Annual Report
Maine Health & Higher Educational Facilities Authority

2008

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: **2008 Maine Health and Higher Educational Facilities Annual Report**

This is the annual report for the Maine Health and Higher Educational Facilities Authority for the 2008 fiscal year, running from July 1, 2007 to June 30, 2008. As of June 30, 2008, the Authority has $49,879,950 outstanding under its general tax exempt conduit resolution, $1,442,695,000 outstanding under its tax exempt reserve fund resolution, and $9,500,000 outstanding under it's taxable reserve fund resolution.

During fiscal year 2008 the Authority issued $349,670,000 of bonds under its tax-exempt reserve fund resolution and $20,700,000 under its general tax exempt conduit resolution. These sales were accomplished in six series for five colleges, eleven hospitals, two community mental health care facilities, one community health care facility, two social services, two residential care facilities, and two nursing homes.

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

Year Ended June 30, 2008
With Independent Auditors' Report

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2008

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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, which include the Consolidated Operating Fund, Reserve Fund and Taxable Financing Reserve 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, 2008, as listed on the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 opinions.

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, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2008 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 12, 2008

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, 2008. 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

- Operating income for the Authority's Consolidated Operating Fund was $4,530,879 for fiscal year 2008, an increase of $1,144,773 or 33.8% over fiscal year 2007. The increase was primarily attributed to the Authority collecting all of the administrative fee revenue in 2008. In fiscal year 2007, the Authority's Board of Commissioners voted to refund six months of the administrative fees, but did not do so in fiscal year 2008.
- Total consolidated operating revenues were $78,861,307 for fiscal year 2008, an increase of $4,085,380 or 5.5% over fiscal year 2007. The increase in consolidated operating revenue was offset by an increase in total operating expenses of $3,151,288, which resulted in a net increase in total operating income of $934,092 or 21.9% from fiscal 2007.
- The Authority's loans receivable from institutions at June 30, 2008 of $1,319,292,331 represents a net increase of $64,939,727 or 5.2% from the balance at June 30, 2007. This increase is the net result of the bond issuances described below, for which various funds were used to refund outstanding loans and the remaining funds were loaned out during fiscal 2008, and repayment of loans by institutions during fiscal 2008.
- The Authority's gross bonds outstanding at June 30, 2008 of $1,452,195,000 represents a net increase of $70,120,000 or 5.1% from the balance at June 30, 2007. This increase consists of the issuance of $96,495,000 in Series 2007A reserve fund bonds, $70,470,000 in Series 2007B reserve fund bonds, $107,180,000 in Series 2008A reserve fund bonds, $25,985,000 in Series 2008B reserve bond funds and $49,540,000 in Series 2008C reserve fund bonds, less scheduled bond principal payments and certain refundings that occurred in 2008 (refer to notes 4 and 8 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 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 $39,678,041 at June 30, 2008. This represents an increase of 5,191,686 or 15.1% over the previous fiscal year, which is the Authority's 2008 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.

Balance Sheet

	2008	2007	% change
Current assets			
Cash and cash equivalents	$ 11,452,198	$ 14,898,453	(23.1)%
Investments held by trustee, at fair value	39,572,218	37,235,110	6.3
Board-designated cash and investments, at fair value	22,391,725	16,292,020	37.4
Accrued investment income	531,823	671,508	(20.8)
Loans receivable from institutions	39,935,000	41,970,000	(4.8)
Loan receivable from operating fund	610,000	570,000	7.0
Interest and other receivables from institutions	1,445,446	3,199,657	(54.8)
Fees and other amounts due from other funds	1,929,593	1,485,355	29.9
Resident accounts receivable, net of allowance of $11,000	431,789	406,115	6.3
Other assets	53,611	98,262	(45.4)
Total current assets	118,353,403	116,826,480	1.3
Noncurrent assets			
Investment held by trustee, at fair value	126,461,125	118,648,987	6.6
Loans receivable from institutions	1,279,357,331	1,212,382,604	5.5
Loan receivable from operating fund	2,058,013	2,668,013	(22.9)
Notes, advances and other receivables from institutions, net of allowance $864,488	110,369	60,181	83.4
Assets whose use is limited	881,713	786,656	12.1
Fixed assets, net	3,036,029	3,262,151	(6.9)
Deferred financing costs, net	92,160	112,245	(17.9)
Total noncurrent assets	1,411,996,740	1,337,920,837	5.5
Total assets	$1,530,350,143	$ 1,454,747,317	5.2%
Current liabilities			
Bonds payable	$ 40,955,000	$ 41,970,000	(2.4)%
Loan payable to taxable financing reserve fund	610,000	570,000	7.0
Interest payable	27,577,917	27,387,417	0.7
Fees and other amounts due to operating fund	1,929,593	1,485,355	29.9
Accounts payable	1,128,229	2,066,260	(45.4)
Estimated 3rd party settlements	1,447,933	1,370,710	5.6
Rebate payable to Internal Revenue Service	295,954	558,590	(47.0)
Deferred revenue	1,060,190	126,112	740.7
Other liabilities	368,961	182,309	102.4
Total current liabilities	75,373,777	75,716,753	(0.5)
Noncurrent liabilities			
Bonds payable	1,411,240,000	1,340,105,000	5.3
Loan payable to taxable financing reserve fund	2,058,013	2,668,013	(22.9)
Rebate payable to Internal Revenue Service	2,000,312	1,771,196	12.9
Total noncurrent liabilities	1,415,298,325	1,344,544,209	5.3
Total liabilities	1,490,672,102	1,420,260,962	5.0
Net assets:			
Unrestricted net assets	39,678,041	34,486,355	15.1
Total net assets	39,678,041	34,486,355	15.1
Total liabilities and net assets	$1,530,350,143	$ 1,454,747,317	5.2%

