Annual Report
Maine Health & Higher Educational Facilities Authority

2009

Maine HHEFA
MAINE HEALTH AND HIGHER
EDUCATIONAL FACILITIES AUTHORITY

Maine
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MAINE HEALTH AND HIGHER
EDUCATIONAL FACILITIES AUTHORITY

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TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **2009 Maine Health and Higher Educational Facilities Annual Report**

This is the annual report for the Maine Health and Higher Educational Facilities Authority for the 2009 fiscal year, running from July 1, 2008 to June 30, 2009. As of June 30, 2009, the Authority has $149,080,000 outstanding under its general tax exempt conduit resolution, $1,316,935,000 outstanding under its tax exempt reserve fund resolution, and $8,080,000 outstanding under it's taxable reserve fund resolution.

During fiscal year 2009 the Authority issued $41,735,000 of bonds under its tax-exempt reserve fund resolution and $118,500,000 under its general tax exempt conduit resolution. These sales were accomplished in three series for two colleges and four hospitals.

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, 2009
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, 2009

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INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying financial statements which include the Consolidated Operating Fund, Reserve Fund and Taxable Financing Reserve Fund, which collectively comprise the basic financial statements 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, 2009, 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, as well as the individual fund groups referred to above, as of June 30, 2009, 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 6, 2009 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 – 7 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 6, 2009

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

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, 2009. 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 $4,644,893 for fiscal year 2009, an increase of $114,014 or 2.5% over fiscal year 2008. This increase in consolidated operating income was primarily due to a decrease in operating expenses and a slight increase in net resident service revenues from Portland Center.
- Total revenues of $71,905,022 for fiscal year 2009 were a decrease of $6,956,285 or 8.8% from fiscal year 2008. The decrease was due to a decrease in income from investments, a scheduled reduction in interest received from institutions and a decrease in premium and other revenues received from new bond issuances (which is the result of fewer bonds being issued in fiscal year 2009).
- The Authority's loans receivable from institutions at June 30, 2009 of $1,202,111,878 represents a net decrease of $117,180,453 or 8.9% from the balance at June 30, 2008. This decrease is the net result of the bond refundings and issuances described below, and repayment of loans by institutions during fiscal year 2009.
- The Authority's gross bonds outstanding at June 30, 2009 of $1,325,015,000 represents a net decrease of $127,180,000 or 8.8% from the balance at June 30, 2008. This decrease is primarily due to the refunding of $111,610,000 of reserve fund bonds with 2009AB general resolution bonds and the issuance of $41,735,000 in Series 2008D reserve fund bonds, less scheduled bond principal payments and certain other refundings that occurred in 2009 (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 1972 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 and 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 $43,724,513 at June 30, 2009. This represents in increase of $4,046,472 or 10.2% over the previous fiscal year, which is the Authority's 2009 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

	2009	2008	% Change
Current assets:			
Cash and cash equivalents	$ 12,704,752	$ 11,452,198	10.9%
Investments held by trustee, at fair value	34,473,356	39,572,218	(12.9)
Board-designated cash and investments	25,122,442	22,391,725	12.2
Accrued investment income	256,621	531,823	(51.7)
Loans receivable from institutions	49,362,675	39,935,000	23.6
Loan receivable from operating fund	660,000	610,000	8.2
Interest and other receivables from institutions	2,289,438	1,445,446	58.4
Fees and other amounts due from other funds	2,378,251	1,929,593	23.3
Resident accounts receivable, net of allowance of $16,000	426,880	431,789	(1.1)
Other assets	50,097	53,611	(6.6)
Total current assets	127,724,512	118,353,403	7.9
Noncurrent assets:			
Investments held by trustee, at fair value	120,845,109	126,461,125	(4.4)
Loans receivable from institutions	1,152,749,203	1,279,357,331	(9.9)
Loan receivable from operating fund	1,398,013	2,058,013	(32.1)
Notes, advances and other receivables from institutions, net of allowance of $732,000	131,744	110,369	19.4
Assets whose use is limited	966,366	881,713	9.6
Fixed assets, net	2,742,693	3,036,029	(9.7)
Deferred financing costs, net	72,075	92,160	(21.8)
Total noncurrent assets	1,278,905,203	1,411,996,740	(9.4)
Total assets	$ 1,406,629,715	$ 1,530,350,143	(8.1)%
Current liabilities:			
Bonds payable	$ 50,235,000	$ 40,955,000	22.7%
Loan payable to taxable financing reserve fund	660,000	610,000	8.2
Interest payable	26,652,666	27,577,917	(3.4)
Fees and other amounts due to operating fund	2,378,251	1,929,593	23.3
Accounts payable	537,391	1,128,229	(52.4)
Estimated 3rd party payor settlements	1,418,356	1,447,933	(2.0)
Rebate payable to Internal Revenue Service	56,529	295,954	(80.9)
Deferred revenue	2,858,628	1,060,190	169.6
Other liabilities	454,175	368,961	23.1
Total current liabilities	85,250,996	75,373,777	13.1
Noncurrent liabilities:			
Bonds payable	1,274,780,000	1,411,240,000	(9.7)
Loan payable to taxable financing reserve fund	1,398,013	2,058,013	(32.1)
Rebate payable to Internal Revenue Service	1,476,193	2,000,312	(26.2)
Total noncurrent liabilities	1,277,654,206	1,415,298,325	(9.7)
Total liabilities	1,362,905,202	1,490,672,102	(8.6)
Net assets:			
Unrestricted net assets	43,724,513	39,678,041	10.2
Total net assets	43,724,513	39,678,041	10.2
Total liabilities and net assets	$ 1,406,629,715	$ 1,530,350,143	(8.1)%

