Maine
HHEFA
MAINE HEALTH AND HIGHER
EDUCATIONAL FACILITIES AUTHORITY

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September 2011

TO: Senator Brian D. Langley, Senate Chair
Representative David E. Richardson, House Chair
Committee on Education and Cultural Affairs

FROM: Robert O. Lenna, Executive Director

RE: Governmental Evaluation Act review

Enclosed please find reports, audits, and other material in response to the Committee's request for information and a self-evaluation from the Maine Health and Higher Educational Facilities Authority for the Committee's review of the Authority pursuant to the Governmental Evaluation Act. The material in this memo is directed toward providing information concerning the items in the program evaluation report or to supplement the information in the enclosed documents that have been submitted as part of the program evaluation report. If there is further information that the Authority can provide the Committee or questions to which we might respond please let me know. The Authority is very happy to have the opportunity to discuss with the Legislature what it believes to be one of the most effective, if not the most effective, program for providing financing for capital projects to non-profit education and health care providers in the country.

1. Enabling Legislation: Enclosed are twenty copies of the Authority's enabling legislation first adopted in 1971 and its subsequent amendments as found in MRSA, Title 22, Chapter 413, Sections 2051 ET. Seq.

2. Program Description: Under the US internal revenue service tax code, non-profit institutions, including educational institutions or health care providers, have the authority to issue debt the interest payments on which are exempt from taxation under the federal income tax – so-called tax exempt bonds. Further, under the terms of the federal tax code, while these institutions may be the beneficiaries of tax exempt debt in order for them to actually sell tax exempt bonds they must use a governmental entity as the issuer of their debt – a so-called conduit borrower. Every state in the nation has some type of Authority or instrumentality of the state to provide to its state's non-profit institutions an issuer for their tax-exempt debt as is called for under the federal tax code. Maine, in 1971, created the Maine Health and Higher Educational Facilities Authority to accomplish this task on behalf of its non-profit health care and education providers.

The goal of the Authority is to provide to Maine's non-profit education and health care providers the most cost effective issuance of tax-exempt debt and the lowest interest rate on that debt available in the national credit markets. The Authority believes, and independent analysis seems to validate that belief, that it has created a program for the issuance of tax exempt bonds for all its eligible borrowers, from the largest to the smallest, which is second to none in the country. For example, the Authority has obtained an AA credit rating from Fitch Investor's Services and an A1 rating from Moody's credit rating service (reports enclosed). These credit ratings mean that for all our borrowers we enter the national credit markets with a strong investment grade credit rating which in turn results in lower interest rates on our bonds. These savings are passed on to our borrowers.

Perhaps the greatest challenge to providing affordable capital to all of the Authority's eligible borrowers is the range of size and credit quality of such institutions in a large, rural state with a small population. Generally speaking the national tax-exempt bond market looks upon any bond sale of less than $10M, and for some institutional buyers less than $25M, as a small bond sale. Also speaking generally the interest rate available for a small bond sale is higher than the rate on a larger bond sale and the costs of issuance associated with a small sale of the bonds is no less than those for a large sale and in some instances are higher. To address these concerns, in cooperation with the Legislature, the Authority has put in place several program elements which reduce costs for its eligible borrowers and create a strong portfolio of loans for the Authority that translate to lower interest rate costs on Authority bonds.

One of the program elements the Authority has put in place is to issue bonds for several institutions at the same time, in so-called pools, rather than attempting to sell individual bond sales for every borrower. This pooled finance model allows institutions to share the fixed costs associated with any sale of tax-exempt debt thus reducing their costs of issuance. The pooled model has been augmented by the Authority's use of standardized documents for its pooled financing bond sales. Standardized documents not only help control legal costs for the bond sale but also allow potential purchasers of our bonds to become comfortable with the legal standards we have established for our bonds and loan contracts with our borrowers thus making it much easier for buyers to know what they are purchasing, which increases the market's appetite for our bonds.

In addition to the pooling mechanism, the Legislature in 1991 authorized the Authority to use a Capital Reserve Fund, or moral obligation debt, model for its bonds. In this model, each time the Authority markets a bond sale it sells a sufficient number of bonds to fund both the loans it makes to its eligible borrowers and a reserve fund equal to the highest one full year of principle and interest due annually over the life of the bonds. The money in the reserve fund may only be used to pay off the bonds associated with the reserve fund or to make payments on behalf of a borrower who has failed to make a loan payment. The statute provides that each year the Authority must determine that there is an amount of money in the reserve fund equal to or higher than the highest remaining full year of debt service on the outstanding bonds. If the reserve fund falls below this minimum amount then the Authority sends a request to the Governor to submit legislation to appropriate an amount of money sufficient to bring the debt service reserve back up to the minimum amount. For example, if there is supposed to be $85M in the reserve fund and the determination is made that there is only $84.9M in the fund, then the Authority would request that $100,000 be appropriated for deposit to the reserve fund. There is no statutory or constitutional requirement that the Legislature appropriates the money and the Maine Law Court has found that these bonds do not constitute a full faith and credit pledge of the State of Maine. Since the Authority's adoption of its tax-exempt Capital Reserve Fund Bond Resolution it has never made a request to the Governor for such legislation, has never used money from the reserve fund to pay debt service and has never had the amount of money in the reserve fund go below the statutorily required minimum amount.

Another element of the Authority's pooled borrower program is a statutory provision that authorizes the Authority to intercept any borrower funds held by the State if a borrower fails to make its required debt service payments. This so call state intercept provision provides another layer of credit strength to the pooled borrower program.

The combination of program elements such as pooling, standardization of documents, the state intercept and the Capital Reserve Fund, among others, has made the Maine program for capital financing for our non-profit educational providers and health care institutions arguably the lowest cost, most accessible such program in the country. The savings achieved through the program translate directly to lower costs for debt service for our borrowers, and in the case of our health care borrowers, lower costs for Medicaid reimbursements from the state. For our smaller and more rural institutions it means that they obtain capital in a national credit market that might well simply shut them out if they attempted to sell on their own credit or at the least would charge them interest rates as much as two to four percent higher for an equivalent term than they can obtain with the Authority's program. The pooled borrowing program has been under review by the Office of the Governor since February 2011 so the Authority has been unable to sell any new money tax exempt bonds using the pooled bond sale model in 2011. It has continued to sell so-called conduit bonds on behalf of individual eligible borrowers.

The Authority is involved in two other programs to provide service to our eligible borrowers. In 1991, the Legislature made proprietary (for profit) health care providers eligible borrowers through the Authority. The goal for this program was to stabilize loan payments for nursing care facilities that are reimbursed through the state Medicaid program and possibly to lower interest rates. The program was successful in achieving both goals but ongoing programmatic and financial chaos in the national and local delivery of nursing care made such loans extremely difficult if not impossible to review for credit worthiness. The Authority has made no more loans to for profit nursing homes under its taxable bond resolution since 1996 and anticipates no future loans under the program. The Authority has worked with its loan recipients in the program to reduce its portfolio of loans to proprietary nursing care facilities from over $108M to $1.1M.

In 1997, the Legislature authorized the Authority to provide its eligible borrowers a program to help them reduce operating costs through the bulk purchase of commodities such as electricity and fuel oil. Today, in a program operated jointly with the Maine Municipal Bond Bank, Maine Power Options aggregates electricity and organizes bulk purchase of petroleum products for any of our eligible borrowers who decide to become members of Maine Power Options and participate in its programs. Membership and participation in Maine Power Options is entirely voluntary. To date just under one hundred of the Authority's eligible institutions have decided to become members of Maine Power Options. (Membership list enclosed)

2. Organizational structure: The Authority is a beneficiary of a joint administrative group that is the result of a cooperative venture among the Maine Municipal Bond Bank, the Maine

Governmental Facilities Authority, the Maine Public Utility Finance Bank and the Maine Health and Higher Educational Facilities Authority. One person serves as the Executive Director of each of these separate entities while a joint staff of seventeen people provides administrative services. On a full time equivalent basis (FTE) the Authority under its current budget has 5.7 FTEs. It has three employees who derive more than eighty five percent of their salary from the Authority: the Senior Program Officer, Program Assistant, and an Accounting Administrator. The balance of the FTE count comes from the Executive Director, computer services, receptionist and similar shared activities. The Authority receives no funds from the state for its costs of operation or salaries. It is funded through fees charged to borrowers and investment earnings. Authority employees are members of a Participating Local District of the Maine State Retirement System through the Maine Municipal Bond Bank.

3. Compliance with health and safety laws: The Authority requires through its loan agreements with its borrowers that they must comply with all applicable federal, state and local laws, including those covering health and safety during construction and after occupancy. These compliance requirements include ADA and OSHA. The Authority's offices are in compliance with current ADA and OSHA workplace standards.

4. Ten year financial history: Under the terms of its bond resolutions the Authority is required to have independent financial audits undertaken each year. Enclosed are copies of those audits for the last ten years, including the most recent audit completed by our independent auditors for the fiscal year ended June 30, 2010. All of the Authority's annual financial audits have received a clean audit opinion from its independent financial auditor. The June 30, 2011 audit will be completed by October 2011 and will be forwarded to Committee members as soon as it is available.

5. Regulatory agenda and rules. The Authority has no rules pending on the regulatory agenda and has not adopted any rules under the Administrative Procedures Act. Specific loan requirements for Authority borrowers such as borrower eligibility and authorized project activity are specified in the Authority's enabling statute.

6. Coordination: The Authority has established a strong working relationship with the Department of Human Services as it pursues its health care financing services. The Authority enabling statute requires that it cannot finance a project if it is subject to the Maine Certificate of Need Act and has not received CON approval from DHS. In addition, the Authority is required to obtain from DHS for each of its bond sales involving health care borrowers a letter acknowledging that it understands that such a financing is being undertaken and that the activity to be financed is within the scope of the current state health plan. In addition the Commissioner of DHS is an ex-officio member of the Authority's Board of Commissioners, as are the Commissioner of the Department of Education, the Superintendent of Banks, and the State Treasurer.

   Under federal law the Authority is required to obtain the specific approval of the Governor for each project for which it issues tax exempt bonds. The so-called federal TEFRA requirement says that an issuer of tax exempt bonds on behalf of non-profit institutions must obtain the approval of the senior elected official in the jurisdiction of the issuer prior to the sale of the bonds. In the Authority's case, as its jurisdiction is state wide, the senior elected official in the issuer's jurisdiction is the Governor of the State. Prior to each new money bond sale by the Authority it must advertise and then hold a public hearing to solicit comments on any project that it proposes to finance with the proceeds of its tax-exempt bonds. Subsequently it must report any information obtained at such a hearing to and then receive a letter from the Governor approving the sale of tax-exempt bonds for each project to be funded with the proceeds of that bond sale.

7. The constituencies served by the Authority are specifically defined in its enabling legislation. The legislative definition is in several parts but essentially our constituencies are licensed health care facilities and institutions providing educational services, which include institutions of higher education across the state as well as secondary schools and other non-profit cultural and library institutions which operate a significant educational program as part of their institution.

8. The Authority makes extensive use of the private sector in the delivery of its services. All of its legal, banking, banking trustee, auditing, printing and bond underwriting services are provided by the private sector. This extensive use of the private sector for the accomplishment of many of its program and bond issuance responsibilities, along with its shared services with other entities as mentioned previously, has allowed the Authority to successfully operate and carry out its responsibilities with the small staff it has. There are very few if any remaining elements of the Authority's activities that given the restrictions of the federal tax code can be carried out through other delivery mechanisms or private sector providers.

9. Emerging issues: Federal tax code standards and regulations that impact the Authority change, unfortunately, on a regular basis but the most immediate potential issue for the Authority is in the area of the continuing availability tax exempt bonds for our eligible borrowers. Several members of Congress as well as the Executive Branch have raised the issue of the removal or limitation of the tax exemption on bonds sold by state and local governments as well as by non-profit corporations as an avenue to pursue in the efforts to reduce costs for the federal government. Any such change would have a very large impact on not only the Authority's eligible borrowers but on costs for Maine government as a whole.

10. The Authority is not aware of any other information that has been requested by the Committee at this time.

Enclosures:
Copy of Enabling Act
Moody's Rating Service Report
Fitch Rating Report
List of Authority Borrowers
Maine Power Options MHHEFA membership
2000-2010Annual Reports
Official Statement Series 2010 B&C Bond Issue

Maine Revised Statute Title 22, Chapter 413:
HEALTH FACILITIES AUTHORITY

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22 §2051. TITLE

This chapter shall be known as, and may be cited as, the "Maine Health and Higher Educational Facilities Authority Act." [1979, c. 680, §1 (AMD).]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1979, c. 680, §1 (AMD).

22 §2052. DECLARATION OF NECESSITY

It is declared that for the benefit of the people of the State, the increase of their commerce, welfare and prosperity and the improvement of their health and living conditions, it is essential that health care facilities within the State be provided with appropriate additional means to expand, enlarge and establish health care facilities and other related facilities; that this and future generations of students be given the fullest opportunity to learn and to develop their intellectual capacities; and that it is the purpose of this chapter to provide a measure of assistance and an alternative method to enable health care facilities , institutions for higher education and nonprofit institutions providing an educational program in the State to provide the facilities and structures needed to accomplish the purposes of this chapter, all to the public benefit and good, and the exercise of the powers, to the extent and manner provided in this chapter, is declared the exercise of an essential governmental function. [2007, c. 354, §1 (AMD).]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1973, c. 713, §1 (AMD). 1979, c. 680, §2 (AMD). 1991, c. 50, §§1-5 (AMD). 1993, c. 390, §1 (AMD). 2007, c. 354, §1 (AMD).

22 §2053. DEFINITIONS

As used in this chapter, the following words and terms shall have the following meanings unless the context indicates another or different meaning or intent. [1971, c. 303, §1 (NEW).]

1. Authority. "Authority" means the Maine Health and Higher Educational Facilities Authority created and established as a public body corporate and politic of the State of Maine by section 2054 or any board, body, commission, department or officer succeeding to the principal functions thereof or to whom the powers conferred upon the authority by this chapter shall be given by law.

[1979, c. 680, §3 (AMD) .]

2. Bonds and notes. "Bonds" and "notes" mean bonds and notes of the authority issued under this chapter, including refunding bonds, notwithstanding that the same may be secured by mortgage or the full faith and credit of the authority or the full faith and credit of a participating health care facility , a participating institution for higher education or a participating institution providing an educational program, or any other lawfully pledged security of a participating health care facility , a participating institution for higher education or a participating institution providing an educational program.

[2007, c. 354, §2 (AMD) .]

2-A. Community health or social service facility. "Community health or social service facility" means a community-based facility that provides medical or medically related diagnostic or therapeutic services, mental health or mental retardation services, substance abuse services or family counseling and domestic abuse intervention services, and is licensed by the State.

[1995, c. 179, §1 (RPR) .]

2-B. Community health center. "Community health center" means an incorporated nonprofit health facility that provides comprehensive primary health care to citizens in a community.

[1993, c. 390, §4 (NEW) .]

2-C. Congregate housing facility.

[1995, c. 670, Pt. C, §1 (RP); 1995, c. 670, Pt. D, §5 (AFF) .]

3. Cost. "Cost" as applied to a project or any portion thereof financed under this chapter shall mean the cost of construction, building, acquisition, equipping, alteration, enlargement, reconstruction and remodeling of a project and acquisition of all lands, structures, real or personal property, rights, rights-of-way, franchises, easements and interest acquired, necessary, used for or useful for or in connection with a project and all other undertakings which the authority deems reasonable or necessary for the development of a project, including but not limited to the cost of demolishing or removing any building or structures on land so acquired, the cost of acquiring any lands to which such building or structures may be moved, the cost of all machinery and equipment, financing charges, interest prior to and during construction, and if judged advisable by the authority, for a period after completion of such construction, the cost of financing the project, including interest on bonds and notes issued by the authority to finance the project; provisions for working capital; reserves for principal and interest and for extensions, enlargements, additions and improvements; cost of architectural, engineering, financial, legal or other special services, plans, specifications, studies, surveys, estimates of cost and revenues; administrative and operating expenses; expenses necessary or incident to determining the feasibility or practicability of constructing the project; and such other expenses necessary or incident to the construction and acquisition of the project, the financing of such construction, and acquisition and the placing of the project in operation.

[1971, c. 303, §1 (NEW) .]

3-A. Health care facility. "Health care facility" means a nursing home that is, or will be upon completion, licensed under chapter 405; a residential care facility that is, or will be upon completion, licensed under chapter 1663; a continuing care retirement community that is, or will be upon completion, licensed under Title 24-A, chapter 73; an assisted living facility that is, or will be upon completion, licensed under chapter 1664; a hospital; a community mental health facility; a scene response air ambulance licensed under Title 32, chapter 2-B and the rules adopted thereunder; a facility of a hospice program that is, or will be upon completion, licensed under chapter 1681; a nonprofit statewide health information network incorporated in the State for the purpose of exchanging health care information among licensed health care providers in the State; or a community health center.

[2007, c. 72, §1 (AMD) .]

3-B. Eligible entity. "Eligible entity" means a facility or institution eligible to participate in financing or other borrowing services authorized by this chapter and includes a participating community health or social service facility, a participating health care facility , a participating institution for higher education or a participating institution providing an educational program.

[2007, c. 354, §3 (AMD) .]

4. Hospital. "Hospital" means any private, nonprofit or charitable institution or organization which is either:

A. Engaged in the operation of, or formed for the purpose of operating, a hospital which is, or will be upon completion, licensed as a hospital under the laws of the State; or [1983, c. 199, §1 (NEW).]

B. Whose sole members are 2 or more institutions or organizations which are licensed as hospitals or nursing homes under the laws of the State. [1983, c. 199, §1 (NEW).]

[1983, c. 199, §1 (RPR) .]

4-A. Nursing home.

[1991, c. 584, §2 (RP) .]

4-B. Institution for higher education. "Institution for higher education" means:

A. Any private, nonprofit, governmental or charitable institution or organization engaged in the operation of, or formed for the purpose of operating, an educational institution within this State, including the Maine Community College System and the University of Maine System, that, by virtue of law or charter, is an educational institution empowered to provide a program of education beyond the high school level; and [2003, c. 20, Pt. DDD, §1 (AMD); 2003, c. 20, Pt. OO, §2 (AMD); 2003, c. 20, Pt. OO, §4 (AFF).]

B. The Maine School of Science and Mathematics, as established in Title 20-A, chapter 312. To repay any necessary outstanding construction bonds, the adjusted tuition and insured value factor amount defined in Title 20-A, section 5805, subsection 3, may be increased as specified in that definition. The adjustment may be used solely to repay bonds from the authority and expires when the bond is retired. [1993, c. 706, Pt. A, §5 (NEW).]

[2003, c. 20, Pt. DDD, §1 (AMD); 2003, c. 20, Pt. OO, §2 (AMD); 2003, c. 20, Pt. OO, §4 (AFF) .]

4-C. Participating community mental health facility.

[1993, c. 390, §6 (RP) .]

4-D. Participating community health or social service facility. "Participating community health or social service facility" means a community health or social service facility that is exempt from taxation under section 501 of the United States Internal Revenue Code and that, pursuant to this chapter, undertakes the financing and construction or acquisition of a project or undertakes the refunding or refinancing of existing indebtedness as provided in and committed by this chapter.

[1995, c. 179, §2 (NEW) .]

4-E. Institution providing an educational program. "Institution providing an educational program" means a nonprofit or charitable institution, public or private, that is exempt from federal taxation pursuant to the United States Internal Revenue Code of 1986, as amended, Section 501 and that provides a program of education for the purpose of enhancing the knowledge or abilities of its members or the general public.

[2007, c. 354, §4 (NEW) .]

5. Participating health care facility. "Participating health care facility" means a health care or licensed assisted living facility that, pursuant to this chapter, undertakes the financing and construction or acquisition of a project or undertakes the refunding or refinancing of existing indebtedness as provided in and permitted by this chapter.

[1995, c. 670, Pt. C, §3 (AMD); 1995, c. 670, Pt. D, §5 (AFF) .]

5-A. Participating institution for higher education. "Participating institution for higher education" means an institution for higher education which, pursuant to this chapter, shall undertake the financing and construction or acquisition of a project or shall undertake the refunding or refinancing of obligations or of a mortgage or of advances as provided in and permitted by this chapter.

[1979, c. 680, §5 (NEW) .]

5-B. Participating institution providing an educational program. "Participating institution providing an educational program" means an institution providing an educational program that, pursuant to this chapter, undertakes the financing and construction or acquisition of a project or undertakes the refunding or refinancing of obligations or of a mortgage or of advances as provided in and permitted by this chapter.

[2007, c. 354, §5 (NEW) .]

6. Project. "Project" means:

A. In the case of a participating health care facility or a participating community health or social service facility, the acquisition, construction, improvement, reconstruction or equipping of, or construction of an addition or additions to, a structure designed for use as a health care facility, community health or social service facility, congregate housing facility, laboratory, laundry, nurses or interns residence or other multiunit housing facility for staff, employees, patients or relatives of patients admitted for treatment in the health care facility, community health or social service facility, doctors office building, administration building, research facility, maintenance, storage or utility facility or other structures or facilities related to any of the foregoing or required or useful for the operation of the project, or the refinancing of existing indebtedness in connection with any of the foregoing, including parking and other facilities or structures essential or convenient for the orderly conduct of the health care facility or community health or social service facility. "Project" also includes all real and personal property, lands, improvements, driveways, roads, approaches, pedestrian access roads, rights-of-way, utilities, easements and other interests in land, parking lots, machinery and equipment, and all other appurtenances and facilities either on, above or under the ground that are used or usable in connection with the structures mentioned in this paragraph, and includes landscaping, site preparation, furniture, machinery and equipment and other similar items necessary or convenient for the operation of a particular facility or structure in the manner for which its use is intended, but does not include such items as food, fuel, supplies or other items that are customarily considered as a current operating charge. In the case of a hospital, as defined in subsection 4, paragraph B, a community health center or a community health or social service facility, "project" does not include any facilities, structures or appurtenances, the use of which is not directly related to the provision of patient care by its members; [2007, c. 354, §6 (AMD).]

B. In the case of a participating institution for higher education, the acquisition, construction, improvement, reconstruction or equipping of, or construction of an addition or additions to, any structure designed for use as a dormitory or other housing facility, dining facility, student union, academic building, administrative facility, library, classroom building, research facility, faculty facility, office facility, athletic facility, health care facility, laboratory, maintenance, storage or utility facility or other building or structure essential, necessary or useful for instruction in a program of education provided by an institution for higher education, including a parking facility, or any multipurpose structure designed to combine 2 or more of the functions performed by the types of structures enumerated in this paragraph. "Project" includes all real and personal property, lands, improvements, driveways, roads, approaches, pedestrian access roads, rights-of-way, utilities, easements and other interests in land, machinery and equipment, and all appurtenances and facilities either on, above or under the ground that are used or usable in connection with any of the structures mentioned in this paragraph, and also includes landscaping, site preparation, furniture, machinery, equipment and other similar items necessary or convenient for the operation of a particular facility or structure in the manner for which its use is intended, but does not include such items as books, fuel, supplies or other items that are customarily considered as a current operating charge; and [2007, c. 354, §6 (AMD).]

C. In the case of a participating institution providing an educational program, the acquisition, construction, improvement, reconstruction or equipping of, or construction of an addition or additions to, any structure designed for use as a dormitory or other housing facility, dining facility, student union, academic building, administrative facility, library, classroom building, research facility, faculty facility, office facility, athletic facility, health care facility, laboratory, maintenance, storage or utility facility, exhibition facility or space, performing arts facility, museum, theater, studio or other building or structure essential, necessary or useful to the participating institution providing an educational program, including a parking facility or any multipurpose structure designed to combine 2 or more of the functions performed by the types of structures enumerated in this paragraph. "Project" includes all real and personal property, lands, improvements, driveways, roads, approaches, pedestrian access roads, rights-of-way, utilities, easements and other interests in land, machinery and equipment, and all appurtenances and facilities either on, above or under the ground that are used or usable in connection with any of the structures mentioned in this paragraph, and also includes landscaping, site preparation, furniture, machinery, equipment and other similar items necessary or convenient for the operation of a particular facility or structure in the manner for which its use is intended, but does not include such items as books, fuel, supplies or other items that are customarily considered as a current operating charge. [2007, c. 354, §6 (NEW).]

[2007, c. 354, §6 (AMD) .]

7. Refinancing of existing indebtedness. "Refinancing of existing indebtedness" means liquidation, with the proceeds of bonds or notes issued by the authority, of an indebtedness of a health care facility , an institution for higher education or a participating institution providing an educational program incurred to finance or aid in financing a lawful purpose of that health care facility , institution for higher education or participating institution providing an educational program not financed pursuant to this chapter that would constitute a project had it been undertaken and financed by the authority, or consolidation of such indebtedness with indebtedness of the authority incurred for a project related to the purpose for which the indebtedness of the health care facility , institution for higher education or participating institution providing an educational program was incurred.

[2007, c. 354, §7 (AMD) .]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1973, c. 713, §§2-5 (AMD). 1979, c. 680, §§3-7 (AMD). 1983, c. 199, §§1,2 (AMD). RR 1991, c. 2, §78 (COR). 1991, c. 584, §§1-3 (AMD). 1993, c. 390, §§2-9 (AMD). 1993, c. 661, §1 (AMD). 1993, c. 706, §A5 (AMD). 1995, c. 179, §§1-3 (AMD). 1995, c. 362, §§1,2 (AMD). 1995, c. 452, §1 (AMD). 1995, c. 670, §§C1-3 (AMD). 1995, c. 670, §D5 (AFF). 1997, c. 385, §1 (AMD). 2001, c. 590, §4 (AMD). 2001, c. 596, §B25 (AFF). 2001, c. 596, §B7 (AMD). 2003, c. 20, §§OO2,DDD1 (AMD). 2003, c. 20, §OO4 (AFF). 2005, c. 407, §1 (AMD). 2007, c. 72, §1 (AMD). 2007, c. 354, §§2-7 (AMD).

22 §2054. HEALTH FACILITIES AUTHORITY; EXECUTIVE DIRECTOR

1. Authority. The Maine Health and Higher Educational Facilities Authority, established by Title 5, chapter 379, is constituted a public body corporate and politic and an instrumentality of the State, and the exercise by the authority of the powers conferred by this chapter is deemed and held to be the performance of an essential public function. The authority consists of 12 members, one of whom must be the Superintendent of Financial Institutions, ex officio; one of whom must be the Commissioner of Health and Human Services, ex officio; one of whom must be the Commissioner of Education, ex officio; one of whom must be the Treasurer of State, ex officio; and 8 of whom must be residents of the State appointed by the Governor. Not more than 4 of the appointed members may be members of the same political party. Three of the appointed members must be trustees, directors, officers or employees of health care facilities and one of these appointed members must be a person having a favorable reputation for skill, knowledge and experience in state and municipal finance, either as a partner, officer or employee of an investment banking firm that originates and purchases state and municipal securities, or as an officer or employee of an insurance company or bank whose duties relate to the purchase of state and municipal securities as an investment and to the management and control of a state and municipal securities portfolio. Of the 3 members first appointed who are trustees, directors, officers or employees of hospitals, one shall serve for 2 years, one for 3 years and one for 4 years. Of the 5 remaining members initially appointed, one shall serve for one year, one for 2 years, one for 3 years, one for 4 years and one for 5 years. For the 2 members whose terms expire in 1980 and 1981, the Governor shall appoint as successors, for terms of 5 years each, persons who are trustees, members of a corporation or board of governors, officers or employees of institutions for higher education. Annually, the Governor shall appoint, for a term of 5 years, a successor to the member whose term expires. Members shall continue in office until their successors have been appointed and qualified. The Governor shall fill any vacancy for the unexpired terms. A member of the authority is eligible for reappointment. Any non-ex officio member of the authority may be removed by the Governor, after hearing, for misfeasance, malfeasance or willful neglect of duty. Each member of the authority before entering upon the member's duties must take and subscribe the oath or affirmation required by the Constitution of Maine, Article IX. A record of each such oath must be filed in the office of the Secretary of State. The Superintendent of Financial Institutions, the Treasurer of State, the Commissioner of Health and Human Services and the Commissioner of Education may designate their deputies to represent them with full authority and power to act and vote in their behalf or, in the case of the Superintendent of Financial Institutions, the Commissioner of Health and Human Services and the Commissioner of Education, any member of their staffs to represent them as members at meetings of the authority with full power to act and, in the case of the Superintendent of Financial Institutions, the Commissioner of Health and Human Services and the Commissioner of Education, to vote in their behalf.

[1993, c. 390, §10 (AMD); 2001, c. 44, §11 (AMD); 2001, c. 44, §14 (AFF); 2003, c. 689, Pt. B, §7 (REV) .]

2. Chairman, vice-chairman; executive director. The authority shall annually elect one of its members as chairman and one as vice-chairman, and shall also appoint an executive director who shall not be a member of the authority and who shall serve at the pleasure of the authority and receive such compensation as shall be fixed by the authority.

[1971, c. 303, §1 (NEW) .]

3. Duties of executive director. The executive director shall keep a record of the proceedings of the authority and shall be custodian of all books, documents and papers filed with the authority and of the minute book or journal of the authority and of its official seal. He may cause copies to be made of all minutes and other records and documents of the authority and may give certificates under the official seal of the authority to the effect that such copies are true copies, and all persons dealing with the authority may rely upon such certificates.

[1971, c. 303, §1 (NEW) .]

4. Powers of authority. The powers of the authority shall be vested in the members thereof in office from time to time and 5 members of the authority shall constitute a quorum at any meeting of the authority. No vacancy in the membership of the authority shall impair the right of such members to exercise all the rights and perform all the duties of the authority. Any action taken by the authority under this chapter may be authorized by resolution approved by a majority of the members present at any regular or special meeting, which resolution shall take effect immediately or by a resolution circularized or sent to each member of the authority, which shall take effect at such time as a majority of the members shall have signed an assent to such resolution. Resolutions of the authority need not be published or posted. The authority may delegate by resolution to one or more of its members or its executive director such powers and duties as it may deem proper.

[1971, c. 303, §1 (NEW) .]

5. Bond. Each member of the authority shall execute a surety bond in the penal sum of $50,000 and the executive director shall execute a surety bond in the penal sum of $100,000, or, in lieu thereof, the chairman of the authority shall execute a blanket position bond covering each member, the executive director and the employees of the authority, each surety bond to be conditioned upon the faithful performance of the duties of the office or offices covered, to be executed by a surety company authorized to transact business in this State as surety and to be approved by the Attorney General and filed in the office of the Secretary of State. The cost of each bond shall be paid by the authority.

[1971, c. 303, §1 (NEW) .]

6. Expenses. The members of the authority shall be compensated according to the provisions of Title 5, chapter 379.

[1983, c. 812, §125 (RPR) .]

7. Conflict of interest. Notwithstanding any other law to the contrary, it does not constitute a conflict of interest for a trustee, director, officer or employee of a health care facility or a participating institution providing an educational program or for a trustee, member of a corporation or board of governors, officer or employee of an institution for higher education to serve as a member of the authority if that trustee, director, member of a corporation or board of governors, officer or employee abstains from deliberation, action and vote by the authority under this chapter in specific respect to the health care facility , institution for higher education or participating institution providing an educational program of which that member is a trustee, director, member of a corporation or board of governors, officer or employee.

[2007, c. 354, §8 (AMD) .]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1973, c. 585, §11 (AMD). 1973, c. 713, §6 (AMD). 1973, c. 788, §84 (AMD). 1975, c. 771, §217 (AMD). 1979, c. 533, §§11-13 (AMD). 1979, c. 680, §§8,9 (AMD). 1983, c. 812, §§124,125 (AMD). 1987, c. 403, §4 (AMD). 1989, c. 700, §A76 (AMD). 1991, c. 50, §§6,7 (AMD). 1993, c. 390, §§10,11 (AMD). 2001, c. 44, §11 (AMD). 2001, c. 44, §14 (AFF). 2003, c. 689, §B7 (REV). 2007, c. 354, §8 (AMD).

22 §2055. POWERS OF AUTHORITY

The purpose of the authority is to assist participating health care facilities, participating institutions providing an educational program and participating institutions for higher education in the undertaking of projects and the refinancing of existing indebtedness that are declared to be public purposes, and for the purposes of this chapter the authority is authorized and empowered: [2007, c. 354, §9 (AMD).]

1. Bylaws. To have perpetual succession as a body politic and corporate and to adopt bylaws for the regulation of its affairs and the conduct of its business;

[1971, c. 303, §1 (NEW) .]

2. Seal. To adopt an official seal and alter the same at pleasure;

[1971, c. 303, §1 (NEW) .]

3. Office. To maintain an office at such place or places as it may designate;

[1971, c. 303, §1 (NEW) .]

4. Sue. To sue and be sued in its own name, and plead and be impleaded;

[1971, c. 303, §1 (NEW) .]

5. Projects. To determine the location and character of any project to be financed under this chapter and to acquire, construct, reconstruct, renovate, improve, replace, maintain, repair, extend, enlarge, operate, lease, as lessee or lessor, and regulate the same, to enter into contracts for any or all of such purposes, to enter into contracts for the management and operation of a project, and to designate a participating health care facility , a participating institution for higher education or a participating institution providing an educational program as its agent to determine the location and character of a project undertaken by the participating health care facility , participating institution for higher education or participating institution providing an educational program under this chapter and, as the agent of the authority, to acquire, construct, reconstruct, renovate, improve, replace, maintain, repair, extend, enlarge, operate, lease, as lessee or lessor, and regulate the same and, as the agent of the authority, to enter into contracts for any or all of such purposes, including contracts for the management and operation of such project;

[2007, c. 354, §10 (AMD) .]

6. Bonds. To borrow money and issue bonds, notes, bond anticipation notes and other obligations of the authority for any of its corporate purposes, and to fund or refund the same, all as provided in this chapter;

[1971, c. 303, §1 (NEW) .]

7. Rates and fees. Generally, to fix and revise from time to time and charge and collect rates, rents, fees and charges for the use of and for the services furnished or to be furnished by a project or any portion thereof and to contract with any person, partnership, association or corporation or other body public or private in respect thereof;

[1971, c. 303, §1 (NEW) .]

8. Rules. To establish rules for the use of a project or any portion thereof and to designate a participating health care facility , a participating institution for higher education or a participating institution providing an educational program as its agent to establish rules for the use of a project undertaken by the participating health care facility , participating institution for higher education or participating institution providing an educational program;

[2007, c. 354, §11 (AMD) .]

9. Consultants and agents. To employ consulting engineers, architects, attorneys, accountants, construction and financial experts, superintendents, managers and such other employees and agents as may be necessary in its judgment, and to fix their compensation;

[1971, c. 303, §1 (NEW) .]

10. Grants. To receive and accept from the Federal Government or the State or any other public agency loans or grants for or in aid of the construction of a project or any portion thereof, and to receive and accept loans, grants, aid or contributions from any source of either money, property, labor or other things of value, to be held, used and applied only for the purposes for which such loans, grants, aid and contributions are made;

[1971, c. 303, §1 (NEW) .]

11. Mortgages. To mortgage any project and the site thereof for the benefit of the holders of bonds or notes or other obligations issued to finance such project;

[1971, c. 303, §1 (NEW) .]

12. Loans. To make loans to a participating health care facility, participating institution for higher education, participating institution providing an educational program, other entity eligible to use the authority or consortium of entities eligible to use the authority for the cost of a project in accordance with an agreement between the authority and the participating entity or entities, except that no such loan may exceed the total cost of the project as determined by the participating entity or entities and approved by the authority;

[2007, c. 354, §12 (AMD) .]

13. Refund. To make loans to a participating health care facility , a participating institution for higher education or a participating institution providing an educational program to refund outstanding obligations, mortgages or advances issued, made or given by such a participating health care facility , participating institution for higher education or participating institution providing an educational program for the cost of the project;

[2007, c. 354, §13 (AMD) .]

14. Apportionment. To charge to and equitably apportion among participating health care facilities , participating institutions for higher education and participating institutions providing an educational program its administrative costs and expenses incurred in the exercise of the powers and duties conferred by this chapter;

[2007, c. 354, §14 (AMD) .]

15. Other acts. To do all things necessary or convenient to carry out the purposes of this chapter. In carrying out the purposes of this chapter, the authority may undertake a project for 2 or more participating health care facilities jointly , 2 or more participating institutions for higher education jointly or 2 or more participating institutions providing educational programs, and, upon undertaking the project, all other provisions of this chapter apply to and for the benefit of the authority and such joint participants;

[2007, c. 354, §15 (AMD) .]

16. Bulk purchases. To purchase, lease or otherwise acquire, finance, sell and transfer for, to or on behalf of itself and any eligible entities organized pursuant to the United States Internal Revenue Code, Section 501 or in partnership with any of its eligible entities organized pursuant to the United States Internal Revenue Code, Section 501 commodities necessary for the daily operation of the facilities of the eligible entities, including, but not limited to, electricity, petroleum products, fuel oil and natural gas. For purposes authorized in this subsection, the University of Maine System and its colleges and universities are eligible participating institutions under the definition of eligible participant for the authority; and

[1999, c. 231, §1 (AMD) .]

17. Nonprofit corporation. In accordance with the limitations and restrictions of this chapter, to cause any of its powers, duties, programs or operations to be carried out by one or more nonprofit corporations. Nonprofit corporations acting at the direction of the authority must be organized and operated under the Maine Nonprofit Corporation Act. For the purposes authorized in this section the University of Maine System and its colleges and universities are eligible participating institutions under the definition of eligible participant for the authority.

[1997, c. 385, §4 (NEW) .]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1979, c. 680, §§10-13 (AMD). 1981, c. 470, §A82 (AMD). 1991, c. 50, §§8-13 (AMD). 1991, c. 584, §4 (AMD). 1993, c. 390, §§12-18 (AMD). 1997, c. 385, §§2-4 (AMD). 1999, c. 231, §1 (AMD). 2007, c. 354, §§9-15 (AMD).

22 §2056. PAYMENT OF EXPENSES

All expenses incurred in carrying out this chapter shall be payable solely from funds provided under the authority of this chapter and no liability or obligation shall be incurred by the authority beyond the extent to which moneys shall have been provided under this chapter. [1971, c. 303, §1 (NEW).]

SECTION HISTORY
1971, c. 303, §1 (NEW).

22 §2057. ACQUISITION OF PROPERTY BY AUTHORITY

The authority is authorized and empowered, directly or by and through a participating health care facility , a participating institution for higher education or a participating institution providing an educational program, as its agent, to acquire by purchase or by gift or devise such lands, structures, property, real or personal, rights and air rights, rights-of-way, franchises, easements and other interests in lands, including lands lying under water and riparian rights, and air rights, that are located inside or outside the State, as it determines necessary or convenient for the construction or operation of a project, upon such terms and at such prices as may be considered by it to be reasonable and can be agreed upon between it and the owner of lands, including lands lying under water and riparian rights, and air rights, that are located inside or outside the State, and to take title to lands, including lands lying under water and riparian rights, and air rights, that are located inside or outside the State in the name of the authority or in the name of a participating health care facility , a participating institution for higher education or a participating institution providing an educational program as its agent. [2007, c. 354, §16 (AMD).]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1979, c. 680, §14 (AMD). 1991, c. 50, §14 (AMD). 1993, c. 390, §19 (AMD). 2007, c. 354, §16 (AMD).

22 §2058. CONVEYANCE OF TITLE TO PARTICIPATING INSTITUTIONS

When the principal of and interest on bonds of the authority issued to finance the cost of a particular project or projects for a participating health care facility , a participating institution for higher education or a participating institution providing an educational program, including any refunding bonds issued to refund and refinance such bonds, have been fully paid and retired or when adequate provision has been made to fully pay and retire the same, and all other conditions of the resolution or trust agreement authorizing and securing the same have been satisfied and the lien of such resolution or trust agreement has been released in accordance with the provisions of the bonds, the authority shall promptly do such things and execute such deeds and conveyances as are necessary and required to convey title to such project or projects to such participating health care facility , participating institution for higher education or participating institution providing an educational program, free and clear of all liens and encumbrances, all to the extent that title to such project or projects is not, at the time, vested in such participating health care facility , participating institution for higher education or participating institution providing an educational program. [2007, c. 354, §17 (AMD).]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1979, c. 680, §15 (AMD). 1991, c. 50, §15 (AMD). 1993, c. 390, §20 (AMD). 2007, c. 354, §17 (AMD).

22 §2059. NOTES OF THE AUTHORITY

The authority is authorized from time to time to issue its negotiable notes for any corporate purpose, including the payment of all or any part of the cost of any project, and renew from time to time any notes by the issuance of new notes, whether the notes to be renewed have or have not matured. The authority may issue notes partly to renew notes or to discharge other obligations then outstanding and partly for any other purpose. The notes may be authorized, sold, executed and delivered in the same manner as bonds. Any resolution or resolutions authorizing notes of the authority or any issue thereof may contain any provisions which the authority is authorized to include in any resolution or resolutions authorizing bonds of the authority or any issue thereof, and the authority may include in any notes any terms, covenants or conditions which it is authorized to include in any bonds. All such notes shall be payable from the proceeds of bonds or renewal notes or from the revenues of the authority or other moneys available therefor and not otherwise pledged, subject only to any contractual rights of the holders of any of its notes or other obligations then outstanding. [1971, c. 303, §1 (NEW).]

SECTION HISTORY
1971, c. 303, §1 (NEW).

22 §2060. BONDS OF THE AUTHORITY

1. Negotiable. The authority is authorized from time to time to issue its negotiable bonds for the purpose of financing all or a part of the cost of any projects authorized hereby. In anticipation of the sale of such bonds, the authority may issue negotiable bond anticipation notes and may renew the same from time to time. Such notes shall be paid from any revenues of the authority or other moneys available therefor and not otherwise pledged, or from the proceeds of sale of the bonds of the authority in anticipation of which they were issued. The notes shall be issued in the same manner as the bonds. Such notes and the resolution or resolutions authorizing the same may contain any provisions, conditions or limitations which a bond resolution of the authority may contain.

[1971, c. 303, §1 (NEW) .]

2. General obligations. Except as may otherwise be expressly provided by the authority, every issue of its bonds, notes or other obligations is a general obligation of the authority payable from revenues or money of the authority available for the payment of the obligation and not otherwise pledged, subject only to agreements with the holders of particular bonds, notes or other obligations pledging particular revenues or money and subject to any agreements with a participating health care facility , participating institution for higher education or participating institution providing an educational program. Notwithstanding that such bonds, notes or other obligations may be payable from a special fund, they are and must be deemed to be for all purposes negotiable instruments within the meaning of and for all the purposes of the Uniform Commercial Code, Article 8, subject only to the provisions of such bonds, notes or other obligations for registration.

[2007, c. 354, §18 (AMD) .]

3. Issuance. The bonds may be issued as serial bonds or as term bonds, or the authority, in its discretion, may issue bonds of both types. The bonds shall be authorized by resolution of the members of the authority and shall bear such date or dates, mature at such time or times, not exceeding 50 years from their respective dates, bear interest at such rate or rates, be payable at such time or times, be in such denominations, be in such form, either coupon or registered, carry such registration privileges, be executed in such manner, be payable in lawful money of the United States of America at such place or places, and be subject to such terms of redemption, as such resolution or resolutions may provide. The bonds or notes may be sold at public or private sale for such price or prices as the authority shall determine. The power to fix the date of sale of bonds, to receive bids or proposals, to award and sell bonds, and to take all other necessary action to sell and deliver bonds may be delegated to the executive director of the authority by resolution of the authority. Pending preparation of the definitive bonds, the authority may issue interim receipts or certificates which shall be exchanged for such definitive bonds.

[1971, c. 303, §1 (NEW) .]

4. Provisions. Any resolution or resolutions authorizing any bonds or any issue of bonds may contain provisions, which shall be a part of the contract with the holders of the bonds to be authorized, as to:

A. Pledging the full faith and credit of the authority, the full faith and credit of a participating health care facility , a participating institution of higher education or a participating institution providing an educational program, all or a part of the revenues of a project or a revenue-producing contract or contracts made by the authority with an individual, partnership, corporation or association or other body, public or private, to secure the payment of the bonds or of a particular issue of bonds, subject to such agreements with bondholders as may then exist; [2007, c. 354, §19 (AMD).]

B. The rentals, fees and other charges to be charged, and the amounts to be raised in each year thereby, and the use and disposition of the revenues; [1971, c. 303, §1 (NEW).]

C. The setting aside of reserves or sinking funds, and the regulation and disposition thereof; [1971, c. 303, §1 (NEW).]

D. Limitations on the right of the authority or its agent to restrict and regulate the use of the project; [1971, c. 303, §1 (NEW).]

E. Limitations on the purpose to which the proceeds of sale of any issue of bonds then or thereafter to be issued may be applied and pledging such proceeds to secure the payment of the bonds or any issue of the bonds; [1971, c. 303, §1 (NEW).]

F. Limitations on the issuance of additional bonds, the terms upon which additional bonds may be issued and secured and the refunding of outstanding bonds; [1971, c. 303, §1 (NEW).]

G. The procedure, if any, by which the terms of any contract with bondholders may be amended or abrogated, the amount of bonds the holders of which must consent thereto, and the manner in which such consent may be given; [1971, c. 303, §1 (NEW).]

H. Limitations on the amount of moneys derived from the project to be expended for operating, administrative or other expenses of the authority; [1971, c. 303, §1 (NEW).]

I. Defining the acts or omissions to act which shall constitute a default in the duties of the authority to holders of its obligations and providing the rights and remedies of such holders in the event of a default; [1971, c. 303, §1 (NEW).]

J. The mortgaging of a project and the site thereof for the purpose of securing the bondholders; and [1971, c. 303, §1 (NEW).]

K. Such other additional covenants, agreements and provisions as are judged advisable or necessary by the authority for the security of the holders of such bonds. [1971, c. 303, §1 (NEW).]

[2007, c. 354, §19 (AMD) .]

5. Personal liability. Neither the members of the authority nor any person executing the bonds or notes shall be liable personally on the bonds or notes or be subject to any personal liability or accountability by reason of the issuance thereof.

[1971, c. 303, §1 (NEW) .]

6. Purchase. The authority shall have power out of any funds available therefor to purchase its bonds or notes. The authority may hold, pledge, cancel or resell such bonds, subject to and in accordance with agreements with bondholders.

[1971, c. 303, §1 (NEW) .]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1979, c. 680, §§16,17 (AMD). 1991, c. 50, §§16,17 (AMD). 1993, c. 390, §§21,22 (AMD). 2007, c. 354, §§18, 19 (AMD).

22 §2061. PROCEDURE BEFORE ISSUANCE OF BONDS

Notwithstanding any other provisions of this chapter, the authority is not empowered to undertake any project authorized by this chapter unless, prior to the issuance of any bonds or notes hereunder, the authority has determined that: [1975, c. 264, (RPR).]

1. Assistance. Such a project will enable or assist a health care facility to fulfill its obligation to provide health care facilities , an institution for higher education to provide educational facilities within the State or a participating institution providing an educational program to fulfill its mission within the State;

[2007, c. 354, §20 (AMD) .]

2. Review. Each project for a health care facility has been reviewed and approved to the extent required by the agency of the State that serves as the designated planning agency of the State or by the Department of Health and Human Services in accordance with the provisions of the Maine Certificate of Need Act of 2002, as amended, and is consistent with the cost containment provisions for health care and health coverage of the State Health Plan adopted pursuant to Title 2, section 101, subsection 1, paragraph A;

[2003, c. 2, §71 (COR) .]

3. Lease. Such a project will be leased to, or owned by, a health care facility , institution for higher education or institution providing an educational program inside the State;

[2007, c. 354, §21 (AMD) .]

4. Payment. Adequate provision has been or will be made for the payment of such project and that under no circumstances will the State be obligated for the payment of such project, or for the payment of the principal of, or interest on, any obligations issued to finance such project; and

[2001, c. 609, §2 (AMD) .]

5. Projects for program of independent housing with services not required to be licensed. If the project is for a program of independent housing with services that is not required to be licensed under this Title, the participating health care facility has agreed to comply with the requirements applicable to assisted living providers with regard to the standardized contract under section 7916 and residents' rights under section

7902-A, subsection 6 and rules adopted pursuant to those provisions. This requirement does not apply to the refinancing of an authority loan outstanding on April 1, 2002 or to a project specifically authorized under this chapter.

[2001, c. 609, §3 (NEW) .]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1973, c. 713, §7 (AMD). 1975, c. 264, (RPR). 1979, c. 680, §18 (AMD). 1981, c. 455, (AMD). 1983, c. 579, §11 (AMD). 1991, c. 50, §§18-20 (AMD). 1991, c. 584, §5 (AMD). 1993, c. 390, §§23-25 (AMD). 2001, c. 609, §§1-3 (AMD). RR 2003, c. 2, §71 (COR). 2003, c. 469, §C16 (AMD). 2003, c. 510, §A16 (AMD). 2003, c. 599, §6 (AMD). 2003, c. 689, §B6 (REV). 2007, c. 354, §§20, 21 (AMD).

22 §2062. TRUST AGREEMENT TO SECURE BONDS

In the discretion of the authority, any bonds issued under this chapter may be secured by a trust agreement by and between the authority and a corporate trustee or trustees, which may be any trust company or bank having the powers of a trust company within or without the State. Such trust agreement or the resolution providing for the issuance of such bonds may pledge or assign the revenues to be received or proceeds of any contract or contracts pledged and may convey or mortgage the project or any portion thereof. Such trust agreement or resolution providing for the issuance of such bonds may contain such provisions for protecting and enforcing the rights and remedies of the bondholders as may be reasonable and proper, and not in violation of law, including particularly such provisions as have been specifically authorized to be included in any resolution or resolutions of the authority authorizing bonds thereof. Any bank or trust company incorporated under the laws of this State, which may act as depositary of the proceeds of bonds or of revenues or other moneys, may furnish such indemnifying bonds or pledge such securities as may be required by the authority. Any such trust agreement may set forth the rights and remedies of the bondholders and of the trustee or trustees, and may restrict the individual right of action by bondholders. In addition, any such trust agreement or resolution may contain such other provisions as the authority may deem reasonable and proper for the security of the bondholders. All expenses incurred in carrying out such trust agreement or resolution may be treated as a part of the cost of the operation of a project. [1971, c. 303, §1 (NEW).]

SECTION HISTORY
1971, c. 303, §1 (NEW).

22 §2063. CREDIT OF STATE NOT PLEDGED

Bonds and notes issued under this chapter do not constitute or create a debt or debts, liability or liabilities on behalf of the State or of a political subdivision of the State other than the authority or a loan of the credit of the State or a pledge of the faith and credit of the State or of any such political subdivision other than the authority, but are payable solely from the funds provided for the bonds and notes. All such bonds and notes must contain on the face of the bonds and notes a statement to the effect that neither the State nor a political subdivision of the State is obligated to pay the same or the interest on the bonds and notes, except from revenues of the project or the portion of the project for which they are issued and that neither the faith and credit nor the taxing power of the State or of a political subdivision of the State is pledged to the payment of the principal of or the interest on such bonds or notes. The issuance of bonds or notes under this chapter may not directly or indirectly or contingently obligate the State or a political subdivision of the State to levy or to pledge any form of taxation whatever for the bonds and notes or to make an appropriation for their payment. Nothing in this section may prevent nor be construed to prevent the authority from pledging its full faith and credit or the full faith and credit of a participating health care facility , participating institution for higher education or participating institution providing an educational program to the payment of bonds or notes or issue of notes or bonds authorized pursuant to this chapter. [2007, c. 354, §22 (AMD).]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1979, c. 680, §19 (AMD). 1991, c. 50, §21 (AMD). 1993, c. 390, §26 (AMD). 2007, c. 354, §22 (AMD).

22 §2064. RENTS AND CHARGES

The authority is authorized to fix, revise, charge and collect rates, rents, fees and charges for the use of and for the services furnished or to be furnished by each project and to contract with a person, partnership, association or corporation, or other body, public or private, in respect of rates, rents, fees and charges. Such rates, rents, fees and charges must be fixed and adjusted in respect of the aggregate of rates, rents, fees and charges from such project so as to provide funds sufficient with other revenues or money available for the project, if any, to pay the cost of maintaining, repairing and operating the project and each and every portion of the project, to the extent that the payment of such cost has not otherwise been adequately provided for, to pay the principal of and the interest on outstanding bonds or notes of the authority issued in respect of such project as the same become due and payable, and to create and maintain reserves required or provided for in a resolution authorizing, or trust agreement securing, such bonds or notes of the authority. Such rates, rents, fees and charges are not subject to supervision or regulation by a department, commission, board, body, bureau or agency of this State other than the authority. A sufficient amount of the revenues derived in respect of a project, except such part of such revenues as may be necessary to pay the cost of maintenance, repair and operation and to provide reserves and for renewals, replacements, extensions, enlargements and improvements as may be provided for in the resolution authorizing the issuance of bonds or notes of the authority or in the trust agreement securing the same, must be set aside at such regular intervals as may be provided in such resolution or trust agreement in a sinking or other similar fund that is pledged to, and charged with, the payment of the principal of and the interest on such bonds or notes as the same become due, and the redemption price or the purchase price of bonds retired by call or purchase as therein provided. Such pledge is valid and binding from the time when the pledge is made; the rates, rents, fees and charges and other revenues or other money so pledged and later received by the authority are immediately subject to the lien of such pledge without any physical delivery of the revenues or money or further act, and the lien of any such pledge is valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the authority, irrespective of whether such parties have notice of the lien. Neither the resolution nor a trust agreement nor any other agreement nor any lease by which a pledge is created need be filed or recorded except in the records of the authority. The use and disposition of money to the credit of such sinking or other similar fund are subject to the resolution authorizing the issuance of such bonds or notes or of such trust agreement. Except as may otherwise be provided in such resolution or such trust agreement, such sinking or other similar fund may be a fund for all such bonds or notes issued to finance projects at a particular participating health care facility , participating institution for higher education or participating institution providing an educational program without distinction or priority of one over another, provided the authority in any such resolution or trust agreement may provide that such sinking or other similar fund is the fund for a particular project at a participating health care facility , participating institution for higher education or participating institution providing an educational program and for the bonds issued to finance a particular project and may, additionally, permit and provide for the issuance of bonds having a subordinate lien in respect of the security authorized in this chapter to other bonds of the authority, and, in such case, the authority may create separate sinking or other similar funds in respect of such subordinate lien bonds. [2007, c. 354, §23 (AMD).]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1973, c. 713, §8 (AMD). 1979, c. 680, §20 (AMD). 1991, c. 50, §22 (AMD). RR 1993, c. 2, §12 (COR). 1993, c. 390, §27 (AMD). 2007, c. 354, §23 (AMD).

