 10)	570,000	–
Interest payable	–	27,066,015
Fees and other amounts due to operating fund	–	1,291,168
Accounts payable (note 11)	1,370,963	588,443
Estimated third-party payor settlements (note 10)	1,370,710	–
Rebate payable to Internal Revenue Service	–	558,590
Deferred revenue	11,756	114,356
Other liabilities	182,309	–
Total current liabilities	3,505,738	70,148,572
Noncurrent liabilities:		
Bonds payable (note 4)	–	1,330,000,000
Loan payable to taxable financing reserve fund (note 10)	2,668,013	–
Rebate payable to Internal Revenue Service	–	1,771,196
Total noncurrent liabilities	2,668,013	1,331,771,196
Total liabilities	6,173,751	1,401,919,768
Net assets:		
Unrestricted net assets (note 2)	31,306,131	3,142,613
Total net assets	31,306,131	3,142,613
Total liabilities and net assets	$ 37,479,882	$ 1,405,062,381

See accompanying notes.

Taxable Financing Reserve Fund	Total
$ 1,440,000	$ 41,970,000
–	570,000
321,402	27,387,417
194,187	1,485,355
106,854	2,066,260
–	1,370,710
–	558,590
–	126,112
–	182,309
2,062,443	75,716,753
10,105,000	1,340,105,000
–	2,668,013
–	1,771,196
10,105,000	1,344,544,209
12,167,443	1,420,260,962
37,611	34,486,355
37,611	34,486,355
$ 12,205,054	$ 1,454,747,317

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2007

	Consolidated Operating Fund (Note 10)	Reserve Fund
Operating revenues:		
Interest and other amounts from institutions	$ –	$ 55,126,945
Interest on loans receivable from operating fund	–	–
Net resident service revenue (note 10)	5,307,589	–
Administrative and other fees	1,748,395	–
Income from investments	1,300,725	6,847,849
Net increase in the fair value of investments	136,060	–
Interest income from advances and notes receivable from institutions	160,522	–
Other income	110,334	2,826,438
Total operating revenues	8,763,625	64,801,232
Operating expenses:		
Bond issuance costs	–	2,826,438
Interest expense	–	60,591,008
Interest expense to taxable financing reserve funds	471,101	–
Operating expenses (note 7)	654,013	–
Resident service and other operating expenses (note 10)	4,243,837	–
Other expenses	8,568	554,141
Total operating expenses	5,377,519	63,971,587
Operating income	3,386,106	829,645
Net assets, beginning of year, as restated (note 2)	27,920,025	2,312,968
Net assets, end of year	$ 31,306,131	$ 3,142,613

See accompanying notes.

Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II	Total
$ 534,910	$ –	$ 55,661,855
302,515	168,586	471,101
–	–	5,307,589
–	–	1,748,395
183,391	21,668	8,353,633
–	–	136,060
–	–	160,522
–	–	2,936,772
1,020,816	190,254	74,775,927
–	–	2,826,438
962,069	126,008	61,679,085
–	–	471,101
–	–	654,013
–	–	4,243,837
57,459	23,691	643,859
1,019,528	149,699	70,518,333
1,288	40,555	4,257,594
36,323	(40,555)	30,228,761
$ 37,611	$ –	$ 34,486,355

MAINE HEALTH AND HIGHER EDUCATION FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2007

	Consolidated Operating Fund (Note 10)	Reserve Fund
OPERATING ACTIVITIES:		
Cash received from institutions	$ 3,004,683	$ 93,230,343
Cash received from operating fund	–	–
Cash payments to institutions	–	(238,572,281)
Cash received from patients	5,426,001	–
Cash received from other income	110,334	–
Cash payments for operating expenses	(4,510,988)	(338,260)
Cash received from (paid to) other funds	67,640	49,316
Cash (paid for) received from other assets and liabilities	(18,167)	–
Net cash (used) provided by operating activities	4,079,503	(145,630,882)
NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from bonds payable	–	260,801,438
Principal paid on bonds payable	–	(40,450,000)
Interest paid on bonds payable	–	(58,313,637)
Principal paid on loans payable to taxable financing reserve funds	(3,937,528)	–
Interest paid on loans payable to taxable financing reserve funds	(471,101)	–
Issuance costs paid	–	(2,826,438)
Net cash provided (used) by noncapital financing activities	(4,408,629)	159,211,363
INVESTING ACTIVITIES:		
Purchase of investment securities	(15,140,818)	(295,501,522)
Proceeds from sale and maturities of investment securities	11,413,325	273,360,281
Income received from investments and advances	1,399,281	8,941,157
Interest rebate paid to U.S. Government	–	(380,397)
Additions to equipment	(203,979)	–
Change in assets whose use is limited	(78,432)	–
Net decrease in notes, advances and other receivable from institutions	7,103,619	–
Net cash (used) provided by investing activities	4,492,996	(13,580,481)
Increase in cash and cash equivalents	4,163,870	–
Cash and cash equivalents, beginning of year	10,734,583	–
Cash and cash equivalents, end of year	$ 14,898,453	$ –

Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II	Total
$ 6,433,435	$ –	$ 102,668,461
832,515	3,576,114	4,408,629
–	–	(238,572,281)
–	–	5,426,001
–	–	110,334
–	(23,691)	(4,872,939)
(116,956)	–	–
33,405	–	15,238
7,182,399	3,552,423	(130,816,557)
–	–	260,801,438
(7,395,000)	(4,250,000)	(52,095,000)
(1,120,261)	(237,214)	(59,671,112)
–	–	(3,937,528)
–	–	(471,101)
–	–	(2,826,438)
(8,515,261)	(4,487,214)	141,800,259
(19,374,849)	(5,699,165)	(335,716,354)
20,524,238	6,609,024	311,906,868
183,473	24,932	10,548,843
–	–	(380,397)
–	–	(203,979)
–	–	(78,432)
–	–	7,103,619
1,332,862	934,791	(6,819,832)
–	–	4,163,870
–	–	10,734,583
$ –	$ –	$ 14,898,453

MAINE HEALTH AND HIGHER EDUCATION FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS
(CONTINUED)

For the Year Ended June 30, 2007

	Consolidated Operating Fund (Note 10)	Reserve Fund
Reconciliation of operating income to net cash (used) provided by operating activities:		
Operating income	$ 3,386,106	$ 829,645
Adjustments to reconcile operating income to net cash (used) provided by operating activities:		
Investment and interest income	(1,461,247)	(6,847,849)
Net increase in the fair value of investments	(136,060)	–
Arbitrage rebate expense	–	794,065
Depreciation and amortization	340,038	–
Loss on disposal of equipment	775	–
Interest expense on bonds payable	–	60,591,008
Interest expense on loans payable to taxable financing reserve funds	471,101	–
Change in assets and liabilities:		
Loans receivable from institutions	–	(199,577,357)
Loan receivable from operating fund	–	–
Net resident accounts receivable	(77,678)	–
Accrued interest and other receivables from institutions	–	(1,558,987)
Due to/from other funds	67,640	49,316
Other assets	(18,167)	–
Estimated third-party payor settlements	198,393	–
Accounts payable and other liabilities	1,305,619	215,881
Deferred revenue	2,983	(126,604)
Net cash (used) provided by operating activities	$ 4,079,503	$(145,630,882)

See accompanying notes.

Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II	Total
$ 1,288	$ 40,555	$ 4,257,594
(183,391)	(21,668)	(8,514,155)
–	–	(136,060)
–	–	794,065
–	–	340,038
–	–	775
962,069	126,008	61,679,085
–	–	471,101
5,992,013	–	(193,585,344)
530,000	3,407,528	3,937,528
–	–	(77,678)
(10,804)	–	(1,569,791)
(116,956)	–	–
–	–	(18,167)
–	–	198,393
90,864	–	1,612,364
(82,684)	–	(206,305)
$ 7,182,399	$ 3,552,423	$(130,816,557)

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.

Operating Fund

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 10). The Authority has a management agreement with Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority.

1. Organization (Continued)

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

Reserve Fund

These funds and accounts are established under the Authority's Resolution establishing the Maine Health Facilities' Reserve Fund adopted December 6, 1991. Under this resolution, the Authority issues Bonds exempt from federal and State of Maine income taxes for the purpose of providing financing for Maine health and higher educational facilities. Bonds issued under this resolution are secured by all of the reserve funds within the resolution and benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine. Loans to institutions made with proceeds of bonds issued under this resolution are generally written for the net amount of bond proceeds less debt service reserve funds retained by the Authority.