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

	2008	2007	% Change
Operating revenues:			
Interest and other amounts received from institutions	$58,000,829	$55,661,855	4.2%
Interest on loans receivable from operating fund	254,587	471,101	(46.0)
Net resident service revenue	5,120,857	5,307,589	(3.5)
Administrative and other fees	3,229,985	1,748,395	84.7
Income from investments	8,795,360	8,353,633	5.3
Net (decrease) increase in the fair value of investments	(154,048)	136,060	(213.2)
Interest income from advances and notes receivable from institutions	45,882	160,522	(71.4)
Other income	3,567,855	2,936,772	21.5
Total operating revenues	78,861,307	74,775,927	5.5%
Operating expenses:			
Bond issuance costs	3,434,810	2,826,438	21.5
Interest expense	63,971,899	61,679,085	3.7
Interest expense to taxable financing reserve fund	254,587	471,101	(46.0)
Operating expenses	720,161	654,013	10.1
Resident service and other operating expenses	4,430,502	4,243,837	4.4
Other expenses	857,662	643,859	33.2
Total operating expenses	73,669,621	70,518,333	4.5
Operating income	5,191,686	4,257,594	21.9
Net assets, beginning of year	34,486,355	30,228,761	14.1
Net assets, end of year	$39,678,041	$34,486,355	15.1%

Cash and cash equivalents at June 30, 2008 decreased $3,446,255 or 23.1% from balances at June 30, 2007. This decrease was primarily the result of investing excess funds into long-term investments and the refund of 2007 administrative fees collected of approximately $1,251,000.

Total short and long-term investments held by trustee at June 30, 2008 increased $10,149,246 or 6.5% over the balance at June 30, 2007. 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 2007A, 2007B, 2008A, 2008B and 2008C 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 $6,099,705 or 37.4% over the balance at June 30, 2007. The increase was primarily the result of the Authority investing excess operating funds into longer term investments.

Accrued investment income at June 30, 2008 decreased $139,685 or 20.8% from June 30, 2007. This decrease was primarily the result of the timing of interest receipts on guaranteed investment contracts.

Loans receivable from institutions increased $64,939,727 or 5.2% from the balance at June 30, 2007. The increase in loans receivable is consistent with the increase in bonds payable, which increased $70,120,000 or 5.1% at June 30, 2008 over June 30, 2007. This increase in the loans receivable and the bonds payable in fiscal year 2008 consists of the issuance of $96,495,000 in Series 2007A reserve fund bonds, $70,470,000 in Series 2007B reserve fund bonds, $107,180,000 in Series 2008A reserve fund bonds, $25,985,000 in Series 2008B reserve bond funds, and $49,540,000 in Series 2008C reserve fund bonds, less scheduled bond principal payments and certain refundings that occurred in 2008. New loans receivable are written net of the debt service reserve funds deposit, which are investments held by the Authority.

Interest and other receivables from institutions at June 30, 2008 decreased $1,754,211 or 54.8% from balances at June 30, 2007 primarily due to fewer capitalized interest funds being available in FY08 than FY07. At June 30, 2007, a significant amount of interest payments to be received from borrowers were actually received subsequent to June 30, 2007 via payment from capitalized interest funds of the respective borrowers.

Notes, advances and other receivables from institutions at June 30, 2008 increased $50,188 or 83.4% from balances at June 30, 2007. The net increase of $50,188 is primarily the result of a reduction of $200,000 in the allowance for uncollectible accounts and borrower repayments totaling $149,812 in fiscal year 2008. In addition, interest income from advances and notes receivable from institutions decreased $114,640 or 71.4% in fiscal year 2008 from fiscal year 2007 due to a decrease in the average balance of outstanding notes receivable (repayment of subordinate loans in 2007).

Fees and other amounts due from other funds and fees and other amounts due to operating fund increased $444,238 or 29.9% over fiscal year 2007 due to an increase in arbitrage payments made from the consolidated operating fund that will be reimbursed from other funds in future years.

Accounts payable at June 30, 2008 decreased $938,031 or 45.4% from June 30, 2007. The decrease was primarily the result of the payment of the refund of administrative fees that the Board of Commissioners approved in fiscal year 2007.

Deferred revenue increased $934,078 or 740.7% in fiscal year 2008 over fiscal year 2007. The increase is a result of deferring funds that were received as a result of refunding bond issues during fiscal year 2008 that will be applied towards the respective borrower's debt service payments in future fiscal years.