22 §2065. TRUST FUNDS

All moneys received pursuant to the authority of this chapter whether as proceeds from the sale of bonds or notes or as revenues, are trust funds to be held and applied solely as provided in this chapter. Any officer with whom, or any bank or trust company with which, such moneys are deposited shall act as trustee of such moneys and shall hold and apply the same for the purposes of this chapter, subject to such regulations as this chapter and the resolution authorizing the bonds or notes of any issue or the trust agreement securing such bonds or notes provide. [1971, c. 303, §1 (NEW).]

SECTION HISTORY
1971, c. 303, §1 (NEW).

22 §2066. ENFORCEMENT OF RIGHTS AND DUTIES

Any holder of bonds, notes, bond anticipation notes, other notes or other obligations issued under this chapter or any of the coupons appertaining thereto, and the trustee or trustees under any trust agreement, except to the extent the rights herein given may be restricted by any resolution authorizing the issuance of, or any such trust agreement securing, such bonds, may, either at law or in equity, by suit, action, mandamus or other proceedings, protect and enforce any and all rights under the laws of the State or granted under this chapter or under such resolution or trust agreement, and may enforce and compel the performance of all duties required by this chapter or by such resolution or trust agreement to be performed by the authority or by any officer, employee or agent thereof, including the fixing, charging and collecting of the rates, rents, fees and charges herein authorized and required by such resolution or trust agreement to be fixed, established and collected. [1971, c. 303, §1 (NEW).]

SECTION HISTORY
1971, c. 303, §1 (NEW).

22 §2067. EXEMPTION FROM TAXATION

The exercise of the powers granted by this chapter will be in all respects for the benefit of the people of the State, for the increase of their commerce, welfare and prosperity, and for the improvement of their health and living conditions, and will constitute the performance of an essential governmental function, and neither the authority nor its agent shall or may be required to pay any taxes or assessments upon or in respect of a project or projects or any property acquired, used by the authority or its agent or under the jurisdiction, control, possession or supervision of the same or upon the activities of the authority or its agent in the operation or maintenance of a project or projects under this chapter, or upon income or other revenues received therefrom, and any bonds, notes and other obligations issued under this chapter, their transfer and the income therefrom, including any profit made on the sale thereof, as well as the income and property of the authority, are at all times exempt from taxation of every kind by the State and by the municipalities and all other political subdivisions of the State. [1971, c. 303, §1 (NEW).]

SECTION HISTORY
1971, c. 303, §1 (NEW).

22 §2068. BONDS DECLARED LEGAL INVESTMENTS

Bonds and notes issued by the authority under this chapter are hereby made securities in which all public officers and public bodies of the State and its political subdivisions, all insurance companies and associations and other persons carrying on an insurance business, trust companies, banks, bankers, banking associations, savings banks and savings associations, including savings and loan associations, credit unions, building and loan associations, investment companies, executors, administrators, trustees and other fiduciaries, pension, profit-sharing, retirement funds and other persons carrying on a banking business, and all other persons whatsoever, who are now or may hereafter be, authorized to invest in bonds or other obligations of the State, may properly and legally invest funds, including capital in their control or belonging to them. Such bonds and notes are hereby made securities which may properly and legally be deposited with and received by any state or municipal or public officer or any agency or political subdivision of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized by law. [1971, c. 303, §1 (NEW).]

SECTION HISTORY
1971, c. 303, §1 (NEW).

22 §2069. ANNUAL REPORTS

Within 4 months after the close of each fiscal year of the authority, the executive director of the authority shall prepare and submit a complete financial report to the Governor and to the Legislature, duly audited and certified by the auditor of accounts of the operations and activities of the authority during the preceding fiscal year to be distributed in the same way as state departmental reports. Within 5 months after the close of the authority's fiscal year, the executive director shall prepare and submit to the Legislature a detailed report on the activities of the authority during the preceding fiscal year. The report must contain information concerning the authority's financial and operational activities, including, but not limited to, resolutions, projects, grants, mortgages and loans. The report also must address continuing and potential problems with finances, operations and projects. [1999, c. 122, §1 (AMD).]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1975, c. 771, §218 (AMD). 1999, c. 122, §1 (AMD).

22 §2070. REFUNDING BONDS

1. Refunding. The authority is authorized to provide for the issuance of bonds of the authority for the purpose of refunding any bonds of the authority then outstanding, including the payment of any redemption premium thereon and any interest accrued or to accrue to the earliest or subsequent date of redemption, purchase or maturity of such bonds, and, if deemed advisable by the authority, for the additional purpose of paying all or any part of the cost of constructing and acquiring additions, improvements, extensions or enlargements of a project or any portion thereof.

[1971, c. 303, §1 (NEW) .]

2. Use of proceeds. The proceeds of any such bonds issued for the purpose of refunding outstanding bonds may, in the discretion of the authority, be applied to the purchase or retirement at maturity or redemption of such outstanding bonds either on their earliest or any subsequent redemption date or upon the purchase or at the maturity thereof and may, pending such application, be placed in escrow to be applied to such purchase or retirement at maturity or redemption on such date as may be determined by the authority.

[1971, c. 303, §1 (NEW) .]

3. Escrow proceeds. Any such escrowed proceeds, pending such use, may be invested and reinvested in obligations of, or guaranteed by, the United States of America, or in certificates of deposit or time deposits secured by obligations of, or guaranteed by, the United States of America, maturing at such time or times as shall be appropriate to assure the prompt payment, as to principal, interest and redemption premium, if any, of the outstanding bonds to be so refunded. The interest, income and profits, if any, earned or realized on any such investment may also be applied to the payment of the outstanding bonds to be so refunded. After the terms of the escrow have been fully satisfied and carried out, any balance of such proceeds and interest, income and profits, if any, earned or realized on the investments thereof may be returned to the authority for use by it in any lawful manner.

[1971, c. 303, §1 (NEW) .]

4. Investments. The portion of the proceeds of any such bonds issued for the additional purpose of paying all or any part of the cost of constructing and acquiring additions, improvements, extensions or enlargements of a project may be invested and reinvested in obligations of, or guaranteed by, the United States of America, or in certificates of deposit or time deposit secured by obligations of, or guaranteed by, the United States of America, maturing not later than the time or times when such proceeds will be needed for the purpose of paying all or any part of such cost. The interest, income and profits, if any, earned or realized on such investment may be applied to the payment of all or any part of such cost or may be used by the authority in any lawful manner.

[1971, c. 303, §1 (NEW) .]

5. Conditions. All such bonds shall be subject to this chapter in the same manner and to the same extent as other bonds issued pursuant to this chapter.

[1971, c. 303, §1 (NEW) .]

SECTION HISTORY
1971, c. 303, §1 (NEW).

22 §2071. SOURCE OF PAYMENT OF EXPENSES

All expenses incurred in carrying out this chapter shall be payable solely from funds provided under the authority of this chapter and no liability or obligation shall be incurred by the authority under this chapter beyond the extent to which moneys shall have been provided under this chapter. [1971, c. 303, §1 (NEW).]

SECTION HISTORY
1971, c. 303, §1 (NEW).

22 §2072. AGREEMENT OF THE STATE

The State pledges to and agrees with the holders of bonds, notes and other obligations issued under this chapter, and with those parties who may enter into contracts with the authority pursuant to this chapter, that the State will not limit, alter, restrict or impair the rights hereby vested in the authority and the participating health care facilities , the participating institutions for higher education and the participating institutions providing an educational program to acquire, construct, reconstruct, maintain and operate a project as defined in this chapter or to establish, revise, charge and collect rates, rents, fees and other charges as may be convenient or necessary to produce sufficient revenues to meet the expenses of maintenance and operation of the project and to fulfill the terms of any agreements made with the holders of bonds, notes or other obligations authorized and issued by this chapter, and with the parties who may enter into contracts with the authority pursuant to this chapter, or in any way impair the rights or remedies of the holders of such bonds, notes or other obligations of such parties until the bonds, notes and such other obligations, together with interest on the bonds, notes and other obligations, with interest on any unpaid installment of interest and all costs and expenses in connection with an action or proceeding by or on behalf of the bondholders, are fully met and discharged and such contracts are fully performed on the part of the authority. Nothing in this chapter precludes such limitation or alteration if and when adequate provision is made by law for the protection of the holders of such bonds, notes or other obligations of the authority or those entering into such contracts with the authority. The authority is authorized to include this pledge and undertaking for the State in such bonds, notes or other obligations or contracts. [2007, c. 354, §24 (AMD).]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1979, c. 680, §21 (AMD). 1993, c. 390, §28 (AMD). 2007, c. 354, §24 (AMD).

22 §2073. ACT CUMULATIVE; NO NOTICE REQUIRED

Neither this chapter nor anything contained in this chapter is or shall be construed as a restriction or limitation upon any powers which the Maine Health and Higher Educational Facilities Authority might otherwise have under any laws of this State, and this chapter is cumulative of any such powers. This chapter does and shall be construed to provide a complete, additional and alternative method for the doing of the things authorized thereby and shall be regarded as supplemental and additional to powers conferred by other laws. Neither the making of contracts nor the issuance of bonds, notes, refunding bonds and other obligations pursuant to the provisions of this chapter need comply with the requirements of any other state law applicable to the making of contracts and the issuance of bonds, notes and other obligations, for the construction and acquisition of any project undertaken pursuant to this chapter. No proceedings, notice or approval shall be required for the issuance of any bonds, notes and other obligations or any instrument as security therefor, except as is provided in this chapter. [1979, c. 680, §22 (AMD).]

SECTION HISTORY
1971, c. 303, §1 (NEW). 1979, c. 680, §22 (AMD).

22 §2074. ACT LIBERALLY CONSTRUED

This chapter, being necessary for the welfare of the State and its inhabitants, shall be liberally construed so as to effect its purposes. [1971, c. 303, §1 (NEW).]

SECTION HISTORY
1971, c. 303, §1 (NEW).

22 §2075. MAINE HEALTH FACILITIES' RESERVE FUND

1. Maine Health Facilities' Reserve Fund. The authority shall establish and maintain a reserve fund called the "Maine Health Facilities' Reserve Fund" in which is deposited all money appropriated by the State for the purpose of that fund, all proceeds of bonds required to be deposited in the fund by terms of any contract between the authority and its bondholders or any resolution of the authority with respect to the proceeds of bonds and any other money or funds of the authority that the authority determines to deposit in the fund and any other money made available to the authority only for the purposes of the fund from any other source or sources.

A. Money in the reserve fund is held and applied solely to the payment of the interest on and principal of bonds secured by the reserve fund and sinking fund payments referred to in this chapter with respect to bonds secured by the reserve fund as the interest, principal and sinking fund payments become due and payable; and for the retirement of bonds, including the payment of any redemption premium required to be paid when any bonds are redeemed or retired before maturity. Money may not be withdrawn from the fund if the withdrawal reduces the amount in the reserve fund to an amount less than the required debt service reserve, except for:

(1) Payment of interest then due and payable on bonds;

(2) Payment of the principal of bonds then maturing and payable;

(3) Sinking fund payments referred to in this chapter with respect to bonds;

(4) The retirement of bonds in accordance with the terms of any contract between the authority and its bondholders; or

(5) The payment for which other money of the authority is not then available for payment of interest, principal or sinking fund payments or the retirement of bonds in accordance with the terms of any such contract. [1991, c. 584, §6 (NEW).]

B. As used in this chapter, "required debt service reserve" means, as of any date of computation, the amount or amounts required to be on deposit in the reserve fund as provided by resolution of the authority. For purposes of this chapter, the amount of any letter of credit, insurance contract, surety bond or similar financial undertaking available to be drawn upon and applied to obligations to which money in the reserve fund may be applied is deemed to be and must be counted as money in the Maine Health Facilities' Reserve Fund, capital reserve funds or any other reserve fund as provided by resolution of the authority. The required debt service reserve is, as of any date of computation, an aggregate amount equal to at least the largest amount of money required by the terms of all contracts between the authority and holders of bonds secured by the reserve fund to be raised in the current or any succeeding calendar year for:

(1) The payment of interest on and maturing principal of that portion of outstanding bonds secured by the reserve fund; and

(2) Sinking fund payments required by the terms of any such contracts to sinking funds established for the payment or redemption of those bonds. [1995, c. 179, §4 (AMD).]

C. To ensure the maintenance of the required debt service reserve in the reserve fund, there must be annually appropriated and paid to the authority for deposit in the fund the sum, if any, certified by the executive director of the authority to the Governor, required to restore the reserve fund to an amount equal to the required debt service reserve. On or before December 1st of each year, the executive director shall make and deliver to the Governor a certificate stating the sum and the sum or sums so certified must be appropriated and paid to the authority during the current state fiscal year.

To ensure the maintenance of the required debt service reserve in any capital reserve fund to which, at the direction of the authority pursuant to the resolution or resolutions establishing a capital reserve fund, this provision applies, there is annually appropriated and paid to the authority for deposit in the fund the sum, if any, certified by the executive director of the authority to the Governor, required to restore the reserve fund to an amount equal to the required debt service reserve. On or before December 1st of each year, the director shall make and deliver to the Governor a certificate stating the sum and the sum or sums so certified must be appropriated and paid to the authority during the current state fiscal year. [1991, c. 584, §6 (NEW).]

[1995, c. 179, §4 (AMD) .]

2. Capital reserve fund. This subsection applies to capital reserve funds.

A. The authority may establish and maintain one or more special funds called "capital reserve funds" in which must be deposited:

(1) All money appropriated by the State for the purpose of those funds;

(2) All proceeds of bonds required to be deposited in those funds by the terms of any contract between the authority and its bondholders or any resolution of the authority with respect to the proceeds of bonds;

(3) Any other money or funds of the authority that the authority determines to deposit in those funds; and

(4) Any other money made available to the authority only for the purposes of the fund from any other source or sources. [1991, c. 584, §6 (NEW).]

B. Money in any capital reserve fund is held and applied solely:

(1) To pay the interest on and principal of bonds secured by the capital reserve fund and sinking fund payments referred to in this chapter with respect to bonds secured by the capital reserve fund as the interest and principal becomes due and payable; and

(2) To retire bonds secured by the capital reserve fund, including the payment of any redemption premium required to be paid when any such bonds are redeemed or retired before maturity. [1991, c. 584, §6 (NEW).]

C. The minimum amount of any capital reserve fund must be equal to the amounts required under the resolutions pursuant to which the bonds secured by the capital reserve fund are issued. These amounts are referred to in this chapter as the "required minimum reserve." With respect to bonds secured by a capital reserve fund for which the resolution authorizing the issuance of those bonds states that the provisions of subsection 1, paragraph C apply, the required minimum reserve is, as of any date of computation, an aggregate amount equal to at least the largest amount of money required by the terms of all contracts between the authority and its bondholders of the bonds to be raised in the current or any succeeding calendar year for the payment of interest on and maturing principal of that portion of the outstanding bonds or sinking fund payments required by the terms of any such contracts to sinking funds established for the payment or redemption of the bonds, all calculated on the assumption that the bonds will cease to be outstanding after the date of the computation because of the payment of the bonds at their respective maturities and the payments of the required money to sinking funds and the application of the sinking funds in accordance with the terms of all such contracts to the retirement of the bonds. [1991, c. 584, §6 (NEW).]

D. Money in any capital reserve fund may not be withdrawn if the withdrawal reduces the amount in the capital reserve fund to an amount less than the required minimum reserve for all such bonds issued and to be issued that are secured by the capital reserve fund, except for:

(1) Payment of interest then due and payable on bonds secured by the capital reserve fund then maturing and payable;

(2) Sinking fund payments required by the terms of any such contracts to sinking funds established for the payment of redemption of the bonds;

(3) The retirement of bonds secured by the capital reserve fund in accordance with the terms of any contract between the authority and its bondholders; and

(4) The payments for which other money of the authority is not then available for payment of interest or principal or sinking fund payments or retirement of bonds secured by the capital reserve fund in accordance with the terms of any such contract. [1991, c. 584, §6 (NEW).]

[1991, c. 584, §6 (NEW) .]

SECTION HISTORY
1991, c. 584, §6 (NEW). 1995, c. 179, §4 (AMD).

22 §2076. AUTHORITY TO INTERCEPT FEDERAL AND STATE AID

1. Treasurer to withhold funds. When the authority notifies the Treasurer of State in writing that an entity eligible to use the authority is in default as to the payment of principal or interest on any securities of that entity sold through or by the authority, or that the authority has reasonable grounds to predict that the entity will not be able to make a full payment when that payment is due, the Treasurer of State shall withhold any funds in the Treasurer of State's custody that are due or payable to the eligible entity until the amount of the principal or interest due or anticipated to be due has been paid to the authority or the trustee for the bondholders, or the authority notifies the Treasurer of State that satisfactory arrangements have been made for the payment of the principal and interest. Funds subject to withholding under this subsection include, but are not limited to, federal and state grants, contracts, allocations or appropriations.

[1991, c. 584, §7 (NEW) .]

2. Withheld funds to be made available to authority. If the authority further notifies the Treasurer of State in writing that no other arrangements are satisfactory, the Treasurer of State shall deposit in the General Fund and make available to the authority any funds withheld from the eligible entity under this section. The authority shall apply the funds to the costs incurred by the eligible entity, including payments required to be made to the authority or trustee for any bondholders of debt service on any debt issued by the authority for the eligible entity or required by the terms of any other law or contract to be paid to the holders or owners of debt issued on behalf of the eligible entity upon failure or default, or reasonable expectation of failure or default, of the eligible institution to pay the principal or interest on its securities when due.

[1991, c. 584, §7 (NEW) .]

3. Other agencies to be notified. Concurrent with any notice from the authority to the Treasurer of State under this section, the authority shall notify any other agency, department or authority of State Government that exercises regulatory, supervisory or statutory control over the operations of the eligible entity. Upon notification, the agency, department or authority shall immediately undertake reviews to determine what action, if any, that agency, department or authority should undertake to assist in the payment by the eligible entity of the money due or steps that the agencies of the State other than the Treasurer of State or the authority should take to assure the continued prudent operation of the eligible entity or provision of services to the people served by the eligible entity.

[1991, c. 584, §7 (NEW) .]

SECTION HISTORY
1991, c. 584, §7 (NEW).

22 §2077. LEASE FINANCE PROGRAM

1. Establishment; administration. A lease finance program under the jurisdiction and direction of the authority is established to provide for or assist with financing leases for eligible entities to acquire the use of personal or real property. The lease finance program must provide methods of direct or indirect financing, insurance, borrowing, credit enhancement and other financial tools for the lease, lease-purchase, rental or right of use of any real or personal property or other authorized activity of an eligible entity. For the purposes authorized in this section the University of Maine System and its colleges and universities are eligible participating institutions under the definition of eligible participant for the authority.

[1997, c. 385, §5 (NEW) .]

2. Eligible entity defined. For purposes of this section "eligible entity" means an eligible entity, as defined in section 2053, subsection 3-B, that is organized pursuant to the United States Internal Revenue Code, Section 501.

[1997, c. 385, §5 (NEW) .]

3. Powers. The authority may make loans or borrow money on behalf of any eligible entity for any of the purposes of this section. The authority may purchase, refinance or enter into leases with or on behalf of any eligible entity. The authority may purchase or refinance for or on behalf of any eligible entity any lease that is held or issued by a 3rd party. The authority may issue its bonds or notes for the purchase of leases on behalf of any eligible entity or any group of those entities or for the establishment of a pool of funds to be used for the purchase, financing or other means of acquisition of leases. The authority shall establish prudent standards for the terms and conditions of any lease financing made available to any eligible entity or any group of those entities. Terms and conditions include, but are not limited to, the general obligation of the eligible entity, liens on any real or personal property held by the eligible entity whether financed by the specific lease or not and sinking funds held by or available to the eligible entity.

[1997, c. 385, §5 (NEW) .]

4. Application; eligibility. The authority may prescribe and require an application or procedure for an eligible entity to participate in any form of lease financing assistance made available under this section. An application must include any information that the authority decides is necessary for implementing this section, including, but not limited to, supporting documents, certifications, feasibility studies, financial data, utilization studies or other applicable information. An eligible entity may not participate in any lease finance assistance made available under this section unless, in the sole judgment of the authority, the eligible entity has satisfactorily demonstrated that it will pay the principal, interest, fees and related charges on the bond, debt, or other instrument issued by the authority on its behalf or purchased by the bank from the eligible entity as well as the costs for operation and maintenance of any real or personal property acquired or made available for use by the eligible entity by virtue of the lease assistance. Satisfactory assurance can be demonstrated if an eligible entity has:

A. Established a method of payment by fee, rate, charges, assessment or other mechanism satisfactory to the authority; or [1997, c. 385, §5 (NEW).]

B. Provided collateral sufficient to ensure payment. [1997, c. 385, §5 (NEW).]

[1997, c. 385, §5 (NEW) .]

5. State not liable. Bonds, notes, leases or other forms of debt or liability entered into or issued by the authority under this section are not in any way a debt or liability of the State and do not constitute a loan of the credit of the State or create any debt or debts, liability or liabilities on behalf of the State or constitute a pledge of the faith and credit of the State. Each bond, note, lease or other evidence of debt or liability entered into by the authority must contain a statement to the effect that the authority is obligated to pay the principal, interest, redemption premium, if any, and any other amounts payable solely from the sources pledged for that purpose by the authority and that neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal, interest, premium, charge, fee or other amount of the bond, note, lease or other form of indebtedness, as the case may be.

[1997, c. 385, §5 (NEW) .]

6. Lease finance agreement. Lease financing and refinancing, lease purchase, loans and other forms of indebtedness or obligations incurred by an eligible entity due the authority under the terms of this section must be evidenced by and be made in accordance with the terms and conditions specified in a lease finance agreement to be executed by the authority and any eligible entity or any group of those entities. The lease finance agreement must specify, among other things, the terms and conditions for the disbursement of lease finance proceeds, the term and interest rate of the lease, the scheduling of lease payments or bond payments, as the case may be, and any other terms and conditions determined necessary or desirable by the authority.

[1997, c. 385, §5 (NEW) .]

7. Utilization of municipal lease finance program. The authority, for the benefit of its eligible entities, may utilize the municipal lease finance program created in Title 30-A, section 6006-C for the purposes of this section.

[1997, c. 385, §5 (NEW) .]

SECTION HISTORY
1997, c. 385, §5 (NEW).

MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S DOWNGRADES MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY'S RESERVE FUND RESOLUTION BONDS TO A1 FROM Aa3, AFFECTING $1.4 BILLION IN OUTSTANDING DEBT; OUTLOOK IS STABLE

Global Credit Research - 22 Dec 2010

A1 RATING ASSIGNED TO $48 MILLION OF SERIES 2011A,B&C BONDS

Health Care-Hospital
ME

Moody's Rating

ISSUE	**RATING**
Revenue Bonds, Series 2011A	A1
Sale Amount $37,500,000	
Expected Sale Date 01/15/11	
Rating Description Revenue Bonds	
Revenue Bonds, Series 2011B	A1
Sale Amount $4,100,000	
Expected Sale Date 01/15/11	
Rating Description Revenue Bonds	
Revenue Bonds, Series 2011C	A1
Sale Amount $6,000,000	
Expected Sale Date 01/15/11	
Rating Description Revenue Bonds	

Moody's Outlook Stable

Opinion

NEW YORK, Dec 22, 2010 -- Moody's Investors Service has downgraded the Maine Health and Higher Educational Facilities Authority's (MHHEFA) Reserve Fund Resolution bond rating to A1 from Aa3, affecting $1.4 billion in outstanding debt. At this time, we have also assigned A1 ratings to $48 million of Series 2011A,B&C fixed rate revenue bonds to be issued under the Reserve Fund Resolution. The outlook is stable. The rating action concludes a rating review for possible downgrade initiated on October 28, 2010 following the application of our new rating methodology for pool program debt, "U.S. Municipal Pool Program Debt" dated August 25, 2010.

RATINGS RATIONALE

The downgrade to A1 from Aa3 reflects the application of our recently released methodology for pool program debt. The methodology's key rating factors and weights assigned to each factor are as follows: underlying credit quality and default tolerance (50%), pool size and diversity (15%), debt structure and legal covenants (20%), and management and governance (15%). The methodology states that for pool program structures that include a moral obligation pledge of their respective states to replenish a draw on the debt service reserve fund in the event of a loan repayment deficiency, we will compare the credit quality of moral obligation pledge to the underlying pool program rating and apply the higher of the two. In this case, we have determined the credit quality of the moral obligation pledge to be A1 and equivalent to the pool program rating of A1 assigned through the application of the U.S. Municipal Pool Program Debt methodology. The moral obligation pledge is two notches below the state's general obligation bond rating of Aa2 with a stable outlook.

Considering the factors driving the assessment of the pool program rating, we believe MHHEFA demonstrates very strong characteristics related to debt structure and legal covenants as well as management and governance, and demonstrates strong characteristics overall related to pool size and diversity. We believe these strengths compensate for our estimate of the debt-weighted average pool credit quality in the Baa range as well as a concentration of loans among the top five and top ten borrowers.

USE OF PROCEEDS: The proceeds will be used to refund existing debt of the following entities. The proceeds of the Series 2011A Bonds will be loaned by the Authority to Cove's Edge, Inc., Maine Medical Center, Miles Memorial Hospital, St. Andrews Hospital and Waldo County General Hospital. The proceeds of the Series 2011B Bonds will be loaned by the Authority to Maine Medical Center. The proceeds of the Series 2011C Bonds will be loaned by the Authority to Cove's Edge and Miles Memorial Hospital.

LEGAL SECURITY: Bonds are secured by several, not joint, obligations of each loan participant pursuant to individual loan agreements and a reserve fund, which holds a moral obligation of the state (general obligation bonds rated Aa2 with stable outlook) to replenish any deficiency in those reserves. Each participant in a particular bond series enters into a loan agreement to repay their portion of the annual debt service obligation and share in funding the debt service reserve fund. In addition to the security of the Reserve Fund pursuant to the Reserve Fund Resolution, individual bond series are typically secured by mortgages and gross revenues of the participants in that series.

STRENGTHS

*The establishment of the Reserve Fund Resolution, which obligates the state morally, though not legally, on MHHEFA bonds to make up any deficiency that may occur in the reserve fund through annual appropriations

*Legal provisions under the resolution, which requires the funding of a reserve fund at maximum annual debt service of the bonds, providing an adequate level of reserves along with the availability of additional operating funds at the Authority, a portion of which are pledged to bondholders

*Intercept provisions established under the MHHEFA Act, which empowers the state treasurer to intercept funds within the state's custody (including Medicaid funds or state appropriations for a public higher education institution) due to a pool borrower and redirect these funds for debt service, even if there is only a potential for default

*Adequate credit quality and essentiality of the largest borrowers in the program, although as discussed below the economy and financial market volatility have affected the credit quality of the top ten borrowers

*Strict state certificate of need regulations for healthcare providers to construct facilities, which limits new competition and moderates capital programs and debt issuances

*Strong oversight and administration of the program and demonstrated effectiveness in other programs administered by the Authority

CHALLENGES

*State general fiscal and Medicaid funding pressures have affected healthcare borrowers in the pool

*Concentration of loans in the top five borrowers at approximately 39% of the pool

*Bonds are secured by several, not joint, obligations of each loan participant pursuant to individual loan agreements and reserve fund

*Concentration of pool participants among healthcare organizations (which increased last year following the withdrawal of Bowdoin College as a participant), which generally experience variability in financial performance and more recently have been challenged by the effects of the economy, including higher charity care and softer volumes

LEGAL PROVISIONS AND DEBT STRUCTURE VERY STRONG

The Reserve Fund Resolution, adopted in 1991, was established to secure the payment of bonds designated by the Authority and issued to assist participating health care providers, higher education institutions, and other eligible facilities obtain capital. Bonds issued under this resolution enjoy the security of the reserve fund, which is funded with bond proceeds and must equal at least maximum annual debt service on the bonds outstanding under this program. The Reserve Fund Resolution, which established the program, obligates the state morally, though not legally, to make up any deficiency that may occur in this fund through annual appropriations. Funds in excess of the reserve requirements (derived mainly from investment earnings) are held in the General Fund and are also pledged to debt service. In addition, the Authority may use its operating fund to support debt service, although not legally obligated to do so. The Authority's accumulated operating cash and investments and special discretionary reserve fund (which is pledged to bondholders) is a substantial $43 million.

Added security is derived from intercept provisions established under the Maine Health and Higher Educational Facilities Authority Act. Under this act, the state treasurer is empowered to intercept funds within the state's custody due to a borrower and redirect these funds for debt service, if the Authority believes the borrower may default on its debt obligation and notifies the State Treasurer. This provision can be particularly effective given that the borrowers with the higher risk profile, such as nursing homes and human service providers, derive a substantial percentage of their revenues from Medicaid and other state contracts. Currently approximately 20% of the portfolio (by number of participants) is comprised of nursing homes, residential care facilities and other human service providers. This is another mechanism by which the Authority can ensure debt payments will be made before payments are due to bondholders.

DEMONSTRATED OVERSIGHT OF PROGRAM ADMINISTRATION AND MONITORING PROCEDURES VIEWED VERY STRONGLY

Moody's believes additional security is provided through the Authority's well-established administration, monitoring procedures, and payment collection mechanisms, which have been tested in other programs administered by the Authority. The Authority, pending review of the borrower's finances and relevant statistical information, approves loans to individual borrowers. The Authority continues to monitor finances of all active borrowers based upon quarterly statements and annual audits to ensure the borrowers' continued ability to meet their debt obligations. The Authority also has additional indebtedness tests that limit a borrower's ability to incur debt outside of the program. For construction projects, the Authority requires signed bids before bonds are issued to limit construction cost overruns and a feasibility study for new services.

Monthly loan payments are due on the 20th of every month except in June and December when payments are due on the 15th and are placed in a sinking fund account until semiannual payments are due on January 1st and July 1st. Monthly payment requirements enable the Authority to identify borrowers early who are experiencing financial difficulties. If two monthly payments are missed, the Authority will become actively involved and initiate corrective measures.

Although a payment has not intentionally been missed under this program, payments have been missed in another program administered by the Authority. In these situations, the Authority has sold facilities, using proceeds to repay debt obligations, and/or has taken over operations resulting in improved financial performance. In every case, the Authority has taken steps to ensure that no borrower has missed its debt service payment in the three programs administered by the Authority. Moody's views these past experiences of acting by the Authority to the benefit of bondholders very positively.

ESSENTIALITY OF LARGEST BORROWERS PROVIDES SOME UNDERLYING STRENGTH, ALTHOUGH HEALTH CARE EXPOSURE AND CONCENTRATION AMONG TOP 5 BORROWERS IS HIGH

Moody's believes the credit strength of the largest borrowers in the program and essentiality of services provided by these borrowers provide adequate security to bondholders although health care exposure and concentration among the top five borrowers is high.

The portfolio of borrowers currently includes 74 participants, with the top ten borrowers (by amount of debt outstanding under the program) comprising approximately 60% of the total debt. Maine Health System (including subsidiaries) represents the largest borrower in the pool with approximately 14% of outstanding debt. Hospitals represent about 60% of the debt outstanding, colleges and universities 27%, and the remainder is diversified among continuing care retirement communities, residential care facilities, community mental health and long term care facilities. These institutions are vital to the state's provision of health care and higher education, representing the majority of health care providers and private higher education institutions in the state.

None of the borrowers have underlying ratings from Moody's, given that their sole debt offerings are through the MHHEFA. Moody's has completed an internal assessment of the portfolio's credit quality. Based on our analysis, Moody's believes that the debt weighted average credit quality of the pool is in the Baa-range. The pool does have a degree of concentration, with the top 5 borrowers accounting for 39% of outstanding loans.

Healthcare borrowers have been affected by fiscal pressures at the state level and by a weaker economy. Challenges include higher bad debt and charity care and softer or declining volumes. Healthcare providers do benefit from the state's fairly stringent and broad Certificate of Need regulations, which limits competition and the ability of hospitals to issue debt. The regulations limit annual approvals to only $250 million in total. As a result, despite on average lower operating performance and liquidity for many Maine hospitals and health systems, many of the health systems in the top ten borrower group still have adequate debt measures because they carry relatively low debt loads.

Many of the smaller hospitals and nursing homes are affiliated or controlled by larger systems (which in some cases guarantee their obligations or may be motivated to support them in the event of financial difficulty) and some of the hospitals are Critical Access Hospitals, which provides additional Medicare reimbursement.

STATE MORAL OBLIGATION PLEDGE IS A1

The A1 moral obligation rating incorporates the timing, mechanics, and notification related to the State of Maine's moral obligation pledge to appropriate amounts needed to make up for a deficiency in the debt service reserve fund if it is drawn upon, after other sources are exhausted, to cover debt service on the bonds. The authorization to pledge the state's moral obligation commitment to replenish the capital reserve fund is included in state statute. The debt service reserve fund requirement is the maximum annual debt service.

Debt service payments for the authority's bonds are due January 1 and July 1. Pursuant to statute, in the event of a shortfall in the debt service reserve fund, the authority will certify to the governor on or before December 1 each year the amount needed to restore the fund to the required level. According to the statute, the amount must be appropriated to restore the fund. Appropriation risk is one factor in the rating level of two notches below the state's general obligation bond rating. There is potential timing risk in the event that notification occurs on December 1 for debt service reserve fund replenishment by the following January 1, one month later. However, this would occur in the unlikely situation in which the debt service reserve was tapped for both the prior January 1 and July 1 debt service payments and notification was delayed until December 1. Given the authority's overall strong management characteristics, we believe early notification of a reserve fund draw would occur promptly, providing sufficient time for a replenishment appropriation. The likelihood of a late or insufficient appropriation appears slim given the existing statute regarding the state's moral obligation and the substantial amount of debt (approximately $4.2 billion including other state authorities) supported by the state's moral obligation pledge. In addition, the state's various moral obligation-backed debt obligations have strong track records. The state published a study of its moral obligation debt in July 2009. Over more than two decades the state has not been called upon to honor the moral obligation pledge, highlighting the management strength of the different programs as well as the performance of the pledged revenues.

Maine's general obligation bonds are rated Aa2 with a stable outlook. The state's overall management strength is underscored by efforts to rebuild reserves following the last recession and to control costs while stepping up state spending on K-12 education as mandated by a citizens' initiative approved in 2004. Maine has recorded modest employment gains over the past year , and the state's unemployment rate (7.3% in November 2010) remains well below the national level (9.3% in November 2010). Maine's financial operations are narrow, with slim cash balances and rainy day funds depleted at the end of fiscal year 2009. Revenue underperformance due to the recession has challenged the state to resolve sizeable budget gaps in recent years. A supplemental budget was adopted to close a shortfall in the 2010-2011 biennial budget, using a combination of spending cuts as well as one-time resources. Liquidity remains tight although Maine has used interfund borrowing to avoid short term borrowing for cash flow in the past several years. In recent months, state revenues have tracked on target with forecast and the state currently projects a surplus of approximately $111 million for fiscal year end 2011.

Outlook

The stable outlook reflects no anticipated changes to the legal structure or management of the pool program and our belief that the overall credit quality of the pool is stable; additionally, the state's general obligation rating carries a stable outlook

What could change the rating--UP

-An upgrade of the state's general obligation rating

-Improvement in the credit strength and loan diversity of the underlying pool of borrowers

What could change the rating-DOWN

-Downgrade of the state's general obligation rating

-Overall deterioration of credit quality of pool participants

KEY FACTS:

Pre-sale Debt Outstanding under the Reserve Fund Resolution: $1,361 million

Number of borrowers: 74

Percent of loans to top five borrowers: 39%

Percent of borrowers consisting of less than 1% of pool: 66%

CONTACTS

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Michael Goodwin, Program Officer, Maine Health and Higher Educational Facilities Authority, (207) 622-1958

Underwriter: Jan Blazewski, Raymond James, 215-640-3154

The last rating action with respect to the Maine Health and Higher Educational Facilities Authority was on October 28, 2010 when the Aa3 rating was placed on Watchlist for potential downgrade.

The principal methodology used in this rating was U.S. Municipal Pool Program Debt published in August 2010.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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MOODY'S
INVESTORS SERVICE

FitchRatings

FITCH RATES MAINE HEALTH & HIGHER EDUCATIONAL FACILITIES AUTHORITY'S $41.6MM REVS 'AA'

Fitch Ratings-Chicago-10 June 2011: Fitch Ratings assigns an 'AA' rating to the following Maine Health and Higher Educational Facilities Authority (the authority) revenue bonds:

--$37.9 million revenue bonds, series 2011A;
--$3.7 million revenue bonds, series 2011B (Federally Taxable).

The bonds are expected to price via negotiation during the week of June 20, 2011, subject to market conditions. Proceeds of the series 2011A and 2011B bonds will be used to refund certain outstanding bonds for debt service savings.

In addition, Fitch affirms the following rating:

--$1.4 billion in outstanding authority revenue bonds at 'AA'.

The Rating Outlook is Stable.

RATING RATIONALE:
--The authority's loan portfolio reflects strong loan security from borrowers and moderate single borrower concentration.
--In addition to loan repayments, the pool is secured by a debt service reserve funded at maximum annual debt service (MADS) and backed by the state's moral obligation.
--A state-aid intercept mechanism to assure loan repayments and a supplemental operating fund that can be utilized so any potential delinquent loan payments do not cause a draw on the debt service reserve provides additional bondholder security.

KEY RATING DRIVERS:
--Credit quality of the bonds is linked to repayment performance on the program's loan portfolio.
--The programs' strong reserves, which offset potential deterioration of underlying health or higher education loan credit quality, are important to preserving credit rating.

SECURITY:
The series 2011A and 2011B bonds and outstanding bonds are secured by loan repayments and reserve funds.

CREDIT SUMMARY:
The authority's loan pool consists of 66 borrowers, with moderate single-borrower concentration; the largest, the Maine Health System, represents 14% of the total outstanding portfolio, and the top 10 borrowers account for approximately 64% of the outstanding loan balance. Approximately 59% of the outstanding loan balances are to hospitals, 26% to higher education institutions, and the remaining 15% spread among mental health facilities, nursing homes, community care retirement communities and social service organizations. Most of the state's eligible health care and higher education institutions use the authority as their primary borrowing vehicle because it offers participants the lowest cost of capital.

Borrowers in the pool generally do not have public ratings. Fitch estimates that the largest nine borrowers are of investment grade quality. Program loan security is strong with a senior lien on gross revenues and a mortgage on most property and/or financed projects.

A debt service reserve for all parity debt is funded by bond proceeds at 100% of MADS. The debt service reserve totals $147 million, or 11% of total bond principal outstanding. The debt service reserve is backed by a state moral obligation make-up provision if it falls below MADS. Neither the

Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564565
State Revolving Fund and Municipal Loan Pool Rating Guidelines
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=384150

intercept nor the reserve replenishment has ever been utilized. During fiscal 2010, the authority transferred $24.2 million of cash and investments from its operating fund to a newly established supplemental reserve fund pledged to bondholders. With this transfer, pledged debt service reserves increased to $147 million from $127.5 million. The reserves are invested in highly rated tax-exempt municipal bonds, money market accounts and investment agreements.

Approximately $17.8 million remains in the operating fund and, while not pledged, may be used instead of the debt service reserve in the event of loan delinquencies. The operating fund, which is primarily invested in U.S. treasury or agency securities, has grown steadily from administrative fees collected from borrowers. Combined, debt service reserves and operating fund balances will total $165 million, or approximately 12% of bond principal outstanding.

Fitch analyzes the default tolerance of the authority's portfolio using a stress test that considers loan credit quality, single-risk concentration, debt service reserves and operating funds and loan payments. Fitch discounts in its analysis approximately $3 million of reserves that are held in non-collateralized investment agreements with a provider rated below 'AA'. However, the authority's reserves and operating funds are sufficient to pay bondholders if scheduled loan repayments fall short by as much as 37.8% for four consecutive years, even if the lower quality investment agreements fail to perform and no action is taken by the state to replenish the reserve fund.

The Internal Revenue Service (IRS) requires that the senior elected official in the state of Maine approve the sale of any tax exempt bonds in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Fitch was recently made aware that the Governor reportedly will not sign any TEFRA approval letters for proposed tax exempt bond sales which utilize the Moral Obligation Reserve Fund Program. This decision by the Governor means that the authority can only issue refunding bonds for the foreseeable future. While this decision does not materially impact the credit quality of the program bonds in the near term, Fitch will continue to monitor the credit quality of the program if no new money bonds are issued in the future.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria' (Oct. 8, 2010);
--'State Revolving Fund and Municipal Loan Pool Rating Guidelines' (April 28, 2008).

Applicable Criteria and Related Research:

Maine HHEFA
MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

HISTORICAL LIST OF BORROWER
JULY 28, 2011

Acadia Hospital
Aroostook Medical Center, The
Bates College
Birch Bay Retirement Village
Birch Grove Nursing Care Center
Blue Hill Memorial Hospital
Bowdoin College
Bridgton Hospital
Calais Regional Hospital
Camden Health Care Center
Catholic Charities Of Maine
Cedar Ridge
Cedars Nursing Care Center
Central Maine Medical Center
Colby College
College Of The Atlantic
Community Living Association
Community Partners, Inc.
Country Manor Nrsing Home Inc
Cove's Edge Facility
Dolly Farm Assisted Living
Downeast Community Hospital
Eastern Maine Medical Center
Fallbrook Woods
Falmouth By The Sea
Families United
Farmington Home For The Aged
Franklin Memorial Hospital
Freeport Nursing
Goodall Hospital
Goodwill Industries Of Maine
Harbor Hill
Hawthorne House - Freeport
HealthReach Network (KVRHA)
High View Manor
Home for Aged-The Park Danforth
Houlton Regional Hospital
Husson University
Inland Hospital
Jackson Laboratory
JHA Properties, Inc
John F. Murphy Homes
Kennebec Mental Health Assoc
Kno-Wal-Lin Home Health Care Inc.
Knox Housing d/b/a Bartlett House
Lakewood dba Lakewood Cont Care
Lincoln Home, The
Maine Coast Memorial Hospital
Maine College Of Art
Maine Community College System
Maine Gen Rehab & Nursing Care
Maine Gen Retirement Community
Maine General Medical Center
Maine Maritime Academy
Maine Medical Center
Marshwood Nursing Care Center
Martin's Point Health Care
Medical Care Development
Mercy Hospital
Merrill Memorial
Mid Coast Geriatric Serv Corp
Mid-Coast Hospital
Miles Memorial Hospital
Millinocket Regional Hospital
Morrison Developmental Center
Mount Desert Island Hospital
Mount St. Joseph Nursing Home
Oak Grove Nursing Care Center
Parkview Adventist Medical Center
Parkview Nursing Home
Penobscot Bay Medical Center
Penobscot Valley Hospital
Phillips-Strickland House
Pine Point Nursing Care Center
Piper Shores
Pleasant Hill Health Care
Portland Center For Assisted Living
Redding Homes Inc
Redington-Fairview General Hospital
River Ridge Nursing Care Center
Robinson Health Care
Rumford Community Home
Rumford Community Hospital
Russell Park
Sandy River Nursing Care Center
Sebasticook Valley Health Care
Sebasticook Valley Hospital
Sedgewood Commons
Seventy Five State Street
Southern Maine Medical Center
Spring Harbor
Springbrook Nursing Care Center
Spurwink School, The
St Andrews Hospital
St Joseph Hospital
St Joseph's College
St. Marguerite d'Youville Pavilion
St. Mary's General Hospital
Stephens Memorial Hospital
Sweetser
Tallpines Health Care Facility
Thomas College
Tri-County Mental Health
Unity College
University Of New England
Varney Crossing NCC
VHA Of New England
Viking Nursing Facility
Waldo County General Hospital
Western Maine Health Care
Willows Nursing Care Center
Windward Gardens
York Hospital
Youth Alternatives, Inc.

POWEROPTIONS
MAINE ENERGY PURCHASERS CONSORTIUM

Maine Health and Higher Education Facilities Authority - Maine PowerOptions Members	
Mental Health	Millinocket Regional Hospital
Aroostook Mental Health Services, Inc.	Mobius, Inc.
Bangor Theological Seminary	Morrison Developmental Center
Bates College	Mount St. Joseph
Bowdoin College	Northeast Health
Bucksport Regional Health Center	Northern Maine Community College
Cary Medical Center	Northern Maine General Hospital
Catholic Charities Maine	Oxford County Mental Health
Cedars Nursing Care Center, Inc.	Parkview Memorial Hospital
Central Maine Community College	Penobscot Community Health Center
Central Maine Hlth - Bridgton Hospital	Penobscot Valley Hospital
Hospital	Phillips-Strickland House
Central Maine Hlth - Rumford Community Hospital	Piper Shores
Central Maine Hlth- Central Maine Medical Center	Portland Center for Assisted Living
Colby College	Rangeley Region Health Center, Inc.
College of the Atlantic	Regional Medical Center at Lubec
Community Health & Counseling Services	Saint Joseph's Manor
Counseling Services Inc.	Sebasticook Valley Hospital (EMH)
Danforth Habilitation Assoc.	Sheepscot Valley Regional Health Center
Downeast Horizons	Southern Maine Community College
Eastern Agency on Aging	Southern Maine Medical Center
Eastern Maine Community College	Spectrum Generations (Central Maine Area Agency on Aging)
Eastport Health Care, Inc.	Spring Harbor Hospital
Facilities, Inc.	Spurwink School
Families United	St. Josephs College
Franklin Memorial Hospital	Stella Maris Housing Development Corp.
Goodwill Industries	Sweetser
Group Home Foundation	The Iris Network
Group Main Stream, Inc.	Thomas College
Harrington Family Health Care	Treats Falls House, Inc.
Houlton Regional Hospital	Tri County Mental Health Services
Husson College	Unity College
Independence Association, Inc.	University of Maine
Inland Hospital (EMH)	University of Maine at Augusta
Island Nursing Home	University of Maine at Farmington
Jackson Laboratory	University of Maine at Fort Kent
John F. Murphy Homes, Inc.	University of Maine at Machias
Ken-a-Set Assoc for the Retarded, Inc.	University of Maine at Presque Isle
Kennebec Valley Community College	University of Maine System
Kennebec Valley Mental Health Center	University of Maine-Hutchinson Center- Belfast
Lakewood Manor (EMH)	University of New England
Maine Bond Bank & Maine Health & Higher Ed	University of Southern Maine
Maine Coast Memorial Hospital (EMH)	Uplift, Inc.
Maine College of Art	Waldo County General Hospital
Maine General Health & HealthReach Network	Wardwell Home for the Aging
Maine Maritime Academy	Washington County Community College
Maine Medical Center	Yesterday's Children, Inc.
Maine Mental Health Connections, Inc.	York County Community College
Medical Care Development	York Hospital
Mercy Hospital	Youth Alternatives Ingraham, Inc.
Mid Coast Hospital	Total=101

08/12/2011

Annual Report
Maine Health & Higher Educational Facilities Authority

2010

Maine HHEFA

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Maine HHEFA
MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **2010 Maine Health and Higher Educational Facilities Authority Annual Report**

This is the annual report for the Maine Health and Higher Educational Facilities Authority for the 2010 fiscal year, running from July 1, 2009 to June 30, 2010. As of June 30, 2010, the Authority has $148,720,000 outstanding under its general tax exempt conduit resolution, $1,403,010,000 outstanding under its tax exempt reserve fund resolution, and $3,280,000 outstanding under its taxable reserve fund resolution.

During fiscal year 2010 the Authority issued $298,050,000 of bonds under its tax-exempt reserve fund resolution. These sales were accomplished in four series for sixteen hospitals, seven colleges, two community mental health care facilities, and six residential care facilities.

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

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Maine Health and Higher Educational Facilities Authority

Basic Financial Statements and Management's Discussion and Analysis

Year Ended June 30, 2010
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, 2010

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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, 2010, 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, 2010, 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 October 28, 2010 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 additional information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such additional 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
October 28, 2010

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

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, 2010. 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

- On September 30, 2009, the Authority sold the net assets of Portland Center for Assisted Living (the Center), its formerly wholly-owned subsidiary, and recognized a gain on sale of $892,194. Operating results of the Center for the period July 1, 2009 through September 30, 2009, and the gain on sale have been reported as discontinued operations on the 2010 statement of revenues, expenses and changes in net assets in the accompanying financial statements. Refer to note 10 of the financial statements for a summary of the transaction.
- Operating income for the Authority's Operating Fund before transfers and discontinued operations was $2,264,514 for fiscal year 2010, a decrease of $1,804,765 or 44% from fiscal year 2009. This decrease was primarily due to two factors. There was a decrease in income from investments of approximately $575,000 due to the board adopting a resolution establishing a supplemental reserve fund within the Authority's reserve fund resolution, resulting in a transfer of $24,221,739 of cash and investments from the operating resolution to the reserve fund resolution. Secondly, the board approved a decrease in Authority fees charged to the institutions, effective January 1, 2010, which was the primary factor in a total reduction in administrative and other fee revenue of approximately $1,122,900 from 2009.
- Total revenues of $62,039,692 for fiscal year 2010 were a decrease of $4,529,433 or 7% from fiscal year 2009. The decrease was due to a decrease in income from investments, a scheduled reduction in interest received from institutions and a board approved decrease in Authority fees.
- The Authority's loans receivable from institutions at June 30, 2010 of $1,278,873,763 represents a net increase of $76,761,885 or 6% from the balance at June 30, 2009. This increase is the net result of the bond issuances described below, and repayment of loans by institutions during fiscal year 2010.
- The Authority's gross bonds outstanding at June 30, 2010 of $1,406,290,000 represent a net increase of $81,275,000 or 6% from the balance at June 30, 2009. This increase is due to the net impact of the issuance of $92,780,000 in 2009A reserve fund bonds, $97,240,000 in 2010A reserve fund bonds and $108,030,000 in 2010BC reserve funds bonds, a portion of which refunded $162,585,000 of outstanding maturities within the 1993D, 1995A, 1998A, 1998B, 1998C, 1999A, 2000C, 2001A, 2001C and 2001D bond series, less scheduled bond principal payments (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 $48,254,705 at June 30, 2010. This represents an increase of $4,530,192 or 10.4% over the previous fiscal year, which is the Authority's 2010 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. We have broken out the 2009 Portland Center total assets, liabilities and net assets on the balance sheet below to facilitate comparison with 2010. We have also reclassified 2009 operating results of Portland Center on the statement of revenues, expenses and changes in net assets below to facilitate comparison with 2010.

Balance Sheet

	2010	2009	% Change
Current assets:			
Cash and cash equivalents	$ 11,190,323	$ 11,401,459	(1.9)%
Investments held by trustee, at fair value	30,870,224	34,473,356	(10.5)
Board-designated cash and investments	7,122,830	25,122,442	(71.6)
Accrued investment income	599,698	256,621	133.7
Loans receivable from institutions	42,791,340	49,362,675	(13.3)
Loan receivable from operating fund	–	660,000	(100.0)
Interest and other receivables from institutions	2,795,064	2,289,438	22.1
Fees and other amounts due from other funds	1,261,877	2,378,251	(46.9)
Total current assets	96,631,356	125,944,242	(23.3)
Noncurrent assets:			
Investments held by trustee, at fair value	128,735,865	120,845,109	6.5
Board-designated cash and investments	24,324,395	–	–
Loans receivable from institutions	1,236,082,423	1,152,749,203	7.2
Loan receivable from operating fund	–	1,398,013	(100.0)
Notes, advances and other receivables from institutions, net of allowance of $617,900 in 2010 and $732,000 in 2009	216,100	131,744	64.0
Total noncurrent assets	1,389,358,783	1,275,124,069	9.0
Total Portland Center assets	–	5,561,404	(100.0)
Total assets	$ 1,485,990,139	$ 1,406,629,715	5.6%
Current liabilities:			
Bonds payable	$ 43,020,000	$ 50,235,000	(14.4)%
Interest payable	24,986,302	26,652,666	(6.3)
Fees and other amounts due to operating fund	1,261,877	2,378,251	(46.9)
Accounts payable	397,696	358,918	10.8
Rebate payable to Internal Revenue Service	851,204	56,529	1405.8
Deferred revenue	3,163,980	2,845,334	11.2
Other liabilities	–	284,000	(100.0)
Total current liabilities	73,681,059	82,810,698	(11.0)
Noncurrent liabilities:			
Bonds payable	1,363,270,000	1,274,780,000	6.9
Rebate payable to Internal Revenue Service	784,375	1,476,193	(46.9)
Total noncurrent liabilities	1,364,054,375	1,276,256,193	6.9
Total Portland Center liabilities	–	3,838,311	(100.0)
Total liabilities	1,437,735,434	1,362,905,202	5.5
Net assets:			
Unrestricted net assets	48,254,705	42,001,420	14.9
Total Portland Center net assets	–	1,723,093	(100.0)
Total net assets	48,254,705	43,724,513	10.4
Total liabilities and net assets	$ 1,485,990,139	$ 1,406,629,715	5.6%

Statements of Revenues, Expenses and Changes in Net Assets

	2010	2009	% Change
Operating revenues:			
Interest and other amounts from institutions	$ 49,815,285	$ 55,481,214	(10.2)%
Interest on loans receivable from operating fund	36,500	214,155	(83.0)
Administrative and other fees	2,186,902	3,309,779	(33.9)
Income from investments	5,551,780	6,475,237	(14.3)
Net increase in the fair value of investments	1,118,720	120,453	828.8
Interest income from advances and notes receivable from institutions	33,910	35,778	(5.2)
Other income	3,296,595	932,509	253.5
Total operating revenues	62,039,692	66,569,125	(6.8)
Operating expenses:			
Bond issuance costs	3,193,945	788,440	305.1
Interest expense	54,844,081	60,748,835	(9.7)
Operating expenses	746,763	685,497	8.9
Bad debt provision	(398,260)	–	–
Other expenses	307,708	1,117,474	(72.5)
Total operating expenses	58,694,237	63,340,246	(7.3)
Operating income from continuing operations	3,345,455	3,228,879	3.6
Discontinued operations:			
Operating income from discontinued operations	292,543	817,593	(64.2)
Gain on sale of Portland Center	892,194	–	–
Operating income	4,530,192	4,046,472	12.0
Net assets, beginning of year	43,724,513	39,678,041	10.2
Net assets, end of year	$ 48,254,705	$ 43,724,513	10.4%

Accrued investment income at June 30, 2010 increased $343,077 or 133.7% from fiscal year 2009 due to an increase in the amount invested in long term municipal bonds. These municipal bonds replaced some of the long term guaranteed investment contracts that had been downgraded, subsequently liquidated and invested in low yielding cash and cash equivalents in 2009 (see note 3).