Taxable Financing Reserve Fund

These funds and accounts are established under the Authority's Resolution establishing the Maine Health Facilities' Taxable Financing Reserve Fund Resolution adopted December 15, 1992. Under this resolution, the Authority issues Bonds exempt from State of Maine income taxes. Bonds issued under this resolution are secured by all of the reserve funds within the resolution and benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine. Loans to institutions made with proceeds of bonds issued under this resolution are generally written for the net amount of bond proceeds less debt service reserve funds retained by the Authority.

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 are secured by all of the reserve funds within the resolution and benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine. All of the outstanding bonds were retired during the year ended June 30, 2007.

General Resolution

These funds consist of funds and accounts established under the Authority's General Bond Resolution adopted June 5, 1973. Under this resolution, the Authority issues bonds exempt from federal and State of Maine income taxes and assists in financing health care institutions and institutions for higher education. Bonds issued under this resolution may be issued under the original Bond Resolution or under an individual Bond Indenture between the Authority and an institution. Loans to institutions made with proceeds of general resolution bonds are written for the entire amount of the bonds (including debt service reserve funds). Security for these bonds is limited to debt service reserve funds of and the loans to the specific institution for which the bond was issued. Therefore, these bonds are considered conduit debt. (See notes 2 and 5).

2. Significant Accounting Policies

Change in Accounting

Prior to fiscal 2007, the Authority accounted for its operating fund (including the Center) as a proprietary fund and its restricted and trusteed funds as fiduciary funds.

During 2007, the Authority changed its method of accounting for its restricted and trusteed funds from fiduciary fund accounting to proprietary fund accounting. As a result, the Authority no longer reports institutional "funds held in trust" that had previously been reported in these funds. Additionally, the Authority determined that its General Resolution accounts should be accounted for as conduit debt under proprietary fund accounting as the Authority has no obligation for the outstanding bonds under this resolution beyond the resources provided by the loans to the respective institutions on whose behalf the bonds were issued. As such, the General Resolution accounts are no longer reported on the Authority's basic financial statements.

The change in accounting impacts beginning of year net assets under the respective bond fund resolutions of the Authority as follows:

	General Resolution	Reserve Fund	Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II
Fund balance and funds held in trust as previously reported at June 30, 2006	$ 12,793,119	$ 129,093,772	$ 2,431,503	$ (40,555)
Adjustment to remove General Resolution	(12,793,119)	–	–	–
Adjustment for institutional "funds held in trust"	–	(126,780,804)	(2,395,180)	–
Beginning of year net assets, June 30, 2006, as restated	$ –	$ 2,312,968	$ 36,323	$ (40,555)

Substantially all of the adjustment for institutional "funds held in trust" above relate to amounts previously reflected as construction/program funds and debt service funds (except for interest funds) and the offsetting amounts consisted primarily of cash and/or investments. These funds are held by trustees and are outside of the control of the Authority. Such amounts continue to collateralize the related outstanding bonds and are reflected in the balance sheets of the borrowing entities. Activity within these funds is not included in the statement of revenues, expenses and net assets.

Proprietary Fund Accounting

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

2. Significant Accounting Policies (Continued)

Prior to the accounting change described above, restricted and trusteed funds were accounted for using the modified accrual basis of accounting, which, except for the changes noted above, was substantially the same as the accrual basis.

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. The consolidated cash and cash equivalents of the Authority's operating fund at June 30, 2007 consist of $300,000 insured and $2,370,316 noninsured deposits with banks and $12,228,137 of money market funds held by a custodian and secured by short-term U.S. Treasury obligations.

Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase (decrease) in the fair value of investments on the statement of revenues, expenses and changes in net assets.

Bond Discounts, Premiums and Issuance Costs

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

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)

Property and Equipment

Property and equipment 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.

Income Taxes

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

Principles of Consolidation

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

2. Significant Accounting Policies (Continued)

New Accounting Pronouncements

GASB issued Statement No. 45, *Accounting and Financial Reporting for Employers for Post-Employment Benefits Other Than Pensions*, in June 2004. This statement establishes standards for the measurement, recognition and display of other post-employment benefits (including post-employment healthcare benefits). This statement is expected to be applicable to the Authority beginning in fiscal 2009.