Administrative and other fees increased $1,481,590 or 84.7% in fiscal year 2008 over fiscal year 2007. In fiscal year 2007, the Authority's Board voted to refund half of the annual administrative fee to the borrowers, which reduced the revenue for fiscal year 2007. The Board did not refund administrative fees in fiscal year 2008.

The net decrease in the fair value of investments in 2008 was a net decrease of $290,108 or 213.2% over June 30, 2007. The decreases experienced during fiscal 2008 are the result of fluctuations in the interest rate environment which resulted in a marginal 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 unrestricted net assets. The maturities of investments in the debt service reserve funds are scheduled to match debt service payments and are normally held to maturity.

Total operating expenses increased $3,151,288 or 4.5% in fiscal year 2008 over fiscal year 2007. The increase is primarily due to additional cost of issuance expenses due to high issuance volume and an increase in interest expense.

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, 2008

ASSETS

	Consolidated Operating Fund (Note 10)	Reserve Fund
Current assets:		
Cash and cash equivalents (note 2)	$ 11,452,198	$ –
Investments held by trustee, at fair value (note 3)	–	39,018,787
Board-designated cash and investments, at fair value (note 3)	22,391,725	–
Accrued investment income	77,495	449,487
Loans receivable from institutions (note 9)	–	39,125,000
Loan receivable from operating fund (note 10)	–	–
Interest and other receivables from institutions	–	1,432,107
Fees and other amounts due from other funds	1,929,593	–
Resident accounts receivable, net of allowance of $11,000	431,789	–
Other assets	53,611	–
Total current assets	36,336,411	80,025,381
Noncurrent assets:		
Investments held by trustee, at fair value (note 3)	–	124,158,928
Loans receivable from institutions (note 9)	–	1,275,637,541
Loan receivable from operating fund (note 10)	–	–
Notes, advances and other receivables from institutions, net of allowance of $864,488 (note 9)	110,369	–
Assets whose use is limited (note 10)	881,713	–
Fixed assets, net (note 10)	3,036,029	–
Deferred financing costs, net	92,160	–
Total noncurrent assets	4,120,271	1,399,796,469
Total assets	$ 40,456,682	$ 1,479,821,850

Taxable Financing Reserve Fund	Total
$ –	$ 11,452,198
553,431	39,572,218
–	22,391,725
4,841	531,823
810,000	39,935,000
610,000	610,000
13,339	1,445,446
–	1,929,593
–	431,789
–	53,611
1,991,611	118,353,403
2,302,197	126,461,125
3,719,790	1,279,357,331
2,058,013	2,058,013
–	110,369
–	881,713
–	3,036,029
–	92,160
8,080,000	1,411,996,740
$ 10,071,611	$ 1,530,350,143

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2008

LIABILITIES AND NET ASSETS

	Consolidated Operating Fund (Note 10)	Reserve Fund
Current liabilities:		
Bonds payable (note 4)	$ –	$ 39,535,000
Loan payable to taxable financing reserve fund (note 10)	610,000	–
Interest payable	–	27,417,158
Fees and other amounts due to operating fund	–	1,652,920
Accounts payable	123,451	898,215
Estimated third-party payor settlements (note 10)	1,447,933	–
Rebate payable to Internal Revenue Service	–	295,954
Deferred revenue	11,314	1,048,876
Other liabilities	368,961	–
Total current liabilities	2,561,659	70,848,123
Noncurrent liabilities:		
Bonds payable (notes 4 and 8)	–	1,403,160,000
Loan payable to taxable financing reserve fund (note 10)	2,058,013	–
Rebate payable to Internal Revenue Service	–	2,000,312
Total noncurrent liabilities	2,058,013	1,405,160,312
Total liabilities	4,619,672	1,476,008,435
Net assets:		
Unrestricted net assets	35,837,010	3,813,415
Total net assets	35,837,010	3,813,415
Total liabilities and net assets	$ 40,456,682	$ 1,479,821,850

See accompanying notes.

Taxable Financing Reserve Fund	Total
$ 1,420,000	$ 40,955,000
–	610,000
160,759	27,577,917
276,673	1,929,593
106,563	1,128,229
–	1,447,933
–	295,954
–	1,060,190
–	368,961
1,963,995	75,373,777
8,080,000	1,411,240,000
–	2,058,013
–	2,000,312
8,080,000	1,415,298,325
10,043,995	1,490,672,102
27,616	39,678,041
27,616	39,678,041
$ 10,071,611	$ 1,530,350,143

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2008

	Consolidated Operating Fund (Note 10)	Reserve Fund
Operating revenues:		
Interest and other amounts from institutions	$ –	$ 57,678,198
Interest on loans receivable from operating fund	–	–
Net resident service revenue (note 10)	5,120,857	–
Administrative and other fees	3,229,985	–
Income from investments	1,560,408	7,086,594
Net decrease in the fair value of investments	(154,048)	–
Interest income from advances and notes receivable from institutions	45,882	–
Other income	133,045	3,434,810
Total operating revenues	9,936,129	68,199,602
Operating expenses:		
Bond issuance costs	–	3,434,810
Interest expense	–	63,274,779
Interest expense to taxable financing reserve fund	254,587	–
Operating expenses (note 7)	720,161	–
Resident service and other operating expenses (note 10)	4,430,502	–
Other expenses	–	819,211
Total operating expenses	5,405,250	67,528,800
Operating income (loss)	4,530,879	670,802
Net assets, beginning of year	31,306,131	3,142,613
Net assets, end of year	$ 35,837,010	$ 3,813,415

See accompanying notes.