Interest and other receivables from institutions at June 30, 2010 increased $505,626 from prior year or 22.1% from balances at June 30, 2009 primarily due to the timing of transfers from capitalized interest accounts held by the trustee.

Loans receivable from operating fund decreased 100% from fiscal year 2009 due to the sale of Portland Center and corresponding payoff of the remaining taxable financing reserve fund loan (see note 10 for details).

Fees and other amounts due from other funds and related fees and other amounts due to the operating fund decreased $1,116,374 or 46.9% over fiscal year 2009 due to a Board authorized decrease in Authority fees charged to institutions, which was effective as of January 1, 2010.

Deferred revenue increased $318,646 or 11.2% in fiscal year 2010 over fiscal year 2009. The increase is a result of deferring monthly debt service installment payments received from institutions that subsequently refunded with the 2010BC reserve issue. The funds will be used against future debt service payments.

Rebate payable to the Internal Revenue Service at June 30, 2010 increased $102,857 or 6.7% from June 30, 2009. This increase is the result of the net difference between additional accrued liability for fiscal year 2010 and rebate payments to the Internal Revenue Service during fiscal year 2010.

The change in the fair value of investments in 2010 was a net increase of $1,118,720 versus a net increase of $120,453 in 2009. The increases experienced during fiscal 2010 are the result of fluctuations in the interest rate environment which resulted in an increase of the fair 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, municipal bonds and guaranteed investment contracts. Investments are carried at fair value, and unrealized gains and losses (primarily due to fluctuations in market interest rates) are recognized in the statements of revenues, expenses and changes in 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.

Interest on loans receivable from operating fund decreased $177,655 or 83% from fiscal year 2009 due to the sale of Portland Center and the corresponding payoff of the remaining taxable financing reserve fund loan.

Income from investments for fiscal year 2010 decreased $923,457 or 14.3% from fiscal year 2009. This decrease is the result of low short term interest rates throughout fiscal 2010 and the full year impact of replacing downgraded GICs in prior year with lower yielding alternatives.

Administrative and other fees decreased $1,122,877 or 33.9% from fiscal year 2009 due to a Board approved decrease in Authority fees charged to the institutions effective January 1, 2010.

Other revenue for fiscal year 2010 increased $2,364,086 or 253.5% from fiscal year 2009. This increase is primarily the result of new bonds being issued during fiscal year 2010, which resulted in additional revenue received from borrowers to pay related costs of issuance. The bond issuance costs for fiscal year 2010 have also increased.

Operating income from discontinued operations is less than 2009 due to there being only three months of operations in 2010.

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, 2010

ASSETS

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Current assets:				
Cash and cash equivalents (note 2)	$11,190,323	$ –	$ –	$ 11,190,323
Investments held by trustee, at fair value (note 3)	–	30,658,381	211,843	30,870,224
Board-designated cash and investments, at fair value (note 3)	7,122,830	–	–	7,122,830
Accrued investment income	11,349	587,438	911	599,698
Loans receivable from institutions (note 9)	–	42,186,340	605,000	42,791,340
Interest and other receivables from institutions	–	2,793,298	1,766	2,795,064
Fees and other amounts due from other funds	1,261,877	–	–	1,261,877
Total current assets	19,586,379	76,225,457	819,520	96,631,356
Noncurrent assets:				
Investments held by trustee, at fair value (notes 3 and 6)	–	127,792,742	943,123	128,735,865
Board-designated cash and investments, at fair value (notes 1 and 3)	–	24,324,395	–	24,324,395
Loans receivable from institutions (note 9)	–	1,234,350,546	1,731,877	1,236,082,423
Notes, advances and other receivables from institutions, net of allowance of $617,900 (note 9)	216,100	–	–	216,100
Total noncurrent assets	216,100	1,386,467,683	2,675,000	1,389,358,783
Total assets	$19,802,479	$1,462,693,140	$3,494,520	$1,485,990,139

LIABILITIES AND NET ASSETS

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Current liabilities:				
Bonds payable (note 4)	$ –	$ 42,415,000	$ 605,000	$ 43,020,000
Interest payable	–	24,976,619	9,683	24,986,302
Fees and other amounts due to operating fund	–	1,085,348	176,529	1,261,877
Accounts payable	93,064	303,137	1,495	397,696
Rebate payable to Internal Revenue Service	–	851,204	–	851,204
Deferred revenue	–	3,161,421	2,559	3,163,980
Total current liabilities	93,064	72,792,729	795,266	73,681,059
Noncurrent liabilities:				
Bonds payable (notes 4 and 8)	–	1,360,595,000	2,675,000	1,363,270,000
Rebate payable to Internal Revenue Service	–	784,375	–	784,375
Total noncurrent liabilities	–	1,361,379,375	2,675,000	1,364,054,375
Total liabilities	93,064	1,434,172,104	3,470,266	1,437,735,434
Net assets:				
Unrestricted net assets	19,709,415	28,521,036	24,254	48,254,705
Total net assets	19,709,415	28,521,036	24,254	48,254,705
Total liabilities and net assets	$19,802,479	$1,462,693,140	$3,494,520	$1,485,990,139

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2010

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Operating revenues:				
Interest and other amounts from institutions	$ –	$49,604,680	$210,605	$ 49,815,285
Interest on loans receivable from operating fund	–	–	36,500	36,500
Administrative and other fees	2,186,902	–	–	2,186,902
Income from investments	501,742	4,983,201	66,837	5,551,780
Net increase (decrease) in the fair value of investments	(152,187)	1,270,907	–	1,118,720
Interest income from advances and notes receivable from institutions	33,910	–	–	33,910
Other income	102,650	3,193,945	–	3,296,595
Total operating revenues	2,673,017	59,052,733	313,942	62,039,692
Operating expenses:				
Bond issuance costs	–	3,193,945	–	3,193,945
Interest expense	–	54,554,681	289,400	54,844,081
Operating expenses (note 7)	746,763	–	–	746,763
Bad debt provision	(398,260)	–	–	(398,260)
Other expenses	60,000	221,570	26,138	307,708
Total operating expenses	408,503	57,970,196	315,538	58,694,237
Operating income (loss) from continuing operations before operating transfers	2,264,514	1,082,537	(1,596)	3,345,455
Operating transfers (note 1)	(24,221,739)	24,221,739	–	–
Operating income (loss) from continuing operations	(21,957,225)	25,304,276	(1,596)	3,345,455
Discounted operations:				
Operating income from discontinued operations (note 10)	292,543	–	–	292,543
Gain on sale of Portland Center assets (note 10)	892,194	–	–	892,194
Operating income (loss)	(20,772,488)	25,304,276	(1,596)	4,530,192
Net assets, beginning of year	40,481,903	3,216,760	25,850	43,724,513
Net assets, end of year	$ 19,709,415	$28,521,036	$ 24,254	$48,254,705

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2010

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Operating activities:				
Cash received from institutions	$ 2,186,902	$ 98,584,157	$ 1,604,736	$ 102,375,795
Cash received from operating fund	–	–	2,094,513	2,094,513
Cash payments to institutions	–	(137,988,554)	–	(137,988,554)
Cash received from other income	102,650	–	–	102,650
Cash payments for operating expenses	(756,378)	(224,548)	(34,767)	(1,015,693)
Cash received from (paid to) other funds	1,116,374	(936,227)	(180,147)	–
Net cash (used) provided by operating activities	2,649,548	(40,565,172)	3,484,335	(34,431,289)
Noncapital financing activities:				
Proceeds from bonds payable	–	306,495,421	–	306,495,421
Other proceeds from institutions in conjunction with bond issuance	–	18,946,878	–	18,946,878
Principal paid on bonds payable	–	(49,390,000)	(4,800,000)	(54,190,000)
Interest paid on bonds payable	–	(53,532,008)	(303,601)	(53,835,609)
Paid to refunding escrows	–	(168,629,662)	–	(168,629,662)
Bond and other proceeds passed-on to borrowers	–	(10,162,447)	–	(10,162,447)
Issuance costs paid	–	(3,193,945)	–	(3,193,945)
Net cash provided (used) by noncapital financing activities	–	40,534,237	(5,103,601)	35,430,636
Investing activities:				
Purchase of investment securities	(20,326,953)	(468,378,152)	(8,354,901)	(497,060,006)
Proceeds from sale and maturities of investment securities	13,952,639	463,709,164	9,904,516	487,566,319
Income received from investments and advances	575,896	4,744,519	69,651	5,390,066
Interest rebate paid to U.S. Government	–	(44,596)	–	(44,596)
Net decrease in notes, advances and other receivable from institutions	29,904	–	–	29,904
Net cash (used) provided by investing activities	(5,768,514)	30,935	1,619,266	(4,118,313)
Cash flows of discontinued operations – operating	255,788	–	–	255,788
Cash flows of discontinued operations – noncapital financing	(2,094,513)	–	–	(2,094,513)
Cash flows of discontinued operations – investing	3,443,262	–	–	3,443,262
Net increase in cash and cash equivalents	1,604,537	–	–	1,604,537
Decrease in cash and cash equivalents	(1,514,429)	–	–	(1,514,429)
Cash and cash equivalents, beginning of year	12,704,752	–	–	12,704,752
Cash and cash equivalents, end of year	$ 11,190,323	$ –	$ –	$ 11,190,323

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS
(CONTINUED)

For the Year Ended June 30, 2010

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Reconciliation of operating income (loss) to net cash (used) provided by operating activities:				
Operating income (loss)	$ (20,772,488)	$ 25,304,276	$ (1,596)	$ 4,530,192
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:				
Income from discontinued operations	(292,543)	–	–	(292,543)
Gain on sale of discontinued operations	(892,194)	–	–	(892,194)
Investment and interest income	(535,652)	(4,983,201)	(66,837)	(5,585,690)
Net (increase) decrease in the fair value of investments	152,187	(1,270,907)	–	(1,118,720)
Transfer of investments to supplemental reserve	24,221,739	(24,221,739)	–	–
Bad debt provision	(398,260)	–	–	(398,260)
Interest expense on bonds payable	–	54,554,681	289,400	54,844,081
Change in assets and liabilities:				
Loans receivable from institutions	–	(88,810,879)	1,382,913	(87,427,966)
Loan receivable from operating fund	–	–	2,058,013	2,058,013
Accrued interest and other receivables from institutions	–	(514,285)	8,659	(505,626)
Due to/from other funds	1,116,374	(936,227)	(180,147)	–
Accounts payable and other liabilities	50,385	(2,978)	(8,629)	38,778
Deferred revenue	–	316,087	2,559	318,646
Net cash (used) provided by operating activities	$ 2,649,548	$ (40,565,172)	$ 3,484,335	$ (34,431,289)

Summary of noncash transactions:

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 included the operations of Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center), from July 1, 2009 through September 30, 2009, at which time all assets of the Center were sold (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.

In fiscal 2010, the Authority's Board of Directors adopted a resolution establishing a supplemental reserve fund within the Authority's reserve fund resolution. As part of this resolution, $24,221,739 of cash and investments were transferred from the operating fund resolution to the reserve fund resolution, which at the discretion of the Authority, shall serve as additional security for one or more series of bonds. At any time that the reserve fund investments exceed the reserve fund requirement (see note 6), the Authority may transfer any amounts held under the supplemental reserve back to the Authority's operating fund. The balance in the supplemental reserve of $24,324,395 at June 30, 2010, is presented as Board-designated cash and investments on the balance sheet.

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 and are not reflected on the accompanying balance sheet. (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 cash and cash equivalents of the Authority's operating fund at June 30, 2010 consist of approximately $500,000 insured and $1,068,866 noninsured deposits with banks, and $4,616,365 of money market funds held by a custodian and secured by short-term U.S. Treasury obligations.

The Authority invests monies with the State of Maine. The State of Maine sponsors an internal investment pool (the Treasurer's Cash Pool). The Authority's participation is voluntary. The State of Maine Treasurer's Cash Pool is primarily comprised of investment vehicles with short maturities and management of the Authority characterizes the investments within the pool as low risk. The State of Maine's Treasurer's Cash Pool is not rated by external rating agencies. The Authority's management considers this investment vehicle a money market instrument and generally carries the amounts in the pool at cost. At June 30, 2010, the Authority had approximately $5,005,000 invested in the Treasurer's Cash Pool.

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 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 remitted to the Authority are recorded as other income. Other premiums and discounts are passed on to the borrowers, and are, therefore, not recorded.

2. Significant Accounting Policies (Continued)

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.

Principles of Consolidation

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

The net assets of the Center were sold in 2010 (see note 10). The income from operations of the Center through the date of sale and the related gain on sale are presented as discontinued operations on the accompanying statement of revenues, expenses and changes in net assets.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 Cash and Investments

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises and certain state and local governments, as well as certain investment contracts and collateralized repurchase agreements. The trustees/custodians invest available cash in accordance with Maine statutes, applicable Series Resolutions and Tax Regulatory Agreements. At June 30, 2010, investments are categorized as follows:

	Fair Value
Consolidated Operating Fund	
Board-designated investments:	
U.S. Government-sponsored enterprises bonds and notes	$ 7,122,830
	$ 7,122,830

3. Investments Held by Trustee and Board-Designated Cash and Investments (Continued)

	Fair Value
Reserve Fund	
Investments held by trustee:	
U.S. Government-sponsored enterprises bonds and notes	$ 7,468,976
Guaranteed investment contracts	69,304,055
Municipal bonds	40,469,490
Cash and cash equivalents	41,208,602
	$158,451,123
Board Designated Cash and Investments:	
U.S. Government-sponsored enterprises bonds and notes	$ 9,649,473
Cash and cash equivalents	14,674,922
	$ 24,324,395
Taxable Financing Reserve Fund	
Investments held by trustee:	
Guaranteed investment contracts	$ 625,975
Cash and cash equivalents	528,991
	$ 1,154,966

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, 2010:

	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.)	$ 7,122,830	$5,100,950	$2,021,880	$ –	$ –

3. Investments Held by Trustee and Board-Designated Cash and Investments (Continued)

	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than Ten Years
Reserve Fund					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	$ 17,118,449	$ 2,979,469	$ 6,670,004	$ 2,562,225	$ 4,906,751
Guaranteed investment contracts	69,304,055	–	–	–	69,304,055
Municipal bonds	40,469,490	–	–	–	40,469,490
	$126,891,994	$ 2,979,469	$ 6,670,004	$ 2,562,225	$ 114,680,296
Taxable Financing Reserve Fund					
Guaranteed investment contracts	$ 625,975	$ –	$ 625,975	$ –	$ –

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, 2010.

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).

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, 2010, 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
GE Funding Capital Market Service	AA+	3,479,154
Total		$65,019,941

3. Investments Held by Trustee and Board-Designated Cash and Investments (Continued)

	Rating	
Taxable Financing Reserve Fund		
Guaranteed Investment Contracts Provided By:		
Transamerica Life Insurance Company	AA-	$ 238,375
Protective Life Insurance Company	AA-	387,600
Total		$ 625,975

During prior years, 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. 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 or better as of June 30, 2010.

Trustee held cash and cash equivalents at June 30, 2010 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, 2010

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2010
Reserve Fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	$ 44,850,000	$ 990,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	7,340,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	505,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	140,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	1,270,000
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	8,310,000	6,560,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	26,370,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	10,035,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2010
Reserve Fund (continued):			
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	$ 100,540,000	$ 11,145,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	17,570,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	27,290,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	2,515,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	1,470,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	31,090,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	7,580,000
Series 2001D, 3.0% – 5.0%, dated November 1, 2001	2002 – 2031	50,700,000	32,310,000
Series 2002A, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	41,130,000
Series 2002B, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	8,175,000	7,425,000
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	63,080,000	55,125,000
Series 2003B, 2.0% – 5.0%, dated July 1, 2003	2004 – 2033	59,245,000	18,155,000
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	7,050,000	5,895,000
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	35,880,000	25,325,000
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	72,315,000	55,465,000
Series 2004B, 3.00% – 5.00%, dated December 9, 2004	2006 – 2034	42,265,000	37,525,000
Series 2005A, 3.0% – 5.0%, dated August 17, 2005	2006 – 2035	48,325,000	17,720,000
Series 2005B, 3.5% – 5.0%, dated December 29, 2005	2006 – 2030	28,325,000	24,020,000
Series 2006A, 3.5% – 5.0%, dated February 2, 2006	2006 – 2035	51,855,000	44,225,000
Series 2006B, 3.5% – 5.0%, dated April 6, 2006	2007 – 2036	56,795,000	46,190,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2010
Reserve Fund (continued):			
Series 2006F, 4.0% – 5.0%, dated September 7, 2006	2007 – 2036	$ 89,125,000	$ 86,000,000
Series 2006G, variable rate, dated September 7, 2006	2008 – 2036	14,200,000	13,850,000
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	89,615,000
Series 2007B, 4.0% – 5.0%, dated November 1, 2007	2008 – 2037	70,470,000	68,660,000
Series 2008A, variable rate, dated May 22, 2008	2008 – 2036	107,180,000	104,535,000
Series 2008B, variable rate, dated June 19, 2008	2008 – 2014	25,985,000	22,025,000
Series 2008C, 3.0% – 5.0%, dated June 19, 2008	2009 – 2038	49,540,000	48,505,000
Series 2008D, 3.0% – 5.75%, dated December 3, 2008	2009 – 2038	41,735,000	40,990,000
Series 2009A, 2.0% – 5.125%, dated December 10, 2009	2010 – 2039	92,780,000	92,780,000
Series 2010A, 2.5% – 5.25% dated April 22, 2010	2011 – 2040	97,240,000	97,240,000
Series 2010B, 2.5% – 5.25% dated June 24, 2010	2011 – 2031	96,755,000	96,755,000
Series 2010C, 2.5% – 4.0% dated June 24, 2010	2011 – 2023	11,275,000	11,275,000
		$2,126,080,000	1,403,010,000
Current portion			42,415,000
Noncurrent portion			$1,360,595,000

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
2011	$ 42,415,000	$ 53,003,784	$ 95,418,784
2012	54,860,000	54,563,132	109,423,132
2013	59,485,000	52,634,059	112,119,059
2014	60,135,000	50,564,926	110,699,926
2015	61,750,000	48,387,257	110,137,257
2016 – 2020	294,125,000	206,335,763	500,460,763
2021 – 2025	285,375,000	143,725,960	429,100,960
2026 – 2030	251,775,000	86,349,755	338,124,755
2031 – 2035	185,455,000	39,047,379	224,502,379
2036 – 2040	104,160,000	9,600,548	113,760,548
2041	3,475,000	86,875	3,561,875
Total	$1,403,010,000	$744,299,438	$2,147,309,438

Taxable Financing Reserve fund bonds payable consist of the following at June 30, 2010:

	Original Maturity	Original Amount Issued	Outstanding June 30, 2010
Taxable Financing Reserve Fund:			
Series 1993A, variable interest rate, dated January 1, 1993	1993 – 2012	$57,125,000	$ 615,000
Series 1993B, variable interest rate, dated October 27, 1993	1994 – 2013	25,060,000	970,000
Series 1996A, variable interest rate, dated February 22, 1996	1996 – 2016	16,440,000	1,695,000
		$98,625,000	3,280,000
Current portion			605,000
Noncurrent portion			$2,675,000

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

Year Ending	Principal	Interest	Total
2011	$ 605,000	$211,068	$ 816,068
2012	655,000	166,124	821,124
2013	700,000	117,791	817,791
2014	495,000	75,410	570,410
2015	255,000	49,034	304,034
2016 – 2017	570,000	40,774	610,774
	$3,280,000	$660,201	$3,940,201

4. Bonds Payable (Continued)

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2010:

	Reserve Fund	Taxable Financing Reserve Fund
Balance, beginning of year	$1,316,935,000	$8,080,000
Issuances, at par	298,050,000	–
Redemptions:		
Principal payments	49,390,000	4,800,000
Bonds refunded (note 8)	162,585,000	–
Balance, end of year	$1,403,010,000	$3,280,000

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 .22% to .42% at June 30, 2010. Within the Taxable Financing Reserve Funds, variable interest rates are set at LIBOR + .40%, which approximates .75% at June 30, 2010.

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, 2010:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2010
General Resolution:			
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	$ 11,885,000	$ 875,000
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	290,000
Mid Coast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2006 – 2043	8,830,000	8,355,000
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
		$161,215,000	$148,720,000

5. Conduit Debt (Continued)

The following is a summary of conduit debt activity for the year ended June 30, 2010:

Bonds outstanding as of June 30, 2009	$149,080,000
Less: Redemptions during fiscal 2010	360,000
Bonds outstanding as of June 30, 2010	$148,720,000

At June 30, 2010, there were approximately $13,485,000 of defeased bonds remaining outstanding with respect to advance refunded conduit debt of 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, 2010, the required debt service reserve was approximately $113,141,000 and the fair value of the debt service reserve assets totaled approximately $127,793,000.

In addition, the Authority maintains a supplemental reserve as described in note 1. The fair value of these assets at June 30, 2010 is approximately $24,324,000.

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, 2010, the required debt service reserve was approximately $844,500 and the fair value of the debt service reserve assets totaled approximately $943,000.

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 $464,000 of expense under this agreement in 2010.

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 April 22, 2010, the Authority issued $97,240,000 in 2010A reserve fund resolution revenue bonds with an average interest rate of 4.84%, a portion of which was used ($41,125,000) to in-substance defease $44,160,000 of outstanding maturities within the 1998B and 1999A bond series. The net proceeds of approximately $45,349,000, 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 defeased bonds.

On June 24, 2010, the Authority issued $108,030,000 in 2010B and C reserve fund resolution revenue bonds with an average interest rate of 4.36%, all of which was used to in-substance defease $118,425,000 of certain outstanding maturities within the 1993D, 1995A, 1998A, 1998B, 1998C, 1999A, 2000C, 2001A, 2001C and 2001D bond series. The net proceeds of approximately $123,281,000, 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 defeased bonds.

At June 30, 2010, there were approximately $247,610,000 of in-substance defeased bonds remaining outstanding with respect to all advance-refunding 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 $394,000 within the taxable financing reserve fund resolution, and has loaned from its operating fund approximately $331,000 to an institution with outstanding loans owed to the Authority of approximately $8,800,000 within the reserve fund resolution at June 30, 2010. 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 2010. The Authority also has approximately $387,000 of other receivables outstanding within the operating fund at June 30, 2010, primarily related to amounts due from institutions to reimburse the Authority for arbitrage and other payments made on their behalf.

At June 30, 2010, the Authority has established a $617,900 reserve in the operating fund related to the above loans, advances and other receivables outstanding.

10. Discontinued Operations

On September 30, 2009, the Authority sold the net assets of Portland Center for Assisted Living to PCAL Devonshire Associates, LLC and recognized a gain on sale of $892,194. The following is a summary of cash consideration received and uses of funds upon sale:

Cash consideration:	
Sales price	$7,405,000
Other miscellaneous proceeds	34,239
Less debt service reserve fund deposit on hand	(886,000)
	6,553,239
Cash used:	
Settlement with Department of Health and Human Services, including depreciation recapture	2,337,999
Pay-off of loan to Taxable Financing Reserve Fund Resolution	1,398,013
	3,736,012
Net proceeds paid to the Authority's Operating Fund Group	$2,817,227

The following represents the Center's balance sheet at time of sale and reconciliation of the gain recognized on sale:

	September 30, 2009
Assets:	
Cash and cash equivalents	$ 3,873,460
Resident accounts receivable	128,226
Assets whose use is limited	504,745
Net property, plant and equipment	2,666,961
Deferred financing costs	67,054
Other assets	45,405
	7,285,851
Liabilities:	
Accounts payable and other liabilities	86,560
Deferred revenue	12,666
Resident funds held in trust	36,487
Estimated third-party payor settlement	1,181,877
Deposit liability	2,645,215
Loans payable to Authority's taxable financing reserve fund	1,398,013
Advances and accrued interest due to the Authority's operating fund	9,350,256
	14,711,074
Net deficit	$(7,425,223)
The net proceeds paid to the Authority were applied as follows:	
Advances and accrued interest due to the Authority's operating fund	$ 9,350,256
Net deficit	(7,425,223)
	1,925,033
Net proceeds paid to the Authority's operating fund group	2,817,227
Recognized gain on sale	$ 892,194

10. Discontinued Operations (Continued)

Amounts included in the consolidated operating fund statement of revenues, expenses and changes in net assets with respect to the discontinued operations of the Center are as follows:

Gross resident service revenue	$ 2,255,912
Contractual adjustments under third-party reimbursement programs	(933,568)
Net resident service revenue	1,322,344
Other income	10,993
Resident service and other operating expenses	(1,004,294)
Income from operations	329,043
Interest expense to taxable financing reserve fund	(36,500)
Net income	$ 292,543

Amounts above do not include interest on loans to the Authority's operating fund.

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SUPPLEMENTAL SCHEDULE

SCHEDULE 1

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2010

		Program Revenues				Net Revenue (Expense) and Changes in net assets
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Health and Higher Educational Facilities Authority	$(58,694,237)	$55,266,542	$6,320,945	$ –	$ –	$ 2,893,250
Total	$(58,694,237)	$55,266,542	$6,320,945	$ –	$ –	2,893,250
General revenues:						
Unrestricted interest and investment earnings						349,555
Miscellaneous income						102,650
Extraordinary items (discontinued operations)						1,184,737
Total general revenues and extraordinary items						1,636,942
Changes in net assets						4,530,192
Net assets, beginning of year						43,724,513
Net assets, end of year						$48,254,705

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MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY
P.O. Box 2268
Augusta, Maine 04338

Annual Report
Maine Health & Higher Educational Facilities Authority

2009

Maine HHEFA

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Maine HHEFA
MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **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

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

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

Annual Report
Maine Health & Higher Educational Facilities Authority

2008

Maine
MHHEFA
MAINE HEALTH AND HIGHER
EDUCATIONAL FACILITIES AUTHORITY

Maine HHEFA
MAINE HEALTH AND HIGHER
EDUCATIONAL FACILITIES AUTHORITY

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

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **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

3 University Drive • P.O. Box 2268 • Augusta, Maine • 04338-2268 • 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	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	$ (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

Annual Report
Maine Health & Higher Educational Facilities Authority

2007

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

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

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

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

During fiscal year 2007 the Authority issued $166,965,000 of bonds under its tax-exempt reserve fund resolution and $20,500,000 under its general tax exempt conduit resolution. These sales were accomplished in three series for four colleges, ten hospitals, two long-term care facilities, two community mental health facilities, one residential care facility, one community health care facility, and one social services facility.

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

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

3 University Drive • P.O. Box 2268 • Augusta, Maine • 04338-2268 • www.mhhefa.com

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2007

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BAKER NEWMAN NOYES LLC

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying basic financial statements, which include the Consolidated Operating Fund, Reserve Fund, Taxable Reserve Fund and Taxable Financing Reserve Fund II of Maine Health and Higher Educational Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2007, as listed on the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority, including the individual fund groups referred to above, as of June 30, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

To the Members of
Maine Health and Higher
Educational Facilities Authority

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

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
November 30, 2007

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

As financial management of the Maine Health and Higher Educational Facilities Authority (the "Authority"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

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

Financial Highlights

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

Overview of the Authority

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

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

For financial statement reporting purposes, the Authority is considered a component unit of the State of Maine. However, the Authority does not receive any State appropriations for its operations and is funded from fees charged to participating borrowers and interest earnings on investments.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Financial Analysis

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

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

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

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

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

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

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

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

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

Total short and long-term investments held by trustee at June 30, 2007 increased $20,081,993 or 14.8% over the balance at June 30, 2006. This increase was primarily the result of investing additional excess revenues over expenses and investing the bond proceeds for the debt service reserve funds of the 2006E, 2006F, 2006G and 2006H bond issues. The Authority's investment portfolio is comprised of U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprise securities and guaranteed investment contracts. All investments are carried at fair value, and unrealized gains and losses (primarily due to fluctuations in market values) are recognized in the statements of revenues, expenses and changes in net assets.

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

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

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

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

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

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

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

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

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

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

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

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

The Authority shares office space and staff with the Maine Municipal Bond Bank. The Authority reimburses the Maine Municipal Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Health and Higher Educational Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2007

ASSETS

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

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2007

LIABILITIES AND NET ASSETS

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

See accompanying notes.

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2007

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

See accompanying notes.

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

MAINE HEALTH AND HIGHER EDUCATION FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2007

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

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

MAINE HEALTH AND HIGHER EDUCATION FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS
(CONTINUED)

For the Year Ended June 30, 2007

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

See accompanying notes.

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

1. Organization

Maine Health and Higher Educational Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Title 22, Chapter 413, Sections 2051 to 2074, inclusive and as amended by Chapter 584 of the Public Laws of 1991.

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

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

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

Operating Fund

The Authority's operating fund records the revenues and expenses generated from its daily operations, and also includes the operations of Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center), which was acquired by the Authority in 1998 (see note 10). The Authority has a management agreement with Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority.

1. Organization (Continued)

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

Reserve Fund

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

Taxable Financing Reserve Fund

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

Taxable Financing Reserve Fund II

These funds and accounts are established under the Authority's Resolution establishing the Maine Health Facilities' Taxable Financing Reserve Fund II adopted July 11, 2003. Under this resolution, the Authority issues Bonds exempt from State of Maine income taxes, which proceeds are used for funding subordinated loans to certain nursing homes in the State of Maine. Bonds issued under this resolution are secured by all of the reserve funds within the resolution and benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine. All of the outstanding bonds were retired during the year ended June 30, 2007.

General Resolution

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

2. Significant Accounting Policies

Change in Accounting

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

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

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

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

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

Proprietary Fund Accounting

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

2. Significant Accounting Policies (Continued)

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

The Authority complies with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting.* This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with original maturities of three months or less to be cash equivalents. The consolidated cash and cash equivalents of the Authority's operating fund at June 30, 2007 consist of $300,000 insured and $2,370,316 noninsured deposits with banks and $12,228,137 of money market funds held by a custodian and secured by short-term U.S. Treasury obligations.

Investments

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

Bond Discounts, Premiums and Issuance Costs

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

Interfund Transactions

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

2. Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment is stated at cost. Depreciation expense has been computed using the straight-line method at rates intended to amortize the cost of the related assets over their estimated useful lives.

Estimated Third-Party Payor Settlements

Estimated third-party payor settlements with respect to the Center represent estimates of final settlements under cost-reimbursed programs.

Amounts due under the cost reimbursement programs will become determinable and final only upon completion of cost reporting and subsequent audit as required under the terms of agreements with respective third-party reimbursing agencies.

Revenue Recognition and Resident Accounts Receivable

Net resident service revenue of the Center is reported at the estimated net realizable amounts from patients, third-party reimbursing agencies, and others for services rendered, including estimated retroactive adjustments under reimbursement formulas with third-party reimbursing agencies. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Amortization

Deferred financing costs of the Center are amortized using the straight-line method over the term of the respective loans.

Income Taxes

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

Principles of Consolidation

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

2. Significant Accounting Policies (Continued)

New Accounting Pronouncements

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

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Total Columns

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

3. Investments Held by Trustee and Board-Designated Investments

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

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

3. Investments Held by Trustee (Continued)

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, guaranteed investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Authority to terminate individual contracts at par. The Authority's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Authority's investments in guaranteed investment contracts, U.S. government obligations and U.S. Government-sponsored enterprises as of June 30, 2007:

	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than Ten Years
Authority's Operating Fund					
U.S. Government-sponsored enterprises	$ 16,292,020	$5,229,330	$ 11,062,690	$ –	$ –
Reserve Fund					
Guaranteed investment contracts	$ 116,116,340	$ –	$ –	$3,132,500	$ 112,983,840
U.S. Government obligations	133,285	64,219	69,066	–	–
	$ 116,249,625	$ 64,219	$ 69,066	$3,132,500	$ 112,983,840
Taxable Financing Reserve Fund					
Guaranteed investment contracts	$ 2,463,581	$ –	$ 1,547,449	$ 916,132	$ –

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are primarily held by U.S. Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at U.S. Bank at June 30, 2007.

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

3. Investments Held by Trustee (Continued)

At June 30, 2007, approximately $100,832,000 in guaranteed investment contracts within the reserve fund are with three institutions. Additionally, approximately $2,464,000 in guaranteed investment contracts within taxable financing reserve fund are with two institutions. The Authority limits its credit risk by investing in guaranteed investment contracts backed by high credit quality banks and insurance companies.

4. Bonds Payable

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

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2007
Reserve Fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	$ 44,850,000	$ 1,135,000
Series 1993D, 2.6% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	3,220,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	8,275,000
Series 1995A, 4.4% – 5.878%, dated April 1, 1995	1996 – 2025	33,285,000	735,000
Series 1995B, variable rate, dated August 2, 1995	1998 – 2025	17,535,000	12,635,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	990,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	19,890,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	7,670,000
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	8,310,000	7,175,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	34,515,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	60,480,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	74,870,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	25,790,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	77,305,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	37,460,000

4. Bonds Payable

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2007
Reserve Fund (continued):			
Series 2000A, variable rate, dated January 27, 2000	2002 – 2022	$ 11,755,000	$ 9,840,000
Series 2000B, variable rate, dated January 27, 2000	2000 – 2019	12,685,000	8,465,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	46,520,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	57,755,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	8,855,000
Series 2001C, 3.25% – 5.125%, dated May 15, 2001	2002 – 2031	27,565,000	18,935,000
Series 2001D, 3.0% – 5.0%, dated November 1, 2001	2002 – 2031	50,700,000	42,910,000
Series 2002A, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	47,755,000
Series 2002B, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	8,175,000	7,770,000
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	63,080,000	59,250,000
Series 2003B, 2.0% – 5.0%, dated July 1, 2003	2004 – 2033	59,245,000	54,030,000
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	7,050,000	6,590,000
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	35,880,000	30,960,000
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	72,315,000	65,570,000
Series 2004B, 3.00% – 5.00%, dated December 9, 2004	2006 – 2034	42,265,000	41,130,000
Series 2005A, 3.0% – 5.0%, dated August 17, 2005	2006 – 2035	48,325,000	46,355,000
Series 2005B, 3.5% – 5.0%, dated December 29, 2005	2006 – 2030	28,325,000	27,650,000
Series 2006A, 3.5% – 5.0%, dated February 2, 2006	2006 – 2035	51,855,000	51,725,000
Series 2006B, 3.5% – 5.0%, dated April 6, 2006	2007 – 2036	56,795,000	56,795,000
Series 2006C, variable rate, dated May 18, 2006	2007 – 2014	31,575,000	31,575,000
Series 2006D, variable rate, dated May 18, 2006	2007 – 2026	19,975,000	19,975,000

4. Bonds Payable (Continued)

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

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

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

4. Bonds Payable (Continued)

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

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

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

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

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

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

5. Conduit Debt

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

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2007
General Resolution:			
VHA of New England Capital Asset Financing Program, 1985 Series A Through Series G, variable rate beginning at 6%, dated December 30, 1985	2025	$ 26,100,000	$ 18,700,000
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	11,885,000	1,390,000
Mt. Desert Island Hospital, Series 1992, variable interest rate equal to 80% of the prime rate of Bank of America, dated July 15, 1992	1993 – 2012	1,300,000	550,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	15,000
Mid Coast Hospital, 2001 lease purchase, 4.95%, dated November 15, 2001	2002 – 2008	5,865,635	1,243,840
Mid Coast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2006 – 2043	8,830,000	8,595,000
Bowdoin College, Series 2007, variable rate, dated June 6, 2007	2032 – 2037	20,500,000	20,500,000
		$ 74,795,635	$ 50,993,840

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

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

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

6. Reserve Funds

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

Reserve Fund

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

Taxable Financing Reserve Fund

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2007, the required debt service reserve was approximately $2,265,000 and the fair value of the debt service reserve assets totaled approximately $2,464,000.

7. Operating Expenses

The Authority has a management agreement with Maine Municipal Bond Bank (the Bond Bank) which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead. The Authority recognized approximately $507,000 of expense under this agreement in 2007.

8. Refunded Issues

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

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

9. Nursing Home Loans and Advances

In 1994, the Maine Department of Human Services (DHS) substantially revised the eligibility criteria for Medicaid coverage of nursing facility services, causing a decline in occupancy in nursing facilities. The occupancy decline has not affected each nursing facility equally. In some instances, particularly in proprietary nursing homes borrowing under the taxable financing reserve fund resolution, which consists primarily of loans to nursing homes, these declines in occupancy created cash flow problems.

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

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

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

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

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

Effective January 5, 1998, the Authority elected to purchase 100% of the issued and outstanding shares of common stock of the Center. No amounts were paid or are payable to former owners of the Center with respect to this transaction. The Center, as purchased, was a 126-bed facility which provided long-term nursing care to the elderly. The Center was subsequently converted to a 125-bed assisted living facility, which is eligible for reimbursements under MaineCare, the State of Maine Medicaid program. During fiscal 1998, the Authority recorded a loss of approximately $3.5 million, representing the excess of the Center's liabilities over the estimated fair value of its assets. In May 2006, the Center added an Alzheimer's wing with additional beds which brought the total number of beds to 152.

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

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

Relevant disclosures for the Center are summarized as follows:

Assets Whose Use is Limited

Assets whose use is limited consist of resident funds held in trust and funds required by the terms of the Authority's Revenue Bonds Series 1993A and are invested in cash and money market securities at June 30, 3007. A summary follows:

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

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

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

Significant Concentration and Estimated Third-Party Payor Settlements

Upon the conversion of the Center to an assisted living facility in December 1998, the Center is no longer eligible for reimbursements under the Federal Medicare program. Approximately 94% of the residents served in 2007 were beneficiaries of the MaineCare program. Under this program, the provider is reimbursed for the care of qualified residents at specified interim contractual rates during the year. Differences between these interim contractual rates and the "cost" of this care, as defined by the Principles of Reimbursement governing the respective programs, are determined and settled on a retroactive basis.

The Center's financial statements reflect the estimated settlements under the MaineCare program. Settlements do not become final until the cost reports are audited and approved by the Maine Department of Health and Human Services (DHHS). Differences between estimated and actual settlements are recorded as contractual adjustments in the year of final determination.

The estimated settlements to the MaineCare program include amounts which DHHS has determined to be owed based on audited cost reports for years 1995 through 1998 and 2003 through 2005, plus an estimated settlement for 2006 and 2007. Any change in the recorded estimated settlements which may be generated by the resolution of disputed issues or subsequent audits will be recorded as contractual adjustments in the year of final settlement.

Following is a summary of net resident service revenue for the year ended June 30, 2007:

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

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

The State of Maine enacted legislation establishing a PNMI Service Provider Tax (State tax). As a result, the Center was subjected to and recorded $248,306 of State tax in 2007. The amount is included in resident service and other operating expenses on the statement of operations, while the increase of MaineCare reimbursement is reflected as a decrease in the contractual adjustments.

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

Fixed Assets

A summary of fixed assets follows:

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

Loan Payable to Taxable Financing Reserve Fund

Loan payable to the taxable financing reserve fund of $3,238,013 at June 30, 2007 consists of amounts due under a portion of the Authority's Revenue Bonds Series 1993A, which is payable in monthly installments of principal and interest to the trustee sufficient to make semi-annual interest payments and annual principal payments sufficient to retire the bonds when due. The annual payments (including interest at 7.35% per annum) are approximately $860,000, excluding letter of credit and authority fees.

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

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

Management Agreement

First Atlantic Corp. provided all management and accounting services required by the Center throughout 2007. Based upon an executed management agreement, First Atlantic Corp. charges the Center an annual amount equal to the greater of 5% of net patient service revenues or $150,000. Management and accounting expenses incurred by the Center under this management agreement for the year ended June 30, 2007 were approximately $260,000.

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

Employee Benefit Plan

The Center sponsors a discretionary contributory profit sharing plan and 401(k) plan which covers substantially all employees. The Center may elect to match employee contributions of up to 5% of the compensation of all eligible participants. The Center may also elect to make additional discretionary contributions. The Center contributed approximately $4,000 to the plan for the year ended June 30, 2007.

Commitments and Contingencies

The Center has obtained malpractice and general liability coverage from a commercial insurance company on a claims made basis. As of June 30, 2007, there were no known malpractice claims outstanding which, in the opinion of management, will be settled for amounts in excess of insurance coverage, nor are there any unasserted claims or incidents for which a loss accrual has not been made. The Center intends to continue coverage on a claims made basis with a commercial carrier and anticipates that such coverage will be available.

The Center is subject to complaints, claims and litigation which have arisen in the normal course of business. In addition, the Center is subject to compliance with laws and regulations of various government agencies. While no significant regulatory inquiries have been made at June 30, 2007, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

11. Administrative Fees

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2007

ASSETS

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

LIABILITIES AND NET ASSETS

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2007

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2007

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

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

Annual Report
Maine Health & Higher Educational Facilities Authority

2006

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EDUCATIONAL FACILITIES AUTHORITY

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

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

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

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

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

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

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying basic financial statements, consisting of the consolidating balance sheet – operating fund and the balance sheets – restricted and trusteed funds, including the General Resolution, Reserve Fund, Taxable Financing Reserve Fund and Taxable Financing Reserve Fund II, and the related consolidating statement of operations and changes in fund balance – operating fund, statements of changes in fund balance and funds held in trust – restricted and trusteed funds and consolidating statement of cash flows – operating fund of Maine Health and Higher Educational Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority and the individual fund groups referred to above as of June 30, 2006, and the results of their operations and cash flows of its operating fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

To the Members of
Maine Health and Higher
Educational Facilities Authority

The Management's Discussion and Analysis on pages 3 – 10 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Baker Newman + Noyes
Limited Liability Company

Portland, Maine
October 13, 2006

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

As financial management of the Maine Health and Higher Educational Facilities Authority (the "Authority"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

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

Notes, advances and other receivables from institutions in the Authority's Operating Fund of $7,101,883 at June 30, 2006 consists of subordinate loans that the Authority assumed as part of the refinancing of several taxable nursing home bonds with the U.S. Department of Housing and Urban Development (HUD) during fiscal years 2002 – 2006 (refer to note 8 of the audited financial statements), advances made to financially troubled institutions for required debt service payments and other miscellaneous receivables. The net amount increased $269,834 over fiscal year 2005. The Authority is recording interest income on a cash basis for notes and advances receivable.

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

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

The Authority's gross bonds outstanding at June 30, 2006 of $1,208,025,068 represents a net increase of $111,984,137 or 10.2% from the balance at June 30, 2005. This increase consists of the issuance of $48,325,000 in Series 2005A reserve fund bonds, $28,325,000 in Series 2005B reserve fund bonds, $51,855,000 in Series 2006A reserve fund bonds, $56,795,000 in Series 2006B reserve fund bonds, $31,575,000 in Series 2006C reserve fund bonds and $19,975,000 in Series 2006D reserve fund bonds, less scheduled bond principal payments and certain refundings and refinancings that occurred in 2006 (refer to notes 4 and 7 of the audited financial statements). The Authority's bonds are a combination of fixed and variable interest rate and tax-exempt and taxable bonds, although a majority of the bonds are fixed interest rate and tax-exempt.

Overview of the Authority

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

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

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

Overview of the Financial Statements

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

Basic Financial Statements

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

The balance sheets present information on all of the Authority's assets and liabilities, with the difference between the two reported as fund balance and funds held in trust. Fund balance and funds held in trust increase when revenues and additions exceed expenses and deductions. Increases to assets without a corresponding increase to liabilities result in increased fund balance and funds held in trust, which may indicate an improved financial position.

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

Notes to the Financial Statements

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

Financial Analysis

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

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

CONSOLIDATED OPERATING FUND

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

RESTRICTED AND TRUSTEED FUNDS

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

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

CONSOLIDATED OPERATING FUND

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

RESTRICTED & TRUSTEED FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Authority shares office space and staff with the Maine Municipal Bond Bank. The Authority reimburses the Maine Municipal Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Health and Higher Educational Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2006

ASSETS

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

LIABILITIES AND FUND BALANCE

	Authority's Operating Fund	Portland Center For Assisted Living (Note 9)	Eliminations	Consolidated Operating Fund
Current liabilities:				
Current portion of loan payable to trusteed funds	$ –	$ 530,000	$ –	$ 530,000
Accounts payable	52,198	51,549	–	103,747
Estimated third-party payor settlements	–	1,172,317	–	1,172,317
Accrued payroll and other expenses	–	100,785	–	100,785
Resident funds held in trust	–	40,627	–	40,627
Deferred revenue	–	8,773	–	8,773
Total current liabilities	52,198	1,904,051	–	1,956,249
Long-term liabilities:				
Loan payable to trusteed funds	–	3,238,013	–	3,238,013
Other amounts due to trusteed funds	3,407,528	–	–	3,407,528
Advances due to Authority's operating fund	–	6,896,516	(6,896,516)	–
Total long-term liabilities	3,407,528	10,134,529	(6,896,516)	6,645,541
Total liabilities	3,459,726	12,038,580	(6,896,516)	8,601,790
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	–	200	(200)	–
Fund balance (deficit)	34,953,877	(7,034,052)	200	27,920,025
	34,953,877	(7,033,852)	–	27,920,025
	$ 38,413,603	$ 5,004,728	$ (6,896,516)	$ 36,521,815

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEETS – RESTRICTED AND TRUSTEED FUNDS

June 30, 2006

ASSETS

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

LIABILITIES, FUNDS HELD IN TRUST AND FUND BALANCE

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

See accompanying notes.

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2006

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

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CHANGES IN FUND BALANCE
AND FUNDS HELD IN TRUST – RESTRICTED AND TRUSTEED FUNDS

Year Ended June 30, 2006

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

See accompanying notes.

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND

Year Ended June 30, 2006

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND
(CONTINUED)

Year Ended June 30, 2006

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

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

1. Organization

Maine Health and Higher Educational Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Title 22, Chapter 413, Sections 2051 to 2074, inclusive and as amended by Chapter 584 of the Public Laws of 1991.

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

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

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

The Authority's operating fund records the revenues and expenses generated from its daily operations, and also includes the operations of Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center), which was acquired by the Authority in 1998 (see note 9). The Authority has a management agreement with Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority. The operating fund is not part of the Authority's resolutions and does not legally act as security for outstanding bonds.

The restricted and trusteed funds represent various funds and accounts, established with respect to the applicable series bond documents, held by a trustee. The trustee completes the duties and obligations required by the applicable series resolution including investment of monies as set forth by the Series Resolution and Tax Regulatory Agreement and the application of bond proceeds and institution's deposits as received by the trustee in accordance with the applicable series bond documents.

1. Organization (Continued)

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

General Resolution

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

Reserve Fund

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

Taxable Financing Reserve Fund

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

Taxable Financing Reserve Fund II

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

1. Organization (Continued)

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

Construction/Program Funds

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

Expense Funds

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

Debt Service Funds

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

Debt Service Reserve Funds

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

Earnings Funds

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

Redemption Funds

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

2. Significant Accounting Policies

The Authority maintains books of accounts for its own operations (the operating fund, including the Center) and for the restricted and trusteed funds (the funds) established in connection with each outstanding bond issue. The books of accounts are maintained in accordance with the principles of proprietary (operating fund) and fiduciary (the funds) fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting (operating fund) and modified accrual basis of accounting (restricted and trusteed funds) and include the accounts of the operating fund and the accounts of all bond issues currently outstanding that have not been advance refunded (see note 7).

The Authority complies with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting.* This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Cash and Cash Equivalents

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

Investments

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

Interfund Transactions

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

2. Significant Accounting Policies (Continued)

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Property and Equipment

Property and equipment from the acquisition of the Center is stated at cost. Depreciation expense has been computed using the straight-line method at rates intended to amortize the cost of the related assets over their estimated useful lives.

Estimated Third-Party Payor Settlements

Estimated third-party payor settlements with respect to the Center represent estimates of final settlements under cost-reimbursed programs.

Amounts due under the cost reimbursement programs will become determinable and final only upon completion of cost reporting and subsequent audit as required under the terms of agreements with respective third-party reimbursing agencies.

Revenue Recognition and Resident Accounts Receivable

Net resident service revenue of the Center is reported at the estimated net realizable amounts from patients, third-party reimbursing agencies, and others for services rendered, including estimated retroactive adjustments under reimbursement formulas with third-party reimbursing agencies. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Amortization

Deferred financing costs of the Center are amortized using the straight-line method over the term of the respective loans. Financing costs in the restricted and trusteed funds are treated as expenditures as incurred.

Income Taxes

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

2. Significant Accounting Policies (Continued)

Principles of Consolidation

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

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Total Columns

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

3. Cash and Cash Equivalents and Investments

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

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, guaranteed investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Authority to terminate individual contracts at par. The Authority's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Authority's investments in guaranteed investment contracts, U.S. government obligations and U.S. Government-sponsored enterprises as of June 30, 2006:

3. Cash and Cash Equivalents and Investments (Continued)

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are primarily held by U.S. Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at U.S. Bank at June 30, 2006.

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

3. Cash and Cash Equivalents and Investments (Continued)

The Authority's U.S. Government-sponsored enterprise securities at June 30, 2006, consist of $12,428,467 of FHLMC, FHLB and FNMA securities (AAA rated) and $8,480,798 of GNMA securities (which are backed by the full faith and credit guaranty of the United States government). Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

At June 30, 2006, approximately $150,763,000 in guaranteed investment contracts within the reserve fund are with three institutions. Additionally, approximately $11,391,000 and $3,337,000 in guaranteed investment contracts within the general resolution and taxable financing reserve fund, respectively, are with two institutions. The Authority limits its credit risk by investing in guaranteed investment contracts backed by high credit quality banks and insurance companies.

The consolidated cash and cash equivalents of the Authority's operating fund at June 30, 2006 consist of $300,000 insured and $1,021,344 noninsured deposits with banks and $9,413,239 of money market funds held by a trust company. Trustee held cash and cash equivalents at June 30, 2006, consist primarily of money market funds secured by short-term U.S. Treasury obligations.

4. Bonds Payable

Total General Resolution bonds payable consist of the following at June 30, 2006:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2006
General Resolution:			
VHA of New England Capital Asset Financing Program, 1985 Series A through Series G, variable rate beginning at 6%, dated December 30, 1985	2025	$ 26,100,000	$ 18,700,000
Mt. Desert Island Hospital, Series A, variable interest rate equal to 80% of the prime rate of Bank of America, dated December 11, 1986	1988 – 2008	1,800,000	90,000
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	11,885,000	1,540,000
Mt. Desert Island Hospital, Series 1992, variable interest rate equal to 80% of the prime rate of Bank of America, dated July 15, 1992	1993 – 2012	1,300,000	630,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	20,000
Mid Coast Hospital, 2001 lease purchase, 4.95%, dated November 15, 2001	2002 – 2008	5,865,635	2,185,068
Mid Coast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2006 – 2043	8,830,000	8,665,000
		$ 56,095,635	31,830,068
Current portion			1,336,228
Noncurrent portion			$ 30,493,840

4. Bonds Payable (Continued)

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

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

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

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

4. **Bonds Payable (Continued)**

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

4. Bonds Payable (Continued)

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

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

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

4. Bonds Payable (Continued)

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

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

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

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

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

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

4. Bonds Payable (Continued)

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

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

Each of the above series of bonds of the Authority is payable solely from the revenues from, and is secured by, the project, program or resolution in respect of which it is issued and has no claim of payment from the security or revenues pledged for the payment of the other series of bonds.

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2006:

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

5. Reserve Funds

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

Reserve Fund

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2006, the required debt service reserve was approximately $95,230,000 and the fair value of the debt service reserve assets totaled approximately $100,000,000.

Taxable Financing Reserve Fund

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

Taxable Financing Reserve Fund II

The Authority is required to maintain debt service reserve assets which are equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all loan obligations then outstanding as of such date of calculation. At June 30, 2006, the required debt service reserve was approximately $782,000 and the fair value of the debt service reserve assets totaled approximately $796,000.

6. Operating Expenses

The Authority has a management agreement with Maine Municipal Bond Bank (the Bond Bank) which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead. The Authority recognized approximately $533,000 of expense under this agreement in 2006.

7. Refunded Issues

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

7. Refunded Issues (Continued)

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

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

On May 18, 2006, the Authority issued $31,575,000 in 2006C revenue bonds with an average interest rate of 3.51%, which was used to in-substance defease $34,625,000 of outstanding 1993C reserve resolution bonds with an average interest rate of 5.0%. The net proceeds of $35,395,000 including other sources of funds of $4,050,000 and after payment of $235,000 in underwriting fees, insurance and other issuance costs, were used to purchase U.S. government securities which will provide for all future debt service payments on the defeased bonds. The Authority defeased the above bonds to reduce total interest payments over the next eight years by approximately $2.5 million. All of this savings inures to the Institution involved with the 1993C bonds.