	2009	2008	% Change
Operating revenues:			
Interest and other amounts from institutions	$55,481,214	$58,000,829	(4.3)%
Interest on loans receivable from operating fund	214,155	254,587	(15.9)
Net resident service revenue	5,333,997	5,120,857	4.2
Administrative and other fees	3,309,779	3,229,985	2.5
Income from investments	6,475,237	8,795,360	(26.4)
Net increase (decrease) in the fair value of investments	120,453	(154,048)	178.2
Interest income from advances and notes receivable from institutions	35,778	45,882	(22.0)
Other income	934,409	3,567,855	(73.8)
Total operating revenues	71,905,022	78,861,307	(8.8)
Operating expenses:			
Bond issuance costs	788,440	3,434,810	(77.0)
Interest expense	60,748,835	63,971,899	(5.0)
Interest expense to taxable financing reserve funds	214,155	254,587	(15.9)
Operating expenses	685,497	720,161	(4.8)
Resident service and other operating expenses	4,304,149	4,430,502	(2.9)
Other expenses	1,117,474	857,662	30.3
Total operating expenses	67,858,550	73,669,621	(7.9)
Operating income	4,046,472	5,191,686	(22.1)
Net assets, beginning of year	39,678,041	34,486,355	15.1
Net assets, end of year	$43,724,513	$39,678,041	10.2%

Cash and cash equivalents at June 30, 2009 increased $1,252,554 or 10.9% from balances at June 30, 2008. This increase was the result of investing fewer funds into long-term investments.

Accrued investment income at June 30, 2009 decreased $275,202 or 51.7% from fiscal year 2008 due to a decrease in the amount invested in long-term guaranteed investment contracts and a decrease in short-term interest rates in 2009.

Interest and other receivables from institutions at June 30, 2009 increased $843,992 or 58.4% from balances at June 30, 2008 primarily due to the timing of transfers from capital interest accounts held by the trustee. Amounts were transferred on July 1, 2009 for the semi annual debt service payment.

Fees and other amounts due from other funds increased $448,658 or 23.3% over fiscal year 2008 due to an increase in arbitrage payments made from the operating fund that will be reimbursed in future years from debt service earnings accounts in the reserve resolution.

Accounts payable at June 30, 2009 decreased $590,838 or 52.4% from June 30, 2008. The decrease was the result of the disbursement of balances to borrowers during fiscal year 2009 that had been accrued in prior years.

Deferred revenue increased $1,798,438 or 169.6% in fiscal year 2009 over fiscal year 2008. The increase is a result of deferring funds received from estimated debt service installments for variable rate bonds. Funds were collected using an estimated rate based on the current market at the time of debt service letters. Funds will be used for future debt service payments.

Rebate payable to the Internal Revenue Service at June 30, 2009 decreased $763,544 or 33.3% from June 30, 2008. This decrease is the result of the net difference between additional accrued rebate payable for fiscal year 2009 and rebate payment to the Internal Revenue Service during fiscal year 2009. This decrease is also due to the downgrading of long-term guaranteed investment contracts providers and the subsequent conversions of the guaranteed investment contracts to short-term money market funds, thus reducing the investment yield.

The net change in the fair value of investments in 2009 was an increase of $120,453 versus a decrease of $154,048 in 2008. The increases experienced during fiscal 2009 are the result of fluctuations in the interest rate environment which resulted in a marginal increase of the market value of investments that were purchased in prior periods when interest rates were higher. 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, guaranteed investment contracts and municipal bonds. 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.