Taxable Financing Reserve Fund	Total
$ 322,631	$ 58,000,829
254,587	254,587
–	5,120,857
–	3,229,985
148,358	8,795,360
–	(154,048)
–	45,882
–	3,567,855
725,576	78,861,307
–	3,434,810
697,120	63,971,899
–	254,587
–	720,161
–	4,430,502
38,451	857,662
735,571	73,669,621
(9,995)	5,191,686
37,611	34,486,355
$ 27,616	$ 39,678,041

MAINE HEALTH AND HIGHER EDUCATION FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2008

	Consolidated Operating Fund (Note 10)	Reserve Fund
OPERATING ACTIVITIES:		
Cash received from institutions	$ 3,224,699	$ 79,452,649
Cash received from operating fund	–	–
Cash payments to institutions	(1,251,003)	(85,342,956)
Cash received from patients	5,177,250	–
Cash received from other income	133,045	–
Cash payments for operating expenses	(4,803,522)	(509,439)
Cash (paid to) received from other funds	(444,238)	361,752
Cash received from other assets and liabilities	44,651	–
Net cash (used) provided by operating activities	2,080,882	(6,037,994)
NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from bonds payable	–	353,104,810
Other proceeds from institutions	–	4,772,603
Principal paid on bonds payable	–	(40,540,000)
Interest paid on bonds payable	–	(62,923,636)
Paid to refunding escrows (note 8)	–	(241,737,603)
Principal paid on loans payable to taxable financing reserve fund	(570,000)	–
Interest paid on loan payable to taxable financing reserve fund	(254,587)	–
Issuance costs paid	–	(3,434,810)
Net cash provided (used) by noncapital financing activities	(824,587)	9,241,364
INVESTING ACTIVITIES:		
Purchase of investment securities	(23,956,200)	(579,818,079)
Proceeds from sale and maturities of investment securities	17,702,447	569,424,468
Proceeds from sale of equipment	2,500	–
Income received from investments and advances	1,607,239	7,772,676
Interest rebate paid to U.S. Government	–	(582,435)
Additions to equipment	(108,093)	–
Change in assets whose use is limited	(100,255)	–
Net decrease in notes, advances and other receivable from institutions	149,812	–
Net cash (used) provided by investing activities	(4,702,550)	(3,203,370)
Decrease in cash and cash equivalents	(3,446,255)	–
Cash and cash equivalents, beginning of year	14,898,453	–
Cash and cash equivalents, end of year	$ 11,452,198	$ –

Taxable Financing Reserve Fund	Total
$ 1,640,140	$ 84,317,488
824,587	824,587
–	(86,593,959)
–	5,177,250
	133,045
(38,742)	(5,351,703)
82,486	–
–	44,651
2,508,471	(1,448,641)
–	353,104,810
–	4,772,603
(2,045,000)	(42,585,000)
(857,763)	(63,781,399)
–	(241,737,603)
–	(570,000)
–	(254,587)
–	(3,434,810)
(2,902,763)	5,514,014
(7,293,323)	(611,067,602)
7,537,688	594,664,603
–	2,500
149,927	9,529,842
–	(582,435)
–	(108,093)
–	(100,255)
–	149,812
394,292	(7,511,628)
–	(3,446,255)
–	14,898,453
$ –	$ 11,452,198

MAINE HEALTH AND HIGHER EDUCATION FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS
(CONTINUED)

For the Year Ended June 30, 2008

	Consolidated Operating Fund (Note 10)	Reserve Fund
Reconciliation of operating income (loss) to net cash (used) provided by operating activities:		
Operating income (loss)	$ 4,530,879	$ 670,802
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:		
Investment and interest income	(1,606,290)	(7,086,594)
Net decrease in the fair value of investments	154,048	–
Depreciation and amortization	353,732	–
Gain on sale of equipment	(1,932)	–
Interest expense on bonds payable	–	63,274,779
Interest expense on loan payable to taxable financing reserve fund	254,587	–
Change in assets and liabilities:		
Loans receivable from institutions	–	(66,253,343)
Loan receivable from operating fund	–	–
Net resident accounts receivable	(25,674)	–
Accrued interest and other receivables from institutions	–	1,750,318
Due to/from other funds	(444,238)	361,752
Other assets	44,651	–
Estimated third-party payor settlements	77,223	–
Accounts payable and other liabilities	(1,255,662)	309,772
Deferred revenue	(442)	934,520
Net cash (used) provided by operating activities	$ 2,080,882	$ (6,037,994)

See accompanying notes.

Taxable Financing Reserve Fund	Total
$ (9,995)	$ 5,191,686
(148,358)	(8,841,242)
–	154,048
–	353,732
–	(1,932)
697,120	63,971,899
–	254,587
1,313,616	(64,939,727)
570,000	570,000
–	(25,674)
3,893	1,754,211
82,486	–
–	44,651
–	77,223
(291)	(946,181)
–	934,078
$ 2,508,471	$ (1,448,641)

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.