On May 18, 2006, the Authority issued $19,975,000 in 2006D revenue bonds with an average interest rate of 3.50%, which was used to in-substance defease $20,130,000 of outstanding 1996B reserve resolution bonds with an average interest rate of 5.70%. The net proceeds of $20,970,000 including other sources of funds of $1,152,000 and after payment of approximately $157,000 in underwriting fees, insurance and other issuance costs, were used to purchase U.S. government securities which will provide for all future debt service payments on the defeased bonds. The Authority defeased the above bonds to reduce total interest payments over the next twenty years by approximately $4.7 million. All of this savings inures to the Institution involved with the 1996B bonds.

The proceeds of any advance refunding bonds are primarily used to purchase U.S. Treasury obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the defeased bonds. Neither the U.S. Treasury obligations nor the defeased bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations are placed in irrevocable trust accounts with the trustees of the defeased bonds. The gains, losses and economic benefits of these transactions inure to the respective Institution and not the Authority, although the Authority may receive an administrative fee. At June 30, 2006, there were approximately $68,005,000 of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues.

8. Nursing Home Loans and Advances

In 1994, the Maine Department of Human Services (DHS) substantially revised the eligibility criteria for Medicaid coverage of nursing facility services, causing a decline in occupancy in nursing facilities. The occupancy decline has not affected each nursing facility equally. In some instances, particularly in proprietary nursing homes borrowing under the taxable financing reserve fund resolution, which consists primarily of loans to nursing homes, these declines in occupancy created cash flow problems.

In 2002, the owners of certain financially troubled nursing homes, with the Authority's concurrence, began refinancing portions of Authority loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of the Authority expects that these refinancings will reduce annual debt service requirements, thereby eliminating the Authority's exposure in its Taxable Financing Reserve Fund and reducing the Authority's overall exposure. Through June 30, 2006, HUD has completed refinancings for ten institutions which, at the time they were refinanced, had combined bond-related loans and advances due the Authority of approximately $48,386,000 (including refinancings with HUD in 2006 totaling approximately $4,054,000). As part of the refinancing completed by HUD, the Authority agreed to issue 8% subordinated notes receivable to these ten institutions from its operating fund. These notes total $7,822,057 at June 30, 2006 and are subordinate to all HUD loans. Interest is payable semi-annually and principal payments are due by April 30th of each year in amounts equal to 50% of the excess cash flow generated by the ten institutions based on the audited financial statements for the previous year. The Authority is recording interest income on a cash basis on these loans. Should these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid. The proceeds from the HUD loans and the subordinated notes were used to pay off the related bonds.

In addition to subordinated notes receivable from the ten institutions described above, the Authority has advanced approximately $918,000 from the operating fund as of June 30, 2006 to other financially troubled institutions with outstanding loans owed to the Authority of approximately $11,893,000 (including loans of $9,982,000 in the reserve fund at June 30, 2006). These advances, upon which interest income is recognized only to the extent that cash payments are received, were primarily made to assist these institutions in meeting debt service requirements. The Authority also has approximately $411,000 of other receivables outstanding with the operating fund at June 30, 2006, primarily related to amounts due from institutions to reimburse the Authority for arbitrage rebate payments made on their behalf.

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

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

Effective January 5, 1998, the Authority elected to purchase 100% of the issued and outstanding shares of common stock of the Center. No amounts were paid or are payable to former owners of the Center with respect to this transaction. The Center, as purchased, was a 126-bed facility which provided long-term nursing care to the elderly. The Center was subsequently converted to a 125-bed assisted living facility, which is eligible for reimbursements under MaineCare, the State of Maine Medicaid program. During fiscal 1998, the Authority recorded a loss of approximately $3.5 million, representing the excess of the Center's liabilities over the estimated fair value of its assets. In May 2006, the Center added an Alzheimer's wing with additional beds which brought the total number of beds to 152.

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

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

Relevant disclosures for the Center are summarized as follows:

Assets Whose Use is Limited

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

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

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

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

Significant Concentration and Estimated Third-Party Payor Settlements

Upon the conversion of the Center to an assisted living facility in December 1998, the Center is no longer eligible for reimbursements under the Federal Medicare program. Approximately 94% of the residents served in 2006 were beneficiaries of the MaineCare program. Under this program, the provider is reimbursed for the care of qualified residents at specified interim contractual rates during the year. Differences between these interim contractual rates and the "cost" of this care, as defined by the Principles of Reimbursement governing the respective programs, are determined and settled on a retroactive basis.

The Center's financial statements reflect the estimated settlements under the MaineCare program. Settlements do not become final until the cost reports are audited and approved by the Maine Department of Health and Human Services (DHHS). Differences between estimated and actual settlements are recorded as contractual adjustments in the year of final determination.

The estimated settlements to the MaineCare program include amounts which DHHS has determined to be owed based on audited cost reports for years 1995 through 2004, plus an estimated settlement for 2005 and 2006. Any change in the recorded estimated settlements which may be generated by the resolution of disputed issues or subsequent audits will be recorded as contractual adjustments in the year of final settlement.

Following is a summary of net resident service revenue for the year ended June 30, 2006:

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

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

The State of Maine enacted legislation establishing a PNMI Service Provider Tax (State tax). As a result, the Center was subjected to and recorded $243,333 of State tax in 2006. The amount is shown separately on the statement of operations, while the increase of MaineCare reimbursement is reflected as a decrease in the contracted adjustments.

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

Fixed Assets

A summary of fixed assets follows:

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

Loan Payable to Trusteed Funds

Loan payable to trusteed funds of $3,768,013 at June 30, 2006 consists of amounts due under a portion of the Authority's Revenue Bonds Series 1993A, which is payable in monthly installments of principal and interest to the trustee sufficient to make semi-annual interest payments and annual principal payments sufficient to retire the bonds when due. The annual payments (including interest at 7.35% per annum) are approximately $860,000, excluding letter of credit and authority fees.

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

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

Management Agreement

First Atlantic Corp. provided all management and accounting services required by the Center throughout 2006. Based upon an executed management agreement, First Atlantic Corp. charges the Center an annual amount equal to the greater of 5% of net patient service revenues or $150,000. Management and accounting expenses incurred by the Center under this management agreement for the year ended June 30, 2006 were approximately $230,000.

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

Employee Benefit Plan

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

Commitments and Contingencies

The Center has obtained malpractice and general liability coverage from a commercial insurance company on a claims made basis. As of June 30, 2006, there were no known malpractice claims outstanding which, in the opinion of management, will be settled for amounts in excess of insurance coverage, nor are there any unasserted claims or incidents for which a loss accrual has not been made. The Center intends to continue coverage on a claims made basis with a commercial carrier and anticipates that such coverage will be available.

The Center is subject to complaints, claims and litigation which have arisen in the normal course of business. In addition, the Center is subject to compliance with laws and regulations of various government agencies. While no significant regulatory inquiries have been made at June 30, 2006, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

BAKER NEWMAN NOYES LLC

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher Educational
Facilities Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Maine Health and Higher Educational Facilities Authority for the year ended June 30, 2006, and have issued our report thereon dated October 13, 2006. We have also audited the balance sheet and statement of changes in funds held in trust of the Maine Health and Higher Educational Facilities Authority, Mt. Desert Island Hospital Issue, Series A for the year ended June 30, 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

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

In our opinion, except as noted above, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority, Mt. Desert Island Hospital Issue, Series A at June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Members of
Maine Health and Higher Educational
Facilities Authority

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

Baker Newman Noyes
Limited Liability Company

Portland, Maine
October 13, 2006

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

BALANCE SHEET

June 30, 2006

ASSETS

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

LIABILITIES AND FUNDS HELD IN TRUST

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

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

STATEMENT OF CHANGES IN FUNDS HELD IN TRUST

Year Ended June 30, 2006

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

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

Annual Report
Maine Health & Higher Educational Facilities Authority

2005

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

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

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

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

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

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

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2005

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INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying basic financial statements, consisting of the consolidating balance sheet – operating fund and the balance sheets – restricted and trusteed funds, including the General Resolution, Reserve Fund, Taxable Financing Reserve Fund and Taxable Financing Reserve Fund II, and the related consolidating statement of operations and changes in fund balance – operating fund, statements of changes in fund balance and funds held in trust – restricted and trusteed funds and consolidating statement of cash flows – operating fund of Maine Health and Higher Educational Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority and the individual fund groups referred to above at June 30, 2005, and the results of their operations and cash flows of its operating fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

To the Members of
Maine Health and Higher
Educational Facilities Authority

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

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
October 7, 2005

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

As financial management of the Maine Health and Higher Educational Facilities Authority (the "Authority"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

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

Overview of the Authority

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

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

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

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

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

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

CONSOLIDATED OPERATING FUND

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

RESTRICTED AND TRUSTEED FUNDS

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

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

CONSOLIDATED OPERATING ACCOUNT

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

RESTRICTED & TRUSTEED FUNDS

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

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

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

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

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

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

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

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

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

The Authority shares office space and staff with the Maine Municipal Bond Bank. The Authority reimburses the Maine Municipal Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Health and Higher Educational Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2005

ASSETS

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

LIABILITIES AND FUND BALANCE

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

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEETS – RESTRICTED AND TRUSTEED FUNDS

June 30, 2005

ASSETS

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

LIABILITIES, FUNDS HELD IN TRUST AND FUND BALANCE

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

See accompanying notes.

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2005

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

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CHANGES IN FUND BALANCE
AND FUNDS HELD IN TRUST – RESTRICTED AND TRUSTEED FUNDS

Year Ended June 30, 2005

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

See accompanying notes.

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND

Year Ended June 30, 2005

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND
(CONTINUED)

Year Ended June 30, 2005

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

See accompanying notes.

1. Organization

Maine Health and Higher Educational Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Title 22, Chapter 413, Sections 2051 to 2074, inclusive and as amended by Chapter 584 of the Public Laws of 1991.

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

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

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

The Authority's operating fund records the revenues and expenses generated from its daily operations, and also includes the operations of Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center), which was acquired by the Authority in 1998 (see note 9). The Authority has a management agreement with Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority. The operating fund is not part of the Authority's resolutions and does not legally act as security for outstanding bonds.

The restricted and trusteed funds represent various funds and accounts, established with respect to the applicable series bond documents, held by a trustee. The trustee completes the duties and obligations required by the applicable series resolution including investment of monies as set forth by the Series Resolution and Tax Regulatory Agreement and the application of bond proceeds and institution's deposits as received by the trustee in accordance with the applicable series bond documents.

1. Organization (Continued)

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

General Resolution

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

Reserve Fund

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

Taxable Financing Reserve Fund

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

Taxable Financing Reserve Fund II

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

1. Organization (Continued)

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

Construction/Program Funds

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

Expense Funds

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

Debt Service Funds

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

Debt Service Reserve Funds

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

Earnings Funds

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

Redemption Funds

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

2. Significant Accounting Policies

The Authority maintains books of accounts for its own operations (the operating fund, including the Center) and for the restricted and trusteed funds (the funds) established in connection with each outstanding bond issue. The books of accounts are maintained in accordance with the principles of proprietary (operating fund) and fiduciary (the funds) fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting (operating fund) and modified accrual basis of accounting (restricted and trusteed funds) and include the accounts of the operating fund and the accounts of all bond issues currently outstanding that have not been advance refunded (see note 7).

The Authority complies with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting.* This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Cash and Cash Equivalents

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

Investments

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

Interfund Transactions

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

2. Significant Accounting Policies (Continued)

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Property and Equipment

Property and equipment from the acquisition of the Center is stated at cost. Depreciation expense has been computed using the straight-line method at rates intended to amortize the cost of the related assets over their estimated useful lives.

Estimated Third-Party Payor Settlements

Estimated third-party payor settlements with respect to the Center represent estimates of final settlements under cost-reimbursed programs.

Amounts due under the cost reimbursement programs will become determinable and final only upon completion of cost reporting and subsequent audit as required under the terms of agreements with respective third-party reimbursing agencies.

Revenue Recognition and Resident Accounts Receivable

Net resident service revenue of the Center is reported at the estimated net realizable amounts from patients, third-party reimbursing agencies, and others for services rendered, including estimated retroactive adjustments under reimbursement formulas with third-party reimbursing agencies. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Amortization

Deferred financing costs of the Center are amortized using the straight-line method over the term of the respective loans. Financing costs in the restricted and trusteed funds are treated as expenditures as incurred.

Income Taxes

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

2. Significant Accounting Policies (Continued)

Principles of Consolidation

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

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Total Columns

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

3. Cash and Cash Equivalents and Investments

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government Agencies and certain state and local governments, as well as certain investment contracts and collateralized repurchase agreements. The trustees invest available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

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

3. Cash and Cash Equivalents and Investments (Continued)

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

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

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

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

3. Cash and Cash Equivalents and Investments (Continued)

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

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

4. Bonds Payable

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

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2005
General Resolution:			
VHA of New England Capital Asset Financing Program, 1985 Series A through Series G, variable rate beginning at 6%, dated December 30, 1985	2025	$ 26,100,000	$ 18,700,000
Mt. Desert Island Hospital, Series A, variable interest rate equal to 80% of the prime rate of Bank of America, dated December 11, 1986	1988 – 2008	1,800,000	180,000
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	11,885,000	1,680,000
Mt. Desert Island Hospital, Series 1992, variable interest rate equal to 80% of the prime rate of Bank of America, dated July 15, 1992	1993 – 2012	1,300,000	710,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	25,000
MidCoast, 2001 lease purchase, 4.95%, dated November 15, 2001	2002 – 2008	5,865,635	3,080,931
Midcoast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2006 – 2043	8,830,000	8,830,000
		$ 56,095,635	33,205,931
Current portion			1,375,863
Noncurrent portion			$ 31,830,068

4. Bonds Payable (Continued)

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

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

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

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

4. Bonds Payable (Continued)

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

4. Bonds Payable (Continued)

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

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

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

4. Bonds Payable (Continued)

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

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

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

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

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

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

4. Bonds Payable (Continued)

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

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

Each of the above series of bonds of the Authority is payable solely from the revenues from, and is secured by, the project, program or resolution in respect of which it is issued and has no claim of payment from the security or revenues pledged for the payment of the other series of bonds.

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2005:

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

5. Reserve Funds

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

Reserve Fund

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

Taxable Financing Reserve Fund

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

Taxable Financing Reserve Fund II

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

6. Operating Expenses

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

7. Refunded Issues

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

7. Refunded Issues (Continued)

The proceeds of any advance refunding bonds are primarily used to purchase U.S. Treasury obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the defeased bonds. Neither the U.S. Treasury obligations nor the defeased bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations are placed in irrevocable trust accounts with the trustees of the defeased bonds. The gains, losses and economic benefits of these transactions inure to the respective institution and not the Authority, although the Authority may receive an administrative fee. At June 30, 2005, there were approximately $77,595,000 of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues.

8. Nursing Home Loans

In 1994, the Maine Department of Human Services (DHS) substantially revised the eligibility criteria for Medicaid coverage of nursing facility services, causing a decline in occupancy in nursing facilities. The occupancy decline has not affected each nursing facility equally. In some instances, particularly in proprietary nursing homes borrowing under the taxable financing reserve fund resolution, which consists primarily of loans to nursing homes, these declines in occupancy created cash flow problems.

In 2002, the owners of certain financially troubled nursing homes, with the Authority's concurrence, began refinancing portions of Authority loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of the Authority expects that these refinancings will reduce annual debt service requirements, thereby eliminating the Authority's exposure in its Taxable Financing Reserve Fund and reducing the Authority's overall exposure. Through June 30, 2005, HUD has completed refinancings for nine institutions which, at the time they were refinanced, had combined bond-related loans and advances due the Authority of approximately $44,332,000 (including refinancings with HUD in 2005 totaling approximately $1,090,000). As part of the refinancing completed by HUD, the Authority agreed to issue 8% subordinated notes receivable to these nine institutions from its operating fund. These notes total $6,697,849 at June 30, 2005 and are subordinate to all HUD loans. Interest is payable semi-annually and principal payments are due by April 30th of each year in amounts equal to 50% of the excess cash flow generated by the nine institutions based on the audited financial statements for the previous year. The Authority is recording interest income on a cash basis on these loans. Should these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid. The proceeds from the HUD loans and the subordinated notes were used to pay off the related bonds.

8. Nursing Home Loans (Continued)

In addition to subordinated notes receivable from the nine institutions described above, the Authority has advanced approximately $2,185,000 from the operating fund as of June 30, 2005 to other financially troubled institutions with outstanding loans owed to the Authority of approximately $15,517,000 (including loans of $10,242,000 in the reserve fund at June 30, 2005). These advances, upon which interest income is recognized only to the extent that cash payments are received, were primarily made to assist these institutions in meeting debt service requirements. At June 30, 2005, the Authority has established a $2,050,270 reserve in the operating fund related to amounts which have been advanced or are expected to be advanced to troubled institutions.

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

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

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

Effective January 5, 1998, the Authority elected to purchase 100% of the issued and outstanding shares of common stock of the Center. No amounts were paid or are payable to former owners of the Center with respect to this transaction. The Center, as purchased, was a 126-bed facility which provided long-term nursing care to the elderly. The Center was subsequently converted to a 125-bed assisted living facility, which is eligible for reimbursements under MaineCare, the State of Maine Medicaid program. During fiscal 1998, the Authority recorded a loss of approximately $3.5 million, representing the excess of the Center's liabilities over the estimated fair value of its assets.

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

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

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

Relevant disclosures for the Center are summarized as follows:

Assets Whose Use is Limited

Assets whose use is limited consist of resident funds held in trust and funds required by the terms of the Authority's Revenue Bonds Series 1993A and are invested in cash and money market securities at June 30, 3005. A summary follows:

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

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

Significant Concentration and Estimated Third-Party Payor Settlements

Upon the conversion of the Center to an assisted living facility in December 1998, the Center is no longer eligible for reimbursements under the Federal Medicare program. Approximately 93% of the residents served in 2005 were beneficiaries of the MaineCare program. . Under this program, the provider is reimbursed for the care of qualified residents at specified interim contractual rates during the year. Differences between these interim contractual rates and the "cost" of this care, as defined by the Principles of Reimbursement governing the respective programs, are determined and settled on a retroactive basis.

The Center's financial statements reflect the estimated settlements under the MaineCare program. Settlements do not become final until the cost reports are audited and approved by the Maine Department of Health and Human Services (DHHS). Differences between estimated and actual settlements are recorded as contractual adjustments in the year of final determination.

The estimated settlements to the MaineCare program include amounts which DHHS has determined to be owed based on audited cost reports for years 1995 through 2004, plus an estimated settlement for 2005. Any change in the recorded estimated settlements which may be generated by the resolution of disputed issues or subsequent audits will be recorded as contractual adjustments in the year of final settlement.

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

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

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

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

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

Fixed Assets

A summary of fixed assets follows:

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

Loan Payable to Trusteed Funds

Loan payable to trusteed funds of $4,263,013 at June 30, 2005 consists of amounts due under a portion of the Authority's Revenue Bonds Series 1993A, which is payable in monthly installments of principal and interest to the trustee sufficient to make semi-annual interest payments and annual principal payments sufficient to retire the bonds when due. The annual payments (including interest at 7.35% per annum) are approximately $860,000, excluding letter of credit and authority fees.

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

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

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

Management Agreement

First Atlantic Corp. provided all management and accounting services required by the Center throughout 2005. Based upon an executed management agreement, First Atlantic Corp. charges the Center an annual amount equal to the greater of 5% of net patient service revenues or $150,000. Management and accounting expenses incurred by the Center under this management agreement for the year ended June 30, 2005 were approximately $222,000.

Employee Benefit Plan

The Center sponsors a discretionary contributory profit sharing plan and 401(k) plan which covers substantially all employees. The Center may elect to match employee contributions of up to 5% of the compensation of all eligible participants. The Center may also elect to make additional discretionary contributions. The Center contributed $2,923 to the plan for the year ended June 30, 2005.

Commitments and Contingencies

The Center has obtained malpractice and general liability coverage from a commercial insurance company on a claims made basis. As of June 30, 2005, there were no known malpractice claims outstanding which, in the opinion of management, will be settled for amounts in excess of insurance coverage, nor are there any unasserted claims or incidents for which a loss accrual has not been made. The Center intends to continue coverage on a claims made basis with a commercial carrier and anticipates that such coverage will be available.

The Center is subject to complaints, claims and litigation which have arisen in the normal course of business. In addition, the Center is subject to compliance with laws and regulations of various government agencies. While no significant regulatory inquiries have been made at June 30, 2005, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher Educational
Facilities Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Maine Health and Higher Educational Facilities Authority for the year ended June 30, 2005, and have issued our report thereon dated October 7, 2005. We have also audited the balance sheet and statement of changes in funds held in trust of the Maine Health and Higher Educational Facilities Authority, Mt. Desert Island Hospital Issue, Series A for the year ended June 30, 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

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

To the Members of
Maine Health and Higher Educational
Facilities Authority

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

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

Baker Newman & Noyes

Limited Liability Company

Portland, Maine
October 7, 2005

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

BALANCE SHEET

June 30, 2005

ASSETS

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

LIABILITIES AND FUNDS HELD IN TRUST

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

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

STATEMENT OF CHANGES IN FUNDS HELD IN TRUST

Year Ended June 30, 2005

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

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

Annual Report
Maine Health & Higher Educational Facilities Authority

2004

Maine HHEFA
MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Maine HHEFA
HEALTH & HIGHER EDUCATIONAL FACILITIES AUTHORITY

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TO: INTERESTED PARTIES
FROM: Robert O. Lenna, Executive Director
SUBJECT: Annual Report

This is the fiscal 2004 report for the Maine Health and Higher Educational Facilities Authority. As of June 30, 2004, the Authority has $59,253,616 outstanding under its general tax exempt conduit resolution, $1,023,285,000 outstanding under its tax exempt reserve fund resolution, $28,980,000 outstanding under its taxable reserve fund resolution, $5,770,000 outstanding under its taxable II reserve fund resolution.

During fiscal year 2004 the Authority issued $174,490,000 of bonds under its tax-exempt reserve fund resolution and $6,435,000 under its taxable II reserve fund resolution. These sales were accomplished in five series for eight hospitals, seven colleges, three long term care facilities, three community mental health care facilities and one residential care facility.

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

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2004

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BAKER NEWMAN & NOYES
LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying basic financial statements, consisting of the consolidating balance sheet – operating fund and the balance sheets – restricted and trusteed funds, including the General Resolution, Reserve Fund, Taxable Financing Reserve Fund and Taxable Financing Reserve Fund II, of Maine Health and Higher Educational Facilities Authority as of June 30, 2004, and the related consolidating statement of operations and changes in fund balance – operating fund, statements of changes in fund balance and funds held in trust – restricted and trusteed funds and consolidating statement of cash flows – operating fund for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority and the individual fund groups referred to above at June 30, 2004, and the results of its operations and cash flows of its operating fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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To the Members of
Maine Health and Higher
Educational Facilities Authority

The Management's Discussion and Analysis on pages 3 – 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. The supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Baker Newman & Noyes

Limited Liability Company

Portland, Maine
October 8, 2004

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

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, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Consolidated operating revenues for the Authority's Operating Fund were $8,752,165 for fiscal year 2004, an increase of $376,523 or 4.5% over fiscal year 2003. Consolidated operating income for the Authority's Operating Fund was $3,930,673 for fiscal year 2004, an increase of $1,556,232 from fiscal year 2003. This increase in consolidated operating income was mainly due to $1,400,000 in added provision on reserves on certain institutional loans and advances during 2003.
- Notes receivable from institutions in the Authority's Operating Fund of $6,659,716 at June 30, 2004 represent subordinate loans that the Authority assumed as part of the refinancing of several taxable nursing home bonds with the U.S. Department of Housing and Urban Development (HUD) during 2004, 2003 and 2002 (refer to note 8 to the audited financial statements). These notes receivable increased $1,111,716 (net) over fiscal year 2003 due to additional refinancings completed during 2004. The Authority is recording interest income on a cash basis for these loans.
- Loans receivable from operating fund in the Authority's Restricted and Trusteed Funds represent bond principal payments due from Portland Center for Assisted Living (the Center) at June 30, 2004. The Center was acquired by the Authority in 1998 and is 100% owned by the Authority.
- The Authority's loans receivable from institutions in the Restricted and Trusteed Funds at June 30, 2004 of $1,010,569,620 represents a net increase of $7,849,279 or 0.8% over the balance at June 30, 2003. This increase is the net result of the bond issuances described below, for which various funds were loaned out during fiscal 2004, and the repayment of loans by institutions during fiscal 2004.
- The Authority's gross bonds outstanding in the Restricted and Trusteed Funds at June 30, 2004 of $1,117,288,616 represents a net increase of $15,078,414 or 1.4% from the balance at June 30, 2003. This increase consists of the issuance of $174,490,000 in Reserve Fund bonds and $6,435,000 in Taxable Financing Reserve Fund II bonds, less scheduled bond principal payments and certain refundings and refinancings that occurred in 2004 (refer to notes 4 and 7 to the audited financial statements). The Authority's bonds are a combination of fixed and variable interest rate tax-exempt and taxable bonds, although a majority of the bonds are fixed interest rate and tax-exempt.

Overview of the Authority

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

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

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

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

As indicated above, fund balance and funds held in trust may serve, over time, as a useful indicator of an entity's financial position. In the case of the Authority's Operating Fund, assets exceeded liabilities by $19,739,319 at June 30, 2004. This represents an increase of $3,930,673 or 24.9% over the previous fiscal year, which is the Authority's 2004 operating income within the Operating Fund.

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

CONSOLIDATED OPERATING FUND	2004	2003	Percentage Change
Current assets:			
Cash and cash equivalents	$ 7,705,389	$ 5,535,760	39.2%
Investments, at fair value	8,558,586	2,792,895	206.4
Accrued investment income	6,438	7,946	(19.0)
Fees receivable from institutions	–	346,367	(100.0)
Fees and other amounts receivable from trusteed funds	1,642,565	1,775,310	(7.5)
Resident accounts receivable, net of allowance	151,355	215,528	(29.8)
Other assets	144,364	132,749	8.7
Total current assets	18,208,697	10,806,555	68.5
Long-term assets:			
Advances receivable from institutions net of allowance	1,255,553	1,328,004	(5.5)
Notes receivable from institutions	6,659,716	5,548,000	20.0
Assets whose use is limited	705,519	611,061	15.5
Fixed and other assets, net	3,837,457	4,037,146	(4.9)
Deferred financing costs, net	172,500	192,585	(10.4)
Total long-term assets	12,630,745	11,716,796	7.8
Total assets	$30,839,442	$22,523,351	36.9%
Current liabilities:			
Current portion of loan payable to trusteed funds	$ 460,000	$ 430,000	7.0%
Accounts payable	134,646	106,329	26.6
Estimated third-party payor settlements	1,050,687	1,272,342	(17.4)
Accrued payroll and other expenses	207,163	148,740	39.3
Resident funds held in trust	52,987	32,839	61.4
Deferred revenue	4,099	1,442	184.3
Total current liabilities	1,909,582	1,991,692	(4.1)
Long-term liabilities:			
Loan payable to trustee funds	4,263,013	4,723,013	(9.7)
Other amounts due to trusteed funds	4,927,528	–	–
Total long-term liabilities	9,190,541	4,723,013	94.6
Total liabilities	11,100,123	6,714,705	65.3
Fund balance	19,739,319	15,808,646	24.9
Total liabilities and fund balance	$30,839,442	$22,523,351	36.9%

RESTRICTED AND TRUSTEED FUNDS:	2004	2003	Percentage Change
Current assets:			
Cash and cash equivalents	$ 73,709,873	$ 78,710,083	(6.4)%
Investments, at fair value	36,799,117	40,910,591	(10.0)
Accrued interest receivable	2,172,156	747,887	190.4
Loans receivable from institutions	37,107,684	35,941,587	3.2
Loan receivable from operating fund	460,000	430,000	7.0
Other receivables from institutions	147,815	416,533	(64.5)
Total current assets	150,396,645	157,156,681	(4.3)
Noncurrent assets:			
Cash and cash equivalents	795,600	–	–
Investments, at fair value	98,759,044	95,761,556	3.1
Loans receivable from institutions	973,461,936	966,778,754	0.7
Loan receivable from operating fund	4,263,013	4,723,014	(9.7)
Other amounts due from operating fund	4,927,528	–	–
Total noncurrent assets	1,082,207,121	1,067,263,324	1.4
	1,232,603,766	1,224,420,005	0.67%
Current liabilities:			
Bonds payable	$ 37,567,684	$ 36,371,587	3.3%
Interest payable	23,090,263	25,102,171	(8.0)
Fees payable to operating fund	1,642,565	1,775,310	(7.5)
Accounts payable	125,812	186,305	(32.5)
Rebate payable to Internal Revenue Service	505,018	577,498	(12.6)
Deferred revenue	1,454,751	1,777,461	(18.2)
Total current liabilities	64,386,093	65,790,332	(2.1)
Noncurrent liabilities:			
Bonds payable	1,079,720,932	1,065,838,615	1.3
Rebate payable to Internal Revenue Service	1,278,542	1,489,912	(14.2)
Total noncurrent liabilities	1,080,999,474	1,067,328,527	1.3
Total liabilities	1,145,385,567	1,133,118,859	1.1
Funds held in trust and fund balance:			
Construction/program funds	41,429,700	42,801,148	(3.2)
Expense funds	(45,106)	3,842	(1274.0)
Debt service funds	38,782,886	41,115,480	(5.7)
Debt service reserve funds	6,511,554	6,522,587	(0.2)
Earnings funds	1,606	1,507	6.6
Redemption funds	362,863	361,730	0.3
Unrestricted fund balance	174,696	494,852	(64.7)
Total funds held in trust and fund balance	87,218,199	91,301,146	(4.5)
	$ 1,232,603,766	$ 1,224,420,005	0.67%

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

CONSOLIDATED OPERATING ACCOUNT	2004	2003	Percentage Change
Operating revenues:			
Net resident service revenue	$ 4,248,433	$ 4,251,743	(0.1)%
Administrative and other fees	3,672,515	3,505,119	4.8
Investment income	232,107	189,738	22.3
Net decrease in the fair value of investments	(181,360)	(10,772)	1583.6
Interest income from advances and notes receivable from institutions	644,568	310,989	107.3
Other income	135,902	128,825	5.5
	8,752,165	8,375,642	4.5
Operating expenses:			
Salaries	370,479	348,959	6.2
Employee benefits	87,839	93,221	(5.8)
Travel	8,200	8,816	(7.0)
Office expenses	64,801	56,003	15.7)
Accounting and auditing	47,100	50,000	(5.8)
Legal	113,890	71,642	59.0
Telephone	7,093	8,471	(16.3)
Building lease	54,535	54,535	0.0
Assistance paid to borrowing institutions	–	1,400,000	(100.0)
Bad debt expense	15,559	–	–
Paid to trusteed funds	81,696	–	–
Nursing services	1,473,923	1,429,456	3.1
Administrative services	439,579	421,262	4.3
Dietary services	586,747	555,041	5.7
Depreciation and amortization	335,330	338,921	(1.1)
Plant operations and maintenance	266,937	294,566	(9.4)
Housekeeping services	102,880	98,167	4.8
Other services	344,120	322,197	6.8
Interest expense	420,784	449,944	(6.5)
	4,821,492	6,001,201	(19.7)
Operating income	3,930,673	2,374,441	65.5
Fund balance at beginning of year	15,808,646	13,434,205	17.7
Fund balance at end of year	$19,739,319	$15,808,646	24.9%

RESTRICTED & TRUSTEED FUNDS:	2004	2003	Percentage Change
Fund balance and funds held in trust, beginning of year	$ 91,301,146	$ 77,422,740	17.9%
Additions:			
Bond and note proceeds	180,925,000	136,125,000	32.9
Received and receivable from institutions	94,712,779	90,801,426	4.3
Received and receivable from operating fund	746,696	–	–
Transfer from debt service reserves	1,356,416	3,880,418	(65.0)
Income from investments	7,198,988	7,574,238	(4.9)
Net change in the fair value of investments	(1,049,837)	966,345	(208.6)
Other income	152,516	312,762	(51.2)
Total additions	284,042,558	239,660,189	18.5
Deductions:			
Construction and program costs	51,952,807	110,876,712	(53.1)
Bond issuance costs	2,400,529	2,611,988	(8.1)
Principal payments	37,036,586	44,097,470	(16.0)
Interest expense	54,226,457	53,067,614	2.2
Paid to institutions	1,580,529	4,760,263	(66.8)
Paid to refunding and refinancing escrows	129,650,060	–	–
Paid to operating fund	5,639,400	–	–
Transfer to debt service reserves	5,177,942	9,623,534	(46.2)
Other deductions	461,195	744,202	(38.0)
	288,125,505	225,781,783	27.6
(Decrease) increase in fund balance and funds held in trust	(4,082,947)	13,878,406	(129.4)
Fund balance and funds held in trust, end of year	$ 87,218,199	$91,301,146	(4.5)%

Operating fund consolidated cash and cash equivalents at June 30, 2004 increased $2,169,629 or 39.2% over balances at June 30, 2003. This increase was the result of investing excess funds into short-term investments.

Investments within the Operating Fund at June 30, 2004 increased $5,765,691 or 206.4% over the balance at June 30, 2003. The majority of this increase was the result of replenishing the operating fund with the proceeds from the sale of the Taxable Financing Reserve Fund II bond issue during 2004. Offsetting these investments under noncurrent liabilities is an amount due to trusteed funds that may be drawn to make future debt service payments on the Taxable Financing Reserve Fund II bonds.

Investments within the Restricted and Trusteed Funds at June 30, 2004 decreased $1,113,986 or 0.8% from June 30 2003. This decrease is the net result of the investment of bond proceeds from the Series 2003C, 2003D, and 2004A issues, and the disbursement of funds to institutions for project costs throughout the year. The Authority's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), agency notes and guaranteed investment contracts. All investments are carried at fair value. Any unrealized gains or losses (primarily due to fluctuations in market values) are recognized in the statements of operations and changes in fund balance and funds held in trust. Decreases in the fair value of investments in 2004 versus 2003 in both the Operating Fund and the Restricted and Trusteed Funds are mainly due to an improvement in the interest rate environment which resulted in a decline in market value of certain debt securities held by the Authority.

Accrued interest receivable within the Restricted and Trusteed Funds at June 30, 2004 increased $1,424,269 or 190.4% from June 30 2003. This increase was simply the result of timing, whereby the trustee collected interest earned on investments for fiscal year 2003 on or before June 30, 2003, but did not collect the interest earned for fiscal year 2004 until after the end of the fiscal year.

Notes receivable from institutions within the Operating Fund at June 30, 2004 increased $1,111,716 over balances at June 30, 2003 primarily due to the Authority retaining subordinated debt on additional refinancings with HUD in the Taxable Financing Reserve Fund.

Income from investments in 2004 increased 22.3% in the Operating Fund (consolidated) and decreased 4.9% in the Restricted and Trusteed Funds from 2003. The increased earnings in the Operating Fund was the direct result of an increase in investment balances transferred from the Taxable Financing Reserve Fund II during 2004. The reduction in the Restricted and Trusteed Funds was primarily the result of drawing down investments for ongoing projects costs.

Bond and note proceeds for 2004 in the Restricted and Trusteed Funds increased 32.9% from 2003 as a result of an increase in loan requests from the borrowers, which resulted in the bond issues described above during 2004. This also increased loans receivable from institutions and gross bonds outstanding in the Restricted and Trusteed Funds at June 30, 2004 as compared to June 30, 2003. Finally, received and receivable from institutions increased 5.1% over 2003 due to the new bond issues, and principal payments decreased 16.0% from 2003 in the Restricted and Trusteed Funds due primarily to a reduction in scheduled principal payments required from institutions during 2004. This reduction in required principal payments was the result of paydowns in prior years, as well as refundings and refinancings in the various resolutions during 2004 and 2003.

The Authority shares office space and staff with the Maine Municipal Bond Bank (the Bond Bank). The Authority reimburses the Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Health and Higher Educational Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2004

ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living (note 9)	Eliminations	Consolidated Operating Fund
Current assets:				
Cash and cash equivalents (note 3)	$ 7,245,584	$ 459,805	$ –	$ 7,705,389
Investments, at fair value (note 3)	8,558,586	–	–	8,558,586
Accrued investment income	6,438	–	–	6,438
Fees and other amounts receivable from trusteed funds	1,642,565	–	–	1,642,565
Resident accounts receivable, net of allowance of $11,551	–	151,355	–	151,355
Other assets	1,500	142,864	–	144,364
Total current assets	17,454,673	754,024	–	18,208,697
Long-term assets:				
Advances receivable from institutions net of allowance of $2,050,270 (note 8)	6,954,392	–	(5,698,839)	1,255,553
Notes receivable from institutions (note 8)	6,659,716	–	–	6,659,716
Assets whose use is limited	–	705,519	–	705,519
Fixed and other assets, net	–	3,837,457	–	3,837,457
Deferred financing costs, net	–	172,500	–	172,500
Total long-term assets	13,614,108	4,715,476	(5,698,839)	12,630,745
	$ 31,068,781	$ 5,469,500	$ (5,698,839)	$ 30,839,442

LIABILITIES AND FUND BALANCE

	Authority's Operating Fund	Portland Center For Assisted Living (note 9)	Eliminations	Consolidated Operating Fund
Current liabilities:				
Current portion of loan payable to trusteed funds	$ –	$ 460,000	$ –	$ 460,000
Accounts payable	97,438	37,208	–	134,646
Estimated third-party payor settlements	–	1,050,687	–	1,050,687
Accrued payroll and other expenses	–	207,163	–	207,163
Resident funds held in trust	–	52,987	–	52,987
Deferred revenue	–	4,099	–	4,099
Total current liabilities	97,438	1,812,144	–	1,909,582
Long-term liabilities:				
Loan payable to trusteed funds	–	4,263,013	–	4,263,013
Other amounts due to trusteed funds	4,927,528	–	–	4,927,528
Advances due to Authority's operating fund	–	5,698,839	(5,698,839)	–
Total long-term liabilities	4,927,528	9,961,852	(5,698,839)	9,190,541
Total liabilities	5,024,966	11,773,996	(5,698,839)	11,100,123
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	–	200	(200)	–
Fund balance (deficit)	26,043,815	(6,304,696)	200	19,739,319
	26,043,815	(6,304,496)	–	19,739,319
	$ 31,068,781	$ 5,469,500	$ (5,698,839)	$ 30,839,442

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEETS – RESTRICTED AND TRUSTEED FUNDS

June 30, 2004

ASSETS

	General Resolution	Reserve Fund
Current assets:		
Cash and cash equivalents (note 3)	$ 5,428,636	$ 64,181,521
Investments, at fair value (note 3)	13,711,498	23,087,619
Accrued investment income	69,195	2,093,478
Loans receivable from institutions (note 8)	1,147,684	34,210,000
Loan receivable from operating fund (note 9)	–	–
Other receivables from institutions	8,113	138,944
Total current assets	20,365,126	123,711,562
Noncurrent assets:		
Cash and cash equivalents (note 3)	–	–
Investments, at fair value (note 3)	6,260,475	88,115,357
Loans receivable from institutions (note 8)	58,105,932	897,232,229
Loan receivable from operating fund (note 9)	–	–
Other amounts due from operating fund	–	–
Total noncurrent assets	64,366,407	985,347,586
Total assets	$ 84,731,533	$ 1,109,059,148

LIABILITIES, FUNDS HELD IN TRUST AND FUND BALANCE

	General Resolution	Reserve Fund
Current liabilities:		
Bonds payable (note 4)	$ 1,147,684	$ 34,210,000
Interest payable	1,006,232	21,648,399
Fees payable to operating fund	17,465	826,613
Accounts payable	3,500	76,532
Rebate payable to Internal Revenue Service	–	505,018
Deferred revenue	–	1,349,420
Total current liabilities	2,174,881	58,615,982
Noncurrent liabilities:		
Bonds payable (note 4)	58,105,932	989,075,000
Rebate payable to Internal Revenue Service	–	1,278,542
Total noncurrent liabilities	58,105,932	990,353,542
Total liabilities	60,280,813	1,048,969,524
Funds held in trust and fund balance:		
Construction/program funds	13,901,574	26,659,074
Expense funds	–	1,529
Debt service funds	3,673,123	33,273,117
Debt service reserve funds	6,511,554	–
Earnings funds	1,606	–
Redemption funds	362,863	–
Unrestricted fund balance	–	155,904
Total funds held in trust and fund balance	24,450,720	60,089,624
	$ 84,731,533	$ 1,109,059,148

See accompanying notes.

Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II	Total
$ 4,055,789	$ 43,927	$ 73,709,873
–	–	36,799,117
9,158	325	2,172,156
1,750,000	–	37,107,684
460,000	–	460,000
758	–	147,815
6,275,705	44,252	150,396,645
–	795,600	795,600
4,383,212	–	98,759,044
18,123,775	–	973,461,936
4,263,013	–	4,263,013
–	4,927,528	4,927,528
26,770,000	5,723,128	1,082,207,121
$ 33,045,705	$ 5,767,380	$ 1,232,603,766
$ 2,210,000	$ –	$ 37,567,684
391,714	43,918	23,090,263
798,487	–	1,642,565
45,780	–	125,812
–	–	505,018
105,331	–	1,454,751
3,551,312	43,918	64,386,093
26,770,000	5,770,000	1,079,720,932
–	–	1,278,542
26,770,000	5,770,000	1,080,999,474
30,321,312	5,813,918	1,145,385,567
869,052	–	41,429,700
237	(46,872)	(45,106)
1,836,632	14	38,782,886
–	–	6,511,554
–	–	1,606
–	–	362,863
18,472	320	174,696
2,724,393	(46,538)	87,218,199
$ 33,045,705	$ 5,767,380	$ 1,232,603,766

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2004

	Authority's Operating Fund	Portland Center For Assisted Living (note 9)	Eliminations	Consolidated Operating Fund
Operating revenues:				
Net resident service revenue	$ –	$ 4,248,433	$ –	$ 4,248,433
Administrative and other fees	3,672,515	–	–	3,672,515
Investment income	232,107	–	–	232,107
Net decrease in the fair value of investments	(181,360)	–	–	(181,360)
Interest income from advances and notes receivable from institutions	1,212,514	–	(567,946)	644,568
Other income	133,579	2,323	–	135,902
	5,069,355	4,250,756	(567,946)	8,752,165
Operating expenses (note 6):				
Salaries	370,479	–	–	370,479
Employee benefits	87,839	–	–	87,839
Travel	8,200	–	–	8,200
Office expenses	64,801	–	–	64,801
Accounting and auditing	47,100	–	–	47,100
Legal	113,890	–	–	113,890
Telephone	7,093	–	–	7,093
Building lease	54,535	–	–	54,535
Bad debt expense	15,559	–	–	15,559
Paid to trusteed funds	81,696	–	–	81,696
Nursing services	–	1,473,923	–	1,473,923
Administrative services	–	439,579	–	439,579
Dietary services	–	586,747	–	586,747
Depreciation and amortization	–	335,330	–	335,330
Plant operations and maintenance	–	266,937	–	266,937
Housekeeping services	–	102,880	–	102,880
Other services	–	344,120	–	344,120
Interest expense	–	988,730	(567,946)	420,784
	851,192	4,538,246	(567,946)	4,821,492
Operating income (loss)	4,218,163	(287,490)	–	3,930,673
Fund balance (deficit) at beginning of year	21,825,652	(6,017,206)	200	15,808,646
Fund balance (deficit) at end of year	$ 26,043,815	$ (6,304,696)	$ 200	$ 19,739,319

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CHANGES IN FUND BALANCE
AND FUNDS HELD IN TRUST – RESTRICTED AND TRUSTEED FUNDS

Year Ended June 30, 2004

	General Resolution	Reserve Fund
Fund balance and funds held in trust, beginning of year	$ 24,518,679	$ 62,456,651
Additions:		
Bond and note proceeds	–	174,490,000
Received and receivable from institutions	5,786,184	76,600,169
Received and receivable from operating fund	–	–
Transfer from debt service reserves	–	–
Income from investments	944,995	5,925,692
Net decrease in the fair value of investments	(1,049,837)	–
Other income	–	152,516
Total additions	5,681,342	257,168,377
Deductions:		
Construction and program costs	1,500,000	50,208,159
Bond issuance costs	–	2,353,657
Principal payments	1,096,586	32,640,000
Interest expense	2,927,074	48,639,278
Paid to institutions	6,458	1,492,612
Paid to refunding and refinancing escrows (notes 7 and 8)	–	119,600,060
Paid to operating fund	–	–
Transfer to debt service reserves	–	4,382,342
Other deductions	219,183	219,296
Total deductions	5,749,301	259,535,404
Decrease in fund balance and funds held in trust	(67,959)	(2,367,027)
Fund balance and funds held in trust, end of year	$ 24,450,720	$ 60,089,624

See accompanying notes.

Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II	Total
$ 4,325,816	$ –	$ 91,301,146
–	6,435,000	180,925,000
12,326,426	–	94,712,779
–	746,696	746,696
1,356,416	–	1,356,416
325,103	3,198	7,198,988
–	–	(1,049,837)
–	–	152,516
14,007,945	7,184,894	284,042,558
244,648	–	51,952,807
–	46,872	2,400,529
2,635,000	665,000	37,036,586
2,575,545	84,560	54,226,457
81,459	–	1,580,529
10,050,000	–	129,650,060
–	5,639,400	5,639,400
–	795,600	5,177,942
22,716	–	461,195
15,609,368	7,231,432	288,125,505
(1,601,423)	(46,538)	(4,082,947)
$ 2,724,393	$ (46,538)	$ 87,218,199

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND

Year Ended June 30, 2004

	Authority's Operating Fund	Portland Center For Assisted Living (note 9)	Elimi- nations	Consolidated Operating Fund
Operating activities:				
Cash received from units	$ 4,134,568	$ –	$ –	$ 4,134,568
Cash received from patients	–	4,093,608	–	4,093,608
Cash received from other income	133,579	2,323	–	135,902
Cash payments for interest	–	(988,730)	567,946	(420,784)
Cash payments for operating expenses	(810,649)	(3,152,430)	–	(3,963,079)
Cash payments for other assets and liabilities	–	(10,115)	–	(10,115)
Net cash provided (used) by operating activities	3,457,498	(55,344)	567,946	3,970,100
Financing activities:				
Net advances from Authority's operating fund	–	507,861	(507,861)	–
Advances from trusteed funds	4,927,528	–	–	4,927,528
Payments on loan to trusteed funds	–	(430,000)	–	(430,000)
Net cash provided by financing activities	4,927,528	77,861	(507,861)	4,497,528
Investing activities:				
Proceeds from sales and maturities of investments	4,500,000	–	–	4,500,000
Purchase of equipment	–	(115,556)	–	(115,556)
Purchase of investments	(10,447,051)	–	–	(10,447,051)
Change in assets whose use is limited	–	(74,310)	–	(74,310)
Income received from investments and advances	1,446,129	–	(567,946)	878,183
Net advances receivable from institutions	(435,410)	–	507,861	72,451
Increase in notes receivable from institutions	(1,111,716)	–	–	(1,111,716)
Net cash used by investing activities	(6,048,048)	(189,866)	(60,085)	(6,297,999)
Increase (decrease) in cash and cash equivalents	2,336,978	(167,349)	–	2,169,629
Cash and cash equivalents at beginning of year	4,908,606	627,154	–	5,535,760
Cash and cash equivalents at end of year	$ 7,245,584	$ 459,805	$ –	$ 7,705,389

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND
(CONTINUED)

Year Ended June 30, 2003

	Authority's Operating Fund	Portland Center For Assisted Living (note 9)	Eliminations	Consolidated Operating Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ 4,218,163	$ (287,490)	$ –	$ 3,930,673
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Investment and interest income	(1,444,621)	–	567,946	(876,675)
Net decrease in the fair value of investments	181,360	–	–	181,360
Bad debt expense	15,559	–	–	15,559
Depreciation and amortization	–	335,330	–	335,330
Change in assets and liabilities:				
Decrease in fees receivable from institutions	330,808	–	–	330,808
Decrease in fees and other amounts receivable from trusteed funds	132,745	–	–	132,745
Decrease in net resident accounts receivable	–	64,173	–	64,173
Increase in other assets	(1,500)	(10,115)	–	(11,615)
Increase in accounts payable	24,984	3,333	–	28,317
Decrease in estimated third-party payor settlements	–	(221,655)	–	(221,655)
Increase in accrued payroll and other expenses	–	58,423	–	58,423
Increase in deferred revenue	–	2,657	–	2,657
Net cash provided (used) by operating activities	$ 3,457,498	$ (55,344)	$ 567,946	$ 3,970,100

See accompanying notes.

1. Organization

Maine Health and Higher Educational Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Title 22, Chapter 413, Sections 2051 to 2074, inclusive and as amended by Chapter 584 of the Public Laws of 1991.

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

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

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

The Authority's operating fund records the revenues and expenses generated from its daily operations, and also includes the operations of Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center), which was acquired by the Authority in 1998 (see note 9). The Authority has a management agreement with Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority. The operating fund is not part of the Authority's resolutions and does not legally act as security for outstanding bonds.

The restricted and trusteed funds represent various funds and accounts, established with respect to the applicable series bond documents, held by a trustee. The trustee completes the duties and obligations required by the applicable series resolution including investment of monies as set forth by the Series Resolution and Tax Regulatory Agreement and the application of bond proceeds and institution's deposits as received by the trustee in accordance with the applicable series bond documents.

1. Organization (Continued)

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

General Resolution

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

Reserve Fund

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

Taxable Financing Reserve Fund

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

Taxable Financing Reserve Fund II

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

1. Organization (Continued)

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

Construction/Program Funds

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

Expense Funds

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

Debt Service Funds

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

Debt Service Reserve Funds

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

Earnings Funds

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

Redemption Funds

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

2. Significant Accounting Policies

The Authority maintains books of accounts for its own operations (the operating fund, including the Center) and for the restricted and trusteed funds (the funds) established in connection with each outstanding bond issue. The books of accounts are maintained in accordance with the principles of proprietary (operating fund) and fiduciary (the funds) fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting (operating fund) and modified accrual basis of accounting (restricted and trusteed funds) and include the accounts of the operating fund and the accounts of all bond issues currently outstanding that have not been advance refunded (see note 7).

The Authority complies with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting.* This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Cash and Cash Equivalents

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

Investments

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

Interfund Transactions

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

2. Significant Accounting Policies (Continued)

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Property and Equipment

Property and equipment from the acquisition of the Center is stated at cost. Depreciation expense has been computed using the straight-line method at rates intended to amortize the cost of the related assets over their estimated useful lives.

Estimated Third-Party Payor Settlements

Estimated third-party payor settlements with respect to the Center represent estimates of final settlements under cost-reimbursed programs (Medicare and Medicaid).

Amounts due under the cost reimbursement programs will become determinable and final only upon completion of cost reporting and subsequent audit as required under the terms of agreements with respective third-party reimbursing agencies.

Revenue Recognition and Resident Accounts Receivable

Net resident service revenue of the Center is reported at the estimated net realizable amounts from patients, third-party reimbursing agencies, and others for services rendered, including estimated retroactive adjustments under reimbursement formulas with third-party reimbursing agencies. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Amortization

Deferred financing costs of the Center are amortized using the straight-line method over the term of the respective loans. Financing costs in the restricted and trusteed funds are treated as expenditures as incurred.

Income Taxes

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

2. Significant Accounting Policies (Continued)

Principles of Consolidation

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

New Accounting Pronouncements

GASB issued Statement No. 40 in March 2003. This statement amends GASB Statement No. 3 by establishing new disclosure requirements related to investment risks, including credit risk, interest rate risk and foreign currency risk. The statement is expected to be applicable to the Authority beginning in fiscal 2005.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Total Columns

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

3. Cash and Cash Equivalents and Investments

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and certain state and local governments, as well as certain investment contracts and collateralized repurchase agreements. The trustees invest available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's and Trustees' policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested in securities whose maturities are planned to coincide with the cash needs for operating, debt service and arbitrage requirements.

The consolidated cash and cash equivalents of the Authority's operating fund at June 30, 2004 consist of \$300,000 insured and \$1,053,458 noninsured deposits with banks and \$6,351,931 of money market funds held by a trust company.

3. Cash and Cash Equivalents and Investments (Continued)

GASB Statement No. 3 requires investments to be classified into three categories to give an indication of the level of risk assumed by the Authority and the institutions; Category 1 includes investments insured or registered in the Authority's or institution's name or securities held by the Authority or institution or by the Authority's or the institution's agent in the Authority's or institution's name; Category 2 includes investments uninsured and unregistered with securities held by the financial institution's trust department or agent in the Authority's or institution's name; and Category 3 includes uninsured and unregistered, with securities held by the financial institution's trust department or its agent, but not in the Authority's or institution's name. There are no Category 1 or 3 investments held by the Authority or the trustees at June 30, 2004.

At June 30, 2004, cash and investments are categorized as follows (at fair value):

	Cash and Cash Equivalents	Guaranteed Investment Contracts	U.S. Government Obligations	Total
Restricted and trusteed funds:				
General resolution	$ 5,428,636	$ 11,662,718	$ 8,309,255	$ 25,400,609
Reserve fund	64,181,521	110,842,739	360,237	175,384,497
Taxable financing reserve fund	4,055,789	4,383,212	–	8,439,001
Taxable financing reserve fund II	839,527	–	–	839,527
Total investments held in restricted and trusteed funds	74,505,473	126,888,669	8,669,492	210,063,634
Operating fund:				
Authority's operating fund	7,245,584	–	8,558,586	15,804,170
Portland Center for Assisted Living	1,165,324	–	–	1,165,324
Total operating fund investments	8,410,908	–	8,558,586	16,969,494
	$ 82,916,381	$ 126,888,669	$ 17,228,078	$ 227,033,128

At June 30, 2004, approximately $96,225,000 in guaranteed investment contracts within the reserve fund are with three institutions. Additionally, approximately $8,800,000 and $2,445,000 in guaranteed investment contracts within the general resolution and taxable financing reserve fund, respectively, are with two institutions.