Income from investments for fiscal year 2009 decreased $2,320,123 or 26.4% from fiscal year 2008. This decrease is the result of short term interest rates declining for fiscal year 2009 and also the downgrading of long term guaranteed investment contracts providers and the subsequent conversions of the guaranteed investment contracts to short term money market funds at much lower interest rates.

Other revenue for fiscal year 2009 decreased $2,633,446 or 73.8% from fiscal year 2008. This decrease is the result of fewer new bonds being issued during fiscal year 2009 and therefore less revenue received to pay for costs of issuance. Similarly, the bond issuance costs for fiscal year 2009 have also decreased.

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, 2009

ASSETS

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Current assets:				
Cash and cash equivalents (note 2)	$12,704,752	$ –	$ –	$ 12,704,752
Investments held by trustee, at fair value (note 3)	–	34,070,972	402,384	34,473,356
Board-designated cash and investments, at fair value (note 3)	25,122,442	–	–	25,122,442
Accrued investment income	51,593	201,303	3,725	256,621
Loans receivable from institutions (note 9)	–	48,502,675	860,000	49,362,675
Loan receivable from operating fund (note 10)	–	–	660,000	660,000
Interest and other receivables from institutions	–	2,279,013	10,425	2,289,438
Fees and other amounts due from other funds	2,378,251	–	–	2,378,251
Resident accounts receivable, net of allowance of $16,000	426,880	–	–	426,880
Other assets	50,097	–	–	50,097
Total current assets	40,734,015	85,053,963	1,936,534	127,724,512
Noncurrent assets:				
Investments held by trustee, at fair value (notes 3 and 6)	–	118,542,912	2,302,197	120,845,109
Loans receivable from institutions (note 9)	–	1,149,889,413	2,859,790	1,152,749,203
Loan receivable from operating fund (note 10)	–	–	1,398,013	1,398,013
Notes, advances and other receivables from institutions, net of allowance of $732,000 (note 9)	131,744	–	–	131,744
Assets whose use is limited (note 10)	966,366	–	–	966,366
Fixed assets, net (note 10)	2,742,693	–	–	2,742,693
Deferred financing costs, net	72,075	–	–	72,075
Total noncurrent assets	3,912,878	1,268,432,325	6,560,000	1,278,905,203
Total assets	$44,646,893	$1,353,486,288	$8,496,534	$1,406,629,715

LIABILITIES AND NET ASSETS

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Current liabilities:				
Bonds payable (note 4)	$ –	$ 48,715,000	$1,520,000	$ 50,235,000
Loan payable to taxable financing reserve fund (note 10)	660,000	–	–	660,000
Interest payable	–	26,628,782	23,884	26,652,666
Fees and other amounts due to operating fund	–	2,021,575	356,676	2,378,251
Accounts payable	221,152	306,115	10,124	537,391
Estimated third-party payor settlements (note 10)	1,418,356	–	–	1,418,356
Rebate payable to Internal Revenue Service	–	56,529	–	56,529
Deferred revenue	13,294	2,845,334	–	2,858,628
Other liabilities	454,175	–	–	454,175
Total current liabilities	2,766,977	80,573,335	1,910,684	85,250,996
Noncurrent liabilities:				
Bonds payable (notes 4 and 8)	–	1,268,220,000	6,560,000	1,274,780,000
Loan payable to taxable financing reserve fund (note 10)	1,398,013	–	–	1,398,013
Rebate payable to Internal Revenue Service	–	1,476,193	–	1,476,193
Total noncurrent liabilities	1,398,013	1,269,696,193	6,560,000	1,277,654,206
Total liabilities	4,164,990	1,350,269,528	8,470,684	1,362,905,202
Net assets:				
Unrestricted net assets	40,481,903	3,216,760	25,850	43,724,513
Total net assets	40,481,903	3,216,760	25,850	43,724,513
Total liabilities and net assets	$44,646,893	$1,353,486,288	$8,496,534	$1,406,629,715