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 note 5).

2. Significant Accounting Policies

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)

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, 2008 consist of $240,500 insured and $766,598 noninsured deposits with banks, $5,656,800 of money market funds held by a custodian and secured by short-term U.S. Treasury obligations, and $4,788,300 of money market funds invested primarily in U.S. Government-sponsored enterprise securities and commercial paper, held at MBIA.

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. The cost of the guaranteed investment contracts approximates fair value as the Authority can withdraw funds at par during the contract periods.

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, 2008, investments are categorized as follows:

	Fair Value
Consolidated Operating Fund	
Board-designated investments:	
U.S. Government-sponsored enterprises	$ 22,391,725
	$ 22,391,725
Reserve Fund	
Investments held by trustee:	
Guaranteed investment contracts	$ 124,089,862
U.S. Government obligations	69,066
Cash and cash equivalents	39,018,787
	$ 163,177,715
Taxable Financing Reserve Fund	
Investments held by trustee:	
Guaranteed investment contracts	$ 2,302,197
Cash and cash equivalents	553,431
	$ 2,855,628

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, 2008:

	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 (FHLB, FNMA, etc.)	$ 22,391,725	$4,576,255	$ 17,815,470	$ –	$ –
Reserve Fund					
Guaranteed investment contracts	$ 124,089,862	$ –	$ –	$ –	$ 124,089,862
U.S. Government obligations	69,066	69,066	–	–	–
	$ 124,158,928	$ 69,066	$ –	$ –	$ 124,089,862
Taxable Financing Reserve Fund					
Guaranteed investment contracts	$ 2,302,197	$ –	$ 1,547,449	$ 754,748	$ –

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 and Bangor Savings Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at either U.S. Bank or Bangor Savings Bank at June 30, 2008.

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)

The Authority limits its credit risk by investing in guaranteed investment contracts backed by high credit quality banks and insurance companies. Investments in guaranteed investment contract issuers that represent 5% or more of total guaranteed investment contracts within each respective resolution at June 30, 2008, with their credit quality ratings as issued by Standard & Poor's as of the date of this report, are as follows:

	Rating	
Reserve Fund:		
Guaranteed Investment Contracts Provided By:		
FSA Capital Management Services, LLC	AAA	$ 55,816,030
Transamerica Life Insurance Company	AA	18,937,483
Ambac Assurance Corporation	AA	15,971,165
MBIA, Inc.	AA	14,705,714
American International Grouped Matched Funding Corporation (AIG)	AA-	9,567,784
Total		$ 114,998,176
Taxable Financing Reserve Fund:		
Guaranteed Investment Contracts Provided By:		
Transamerica Life Insurance Company	AA	$ 1,547,449
MBIA, Inc.	AA	317,148
Protective Life Insurance Company	AA	437,600
Total		$ 2,302,197

Due to credit rating downgrades of AIG and MBIA, the Authority exercised provisions in the respective guaranteed investment contracts subsequent to June 30, 2008 and received return of par of $9,567,784 from AIG and $7,458,103 from MBIA. The monies were invested in short-term treasury notes. Additionally, $7,247,611 of MBIA guaranteed investment contracts were collateralized at 103% of the contract value.

4. Bonds Payable

Total Reserve Fund bonds payable consist of the following at June 30, 2008:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2008
Reserve Fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	$ 44,850,000	$ 1,090,000
Series 1993D, 2.6% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	2,235,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	7,980,000

4. **Bonds Payable (Continued)**

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2008
Reserve Fund (continued):			
Series 1995A, 4.4% – 5.878%, dated April 1, 1995	1996 – 2025	$ 33,285,000	$ 715,000
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	840,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	200,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	1,555,000
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	8,310,000	6,980,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	31,870,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	51,320,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	71,825,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	25,110,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	74,260,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	3,085,000
Series 2000A, variable rate, dated January 27, 2000	2002 – 2022	11,755,000	9,400,000
Series 2000B, variable rate, dated January 27, 2000	2000 – 2019	12,685,000	7,945,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	9,100,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	55,745,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	8,450,000
Series 2001C, 3.25% – 5.125%, dated May 15, 2001	2002 – 2031	27,565,000	18,425,000
Series 2001D, 3.0% – 5.0%, dated November 1, 2001	2002 – 2031	50,700,000	41,115,000
Series 2002A, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	45,100,000
Series 2002B, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	8,175,000	7,660,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2008
Reserve Fund (continued):			
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	$ 63,080,000	$ 57,905,000
Series 2003B, 2.0% – 5.0%, dated July 1, 2003	2004 – 2033	59,245,000	52,755,000
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	7,050,000	6,365,000
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	35,880,000	29,130,000
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	72,315,000	62,155,000
Series 2004B, 3.00% – 5.00%, dated December 9, 2004	2006 – 2034	42,265,000	39,960,000
Series 2005A, 3.0% – 5.0%, dated August 17, 2005	2006 – 2035	48,325,000	46,200,000
Series 2005B, 3.5% – 5.0%, dated December 29, 2005	2006 – 2030	28,325,000	26,485,000
Series 2006A, 3.5% – 5.0%, dated February 2, 2006	2006 – 2035	51,855,000	49,365,000
Series 2006B, 3.5% – 5.0%, dated April 6, 2006	2007 – 2036	56,795,000	56,630,000
Series 2006F, 4.0% – 5.0%, dated September 7, 2006	2007 – 2036	89,125,000	88,845,000
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
Series 2007A, 4.0% – 5.0%, dated July 18, 2007	2008 – 2030	96,495,000	96,495,000
Series 2007B, 4.0% – 5.0%, dated November 1, 2007	2008 – 2037	70,470,000	70,470,000
Series 2008A, variable rate, dated May 22, 2008	2008 – 2036	107,180,000	107,180,000
Series 2008B, variable rate, dated June 19, 2008	2008 – 2014	25,985,000	25,975,000
Series 2008C, 3.0% – 5.0%, dated June 19, 2008	2009 – 2038	49,540,000	49,540,000
		$ 1,982,660,000	1,442,695,000
Current portion			39,535,000
Noncurrent portion			$ 1,403,160,000