4. Bonds Payable

Total General Resolution bonds payable consist of the following at June 30, 2004:

	Maturity	Amount Issued	Amount Outstanding June 30, 2004
General resolution:			
VHA of New England Capital Asset Financing Program, 1985 Series A through Series G, variable rate beginning at 6%, dated December 30, 1985	2025	$ 26,100,000	$ 18,700,000
Mt. Desert Island Hospital, Series A, variable interest rate equal to 80% of the prime rate of Bank of America, dated December 11, 1986	1988 – 2008	1,800,000	270,000
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	11,885,000	1,810,000
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	780,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	30,000
Piper Shores, Series 1999A, 7.5% – 7.55%, dated December 1, 1999	2006 – 2029	24,900,000	24,900,000
MidCoast, 2001 lease purchase, 4.95%, dated November 15, 2001	2008	5,865,635	3,933,616
Midcoast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2005 – 2043	8,830,000	8,830,000
		$ 80,995,635	59,253,616
Current portion			1,147,684
Noncurrent portion			$ 58,105,932

4. Bonds Payable

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

Year Ending	Principal	Interest	Total
2005	$ 1,147,684	$ 2,875,168	$ 4,022,852
2006	1,775,863	2,814,519	4,590,382
2007	1,766,228	2,718,492	4,484,720
2008	1,773,891	2,620,333	4,394,224
2009	1,094,950	2,530,760	3,625,710
2010 – 2014	5,000,000	11,720,166	16,720,166
2015 – 2019	5,050,000	9,970,007	15,020,007
2020 – 2024	7,180,000	7,851,633	15,031,633
2025 – 2029	28,945,000	4,220,394	33,165,394
2030 – 2034	1,405,000	1,326,607	2,731,607
2035 – 2039	1,885,000	894,240	2,779,240
2040 – 2043	2,230,000	312,930	2,542,930
	$ 59,253,616	$ 49,855,249	$ 109,108,865

Total Reserve Fund bonds payable consist of the following at June 30, 2004:

	Maturity	Amount Issued	Amount Outstanding June 30, 2004
Reserve fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	$ 44,850,000	$ 1,260,000
Series 1993B, 2.8% – 5.75%, dated May 1, 1993	1994 – 2023	20,000,000	5,495,000
Series 1993C, 2.65% – 5.0%, dated September 1, 1993	1994 – 2013	69,085,000	41,410,000
Series 1993D, 2.6% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	21,940,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	9,075,000
Series 1995A, 4.4% – 5.878%, dated April 11, 1995	1996 – 2025	33,285,000	795,000
Series 1995B, variable rate, dated August 2, 1995	1998 – 2025	17,535,000	15,735,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	2,445,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	22,160,000

4. Bonds Payable (Continued)

	Maturity	Amount Issued	Amount Outstanding June 30, 2004
Reserve fund (continued):			
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	$ 41,855,000	$ 30,920,000
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	8,310,000	7,705,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	41,740,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	65,730,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	83,990,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	28,475,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	86,330,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	39,830,000
Series 2000A, variable rate, dated January 27, 2000	2002 – 2022	11,755,000	11,055,000
Series 2000B, variable rate, dated January 27, 2000	2000 – 2019	12,685,000	10,405,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	49,285,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	63,655,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	9,985,000
Series 2001C, 3.25% – 5.125%, dated May 15, 2001	2002 – 2031	27,565,000	25,605,000
Series 2001D, 3.0% – 5.0%, dated November 1, 2001	2002 – 2031	50,700,000	47,965,000
Series 2002A, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	54,640,000
Series 2002B, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	8,175,000	8,085,000
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	63,080,000	63,080,000
Series 2003B, 2.0% – 5.0%, dated July 1, 2003	2004 – 2033	59,245,000	59,245,000
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	7,050,000	7,050,000

4. **Bonds Payable (Continued)**

	Maturity	Amount Issued	Amount Outstanding June 30, 2004
Reserve fund (continued):			
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	$ 35,880,000	$ 35,880,000
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	72,315,000	72,315,000
		$ 1,322,785,000	1,023,285,000
Current portion			34,210,000
Noncurrent portion			$ 989,075,000

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

Year Ending	Principal	Interest	Total
2005	$ 34,210,000	$ 45,928,847	$ 80,138,847
2006	37,335,000	45,996,342	83,331,342
2007	38,630,000	44,544,890	83,174,890
2008	39,550,000	43,000,494	82,550,494
2009	39,730,000	41,391,428	81,121,428
2010 – 2014	214,865,000	179,754,083	394,619,083
2015 – 2019	216,530,000	128,708,256	345,238,256
2020 – 2024	194,165,000	77,347,391	271,512,391
2025 – 2029	141,210,000	34,878,082	176,088,082
2030 – 2033	67,060,000	5,837,887	72,897,887
	$ 1,023,285,000	$ 647,387,700	$ 1,670,672,700

4. Bonds Payable (Continued)

Taxable Financing Reserve fund bonds payable consist of the following at June 30, 2004:

	Maturity	Amount Issued	Amount Outstanding June 30, 2004
Taxable Financing Reserve fund:			
Series 1993A, variable interest rate, dated January 1, 1993	1993 – 2012	$ 57,125,000	$ 15,360,000
Series 1993B, variable interest rate, dated October 27, 1993	1994 – 2013	25,060,000	6,290,000
Series 1996A, 7.03% fixed interest rate, dated February 22, 1996	1996 – 2016	16,440,000	7,330,000
		$ 98,625,000	28,980,000
Current portion			2,210,000
Noncurrent portion			$ 26,770,000

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

Year Ending	Principal	Interest	Total
2005	$ 2,210,000	$ 2,007,317	$ 4,217,317
2006	2,360,000	1,842,391	4,202,391
2007	2,445,000	1,668,909	4,113,909
2008	2,595,000	1,486,848	4,081,848
2009	2,755,000	1,293,552	4,048,552
2010 – 2014	14,315,000	3,198,693	17,513,693
2015 – 2016	2,300,000	249,917	2,549,917
	$ 28,980,000	$ 11,747,627	$ 40,727,627

Taxable Financing Reserve Fund II bonds payable consist of the following at June 30, 2004:

Series 2003A, variable interest rate, dated September 1, 2003	2014 – 2023	$6,435,000	$5,770,000
Current portion			–
			$5,770,000

4. Bonds Payable (Continued)

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

Year Ending	Principal	Interest	Total
2005	$ –	$ 87,127	$ 87,127
2006	–	87,127	87,127
2007	–	87,127	87,127
2008	–	87,127	87,127
2009	–	87,127	87,127
2010 – 2014	–	435,635	435,635
2015 – 2019	2,900,000	329,633	3,229,633
2020 – 2023	2,870,000	92,563	2,962,563
	$5,770,000	$1,293,466	$7,063,466

Each of the above series of bonds of the Authority is payable solely from the revenues from, and is secured by, the project, program or resolution in respect of which it is issued and has no claim of payment from the security or revenues pledged for the payment of the other series of bonds.

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2004:

	General Resolution	Reserve Fund	Taxable Financing Reserve Fund	Taxable Financing Reserve Fund II
Balance, beginning of year	$ 60,350,202	$ 1,000,195,000	$ 41,665,000	$ –
Issuances	–	174,490,000	–	6,435,000
Redemptions:				
Refundings – see note 7	–	118,760,000	–	–
Refinancings – see note 8	–	–	10,050,000	–
Principal payments	1,096,586	32,640,000	2,635,000	665,000
Balance, end of year	$ 59,253,616	$ 1,023,285,000	$ 28,980,000	$ 5,770,000

5. Reserve Funds

Three of the resolutions require the Authority to set up reserve funds as follows:

Reserve Fund

The Authority is required to maintain a debt service reserve which is 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, 2004, the required debt service reserve was $83,331,342 and the fair value of the debt service reserve assets totaled $91,842,778.

Taxable Financing Reserve Fund

The Authority is required to maintain a debt service reserve which is 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, 2004, the required debt service reserve was $4,217,317 and the fair value of the debt service reserve assets totaled $4,383,212.

Taxable Financing Reserve Fund II

The Authority is required to maintain a debt service reserve which is 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, 2004, the required debt service reserve was $708,388 and the fair value of the debt service reserve assets totaled $795,600.

6. Operating Expenses

The Authority has a management agreement with Maine Municipal Bond Bank (the Bond Bank) which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead. The Authority recognized approximately $570,000 of expense under this agreement in 2004.

7. Refunded Issues

On July 1, 2003, the Authority issued $59,245,000 in 2003B revenue bonds with an average interest rate of 4.40%, a portion of which was used to advance refund $10,810,000 of outstanding reserve resolution bonds with an average interest rate of 5.86%. Additionally, approximately $474,000 in underwriting fees, insurance and other issuance costs were paid. The authority refunded the above bonds to reduce total interest payments over the next 22 years by approximately $862,300.

On September 1, 2003, the Authority issued $35,880,000 in 2003D revenue bonds with an average interest rate of 4.32% to currently refund $36,155,000 of outstanding reserve resolution bonds with an average interest rate of 5.60%. Additionally, approximately $652,000 in underwriting fees, insurance and other issuance costs were paid. The Authority refunded the above bonds to reduce total interest payments over the next 20 years by approximately $5,117,700.

7. Refunded Issues (Continued)

On June 3, 2004, the Authority issued $72,315,000 in 2004A revenue bonds with an average interest rate of 5.01% to currently refund $46,910,000 and advance refund $24,885,000 of outstanding reserve resolution bonds with an average interest rate of 5.72%. Additionally, approximately $1,050,920 in underwriting fees, insurance and other issuance costs were paid. The Authority refunded the above bonds to reduce total interest payments over the next 22 years by approximately $3,341,800.

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 advance refunded bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations are placed in irrevocable trust accounts with the trustees of the defeased bonds. The gains, losses and economic benefits of these transactions inure to the respective institution and not the Authority, although the Authority may receive an administrative fee. At June 30, 2004, there were approximately $134,285,000 of advance refunded bonds remaining outstanding with respect to all advance-refunded issues.

8. Nursing Home Loans

In 1994, the Maine Department of Human Services (DHS) substantially revised the eligibility criteria for Medicaid coverage of nursing facility services, causing a decline in occupancy in nursing facilities. The occupancy decline has not affected each nursing facility equally. In some instances, particularly in proprietary nursing homes borrowing under the taxable financing reserve fund resolution, which consists primarily of loans to nursing homes, these declines in occupancy have created cash flow problems.

In 2002, the owners of certain financially troubled nursing homes, with the Authority's concurrence, began refinancing portions of Authority loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of the Authority expects that these refinancings will reduce annual debt service requirements, thereby eliminating the Authority's exposure in its Taxable Financing Reserve Fund and reducing the Authority's overall exposure. Through June 30, 2004, HUD has completed refinancings for nine institutions which, at the time they were refinanced, had combined bond-related loans and advances due the Authority of approximately $43,242,000 (including refinancings with HUD in 2004 totaling $5,481,000 and refinancings with other parties totaling $4,569,000). As part of the refinancing completed by HUD, the Authority agreed to issue 8% subordinated notes receivable to these nine institutions from its operating fund. These notes total $6,659,716 at June 30, 2004 and are subordinate to all HUD loans. Interest is payable semi-annually and principal payments are due by April 30th of each year in amounts equal to 50% of the excess cash flow generated by the nine institutions based on the audited financial statements for the previous year. The Authority is recording interest income on a cash basis on these loans. Should these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid. The proceeds from the HUD loans and the subordinated notes were used to pay off the related bonds.

8. Nursing Home Loans (Continued)

Management of the Authority expects that the owners of two other facilities will complete refinancings during fiscal 2005. These two nursing homes have combined loans and advances due the Authority of approximately $6,050,000 at June 30, 2004. If these anticipated refinancings are not completed and the nursing home industry in Maine continues to suffer from the present reimbursement restrictions, it is likely that a number of nursing homes included in the taxable financing reserve fund resolution will have difficulty in fully meeting their debt service obligations to the Authority.

In addition to subordinated notes receivable from the nine institutions described above, the Authority has advanced approximately $3,329,000 from the operating fund as of June 30, 2004 to other financially troubled institutions with outstanding loans owed to the Authority of approximately $18,431,000 (including loans of $10,492,000 in the reserve fund at June 30, 2004). These advances, upon which interest income is recognized only to the extent that cash payments are received, were primarily made to assist these institutions in meeting debt service requirements. At June 30, 2004, the Authority has established a $2,050,270 reserve in the operating fund related to amounts which have been advanced or are expected to be advanced to troubled institutions.

During 2004, Birch Grove Nursing Center closed. The facility had outstanding amounts due the Authority totaling approximately $373,000. Of this amount, the Authority recovered $300,000 from the sale of certain assets of the facility in 2004, and expects to recover remaining amounts due during 2005 from the sale of real estate formerly owned by the facility.

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

Effective January 5, 1998, the Authority elected to purchase 100% of the issued and outstanding shares of common stock of the Center. No amounts were paid or are payable to former owners of the Center with respect to this transaction. The Center, as purchased, was a 126-bed facility which provided long-term nursing care to the elderly. The Center was subsequently converted to a 125-bed assisted living facility, which is eligible for reimbursements under the Maine Medicaid program. During fiscal 1998, the Authority recorded a loss of approximately $3.5 million, representing the excess of the Center's liabilities over the estimated fair value of its assets.

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

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

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

Relevant disclosures for the Center are summarized as follows:

Assets Whose Use is Limited

Assets whose use is limited consist of resident funds held in trust and funds required by the terms of the Authority's Revenue Bonds Series 1993A and are invested in cash and money market securities at June 30, 3004. A summary follows:

Principal and interest debt service balances	$652,532
Resident funds	52,987
Total assets whose use is limited	$705,519

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

Significant Concentration and Estimated Third-Party Payor Settlements

Upon the conversion of the Center to an assisted living facility in December 1998, the Center is no longer eligible for reimbursements under the Federal Medicare program. Approximately 93% of the residents served in 2004 were beneficiaries of the Maine Medicaid 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 Medicaid program. Settlements do not become final until the cost reports are audited and approved by the Maine Department of Human Services (DHS). Differences between estimated and actual settlements are recorded as contractual adjustments in the year of final determination.

The estimated settlements to the Medicaid program include amounts which DHS has determined to be owed based on audited cost reports for years 1995 through 2003, plus an estimated settlement for 2004. Any change in the recorded estimated settlements which may be generated by the resolution of disputed issues or subsequent audits will be recorded as contractual adjustments in the year of final settlement.

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

Following is a summary of net resident service revenue for the year ended June 30, 2004:

Room and board	$ 5,896,695
Contractual adjustments under third-party reimbursement programs	(1,648,262)
Net resident service revenue	$ 4,248,433

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

Fixed Assets

A summary of fixed assets follows:

	2003	Additions	Deductions	2004
Land	$ 302,291	$ –	$ –	$ 302,291
Building and improvements	7,116,129	74,164	–	7,190,293
Furniture, fixtures and equipment	887,029	41,392	–	928,421
Vehicles	21,944	–	–	21,944
	8,327,393	115,556	–	8,442,949
Less accumulated depreciation	(4,290,247)	(315,245)	–	(4,605,492)
Fixed assets, net	$ 4,037,146	$ (199,689)	$ –	$ 3,837,457

Loan Payable to Trusteed Funds

Loan payable to trusteed funds of $4,723,013 at June 30, 2004 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 $955,000, excluding letter of credit and authority fees.

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

2005	$ 460,000
2006	495,000
2007	530,000
2008	570,000
2009	610,000
Thereafter	2,058,013

9. 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 2004. 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, 2004 were approximately $212,000.

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 $3,276 to the plan for the year ended June 30, 2004.

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, 2004, 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, 2004, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

BAKER NEWMAN & NOYES
LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher Educational
Facilities Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Maine Health and Higher Educational Facilities Authority for the year ended June 30, 2004, and have issued our report thereon dated October 8, 2004. We have also audited the balance sheet and statement of changes in funds held in trust of the Maine Health and Higher Educational Facilities Authority, Mt. Desert Island Hospital Issue, Series A for the year ended June 30, 2004. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

The following covenant violations were noted during our audit:

The annual report of all repairs, replacements and maintenance was not received within 120 days of the 2004 fiscal year end.

The budget for the operations and cash flow of the institution was not received prior to the beginning of fiscal year 2005.

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To the Members of
Maine Health and Higher Educational
Facilities Authority

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

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

In our opinion, except as noted above, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority, Mt. Desert Island Hospital Issue, Series A at June 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Baker Newman & Noyes

Limited Liability Company

Portland, Maine
October 8, 2004

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

BALANCE SHEET

June 30, 2004

ASSETS

	Debt Service Fund	Redemption Fund	Total
Current assets:			
Principal payments receivable from Institution	$ 90,000	$ –	$ 90,000
Investments, at market value	–	69,735	69,735
Due from redemption fund	2,160	–	2,160
Accrued investment income	–	20	20
Total current assets	92,160	69,755	161,915
Noncurrent assets:			
Principal payments receivable from Institution	180,000	–	180,000
Total assets	$272,160	$69,755	$341,915

LIABILITIES AND FUNDS HELD IN TRUST

	Debt Service Fund	Redemption Fund	Total
Current liabilities:			
Bonds payable	$ 90,000	$ –	$ 90,000
Due to debt service fund	–	2,160	2,160
Accrued interest payable	2,160	–	2,160
Total current liabilities	92,160	2,160	94,320
Noncurrent liabilities:			
Bonds payable	180,000	–	180,000
Total liabilities	272,160	2,160	274,320
Funds held in trust	–	67,595	67,595
Total liabilities and funds held in trust	$272,160	$69,755	$341,915

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

STATEMENT OF CHANGES IN FUNDS HELD IN TRUST

Year Ended June 30, 2004

	Debt Service Fund	Redemption Fund	Total
Balances at beginning of year	$ –	$ 67,645	$ 67,645
Additions:			
Received from Institution	–	99,360	99,360
Income from investments	–	193	193
Transfer from redemption fund	99,360	–	99,360
	99,360	167,198	266,558
Deductions:			
Principal payment	90,000	–	90,000
Interest expense	9,360	–	9,360
Other deductions	–	243	243
Transfer to debt service fund	–	99,360	99,360
	99,360	99,603	198,963
Balances at end of year	$ –	$ 67,595	$ 67,595

Maine HHEFA

HEALTH & HIGHER EDUCATIONAL FACILITIES AUTHORITY

2003 Financial Report

HEALTH & HIGHER EDUCATIONAL
FACILITIES AUTHORITY

ROBERT O. LENNA, EXECUTIVE DIRECTOR
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TO: INTERESTED PARTIES
FROM: Robert O. Lenna, Executive Director
SUBJECT: Annual Report

This is the fiscal 2003 report for the Maine Health and Higher Educational Facilities Authority. As of June 30, 2003, the Authority has $60,350,202 outstanding under its general tax exempt conduit resolution, $1,000,195,000 outstanding under its tax exempt reserve fund resolution, and $41,665,000 outstanding under its taxable reserve fund resolution.

During fiscal year 2003 the Authority issued $127,295,000 of bonds under its tax-exempt reserve fund resolution and $8,830,000 under its general tax-exempt conduit resolution. These sales were accomplished in three series for nine hospitals, four colleges, and one nursing home.

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

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2003

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BAKER NEWMAN & NOYES
LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying basic financial statements, consisting of the consolidating balance sheet – operating fund and the balance sheets – restricted and trusteed funds, including the General Resolution, Reserve Fund, Medium Term Financing Reserve Fund and Taxable Financing Reserve Fund, of Maine Health and Higher Educational Facilities Authority as of June 30, 2003, and the related consolidating statement of operations and changes in fund balance – operating fund, statements of changes in fund balance and funds held in trust – restricted and trusteed funds and consolidating statement of cash flows – operating fund for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority and the individual fund groups referred to above at June 30, 2003, and the results of its operations and cash flows of its operating fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 – 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. The supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
October 8, 2003

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MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003

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, 2003. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Consolidated operating revenues for the Authority's Operating Fund were $8,375,642 for fiscal year 2003, a decrease of only $17,143 from fiscal year 2002. Consolidated operating income for the Authority's Operating Fund was $2,374,441 for fiscal year 2003, a decrease of $1,444,576 from fiscal year 2002. This decrease in consolidated operating income was mainly due to added provision of $1,400,000 in reserves on certain institutional loans and advances during fiscal year 2003.
- Notes receivable from institutions in the Authority's Operating Fund of $5,548,000 at June 30, 2003 represent subordinate loans that the Authority assumed as part of the refinancing of several taxable nursing home bonds with the U.S. Department of Housing and Urban Development (HUD) during 2002 and 2003 (refer to note 7 of the audited financial statements). The Authority is recording interest income on a cash basis for these loans.
- Loans receivable from operating fund in the Authority's Restricted and Trusteed Funds represent bond principal payments due from Portland Center for Assisted Living (the Center) at June 30, 2003. The Center was acquired by the Authority in 1998 and is 100% owned by the Authority.
- The Authority's loans receivable from institutions in the Restricted and Trusteed Funds at June 30, 2003 of $1,002,720,341 represents a net increase of $85,547,622 or 9.3% from the balance at June 30, 2002. This increase is the net result of the bond issuances described below, for which various funds were loaned out during fiscal 2003, and the repayment of loans by institutions during fiscal 2003.
- The Authority's gross bonds outstanding in the Restricted and Trusteed Funds at June 30, 2003 of $1,102,210,202 represents a net increase of $92,027,530 or 9.1% from the balance at June 30, 2002. This increase consists of the issuance of $8,830,000 in Series 2002 general resolution bonds and $127,295,000 in Series 2002A, 2002B and 2003A reserve fund bonds, less scheduled bond principal payments and certain refundings and refinancings that occurred during fiscal 2003 (refer to note 4 of the audited financial statements). The Authority's bonds are a combination of fixed and variable interest rate and tax-exempt and taxable bonds, although a majority of the bonds are fixed interest rate and tax-exempt.

Overview of the Authority

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

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

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

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

As indicated above, fund balance and funds held in trust may serve, over time, as a useful indicator of an entity's financial position. In the case of the Authority's Operating Fund, assets exceeded liabilities by \$15,808,646 at June 30, 2003. This represents an increase of \$2,374,441 or 17.7% over the previous fiscal year, which is the Authority's 2003 operating income within the Operating Fund.

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

CONSOLIDATED OPERATING FUND

		2003	2002	Percentage Change
Current assets:				
Cash and cash equivalents	$	5,535,760 $	3,900,366	41.9%
Investments, at fair value		2,792,895	5,072,298	(44.9)
Accrued investment income		7,946	1,279	521.3
Fees receivable from institutions		346,367	341,166	1.5
Fees and other amounts receivable from trusteed funds		1,775,310	1,926,755	(7.9)
Resident accounts receivable, net of allowance		215,528	131,998	63.3
Other assets		132,749	139,080	(4.6)
Total current assets		10,806,555	11,512,942	(6.1)
Long-term assets:				
Advances receivable from institutions net of allowance		1,328,004	1,144,753	16.0
Notes receivable from institutions		5,548,000	3,174,582	74.8
Assets whose use is limited		611,061	525,852	16.2
Fixed and other assets, net		4,037,146	4,326,547	(6.7)
Deferred financing costs, net		192,585	212,670	(9.4)
Total long-term assets		11,716,796	9,384,404	24.9
Total assets	$	22,523,351 $	20,897,346	7.8%
Current liabilities:				
Current portion of loan payable to trusteed funds	$	430,000 $	400,000	7.5%
Accounts payable		106,329	246,202	(56.8)
Estimated third-party payor settlements		1,272,342	1,505,960	(15.5)
Accrued payroll and other expenses		148,740	129,751	14.6
Resident funds held in trust		32,839	22,826	43.9
Deferred revenue		1,442	5,389	(73.2)
Total current liabilities		1,991,692	2,310,128	(13.8)
Long-term liabilities:				
Loan payable to trustee funds		4,723,013	5,153,013	(8.3)
Total liabilities		6,714,705	7,463,141	(10.0)
Fund balance		15,808,646	13,434,205	17.7
Total liabilities and fund balance	$	22,523,351 $	20,897,346	7.8%

RESTRICTED AND TRUSTEED FUNDS:

	2003	2002	Percentage Change
Current assets:			
Cash and cash equivalents held by trustee	$ 78,710,083	$ 80,742,875	(2.5%)
Investments held by trustee	40,910,591	25,114,693	62.9
Accrued interest receivable	747,887	831,632	(10.1)
Loans receivable from institutions	35,941,587	33,115,470	8.5
Loan receivable from operating fund	430,000	400,000	7.5
Other receivables from institutions	416,533	378,459	10.1
Total current assets	157,156,681	140,583,129	11.8
Noncurrent assets:			
Investments held by trustee	95,761,556	88,235,930	8.5
Loans receivable from institutions	966,778,754	884,057,249	9.4
Loan receivable from operating fund	4,723,014	5,153,013	(8.3)
Total noncurrent assets	1,067,263,324	977,446,192	9.2
Total Assets	$ 1,224,420,005	$ 1,118,029,321	9.5%
Current liabilities:			
Bonds payable	$ 36,371,587	$ 35,417,470	2.7%
Interest Payable	25,102,171	23,538,659	6.6
Fees payable to operating fund	1,775,310	1,926,755	(7.9)
Accounts payable	186,305	482,009	(61.3)
Rebate to the IRS	577,498	863,140	(33.1)
Deferred revenue	1,777,461	2,212,036	(19.6)
Total current liabilities	65,790,332	64,440,069	2.1
Noncurrent liabilities:			
Bonds payable	1,065,838,615	974,765,202	9.3
Rebate payable to the IRS	1,489,912	1,401,310	6.3
Total noncurrent liabilities	1,067,328,527	976,166,512	9.3
Total liabilities	1,133,118,859	1,040,606,581	8.9
Funds held in trust and fund balance:			
Construction Funds	42,801,148	33,341,295	28.4
Expense Funds	3,842	37,537	(89.8)
Debt Service Funds	41,115,480	36,616,140	12.3
Debt Service Reserve Funds	6,522,587	6,561,627	(0.6)
Earnings and Rebate funds	1,507	10,194	(85.2)
Redemption Funds	361,730	220,867	63.8
Unrestricted Fund Balance	494,852	635,080	(22.1)
Total funds held in trust and fund balance	91,301,146	77,422,740	17.9
	$ 1,224,420,005	$ 1,118,029,321	9.5%

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

CONSOLIDATED OPERATING FUND

		2003	2002	Percentage Change
Operating Revenues:				
Net resident service revenue	$	4,251,743 $	4,126,937	3.0%
Administrative and other fees		3,505,119	3,725,857	(5.9)
Investment income		189,738	283,246	(33.0)
Net decrease in the fair value of investments		(10,772)	(14,062)	23.4
Interest income from advances to institutions		310,989	172,854	79.9
Other income		128,825	97,953	31.5
		8,375,642	8,392,785	(0.2)
Operating expenses:				
Salaries		348,959	322,888	8.1
Employee benefits		93,221	87,948	6.0
Travel		8,816	2,614	237.3
Office expenses		56,003	101,727	(44.9)
Accounting and auditing		50,000	45,000	11.1
Legal		71,642	51,179	40.0
Telephone		8,471	6,103	38.8
Building lease		54,535	54,535	0.0
Paid to Maine Hospital Association		-	13,708	(100.0)
Assistance paid to borrowing institutions		1,400,000	-	-
Nursing services		1,429,456	1,377,333	3.8
Administrative services		421,262	417,378	0.9
Dietary services		555,041	531,325	4.5
Depreciation and amortization		338,921	332,192	2.0
Plant operations and maintenance		294,566	293,005	0.5
Housekeeping services		98,167	94,241	4.2
Other services		322,197	347,332	(7.2)
Interest expense		449,944	495,260	(9.1)
		6,001,201	4,573,768	31.2
Operating income		2,374,441	3,819,017	(37.8)
Fund balance at beginning of year		13,434,205	9,615,188	39.7
Fund balance at end of year	$	15,808,646 $	13,434,205	17.7%

RESTRICTED AND TRUSTEED FUNDS

	2003	2002	Percentage Change
Fund balance and funds held in trust, beginning of year	$ 77,422,740	$ 122,785,418	(36.9)%
Additions:			
Bond and note proceeds	136,125,000	84,130,635	61.8
Received and receivable from institutions	90,801,426	141,865,549	(36.0)
Transfer from debt service reserves	3,880,418	4,441,030	(12.6)
Income from investments	7,574,238	9,452,143	(19.9)
Net change in the fair value of investments	966,345	(28,395)	-
Other income	312,762	291,003	7.5
	239,660,189	240,151,965	(0.2)
Deductions:			
Construction and program costs	110,876,712	91,449,843	21.2
Bond issuance costs	2,611,988	2,027,954	28.8
Principal payments	44,097,470	86,032,963	(48.7)
Interest expense	53,067,614	52,962,606	0.2
Paid to institutions	4,760,263	9,589,242	(50.4)
Transfer to debt service reserves	9,623,534	2,301,815	318.1
Paid to refunding and refinancing escrows	-	39,842,785	(100.0)
Other deductions	744,202	1,307,435	(43.1)
	225,781,783	285,514,643	(20.9)
Increase (decrease) in funds held in trust	13,878,406	(45,362,678)	130.6
Fund balance and funds held in trust, end of year	91,301,146	77,422,740	17.9%

Operating fund consolidated cash and cash equivalents at June 30, 2003 increased $1,635,394 or 41.9% from balances at June 30, 2002, while investments decreased $2,279,403 or 44.9% from balances at June 30, 2002. These changes were primarily the result of investing excess funds on hand into short-term investments during fiscal 2003.

Investments within the Restricted and Trusteed Funds at June 30, 2003 increased $23,321,524 or 20.6% from June 30 2002. This increase is the net result of investing bond proceeds from the Series 2002A, 2002B, and 2003A issues, and the disbursement of funds to institutions for project costs throughout the year. The Authority's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), agency notes and guaranteed investment contracts. All investments are carried at fair value. Any unrealized gains or losses (primarily due to fluctuations in market values) are recognized in the statements of operations and changes in fund balance and funds held in trust.

Notes receivable from institutions within the Operating Fund at June 30, 2003 increased $2,373,418 over balances at June 30, 2002 primarily due to the Authority retaining subordinated debt on additional refinancings with HUD in the Taxable Financing Reserve Fund.

Accounts payable in the Restricted and Trusteed Funds at June 30, 2003 decreased 61.3% from June 30, 2002 as a result of certain residual funds being held by the Authority at the end of fiscal 2002 that were refunded to the borrowers during fiscal year 2003.

Income from investments in 2003 decreased 33% in the Operating Fund (consolidated) and 19.9% in the Restricted and Trusteed Funds from 2002. The reduction in the Restricted and Trusteed Funds was primarily the result of drawing down investments from the construction funds for ongoing projects costs, resulting in a lower average investment balance in 2003 as compared to 2002. Also, fiscal year 2003 experienced a declining interest rate environment, which negatively impacted the investment return in both the Operating Fund and Restricted and Trusteed Funds.

Bond and note proceeds for 2003 in the Restricted and Trusteed Funds increased 61.8% from 2002 as a result of an increase in loan requests from the borrowers, which resulted in the bond issues described above during 2003. This also increased loans receivable from institutions and gross bonds outstanding in the Restricted and Trusteed Funds at June 30, 2003 as compared to June 30, 2002. Finally, received and receivable from institutions decreased 36.0% and principal payments decreased 48.7% from 2002 in the Restricted and Trusteed Funds due primarily to a reduction in scheduled principal and interest payments required from institutions during 2003. This reduction was the result of paydowns in prior years, as well as refinancings within the Taxable Financing Reserve Fund during fiscal 2002.

The Authority shares office space and staff with the Maine Municipal Bond Bank. The Authority reimburses the Maine Municipal Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Health and Higher Educational Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2003

ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Current assets:				
Cash and cash equivalents (note 3)	$ 4,908,606	$ 627,154	$ –	$ 5,535,760
Investments, at fair value (note 3)	2,792,895	–	–	2,792,895
Accrued investment income	7,946	–	–	7,946
Fees receivable from institutions	346,367	–	–	346,367
Fees and other amounts receivable from trusteed funds	1,775,310	–	–	1,775,310
Resident accounts receivable, net of allowance of $12,000	–	215,528	–	215,528
Other assets	–	132,749	–	132,749
Total current assets	9,831,124	975,431	–	10,806,555
Long-term assets:				
Advances receivable from institutions net of allowance of $3,000,000 (note 7)	6,518,982	–	(5,190,978)	1,328,004
Notes receivable from institutions (note 7)	5,548,000	–	–	5,548,000
Assets whose use is limited	–	611,061	–	611,061
Fixed and other assets, net	–	4,037,146	–	4,037,146
Deferred financing costs, net	–	192,585	–	192,585
Total long-term assets	12,066,982	4,840,792	(5,190,978)	11,716,796
	$ 21,898,106	$ 5,816,223	$(5,190,978)	$ 22,523,351

LIABILITIES AND FUND BALANCE

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Current liabilities:				
Current portion of loan payable to trusteed funds	$ –	$ 430,000	$ –	$ 430,000
Accounts payable	72,454	33,875	–	106,329
Estimated third-party payor settlements	–	1,272,342	–	1,272,342
Accrued payroll and other expenses	–	148,740	–	148,740
Resident funds held in trust	–	32,839	–	32,839
Deferred revenue	–	1,442	–	1,442
Total current liabilities	72,454	1,919,238	–	1,991,692
Long-term liabilities:				
Loan payable to trusteed funds	–	4,723,013	–	4,723,013
Advances due to Authority's operating fund	–	5,190,978	(5,190,978)	–
Total liabilities	72,454	11,833,229	(5,190,978)	6,714,705
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	–	200	(200)	–
Fund balance (deficit)	21,825,652	(6,017,206)	200	15,808,646
	21,825,652	(6,017,006)	–	15,808,646
	$ 21,898,106	$ 5,816,223	$ (5,190,978)	$ 22,523,351

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEETS – RESTRICTED AND TRUSTEED FUNDS

June 30, 2003

ASSETS

	General Resolution	Reserve Fund
Current assets:		
Cash and cash equivalents (note 3)	$ 4,985,937	$ 66,305,981
Investments, at fair value (note 3)	14,144,141	26,766,450
Accrued investment income	40,595	695,120
Loans receivable from institutions (note 7)	1,096,587	32,640,000
Loans receivable from operating fund (note 8)	–	–
Other receivables from institutions	166,609	120,497
Total current assets	20,433,869	126,528,048
Noncurrent assets:		
Investments, at fair value (note 3)	6,260,475	83,939,662
Loans receivable from institutions (note 7)	59,253,616	880,094,571
Loans receivable from operating fund (note 8)	–	–
Total noncurrent assets	65,514,091	964,034,233
Total assets	$85,947,960	$1,090,562,281

LIABILITIES, FUNDS HELD IN TRUST AND FUND BALANCE

	General Resolution	Reserve Fund
Current liabilities:		
Bonds payable (note 4)	$ 1,096,587	$ 32,640,000
Interest payable	997,976	23,164,656
Fees payable to operating fund	–	961,240
Accounts payable	81,103	32,724
Rebate payable to Internal Revenue Service	–	577,498
Deferred revenue	–	1,684,600
Total current liabilities	2,175,666	59,060,718
Noncurrent liabilities:		
Bonds payable (note 4)	59,253,615	967,555,000
Rebate payable to Internal Revenue Service	–	1,489,912
Total noncurrent liabilities	59,253,615	969,044,912
Total liabilities	61,429,281	1,028,105,630
Funds held in trust and fund balance:		
Construction/program funds	14,212,749	27,346,341
Expense funds	–	2,879
Debt service funds	3,600,723	34,474,253
Debt service reserve funds	6,522,587	–
Earnings funds	1,507	–
Redemption funds	181,113	180,617
Unrestricted fund balance	–	452,561
Total funds held in trust and fund balance	24,518,679	62,456,651
	$85,947,960	$1,090,562,281

See accompanying notes.

Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund	Total
$ 35,488	$ 7,382,677	$ 78,710,083
–	–	40,910,591
18	12,154	747,887
–	2,205,000	35,941,587
–	430,000	430,000
–	129,427	416,533
35,506	10,159,258	157,156,681
–	5,561,419	95,761,556
–	27,430,567	966,778,754
–	4,723,014	4,723,014
–	37,715,000	1,067,263,324
$ 35,506	$47,874,258	$1,224,420,005
$ –	$ 2,635,000	$ 36,371,587
–	939,539	25,102,171
18	814,052	1,775,310
35,488	36,990	186,305
–	–	577,498
–	92,861	1,777,461
35,506	4,518,442	65,790,332
–	39,030,000	1,065,838,615
–	–	1,489,912
–	39,030,000	1,067,328,527
35,506	43,548,442	1,133,118,859
–	1,242,058	42,801,148
–	963	3,842
–	3,040,504	41,115,480
–	–	6,522,587
–	–	1,507
–	–	361,730
–	42,291	494,852
–	4,325,816	91,301,146
$ 35,506	$47,874,258	$1,224,420,005

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2003

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Operating revenues:				
Net resident service revenue	$ –	$ 4,251,743	$ –	$ 4,251,743
Administrative and other fees	3,505,119	–	–	3,505,119
Investment income	189,738	–	–	189,738
Net decrease in the fair value of investments	(10,772)	–	–	(10,772)
Interest income from advances and notes receivable from institutions	831,981	–	(520,992)	310,989
Other income	125,365	3,460	–	128,825
	4,641,431	4,255,203	(520,992)	8,375,642
Operating expenses (note 5):				
Salaries	348,959	–	–	348,959
Employee benefits	93,221	–	–	93,221
Travel	8,816	–	–	8,816
Office expenses	56,003	–	–	56,003
Accounting and auditing	50,000	–	–	50,000
Legal	71,642	–	–	71,642
Telephone	8,471	–	–	8,471
Building lease	54,535	–	–	54,535
Assistance paid to borrowing institutions (note 7)	1,400,000	–	–	1,400,000
Nursing services	–	1,429,456	–	1,429,456
Administrative services	–	421,262	–	421,262
Dietary services	–	555,041	–	555,041
Depreciation and amortization	–	338,921	–	338,921
Plant operations and maintenance	–	294,566	–	294,566
Housekeeping services	–	98,167	–	98,167
Other services	–	322,197	–	322,197
Interest expense	–	970,936	(520,992)	449,944
	2,091,647	4,430,546	(520,992)	6,001,201
Operating income (loss)	2,549,784	(175,343)	–	2,374,441
Fund balance (deficit) at beginning of year	19,275,868	(5,841,863)	200	13,434,205
Fund balance (deficit) at end of year	$21,825,652	$(6,017,206)	$ 200	$15,808,646

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CHANGES IN FUND BALANCE AND FUNDS HELD IN TRUST – RESTRICTED AND TRUSTEED FUNDS

Year Ended June 30, 2003

	General Resolution	Reserve Fund
Fund balance and funds held in trust, beginning of year	$18,130,654	$ 55,277,279
Additions:		
Bond and note proceeds	8,830,000	127,295,000
Received and receivable from institutions	6,265,873	71,237,254
Transfer from debt service reserves	–	893,940
Income from investments	855,216	6,308,833
Net increase in the fair value of investments	966,345	–
Other income	–	312,762
Total additions	16,917,434	206,047,789
Deductions:		
Construction and program costs	3,541,720	107,269,751
Bond issuance costs	253,603	2,358,385
Principal payments	1,057,470	30,475,000
Interest expense	3,015,706	46,769,765
Paid to institutions	2,440,554	2,173,932
Transfer to debt service reserves	–	9,623,534
Other deductions	220,356	198,050
Total deductions	10,529,409	198,868,417
Increase (decrease) in fund balance and funds held in trust	6,388,025	7,179,372
Fund balance and funds held in trust, end of year	$24,518,679	$ 62,456,651

See accompanying notes.

Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund	Total
$ 417,376	$ 3,597,431	$ 77,422,740
–	–	136,125,000
–	13,298,299	90,801,426
1,902,000	1,084,478	3,880,418
1,740	408,449	7,574,238
–	–	966,345
–	–	312,762
1,903,740	14,791,226	239,660,189
–	65,241	110,876,712
–	–	2,611,988
2,140,000	10,425,000	44,097,470
–	3,282,143	53,067,614
20,196	125,581	4,760,263
–	–	9,623,534
160,920	164,876	744,202
2,321,116	14,062,841	225,781,783
(417,376)	728,385	13,878,406
$ –	$ 4,325,816	$ 91,301,146

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND

Year Ended June 30, 2003

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Elimi-nations	Consolidated Operating Fund
Operating activities:				
Cash received from units	$ 3,651,363	$ –	$ –	$ 3,651,363
Cash received from patients	–	4,168,213	–	4,168,213
Cash received from other income	125,365	3,460	–	128,825
Cash payments for interest	–	(970,936)	520,992	(449,944)
Cash payments for operating expenses	(821,471)	(3,339,301)	–	(4,160,772)
Cash received for other assets and liabilities	–	6,331	–	6,331
Net cash provided (used) by operating activities	2,955,257	(132,233)	520,992	3,344,016
Financing activities:				
Net advances from Authority's operating fund	–	445,039	(445,039)	–
Payments on loan to trusteed funds	–	(400,000)	–	(400,000)
Net cash provided (used) by financing activities	–	45,039	(445,039)	(400,000)
Investing activities:				
Proceeds from sales and maturities of investments	12,104,522	–	–	12,104,522
Purchase of equipment	–	(29,435)	–	(29,435)
Purchase of investments	(9,835,891)	–	–	(9,835,891)
Change in assets whose use is limited	–	(85,209)	–	(85,209)
Income received from investments and advances	1,015,052	–	(520,992)	494,060
Increase in notes receivable from institutions	(2,373,418)	–	–	(2,373,418)
Net advances receivable from institutions	(2,028,290)	–	445,039	(1,583,251)
Net cash used by investing activities	(1,118,025)	(114,644)	(75,953)	(1,308,622)
Increase (decrease) in cash and cash equivalents	1,837,232	(201,838)	–	1,635,394
Cash and cash equivalents at beginning of year	3,071,374	828,992	–	3,900,366
Cash and cash equivalents at end of year	$ 4,908,606	$ 627,154	$ –	$ 5,535,760

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND (CONTINUED)

Year Ended June 30, 2003

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ 2,549,784	$ (175,343)	$ –	$ 2,374,441
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Assistance paid to borrowing institutions	1,400,000	–	–	1,400,000
Investment and interest income	(1,021,719)	–	520,992	(500,727)
Net decrease in the fair value of investments	10,772	–	–	10,772
Depreciation and amortization	–	338,921	–	338,921
Change in assets and liabilities:				
Increase in fees receivable from institutions	(5,201)	–	–	(5,201)
Decrease in fees receivable from trusteed funds	151,445	–	–	151,445
Increase in net resident accounts receivable	–	(83,530)	–	(83,530)
Decrease in other assets	–	6,331	–	6,331
Decrease in accounts payable	(129,824)	(10,049)	–	(139,873)
Decrease in deferred revenue	–	(3,947)	–	(3,947)
Increase in accrued payroll and other expenses	–	18,989	–	18,989
Decrease in estimated third-party payor settlements	–	(233,618)	–	(233,618)
Increase in resident funds held in trust	–	10,013	–	10,013
Net cash provided (used) by operating activities	$ 2,955,257	$ (132,233)	$ 520,992	$ 3,344,016

See accompanying notes.

1. Organization

Maine Health and Higher Educational Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Title 22, Chapter 413, Sections 2051 to 2074, inclusive and as amended by Chapter 584 of the Public Laws of 1991.

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

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

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

The Authority's operating fund records the revenues and expenses generated from its daily operations, and also includes the operations of Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center), which was acquired by the Authority in 1998 (see note 8). The Authority has a management agreement with Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority. The operating fund is not part of the Authority's resolutions and does not legally act as security for outstanding bonds.

The restricted and trusteed funds represent various funds and accounts, established with respect to the applicable series bond documents, held by a trustee. The trustee completes the duties and obligations required by the applicable series resolution including investment of monies as set forth by the Series Resolution and Tax Regulatory Agreement and the application of bond proceeds and institution's deposits as received by the trustee in accordance with the applicable series bond documents.

1. Organization (Continued)

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

General Resolution

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

Reserve Fund

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

Medium Term Financing Reserve Fund

These funds and accounts are established under the Authority's Resolution establishing the Maine Health Facilities' Medium Term Financing Reserve Fund adopted March 5, 1992. 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 repaid over a medium term and also benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine. Loans to institutions made with proceeds of bonds issued under this resolution are generally written for the net amount of bond proceeds less debt service reserve funds retained by the Authority.

Taxable Financing Reserve Fund

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

1. Organization (Continued)

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

Construction/Program Funds

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

Expense Funds

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

Debt Service Funds

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

Debt Service Reserve Funds

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

Earnings Funds

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

Redemption Funds

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

2. Significant Accounting Policies

The Authority maintains books of accounts for its own operations (the operating fund, including the Center) and for the restricted and trusteed funds (the funds) established in connection with each outstanding bond issue. The books of accounts are maintained in accordance with the principles of proprietary (operating fund) and fiduciary (the funds) fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting (operating fund) and modified accrual basis of accounting (restricted and trusteed funds) and include the accounts of the operating fund and the accounts of all bond issues currently outstanding that have not been advance refunded (see note 6).

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). The Authority implemented the Statements as of July 1, 2001.

Cash and Cash Equivalents

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

Investments

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

Interfund Transactions

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

2. Significant Accounting Policies (Continued)

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Property and Equipment

Property and equipment from the acquisition of the Center is stated at cost. Depreciation expense has been computed using the straight-line method at rates intended to amortize the cost of the related assets over their estimated useful lives.

Estimated Third-Party Payor Settlements

Estimated third-party payor settlements with respect to the Center represent estimates of final settlements under cost-reimbursed programs (Medicare and Medicaid).

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.

Net Resident Service Revenue

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.

Amortization

Deferred financing costs of the Center are amortized using the straight-line method over the term of the respective loans. Financing costs in the restricted and trusteed funds are treated as expenditures as incurred.

Income Taxes

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

Principles of Consolidation

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

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

3. Cash and Cash Equivalents and Investments

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and certain state and local governments, as well as certain investment contracts and collateralized repurchase agreements. The trustees invest available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's and Trustees' policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested in securities whose maturities are planned to coincide with the cash needs for operating, debt service and arbitrage requirements.

The cash and cash equivalents of the Authority's operating fund at June 30, 2003 consist of $300,000 insured and $1,264,904 noninsured deposits with banks and $3,970,856 of money market funds held by a trust company.

GASB Statement No. 3 requires investments to be classified into three categories to give an indication of the level of risk assumed by the Authority and the institutions; Category 1 includes investments insured or registered in the Authority's or institution's name or securities held by the Authority or institution or by the Authority's or the institution's agent in the Authority's or institution's name; Category 2 includes investments uninsured and unregistered with securities held by the financial institution's trust department or agent in the Authority's or institution's name; and Category 3 includes uninsured and unregistered, with securities held by the financial institution's trust department or its agent, but not in the Authority's or institution's name. There are no Category 1 or 3 investments held by the Authority or the trustees at June 30, 2003.

3. Cash and Cash Equivalents and Investments (Continued)

At June 30, 2003, cash and investments are categorized as follows (at fair value):

	Cash and Cash Equivalents	Guaranteed Investment Contracts	U.S. Government Obligations	Total
Restricted and trusteed funds:				
General resolution	$ 4,985,937	$ 13,251,275	$ 7,153,341	$ 25,390,553
Reserve fund	66,305,981	110,345,875	360,237	177,012,093
Medium term financing reserve fund	35,488	–	–	35,488
Taxable financing reserve fund	7,382,677	5,561,419	–	12,944,096
Total investments held in restricted and trusteed funds	78,710,083	129,158,569	7,513,578	215,382,230
Operating fund:				
Authority's operating fund	4,908,606	–	2,792,895	7,701,501
Portland Center for Assisted Living	627,154	–	–	627,154
Total operating fund investments	5,535,760	–	2,792,895	8,328,655
	$ 84,245,843	$ 129,158,569	$ 10,306,473	$ 223,710,885

At June 30, 2003, approximately $82,500,000 in guaranteed investment contracts within the reserve fund are with three institutions. Additionally, approximately $13,200,000 and $5,500,000 in guaranteed investment contracts within the general resolution and taxable financing reserve fund, respectively, are with two institutions.

4. Bonds Payable

As of June 30, 2003, the Authority had the following series and amounts of revenue bonds and notes:

	Maturity	Amount Issued	Amount Outstanding June 30, 2003
General resolution:			
VHA of New England Capital Asset Financing Program, 1985 Series A through Series G, variable rate beginning at 6%, dated December 30, 1985	2025	$ 26,100,000	$ 18,700,000
Mt. Desert Island Hospital, Series A, variable interest rate equal to 80% of the prime rate of Fleet Boston, dated December 11, 1986	1988 – 2008	1,800,000	360,000
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	11,885,000	1,930,000

4. Bonds Payable (Continued)

	Maturity	Amount Issued	Amount Outstanding June 30, 2003
General resolution (continued):			
Mt. Desert Island Hospital, Series 1992, variable interest rate equal to 80% of the prime rate of Fleet Boston, dated July 15, 1992	1993 – 2012	$ 1,300,000	$ 850,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	35,000
Piper Shores, Series 1999A, 7.5% – 7.55%, dated December 1, 1999	2006 – 2029	24,900,000	24,900,000
MidCoast, 2001 lease purchase, 4.95%, dated November 15, 2001	2008	5,865,635	4,745,202
Midcoast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2005 – 2043	8,830,000	8,830,000
		$ 80,995,635	60,350,202
Less current bonds payable			1,096,587
Noncurrent bond payable			$ 59,253,615
Reserve fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	$ 44,850,000	$ 11,150,000
Series 1993A, 2.5% – 5.60%, dated March 1, 1993	1993 – 2023	50,030,000	16,620,000
Series 1993B, 2.8% – 5.75%, dated May 1, 1993	1994 – 2023	20,000,000	16,795,000
Series 1993C, 2.65% – 5.0%, dated September 1, 1993	1994 – 2013	69,085,000	44,580,000
Series 1993D, 2.60% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	69,460,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	11,915,000
Series 1995A, 4.40% – 5.878%, dated April 11, 1995	1996 – 2025	33,285,000	29,880,000
Series 1995B, variable rate, dated August 2, 1995	1998 – 2025	17,535,000	16,035,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	10,325,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	23,090,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	32,590,000

4. Bonds Payable (Continued)

	Maturity	Amount Issued	Amount Outstanding June 30, 2003
Reserve fund (continued):			
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	$ 8,310,000	$ 7,865,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	43,940,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	68,300,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	87,150,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	29,085,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	89,320,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	40,560,000
Series 2000A, variable rate, dated January 27, 2000	2002 – 2022	11,755,000	11,415,000
Series 2000B, variable rate, dated January 27, 2000	2000 – 2019	12,685,000	11,005,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	50,130,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	65,275,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	10,335,000
Series 2001C, 3.25% – 5.125%, dated May 15, 2001	2002 – 2031	27,565,000	26,525,000
Series 2001D, 3.00% – 5.00%, dated November 1, 2001	2002 – 2031	50,700,000	49,555,000
Series 2002A, 3.00% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	56,040,000
Series 2002B, 3.00% – 5.00%, dated July 1, 2002	2003 – 2022	8,175,000	8,175,000
Series 2003A, 2.25% – 5.00%, dated January 15, 2003	2004 – 2032	63,080,000	63,080,000
		$ 1,198,325,000	1,000,195,000
Less current bonds payable			32,640,000
Noncurrent bonds payable			$ 967,555,000

4. Bonds Payable (Continued)

	Maturity	Amount Issued	Amount Outstanding June 30, 2003
Taxable financing reserve fund:			
Series 1993A, variable interest rate, dated January 1, 1993	1993 – 2012	$ 57,125,000	$ 18,495,000
Series 1993B, 7.04% fixed interest rate, dated October 27, 1993	1994 – 2013	25,060,000	9,685,000
Series 1996A, 7.03% fixed interest rate, dated February 22, 1996	1996 – 2016	16,440,000	13,485,000
		$ 98,625,000	41,665,000
Less current bonds payable			2,635,000
Noncurrent bonds payable			$ 39,030,000

Each of the above series of bonds of the Authority is payable solely from the revenues from, and is secured by, the project, program or resolution in respect of which it is issued and has no claim of payment from the security or revenues pledged for the payment of the other series of bonds.

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2003:

	General Resolution	Reserve Fund	Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund
Balance, beginning of year	$ 52,577,672	$ 903,375,000	$ 2,140,000	$ 52,090,000
Issuances	8,830,000	127,295,000	–	–
Redemptions:				
Refinancings – see note 7	–	–	–	7,620,000
Principal payments	1,057,470	30,475,000	2,140,000	2,805,000
Balance, end of year	$ 60,350,202	$1,000,195,000	$ –	$ 41,665,000

4. Bonds Payable (Continued)

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

Due Fiscal Year Ending	Principal	Interest	Total Debt Service
2004	$ 36,371,587	$ 50,915,705	$ 87,287,292
2005	38,797,684	49,067,065	87,864,749
2006	40,080,863	47,370,043	87,450,906
2007	41,621,228	45,536,345	87,157,573
2008	42,733,890	43,582,934	86,316,824
2009 – 2013	227,579,950	186,029,898	413,609,848
2014 – 2018	218,630,000	129,767,859	348,397,859
2019 – 2023	198,200,000	79,293,194	277,493,194
2024 – 2028	169,705,000	36,686,376	206,391,376
2029 – 2033	84,060,000	7,312,081	91,372,081
2034 – 2038	1,775,000	991,575	2,766,575
2039 – 2043	2,375,000	443,070	2,818,070
2044	280,000	7,560	287,560
Total	$ 1,102,210,202	$ 677,003,705	$ 1,779,213,907

5. Operating Expenses

The Authority has a management agreement with Maine Municipal 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 $500,000 of expense under this agreement in 2003.