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2009

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Operating revenues:				
Interest and other amounts from institutions	$ –	$55,218,898	$262,316	$55,481,214
Interest on loans receivable from operating fund	–	–	214,155	214,155
Net resident service revenue (note 10)	5,333,997	–	–	5,333,997
Administrative and other fees	3,309,779	–	–	3,309,779
Income from investments	1,076,747	5,266,960	131,530	6,475,237
Net increase (decrease) in the fair value of investments	188,403	(67,950)	–	120,453
Interest income from advances and notes receivable from institutions	35,778	–	–	35,778
Other income	145,969	788,440	–	934,409
Total operating revenues	10,090,673	61,206,348	608,001	71,905,022
Operating expenses:				
Bond issuance costs	–	788,440	–	788,440
Interest expense	–	60,164,598	584,237	60,748,835
Interest expense to taxable financing reserve fund	214,155	–	–	214,155
Operating expenses (note 7)	685,497	–	–	685,497
Resident service and other operating expenses (note 10)	4,304,149	–	–	4,304,149
Other expenses	–	1,090,999	26,475	1,117,474
Total operating expenses	5,203,801	62,044,037	610,712	67,858,550
Operating income (loss) before operating transfers	4,886,872	(837,689)	(2,711)	4,046,472
Operating transfers	(241,979)	241,034	945	–
Operating income (loss)	4,644,893	(596,655)	(1,766)	4,046,472
Net assets, beginning of year	35,837,010	3,813,415	27,616	39,678,041
Net assets, end of year	$40,481,903	$ 3,216,760	$ 25,850	$43,724,513

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2009

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Operating activities:				
Cash received from institutions	$ 3,309,779	$ 94,690,012	$ 1,075,230	$ 99,075,021
Cash received from operating fund	–	–	824,155	824,155
Cash payments to institutions	–	(23,764,042)	–	(23,764,042)
Cash received from patients	5,311,309	–	–	5,311,309
Cash received from other income	145,969	–	–	145,969
Cash payments for operating expenses	(4,540,524)	(1,683,099)	(122,914)	(6,346,537)
Cash (paid to) received from other funds	(690,637)	609,689	80,948	–
Cash received from other assets and liabilities	87,514	–	–	87,514
Net cash provided by operating activities	3,623,410	69,852,560	1,857,419	75,333,389
Noncapital financing activities:				
Proceeds from bonds payable	–	42,523,440	–	42,523,440
Other proceeds from institutions	–	141,107	–	141,107
Principal paid on bonds payable	–	(39,790,000)	(1,420,000)	(41,210,000)
Interest paid on bonds payable	–	(60,952,974)	(721,112)	(61,674,086)
Paid to refunding escrows	–	(16,236,107)	–	(16,236,107)
Transfers to General Resolution	–	(9,997,067)	–	(9,997,067)
Principal paid on loans payable to taxable financing reserve fund	(610,000)	–	–	(610,000)
Interest paid on loan payable to taxable financing reserve fund	(214,155)	–	–	(214,155)
Issuance costs paid	–	(788,440)	–	(788,440)
Net cash used by noncapital financing activities	(824,155)	(85,100,041)	(2,141,112)	(88,065,308)
Investing activities:				
Purchase of investment securities	(16,757,274)	(653,926,083)	(5,987,647)	(676,671,004)
Proceeds from sale and maturities of investment securities	14,214,960	664,421,964	6,138,694	684,775,618
Income received from investments and advances	1,138,427	5,354,309	132,646	6,625,382
Interest rebate paid to U.S. Government	–	(602,709)	–	(602,709)
Additions to equipment	(35,270)	–	–	(35,270)
Change in assets whose use is limited	(86,169)	–	–	(86,169)
Net decrease in notes, advances and other receivable from institutions	(21,375)	–	–	(21,375)
Net cash (used) provided by investing activities	(1,546,701)	15,247,481	283,693	13,984,473
Increase in cash and cash equivalents	1,252,554	–	–	1,252,554
Cash and cash equivalents, beginning of year	11,452,198	–	–	11,452,198
Cash and cash equivalents, end of year	$ 12,704,752	$ –	$ –	$ 12,704,752

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS
(CONTINUED)

For the Year Ended June 30, 2009

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 4,644,893	$ (596,655)	$ (1,766)	$ 4,046,472
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Investment and interest income	(1,112,525)	(5,266,960)	(131,530)	(6,511,015)
Net (increase) decrease in the fair value of investments	(188,403)	67,950	–	(120,453)
Depreciation and amortization	348,585	–	–	348,585
Loss on disposal of equipment	106	–	–	106
Interest expense on bonds payable	–	60,164,598	584,237	60,748,835
Interest expense on loan payable to taxable financing reserve fund	214,155	–	–	214,155
Change in assets and liabilities:				
Loans receivable from institutions	–	14,757,520	810,000	15,567,520
Loan receivable from operating fund	–	–	610,000	610,000
Net resident accounts receivable	4,909	–	–	4,909
Accrued interest and other receivables from institutions	–	(846,906)	2,914	(843,992)
Due to/from other funds	(448,658)	368,655	80,003	–
Other assets	3,514	–	–	3,514
Estimated third-party payor settlements	(29,577)	–	–	(29,577)
Accounts payable and other liabilities	184,431	(592,100)	(96,439)	(504,108)
Deferred revenue	1,980	1,796,458	–	1,798,438
Net cash provided by operating activities	$ 3,623,410	$ 69,852,560	$ 1,857,419	$ 75,333,389

Summary of noncash transactions:

Loans receivable from institutions and bonds payable in the reserve fund resolution were reduced by $101,612,933 and $111,610,000, respectively, as part of a 2009 general resolution refunding.