4. Bonds Payable (Continued)

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

Year Ending	Principal	Interest	Total
2009	$ 39,535,000	$ 59,516,976	$ 99,051,976
2010	49,160,000	58,763,847	107,923,847
2011	51,300,000	56,858,670	108,158,670
2012	55,965,000	54,768,910	110,733,910
2013	60,320,000	52,484,884	112,804,884
2014 – 2018	304,660,000	224,727,356	529,387,356
2019 – 2023	301,885,000	157,492,411	459,377,411
2024 – 2028	264,780,000	93,366,117	358,146,117
2029 – 2033	204,575,000	40,496,081	245,071,081
2034 – 2038	107,750,000	9,129,360	116,879,360
2039	2,765,000	62,213	2,827,213
Total	$ 1,442,695,000	$ 807,666,825	$ 2,250,361,825

Taxable Financing Reserve fund bonds payable consist of the following at June 30, 2008:

	Original Maturity	Original Amount Issued	Outstanding June 30, 2008
Taxable Financing Reserve Fund:			
Series 1993A, variable interest rate, dated January 1, 1993	1993 – 2012	$ 57,125,000	$ 6,085,000
Series 1993B, variable interest rate, dated October 27, 1993	1994 – 2013	25,060,000	1,370,000
Series 1996A, variable interest rate, dated February 22, 1996	1996 – 2016	16,440,000	2,045,000
		$ 98,625,000	9,500,000
Current portion			1,420,000
Noncurrent portion			$ 8,080,000

4. Bonds Payable (Continued)

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
2009	$ 1,420,000	$ 635,848	$ 2,055,848
2010	1,520,000	528,983	2,048,983
2011	1,625,000	414,663	2,039,663
2012	1,745,000	292,177	2,037,177
2013	1,870,000	160,789	2,030,789
2014 – 2018	1,320,000	165,218	1,485,218
	$ 9,500,000	$ 2,197,678	$ 11,697,678

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2008:

	Taxable Reserve Fund	Financing Reserve Fund
Balance, beginning of year	$ 1,370,530,000	$ 11,545,000
Issuances, at par	349,670,000	–
Redemptions:		
Principal payments	40,540,000	2,045,000
Bonds refunded (note 8)	236,965,000	–
Balance, end of year	$ 1,442,695,000	$ 9,500,000

Certain outstanding bonds within the Reserve Fund and Taxable Financing Reserve Fund carry variable interest rates. Within the Reserve Fund, variable interest rates are reset to market every 7 days; interest rates range from 1.15% to 7.0% at June 30, 2008. Within the Taxable Financing Reserve Funds, variable interest rates are set at LIBOR + .40%, which approximates 2.85% at June 30, 2008.

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, 2008:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2008
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	$ 1,230,000
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	470,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	10,000
Mid Coast Hospital, 2001 lease purchase, 4.95%, dated November 15, 2001	2002 – 2008	5,865,635	254,950
Mid Coast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2006 – 2043	8,830,000	8,515,000
Bowdoin College, Series 2008, variable rate, dated March 24, 2008	2032 – 2037	20,700,000	20,700,000
		$ 74,995,635	$ 49,879,950

The following is a summary of conduit debt activity for the year ended June 30, 2008:

Bonds outstanding as of June 30, 2007	$ 50,993,840
Plus: Bonds issued during fiscal 2008	20,700,000
Less: Refundings during fiscal 2008	20,500,000
Less: Redemptions during fiscal 2008	1,313,890
Bonds outstanding as of June 30, 2008	$ 49,879,950

At June 30, 2008, there were approximately $38,330,000 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, 2008, the required debt service reserve was approximately $113,994,000 and the fair value of the debt service reserve assets totaled approximately $127,932,000.

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, 2008, the required debt service reserve was approximately $2,104,000 and the fair value of the debt service reserve assets totaled approximately $2,302,200.

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 $518,000 of expense under this agreement in 2008.

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.