6. Refunded Issues

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 advance refunded bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations were placed in irrevocable trust accounts with the trustees of the defeased bonds. The gains, losses and economic benefits of these transactions inure to the respective institution and not the Authority, although the Authority may receive an administrative fee. At June 30, 2003, there were $53,880,000 of advance refunded bonds remaining outstanding with respect to all advance-refunded issues.

7. Nursing Home Loans

In 1994, the Maine Department of Human Services (DHS) substantially revised the eligibility criteria for Medicaid coverage of nursing facility services, causing a decline in occupancy in nursing facilities. The occupancy decline has not affected each nursing facility equally. In some instances, particularly in proprietary nursing homes borrowing under the taxable financing reserve fund resolution, which consists primarily of loans to nursing homes, these declines in occupancy have created cash flow problems.

In 2002, the owners of certain financially troubled nursing homes, with the Authority's concurrence, began refinancing portions of Authority loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of the Authority expects that these refinancings will reduce annual debt service requirements, thereby eliminating the Authority's exposure in its Taxable Financing Reserve Fund and reducing the Authority's overall exposure. Through June 30, 2003, HUD has completed refinancings for eight institutions which, at the time they were refinanced, had combined bond-related loans and advances due the Authority of approximately \$37,761,000. As part of the refinancing completed by HUD, the Authority agreed to issue 8% subordinated notes receivable to these eight institutions from its operating fund. These notes total \$5,548,000 at June 30, 2003 and are subordinate to all HUD loans. Interest is payable semi-annually and principal payments are due by April 30th of each year in amounts equal to 50% of the excess cash flow generated by the eight institutions based on the audited financial statements for the previous year. The Authority is recording interest income on a cash basis on these loans. Should these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid. The proceeds from the HUD loans and the subordinated notes were used to pay off the related bonds.

Management of the Authority expects that the owners of three other facilities will complete refinancings during fiscal 2004. These three nursing homes have combined loans and advances due the Authority of approximately \$11,700,000 at June 30, 2003. If these anticipated refinancings are not completed and the nursing home industry in Maine continues to suffer from the present reimbursement restrictions, it is likely that a number of nursing homes included in the taxable financing reserve fund resolution will have difficulty in fully meeting their debt service obligations to the Authority.

In addition to subordinated notes receivable from the eight institutions described above, the Authority has advanced approximately \$4,328,000 from the operating fund as of June 30, 2003 to other financially troubled institutions with outstanding loans owed to the Authority of approximately \$28,350,000 (including loans of \$11,700,000 in the reserve fund at June 30, 2003). These advances, upon which interest income is recognized only to the extent that cash payments are received, were primarily made to assist these institutions in meeting debt service requirements. At June 30, 2003, the Authority has established a \$3,000,000 (\$1,400,000 of which was provided for in 2003) reserve in the operating fund related to amounts which have been advanced or are expected to be advanced to troubled institutions.

Subsequent to year end, Birch Grove Nursing Center closed. The facility had outstanding amounts due the Authority totaling approximately \$373,000 at June 30, 2003. Management of the Authority anticipates selling certain assets of this facility in 2004 to recover all amounts owed by this facility.

8. 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 the Maine Medicaid program. During fiscal 1998, the Authority recorded a loss of approximately $3.5 million, representing the excess of the Center's liabilities over the estimated fair value of its assets.

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

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

Relevant disclosures for the Center are summarized as follows:

Assets Whose Use is Limited

Assets whose use is limited consist of resident funds held in trust and funds required by the terms of the Authority's Revenue Bonds Series 1993A and are invested in cash and money market securities at June 30, 3003. A summary follows:

Principal and interest debt service balances	$578,222
Resident funds	32,839
Total assets whose use is limited	$611,061

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.

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

Significant Concentration and Estimated Third-Party Payor Settlements

Upon the conversion of the Center to an assisted living facility in December 1998, the Center is no longer eligible for reimbursements under the Federal Medicare program. Approximately 92% of the residents served in 2003 were beneficiaries of the Maine Medicaid 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 Medicaid program. Settlements do not become final until the cost reports are audited and approved by the Maine Department of Human Services (DHS). Differences between estimated and actual settlements are recorded as contractual adjustments in the year of final determination.

The estimated settlements to the Medicaid program include amounts which DHS has determined to be owed based on audited cost reports for years 1995 through 2002, plus an estimated settlement for 2003. 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, 2003:

Room and board	$ 5,563,781
Contractual adjustments under third-party reimbursement programs	(1,312,038)
Net resident service revenue	$ 4,251,743

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

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

Fixed Assets

A summary of fixed assets follows:

	2002	Additions	Deductions	2003
Land	$ 302,291	$ –	$ –	$ 302,291
Building and improvements	7,107,913	8,216	–	7,116,129
Furniture, fixtures and equipment	865,810	21,219	–	887,029
Vehicles	21,944	–	–	21,944
	8,297,958	29,435	–	8,327,393
Less accumulated depreciation	(3,971,411)	(318,836)	–	(4,290,247)
Fixed assets, net	$ 4,326,547	$(289,401)	$ –	$ 4,037,146

Loan Payable to Trusteed Funds

Loan payable to trusteed funds of $5,153,013 at June 30, 2003 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 principal payments (including interest at 7.35% per annum) are approximately $860,000, excluding letter of credit and authority fees.

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

2004	$ 430,000
2005	460,000
2006	495,000
2007	530,000
2008	570,000
Thereafter	2,668,013

Management Agreement

First Atlantic Corp. provided all management and accounting services required by the Center throughout 2003. 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, 2003 were approximately $213,000.

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

Employee Benefit Plan

The Center sponsors a discretionary contributory profit sharing plan and 401(k) plan which covers substantially all employees. The Center may elect to match employee contributions of up to 5% of the compensation of all eligible participants. The Center may also elect to make additional discretionary contributions. The Center contributed $3,147 to the plan for the year ended June 30, 2003.

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, 2003, 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, 2003, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

9. Subsequent Events

On July 11, 2003, the Maine Health and Higher Education Facilities Authority passed a resolution establishing the Maine Health Facilities' Taxable Financing Reserve Fund II Resolution. Under this resolution, the Authority issues Bonds exempt from State of Maine income taxes, which proceeds are used for funding subordinated loans and advances to certain financially troubled nursing homes in the State of Maine. Bonds issued under this resolution benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine.

On July 24, 2003, the Authority issued $65,120,000 of 2003B and 2003C Series Revenue Bonds. The bonds mature in 2004 – 2033 and carry an interest rate ranging from 2.00% to 5.00%. The bonds are secured by various loans made to institutions within the State of Maine.

On August 12, 2003, the Authority issued $6,435,000 of 2003 Taxable II Series Revenue Bonds. The bonds mature in 2014 – 2023 and carry a variable interest rate. The bonds are secured by subordinated loans to various institutions and the Authority's operating fund.

Subsequent to year end, Birch Grove Nursing Center closed (see note 7).

Maine HHEFA

HEALTH & HIGHER EDUCATIONAL FACILITIES AUTHORITY

2002 Financial Report

Maine HHEFA
HEALTH & HIGHER EDUCATIONAL
FACILITIES AUTHORITY

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TO: INTERESTED PARTIES
FROM: Robert O. Lenna, Executive Director
SUBJECT: Annual Report

This is the fiscal 2002 report for the Maine Health and Higher Educational Facilities Authority. As of June 30, 2002, the Authority has $52,577,672 outstanding under its general tax exempt conduit resolution, $903,375,000 outstanding under its tax exempt reserve fund resolution, $2,140,000 outstanding under its medium term tax exempt reserve fund resolution and $52,090,000 outstanding under its taxable reserve fund resolution.

During fiscal year 2002 the Authority issued $50,700,000 of bonds under its tax exempt reserve fund resolution and $5,865,635 under its general tax exempt conduit resolution. These sales were accomplished in two series for four hospitals, one college, one nursing home, two residential care facilities and one community mental health facility.

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

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

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2002

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BAKER NEWMAN & NOYES
LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying basic financial statements, consisting of the consolidating balance sheet – operating fund and the balance sheets – restricted and trusteed funds, including the General Resolution, Reserve Fund, Medium Term Financing Reserve Fund and Taxable Financing Reserve Fund, of Maine Health and Higher Educational Facilities Authority as of June 30, 2002, and the related consolidating statement of operations and changes in fund balance – operating fund, statements of changes in fund balance and funds held in trust – restricted and trusteed funds and consolidating statement of cash flows – operating fund for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority at June 30, 2002, and the results of its operations and cash flows of its operating fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2 to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, for the year ended June 30, 2002. Adoption of Statement No. 34 resulted in a change to the format and content of the basic financial statements and accompanying notes to the financial statements.

The Management's Discussion and Analysis on pages 2 – 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. The supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Baker Newman + Noyes

Limited Liability Company

Portland, Maine
October 11, 2002

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MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

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, 2002. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Consolidated revenues for the Authority's Operating Fund were \$8,392,785 for fiscal year 2002, an increase of \$290,430 or 3.6% over fiscal year 2001. This increase was caused primarily by additional issuance, annual loan servicing and other fees that the Authority collected in 2002.
- Consolidated fund balance in the Authority's Operating Fund increased \$3,819,017 in fiscal year 2002. The Authority had net assets of \$13,434,205 at June 30, 2002, an increase of 39.7% over the prior year.
- The Authority's gross bonds outstanding at June 30, 2002 of \$1,010,182,672 represents a net decrease of \$55,497,328 or 5.2% from the balance at June 30, 2001. This decrease consists of the issuance of the Series 2001 C&D bonds, less scheduled bond principal payments and certain refundings and refinancings that occurred in 2002 (refer to note 7 of the audited financial statements). The Authority's bonds are a combination of fixed and variable interest rate and tax-exempt and taxable bonds, although a majority of the bonds are fixed interest rate and tax-exempt.
- Notes receivable from institutions at June 30, 2002 represents subordinate debt that the Authority assumed as part of the refinancing of several taxable nursing home bonds with the U.S. Department of Housing and Urban Development. The refinancing of these bonds reduced the Authority's overall exposure by \$27,610,418.
- The account 'Loan receivable from Operating Fund' on the Restricted and Trusteed Funds Balance Sheet represents bond principal payments due from Portland Center for Assisted Living (the Center). The Center is entirely owned by the Authority.

Overview of the Authority

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

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

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

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

Fund balance and funds held in trust may serve, over time, as a useful indicator of an entity's financial position. In the case of the Authority's Operating Fund, assets exceeded liabilities by $13,434,205 at June 30, 2002. This represents an increase of $3,819,017 or 39.7% over the previous fiscal year. Most of this increase is attributable to additional issuance, annual loan servicing and other fees collected from borrowers and reductions in overall operating expenses in 2002.

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

CONSOLIDATED OPERATING FUND

	2002	2001	Percentage Change
Current assets:			
Cash and cash equivalents	$ 3,900,366	$ 5,207,502	(25.1)%
Investments, at fair value	5,072,298	3,552,285	42.8
Accrued investment income	1,279	11,817	(89.2)
Fees receivable from institutions	341,166	74,905	355.5
Fees and other amounts receivable from trusteed funds	1,926,755	1,565,650	23.1
Resident accounts receivable, net of allowance of $31,000	131,998	160,944	(18.0)
Other assets	139,080	112,616	23.5
Total current assets	11,512,942	10,685,719	7.7
Long-term assets:			
Advances receivable from institutions net of allowance of $1,600,000	1,144,753	1,264,867	(9.5)
Notes receivable from institutions	3,174,582	–	100.0
Assets whose use is limited	525,852	468,257	12.3
Fixed and other assets, net	4,326,547	4,605,931	(6.1)
Deferred financing costs, net	212,670	232,755	(8.6)
Total long-term assets	9,384,404	6,571,810	42.8
	$ 20,897,346	$ 17,257,529	21.1%
Current liabilities:			
Current portion of loan payable to trusteed funds	$ 400,000	$ 375,000	6.7%
Note payable to bank	–	4,141	(100.0)
Accounts payable	246,202	253,396	(2.8)
Estimated third-party payor settlements	1,505,960	1,285,388	17.2
Accrued payroll and other expenses	129,751	142,315	(8.8)
Resident funds held in trust	22,826	25,452	(10.3)
Deferred revenue	5,389	3,636	48.2
Total current liabilities	2,310,128	2,089,328	10.6
Long-term liabilities:			
Loan payable to trustee funds	5,153,013	5,553,013	(7.2)
Total liabilities	7,463,141	7,642,341	(2.3)
Fund balance	13,434,205	9,615,188	39.7
Total liabilities and fund balance	$ 20,897,346	$ 17,257,529	21.1%

RESTRICTED AND TRUSTEED FUNDS

	2002	2001	Percentage Change
Current assets:			
Cash and cash equivalents	$ 80,742,875	$ 80,140,042	0.8%
Investments, at fair value	25,114,693	66,925,729	(62.5)
Accrued investment income	831,632	2,105,132	(60.5)
Loans receivable from institutions	33,115,470	34,506,225	(4.0)
Loan receivable from operating fund	400,000	375,000	6.7
Other receivables from institutions	378,459	1,066,533	(64.5)
Other assets	–	91,444	(100.0)
Total current assets	140,583,129	185,210,105	(24.1)
Noncurrent assets:			
Investments, at fair value	88,235,930	92,217,970	(4.3)
Loans receivable from institutions	884,057,249	934,844,420	(5.4)
Loan receivable from operating fund	5,153,013	5,553,013	(7.2)
Total noncurrent assets	977,446,192	1,032,615,403	(5.3)
Total assets	$ 1,118,029,321	$ 1,217,825,508	(8.2)%
Current liabilities:			
Bonds payable	$ 35,417,470	$ 32,845,000	7.8%
Interest payable	23,538,659	24,849,332	(5.3)
Fees payable to operating fund	1,926,755	1,565,650	23.1
Accounts payable	482,009	250,154	92.7
Rebate payable to Internal Revenue Service	863,140	76,184	1,033.0
Deferred revenue	2,212,036	1,170,899	88.9
Total current liabilities	64,440,069	60,757,219	6.1
Noncurrent liabilities:			
Bonds payable	974,765,202	1,032,835,000	(5.6)
Rebate payable to Internal Revenue Service	1,401,310	1,447,871	(3.2)
Total noncurrent liabilities	976,166,512	1,034,282,871	(5.6)
Total liabilities	1,040,606,581	1,095,040,090	(5.0)
Funds held in trust and fund balance:			
Construction/program funds	33,341,295	71,927,648	(53.6)
Expense funds	37,537	152,068	(75.3)
Debt service funds	36,616,140	41,069,195	(10.8)
Debt service reserve funds	6,561,627	8,247,449	(20.4)
Earnings funds	10,194	2,756	269.9
Redemption funds	220,867	–	100.0
Unrestricted fund balance	635,080	1,386,302	(54.2)
Total funds held in trust and fund balance	77,422,740	122,785,418	(36.9)
	$ 1,118,029,321	$ 1,217,825,508	(8.2)%

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

CONSOLIDATED OPERATING FUND

	2002	2001	Percentage Change
Operating revenues:			
Net resident service revenue	$ 4,126,937	$ 4,611,643	(10.5)%
Administrative and other fees	3,725,857	2,762,572	34.9
Investment income	283,246	484,820	(41.6)
Net decrease in the fair value of investments	(14,062)	8,093	(273.8)
Interest income from advances to institutions	172,854	199,235	(13.2)
Other income	97,953	35,992	172.2
	8,392,785	8,102,355	3.6
Operating expenses:			
Salaries	322,888	295,716	9.2
Employee benefits	87,948	73,336	19.9
Travel	2,614	15,188	(82.8)
Office expenses	101,727	82,035	24.0
Accounting and auditing	45,000	43,200	4.2
Legal	51,179	110,612	(53.7)
Telephone	6,103	8,133	(25.0)
Building lease	54,535	54,423	0.2
Paid to Maine Hospital Association	13,708	14,500	(5.5)
Assistance paid to borrowing institutions	–	460,445	(100.0)
Nursing services	1,377,333	1,404,683	(1.9)
Administrative services	417,378	543,129	(23.2)
Dietary services	531,325	478,506	11.0
Depreciation and amortization	332,192	335,330	(0.9)
Plant operations and maintenance	293,005	258,572	13.3
Housekeeping services	94,241	145,880	(35.4)
Other services	347,332	416,156	(16.5)
Interest expense	495,260	526,776	(6.0)
	4,573,768	5,266,620	(13.2)
Operating income	3,819,017	2,835,735	34.7
Fund balance at beginning of year	9,615,188	6,779,453	41.8
Fund balance at end of year	$ 13,434,205	$ 9,615,188	39.7%

RESTRICTED AND TRUSTEED FUNDS

	2002	2001	Percentage Change
Fund balance and funds held in trust, beginning of year	$ 122,785,418	$ 140,063,155	(12.3)%
Additions:			
Bond and note proceeds	84,130,635	128,740,000	(34.7)
Received and receivable from institutions	141,865,549	90,017,962	57.6
Transfer from debt service reserves	4,441,030	779,668	469.6
Income from investments	9,452,143	13,631,904	(30.7)
Net decrease in the fair value of investments	(28,395)	(15,209)	86.7
Other income	291,003	647,631	(55.1)
Total additions	240,151,965	233,801,956	(2.7)
Deductions:			
Construction and program costs	91,449,843	127,588,785	(28.3)
Bond issuance costs and remarketing fees	2,027,954	2,949,836	(31.3)
Principal payments	86,032,963	38,700,000	122.3
Interest expense	52,962,606	54,882,309	(3.5)
Paid to institutions	7,821,789	4,804,963	62.8
Transfer to debt service reserves	2,301,815	6,977,008	(67.0)
Paid to refunding and refinancing escrows	39,842,785	11,726,391	239.8
Fee expense	1,767,453	1,997,988	(11.5)
Other deductions	1,307,435	1,452,413	(10.0)
Total deductions	285,514,643	251,079,693	13.7
Decrease in fund balance and funds held in trust	(45,362,678)	(17,277,737)	162.5
Fund balance and funds held in trust, end of year	$ 77,422,740	$ 122,785,418	(36.9)%

Operating fund consolidated cash and cash equivalents at June 30, 2002 decreased $1,307,136 or 25.1% from balances at June 30, 2001. This decrease was the result of investing excess funds on hand into higher yielding investments.

Investments within the Restricted and Trusteed Funds at June 30, 2002 decreased $45,793,076 or 28.8% from June 30 2001. This decrease is the net result of the investment of bond proceeds from the Series 2001D issue, and the disbursement of funds to institutions for project costs throughout the year. The Authority's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), agency notes and bank investment contracts. All investments are carried at fair value, and unrealized gains and losses (primarily due to fluctuations in market values) are recognized in the statements of operations and changes in fund balance and funds held in trust.

Income from investments in 2002 decreased 41.6% in the Operating Fund (consolidated) and 30.7% in the Restricted and Trusteed Funds from 2001. The reduction in the Restricted and Trusteed Funds was primarily the result of drawing down investments from the construction funds for ongoing projects costs. Also, fiscal year 2002 experienced a declining interest rate environment, which negatively impacted the investment return in both the Operating Fund and Restricted and Trusteed Funds.

Bond and note proceeds for 2002 in the Restricted and Trusteed Funds decreased 34.7% from 2001 as a result of a decline in loan requests from the borrowers. Also, amounts received and receivable from institutions in 2002 increased 57.6% over 2001 due to increased principal and interest payments received from borrowers to fund scheduled bond principal and interest payments and also certain amounts refinanced by HUD in 2002.

Interest expense in the Restricted and Trusteed Funds in 2002 declined 3.5% from 2001 as a result of the declining interest rate environment in the bond market. The refinancing and refunding of selected bonds with other bonds which carry a lower average interest rate also contributed to reducing the interest expense in 2002.

Accounts payable in the Restricted and Trusteed Funds at June 30, 2002 increased 92.7% from June 30, 2001 as a result of certain residual funds being held by the Authority at the end of fiscal 2002 that will be refunded to the borrowers. The Authority was also able to reduce other receivables from institutions by 64.5% in fiscal year 2002 as result of refinancing and refunding certain taxable nursing home bonds.

The Authority's Operating Fund financial position improved as fund balance and funds held in trust increased 39.7% in fiscal year 2002. The Authority continued to maintain a positive spread of income and fees over operating expenses.

The Authority shares office space and staff with the Maine Municipal Bond Bank. The Authority reimburses the Maine Municipal Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Health and Higher Educational Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2002

ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Current assets:				
Cash and cash equivalents (note 3)	$ 3,071,374	$ 828,992	$ –	$ 3,900,366
Investments, at fair value (note 3)	5,072,298	–	–	5,072,298
Accrued investment income	1,279	–	–	1,279
Fees receivable from institutions	341,166	–	–	341,166
Fees and other amounts receivable from trusteed funds	1,926,755	–	–	1,926,755
Resident accounts receivable, net of allowance of $31,000	–	131,998	–	131,998
Other assets	–	139,080	–	139,080
Total current assets	10,412,872	1,100,070	–	11,512,942
Long-term assets:				
Advances receivable from institutions net of allowance of $1,600,000 (note 7)	5,890,692	–	(4,745,939)	1,144,753
Notes receivable from institutions (note 7)	3,174,582	–	–	3,174,582
Assets whose use is limited	–	525,852	–	525,852
Fixed and other assets, net	–	4,326,547	–	4,326,547
Deferred financing costs, net	–	212,670	–	212,670
Total long-term assets	9,065,274	5,065,069	(4,745,939)	9,384,404
	$ 19,478,146	$ 6,165,139	$ (4,745,939)	$ 20,897,346

LIABILITIES AND FUND BALANCE

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Current liabilities:				
Current portion of loan payable to trusteed funds	$ –	$ 400,000	$ –	$ 400,000
Accounts payable	202,278	43,924	–	246,202
Estimated third-party payor settlements	–	1,505,960	–	1,505,960
Accrued payroll and other expenses	–	129,751	–	129,751
Resident funds held in trust	–	22,826	–	22,826
Deferred revenue	–	5,389	–	5,389
Total current liabilities	202,278	2,107,850	–	2,310,128
Long-term liabilities:				
Loan payable to trusteed funds	–	5,153,013	–	5,153,013
Advances due to Authority's operating fund	–	4,745,939	(4,745,939)	–
Total liabilities	202,278	12,006,802	(4,745,939)	7,463,141
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	–	200	(200)	–
Fund balance (deficit)	19,275,868	(5,841,863)	200	13,434,205
	19,275,868	(5,841,663)	–	13,434,205
	$ 19,478,146	$ 6,165,139	$ (4,745,939)	$ 20,897,346

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

BALANCE SHEETS – RESTRICTED AND TRUSTEED FUNDS

June 30, 2002

ASSETS

	General Resolution	Reserve Fund
Current assets:		
Cash and cash equivalents (note 3)	$ 8,742,570	$ 63,621,792
Investments, at fair value (note 3)	4,095,434	21,019,259
Accrued investment income	11,083	795,058
Loans receivable from institutions (note 7)	1,057,470	29,415,000
Loan receivable from operating fund (note 8)	–	–
Other receivables from institutions	88,841	167,776
Total current assets	13,995,398	115,018,885
Noncurrent assets:		
Investments, at fair value (note 3)	6,260,475	75,151,350
Loans receivable from institutions (note 7)	51,520,202	795,229,165
Loan receivable from operating fund (note 8)	–	–
Total noncurrent assets	57,780,677	870,380,515
Total assets	$ 71,776,075	$ 985,399,400

LIABILITIES, FUNDS HELD IN TRUST AND FUND BALANCE

	General Resolution	Reserve Fund
Current liabilities:		
Bonds payable (note 4)	$ 1,057,470	$ 29,415,000
Interest payable	1,007,640	21,040,711
Fees payable to operating fund	–	1,015,238
Accounts payable	60,109	241,619
Rebate payable to Internal Revenue Service	–	863,140
Deferred revenue	–	2,185,103
Total current liabilities	2,125,219	54,760,811
Noncurrent liabilities:		
Bonds payable (note 4)	51,520,202	873,960,000
Rebate payable to Internal Revenue Service	–	1,401,310
Total noncurrent liabilities	51,520,202	875,361,310
Total liabilities	53,645,421	930,122,121
Funds held in trust and fund balance:		
Construction/program funds	6,712,338	25,408,017
Expense funds	–	11,017
Debt service funds	4,806,423	29,231,674
Debt service reserve funds	6,561,627	–
Earnings funds	10,194	–
Redemption funds	40,072	180,795
Unrestricted fund balance	–	445,776
Total funds held in trust and fund balance	18,130,654	55,277,279
	$ 71,776,075	$ 985,399,400

See accompanying notes.

Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund	Total
$ 2,448,256	$ 5,930,257	$ 80,742,875
–	–	25,114,693
2,916	22,575	831,632
238,000	2,405,000	33,115,470
–	400,000	400,000
–	121,842	378,459
2,689,172	8,879,674	140,583,129
–	6,824,105	88,235,930
–	37,307,882	884,057,249
–	5,153,013	5,153,013
–	49,285,000	977,446,192
$ 2,689,172	$ 58,164,674	$ 1,118,029,321
$ 2,140,000	$ 2,805,000	$ 35,417,470
75,536	1,414,772	23,538,659
21,148	890,369	1,926,755
35,112	145,169	482,009
–	–	863,140
–	26,933	2,212,036
2,271,796	5,282,243	64,440,069
–	49,285,000	974,765,202
–	–	1,401,310
–	49,285,000	976,166,512
2,271,796	54,567,243	1,040,606,581
–	1,220,940	33,341,295
51	26,469	37,537
270,017	2,308,026	36,616,140
–	–	6,561,627
–	–	10,194
–	–	220,867
147,308	41,996	635,080
417,376	3,597,431	77,422,740
$ 2,689,172	$ 58,164,674	$ 1,118,029,321

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2002

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Elimi-nations	Consolidated Operating Fund
Operating revenues:				
Net resident service revenue	$ –	$ 4,126,937	$ –	$ 4,126,937
Administrative and other fees	3,725,857	–	–	3,725,857
Investment income	283,246	–	–	283,246
Net decrease in the fair value of investments	(14,062)	–	–	(14,062)
Interest income from advances and notes receivable from institutions	650,656	–	(477,802)	172,854
Other income	93,400	4,553	–	97,953
	4,739,097	4,131,490	(477,802)	8,392,785
Operating expenses (note 5):				
Salaries	322,888	–	–	322,888
Employee benefits	87,948	–	–	87,948
Travel	2,614	–	–	2,614
Office expenses	101,727	–	–	101,727
Accounting and auditing	45,000	–	–	45,000
Legal	51,179	–	–	51,179
Telephone	6,103	–	–	6,103
Building lease	54,535	–	–	54,535
Paid to Maine Hospital Association	13,708	–	–	13,708
Nursing services	–	1,377,333	–	1,377,333
Administrative services	–	417,378	–	417,378
Dietary services	–	531,325	–	531,325
Depreciation and amortization	–	332,192	–	332,192
Plant operations and maintenance	–	293,005	–	293,005
Housekeeping services	–	94,241	–	94,241
Other services	–	347,332	–	347,332
Interest expense	–	973,062	(477,802)	495,260
	685,702	4,365,868	(477,802)	4,573,768
Operating income (loss)	4,053,395	(234,378)	–	3,819,017
Fund balance (deficit) at beginning of year	15,222,473	(5,607,485)	200	9,615,188
Fund balance (deficit) at end of year	$ 19,275,868	$ (5,841,863)	$ 200	$ 13,434,205

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENTS OF CHANGES IN FUND BALANCE AND FUNDS HELD IN TRUST – RESTRICTED AND TRUSTEED FUNDS

Year Ended June 30, 2002

	General Resolution	Reserve Fund
Fund balance and funds held in trust, beginning of year	$ 27,085,198	$ 88,770,021
Additions:		
Bond and note proceeds	5,865,635	78,265,000
Received and receivable from institutions	29,143,757	71,970,175
Transfer from debt service reserves	–	–
Income from investments	815,298	7,860,347
Net decrease in the fair value of investments	–	–
Other income	348	290,655
Total additions	35,825,038	158,386,177
Deductions:		
Construction and program costs	13,774,184	77,489,442
Bond issuance costs and remarketing fees	111,060	1,916,894
Principal payments	22,807,963	26,320,000
Interest expense	2,828,648	44,803,997
Paid to institutions	4,501,176	3,220,596
Transfer to debt service reserves	–	2,301,815
Paid to refunding and refinancing escrows (notes 6 and 7)	–	33,793,955
Fee expense	–	1,729,076
Other deductions	756,551	303,144
Total deductions	44,779,582	191,878,919
Decrease in fund balance and funds held in trust	(8,954,544)	(33,492,742)
Fund balance and funds held in trust, end of year	$ 18,130,654	$ 55,277,279

See accompanying notes.

Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund	Total
$1,372,746	$ 5,557,453	$ 122,785,418
–	–	84,130,635
288,944	40,462,673	141,865,549
–	4,441,030	4,441,030
111,881	664,617	9,452,143
(28,395)	–	(28,395)
–	–	291,003
372,430	45,568,320	240,151,965
–	186,217	91,449,843
–	–	2,027,954
1,100,000	35,805,000	86,032,963
151,072	5,178,889	52,962,606
35,112	64,905	7,821,789
–	–	2,301,815
–	6,048,830	39,842,785
38,377	–	1,767,453
3,239	244,501	1,307,435
1,327,800	47,528,342	285,514,643
(955,370)	(1,960,022)	(45,362,678)
$ 417,376	$ 3,597,431	$ 77,422,740

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND

Year Ended June 30, 2002

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Elimi-nations	Consolidated Operating Fund
Operating activities:				
Cash received from units	$ 3,098,491	$ –	$ 477,802	$ 3,576,293
Cash received from patients	–	4,155,883	–	4,155,883
Cash received from other income	93,400	4,553	–	97,953
Cash payments for interest	–	(973,062)	–	(973,062)
Cash payments for operating expenses	(686,016)	(2,860,359)	–	(3,546,375)
Cash paid for other assets and liabilities	–	(26,464)	–	(26,464)
Net cash provided by operating activities	2,505,875	300,551	477,802	3,284,228
Financing activities:				
Net advances from Authority's operating fund	–	334,535	(334,535)	–
Payments on note payable to bank	–	(4,141)	–	(4,141)
Payments on loan to trusteed funds	–	(375,000)	–	(375,000)
Net cash used by financing activities	–	(44,606)	(334,535)	(379,141)
Investing activities:				
Proceeds from sales and maturities of investments	7,245,238	–	–	7,245,238
Purchase of equipment	–	(32,723)	–	(32,723)
Purchase of investments	(8,779,313)	–	–	(8,779,313)
Change in assets whose use is limited	–	(57,595)	–	(57,595)
Income received from investments and advances	944,440	–	(477,802)	466,638
Increase in notes receivable from institutions	(3,174,582)	–	–	(3,174,582)
Net advances receivable from institutions	(214,421)	–	334,535	120,114
Net cash used by investing activities	(3,978,638)	(90,318)	(143,267)	(4,212,223)
(Decrease) increase in cash and cash equivalents	(1,472,763)	165,627	–	(1,307,136)
Cash and cash equivalents at beginning of year	4,544,137	663,365	–	5,207,502
Cash and cash equivalents at end of year	$ 3,071,374	$ 828,992	$ –	$ 3,900,366

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND
(CONTINUED)

Year Ended June 30, 2002

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Elimi- nations	Consolidated Operating Fund
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 4,053,395	$ (234,378)	$ –	$ 3,819,017
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Investment and interest income	(933,902)	–	477,802	(456,100)
Net decrease in the fair value of investments	14,062	–	–	14,062
Depreciation and amortization	–	332,192	–	332,192
Change in assets and liabilities:				
Increase in fees receivable from institutions	(266,261)	–	–	(266,261)
Increase in fees receivable from trusteed funds	(361,105)	–	–	(361,105)
Decrease in net resident accounts receivable	–	28,946	–	28,946
Increase in other assets	–	(26,464)	–	(26,464)
Decrease in accounts payable	(314)	(6,880)	–	(7,194)
Increase in deferred revenue	–	1,753	–	1,753
Decrease in accrued payroll and other expenses	–	(12,564)	–	(12,564)
Increase in estimated third-party payor settlements	–	220,572	–	220,572
Decrease in resident funds held in trust	–	(2,626)	–	(2,626)
Net cash provided by operating activities	$ 2,505,875	$ 300,551	$ 477,802	$ 3,284,228

See accompanying notes.

1. Organization

Maine Health and Higher Educational Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Title 22, Chapter 413, Sections 2051 to 2074, inclusive and as amended by Chapter 584 of the Public Laws of 1991.

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

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

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

The Authority's operating fund records the revenues and expenses generated from its daily operations, and also includes the operations of Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center), which was acquired by the Authority in 1998 (see note 8). The Authority has a management agreement with Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority. The operating fund is not part of the Authority's resolutions and does not legally act as security for outstanding bonds.

The restricted and trusteed funds represent various funds and accounts, established with respect to the applicable series bond documents, held by a trustee. The trustee completes the duties and obligations required by the applicable series resolution including investment of monies as set forth by the Series Resolution and Tax Regulatory Agreement and the application of bond proceeds and institution's deposits as received by the trustee in accordance with the applicable series bond documents.

1. Organization (Continued)

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

General Resolution

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

Reserve Fund

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

Medium Term Financing Reserve Fund

These funds and accounts are established under the Authority's Resolution establishing the Maine Health Facilities' Medium Term Financing Reserve Fund adopted March 5, 1992. 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 ~~repaid~~ over a medium term and also benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine. Loans to institutions made with proceeds of bonds issued under this resolution are generally written for the net amount of bond proceeds less debt service reserve funds retained by the Authority.

Taxable Financing Reserve Fund

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

1. Organization (Continued)

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

Construction/Program Funds

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

Expense Funds

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

Debt Service Funds

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

Debt Service Reserve Funds

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

Earnings Funds

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

2. Significant Accounting Policies

The Authority maintains books of accounts for its own operations (the operating fund, including the Center) and for the restricted and trusteed funds (the funds) established in connection with each outstanding bond issue. The books of accounts are maintained in accordance with the principles of proprietary (operating fund) and fiduciary (the funds) fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting (operating fund) and modified accrual basis of accounting (restricted and trusteed funds) and include the accounts of the operating fund and the accounts of all bond issues currently outstanding that have not been advance refunded (see note 6).

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). The Authority implemented the Statements as of July 1, 2001. The primary impacts of adoption of these Statements resulted in changes in the presentation of the Authority's financial statements to separate assets and liabilities into current and long-term components and the inclusion of "Management's Discussion and Analysis." Adoption of the Statements had no impact on fund equity.

Cash and Cash Equivalents

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

Investments

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

Interfund Transactions

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

2. Significant Accounting Policies (Continued)

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Property and Equipment

Property and equipment from the acquisition of the Center is stated at cost. Depreciation expense has been computed using the straight-line method at rates intended to amortize the cost of the related assets over their estimated useful lives.

Estimated Third-Party Payor Settlements

Estimated third-party payor settlements with respect to the Center represent estimates of final settlements under cost-reimbursed programs (Medicare and Medicaid).

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.

Net Resident Service Revenue

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.

Amortization

Deferred financing costs of the Center are amortized using the straight-line method over the term of the respective loans. Financing costs in the restricted and trusteed funds are treated as expenditures as incurred.

Income Taxes

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

Principles of Consolidation

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

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

3. Cash and Cash Equivalents and Investments

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and certain state and local governments, as well as certain investment contracts and collateralized repurchase agreements. The trustees invest available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's and Trustees' policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested in securities whose maturities are planned to coincide with the cash needs for operating, debt service and arbitrage requirements.

The cash and cash equivalents of the Authority's operating fund at June 30, 2002 consist of $300,000 insured and $1,454,304 noninsured deposits with banks and $2,146,062 of money market funds held by a trust company.

GASB Statement No. 3 requires investments to be classified into three categories to give an indication of the level of risk assumed by the Authority and the institutions; Category 1 includes investments insured or registered in the Authority's or institution's name or securities held by the Authority or institution or by the Authority's or the institution's agent in the Authority's or institution's name; Category 2 includes investments uninsured and unregistered with securities held by the financial institution's trust department or agent in the Authority's or institution's name; and Category 3 includes uninsured and unregistered, with securities held by the financial institution's trust department or its agent, but not in the Authority's or institution's name. There are no Category 1 or 3 investments held by the Authority or the trustees at June 30, 2002.

3. Cash and Cash Equivalents and Investments (Continued)

At June 30, 2002, cash and investments are categorized as follows (at fair value):

	Cash and Cash Equivalents	Guaranteed Investment Contracts	U.S. Government Obligations	Total
Restricted and trusteed funds:				
General resolution	$ 8,742,570	$ 10,287,346	$ 68,563	$ 19,098,479
Reserve fund	63,621,792	95,810,372	360,237	159,792,401
Medium term financing reserve fund	2,448,256	–	–	2,448,256
Taxable financing reserve fund	5,930,257	6,824,105	–	12,754,362
Total investments held in restricted and trusteed funds	80,742,875	112,921,823	428,800	194,093,498
Operating fund:				
Authority's operating fund	3,071,374	–	5,072,298	8,143,672
Portland Center for Assisted Living	828,992	–	–	828,992
Total operating fund investments	3,900,366	–	5,072,298	8,972,664
	$ 84,643,241	$ 112,921,823	$5,501,098	$ 203,066,162

4. Bonds Payable

As of June 30, 2002, the Authority had the following series and amounts of revenue bonds and notes:

	Maturity	Amount Issued	Amount Outstanding June 30, 2002
General resolution:			
VHA of New England Capital Asset Financing Program, 1985 Series A through Series G, variable rate beginning at 6%, dated December 30, 1985	2025	$ 26,100,000	$ 18,700,000
Mt. Desert Island Hospital, Series A, variable interest rate equal to 80% of the prime rate of Fleet Boston, dated December 11, 1986	1988 – 2008	1,800,000	450,000
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	11,885,000	2,045,000

4. Bonds Payable (Continued)

	Maturity	Amount Issued	Amount Outstanding June 30, 2002
General resolution (continued):			
Mt. Desert Island Hospital, Series 1992, variable interest rate equal to 80% of the prime rate of Fleet Boston, dated July 15, 1992	1993 – 2012	$ 1,300,000	$ 910,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	55,000
Piper Shores, Series 1999A, 7.5% – 7.55%, dated December 1, 1999	2006 – 2029	24,900,000	24,900,000
MidCoast, 2001 lease purchase, 4.95%, dated November 15, 2001	2008	5,865,635	5,517,672
		$ 72,165,635	52,577,672
Less current bonds payable			1,057,470
Noncurrent bond payable			$ 51,520,202
Reserve fund:			
Series 1991, 4.5% – 6.375%, dated December 1, 1991	1992 – 2021	$ 40,920,000	$ 1,205,000
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	44,850,000	11,515,000
Series 1993A, 2.5% – 5.60%, dated March 1, 1993	1993 – 2023	50,030,000	17,475,000
Series 1993B, 2.8% – 5.75%, dated May 1, 1993	1994 – 2023	20,000,000	17,215,000
Series 1993C, 2.65% – 5.0%, dated September 1, 1993	1994 – 2013	69,085,000	47,625,000
Series 1993D, 2.60% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	72,555,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	12,240,000
Series 1995A, 4.40% – 5.878%, dated April 11, 1995	1996 – 2025	33,285,000	30,510,000
Series 1995B, variable rate, dated August 2, 1995	1998 – 2025	17,535,000	16,335,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	10,905,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	23,980,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	34,175,000

4. Bonds Payable (Continued)

	Maturity	Amount Issued	Amount Outstanding June 30, 2002
Reserve fund (continued):			
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	$ 8,310,000	$ 8,020,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	45,530,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	70,765,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	90,225,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	29,675,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	92,480,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	41,245,000
Series 2000A, variable rate, dated January 27, 2000	2002 – 2022	11,755,000	11,755,000
Series 2000B, variable rate, dated January 27, 2000	2000 – 2019	12,685,000	11,585,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	50,895,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	66,585,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	10,615,000
Series 2001C, 3.25% – 5.125%, dated May 15, 2001	2002 – 2031	27,565,000	27,565,000
Series 2001D, 3.00% – 5.00%, dated November 1, 2001	2002 – 2031	50,700,000	50,700,000
		$ 1,111,950,000	903,375,000
Less current bonds payable			29,415,000
Noncurrent bonds payable			$ 873,960,000
Medium term financing reserve fund:			
Series 1992, 4% – 8.25%, dated March 1, 1992	1993 – 2003	$ 14,865,000	$ 2,140,000

4. **Bonds Payable (Continued)**

	Maturity	Amount Issued	Amount Outstanding June 30, 2002
Taxable financing reserve fund:			
Series 1993A, 7.35% fixed interest rate 1993 – 1999, dated January 1, 1993	1993 – 2012	$ 57,125,000	$ 19,745,000
Series 1993B, 7.04% fixed interest rate 1994 – 2003, dated October 27, 1993	1994 – 2013	25,060,000	10,340,000
Series 1995A, 9.34% fixed interest rate 1995 – 2014, dated January 25, 1995	1995 – 2014	13,045,000	7,960,000
Series 1996A, 7.03% fixed interest rate 1996 – 2016, dated February 22, 1996	1996 – 2016	16,440,000	14,045,000
		$ 111,670,000	52,090,000
Less current bonds payable			2,805,000
Noncurrent bonds payable			$ 49,285,000

Each of the above series of bonds of the Authority is payable solely from the revenues from, and is secured by, the project, program or resolution in respect of which it is issued and has no claim of payment from the security or revenues pledged for the payment of the other series of bonds.

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2002:

	General Resolution	Reserve Fund	Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund
Balance, beginning of year	$ 80,640,000	$ 893,905,000	$ 3,240,000	$ 87,895,0000
Issuances	5,865,635	78,265,000	–	–
Redemptions:				
Refinancings – see note 7	–	(23,515,000)	–	(30,785,000)
Principal payments	(22,807,963)	(26,320,000)	(1,100,000)	(5,020,000)
Refunded – see note 6	(11,120,000)	(18,960,000)	–	–
Balance, end of year	$ 52,577,672	$ 903,375,000	$ 2,140,000	$ 52,090,000

4. Bonds Payable (Continued)

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

Due Fiscal Year Ending	Principal	Interest	Total Debt Service
2003	$ 35,417,470	$ 49,431,988	$ 84,849,458
2004	35,416,587	47,832,464	83,249,051
2005	36,082,684	46,226,130	82,308,814
2006	36,330,863	44,568,733	80,899,596
2007	38,236,228	42,754,408	80,990,636
2008 – 2012	204,973,840	184,184,346	389,158,186
2013 – 2017	209,125,000	129,036,732	338,161,732
2018 – 2022	181,140,000	79,533,875	260,673,875
2023 – 2027	155,635,000	38,034,907	193,669,907
2028 – 2032	77,825,000	8,165,852	85,990,852
Total	$ 1,010,182,672	$ 669,769,435	$ 1,679,952,107

5. Operating Expenses

The Authority has a management agreement with Maine Municipal 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 $504,425 of expense under this agreement in 2002.

6. Refunded Issues

On July 6, 2001, the Authority issued $27,565,000 in 2001C revenue bonds with an average interest rate of 4.877%, a portion of which was used to currently refund $11,120,000 of outstanding general resolution bonds with an average interest rate of 7.05%. Additionally, approximately $322,458 in underwriting fees, insurance and other issuance costs were paid. The Authority refunded the above bonds to reduce total interest payments over the next 11 years by approximately $1,102,646 (projected based upon management's expected average interest rate of 4.877% for the 2001C bond issue).

On November 15, 2001, the Authority issued $50,700,000 in 2001D revenue bonds with an average interest rate of 4.753%, a portion of which was used to currently refund $18,960,000 of outstanding reserve bonds with an average interest rate of 5.50%. Additionally, approximately $897,943 in underwriting fees, insurance and other issuance costs were paid. The Authority refunded the above bonds to reduce total interest payments over the next 20 years by approximately $1,855,907 (projected based upon management's expected average interest rate of 4.753% for the 2001D bond issue).

6. Refunded Issues (Continued)

The proceeds of any advance refunding bonds are primarily used to purchase U.S. Treasury obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the defeased bonds. Neither the U.S. Treasury obligations nor the advance refunded bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations were placed in irrevocable trust accounts with the trustees of the defeased bonds. The gains, losses and economic benefits of these transactions inure to the respective institution and not the Authority, although the Authority may receive an administrative fee. At June 30, 2002, there were $54,685,000 of advance refunded bonds remaining outstanding with respect to all advance-refunded issues.

7. Nursing Home Loans

In 1994, the Maine Department of Human Services (DHS) substantially revised the eligibility criteria for Medicaid coverage of nursing facility services, causing a decline in occupancy in nursing facilities. The occupancy decline has not affected each nursing facility equally. In some instances, particularly in proprietary nursing homes borrowing under the taxable financing reserve fund resolution, which consists primarily of loans to nursing homes, these declines in occupancy have created cash flow problems. Under current practice, the Authority, in conjunction with DHS (which administers the Medicaid program, a major source of revenue of the nursing homes), is working with the nursing home industry to make changes necessary to address such cash flow problems.

The owners of certain financially troubled nursing homes, with the Authority's concurrence, have begun the refinancing of portions of Authority loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of the Authority expects that these refinancings will reduce annual debt service requirements, thereby eliminating the Authority's exposure in its Taxable Financing Reserve Fund and reducing the Authority's overall exposure. In 2002, HUD completed refinancings for seven institutions which, at the time they were refinanced, had combined bond-related loans and advances due the Authority of approximately $30,785,000. As part of the refinancing completed by HUD, the Authority agreed to issue 8% subordinated notes receivable to these seven institutions from its operating fund. These notes total $3,174,582 at June 30, 2002, earn interest only to the extent that cash payments are received and are subordinate to all HUD loans. Interest is payable semi-annually and principal payments are due by April 30th of each year in amounts equal to 50% of the excess cash flow generated by the seven institutions based on the audited financial statements for the previous year. Should these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid. The proceeds from the HUD loans and the subordinated notes were used to pay off the related bonds.

Management of the Authority expects that the owners of two other facilities will complete refinancings during fiscal 2003. These two nursing homes have combined loans and advances due the Authority of approximately $13,400,000 at June 30, 2002. If these anticipated refinancings are not completed for the nursing home industry in Maine continues to suffer from the present reimbursement restrictions, it is likely that a number of nursing homes included in the taxable financing reserve fund resolution will have difficulty in fully meeting their debt service obligations to the Authority.

7. Nursing Home Loans (Continued)

In addition to subordinated notes receivable from the seven institutions described above, the Authority has advanced approximately $2,750,000 from the operating fund as of June 30, 2002 to other financially troubled institutions with outstanding loans owed to the Authority of approximately $28,200,000. These advances, upon which interest income is recognized only to the extent that cash payments are received, were primarily made to assist these institutions in meeting debt service requirements. At June 30, 2002, the Authority has established a $1,600,000 reserve in the operating fund related to amounts which have been advanced or are expected to be advanced to troubled institutions.

Subsequent to year end, the Parkview Nursing Home closed. The facility had outstanding amounts due the Authority totaling approximately $1,217,000 at June 30, 2002. Management of the Authority anticipates selling certain assets of this facility in 2003 to recovering an estimated $800,000 of amounts owed. Included in the $1,600,000 reserve above is $417,000 in losses expected to be realized by the Authority from the sale of the assets of Parkview.

8. 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 the Maine Medicaid program. During fiscal 1998, the Authority recorded a loss of approximately $3.5 million, representing the excess of the Center's liabilities over the estimated fair value of its assets.

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

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

Relevant disclosures for the Center are summarized as follows:

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

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, 3002. A summary follows:

Principal and interest debt service balances	$503,026
Resident funds	22,826
Total assets whose use is limited	$525,852

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 95% of the residents served in 2002 were beneficiaries of the Maine Medicaid 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 Medicaid program. Settlements do not become final until the cost reports are audited and approved by the Maine Department of Human Services (DHS). Differences between estimated and actual settlements are recorded as contractual adjustments in the year of final determination.

The estimated settlements to the Medicaid program include amounts which DHS has determined to be owed based on audited cost reports for years 1995 through 2001, plus an estimated settlement for 2002. 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, 2002:

Room and board	$ 5,425,033
Contractual adjustments under third-party reimbursement programs	(1,298,096)
Net resident service revenue	$ 4,126,937

8. 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 Medicaid reimbursement program, the Center is highly dependent upon regulatory authorities establishing reimbursement rates that are adequate to sustain the Center's operations.

Fixed Assets

A summary of fixed assets follows:

	2001	Additions	Deductions	2002
Land	$ 302,291	$ –	$ –	$ 302,291
Building and improvements	7,105,907	2,006	–	7,107,913
Furniture, fixtures and equipment	835,093	30,717	–	865,810
Vehicles	21,944	–	–	21,944
	8,265,235	32,723	–	8,297,958
Less accumulated depreciation	(3,659,304)	(312,107)	–	(3,971,411)
Fixed assets, net	$ 4,605,931	$(279,384)	$ –	$ 4,326,547

Loan Payable to Trusteed Funds

Loan payable to trusteed funds of $5,553,013 at June 30, 2002 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 principal and interest payments are approximately $860,000, excluding letter of credit and authority fees. The bonds bear a variable interest rate (7.35% at June 30, 2002).

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

2003	$ 400,000
2004	430,000
2005	460,000
2006	495,000
2007	530,000
Thereafter	3,238,013

8. 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 2002. 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, 2002 were approximately $210,000.

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 $3,341 to the plan for the year ended June 30, 2002.

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, 2002, 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, 2002, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

9. Subsequent Event

On July 1, 2002, the Authority issued $56,040,000 of 2002A Series and $8,175,000 of 2002B Series Revenue Bonds from the Reserve Fund. The bonds mature in 2003 – 2032, and carry an interest rate ranging from 3.00% to 5.125%. The bonds are secured by various loans made to institutions within the State of Maine.

Maine HHEFA

HEALTH & HIGHER EDUCATIONAL FACILITIES AUTHORITY

2001 Financial Report

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Audited Financial Statements
and Other Financial Information

Year Ended June 30, 2001

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BAKER NEWMAN & NOYES
LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying consolidating balance sheet – operating fund and the combined and combining balance sheet – restricted and trusteed funds of Maine Health and Higher Educational Facilities Authority as of June 30, 2001, and the related consolidating statement of operations and changes in fund balance – operating fund, combined and combining statement of changes in fund balance and funds held in trust – restricted and trusteed funds and consolidating statement of cash flows – operating fund for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority at June 30, 2001, and the results of its operations and cash flows of its operating fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of Maine Health and Higher Educational Facilities Authority at June 30, 2001, and the results of their operations and cash flows of individual operating funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The balance sheets and statements of changes in funds held in trust listed under "other financial information" in the table of contents are presented in accordance with the requirements of Section 5.09 of the General Bond Resolution and are not a required part of the financial statements of the Authority. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
October 5, 2001

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MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2001

ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Current assets:				
Cash and cash equivalents (note 3)	$ 4,544,137	$ 663,365	$ –	$ 5,207,502
Investments, at fair value (note 3)	3,552,285	–	–	3,552,285
Accrued investment income	11,817	–	–	11,817
Fees receivable from institutions	74,905	–	–	74,905
Fees and other amounts receivable from trusteed funds	1,565,650	–	–	1,565,650
Advances receivable from institutions net of allowance of $1,600,000 (note 7)	5,676,271	–	(4,411,404)	1,264,867
Resident accounts receivable, net of allowance of $45,800	–	160,944	–	160,944
Other assets	–	112,616	–	112,616
Total current assets	15,425,065	936,925	(4,411,404)	11,950,586
Long-term assets:				
Assets whose use is limited	–	468,257	–	468,257
Fixed and other assets, net	–	4,605,931	–	4,605,931
Deferred financing costs, net	–	232,755	–	232,755
Total long-term assets	–	5,306,943	–	5,306,943
	$ 15,425,065	$ 6,243,868	$ (4,411,404)	$ 17,257,529

LIABILITIES AND FUND BALANCE

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Current liabilities:				
Current portion of loan payable to trusteed funds	$ –	$ 375,000	$ –	$ 375,000
Note payable to bank	–	4,141	–	4,141
Accounts payable	202,592	50,804	–	253,396
Estimated third-party payor settlements	–	1,285,388	–	1,285,388
Accrued payroll and other expenses	–	142,315	–	142,315
Advances due to Authority's operating fund	–	4,411,404	(4,411,404)	–
Resident funds held in trust	–	25,452	–	25,452
Deferred revenue	–	3,636	–	3,636
Total current liabilities	202,592	6,298,140	(4,411,404)	2,089,328
Long-term liabilities:				
Loan payable to trusteed funds	–	5,553,013	–	5,553,013
Total liabilities	202,592	11,851,153	(4,411,404)	7,642,341
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	–	200	(200)	–
Fund balance (deficit)	15,222,473	(5,607,485)	200	9,615,188
	15,222,473	(5,607,285)	–	9,615,188
	$ 15,425,065	$ 6,243,868	$ (4,411,404)	$ 17,257,529

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

COMBINED AND COMBINING BALANCE SHEET –
RESTRICTED AND TRUSTEED FUNDS

June 30, 2001

ASSETS

	General Resolution	Reserve Fund
Cash and cash equivalents (note 3)	$ 8,607,575	$ 59,183,813
Investments, at fair value (note 3)	19,035,941	127,925,138
Accrued investment income	437,362	1,602,411
Loans receivable from institutions (note 7)	80,640,000	817,475,979
Loan receivable from operating fund (note 8)	–	–
Other receivables from institutions	295,366	481,310
Other assets	91,444	–
	$ 109,107,688	$ 1,006,668,651

LIABILITIES, FUNDS HELD IN TRUST AND FUND BALANCE

	General Resolution	Reserve Fund
Bonds payable (note 4)	$ 80,640,000	$ 893,905,000
Interest payable	1,382,490	20,467,442
Fees payable to operating fund	–	708,824
Accounts payable	–	164,822
Rebate payable to Internal Revenue Service	–	1,524,055
Deferred revenue	–	1,128,487
Total liabilities	82,022,490	917,898,630
Funds held in trust and fund balance:		
Construction/program funds	12,331,752	57,523,483
Expense funds	–	98,771
Debt service funds	6,503,241	29,991,559
Debt service reserve funds	8,247,449	–
Earnings funds	2,756	–
Unrestricted fund balance	–	1,156,208
Total funds held in trust and fund balance	27,085,198	88,770,021
	$ 109,107,688	$ 1,006,668,651

See accompanying notes.

Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund	Combined
$2,556,792	$ 9,791,862	$ 80,140,042
836,659	11,345,961	159,143,699
18,212	47,147	2,105,132
1,338,000	69,896,666	969,350,645
–	5,928,013	5,928,013
–	289,857	1,066,533
–	–	91,444
$4,749,663	$ 97,299,506	$ 1,217,825,508
$3,240,000	$ 87,895,000	$ 1,065,680,000
109,086	2,890,314	24,849,332
19,233	837,593	1,565,650
–	85,332	250,154
–	–	1,524,055
8,598	33,814	1,170,899
3,376,917	91,742,053	1,095,040,090
–	2,072,413	71,927,648
1,707	51,590	152,068
1,182,069	3,392,326	41,069,195
–	–	8,247,449
–	–	2,756
188,970	41,124	1,386,302
1,372,746	5,557,453	122,785,418
$4,749,663	$ 97,299,506	$ 1,217,825,508

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2001

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Elimi-nations	Consolidated Operating Fund
Operating revenues:				
Net resident service revenue	$ –	$ 4,611,643	$ –	$4,611,643
Administrative and other fees	2,762,572	–	–	2,762,572
Investment income	484,820	–	–	484,820
Net increase in the fair value of investments	8,093	–	–	8,093
Interest income from advances to institutions	637,130	–	(437,895)	199,235
Other income	22,037	13,955	–	35,992
	3,914,652	4,625,598	(437,895)	8,102,355
Operating expenses (note 5):				
Salaries	295,716	–	–	295,716
Employee benefits	73,336	–	–	73,336
Travel	15,188	–	–	15,188
Office expenses	82,035	–	–	82,035
Accounting and auditing	43,200	–	–	43,200
Legal	110,612	–	–	110,612
Telephone	8,133	–	–	8,133
Building lease	54,423	–	–	54,423
Paid to Maine Hospital Association	14,500	–	–	14,500
Assistance paid to borrowing institutions (note 7)	460,445	–	–	460,445
Nursing services	–	1,404,683	–	1,404,683
Administrative services	–	543,129	–	543,129
Dietary services	–	478,506	–	478,506
Depreciation and amortization	–	335,330	–	335,330
Plant operations and maintenance	–	258,572	–	258,572
Housekeeping services	–	145,880	–	145,880
Other services	–	416,156	–	416,156
Interest expense	–	964,671	(437,895)	526,776
	1,157,588	4,546,927	(437,895)	5,266,620
Excess of revenues over expenses	2,757,064	78,671	–	2,835,735
Fund balance (deficit) at beginning of year	12,465,409	(5,686,156)	200	6,779,453
Fund balance (deficit) at end of year	$ 15,222,473	$(5,607,485)	$ 200	$9,615,188

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

COMBINED AND COMBINING STATEMENT OF CHANGES IN FUND BALANCE AND FUNDS HELD IN TRUST – RESTRICTED AND TRUSTEED FUNDS

Year Ended June 30, 2001

	General Resolution	Reserve Fund
Fund balance and funds held in trust, beginning of year	$ 50,340,980	$ 83,120,758
Additions:		
Bond and note proceeds	–	128,740,000
Received and receivable from institutions	8,626,752	64,046,747
Transfer from debt service reserves	–	–
Income from investments	2,305,968	10,148,546
Net (decrease) increase in the fair value of investments	(16,381)	–
Other income	–	647,631
Total additions	10,916,339	203,582,924
Deductions:		
Construction and program costs	20,995,109	106,493,727
Bond issuance costs and remarketing fees	–	2,949,836
Principal payments	4,385,000	23,495,000
Interest expense	4,674,462	42,974,155
Paid to institutions	3,577,687	733,927
Transfer to debt service reserves	–	6,977,008
Paid to refunding escrow (note 6)	–	11,726,391
Fee expense	–	1,959,523
Other deductions	539,863	624,094
Total deductions	34,172,121	197,933,661
Increase (decrease) in fund balance and funds held in trust	(23,255,782)	5,649,263
Fund balance and funds held in trust, end of year	$ 27,085,198	$ 88,770,021

See accompanying notes.

Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund	Combined
$1,360,077	$ 5,241,340	$ 140,063,155
–	–	128,740,000
1,220,525	16,123,938	90,017,962
167,500	612,168	779,668
182,707	994,683	13,631,904
1,172	–	(15,209)
–	–	647,631
1,571,904	17,730,789	233,801,956
–	99,949	127,588,785
–	–	2,949,836
1,295,000	9,525,000	38,700,000
218,172	7,015,520	54,882,309
–	493,349	4,804,963
–	–	6,977,008
–	–	11,726,391
38,465	–	1,997,988
7,598	280,858	1,452,413
1,559,235	17,414,676	251,079,693
12,669	316,113	(17,277,737)
$1,372,746	$ 5,557,453	$ 122,785,418

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND

Year Ended June 30, 2001

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Cash flows from operating activities:				
Excess of revenues over expenses	$ 2,757,064	$ 78,671	$ –	$ 2,835,735
Adjustments to reconcile excess of revenues over expenses to net cash provided by by operating activities:				
Assistance paid to borrowing institutions	460,445	–	–	460,445
Investment and interest income	(1,121,950)	–	437,895	(684,055)
Net increase in the fair value of investments	(8,093)	–	–	(8,093)
Depreciation and amortization	–	335,330	–	335,330
Change in assets and liabilities:				
Decrease in fees receivable from institutions	2,666	–	–	2,666
Increase in fees receivable from trusteed funds	(212,513)	–	–	(212,513)
Decrease in net resident accounts receivable	–	146,306	–	146,306
Increase in other assets	–	(16,186)	–	(16,186)
Increase (decrease) in accounts payable	(25,313)	17,515	–	(7,798)
Decrease in deferred revenue	–	(1,348)	–	(1,348)
Decrease in accrued payroll and other expenses	–	(139,241)	–	(139,241)
Increase in estimated third-party payor settlements	–	111,907	–	111,907
Increase in resident funds held in trust	–	8,898	–	8,898
Net cash provided by operating activities	1,852,306	541,852	437,895	2,832,053
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	6,521,066	–	–	6,521,066
Purchases of investments	(9,615,570)	–	–	(9,615,570)
Income received from investments and advances	1,133,407	–	(437,895)	695,512
Purchases of property and equipment	–	(54,733)	–	(54,733)
Change in assets whose use is limited	–	(74,958)	–	(74,958)
(Increase) decrease in net advances receivable from institutions	(108,389)	–	437,895	329,506
Net cash used by investing activities	(2,069,486)	(129,691)	–	(2,199,177)

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND (CONTINUED)

Year Ended June 30, 2001

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Cash flows from financing activities:				
Increase in net advances from Authority's operating fund	$ –	$ 437,895	$(437,895)	$ –
Payments on loan to trusteed funds	–	(345,000)	–	(345,000)
Net payments on note payable to bank	–	(7,685)	–	(7,685)
Net cash provided (used) by financing activities	–	85,210	(437,895)	(352,685)
(Decrease) increase in cash and cash equivalents	(217,180)	497,371	–	280,191
Cash and cash equivalents at beginning of year	4,761,317	165,994	–	4,927,311
Cash and cash equivalents at end of year	$ 4,544,137	$ 663,365	$ –	$ 5,207,502

See accompanying notes.

1. Organization

Maine Health and Higher Educational Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Title 22, Chapter 413, Sections 2051 to 2074, inclusive and as amended by Chapter 584 of the Public Laws of 1991.

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

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

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

The Authority's operating fund records the revenues and expenses generated from its daily operations, and also includes the operations of Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center), which was acquired by the Authority in 1998 (see note 8). The Authority has a management agreement with Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority. The operating fund is not part of the Authority's resolutions and does not legally act as security for outstanding bonds.

The restricted and trusteed funds represent various funds and accounts, established with respect to the applicable series bond documents, held by a trustee. The trustee completes the duties and obligations required by the applicable series resolution including investment of moneys as set forth by the Series Resolution and Tax Regulatory Agreement and the application of bond proceeds and institution's deposits as received by the trustee in accordance with the applicable series bond documents.

1. Organization (Continued)

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

General Resolution

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

Reserve Fund

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

Medium Term Financing Reserve Fund

These funds and accounts are established under the Authority's Resolution establishing the Maine Health Facilities' Medium Term Financing Reserve Fund adopted March 5, 1992. 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 repaid over a medium term and also benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine. Loans to institutions made with proceeds of bonds issued under this resolution are generally written for the net amount of bond proceeds less debt service reserve funds retained by the Authority.

Taxable Financing Reserve Fund

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

1. Organization (Continued)

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

Construction/Program Funds

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

Expense Funds

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

Debt Service Funds

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

Debt Service Reserve Funds

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

Earnings Funds

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

2. Significant Accounting Policies

The Authority maintains books of accounts for its own operations (the operating fund, including the Center) and for the restricted and trusteed funds (the funds) established in connection with each outstanding bond issue. The books of accounts are maintained in accordance with the principles of proprietary (operating fund) and fiduciary (the funds) fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting (operating fund) and modified accrual basis of accounting (restricted and trusteed funds) and include the accounts of the operating fund and the combined accounts of all bond issues currently outstanding that have not been advance refunded (see note 6).

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.

Cash and Cash Equivalents

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

Investments

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

Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

2. Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment from the acquisition of the Center is stated at cost. Depreciation expense has been computed using the straight-line method at rates intended to amortize the cost of the related assets over their estimated useful lives.

Estimated Third-Party Payor Settlements

Estimated third-party payor settlements with respect to the Center represent estimates of final settlements under cost-reimbursed programs (Medicare and Medicaid).

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.

Net Resident Service Revenue

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.

Amortization

Deferred financing costs of the Center are amortized using the straight-line method over the term of the respective loans. Financing costs in the restricted and trusteed funds are treated as expenditures as incurred.

Income Taxes

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

Principles of Consolidation

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

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.

New Accounting Pronouncements

GASB issued Statement No. 34 in June 1999. This statement will require the Authority to change the format and contents of its financial statements. The statement is expected to be applicable to the Authority beginning in fiscal 2002.

3. Cash and Cash Equivalents and Investments

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and certain state and local governments, as well as certain investment contracts and collateralized repurchase agreements. The trustees invest available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's and Trustees' policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested in securities whose maturities are planned to coincide with the cash needs for operating, debt service and arbitrage requirements.

The cash and cash equivalents of the Authority's operating fund at June 30, 2001 consist of $200,000 insured and $882,416 noninsured deposits with banks and $4,125,086 of money market funds held by a trust company.

GASB Statement No. 3 requires investments to be classified into three categories to give an indication of the level of risk assumed by the Authority and the institutions; Category 1 includes investments insured or registered in the Authority's or institution's name or securities held by the Authority or institution or by the Authority's or the institution's agent in the Authority's or institution's name; Category 2 includes investments uninsured and unregistered with securities held by the financial institution's trust department or agent in the Authority's or institution's name; and Category 3 includes uninsured and unregistered, with securities held by the financial institution's trust department or its agent, but not in the Authority's or institution's name. There are no Category 1 or 3 investments held by the Authority or the trustees at June 30, 2001.

3. Cash and Cash Equivalents and Investments (Continued)

At June 30, 2001, cash and investments are categorized as follows (at fair value):

	Cash and Cash Equivalents	Guaranteed Investment Contracts	U.S. Government Obligations	Total
Restricted and trusteed funds:				
General resolution	$ 8,607,575	$ 18,967,378	$ 68,563	$ 27,643,516
Reserve fund	59,183,813	127,564,901	360,237	187,108,951
Medium term financing reserve fund	2,556,792	–	836,659	3,393,451
Taxable financing reserve fund	9,791,862	11,345,961	–	21,137,823
Total investments held in restricted and trusteed funds	80,140,042	157,878,240	1,265,459	239,283,741
Operating fund:				
Authority's operating fund	4,544,137	–	3,552,285	8,096,422
Portland Center for Assisted Living	663,365	–	–	663,365
Total operating fund investments	5,207,502	–	3,552,285	8,759,787
	$ 85,347,544	$ 157,878,240	$4,817,744	$ 248,043,528

4. Bonds Payable

As of June 30, 2001, the Authority had the following series and amounts of revenue bonds and notes:

	Maturity	Amount Issued	Amount Outstanding June 30, 2001
General resolution:			
Bowdoin College, Series 1985, variable rate beginning at 5.25%, dated October 1, 1985	1986 – 2010	$ 9,380,000	$ 30,000
VHA of New England Capital Asset Financing Program, 1985 Series A through Series G, variable rate beginning at 6%, dated December 30, 1985	2025	26,100,000	18,700,000
Mt. Desert Island Hospital, Series A, variable interest rate equal to 80% of the prime rate of Fleet Boston, dated December 11, 1986	1988 – 2008	1,800,000	540,000

4. Bonds Payable (Continued)

	Maturity	Amount Issued	Amount Outstanding June 30, 2001
General resolution (continued):			
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	$ 11,885,000	$ 2,150,000
Bowdoin College, Series 1991, 4.75% – 7.1%, dated June 1, 1991	1992 – 2011	8,980,000	6,250,000
Colby College, Series 1991, 4.75% – 7.1%, dated July 1, 1991	1992 – 2011	11,965,000	5,360,000
Mt. Desert Island Hospital, Series 1992, variable interest rate equal to 80% of the prime rate of Fleet Boston, dated July 15, 1992	1993 – 2012	1,300,000	970,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	240,000
Piper Shores, Series 1999A, 7.5% – 7.55%, dated December 1, 1999	2006 – 2029	24,900,000	24,900,000
Piper Shores, Series 1999B, variable rate beginning at 3.9%, dated December 16, 1999	2029	21,500,000	21,500,000
		$ 118,125,000	$ 80,640,000
Reserve fund:			
Series 1991, 4.5% – 6.375%, dated December 1, 1991	1992 – 2021	$ 40,920,000	$ 21,040,000
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	44,850,000	35,955,000
Series 1993A, 2.5% – 5.60%, dated March 1, 1993	1993 – 2023	50,030,000	18,290,000
Series 1993B, 2.8% – 5.75%, dated May 1, 1993	1994 – 2023	20,000,000	17,615,000
Series 1993C, 2.65% – 5.0%, dated September 1, 1993	1994 – 2013	69,085,000	50,545,000
Series 1993D, 2.60% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	75,685,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	12,555,000
Series 1995A, 4.40% – 5.878%, dated April 11, 1995	1996 – 2025	33,285,000	31,115,000
Series 1995B, variable rate, dated August 2, 1995	1998 – 2025	17,535,000	16,635,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	11,465,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	24,990,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	35,695,000

4. Bonds Payable (Continued)

	Maturity	Amount Issued	Amount Outstanding June 30, 2001
Reserve fund (continued):			
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	$ 8,310,000	$ 8,170,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	47,400,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	73,140,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	93,720,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	30,205,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	95,575,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	41,470,000
Series 2000A, variable rate, dated January 27, 2000	2002 – 2022	11,755,000	11,755,000
Series 2000B, variable rate, dated January 27, 2000	2000 – 2019	12,685,000	12,145,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	51,540,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	66,585,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	10,615,000
		$ 1,033,685,000	$ 893,905,000
Medium term financing reserve fund:			
Series 1992, 4% – 8.25%, dated March 1, 1992	1993 – 2003	$ 14,865,000	$ 3,240,000
Taxable financing reserve fund:			
Series 1992B, 9.35%, dated December 1, 1992	1994 – 2012	$ 9,350,000	$ 7,605,000
Series 1993A, 7.35% fixed interest rate 1993 – 1999, dated January 1, 1993	1993 – 2012	57,125,000	42,500,000
Series 1993B, 7.04% fixed interest rate 1994 – 2003, dated October 27, 1993	1994 – 2013	25,060,000	11,685,000
Series 1995A, 9.34% fixed interest rate 1995 – 2014, dated January 25, 1995	1995 – 2014	13,045,000	11,540,000
Series 1996A, 7.03% fixed interest rate 1996 – 2016, dated February 22, 1996	1996 – 2016	16,440,000	14,565,000
		$ 121,020,000	$ 87,895,000

4. Bonds Payable (Continued)

Each of the above series of bonds of the Authority is payable solely from the revenues from, and is secured by, the project, program or resolution in respect of which it is issued and has no claim of payment from the security or revenues pledged for the payment of the other series of bonds.

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

Due Fiscal Year Ending	Principal	Interest	Total Debt Service
2001	$ 32,845,000	$ 54,094,558	$ 86,939,558
2002	36,660,000	53,455,693	90,115,693
2003	36,555,000	51,649,952	88,204,952
2004	37,220,000	49,754,348	86,974,348
2005	37,695,000	47,781,978	85,476,978
2006	39,590,000	45,673,631	85,263,631
2007	40,810,000	43,435,941	84,245,941
2008	42,290,000	41,082,768	83,372,768
2009	43,085,000	38,629,395	81,714,395
2010	45,330,000	36,058,773	81,388,773
2011	47,870,000	33,344,446	81,214,446
2012	49,195,000	30,535,694	79,730,694
2013	44,990,000	27,888,059	72,878,059
2014	39,900,000	25,573,723	65,473,723
2015	38,375,000	23,501,736	61,876,736
2016	38,360,000	21,460,378	59,820,378
2017	37,620,000	19,448,018	57,068,018
2018	38,465,000	17,440,995	55,905,995
2019	34,850,000	15,498,314	50,348,314
2020	32,620,000	13,682,022	46,302,022
2021	33,395,000	11,876,147	45,271,147
2022	31,400,000	10,112,550	41,512,550
2023	29,015,000	8,477,942	37,492,942
2024	25,465,000	6,973,472	32,438,472
2025	42,135,000	5,645,769	47,780,769
2026	21,180,000	4,404,024	25,584,024
2027	18,920,000	3,262,659	22,182,659
2028	19,385,000	2,176,720	21,561,720
2029	37,290,000	1,147,278	38,437,278
2030	10,070,000	478,178	10,548,178
2031	3,100,000	97,391	3,197,391
Total	$1,065,680,000	$ 744,642,552	$1,810,322,552

5. Operating Expenses

The Authority has a management agreement with Maine Municipal 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 $500,706 of expense under this agreement in 2001.

6. Refunded Issues

On June 14, 2001, the Authority issued $10,615,000 in 2001B revenue bonds with an average interest rate of 4.925% to advance refund $10,240,000 of outstanding reserve fund bonds with an average interest rate of 6.48%. Additionally, approximately $200,951 in underwriting fees, insurance and other issuance costs were paid. The Authority advance refunded the above bonds to reduce total interest payments over the next 20 years by approximately $581,769 (projected based upon management's expected average interest rate of 4.925% for the 2001B bond issue).

The proceeds of the refunding bonds were 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 refunded bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations were 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. At June 30, 2001, there were $112,210,000 of advance refunded bonds remaining outstanding with respect to all advance-refunded issues.

7. Nursing Home Loans

In 1994, the Maine Department of Human Services (DHS) substantially revised the eligibility criteria for Medicaid coverage of nursing facility services, causing a decline in occupancy in nursing facilities. The occupancy decline has not affected each nursing facility equally. In some instances, particularly in proprietary nursing homes borrowing under the taxable financing reserve fund resolution, which consists primarily of loans to nursing homes, these declines in occupancy have created cash flow problems. Under current practice, the Authority, in conjunction with DHS (which administers the Medicaid program, a major source of revenue of the nursing homes), is working with the nursing home industry to make changes necessary to address such cash flow problems.

7. Nursing Home Loans (Continued)

The owners of certain financially troubled nursing homes, with the Authority's concurrence, have begun negotiating the refinancing of portions of Authority loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of the Authority expects that such refinancings will reduce annual debt service requirements, thereby reducing the Authority's exposure in its Taxable Financing Reserve Fund. Subsequent to June 30, 2001, HUD completed refinancing for three institutions which have combined loans and advances due the Authority of approximately $6,280,000 at June 30, 2001. The owners of these facilities intend to complete refinancings for approximately six other nursing homes which have combined loans and advances due the Authority of approximately $34,370,000 at June 30, 2001 during fiscal 2002. If these anticipated refinancings are not completed and the nursing home industry in Maine continues to suffer from the present reimbursement restrictions, it is likely that a significant number of nursing homes included in the taxable financing reserve fund resolution will have difficulty in fully meeting their debt service obligations to the Authority.

The Authority has advanced approximately $2,865,000 from the operating fund as of June 30, 2001 to certain financially troubled institutions with outstanding loans owed to the Authority of approximately $39,886,000. These advances were made to assist these institutions in meeting debt service requirements. At June 30, 2001, the Authority has established a $1,600,000 reserve in the operating fund (with a provision of $460,445 during the year ended June 30, 2001) related to amounts which have been advanced or are expected to be advanced to troubled institutions.

8. 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 the Maine Medicaid program. During fiscal 1998, the Authority recorded a loss of approximately $3.5 million, representing the excess of the Center's liabilities over the estimated fair value of its assets.

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

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

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

Relevant disclosures for the Center are summarized as follows:

Assets Whose Use is Limited

Assets whose use is limited consist of resident funds held in trust and funds required by the terms of the Authority's Revenue Bonds Series 1993A as follows:

Principal and interest debt service balances	$442,805
Resident funds	25,452
Total assets whose use is limited	$468,257

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. Through June 30, 2001, due to operating losses incurred, the Center has been unable to fund the principal and interest debt service accounts as required by the bond issue. Instead, the Authority has advanced funds to these accounts and made all necessary principal and interest payments required by the bond issue through June 30, 2001.

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 95% of the residents served in 2001 were beneficiaries of the Maine Medicaid 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 Medicaid program. Settlements do not become final until the cost reports are audited and approved by the Maine Department of Human Services (DHS). Differences between estimated and actual settlements are recorded as contractual adjustments in the year of final determination.

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

The estimated settlements to the Medicaid program include amounts which DHS has determined to be owed based on audited cost reports for years 1995 through 2000, plus an estimated settlement for 2001. 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, 2001:

Room and board	$5,325,807
Contractual adjustments under third-party reimbursement programs	(714,164)
Net resident service revenue	$4,611,643

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

Fixed and Other Assets

These assets consist of the following at June 30, 2001:

Land	$ 302,291
Building and improvements	7,105,907
Furniture, fixtures and equipment	835,093
Vehicles	21,944
	8,265,235
Less accumulated depreciation	(3,659,304)
Fixed and other assets, net	$ 4,605,931

Loan Payable to Trusteed Funds

Loan payable to trusteed funds of $5,928,013 at June 30, 2001 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 principal and interest payments are approximately $870,000, excluding letter of credit and authority fees. The bonds bear a variable interest rate (7.35% at June 30, 2001).

8. 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:

2002	$ 375,000
2003	400,000
2004	430,000
2005	460,000
2006	495,000
Thereafter	3,768,013

Note Payable to Bank

The note payable to bank of $4,141 at June 30, 2001 is payable in monthly installments of $710, including principal and interest, with a fixed rate of 9.95% per annum. The note is secured by a vehicle and matures in 2002.

Management Agreement

First Atlantic Corp. provided all management and accounting services required by the Center throughout 2001. 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, 2001 totaled $230,582.

Employee Benefit Plan

The Center sponsors a discretionary contributory profit sharing plan and 401(k) plan which covers substantially all employees. The Center may elect to match employee contributions of up to 5% of the compensation of all eligible participants. The Center may also elect to make additional discretionary contributions. The Center contributed $4,221 to the plan for the year ended June 30, 2001.

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, 2001, 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, 2001, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

9. Subsequent Event

On July 6, 2001, the Authority issued $27,565,000 of 2001C Series Revenue Bonds from the Reserve Fund. The bonds mature in 2002 – 2031, and carry an interest rate ranging from 3.25% to 5.125%. The bonds are secured by various loans made to institutions within the State of Maine.

Maine HHEFA

HEALTH & HIGHER EDUCATIONAL FACILITIES AUTHORITY

2000 Financial Report

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Maine HHEFA
HEALTH & HIGHER EDUCATIONAL FACILITIES AUTHORITY

TO: INTERESTED PARTIES
FROM: Robert O. Lenna, Executive Director
SUBJECT: Annual Report

This is the fiscal 2000 report for the Maine Health and Higher Educational Facilities Authority. As of June 30, 2000, the Authority has $85,025,000 outstanding under its general tax exempt conduit resolution, $798,900,000 outstanding under its tax exempt reserve fund resolution, $4,535,000 outstanding under its medium term tax exempt reserve fund resolution and $97,420,000 outstanding under its taxable reserve fund resolution.

During fiscal year 2000 the Authority issued $75,980,000 of bonds under its tax exempt reserve fund resolution and $46,400,000 of bonds under its general tax exempt conduit resolution. These sales were accomplished in five series for two hospitals, three colleges, one nursing home, one continuing care retirement community, one residential care facility and one community health facility.

Started in December of 1991, the Authority's unique health and higher education program, using a state moral obligation reserve fund make-up provision and the ability to intercept funds of borrowers prior to any failure to pay, provides unusual strength to a diversified and dispersed portfolio of loans to health care and higher educational facilities throughout Maine. By making use of our ability to aggregate issues, share costs for bond sales among multiple issuers 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.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Audited Financial Statements

Year Ended June 30, 2000

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BAKER NEWMAN & NOYES
LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Health and Higher
Educational Facilities Authority

We have audited the accompanying consolidating balance sheet – operating fund and the combined and combining balance sheet – restricted and trusteed funds of Maine Health and Higher Educational Facilities Authority as of June 30, 2000, and the related consolidating statement of operations and changes in fund balance – operating fund, combined and combining statement of changes in fund balance and funds held in trust – restricted and trusteed funds and consolidating statement of cash flows – operating fund for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Health and Higher Educational Facilities Authority at June 30, 2000, and the results of its operations and cash flows of its operating fund for the year then ended in conformity with generally accepted accounting principles. Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of Maine Health and Higher Educational Facilities Authority at June 30, 2000, and the results of their operations and cash flows of individual operating funds for the year then ended in conformity with generally accepted accounting principles.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
October 4, 2000

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MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING BALANCE SHEET – OPERATING FUND

June 30, 2000

ASSETS

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Current assets:				
Cash and cash equivalents (note 3)	$ 4,761,317	$ 165,994	$ –	$ 4,927,311
Investments, at fair value (note 3)	449,688	–	–	449,688
Accrued investment income	23,274	–	–	23,274
Fees receivable from institutions	77,571	–	–	77,571
Fees and other amounts receivable from trusteed funds	1,353,137	–	–	1,353,137
Advances receivable from institutions net of allowance of $1,019,555 (note 7)	6,028,327	–	(3,973,509)	2,054,818
Resident accounts receivable, net of allowance of $352,844	–	307,250	–	307,250
Other assets	–	96,430	–	96,430
Total current assets	12,693,314	569,674	(3,973,509)	9,289,479
Long-term assets:				
Assets whose use is limited	–	393,299	–	393,299
Fixed and other assets, net	–	4,866,443	–	4,866,443
Deferred financing costs, net	–	252,840	–	252,840
Total long-term assets	–	5,512,582	–	5,512,582
	$ 12,693,314	$ 6,082,256	$ (3,973,509)	$ 14,802,061

LIABILITIES AND FUND BALANCE

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Current liabilities:				
Current portion of loan payable to trusteed funds	$ –	$ 375,000	$ –	$ 375,000
Current portion of note payable to bank	–	7,702	–	7,702
Accounts payable	227,905	33,289	–	261,194
Estimated third-party payor settlements	–	1,173,481	–	1,173,481
Accrued payroll and other expenses	–	281,556	–	281,556
Advances due to Authority's operating fund	–	3,973,509	(3,973,509)	–
Resident funds held in trust	–	16,554	–	16,554
Deferred revenue	–	4,984	–	4,984
Total current liabilities	227,905	5,866,075	(3,973,509)	2,120,471
Long-term liabilities:				
Loan payable to trusteed funds	–	5,898,013	–	5,898,013
Note payable to bank	–	4,124	–	4,124
Total liabilities	227,905	11,768,212	(3,973,509)	8,022,608
Common stock, no par value; authorized 10,000 shares, issued and outstanding 200 shares	–	200	(200)	–
Fund balance (deficit)	12,465,409	(5,686,156)	200	6,779,453
	12,465,409	(5,685,956)	–	6,779,453
	$ 12,693,314	$ 6,082,256	$(3,973,509)	$ 14,802,061

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

COMBINED AND COMBINING BALANCE SHEET –
RESTRICTED AND TRUSTEED FUNDS

June 30, 2000

ASSETS

	General Resolution	Reserve Fund
Cash and cash equivalents (note 3)	$ 5,644,378	$ 54,591,323
Investments, at fair value (note 3)	44,936,776	116,088,490
Accrued investment income	1,101,555	2,475,891
Loans receivable from institutions (note 7)	85,025,000	729,447,987
Loan receivable from operating fund (note 8)	–	–
Other receivables from institutions	227,636	457,114
Other assets	91,444	–
	$ 137,026,789	$ 903,060,805

LIABILITIES, FUNDS HELD IN TRUST AND FUND BALANCE

	General Resolution	Reserve Fund
Bonds payable (note 4)	$ 85,025,000	$ 798,900,000
Interest payable	1,585,765	18,887,297
Fees payable to operating fund	–	763,104
Accounts payable	75,044	–
Rebate payable to Internal Revenue Service	–	951,750
Deferred revenue	–	437,896
Total liabilities	86,685,809	819,940,047
Funds held in trust and fund balance:		
Construction/program funds	32,438,079	56,217,531
Expense funds	–	80,033
Debt service funds	8,769,205	25,824,611
Debt service reserve funds	9,099,470	–
Earnings funds	34,226	–
Unrestricted fund balance	–	998,583
Total funds held in trust and fund balance	50,340,980	83,120,758
	$ 137,026,789	$ 903,060,805

See accompanying notes.

Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund	Total
$2,745,217	$ 9,048,154	$ 72,029,072
835,487	12,003,519	173,864,272
24,093	64,360	3,665,899
2,465,500	79,143,468	896,081,955
–	6,273,013	6,273,013
30	339,642	1,024,422
–	–	91,444
$6,070,327	$ 106,872,156	$ 1,153,030,077
$4,535,000	$ 97,420,000	$ 985,880,000
147,936	3,483,495	24,104,493
22,600	567,433	1,353,137
–	90,418	165,462
–	–	951,750
4,714	69,470	512,080
4,710,250	101,630,816	1,012,966,922
–	1,861,496	90,517,106
1,207	48,355	129,595
1,204,768	3,290,665	39,089,249
–	–	9,099,470
–	–	34,226
154,102	40,824	1,193,509
1,360,077	5,241,340	140,063,155
$6,070,327	$ 106,872,156	$ 1,153,030,077

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

Year Ended June 30, 2000

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Elimi- nations	Consolidated Operating Fund
Operating revenues:				
Net resident service revenue	$ –	$ 4,014,786	$ –	$4,014,786
Administrative and other fees	2,416,028	–	–	2,416,028
Investment income	304,761	–	–	304,761
Net decrease in the fair value of investments	(3,408)	–	–	(3,408)
Interest income from advances to institutions	498,129	–	(392,598)	105,531
Other income	35,600	17,536	–	53,136
	3,251,110	4,032,322	(392,598)	6,890,834
Operating expenses (note 5):				
Salaries	267,151	–	–	267,151
Employee benefits	58,062	–	–	58,062
Travel	14,226	–	–	14,226
Office expenses	140,875	–	–	140,875
Accounting and auditing	45,635	–	–	45,635
Legal	116,043	–	–	116,043
Telephone	9,316	–	–	9,316
Building lease	49,810	–	–	49,810
Paid to Maine Hospital Association	15,947	–	–	15,947
Assistance paid to borrowing institutions (note 7)	800,000	–	–	800,000
Nursing services	–	1,257,916	–	1,257,916
Administrative services	–	572,047	–	572,047
Dietary services	–	487,351	–	487,351
Depreciation and amortization	–	336,634	–	336,634
Plant operations and maintenance	–	255,028	–	255,028
Housekeeping services	–	204,379	–	204,379
Other services	–	378,873	–	378,873
Interest expense	–	946,787	(392,598)	554,189
	1,517,065	4,439,015	(392,598)	5,563,482
Excess (deficiency) of revenues over expenses	1,734,045	(406,693)	–	1,327,352
Fund balance (deficit) at beginning of year	10,731,364	(5,279,463)	200	5,452,101
Fund balance (deficit) at end of year	$ 12,465,409	$ (5,686,156)	$ 200	$6,779,453

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

COMBINED AND COMBINING STATEMENT OF CHANGES IN FUND BALANCE AND FUNDS HELD IN TRUST – RESTRICTED AND TRUSTEED FUNDS

Year Ended June 30, 2000

	General Resolution	Reserve Fund
Fund balance and funds held in trust, beginning of year	$ 16,658,567	$ 148,508,433
Additions:		
Bond and note proceeds	46,400,000	65,945,000
Received and receivable from institutions	14,658,749	53,437,938
Transfer from debt service reserves	–	–
Income from investments	2,179,818	9,944,988
Net decrease in the fair value of investments	(16,333)	–
Other income	78,136	702,185
Total additions	63,300,370	130,030,111
Deductions:		
Construction and program costs	18,553,148	114,972,441
Bond issuance costs and remarketing fees	794,782	1,538,851
Principal payments	2,300,000	22,945,000
Interest expense	3,912,819	39,149,432
Paid to institutions	3,765,665	904,270
Transfer to debt service reserves	–	3,513,112
Paid to refunding escrow (note 6)	–	10,569,310
Fee expense	–	1,654,906
Other deductions	291,543	170,464
Total deductions	29,617,957	195,417,786
Increase (decrease) in fund balance and funds held in trust	33,682,413	(65,387,675)
Fund balance and funds held in trust, end of year	$ 50,340,980	$ 83,120,758

See accompanying notes.

Medium Term Financing Reserve Fund	Taxable Financing Reserve Fund	Total
$1,540,125	$ 5,639,184	$ 172,346,309
–	–	112,345,000
1,314,326	12,221,762	81,632,775
103,500	–	103,500
182,617	997,850	13,305,273
(35,312)	–	(51,645)
–	–	780,321
1,565,131	13,219,612	208,115,224
–	194,306	133,719,895
–	183,049	2,516,682
1,395,000	5,565,000	32,205,000
295,873	7,432,234	50,790,358
–	39,983	4,709,918
–	–	3,513,112
–	–	10,569,310
47,298	–	1,702,204
7,008	202,884	671,899
1,745,179	13,617,456	240,398,378
(180,048)	(397,844)	(32,283,154)
$1,360,077	$ 5,241,340	$ 140,063,155

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND

Year Ended June 30, 2000

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Eliminations	Consolidated Operating Fund
Cash flows from operating activities:				
Excess (deficiency) of revenues over expenses	$ 1,734,045	$(406,693)	$ –	$ 1,327,352
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
Investment and interest income	(802,890)	–	392,598	(410,292)
Net decrease in the fair value of investments	3,408	–	–	3,408
Depreciation and amortization	–	336,634	–	336,634
Change in assets and liabilities:				
Decrease in fees receivable from institutions	33,285	–	–	33,285
Increase in fees receivable from trusteed funds	(492,046)	–	–	(492,046)
Decrease in net resident accounts receivable	–	300,541	–	300,541
Decrease in other assets	77,874	55,649	–	133,523
Increase (decrease) in accounts payable	172,768	(465,275)	–	(292,507)
Decrease in deferred revenue	–	(3,437)	–	(3,437)
Decrease in interest payable to trusteed funds	–	(274,015)	–	(274,015)
Increase in accrued payroll and other expenses	–	22,731	–	22,731
Increase in estimated third-party payor settlements	–	236,481	–	236,481
Decrease in resident funds held in trust	–	(3,722)	–	(3,722)
Net cash provided (used) by operating activities	726,444	(201,106)	392,598	917,936
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	2,499,903	–	–	2,499,903
Purchases of investments	(742,372)	–	–	(742,372)
Income received from investments and advances	843,698	–	(392,598)	451,100
Purchases of property and equipment	–	(152,091)	–	(152,091)
Proceeds from sale of assets held for sale	30,000	–	–	30,000
Change in assets whose use is limited	–	385,299	–	385,299
(Increase) decrease in net advances receivable from institutions	(2,998,695)	–	403,059	(2,595,636)
Assistance paid to borrowing institutions	800,000	–	–	800,000
Net cash provided by investing activities	432,534	233,208	10,461	676,203

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

CONSOLIDATING STATEMENT OF CASH FLOWS – OPERATING FUND
(CONTINUED)

Year Ended June 30, 2000

	Authority's Operating Fund	Portland Center For Assisted Living (note 8)	Elimi-nations	Consolidated Operating Fund
Cash flows from financing activities:				
Increase in net advances from Authority's operating fund	$ –	$ 403,059	$ (403,059)	$ –
Payments on loan to trusteed funds	–	(325,000)	–	(325,000)
Net payments on note payable to bank	–	(6,612)	–	(6,612)
Net cash provided (used) by financing activities	–	71,447	(403,059)	(331,612)
Increase in cash and cash equivalents	1,158,978	103,549	–	1,262,527
Cash and cash equivalents at beginning of year	3,602,339	62,445	–	3,664,784
Cash and cash equivalents at end of year	$ 4,761,317	$ 165,994	$ –	$ 4,927,311

See accompanying notes.

1. Organization

Maine Health and Higher Educational Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Title 22, Chapter 413, Sections 2051 to 2074, inclusive and as amended by Chapter 584 of the Public Laws of 1991.

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

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

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

The Authority's operating fund records the revenues and expenses generated from its daily operations, and also includes the operations of Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center), which was acquired by the Authority in 1998 (see Note 8). The Authority has a management agreement with Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority. The operating fund is not part of the Authority's resolutions and does not legally act as security for outstanding bonds.

The restricted and trusteed funds represent various funds and accounts, established with respect to the applicable series bond documents, held by a trustee. The trustee completes the duties and obligations required by the applicable series resolution including investment of moneys as set forth by the Series Resolution and Tax Regulatory Agreement and the application of bond proceeds and institution's deposits as received by the trustee in accordance with the applicable series bond documents.

1. Organization (Continued)

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

General Resolution

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

Reserve Fund

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

Medium Term Financing Reserve Fund

These funds and accounts are established under the Authority's Resolution establishing the Maine Health Facilities' Medium Term Financing Reserve Fund adopted March 5, 1992. 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 repaid over a medium term and also benefit from the moral obligation reserve fund replenishment mechanism from the State of Maine. Loans to institutions made with proceeds of bonds issued under this resolution are generally written for the net amount of bond proceeds less debt service reserve funds retained by the Authority.

Taxable Financing Reserve Fund

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

1. **Organization (Continued)**

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

Construction/Program Funds

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

Expense Funds

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

Debt Service Funds

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

Debt Service Reserve Funds

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

Earnings Funds

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

2. Significant Accounting Policies

The Authority maintains books of accounts for its own operations (the operating fund, including the Center) and for the restricted and trusteed funds (the funds) established in connection with each outstanding bond issue. The books of accounts are maintained in accordance with the principles of proprietary (operating fund) and fiduciary (the funds) fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting (operating fund) and modified accrual basis of accounting (restricted and trusteed funds) and include the accounts of the operating fund and the combined accounts of all bond issues currently outstanding that have not been advance refunded (see Note 6).

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.

Cash and Cash Equivalents

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

Investments

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

Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

2. Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment from the acquisition of the Center is stated at cost. Depreciation expense has been computed using the straight-line method at rates intended to amortize the cost of the related assets over their estimated useful lives.

Estimated Third-Party Payor Settlements

Estimated third-party payor settlements with respect to the Center represent estimates of final settlements under cost-reimbursed programs (Medicare and Medicaid).

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.

Net Resident Service Revenue

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.

Amortization

Deferred financing costs of the Center are amortized using the straight-line method over the term of the respective loans. Financing costs in the restricted and trusteed funds are treated as expenditures as incurred.

Income Taxes

During fiscal 2000, the Center was 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 accompanying consolidated column of the financial statements of the operating fund reflect the accounts of the Authority and its wholly-owned subsidiary, the Center. All intercompany transactions and balances have been eliminated in consolidation.

2. Significant Accounting Policies (Continued)

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

3. Cash and Cash Equivalents and Investments

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and certain state and local governments, as well as certain investment contracts and collateralized repurchase agreements. The trustees invest available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's and Trustees' policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested in securities whose maturities are planned to coincide with the cash needs for operating, debt service and arbitrage requirements.

The cash and cash equivalents of the Authority's operating fund at June 30, 2000 consist of a $100,000 insured and $15,625 noninsured deposit with a bank and $4,645,692 of money market funds held by a trust company.

GASB Statement No. 3 requires investments to be classified into three categories to give an indication of the level of risk assumed by the Authority and the institutions; Category 1 includes investments insured or registered in the Authority's or institution's name or securities held by the Authority or institution or by the Authority's or the institution's agent in the Authority's or institution's name; Category 2 includes investments uninsured and unregistered with securities held by the financial institution's trust department or agent in the Authority's or institution's name; and Category 3 includes uninsured and unregistered, with securities held by the financial institution's trust department or its agent, but not in the Authority's or institution's name. There are no Category 1 or 3 investments held by the Authority or the trustees at June 30, 2000.

3. Cash and Cash Equivalents and Investments (Continued)

At June 30, 2000, cash and investments are categorized as follows (at fair value):

	Cash and Cash Equivalents	Guaranteed Investment Contracts	U.S. Government Obligations	Total
Restricted and trusteed funds:				
General resolution	$ 5,644,378	$ 43,328,548	$1,608,228	$ 50,581,154
Reserve fund	54,591,323	115,728,252	360,238	170,679,813
Medium term financing reserve fund	2,745,217	–	835,487	3,580,704
Taxable financing reserve fund	9,048,154	12,003,519	–	21,051,673
Total investments held in restricted and trusteed funds	72,029,072	171,060,319	2,803,953	245,893,344
Operating fund:				
Authority's operating fund	4,761,317	–	449,688	5,211,005
Portland Center for Assisted Living	165,994	–	–	165,994
Total operating fund investments	4,927,311	–	449,688	5,376,999
	$ 76,956,383	$ 171,060,319	$3,253,641	$ 251,270,343

4. Bonds Payable

As of June 30, 2000, the Authority had the following series and amounts of revenue bonds and notes:

	Maturity	Amount Issued	Amount Outstanding June 30, 2000
General resolution:			
Colby College, Series 1984, 7.75% – 9.625%, dated September 1, 1984	1990 – 2005	$ 6,400,000	$ 960,000
Bowdoin College, Series 1985, variable rate beginning at 5.25%, dated October 1, 1985	1986 – 2010	9,380,000	2,090,000
VHA of New England Capital Asset Financing Program, 1985 Series A through Series G, variable rate beginning at 6%, dated December 30, 1985	2025	26,100,000	18,700,000
Mt. Desert Island Hospital, Series A, variable interest rate equal to 80% of the prime rate of Fleet Boston, dated December 11, 1986	1988 – 2008	1,800,000	630,000

4. Bonds Payable (Continued)

	Maturity	Amount Issued	Amount Outstanding June 30, 2000
General resolution (continued):			
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	$ 11,885,000	$ 2,250,000
Bowdoin College, Series 1991, 4.75% – 7.1%, dated June 1, 1991	1992 – 2011	8,980,000	6,630,000
Colby College, Series 1991, 4.75% – 7.1%, dated July 1, 1991	1992 – 2011	11,965,000	6,080,000
Mt. Desert Island Hospital, Series 1992, variable interest rate equal to 80% of the prime rate of Fleet Boston, dated July 15, 1992	1993 – 2012	1,300,000	1,020,000
Spurwink School, Series 1997, 6.5%, dated December 23, 1997	1998 – 2012	315,000	265,000
Piper Shores, Series 1999A, 7.5% – 7.55%, dated December 1, 1999	2006 – 2029	24,900,000	24,900,000
Piper Shores, Series 1999B, variable rate beginning at 3.9%, dated December 16, 1999	2029	21,500,000	21,500,000
		$ 124,525,000	$ 85,025,000
Reserve fund:			
Series 1991, 4.5% – 6.375%, dated December 1, 1991	1992 – 2021	$ 40,920,000	$ 27,360,000
Series 1992A, 3.7% – 6.5%, dated June 1, 1992	1993 – 2022	8,040,000	4,965,000
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	44,850,000	37,050,000
Series 1993A, 2.5% – 5.60%, dated March 1, 1993	1993 – 2023	50,030,000	19,070,000
Series 1993B, 2.8% – 5.75%, dated May 1, 1993	1994 – 2023	20,000,000	18,000,000
Series 1993C, 2.65% – 5.0%, dated September 1, 1993	1994 – 2013	69,085,000	53,340,000
Series 1993D, 2.60% – 5.7%, dated December 1, 1993	1994 – 2023	93,540,000	78,630,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	12,870,000
Series 1995A, 4.40% – 5.878%, dated April 11, 1995	1996 – 2025	33,285,000	31,690,000
Series 1995B, variable rate, dated August 2, 1995	1998 – 2025	17,535,000	16,935,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	12,005,000

4. **Bonds Payable (Continued)**

	Maturity	Amount Issued	Amount Outstanding June 30, 2000
Reserve fund (continued):			
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	$ 28,515,000	$ 25,960,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	37,155,000
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	8,310,000	8,310,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	49,200,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	74,455,000
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	100,540,000	97,270,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	30,435,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	98,255,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	41,505,000
Series 2000A, variable rate, dated January 27, 2000	2002 – 2022	11,755,000	11,755,000
Series 2000B, variable rate, dated January 27, 2000	2000 – 2019	12,685,000	12,685,000
		$ 912,985,000	$ 798,900,000
Medium term financing reserve fund:			
Series 1992, 4% – 8.25%, dated March 1, 1992	1993 – 2003	$ 14,865,000	$ 4,535,000
Taxable financing reserve fund:			
Series 1992B, 9.35%, dated December 1, 1992	1994 – 2012	$ 9,350,000	$ 7,945,000
Series 1993A, 7.35% fixed interest rate 1993 – 1999, dated January 1, 1993	1993 – 2012	57,125,000	44,705,000
Series 1993B, 7.04% fixed interest rate 1994 – 2003, dated October 27, 1993	1994 – 2013	25,060,000	17,780,000
Series 1995A, 9.34% fixed interest rate 1995 – 2014, dated January 25, 1995	1995 – 2014	13,045,000	11,935,000
Series 1996A, 7.03% fixed interest rate 1996 – 2016, dated February 22, 1996	1996 – 2016	16,440,000	15,055,000
		$ 121,020,000	$ 97,420,000

4. Bonds Payable (Continued)

Each of the above series of bonds of the Authority is payable solely from the revenues from, and is secured by, the project, program or resolution in respect of which it is issued and has no claim of payment from the security or revenues pledged for the payment of the other series of bonds.

Maturities of bonds payable for each of the five years ending after June 30, 2000, combined for all series and resolutions, are as follows:

2001	$ 30,830,000
2002	33,190,000
2003	35,215,000
2004	34,735,000
2005	35,140,000
Thereafter	816,770,000

5. Operating Expenses

The Authority has a management agreement with Maine Municipal 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 $444,000 of expense under this agreement in 2000.

6. Refunded Issues

On January 27, 2000, the Authority issued $11,755,000 in 2000A revenue bonds at a variable interest rate to advance refund $9,880,000 of outstanding general resolution bonds with an average interest rate of 6.62%. Additionally, approximately $1,188,000 in underwriting fees, insurance and other issuance costs were paid. The Authority advance refunded the above bonds to reduce total interest payments over the next 22 years by approximately $1,630,000 (projected based upon management's expected average interest rate of 4.42% for the 2000A bond issue).

The proceeds of the refunding bonds were 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 refunded bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations were 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. At June 30, 2000, there were $133,215,000 of advance refunded bonds remaining outstanding with respect to all advance-refunded issues.

7. Nursing Home Loans

In 1994, the Maine Department of Human Services (DHS) substantially revised the eligibility criteria for Medicaid coverage of nursing facility services, causing a decline in occupancy in nursing facilities. The occupancy decline has not affected each nursing facility equally. In some instances, particularly in proprietary nursing homes borrowing under the taxable financing reserve fund resolution, which consists primarily of loans to nursing homes, these declines in occupancy have created cash flow problems. Under current practice, the Authority, in conjunction with DHS (which administers the Medicaid program, a major source of revenue of the nursing homes), is working with the nursing home industry to make changes necessary to address such cash flow problems and the State of Maine Legislature has recently appropriated a sum of money to be utilized for this purpose. If such changes are not made and the nursing home industry in Maine continues to suffer from the present reimbursement restrictions, it is likely that a significant number of nursing homes included in the taxable financing reserve fund resolution will have difficulty in fully meeting their debt service obligations to the Authority.

The Authority has advanced approximately $3,074,000 from the operating fund as of June 30, 2000 to certain financially troubled institutions with outstanding loans owed to the Authority of approximately $43,540,000. These advances were made to assist these institutions in meeting debt service requirements. At June 30, 2000, the Authority has established a $1,019,555 reserve in the operating fund (with a provision of $800,000 during the year ended June 30, 2000) related to amounts which have been advanced or are expected to be advanced to troubled institutions.

8. 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. On November 1, 1998, the Center was converted to a 125-bed assisted living facility, which is eligible for reimbursements under the Maine Medicaid program. During fiscal 1998, the Authority recorded a loss of approximately $3.5 million, representing the excess of the Center's liabilities over the estimated fair value of its assets.

Ultimate realization of recorded amounts with respect to the Center's assets is dependent upon continued operations of the Center, which in turn is dependent upon the Center's ability to meet its financing requirements and the success of its future operations. The Center is highly dependent upon regulatory authorities establishing reimbursement rates that are adequate to sustain the Center's operations. As discussed more fully in the following paragraphs, current 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.

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

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

Relevant disclosures for the Center are summarized as follows:

Assets Whose Use is Limited

Assets whose use is limited consist of resident funds held in trust and funds required by the terms of the Authority's Revenue Bonds Series 1993A as follows:

Principal and interest debt service balances	$376,745
Resident funds	16,554
Total assets whose use is limited	$393,299

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. Through June 30, 2000, due to operating losses incurred, the Center has been unable to fund the principal and interest debt service accounts as required by the bond issue. Instead, the Authority has advanced funds to these accounts and made all necessary principal and interest payments required by the bond issue through June 30, 2000.

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 90% of the residents served in 2000 were beneficiaries of the Maine Medicaid 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.

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

The Center's financial statements reflect the estimated settlements under the Medicaid program. Settlements do not become final until the cost reports are audited and approved by the Maine Department of Human Services (DHS). Differences between estimated and actual settlements are recorded as contractual adjustments in the year of final determination.

The estimated settlements to the Medicaid program include amounts which DHS has determined to be owed based on audited cost reports for years 1994 through 1999, plus an estimated settlement for 2000. 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, 2000:

Room and board	$4,973,760
Contractual adjustments under third-party reimbursement programs	(958,974)
Net resident service revenue	$4,014,786

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

Fixed and Other Assets

Land	$ 302,291
Building and improvements	7,069,311
Furniture, fixtures and equipment	816,952
Vehicles	36,172
	8,224,726
Less accumulated depreciation	(3,358,283)
Fixed and other assets, net	$ 4,866,443

Loan Payable to Trusteed Funds

Loan payable to trusteed funds of $6,273,013 at June 30, 2000 consists 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 principal and interest payments are approximately $871,000, excluding letter of credit and authority fees. The bonds bear a variable interest rate (7.35% at June 30, 2000).

8. 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:

2001	$ 375,000
2002	400,000
2003	430,000
2004	460,000
2005	495,000
Thereafter	4,113,013

Note Payable to Bank

The note payable to bank of $11,826 at June 30, 2000 is payable in monthly installments of $710, including principal and interest, with a fixed rate of 9.95% per annum. The note is secured by a vehicle. Approximate annual maturities of this note for the next two years are as follows:

2001	$ 7,702
2002	4,124

Management Agreement

First Atlantic Corp. provided all management and accounting services required by the Center throughout 2000. 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, 2000 totaled $200,739.

Employee Benefit Plan

The Center sponsors a discretionary contributory profit sharing plan and 401(k) plan which covers substantially all employees. The Center may elect to match employee contributions of up to 5% of the compensation of all eligible participants. The Center may also elect to make additional discretionary contributions. The Center contributed $2,509 to the plan for the year ended June 30, 2000.

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, 2000, 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.

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

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, 2000, compliance with these laws and regulations is subject to future government review, interpretation or actions which are unknown and unasserted at this time.

9. Subsequent Event

On July 15, 2000, the Authority issued $51,540,000 of 2000C Series Revenue Bonds. The bonds mature in 2002 – 2031, and carry an interest rate ranging from 4.375% to 5.75%. The bonds are secured by various loans made to institutions within the State of Maine.

NEW ISSUE **RATINGS: See "Ratings" herein**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2010B&C Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2010B&C Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Series 2010B&C Bonds is exempt from the State of Maine income tax imposed on individuals. See "TAX MATTERS" herein.

$108,030,000
MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY
$96,755,000 Revenue Bonds, Series 2010B
$11,275,000 Revenue Bonds, Series 2010C

Dated: Date of Delivery **Due: July 1, as shown below**

The Series 2010B Bonds and the Series 2010C Bonds (collectively, the "Series 2010B&C Bonds") are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series 2010B&C Bonds. Purchases of the Series 2010B&C Bonds will be made in book-entry form, in the denomination of $5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in Series 2010B&C Bonds purchased. So long as Cede & Co. is the Bondholder, as nominee for DTC, references herein to the Bondholders or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2010B&C Bonds.