See accompanying notes.

1. Organization

Maine Health and Higher Educational Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) 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 three 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 GASB Statement 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 GASB 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, 2009 consist of approximately $540,500 insured and $949,100 noninsured deposits with banks, and $11,215,200 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. 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.

All other interfund transactions are reported as operating transfers.

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 Internal Revenue Service (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)

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, 2009, investments are categorized as follows:

	Fair Value
Consolidated Operating Fund	
Board-designated investments:	
U.S. Government-sponsored enterprises bonds and notes	$ 25,122,442
	$ 25,122,442
Reserve Fund	
Investments held by trustee:	
Guaranteed investment contracts	$ 70,390,452
Municipal bonds	7,880,345
Cash and cash equivalents	74,343,087
	$152,613,884
Taxable Financing Reserve Fund	
Investments held by trustee:	
Guaranteed investment contracts	$ 1,985,049
Cash and cash equivalents	719,532
	$ 2,704,581

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-sponsored enterprises and municipal bonds as of June 30, 2009:

	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 bonds and notes (FHLB, FNMA, etc.)	$25,122,442	$10,275,425	$14,847,017	$ –	$ –
Reserve Fund					
Guaranteed investment contracts	$70,390,452	$ –	$ –	$ –	$70,390,452
Municipal bonds	7,880,345	–	–	–	7,880,345
	$78,270,797	$ –	$ –	$ –	$78,270,797
Taxable Financing Reserve Fund					
Guaranteed investment contracts	$ 1,985,049	$ –	$ 1,985,049	$ –	$ –

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, 2009.

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, U.S. Government-sponsored enterprises and municipal bonds, as rated by rating agencies such as Moody's Investor Service or Standard and Poor's, or guaranteed investment contracts backed by high credit quality banks and insurance companies (AA-rated or better).

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, 2009, 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	$50,101,881
Transamerica Life Insurance Company	AA-	11,438,906
Morgan Stanley Flexible Agreements	AA	3,840,288
Total		$65,381,075
Taxable Financing Reserve Fund:		
Guaranteed Investment Contracts Provided By:		
Transamerica Life Insurance Company	AA-	$ 1,547,449
Protective Life Insurance Company	AA-	437,600
Total		$ 1,985,049

During 2009, certain guaranteed investment contract providers experienced credit downgrades. As a result, the Authority exercised provisions in the various contracts and received a return of par as follows: $9,567,800 from AIG; $14,705,700 from MBIA; $15,334,000 from AMBAC; and $7,498,600 from Transamerica. Upon liquidation, monies were invested in cash and cash equivalents and municipal bonds. Management of the Authority continues to search for additional investment opportunities to move remaining monies out of cash and cash equivalents into higher yielding investments.

All municipal bonds within the reserve fund are Standard & Poor's AA rated as of June 30, 2009.

Trustee held cash and cash equivalents at June 30, 2009 consist primarily of short-term money market funds invested exclusively in U.S. Treasury obligations.