On July 18, 2007, the authority issued $96,495,000 in 2007A revenue bonds with an average interest rate of 4.75%, which was used to in-substance defease certain reserve resolution maturities within the 1996A, 1996B, 1999B, and 2000C bond series. The total maturities defeased were approximately $94,415,000 with maturity dates from July 1, 2008 through July 1, 2030. The net proceeds of approximately $97,330,300 including other sources of funds and after payment of underwriting fees, insurance and other issuance cost were used to purchase U.S. Government securities which will provide for all future debt service payments on the defeased bonds.

8. Refunded Issues (Continued)

On May 22, 2008, the authority issued $107,180,000 in 2008A revenue bonds with a variable interest rate, which was used to in-substance defease $105,525,000 of outstanding resolution maturities within the 2006D and 2006E bond series. The net proceeds of approximately $106,726,500 including other sources of funds and after payment of underwriting fees, insurance and other issuance cost were used to purchase U.S. Government securities which will provide for all future debt service payments on the defeased bonds.

On June 19, 2008, the authority issued $25,985,000 in 2008B revenue bonds with a variable interest rate, which was used to in-substance defease $29,775,000 of outstanding resolution maturities within the 2006C bond series. The net proceeds of approximately $30,180,300 including other sources of funds and after payment of underwriting fees, insurance and other issuance cost were used to purchase U.S. Government securities which will provide for all future debt service payments on the defeased bonds.

On June 19, 2008, the authority issued $49,540,000 in 2008C revenue bonds with an average interest rate of 4.38%, a portion of which was used to in-substance defease certain reserve resolution maturities within the 1998A bond series. The total maturities defeased were approximately $7,250,000 with maturity dates from July 1, 2008 through July 1, 2018. The net proceeds of approximately $7,500,500 including other sources of funds and after payment of 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.

At June 30, 2008, there were approximately $97,030,000 of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues within the reserve fund and taxable fund resolutions. Approximately $159,805,000 of the total $236,965,000 reserve fund bonds refunded in 2008 were immediately called.

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.

The Authority has advanced approximately $107,000 from its operating fund to an institution with outstanding loans owed to the Authority of approximately $660,000 within the taxable financing reserve fund resolution, and has loaned from its operating fund approximately $506,000 to an institution with outstanding loans owed to the Authority of approximately $9,428,000 within the reserve fund resolution at June 30, 2008. 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 2008. The Authority also has approximately $362,000 of other receivables outstanding within the operating fund at June 30, 2008, primarily related to amounts due from institutions to reimburse the Authority for arbitrage and other payments made on their behalf.

9. Nursing Home Loans and Advances (Continued)

The $506,000 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, 2008, the Authority has established an $864,488 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.

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

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, 2008. A summary follows:

Principal and interest debt service accounts, and replace reserve fund	$843,790
Resident funds	37,923
Total assets whose use is limited	$881,713

The Center is required by the bond issue to make monthly principal and interest payments into debt service accounts which are held by the bond trustee. The funds in these accounts are used to make the semi-annual payments of interest and annual payments of principal to the bond holders.

Significant Concentration and Estimated Third-Party Payor Settlements

Upon the conversion of the Center to an assisted living facility in December 1998, the Center is no longer eligible for reimbursements under the Federal Medicare program. Approximately 98% of the residents served in 2008 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 (WPNCC) and 2003 through 2006, plus an estimated settlement for 2007 and 2008. 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, 2008:

Gross resident service revenue	$ 8,517,579
Contractual adjustments under third-party reimbursement programs	(3,396,722)
Net resident service revenue	$ 5,120,857

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

Due to the large concentration of residents who receive benefits from the 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 approximately $242,300 of State tax in 2008. 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.

Fixed Assets

A summary of fixed assets follows:

	2007	Additions	Deductions	2008
Land	$ 302,291	$ –	$ –	$ 302,291
Building and improvements	7,351,583	30,116	(369)	7,381,330
Furniture, fixtures and equipment	1,127,535	73,187	(11,537)	1,189,185
Vehicles	21,944	4,790	(21,944)	4,790
	8,803,353	108,093	(33,850)	8,877,596
Less accumulated depreciation	(5,541,202)	(333,647)	33,282	(5,841,567)
Fixed assets, net	$ 3,262,151	$(225,554)	$ (568)	$ 3,036,029

Loan Payable to Taxable Financing Reserve Fund

Loan payable to the taxable financing reserve fund of $2,668,013 at June 30, 2008 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 $870,000, excluding letter of credit and authority fees.

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

2009	$610,000
2010	660,000
2011	705,000
2012	693,013
2013	–

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

Management Agreement

First Atlantic Corp. provided all management and accounting services required by the Center throughout 2008. 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, 2008 were approximately $260,000.

Employee Benefit Plan

The Center sponsors a discretionary contributory profit sharing plan and 401(k) plan which covers substantially all employees. The Center may elect to match employee contributions of up to 5% of the compensation of all eligible participants. The Center may also elect to make additional discretionary contributions. The Center contributed approximately $5,200 to the plan for the year ended June 30, 2008.