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

3. Investments Held by Trustee and Board-Designated Investments

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises and certain state and local governments, as well as certain investment contracts and collateralized repurchase agreements. The trustees/custodians invest available cash in accordance with Maine statutes, applicable Series Resolutions and Tax Regulatory Agreements. At June 30, 2007, investments are categorized as follows:

	Fair Value
Consolidated Operating Fund	
Board-designated investments:	
U.S. Government-sponsored enterprises	$ 16,292,020
	$ 16,292,020
Reserve Fund	
Investments held by trustee:	
Guaranteed investment contracts	$116,116,340
U.S. Government obligations	133,285
Cash and cash equivalents	36,534,479
	$152,784,104
Taxable Financing Reserve Fund	
Investments held by trustee:	
Guaranteed investment contracts	$ 2,463,581
Cash and cash equivalents	636,412
	$ 3,099,993

3. Investments Held by Trustee (Continued)

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, 2007:

	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	$ 16,292,020	$5,229,330	$ 11,062,690	$ –	$ –
Reserve Fund					
Guaranteed investment contracts	$ 116,116,340	$ –	$ –	$3,132,500	$ 112,983,840
U.S. Government obligations	133,285	64,219	69,066	–	–
	$ 116,249,625	$ 64,219	$ 69,066	$3,132,500	$ 112,983,840
Taxable Financing Reserve Fund					
Guaranteed investment contracts	$ 2,463,581	$ –	$ 1,547,449	$ 916,132	$ –

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, 2007.

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. Investments Held by Trustee (Continued)

At June 30, 2007, approximately $100,832,000 in guaranteed investment contracts within the reserve fund are with three institutions. Additionally, approximately $2,464,000 in guaranteed investment contracts within taxable financing reserve fund 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.

4. Bonds Payable

Total Reserve Fund bonds payable consist of the following at June 30, 2007:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2007
Reserve Fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	$ 44,850,000	$ 1,135,000
Series 1993D, 2.6% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	3,220,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	8,275,000
Series 1995A, 4.4% – 5.878%, dated April 1, 1995	1996 – 2025	33,285,000	735,000
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	990,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	19,890,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	7,670,000
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	8,310,000	7,175,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	34,515,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	60,480,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	74,870,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	25,790,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	77,305,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	37,460,000

4. **Bonds Payable**

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2007
Reserve Fund (continued):			
Series 2000A, variable rate, dated January 27, 2000	2002 – 2022	$ 11,755,000	$ 9,840,000
Series 2000B, variable rate, dated January 27, 2000	2000 – 2019	12,685,000	8,465,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	46,520,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	57,755,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	8,855,000
Series 2001C, 3.25% – 5.125%, dated May 15, 2001	2002 – 2031	27,565,000	18,935,000
Series 2001D, 3.0% – 5.0%, dated November 1, 2001	2002 – 2031	50,700,000	42,910,000
Series 2002A, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	47,755,000
Series 2002B, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	8,175,000	7,770,000
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	63,080,000	59,250,000
Series 2003B, 2.0% – 5.0%, dated July 1, 2003	2004 – 2033	59,245,000	54,030,000
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	7,050,000	6,590,000
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	35,880,000	30,960,000
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	72,315,000	65,570,000
Series 2004B, 3.00% – 5.00%, dated December 9, 2004	2006 – 2034	42,265,000	41,130,000
Series 2005A, 3.0% – 5.0%, dated August 17, 2005	2006 – 2035	48,325,000	46,355,000
Series 2005B, 3.5% – 5.0%, dated December 29, 2005	2006 – 2030	28,325,000	27,650,000
Series 2006A, 3.5% – 5.0%, dated February 2, 2006	2006 – 2035	51,855,000	51,725,000
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

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2007
Reserve Fund (continued):			
Series 2006E, variable rate, dated July 12, 2006	2009 – 2036	$ 86,250,000	$ 86,250,000
Series 2006F, 4.0% – 5.0%, dated September 7, 2006	2007 – 2036	89,125,000	89,125,000
Series 2006G, variable rate, dated September 7, 2006	2008 – 2036	14,200,000	14,200,000
Series 2006H, variable rate, dated December 20, 2006	2012 – 2036	68,400,000	68,400,000
		$ 1,770,790,000	1,370,530,000
Current portion			40,530,000
Noncurrent portion			$ 1,330,000,000

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

Year Ending	Principal	Interest	Total
2008	$ 40,530,000	$ 62,305,796	$ 102,835,796
2009	43,345,000	60,637,763	103,982,763
2010	46,365,000	58,814,600	105,179,600
2011	48,635,000	56,839,258	105,474,258
2012	53,250,000	54,667,358	107,917,358
2013 – 2017	289,980,000	235,376,771	525,356,771
2018 – 2022	286,900,000	168,076,740	454,976,740
2023 – 2027	257,940,000	101,596,279	359,536,279
2028 – 2032	199,450,000	45,279,018	244,729,018
2033 – 2037	104,135,000	10,438,124	114,573,124
Total	$ 1,370,530,000	$ 854,031,707	$ 2,224,561,707