4. Bonds Payable

Total Reserve Fund bonds payable consist of the following at June 30, 2009:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2009
Reserve Fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	$ 44,850,000	$ 1,040,000
Series 1993D, 2.6% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	1,760,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2009
Reserve Fund (continued):			
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	$ 18,380,000	$ 7,670,000
Series 1995A, 4.4% – 5.878%, dated April 1, 1995	1996 – 2025	33,285,000	690,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	680,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	170,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	1,415,000
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	8,310,000	6,775,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	29,090,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	35,495,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	68,665,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	19,570,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	71,090,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	2,990,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	8,890,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	53,650,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	8,020,000
Series 2001C, 3.25% – 5.125%, dated May 15, 2001	2002 – 2031	27,565,000	8,210,000
Series 2001D, 3.0% – 5.0%, dated November 1, 2001	2002 – 2031	50,700,000	39,205,000
Series 2002A, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	43,155,000
Series 2002B, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	8,175,000	7,545,000
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	63,080,000	56,535,000
Series 2003B, 2.0% – 5.0%, dated July 1, 2003	2004 – 2033	59,245,000	18,900,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2009
Reserve Fund (continued):			
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	$ 7,050,000	$ 6,135,000
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	35,880,000	27,245,000
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	72,315,000	58,800,000
Series 2004B, 3.00% – 5.00%, dated December 9, 2004	2006 – 2034	42,265,000	38,760,000
Series 2005A, 3.0% – 5.0%, dated August 17, 2005	2006 – 2035	48,325,000	17,880,000
Series 2005B, 3.5% – 5.0%, dated December 29, 2005	2006 – 2030	28,325,000	25,275,000
Series 2006A, 3.5% – 5.0%, dated February 2, 2006	2006 – 2035	51,855,000	46,845,000
Series 2006B, 3.5% – 5.0%, dated April 6, 2006	2007 – 2036	56,795,000	47,090,000
Series 2006F, 4.0% – 5.0%, dated September 7, 2006	2007 – 2036	89,125,000	87,960,000
Series 2006G, variable rate, dated September 7, 2006	2008 – 2036	14,200,000	14,025,000
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	93,015,000
Series 2007B, 4.0% – 5.0%, dated November 1, 2007	2008 – 2037	70,470,000	69,970,000
Series 2008A, variable rate, dated May 22, 2008	2008 – 2036	107,180,000	107,075,000
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
Series 2008D, 3.0% – 5.75%, dated December 3, 2008	2009 – 2038	41,735,000	41,735,000
		$1,982,420,000	1,316,935,000
Current portion			48,715,000
Noncurrent portion			$1,268,220,000

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
2010	$ 48,715,000	$ 52,953,103	$ 101,668,103
2011	51,185,000	51,004,562	102,189,562
2012	53,855,000	49,062,185	102,917,185
2013	57,215,000	46,980,298	104,195,298
2014	57,805,000	44,798,630	102,603,630
2015 – 2019	286,860,000	188,977,663	475,837,663
2020 – 2024	272,955,000	127,923,218	400,878,218
2025 – 2029	230,445,000	73,190,302	303,635,302
2030 – 2034	170,640,000	29,634,011	200,274,011
2035 – 2039	87,260,000	6,002,418	93,262,418
Total	$1,316,935,000	$ 670,526,390	$1,987,461,390

On July 10, 2008, the Authority converted the 2006H revenue bonds from a variable rate, seven day auction to a weekly rate determined by Wachovia Bank, the remarketing agent. The balance of the bonds outstanding at July 10, 2008 was $68,400,000.

On July 16, 2008, the Authority converted the 2006G revenue bonds from a variable rate bond to a fixed rate issue with an average rate of 4.87%. The balance of bonds outstanding at July 16, 2008 was $14,025,000.

Taxable Financing Reserve fund bonds payable consist of the following at June 30, 2009:

	Original Maturity	Original Amount Issued	Outstanding June 30, 2009
Taxable Financing Reserve Fund:			
Series 1993A, variable interest rate, dated January 1, 1993	1993 – 2012	$57,125,000	$5,030,000
Series 1993B, variable interest rate, dated October 27, 1993	1994 – 2013	25,060,000	1,175,000
Series 1996A, variable interest rate, dated February 22, 1996	1996 – 2016	16,440,000	1,875,000
		$98,625,000	8,080,000
Current portion			1,520,000
Noncurrent portion			$6,560,000

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
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	495,000	75,410	570,410
2015 – 2017	825,000	89,808	914,808
	$8,080,000	$1,561,830	$9,641,830

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2009:

	Reserve Fund	Taxable Financing Reserve Fund
Balance, beginning of year	$1,442,695,000	$9,500,000
Issuances, at par	41,735,000	–
Redemptions:		
Principal payments	39,790,000	1,420,000
Bonds refunded (note 8)	127,705,000	–
Balance, end of year	$1,316,935,000	$8,080,000

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 .37% to .45% at June 30, 2009. Within the Taxable Financing Reserve Funds, variable interest rates are set at LIBOR + .40%, which approximates .72% at June 30, 2009.

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, 2009:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2009
General Resolution:			
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	$ 11,885,000	$ 1,060,000
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	380,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	5,000
Mid Coast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2006 – 2043	8,830,000	8,435,000
Bowdoin College, Series 2008, variable rate, dated March 24, 2008	2032 – 2037	20,700,000	20,700,000
Bowdoin College, Series 2009A, 5% – 5.125%, dated May 14, 2009	2035 – 2039	98,750,000	98,750,000
Bowdoin College, Series 2009B, 6.667%, dated May 14, 2009	2035 – 2039	19,750,000	19,750,000
		$161,530,000	$149,080,000

The following is a summary of conduit debt activity for the year ended June 30, 2009:

Bonds outstanding as of June 30, 2008	$ 49,879,950
Plus: Bonds issued during fiscal 2009 (see also note 8)	118,500,000
Less: Redemptions during fiscal 2009	19,299,950
Bonds outstanding as of June 30, 2009	$149,080,000

At June 30, 2009, there were approximately $13,645,000 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, 2009, the required debt service reserve was approximately $105,272,000 and the fair value of the debt service reserve assets totaled approximately $118,543,000.