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, 2008, 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, 2008, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

Pending Sale

The Authority has entered into an Asset Purchase and Sale agreement to sell all of the assets of Portland Center for Assisted Living to Forum Management, LLC. The parties have agreed to a purchase price and are awaiting final approval from the Department of Health and Human Services. If the transaction closes, the purchase price will exceed the carrying value of the assets sold.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2008

ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living	Eliminations	Consolidated Operating Fund
Current assets:				
Cash and cash equivalents	$ 10,618,725	$ 833,473	$ –	$ 11,452,198
Board-designated cash and investments, at fair value	22,391,725	–	–	22,391,725
Accrued investment income	77,495	–	–	77,495
Fees and other amounts due from other funds	1,929,593	–	–	1,929,593
Resident accounts receivable, net of allowance of $11,000	–	431,789	–	431,789
Other assets	–	53,611	–	53,611
Total current assets	35,017,538	1,318,873	–	36,336,411
Noncurrent assets:				
Notes, advances and other receivables from institutions, net of allowance of $864,488	8,481,848	–	(8,371,479)	110,369
Assets whose use is limited	–	881,713	–	881,713
Fixed assets, net	–	3,036,029	–	3,036,029
Deferred financing costs, net	–	92,160	–	92,160
Total noncurrent assets	8,481,848	4,009,902	(8,371,479)	4,120,271
Total assets	$ 43,499,386	$ 5,328,775	$ (8,371,479)	$ 40,456,682

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	$ –	$ 610,000	$ –	$ 610,000
Accounts payable	55,488	67,963	–	123,451
Estimated third-party payor settlements	–	1,447,933	–	1,447,933
Accrued payroll and other expenses	–	131,038	–	131,038
Resident funds held in trust	–	37,923	–	37,923
Deferred revenue	–	11,314	–	11,314
Other liabilities	200,000	–	–	200,000
Total current liabilities	255,488	2,306,171	–	2,561,659
Noncurrent liabilities:				
Loan payable to taxable financing reserve fund	–	2,058,013	–	2,058,013
Advances and accrued interest due to Authority's operating fund	–	8,371,479	(8,371,479)	–
Total noncurrent liabilities	–	10,429,492	(8,371,479)	2,058,013
Total liabilities	255,488	12,735,663	(8,371,479)	4,619,672
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	–	200	(200)	–
Net assets (deficit)	43,243,898	(7,407,088)	200	35,837,010
Total net assets (deficit)	43,243,898	(7,406,888)	–	35,837,010
Total liabilities and net assets (deficit)	$ 43,499,386	$ 5,328,775	$ (8,371,479)	$ 40,456,682

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2008

	Authority's Operating Fund	Portland Center For Assisted Living	Eliminations	Consolidated Operating Fund
Operating revenues:				
Net resident service revenue	$ –	$ 5,120,857	$ –	$ 5,120,857
Administrative and other fees	3,229,985	–	–	3,229,985
Investment income	1,560,408	–	–	1,560,408
Net decrease in the fair value of investments	(154,048)	–	–	(154,048)
Interest income from advances and notes receivable from institutions	877,294	–	(831,412)	45,882
Other income	106,474	26,571	–	133,045
	5,620,113	5,147,428	(831,412)	9,936,129
Operating expenses:				
Salaries	312,646	–	–	312,646
Employee benefits	94,498	–	–	94,498
Travel	5,961	–	–	5,961
Office expenses	81,360	–	–	81,360
Accounting and auditing	78,900	–	–	78,900
Legal	95,261	–	–	95,261
Telephone	4,036	–	–	4,036
Building lease	47,499	–	–	47,499
Nursing services	–	1,609,638	–	1,609,638
Administrative services	–	538,447	–	538,447
PNMI Service Provider Tax	–	242,292	–	242,292
Dietary services	–	711,139	–	711,139
Depreciation and amortization	–	353,732	–	353,732
Plant operations and maintenance	–	365,463	–	365,463
Housekeeping services	–	161,530	–	161,530
Other services	–	409,617	–	409,617
Other expense	–	40,576	–	40,576
Gain on disposal of equipment	–	(1,932)	–	(1,932)
Interest expense	–	1,085,999	(831,412)	254,587
	720,161	5,516,501	(831,412)	5,405,250
Operating income (loss)	4,899,952	(369,073)	–	4,530,879
Net assets (deficit) at beginning of year	38,343,946	(7,038,015)	200	31,306,131
Net assets (deficit) at end of year	$ 43,243,898	$ (7,407,088)	$ 200	$ 35,837,010

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2008

	Expenses	Charges for Services (Program Revenues)	Program Investment Income (Program Revenues)	Operating Grants and Contributions (Program Revenues)	Capital Grants/ Contributions (Program Revenues)	Net Revenue (Expense) and Changes in net assets Total
Functions/Programs:						
Maine Health and Higher Educational Facilities Authority	$ (73,669,621)	$ 70,086,950	$ 7,234,952	$ –	$ –	$ 3,652,281
Total	$ (73,669,621)	$ 70,086,950	$ 7,234,952	$ –	$ –	3,652,281
General revenues:						
Unrestricted interest and investment earnings						1,406,360
Non program specific grants, contributions and appropriations						–
Miscellaneous income						133,045
Loss on assets held for sale						–
Extraordinary item						–
Total general revenues and extraordinary items						1,539,405
Changes in net assets						5,191,686
Net assets, beginning of year						34,486,355
Net assets, end of year						$ 39,678,041