4. Bonds Payable (Continued)

Taxable Financing Reserve fund bonds payable consist of the following at June 30, 2007:

	Original Maturity	Original Amount Issued	Outstanding June 30, 2007
Taxable Financing Reserve Fund:			
Series 1993A, variable interest rate, dated January 1, 1993	1993 – 2012	$ 57,125,000	$ 7,070,000
Series 1993B, variable interest rate, dated October 27, 1993	1994 – 2013	25,060,000	2,270,000
Series 1996A, variable interest rate, dated February 22, 1996	1996 – 2016	16,440,000	2,205,000
		$ 98,625,000	11,545,000
Current portion			1,440,000
Noncurrent portion			$ 10,105,000

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
2008	$ 1,440,000	$ 782,258	$ 2,222,258
2009	1,535,000	674,392	2,209,392
2010	1,615,000	560,135	2,175,135
2011	1,715,000	439,303	2,154,303
2012	1,840,000	310,305	2,150,305
2013 – 2017	3,400,000	341,143	3,741,143
	$ 11,545,000	$ 3,107,536	$ 14,652,536

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2007:

	Reserve Fund	Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II
Balance, beginning of year	$ 1,153,005,000	$ 18,940,000	$ 4,250,000
Issuances	257,975,000	–	–
Redemptions:			
Principal payments	40,450,000	7,395,000	4,250,000
Balance, end of year	$ 1,370,530,000	$ 11,545,000	$ –

5. Conduit Debt

Conduit debt of the Authority consists of bonds outstanding within the general resolution. The following is a summary of outstanding conduit debt at June 30, 2007:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2007
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
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	11,885,000	1,390,000
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	550,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	15,000
Mid Coast Hospital, 2001 lease purchase, 4.95%, dated November 15, 2001	2002 – 2008	5,865,635	1,243,840
Mid Coast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2006 – 2043	8,830,000	8,595,000
Bowdoin College, Series 2007, variable rate, dated June 6, 2007	2032 – 2037	20,500,000	20,500,000
		$ 74,795,635	$ 50,993,840

The following is a summary of conduit debt activity for the year ended June 30, 2007:

Bonds outstanding as of June 30, 2006	$ 31,830,068
Plus: Bonds issued during fiscal 2007	20,500,000
Less: Redemptions during fiscal 2007	1,336,228
Bonds outstanding as of June 30, 2007	$ 50,993,840

At June 30, 2007, there were approximately $24,070,000 of defeased bonds remaining outstanding with respect to advance refunded bond issues of the general resolution.

6. Reserve Funds

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

Reserve Fund

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2007, the required debt service reserve was approximately $111,132,000 and the fair value of the debt service reserve assets totaled approximately $122,000,000.

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, 2007, the required debt service reserve was approximately $2,265,000 and the fair value of the debt service reserve assets totaled approximately $2,464,000.

7. 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 $507,000 of expense under this agreement in 2007.

8. Refunded Issues

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

At June 30, 2007, there were approximately $6,700,000 of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues within the reserve fund and taxable fund resolutions.

9. 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 years prior to fiscal 2007, the Authority made significant loans and advances on behalf of financially troubled nursing homes to assist in meeting debt service requirements. A group of certain financially troubled homes, with the Authority's concurrence, began refinancing portions of Authority loans and advances with the U.S. Department of Housing and Rural Development (HUD). As part of the refinancing completed by HUD, the Authority agreed to issue 8% subordinate notes receivable from its operating fund to each nursing home. These notes totaled $7,822,057 at June 30, 2006. During fiscal 2007, the group of nursing homes was sold to a third party and as part of the sale the Authority was repaid a substantial portion of the remaining subordinate note balances. There are no subordinate notes remaining in the Authority's Operating fund at June 30, 2007.