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, 2009, the required debt service reserve was approximately $2,101,000 and the fair value of the debt service reserve assets totaled approximately $2,302,000.

7. Operating Expenses

The Authority has a management agreement with 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 $479,000 of expense under this agreement in 2009.

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 December 3, 2008, the authority issued $41,735,000 in 2008D reserve fund resolution revenue bonds with an average interest rate of 5.38%, a portion of which (par of $15,895,000) was used to in-substance defease $16,095,000 of outstanding resolution maturities within the 2000A and 2000B bond series. The net proceeds of approximately $16,236,000, 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 14, 2009, the Authority issued Series 2009A general resolution tax-exempt bonds in the amount of $98,750,000 and Series 2009B general resolution taxable bonds in the amount of $19,750,000, with a combined average interest rate of 5.29%. A portion of the bonds were used to in-substance defease $111,610,000 of outstanding reserve fund resolution maturities within the 1995B, 1998A, 1998C, 2001C, 2003B, 2005A and 2006B reserve bond series. The net proceeds of approximately $123,647,000, including other sources of funds (including $9,997,067 paid from the reserve fund resolution) and after payments 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, 2009, there were approximately $113,990,000 of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues within the reserve fund resolution.

9. Nursing Home Loans and Advances

In 1994, the Maine Department of Health and Human Services (DHHS) 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 $116,000 from its operating fund to an institution with outstanding loans owed to the Authority of approximately $530,000 within the taxable financing reserve fund resolution, and has loaned from its operating fund approximately $426,000 to an institution with outstanding loans owed to the Authority of approximately $9,132,000 within the reserve fund resolution at June 30, 2009. 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 2009. The Authority also has approximately $322,000 of other receivables outstanding within the operating fund at June 30, 2009, primarily related to amounts due from institutions to reimburse the Authority for arbitrage and other payments made on their behalf.

At June 30, 2009, the Authority has established a $732,000 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.

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

In 2000, management completed the process of restructuring the Center so that it now qualifies as a nonprofit entity under IRS Code Section 501(c)(3).

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, 2009. A summary follows:

Principal and interest debt service accounts, and replacement reserve fund	$929,959
Resident funds	36,407
Total assets whose use is limited	$966,366

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 97% of the residents served in 2009 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 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 2007, plus a filed settlement for 2008 and an estimate for 2009. 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.

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

Following is a summary of net resident service revenue for the year ended June 30, 2009:

Gross resident service revenue	$ 8,571,073
Contractual adjustments under third-party reimbursement programs	(3,237,076)
Net resident service revenue	$ 5,333,997

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 $248,000 of State tax in 2009. 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:

	2008	Additions	Deductions	2009
Land	$ 302,291	$ –	$ –	$ 302,291
Building and improvements	7,381,330	13,253	–	7,394,583
Furniture, fixtures and equipment	1,189,185	22,017	(2,985)	1,208,217
Vehicles	4,790	–	–	4,790
	8,877,596	35,270	(2,985)	8,909,881
Less accumulated depreciation	(5,841,567)	(328,500)	2,879	(6,167,188)
Fixed assets, net	$ 3,036,029	$(293,230)	$ (106)	$ 2,742,693

Loan Payable to Taxable Financing Reserve Fund

Loan payable to the taxable financing reserve fund of $2,058,013 at June 30, 2009 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.

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

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

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 2009. 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, 2009 were approximately $266,800.

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 $4,500 to the plan for the year ended June 30, 2009.