The Authority has advanced approximately $152,000 from its operating fund to two institutions with outstanding loans owed to the Authority of approximately $1,650,000 within the taxable resolution, and has loaned from its operating fund approximately $609,000 to an institution with outstanding loans owed to the Authority of approximately $9,700,000 within the reserve fund at June 30, 2007. These advances and loans, upon which interest income is recognized only to the extent that cash payments are received, were primarily made to assist these institutions in meeting debt service requirements in years prior to fiscal 2007. The Authority also has approximately $467,000 of other receivables outstanding within the operating fund at June 30, 2007, primarily related to amounts due from institutions to reimburse the Authority for arbitrage rebate payments made on their behalf.

The $609,000 loan referenced above also sets forth a Forbearance Period. The Authority agreed that it would not commence foreclosure on or before April 30, 2009 unless or until an occurrence of a default (event of default includes, among other events, lack of payment under either note). In the case of a default during the Forbearance Period, the Authority has the option at its sole discretion to enforce its rights under the reserve fund resolution and operating fund loan agreements. Under the operating fund loan agreement, the institution has stipulated in advance to a deed in lieu of foreclosure on the property, bill of sale in lieu of foreclosure on equipment fixtures, and gross receipts, stipulated consent to appointment of receiver, and stipulated consent to judgment of foreclosure and sale with waiver of right of appeal and redemption. These agreements and stipulations have been signed and agreed to by the institution, but not executed or enacted by the Authority; however, the Authority has the right to enact these documents should an event of default occur under either the reserve fund or operating fund loan agreements. If the Authority executed its rights, management believes that sufficient changes could be made to the operations of the facility to allow it to service its reserve fund debt.

At June 30, 2007, the Authority has established a $1,064,488 reserve in the operating fund related to the above loans, advances and other receivables outstanding.

10. 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 paragraph, 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, 3007. A summary follows:

Principal and interest debt service accounts	$743,535
Resident funds	43,121
Total assets whose use is limited	$786,656

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.

10. 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 2007 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 1998 and 2003 through 2005, plus an estimated settlement for 2006 and 2007. 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, 2007:

Gross resident service revenue	$ 7,875,905
Contractual adjustments under third-party reimbursement programs	(2,568,316)
Net resident service revenue	$ 5,307,589

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 $248,306 of State tax in 2007. The amount is included in resident service and other operating expenses on the statement of operations, while the increase of MaineCare reimbursement is reflected as a decrease in the contractual adjustments.

10. 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:

	2006	Additions	Deductions	2007
Land	$ 302,291	$ –	$ –	$ 302,291
Building and improvements	7,261,012	90,571	–	7,351,583
Furniture, fixtures and equipment	1,018,080	113,408	(3,953)	1,127,535
Vehicles	21,944	–	–	21,944
	8,603,327	203,979	(3,953)	8,803,353
Less accumulated depreciation	(5,224,427)	(319,953)	3,178	(5,541,202)
Fixed assets, net	$ 3,378,900	$(115,974)	$ (775)	$ 3,262,151

Loan Payable to Taxable Financing Reserve Fund

Loan payable to the taxable financing reserve fund of $3,238,013 at June 30, 2007 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:

2008	$570,000
2009	610,000
2010	660,000
2011	705,000
2012	693,013

Management Agreement

First Atlantic Corp. provided all management and accounting services required by the Center throughout 2007. 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, 2007 were approximately $260,000.

10. 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 approximately $4,000 to the plan for the year ended June 30, 2007.

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, 2007, 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, 2007, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

11. Administrative Fees

The Authority's Board of Commissioners voted to refund six months of fiscal 2007 administrative fees paid to the Authority totaling $1,251,003 back to the respective institutions. This amount is included in accounts payable of the Authority's operating fund at June 30, 2007.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2007

ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living	Eliminations	Consolidated Operating Fund
Current assets:				
Cash and cash equivalents	$ 14,132,873	$ 765,580	$ –	$ 14,898,453
Board-designated cash and investments, at fair value	16,292,020	–	–	16,292,020
Accrued investment income	78,444	–	–	78,444
Fees and other amounts due from other funds	1,485,355	–	–	1,485,355
Resident accounts receivable, net of allowance of $15,000	–	406,115	–	406,115
Other assets	4,416	93,846	–	98,262
Total current assets	31,993,108	1,265,541	–	33,258,649
Long-term assets:				
Notes, advances and other receivables from institutions, net of allowance of $1,064,488	7,656,196	–	(7,596,015)	60,181
Assets whose use is limited	–	786,656	–	786,656
Fixed assets, net	–	3,262,151	–	3,262,151
Deferred financing costs, net	–	112,245	–	112,245
Total noncurrent assets	7,656,196	4,161,052	(7,596,015)	4,221,233
Total assets	$ 39,649,304	$ 5,426,593	$ (7,596,015)	$ 37,479,882