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, 2009, 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, 2009, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

Subsequent Sale

On September 30, 2009, the Authority sold all of the assets of Portland Center for Assisted Living to PCAL Devonshire Associates, LLC. The transaction is in the process of being finalized as of the date of this report. The Authority expects a gain in excess of $1 million to be recorded in 2010.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2009

ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living	Eliminations	Consolidated Operating Fund
Current assets:				
Cash and cash equivalents	$11,401,459	$ 1,303,293	$ –	$12,704,752
Board-designated cash and investments, at fair value	25,122,442	–	–	25,122,442
Accrued investment income	51,593	–	–	51,593
Fees and other amounts due from other funds	2,378,251	–	–	2,378,251
Resident accounts receivable, net of allowance of $16,000	–	426,880	–	426,880
Other assets	–	50,097	–	50,097
Total current assets	38,953,745	1,780,270	–	40,734,015
Noncurrent assets:				
Notes, advances and other receivables from institutions, net of allowance of $732,000	9,330,058	–	(9,198,314)	131,744
Assets whose use is limited	–	966,366	–	966,366
Fixed assets, net	–	2,742,693	–	2,742,693
Deferred financing costs, net	–	72,075	–	72,075
Total noncurrent assets	9,330,058	3,781,134	(9,198,314)	3,912,878
Total assets	$48,283,803	$ 5,561,404	$(9,198,314)	$44,646,893

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	$ –	$ 660,000	$ –	$ 660,000
Accounts payable	42,679	178,473	–	221,152
Estimated third-party payor settlements	–	1,418,356	–	1,418,356
Accrued payroll and other expenses	–	133,768	–	133,768
Resident funds held in trust	–	36,407	–	36,407
Deferred revenue	–	13,294	–	13,294
Other liabilities	284,000	–	–	284,000
Total current liabilities	326,679	2,440,298	–	2,766,977
Noncurrent liabilities:				
Loan payable to taxable financing reserve fund	–	1,398,013	–	1,398,013
Advances and accrued interest due to Authority's operating fund	–	9,198,314	(9,198,314)	–
Total noncurrent liabilities	–	10,596,327	(9,198,314)	1,398,013
Total liabilities	326,679	13,036,625	(9,198,314)	4,164,990
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	–	200	(200)	–
Net assets (deficit)	47,957,124	(7,475,421)	200	40,481,903
Total net assets (deficit)	47,957,124	(7,475,221)	–	40,481,903
Total liabilities and net assets (deficit)	$48,283,803	$ 5,561,404	$(9,198,314)	$44,646,893

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2009

	Authority's Operating Fund	Portland Center For Assisted Living	Eliminations	Consolidated Operating Fund
Operating revenues:				
Net resident service revenue	$ –	$ 5,333,997	$ –	$ 5,333,997
Administrative and other fees	3,309,779	–	–	3,309,779
Investment income	1,076,747	–	–	1,076,747
Net increase in the fair value of investments	188,403	–	–	188,403
Interest income from advances and notes receivable from institutions	921,704	–	(885,926)	35,778
Other income	144,069	1,900	–	145,969
	5,640,702	5,335,897	(885,926)	10,090,673
Operating expenses:				
Salaries	322,608	–	–	322,608
Employee benefits	92,246	–	–	92,246
Travel	8,014	–	–	8,014
Office expenses	96,703	–	–	96,703
Accounting and auditing	71,500	–	–	71,500
Legal	42,083	–	–	42,083
Telephone	4,844	–	–	4,844
Building lease	47,499	–	–	47,499
Nursing services	–	1,521,660	–	1,521,660
Administrative services	–	523,978	–	523,978
PNMI Service Provider Tax	–	247,702	–	247,702
Dietary services	–	746,210	–	746,210
Depreciation and amortization	–	348,585	–	348,585
Plant operations and maintenance	–	355,142	–	355,142
Housekeeping services	–	141,362	–	141,362
Other services	–	412,821	–	412,821
Other expense	–	6,583	–	6,583
Loss on disposal of equipment	–	106	–	106
Interest expense	–	1,100,081	(885,926)	214,155
	685,497	5,404,230	(885,926)	5,203,801
Operating income (loss) before operating transfers	4,955,205	(68,333)	–	4,886,872
Operating transfers	(241,979)	–	–	(241,979)
Operating income (loss)	4,713,226	(68,333)	–	4,644,893
Net assets (deficit) at beginning of year	43,243,898	(7,407,088)	200	35,837,010
Net assets (deficit) at end of year	$47,957,124	$(7,475,421)	$ 200	$40,481,903

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2009

	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	$ (67,858,550)	$ 65,163,363	$ 5,330,540	$ –	$ –	$ 2,635,353
Total	$ (67,858,550)	$ 65,163,363	$ 5,330,540	$ –	$ –	2,635,353
General revenues:						
Unrestricted interest and investment earnings						1,265,150
Non program specific grants, contributions and appropriations						–
Miscellaneous income						145,969
Loss on assets held for sale						–
Extraordinary item						–
Total general revenues and extraordinary items						1,411,119
Changes in net assets						4,046,472
Net assets, beginning of year						39,678,041
Net assets, end of year						$ 43,724,513