LIABILITIES AND NET ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living	Eliminations	Consolidated Operating Fund
Current liabilities:				
Loan payable to taxable financing reserve fund	$ –	$ 570,000	$ –	$ 570,000
Accounts payable	1,300,072	70,891	–	1,370,963
Estimated third-party payor settlements	–	1,370,710	–	1,370,710
Accrued payroll and other expenses	–	139,188	–	139,188
Resident funds held in trust	–	43,121	–	43,121
Deferred revenue	5,286	6,470	–	11,756
Total current liabilities	1,305,358	2,200,380	–	3,505,738
Long-term liabilities:				
Loan payable to taxable financing reserve fund	–	2,668,013	–	2,668,013
Advances and accrued interest due to Authority's operating fund	–	7,596,015	(7,596,015)	–
Total noncurrent liabilities	–	10,264,028	(7,596,015)	2,668,013
Total liabilities	1,305,358	12,464,408	(7,596,015)	6,173,751
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	–	200	(200)	–
Net assets (deficit)	38,343,946	(7,038,015)	200	31,306,131
Total net assets (deficit)	38,343,946	(7,037,815)	–	31,306,131
Total liabilities and net assets (deficit)	$ 39,649,304	$ 5,426,593	$ (7,596,015)	$ 37,479,882

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – OPERATING FUND

Year Ended June 30, 2007

	Authority's Operating Fund	Portland Center For Assisted Living	Eliminations	Consolidated Operating Fund
Operating revenues:				
Net resident service revenue	$ –	$ 5,307,589	$ –	$ 5,307,589
Administrative and other fees	1,748,395	–	–	1,748,395
Investment income	1,300,725	–	–	1,300,725
Net increase in the fair value of investments	136,060	–	–	136,060
Interest income from advances and notes receivable from institutions	917,154	–	(756,632)	160,522
Other income	110,334	–	–	110,334
	4,212,668	5,307,589	(756,632)	8,763,625
Operating expenses:				
Salaries	303,771	–	–	303,771
Employee benefits	89,402	–	–	89,402
Travel	4,883	–	–	4,883
Office expenses	68,017	–	–	68,017
Accounting and auditing	56,000	–	–	56,000
Legal	77,041	–	–	77,041
Telephone	6,356	–	–	6,356
Building lease	48,543	–	–	48,543
Interest expense to taxable financing reserve fund II	168,586	–	–	168,586
Nursing services	–	1,522,084	–	1,522,084
Administrative services	–	521,361	–	521,361
PNMI Service Provider Tax	–	248,306	–	248,306
Dietary services	–	698,353	–	698,353
Depreciation and amortization	–	340,038	–	340,038
Plant operations and maintenance	–	321,937	–	321,937
Housekeeping services	–	170,202	–	170,202
Other services	–	409,951	–	409,951
Bad debt expense	–	11,605	–	11,605
Interest expense	–	1,059,147	(756,632)	302,515
Other expenses	–	8,568	–	8,568
	822,599	5,311,552	(756,632)	5,377,519
Operating income (loss)	3,390,069	(3,963)	–	3,386,106
Net assets (deficit) at beginning of year	34,953,877	(7,034,052)	200	27,920,025
Net assets (deficit) at end of year	$ 38,343,946	$ (7,038,015)	$ 200	$ 31,306,131

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2007

	Expenses	Program Revenues: Charges for Services	Program Revenues: Program Investment Income	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants/ Contributions	Net Revenue (Expense) and Changes in net assets: Total
Functions/Programs:						
Maine Health and Higher Educational Facilities Authority	$ (70,518,333)	$ 63,349,462	$ 7,052,908	$2,826,438	$ –	$ 2,710,475
Total	$ (70,518,333)	$ 63,349,462	$ 7,052,908	$2,826,438	$ –	2,710,475
General revenues:						
Unrestricted interest and investment earnings						1,436,785
Non program specific grants, contributions and appropriations						–
Miscellaneous income						110,334
Loss on assets held for sale						–
Extraordinary item						–
Total general revenues and extraordinary items						1,547,119
Changes in net assets						4,257,594
Net assets, beginning of year, as restated						30,228,761
Net assets, end of year						$ 34,486,355

Note 1 – Operating grants and contributions shown above consist of other income of the Reserve Fund.