Principal and semiannual interest on the Series 2010B&C Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondholder, such payments will be made directly to such Bondholder. Interest will be payable on January1, 2011 and semiannually thereafter on January 1 and July 1. **The Series 2010B&C Bonds are subject to redemption prior to maturity, including redemption at par under certain circumstances, as described herein under "The Series 2010B&C Bonds - Redemption."**

The Series 2010B&C Bonds are special obligations of the Maine Health and Higher Educational Facilities Authority (the "Authority") payable solely from the sources of revenue pledged and assigned therefor by the Authority pursuant to the Bond Indenture (hereinafter defined), including payments on the Series 2010B&C Notes issued by the Series 2010B&C Institutions (hereinafter defined) pursuant to the Series 2010B&C Loan Agreements (hereinafter defined) between the Series 2010B&C Institutions and the Authority, all as more fully described herein. Each of the Series 2010B&C Loan Agreements constitutes the full faith and credit general obligation of the respective Series 2010B&C Institution. The Series 2010B&C Bonds will also be payable from certain other sources, including certain funds pledged therefor in a Reserve Fund held by U.S. Bank National Association, Boston, Massachusetts, as successor Reserve Fund Trustee. See "State Funding Intercept" and "Reserve Fund."

THE SERIES 2010B&C BONDS ARE NOT AND SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF MAINE OR ANY POLITICAL SUBDIVISION THEREOF BUT SHALL BE PAYABLE SOLELY FROM PLEDGED REVENUES UNDER THE BOND INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF MAINE OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2010B&C BONDS. THE AUTHORITY HAS NO TAXING POWER.

SERIES 2010B BONDS
$78,240,000 Serial Bonds

Year	Amount	Interest Rate	Yield	Year	Amount	Interest Rate	Yield
2011	$6,245,000	2.500%	0.790%	2018	$ 975,000	3.125%	3.190%
2012	6,380,000	3.000	1.150	2019	5,905,000	4.500	3.420
2013	6,555,000	3.000	1.540	2019	840,000	4.000	3.420
2014	2,340,000	5.000	1.910	2020	5,610,000	5.000	3.600
2014	4,595,000	3.000	1.910	2021	4,815,000	5.250	3.820*
2015	5,455,000	5.000	2.280	2021	310,000	4.000	3.820*
2015	860,000	3.000	2.280	2022	4,025,000	5.250	3.950*
2016	4,105,000	4.000	2.680	2022	110,000	4.000	3.950*
2016	2,460,000	3.500	2.680	2023	3,595,000	5.250	4.080*
2017	6,605,000	4.000	2.980	2023	565,000	4.000	4.080
2018	5,890,000	4.500	3.190				

$6,865,000 4.125% Term Bonds Due July 1, 2025, Yield 4.260%
$11,650,000 4.500% Term Bonds Due July 1, 2031, Yield 4.625%

SERIES 2010C BONDS

Year	Amount	Interest Rate	Yield	Year	Amount	Interest Rate	Yield
2011	$715,000	2.500%	0.790%	2018	$ 885,000	3.125%	3.390%
2012	740,000	3.000	1.150	2019	915,000	3.375	3.590
2013	765,000	3.000	1.540	2020	940,000	3.500	3.800
2014	780,000	3.000	1.910	2021	975,000	3.750	3.970
2015	810,000	3.000	2.280	2022	1,010,000	4.000	4.100
2016	830,000	3.000	2.870**	2023	1,050,000	4.000	4.230
2017	860,000	3.000	3.180				

The Series 2010B&C Bonds are being offered when, as and if issued by the Authority and accepted by the Underwriters, subject to prior sale or to withdrawal or modification of the offer without notice and subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Underwriters by Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts. Certain legal matters will be passed upon for the Authority by Verrill Dana LLP, Portland, Maine. It is expected that the Series 2010B&C Bonds will be available for delivery to DTC in New York, New York, on or about June 24, 2010.

Wells Fargo Securities **Morgan Stanley**

Barclays Capital **BofA Merrill Lynch** **Cain Brothers**

Dated: June 10, 2010

* Priced to first call date of July 1, 2020.
** Priced to first call date of July 1, 2015.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS LISTED ON THE COVER PAGE HERETO ("THE UNDERWRITERS") MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2010B&C BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesman or other person has been authorized by the Maine Health and Higher Educational Facilities Authority, the Series 2010B&C Institutions (as defined herein) or the Underwriters to give any information or to make any representations with respect to the Series 2010B&C Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. The information contained herein under the heading "The Authority" has been furnished by the Maine Health and Higher Educational Facilities Authority. All other information contained herein has been obtained from other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed to be the representation of, the Maine Health and Higher Educational Facilities Authority or the Underwriters. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of, the Series 2010B&C Bonds in any state in which it is unlawful to make such offer, solicitation or sale.

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MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

OFFICIAL STATEMENT

Relating to

$108,030,000

Maine Health and Higher Educational
Facilities Authority
$96,755,000 Revenue Bonds, Series 2010B
$11,275,000 Revenue Bonds, Series 2010C

INTRODUCTORY STATEMENT

The descriptions and summaries of various documents set forth herein do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. See Appendix C for a summary of the principal documents and for definitions of certain capitalized words and terms used but not defined elsewhere in this Official Statement.

Purpose

The purpose of this Official Statement, including the cover page and appendices hereto, is to set forth certain information concerning the Maine Health and Higher Educational Facilities Authority (the "Authority"), its $96,755,000 Revenue Bonds, Series 2010B (the "Series 2010B Bonds") and its $11,275,000 Revenue Bonds, Series 2010C (the "Series 2010C Bonds" and collectively with the Series 2010B Bonds, the "Series 2010B&C Bonds"), issued pursuant to a Bond Indenture dated as of April 1, 1995 (the "Original Indenture") as amended and supplemented with respect to the Series 2010B&C Bonds, by the Forty-First Supplemental Bond Indenture dated as of June 1, 2010 (the "Supplemental Indenture" and together with the Original Indenture, the "Bond Indenture"), each between the Authority and U.S. Bank National Association, Boston, Massachusetts, as successor Bond Trustee (the "Bond Trustee"), and authorized by the Authority's Bond Resolution adopted April 7, 2010 (the "Bond Resolution"). The Series 2010B&C Bonds are issued and secured under the Bond Indenture and the Bond Resolution in accordance with the Maine Health and Higher Educational Facilities Authority Act, being Chapter 413 of Title 22, Sections 2051 to 2077, inclusive, of the Maine Revised Statutes Annotated, as it may be amended from time to time (the "Act"). The Series 2010B&C Bonds, any bonds previously issued by the Authority pursuant to the Bond Indenture and any additional bonds that may be issued pursuant to the Bond Indenture and which are secured by the Reserve Fund (as defined below; see "Introductory Statement – Reserve Fund" below) are referred to collectively as the "Bonds."

Use of Proceeds

The proceeds of the Series 2010B Bonds will be loaned by the Authority to The Aroostook Medical Center ("Aroostook"), Birch Bay Retirement Village ("Birch Bay"), The Blue Hill Memorial Hospital ("Blue Hill"), The President and Trustees of Colby College ("Colby"), Down East Community Hospital ("Down East"), Houlton Regional Hospital ("Houlton"), Husson University ("Husson"), John F. Murphy Homes, Inc. ("Murphy"), The Lincoln Home ("Lincoln"), Maine College of Art ("MCA"), Medical Care Development, Inc. ("MCD"), Mount Desert Island Hospital ("Mount Desert"), Parkview

Adventist Medical Center ("Parkview"), Phillips-Strickland House Corporation ("PSHC"), Redington-Fairview General Hospital ("RFGH"), Seventy-Five State Street ("SFSS"), The Webber Hospital Association d/b/a Southern Maine Medical Center ("SMMC"), Spurwink Services Incorporated ("Spurwink"), Trustees of St. Joseph's College ("SJC"), St. Joseph Hospital ("SJH"), St. Mary's Regional Medical Center ("St. Mary's"), Thomas College ("Thomas") and York Hospital ("York" and collectively with Aroostook, Birch Bay, Blue Hill, Colby, Down East, Houlton, Husson, Murphy, Lincoln, MCA, MCD, Mercy, Mount Desert, Parkview, PSHC, RFGH, SFSS, SMMC, Spurwink, SJC, SJH, St. Mary's and Thomas, the "Series 2010B Institutions"). The proceeds of the Series 2010C Bonds will be loaned by the Authority to Mercy Hospital ("Mercy" or the "Series 2010C Institution," and together with the Series 2010B Institutions, the "Series 2010B&C Institutions"). Each of the Series 2010B&C Institutions will enter into a Loan Agreement or a Loan Agreement and Mortgage (collectively, the "Series 2010B&C Loan Agreements") with the Authority, pursuant to which the Authority will loan a portion of the proceeds of the Series 2010B&C Bonds to each Series 2010B&C Institution and each Series 2010B&C Institution will agree to make payments sufficient to repay its loan and make certain other payments. The Series 2010B&C Loan Agreements will constitute several, and not joint, obligations of the Series 2010B&C Institutions. See Appendix C – "Summary of Principal Documents – Summary of the Agreements."

The proceeds of the Series 2010B Bonds, together with other available funds, will be used to (i) refinance (a) the portions allocable to Murphy and York of the Authority's outstanding Revenue Bonds, Series 1993D, (b) the portion allocable to Spurwink of the Authority's outstanding Revenue Bonds, Series 1995A, (c) the portions allocable to Blue Hill, Down East, Mount Desert and York of the Authority's outstanding Revenue Bonds, Series 1998A, (d) the portions allocable to Houlton, MCA, Parkview, RFGH, Spurwink, SJC, SJH and Thomas of the Authority's outstanding Revenue Bonds, Series 1998B, (e) the portion allocable to MCD of the Authority's outstanding Revenue Bonds, Series 1998C, (f) the portions allocable to PSHC, SMMC, SJH, St. Mary's and York of the Authority's outstanding Revenue Bonds, Series 1999A, (g) the portions allocable to Husson and Lincoln of the Authority's outstanding Revenue Bonds, Series 2000C, (h) the portions allocable to Aroostook, Birch Bay, SJH and St. Mary's of the Authority's outstanding Revenue Bonds, Series 2001A, (i) the portion allocable to Colby of the Authority's outstanding Revenue Bonds, Series 2001C, and (j) the portions allocable to Murphy, SFSS and York of the Authority's outstanding Revenue Bonds, Series 2001D (collectively, the "2010B Refunded Bonds"); (ii) fund the amount necessary so that the Reserve Fund is at the Reserve Fund Requirement; and (iii) pay the costs of issuance of the Series 2010B Bonds. The proceeds of the Series 2010C Bonds, together with other available funds, will be used to (i) refinance the portion allocable to Mercy of the Authority's outstanding Revenue Bonds, Series 1998A (the "2010C Refunded Bonds" and together with the 2010B Refunded Bonds, the "Refunded Bonds"), (ii) fund the amount necessary so that the Reserve Fund is at the Reserve Fund Requirement, and (iii) pay the costs of issuance of the Series 2010C Bonds. See "Plan of Finance" and "Estimated Sources and Uses of Funds" herein. For a brief description of the Series 2010B&C Institutions, see "The Institutions." For the approximate amounts of the loans to each of the individual Series 2010B&C Institutions, see Appendix A hereto.

Security

The Series 2010B&C Bonds will be secured by (i) except in the case of Colby and SMMC, mortgages on the Series 2010B&C Institutions' Facilities and security interests in the Series 2010B&C Institutions' Equipment, (ii) liens on the Gross Receipts of the Series 2010B&C Institutions, (ii) the security interests granted by various Institutions in connection with the issuance of the Prior Bonds (as defined below), and (iii) the Reserve Fund Resolution (as described herein). Simultaneously with the issuance of the Series 2010B&C Bonds and in consideration of the Authority's loan to the Series 2010B&C Institutions of certain proceeds of the Series 2010B&C Bonds under the respective Series

2010B&C Loan Agreements, each Series 2010B&C Institution will issue a note dated as of June 1, 2010 (collectively, the "Series 2010B&C Notes") to the Authority. The Series 2010B&C Notes will be issued under and pursuant to the Series 2010B&C Loan Agreements. The Series 2010B&C Notes will be pledged and assigned by the Authority to the Bond Trustee under the Bond Indenture for the sole benefit of the Holders of the Series 2010B&C Bonds, the holders of Bonds previously issued under the Original Indenture and the holders of any Additional Bonds issued under the Original Indenture. The Series 2010B&C Bonds will be issued on a parity with all Bonds previously or hereafter issued under or pursuant to the Bond Indenture, together with all other series of Bonds secured by the Reserve Fund described below. The Series 2010B&C Notes will have terms and conditions to provide payments thereon in the aggregate sufficient, together with amounts available under the Reserve Fund Resolution, to pay all amounts to become due on the Series 2010B&C Bonds. See "Security for the Series 2010B&C Bonds." The ability of each of the Series 2010B&C Institutions to create encumbrances upon its property will be limited by the terms of the Series 2010B&C Loan Agreements. See Appendix C – "Summary of Principal Documents – Summary of the Agreements."

With respect to SMMC, the applicable Series 2010B&C Note will be issued pursuant to its Series 2010B&C Loan Agreement and a Master Trust Indenture dated as of November 1, 1989, as supplemented (the "SMMC Master Indenture"), between SMMC, currently the sole member of the Obligated Group, and U.S. Bank National Association, as successor Master Trustee. With respect to Mercy, the applicable Series 2010B&C Note will be issued pursuant to its Series 2010B&C Loan Agreement and an Amended and Restated Master Trust Indenture (Security Agreement) dated as of January 1, 1998, Amended and Restated as of September 30, 2006, as supplemented (the "Mercy Master Indenture"), among Catholic Health East, the other members of the Obligated Group set forth therein and The Bank of New York Mellon Trust Company, N.A., as successor to The Bank of New York Trust Company, N.A., as Master Trustee. See "The Institutions."

Pursuant to a Supplemental Bond Indenture dated as of July 1, 1995, the Authority amended its existing bond indentures pursuant to which its first nine series of the Prior Bonds were issued (up to and including the Series 1995A Bonds), in order to provide that all of such Prior Bonds, together with all Bonds issued since that time pursuant to the Bond Indenture, and any additional bonds issued under any of such bond indentures or under the Bond Indenture, shall be secured on a parity basis not only by the Reserve Fund (which had been the case), but also by the Bond Fund (which contains the Interest Account, Sinking Fund Account, Principal Account and Redemption Account) established under each of such existing bond indentures and the Bond Indenture.

Reserve Fund

On December 6, 1991, the Authority adopted a Resolution Establishing the Maine Health Facilities' Reserve Fund (the "Reserve Fund Resolution"), pursuant to which the Maine Health Facilities' Reserve Fund (the "Reserve Fund") was established and Shawmut Bank, N.A. (now U.S. Bank National Association), Boston, Massachusetts, was appointed Reserve Fund Trustee (the "Reserve Fund Trustee"). The Reserve Fund was established to secure the payment of Bonds designated by the Authority and issued to assist participating health care facilities, institutions for higher education, community mental health facilities and other eligible facilities, as such terms are defined in the Act. As of the date hereof, but prior to the issuance of the Series 2010B&C Bonds, the Reserve Fund is funded in the amount of $128,617,996, which amount equals or exceeds the Reserve Fund Requirement and secures $1,413,405,000 aggregate principal amount of outstanding Bonds heretofore issued by the Authority. For a list of the participating borrowers, including the Series 2010B&C Institutions, whose loans are secured by the Reserve Fund (herein, collectively, the "Institutions"), see Appendix A.

The Reserve Fund was initially funded from proceeds of the Authority's Revenue Bonds, Series 1991 (the "Series 1991 Bonds") and other available moneys in an amount equal to the Reserve Fund

Requirement in effect at the time of issuance of the Series 1991 Bonds. The Reserve Fund has been funded subsequently in connection with the issuance by the Authority of the Bonds (together with the Series 1991 Bonds, the "Prior Bonds"), in each case in an amount that, together with amounts already on deposit in the Reserve Fund, at least equaled the Reserve Fund Requirement after giving effect to the issuance of each series of Prior Bonds. For information concerning the Prior Bonds, see "The Authority – Outstanding Indebtedness of the Authority." The Reserve Fund Resolution provides that the Authority may from time to time designate other bonds of the Authority, such as the Series 2010B&C Bonds, as secured by the Reserve Fund in accordance with the provisions of the Reserve Fund Resolution. The Reserve Fund Requirement is defined in the Reserve Fund Resolution to mean an amount not less than the greatest amount required to be paid in any calendar year with respect to all Bonds, including the Prior Bonds and the Series 2010B&C Bonds, which have been designated by the Authority as being secured by the Reserve Fund. Upon the issuance of the Series 2010B&C Bonds, there will be on deposit with the Reserve Fund Trustee an amount that will equal the Reserve Fund Requirement giving effect to the issuance of the Series 2010B&C Bonds. The Reserve Fund may be drawn upon to pay any principal and interest due and owing on the Bonds. See "Reserve Fund."

State Appropriation. The Act provides that in order to assure the maintenance of the Reserve Fund Requirement, there shall be appropriated annually and paid to the Authority for deposit in the Reserve Fund such sum, if any, as shall be certified by the Executive Director of the Authority to the Governor of the State of Maine (the "State") as necessary to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement. Under the Act, and for purposes of determining the required amount or amounts to be on deposit in the Reserve Fund, the amount of any letter of credit, insurance contract, surety bond or similar financial undertaking available to be drawn upon and applied to obligations to which money in the Reserve Fund may be applied is deemed to be and must be counted as money in the Reserve Fund. Under the Reserve Fund Resolution the Executive Director is required annually, on or before December 1, to make and deliver to the Governor his certificate stating the sum, if any, required to restore the Reserve Fund to the Reserve Fund Requirement. Under the Act, the sum so certified shall be appropriated and paid to the Authority during the then current State fiscal year.

The aforesaid provisions of the Act and the Reserve Fund Resolution do not constitute a legally enforceable obligation of the State or create a debt on behalf of the State. However, there is no constitutional bar to future legislatures to appropriate such sum as shall have been certified by the Executive Director of the Authority to the Governor as necessary to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement.

Special Obligations

The Series 2010B&C Bonds are special obligations of the Authority. Neither the State nor any political subdivision thereof shall be obligated to pay the principal of or interest on the Series 2010B&C Bonds, except from the Pledged Revenues, and neither the faith and credit nor the taxing power of the State or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Series 2010B&C Bonds. The Authority does not have taxing power.

Bondholders' Risks

For information concerning certain risks relating to future revenues and expenses of the Institutions, health care legislation which might affect the operations of the healthcare Institutions and other considerations, see the material included under the captions "The Institutions" and "Bondholders' Risks" herein, which material should be read in its entirety.

Proposed Amendment to the Original Indenture

The Authority has determined to amend the definitions of "Advance-Refunded Municipal Bonds" and "Permitted Investments" in Section 1.01 of the Original Indenture to read as follows:

"Advance-Refunded Municipal Bonds" shall mean municipal obligations are (i) not subject to redemption prior to maturity or (ii) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions.

"Permitted Investments" shall mean and include any of the following, if and to the extent the same are at the time legal investments of the Issuer's money:

(A) Government Obligations;

(B) Government Obligations which have been stripped of their unmatured interest coupons and interest coupons stripped from Government Obligations and receipts, certificates or other similar documents evidencing ownership of future principal or interest payments due on Government Obligations which are held in a custody or trust account by a commercial bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $20,000,000;

(C) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following: Federal Home Loan Banks; Federal Home Loan Mortgage Corporation (including participation certificates); Federal National Mortgage Association; Government National Mortgage Association; Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Export-Import Bank of the United States; or Federal Land Banks;

(D) All other obligations issued or unconditionally guaranteed as to the timely payment of principal and interest by an agency or Person controlled or supervised by and acting as an instrumentality of the United States government pursuant to authority granted by Congress;

(E) (i) Interest-bearing time or demand deposits, certificates of deposit, or other similar banking arrangements with any government securities dealer, bank, trust company, savings and loan association, national banking association or other savings institution (including the Bond Trustee or any affiliate thereof), provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation or (ii) interest-bearing time or demand deposits or certificates of deposit with any bank, trust company, national banking association or other savings institution (including the Bond Trustee or any affiliate thereof), provided such deposits and certificates are in or with a bank, trust company, national banking association or other savings institution whose (or whose parent's) long-term unsecured debt is rated in either of the two highest long term rating categories by Moody's or S&P, and provided further that with respect to (i) and (ii) any such obligations are held by, or are in the name of, the Bond Trustee or a bank, trust company or national banking association (other than the issuer of such obligations);

(F) Repurchase agreements collateralized by securities described in subparagraphs (A), (B), (C) or (D) above with any financial institution that has an uninsured, unsecured and unguaranteed obligation rated, or is itself rated, in one of the three highest rating categories by Moody's or by S&P (including the Bond Trustee or any affiliate of the Bond Trustee), provided that (1) a specific written repurchase agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the Bond Trustee or an independent third party acting solely as agent for the Bond Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance

Corporation and which has combined capital, surplus and undivided profits of not less than $25,000,000, and the Bond Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Bond Trustee, (3) a perfected first security interest under the Uniform Commercial Code of the State, or book entry procedures in such securities is created for the benefit of the Bond Trustee, (4) the repurchase agreement has a term of thirty days or less, or provides that the Bond Trustee or its agent will value the collateral securities no less frequently than monthly and the Bond Trustee will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation, and (5) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%;

(G) Shares of a fixed income mutual fund, exchange traded fund or other collective investment fund registered under the federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, rated in one of the two highest long term rating categories by S&P or Moody's, including without limitation, any mutual fund for which the Bond Trustee or an affiliate of the Bond Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (a) the Bond Trustee or an affiliate of the Bond Trustee receives fees from such funds for services rendered, (b) the Bond Trustee charges and collects fees for services rendered pursuant to the Bond Indenture, which fees are, separate from the fees received from such funds, and (c) services performed for such funds and pursuant to the Bond Indenture may at times duplicate those provided to such funds by the Bond Trustee or its affiliates; and

(H) Commercial paper rated in the highest rating category by Moody's or S&P;

(I) Investment agreements, including guaranteed investment contracts, that are obligations of an entity whose senior long-term debt obligations or claims-paying ability are rated, or guaranteed by an entity whose obligations are rated (at the time the investment is entered into), in one of the two highest long-term rating categories by S&P or Moody's; and

(J) Advance - Refunded Municipal Bonds rated in the highest rating category by Moody's or S&P Ratings Group;

(K) Obligations issued by any State of the United States of America or any political subdivision or instrumentality thereof that are rated in one of the three highest rating categories by Moody's or S&P;

(L) Forward delivery agreements, forward supply contracts, or similar products that provide for the delivery of the securities listed in paragraphs (A), (B), (C), (D) or (H) above;

For the purpose of this definition, references to rating categories refers to such categories without regard to numerical or symbol modifiers (i.e. "AA+", "AA" and "AA-" constitute a single category).

The proposed amendment to the Original Indenture will take effect on such future date that the Bond Trustee shall have received evidence, in the form required by Article IX of the Original Indenture, that the Holders of at least a majority in principal amount of Bonds Outstanding have consented thereto. By their purchase of the Series 2010B&C Bonds, the Holders thereof shall be deemed to have consented to the terms of the proposed amendment and to have waived notice thereof, if any, required to be given pursuant to the Original Indenture.

THE AUTHORITY

General

The Authority was created and established by the Act as a public body corporate and politic and an instrumentality of the State. The purpose of the Authority, among others, is to assist health care institutions, social service institutions and institutions for higher education in the undertaking of projects involving the acquisition, construction, improvement, reconstruction and equipping of health care, social service and educational facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporation Act, is also empowered to finance student loan programs.

The Act provides that the Authority members shall be the State Superintendent of Financial Institutions, ex-officio, the Commissioner of the Department of Human Services, ex-officio, the Commissioner of the Department of Education, ex-officio, the Treasurer of the State, ex-officio, and eight other members appointed by the Governor of the State who are required to be residents of the State and not more than four of whom shall be members of the same political party. Three of the appointed members shall be trustees, directors, officers or employees of health care facilities, two shall be trustees, members of a corporation or board of governors, officers or employees of institutions for higher education and one shall be a person having a favorable reputation for skill, knowledge and experience in state and municipal finance, either as a partner, officer or employee of an investment banking firm which originates and purchases state and municipal securities or as an officer or employee of an insurance company or bank whose duties relate to the purchase of state and municipal securities as an investment and to the management and control of a state and municipal securities portfolio. The members of the Authority are entitled to be paid necessary expenses incurred while engaged in the performance of their duties. The Authority elects from its members a Chairman and a Vice Chairman and appoints an Executive Director who is not a member.

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Authority Membership and Organization

The present members of the Authority and the dates their terms expire are set forth below:

Name	Term Expires[†]	Affiliation
Neal Meltzer, Chairman	11/03/13	Executive Director, Waban Projects, Portland, Maine
George Spann Vice Chairman	11/03/10	President, Thomas College, Waterville, Maine
John Beliveau	02/27/10	Director & Portfolio Manager, H.M. Payson & Company, Portland, Maine
Robert R. Cooper	01/29/10	President, Bisson Transportation, Inc., West Bath, Maine
Evan B. Livada	11/03/13	Former President, Livada Securities, Portland, Maine
Glen Cyr	11/03/14	Chief Financial Officer, North Country Associates, Lewiston, Maine
Eileen Skinner [††]	11/03/10	President & CEO, Mercy Health System of Maine, Portland, Maine
Lee Webb	11/03/11	Margaret Chase Smith Policy Center, University of Maine Orono, Maine
Angela Faherty	Ex-Officio	Acting Commissioner, Department of Education, State of Maine, Augusta, Maine
Brenda M. Harvey	Ex-Officio	Commissioner, Department of Health and Human Services, State of Maine, Augusta, Maine
Lloyd P. LaFountain III	Ex-Officio	Superintendent of Financial Institutions, Bureau of Financial Institutions, State of Maine, Augusta, Maine
David G. Lemoine	Ex-Officio	Treasurer of State, State of Maine, Augusta, Maine

[†]All members serve until the appointment and qualification of a successor. The State Treasurer, if not reelected, serves for a period of not less than 30 days after the end of his or her term and until qualification of a successor.

[††]Did not participate in Authority's board vote approving the issuance of the Series 2010B&C Bonds.

Robert O. Lenna is Executive Director of the Authority and is responsible for the general management of the Authority's affairs. Mr. Lenna also serves as Executive Director of the Maine Municipal Bond Bank, the Maine Governmental Facilities Authority and the Maine Public Utility Financing Bank.

Verrill Dana LLP, Portland, Maine, is serving as counsel to the Authority. Hawkins Delafield & Wood LLP, New York, New York, is serving as Bond Counsel to the Authority and will submit its approving opinion with regard to the legality of the Series 2010B&C Bonds substantially in the form attached hereto as Appendix D.

The Act provides that the Authority may employ such other consulting engineers, architects, attorneys, accountants, construction and financial experts, superintendents, managers and such other employees and agents as are necessary in its judgment.

Powers of the Authority

Under the Act, the Authority is authorized and empowered, among other things: to issue bonds and notes and to refund the same; to make loans to participating hospitals, nursing homes, licensed residential care facilities, licensed continuing care retirement communities, assisted living facilities, community mental health facilities, a licensed scene response air ambulance, community health centers and community health or social services facilities ("participating health care facilities") or institutions for higher education or eligible institutions providing an educational program to its members or the general public for the cost of projects; to refinance existing indebtedness incurred by participating health care facilities or institutions for higher education to finance facilities; to make loans to student loan corporations to finance student loan programs; to charge and collect rates, rents, fees and charges for the use of and for the services furnished by a project; to acquire, construct, reconstruct, renovate, improve, replace, maintain, repair, extend, enlarge, operate, lease as lessee or lessor and regulate any project financed under the Act; to enter into contracts for any and all such purposes, including contracts for the management and operation of a project, and to designate a participating health care facility or a participating institution for higher education as its agent in connection with a project; to mortgage any project and the site thereof; to acquire directly or through a participating health care facility or a participating institution for higher education, as its agent, by purchase or by gift or devise such lands, structures, property, real or personal, rights, rights of way, franchises and easements as the Authority deems necessary; to sue and be sued; to receive and accept grants from the federal government, the State, or any other public agency; and to do all things necessary or convenient to carry out the purposes of the Act. Under the Act, the Authority has the right to notify the Treasurer of the State of a default or possible default on any of the Authority's bonds. Upon such notification the Treasurer of the State is required under the Act to withhold any funds in the Treasurer's custody that are due and payable to the defaulting institution and make such funds payable to the Authority for payment of the bonds if no other satisfactory arrangements have been made. See "State Funding Intercept."

Financing Programs of the Authority

Pursuant to its powers under the Act, the Authority has adopted five resolutions establishing separate financing programs with respect to which the Authority issues bonds and makes loans to participating institutions. The five resolutions are (1) the General Bond Resolution adopted June 5, 1973 (which for presentation purposes in the Authority's financial statements includes all transactions completed under separate bond indentures not secured by a common reserve fund), (2) the Reserve Fund Resolution adopted December 6, 1991, (3) the Medium Term Financing Reserve Fund Resolution adopted March 5, 1992, (4) the Taxable Finance Reserve Fund Resolution adopted December 15, 1992 (the "First Taxable Resolution") and (5) the Taxable Finance Reserve Fund Resolution adopted July 11, 2003 (the "Second Taxable Resolution"). Of the funds and accounts established under the Authority's various programs, only the Reserve Fund and the General Fund established pursuant to the Reserve Fund Resolution adopted December 6, 1991 are pledged to the security of the Bonds. Separate reserve funds and general funds have been established pursuant to the Medium Term Financing Reserve Fund Resolution, the First Taxable Resolution and the Second Taxable Resolution and such funds have been pledged to secure separate series of bonds designated as so secured. All series of Bonds, including the Prior Bonds, the Series 2010B&C Bonds and any Additional Bonds, secured by the Reserve Fund, are on a parity with respect to the Reserve Fund and the Bond Fund (which contains the Interest Account, Sinking Fund Account, Principal Account and Redemption Account), established pursuant to the bond indentures providing for the issuance of certain of the Prior Bonds and the Bond Indenture. The operating fund is maintained separate and apart from all other funds of the Authority, and can be used by the Authority for any of its lawful purposes, including the payment of debt service on the Authority's bonds in the event of a default by a participating institution.

Pursuant to the program financed under the Reserve Fund Resolution, the proceeds of the Bonds are loaned by the Authority to the Institutions. Each Institution enters into a loan agreement or a loan agreement and mortgage with the Authority (the "Loan Agreement" or "Loan Agreements"), pursuant to which the Authority loans a portion of the proceeds of the Bonds to each Institution and each Institution agrees to make payments sufficient to repay its loan and make certain other payments. The Loan Agreements constitute several, and not joint, obligations of the Institutions. See Appendix C – "Summary of Principal Documents – Summary of the Agreements."

The proceeds of the Bonds, together with other available funds, are used to (i) finance and refinance the cost of the acquisition, construction, equipping and installation by the Institutions of healthcare, educational, community health, social service or mental health facilities, including capitalized interest; (ii) fund the amount necessary so that the Reserve Fund is at the Reserve Fund Requirement as of the date of issuance of a series of Bonds; (iii) pay the premium for any bond insurance policy or policies issued in connection with a series of Bonds; and (iv) pay the costs of issuance of the series of Bonds. See Appendix A hereto for a list of the Institutions and the outstanding balances of their respective loans.

For a further description of the Authority's financing programs, its operating fund and the resolutions with respect to which its bonds have been issued, see Appendix B – "Financial Statements of the Authority."

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Outstanding Indebtedness of the Authority

Following is a table setting forth each series of the Prior Bonds, the amounts thereof originally issued and the amounts thereof outstanding under the Reserve Fund Resolution as of June 30, 2009:

	Amounts Issued	Amounts Outstanding as of June 30, 2009
Revenue Bonds, Series 1992B, dated September 15, 1992	$ 44,850,000	$ 1,040,000
Revenue Bonds, Series 1993D, dated December 1, 1993	93,540,000	1,760,000
Revenue Bonds, Series 1994A, dated March 1, 1994	18,380,000	7,670,000
Revenue Bonds, Series 1995A, dated April 11, 1995	33,285,000	690,000
Revenue Bonds, Series 1995C, dated August 1, 1995	13,745,000	680,000
Revenue Bonds, Series 1996A, dated August 15, 1996	28,515,000	170,000
Revenue Bonds, Series 1996B, dated October 15, 1996	41,855,000	1,415,000
Revenue Bonds, Series 1997A, dated June 1, 1997	8,310,000	6,775,000
Revenue Bonds, Series 1997B, dated December 1, 1997	52,640,000	29,090,000
Revenue Bonds, Series 1998A, dated March 1, 1998	76,800,000	35,495,000
Revenue Bonds, Series 1998B, dated June 1, 1998	100,540,000	68,665,000
Revenue Bonds, Series 1998C, dated November 1, 1998	30,585,000	19,570,000
Revenue Bonds, Series 1999A, dated April 15, 1999	98,385,000	71,090,000
Revenue Bonds, Series 1999B, dated December 1, 1999	41,505,000	2,990,000
Revenue Bonds, Series 2000C, dated July 15, 2000	51,540,000	8,890,000
Revenue Bonds, Series 2001A, dated February 15, 2001	66,585,000	53,650,000
Revenue Bonds, Series 2001B, dated May 15, 2001	10,615,000	8,020,000
Revenue Bonds, Series 2001C, dated May 15, 2001	27,565,000	8,210,000
Revenue Bonds, Series 2001D, dated November 1, 2001	50,700,000	39,205,000
Revenue Bonds, Series 2002A, dated July 1, 2002	56,040,000	43,155,000
Revenue Bonds, Series 2002B, dated July 1, 2002	8,175,000	7,545,000
Revenue Bonds, Series 2003A, dated January 15, 2003	63,080,000	56,535,000
Revenue Bonds, Series 2003B, dated July 1, 2003	59,245,000	18,900,000
Revenue Bonds, Series 2003C, dated July 1, 2003	7,050,000	6,135,000
Revenue Bonds, Series 2003D, dated September 1, 2003	35,880,000	27,245,000
Revenue Bonds, Series 2004A, dated June 3, 2004	72,315,000	58,800,000
Revenue Bonds, Series 2004B, dated December 9, 2004	42,265,000	38,760,000
Revenue Bonds, Series 2005A, dated August 17, 2005	48,325,000	17,880,000
Revenue Bonds, Series 2005B, dated December 29, 2005	28,325,000	25,275,000
Revenue Bonds, Series 2006A, dated February 2, 2006	51,855,000	46,845,000
Revenue Bonds, Series 2006B, dated April 6, 2006	56,795,000	47,090,000
Revenue Bonds, Series 2006F, dated September 7, 2006	89,125,000	87,960,000
Revenue Bonds, Series 2006G, dated September 7, 2006	14,200,000	14,025,000
Revenue Bonds, Series 2006H, dated December 20, 2006	68,400,000	68,400,000
Revenue Bonds, Series 2007A, dated July 18, 2007	96,495,000	93,015,000
Revenue Bonds, Series 2007B, dated November 1, 2007	70,470,000	69,970,000
Revenue Bonds, Series 2008A, dated May 22, 2008	107,180,000	107,075,000
Revenue Bonds, Series 2008B, dated June 19, 2008	25,985,000	25,975,000
Revenue Bonds, Series 2008C, dated June 19, 2008	49,540,000	49,540,000
Revenue Bonds, Series 2008D, dated December 3, 2008	41,735,000	41,735,000
Totals	$1,982,420,000	$1,316,935,000

Subsequent to June 30, 2009, the Authority issued $92,780,000 Revenue Bonds, Series 2009A, and $97,240,000 Revenue Bonds, Series 2010A, pursuant to the Reserve Fund Resolution.

Pursuant to the following bond resolutions of the Authority, the following principal amounts of bonds, other than the Bonds, were outstanding as of June 30, 2009:

(1) General Resolution: $149,080,000;

(2) First Taxable Resolution: $8,080,000; and

(3) Second Taxable Resolution: $0.

For a further description of outstanding indebtedness of the Authority, see Appendix B – "Financial Statements of the Authority."

The Authority may issue other series of bonds or notes for the purpose of financing projects for participating health care institutions and institutions of higher education and financing student loan programs. Each such series of bonds or notes will be issued pursuant to a resolution or bond indenture separate and apart from the Bond Resolution and the Supplemental Indenture authorizing the Series 2010B&C Bonds and will be secured by instruments separate and apart from the instruments securing the Series 2010B&C Bonds; provided, however, that such series of bonds or notes could be issued as Additional Bonds pursuant to and secured by the Original Indenture, and provided further, however, that such series of bonds or notes could be secured by the Reserve Fund Resolution. It is the Authority's current intention to continue to issue series of Bonds from time to time, on a tax-exempt basis for eligible 501(c)(3) institutions within Maine, to the extent of the institutions' needs therefor and subject to then-existing market conditions, as Additional Bonds under the Original Indenture, on a parity with the Prior Bonds and the Series 2010B&C Bonds. See "Security for the Series 2010B&C Bonds – Additional Indebtedness" and "Reserve Fund."

Certain Legislation Affecting the Authority

In 1995, the Legislature of the State passed the State Government Evaluation Act (the "Evaluation Act"), Maine Revised Statutes Annotated, Title 3, Chapter 35, Sections 951 through 963. The stated purpose of the Evaluation Act is to establish a system for periodic review of agencies and independent agencies of state government and requires the Legislature to evaluate their efficacy and performance. The Evaluation Act provides that the legislative committee with jurisdiction may conduct an analysis and evaluation of the Authority either in accordance with the scheduling guidelines or as necessary. Based on such review and analysis, such committee may recommend termination of an agency to the Legislature. The Authority is scheduled for review in 2011 by the Legislature's Joint Standing Committee on Education and Cultural Affairs.

THE SERIES 2010B&C BONDS

General Description

The Series 2010B&C Bonds will bear interest from their dated date at the stated rates, and will mature, subject to the right of redemption described below, in the amounts and on the dates set forth on the cover page of this Official Statement. The Series 2010B&C Bonds shall be dated their date of delivery. The Series 2010B&C Bonds are issuable only as fully registered bonds in the denominations of $5,000 or any multiple thereof, as provided in the Bond Indenture. Interest will be computed on the basis of a 360-day year of twelve thirty-day months and is payable commencing on January 1, 2011, and semiannually thereafter on each January 1 and July 1, until maturity or prior redemption.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2010B&C Bonds. The Series 2010B&C Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2010B&C Bond certificate will be issued for each maturity of each series of the Series 2010B&C Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 2010B&C Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010B&C Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2010B&C Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010B&C Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2010B&C Bonds, except in the event that use of the book-entry system for the Series 2010B&C Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010B&C Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2010B&C Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010B&C Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010B&C Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2010B&C Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2010B&C Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of the Series 2010B&C Bonds may wish to ascertain that the nominee holding the Series 2010B&C Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2010B&C Bonds within a single maturity of a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2010B&C Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2010B&C Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal (including sinking fund installments, if any), redemption premium, if any, and interest payments on the Series 2010B&C Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Paying Agent, the Institutions, the Bond Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2010B&C Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2010B&C Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2010B&C Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but none of the Authority, the Institutions or the Underwriters takes any responsibility for the accuracy thereof.

NEITHER THE BOND TRUSTEE NOR THE AUTHORITY SHALL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY PARTICIPANT, ANY PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE SERIES 2010B&C BONDS UNDER OR THROUGH DTC OR ANY PARTICIPANT, OR ANY OTHER PERSON WHO IS NOT SHOWN IN THE REGISTRATION BOOKS OF THE BOND TRUSTEE AS BEING A BONDHOLDER, WITH RESPECT TO: THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PRICE, IF ANY, OR INTEREST ON THE SERIES 2010B&C BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS UNDER THE BOND INDENTURE; THE SELECTION BY DTC OR ANY PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2010B&C BONDS; OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

In the event that the book-entry only system is discontinued, principal and redemption price will be payable upon surrender of the Series 2010B&C Bonds at the corporate trust office of the Paying Agent and interest will be payable on each Interest Payment Date, by check or draft mailed or, at the option of the Holder of at least $500,000 aggregate principal amount of Series 2010B&C Bonds, by wire transfer, to the Bondholders as of the close of business on the Record Date.

If the book-entry only system is discontinued and Series 2010B&C Bond certificates have been delivered as described in the Bond Indenture, the Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the Bondholder. Thereafter, Series 2010B&C Bonds may be exchanged for an equal aggregate principal amount of Series 2010B&C Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the principal corporate trust office of the Bond Trustee, as Registrar. The transfer of any Series 2010B&C Bond may be registered on the books maintained by the Bond Trustee, as Registrar, for such purpose only upon the surrender thereof to the Bond Trustee with a duly executed assignment in form satisfactory to the Bond Trustee. For every exchange or registration of transfer of Series 2010B&C Bonds, the Bond Trustee, as Registrar, may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, but no other charge may be made to the Bondholder for any exchange or registration of transfer of the Series 2010B&C Bonds. The Bond Trustee will not be required to register the transfer of or exchange any Series 2010B&C Bond during the period from the Record Date to the Bond Payment Date or if such Series 2010B&C Bond (or any part thereof) has been or is being called for redemption.

Redemption

Optional Redemption. The Series 2010B Bonds maturing after July 1, 2020 are subject to redemption prior to maturity, at the option of the Authority, on and after July 1, 2020 in whole or in part at any time at a redemption price of par plus accrued interest to the redemption date.

The Series 2010C Bonds maturing after July 1, 2015 are subject to redemption prior to maturity, at the option of the Authority, on and after July 1, 2015 in whole or in part at any time at a redemption price of par plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. The Series 2010B Bonds maturing July 1, 2025 and July 1, 2031 are subject to mandatory sinking fund redemption prior to maturity at a Redemption Price equal to the principal amount of such Series 2010B Bonds to be redeemed plus accrued interest, if any, thereon to the Redemption Date, without premium, on each July 1 of the years listed below and in the following amounts:

$6,865,000 4.125% Term Bonds Due July 1, 2025

Year	Principal Amount
2024	$4,340,000
2025†	2,525,000

$11,650,000 4.500% Term Bonds Due July 1, 2031

Year	Principal Amount
2026	$2,430,000
2027	2,285,000
2028	2,375,000
2029	1,840,000
2030	1,925,000
2031†	795,000

† Final Maturity

Extraordinary Optional Redemption. The Series 2010B&C Bonds are also subject to redemption prior to maturity at the option of the Authority, in whole at any time or in part on any Bond Payment Date, at a Redemption Price equal to the principal amount of such Series 2010B&C Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium, from insurance proceeds received with respect to casualty losses, or condemnation awards, relating to any Facility of any Institution, under certain circumstances provided under the Bond Indenture.

Selection of Series 2010B&C Bonds to be Redeemed. In the event of any redemption of less than all Outstanding Series 2010B&C Bonds, any maturity or maturities and amounts within maturities of a series of Series 2010B&C Bonds to be redeemed shall be selected by the Bond Trustee at the direction of the Authority. If less than all of the Series 2010B&C Bonds of the same maturity of a series are to be redeemed, the Bond Trustee shall select the Series 2010B&C Bonds to be redeemed by lot in such manner as the Bond Trustee may determine, provided that, for so long as the book-entry only system is in effect, the particular Series 2010B&C Bonds or portions thereof to be redeemed within a maturity of a series shall be selected by DTC in such a manner as DTC may determine. In making such selection, the Bond Trustee (or DTC) shall treat each Series 2010B&C Bond as representing that number of Series 2010B&C Bonds of the applicable series of the lowest authorized denomination ($5,000) as is obtained by dividing the principal amount of such Series 2010B&C Bond by such denomination.

Partial Redemption of Series 2010B&C Bonds. Upon the selection and call for redemption of, and the surrender of, any Series 2010B&C Bond for redemption in part only, the Authority shall cause to be executed and the Bond Trustee shall authenticate and deliver to or upon the written order of the Holder thereof, at the expense of the appropriate Series 2010B&C Institution or Institutions, as determined by the Authority, a new Series 2010B&C Bond or Series 2010B&C Bonds of authorized denominations in an aggregate face amount equal to the unredeemed portion of the Series 2010B&C Bond surrendered, which new Series 2010B&C Bond or Series 2010B&C Bonds shall be a fully registered Series 2010B&C Bond or Series 2010B&C Bonds without coupons, in authorized denominations.

Effect of Call for Redemption. On the date designated for redemption by notice given as provided in the Bond Indenture, the Series 2010B&C Bonds so called for redemption shall become and be due and payable at the Redemption Price provided for redemption of such Series 2010B&C Bonds on such date. If on the date fixed for redemption moneys for payment of the Redemption Price and accrued interest are held by the Bond Trustee or paying agents as provided in the Bond Indenture, interest on such Series 2010B&C Bonds so called for redemption shall cease to accrue, such Series 2010B&C Bonds shall cease to be entitled to any benefit or security under the Bond Indenture except the right to receive payment from the moneys held by the Bond Trustee or the paying agents and the amount of such Series 2010B&C Bonds so called for redemption shall be deemed paid and no longer Outstanding.

Notice of Redemption. Not less than thirty (30) nor more than forty-five (45) days prior to the date set for redemption of any Series 2010B&C Bonds, the Bond Trustee will send notice by mail to all registered Holders of Series 2010B&C Bonds to be redeemed. Such redemption notice will set forth the details of such redemption. Failure to so mail such notice or any defect in such notice shall not affect the validity of any proceedings for the redemption of any Series 2010B&C Bonds with respect to which notice was so mailed or with respect to which no such defect occurred. Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner so affected shall not affect the validity of the redemption.

Acceleration

If a Bond Indenture Event of Default occurs, including a Bond Indenture Event of Default resulting from a payment default on the part of an Institution under a Loan Agreement, the principal of the Series 2010B&C Bonds (or, in the case of a payment default by an Institution under a Loan Agreement, at the discretion of the Authority, a portion thereof allocable to a defaulting Institution) may be accelerated and become immediately due and payable, at par, with interest payable thereon to the accelerated payment date. For a description of the Bond Indenture Events of Default, see Appendix C – "Summary of Principal Documents – Summary of the Original Indenture – Defaults and Remedies" and "Summary of the Supplemental Indenture – Defaults and Remedies."

Transfer and Exchange

Except while the book-entry only system is in effect as described above, Series 2010B&C Bonds may be exchanged upon presentation and surrender thereof to the Registrar for an equal aggregate principal amount of Series 2010B&C Bonds with the same interest rate, series and maturity. See "The Series 2010B&C Bonds – Book-Entry Only System."

Debt Service Requirements

Principal, interest and mandatory sinking fund requirements on the Series 2010B&C Bonds are shown below:

	Series 2010B Bonds		Series 2010C Bonds		
Period Ending July 1	Principal	Interest	Principal	Interest	Series 2010B&C Bonds Total
2011	$6,245,000	$4,064,614	$715,000	$379,055	$11,403,669
2012	6,380,000	3,830,963	740,000	353,950	11,304,913
2013	6,555,000	3,639,563	765,000	331,750	11,291,313
2014	6,935,000	3,442,913	780,000	308,800	11,466,713
2015	6,315,000	3,188,063	810,000	285,400	10,598,463
2016	6,565,000	2,889,513	830,000	261,100	10,545,613
2017	6,605,000	2,639,213	860,000	236,200	10,340,413

Period Ending July 1	Series 2010B Bonds Principal	Series 2010B Bonds Interest	Series 2010C Bonds Principal	Series 2010C Bonds Interest	Series 2010B&C Bonds Total
2018	$6,865,000	$2,375,013	$ 885,000	$210,400	$10,335,413
2019	6,745,000	2,079,494	915,000	182,744	9,922,238
2020	5,610,000	1,780,169	940,000	151,863	8,482,031
2021	5,125,000	1,499,669	975,000	118,963	7,718,631
2022	4,135,000	1,234,481	1,010,000	82,400	6,461,881
2023	4,160,000	1,018,769	1,050,000	42,000	6,270,769
2024	4,340,000	807,431			5,147,431
2025	2,525,000	628,406			3,153,406
2026	2,430,000	524,250			2,954,250
2027	2,285,000	414,900			2,699,900
2028	2,375,000	312,075			2,687,075
2029	1,840,000	205,200			2,045,200
2030	1,925,000	122,400			2,047,400
2031	795,000	35,775			830,775

SECURITY FOR THE SERIES 2010B&C BONDS

General

The Bonds, including the Series 2010B&C Bonds, constitute special obligations of the Authority payable solely from, and secured by a pledge of, the revenues of the Authority received from or on account of the Institutions, including the Series 2010B&C Institutions, which have borrowed or will borrow proceeds of the Bonds, including the Series 2010B&C Bonds, and amounts on deposit from time to time in the funds and accounts established under the Original Indenture (except the Rebate Fund), including the earnings thereon, subject to the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture. The Series 2010B&C Bonds will be secured on a parity with the Prior Bonds and any Additional Bonds. In addition, the Bonds, including the Series 2010B&C Bonds, are secured by a pledge of the funds held in the Reserve Fund and General Fund, subject to the application thereof for the purposes of and in accordance with the provisions of the Reserve Fund Resolution. See “Reserve Fund” and “General Fund.”

Bond Indenture

The Series 2010B&C Bonds will be issued by the Authority pursuant to the Bond Indenture. The Bond Indenture constitutes a contract among the Authority, the Bond Trustee and the Holders of the Bonds and the pledges and covenants made therein are for the equal and ratable benefit and security of the Holders of the Bonds regardless of the time of issue or maturity of any of the Bonds. The Bond Indenture provides that the Series 2010B&C Bonds shall be special obligations of the Authority, payable solely from and secured solely by the payments made by the Series 2010B&C Institutions under the Series 2010B&C Loan Agreements (together with any payments under Loan Agreements by Institutions who have borrowed proceeds of Prior Bonds and any additional Institutions who borrow proceeds of Additional Bonds), and the funds available in the Bond Fund established under the Bond Indenture, as well as funds available therefor pursuant to the Reserve Fund Resolution. As security for its obligations under the Bond Indenture with respect to the Bonds, including the Series 2010B&C Bonds, the Authority has pledged to the Bond Trustee the payments of the Institutions, including the Series 2010B&C

Institutions, received or receivable by the Authority pursuant to the Loan Agreements, all funds held by the Bond Trustee under the Bond Indenture (except the Rebate Fund) and all income derived from the investment of such funds, and will assign to the Bond Trustee all such pledged funds, all of the Authority's right, title and interest in the Loan Agreements (except the right of the Authority to grant approvals, consents or waivers, to receive notices, or for indemnification or reimbursement of costs and expenses) and the Notes, including the Series 2010B&C Notes. As further security for its obligations under the Bond Indenture, the Authority will pledge to the Bond Trustee the amounts on deposit from time to time in the Reserve Fund and the General Fund created pursuant to the Reserve Fund Resolution, subject to the provisions of the Reserve Fund Resolution permitting the application thereof for the purpose and on the terms and conditions set forth therein, and the rights of the Reserve Fund Trustee and the parity rights of the holders of all Bonds secured by the Reserve Fund, including the Prior Bonds and the Series 2010B&C Bonds.

The Bond Indenture provides that the security interest granted by the Authority to the Bond Trustee therein is for the equal and proportionate benefit and security of the Holders from time to time of the Bonds issued, authenticated, delivered and outstanding under the Bond Indenture, including the Prior Bonds, the Series 2010B&C Bonds and any Additional Bonds, without preference, priority or distinction as to lien or otherwise of any Bonds over any other Bonds to the end that each Holder of any Bonds has the same rights, privileges and lien under and by virtue of the Bond Indenture.

Loan Agreements

The Loan Agreements are the individual full faith and credit general obligations of the Institutions, including the Series 2010B&C Institutions, by which they are required to make monthly or other periodic proportionate payments to the Authority which, in the aggregate, together with available funds in the Reserve Fund and General Fund established under the Reserve Fund Resolution, will meet all debt service payments on the Bonds, including the Series 2010B&C Bonds. The Loan Agreements will constitute several, and not joint, obligations of the Institutions, including the Series 2010B&C Institutions. Each Institution's Loan Agreement is to remain in full force and effect until all Bonds allocable to such Institution's loan have been fully paid or otherwise discharged. Simultaneously with the issuance of the Series 2010B&C Bonds and in consideration of the Authority's loan to the Series 2010B&C Institutions of certain of the proceeds of the Series 2010B&C Bonds under the Series 2010B&C Loan Agreements, each of the Series 2010B&C Institutions will issue its Series 2010B&C Note to the Authority. The Notes, including the Series 2010B&C Notes, have been pledged and assigned by the Authority to the Bond Trustee to be held for the benefit of the Holders of the Bonds. The Series 2010B&C Notes will have terms and conditions to provide payments thereon sufficient in the aggregate, together with funds available therefor pursuant to the Reserve Fund Resolution, to pay all amounts to become due on the Series 2010B&C Bonds. Except in the case of Colby and SMMC, the Series 2010B&C Notes will be secured by mortgages on the Facilities of the Series 2010B&C Institutions and security interests in the Series 2010B&C Institutions' Equipment. The Series 2010B&C Notes will be secured by security interests in the Gross Receipts of the Series 2010B&C Institutions. The liens granted under the Loan Agreements may be on a parity with or subordinate to certain existing indebtedness of such Institutions.

Gross Receipts Pledge

As security for its obligation to make the Series 2010B&C Note payments, each of the Series 2010B&C Institutions, pursuant to its Series 2010B&C Loan Agreement, will grant to the Authority a security interest in its Gross Receipts, but the existence of such security interest shall not prevent the expenditure, deposit or commingling of Gross Receipts by such Institution so long as no Agreement Event of Default exists and all required Series 2010B&C Note payments of such Institution are made when due. The security interest in Gross Receipts of SMMC, Mercy and other members of their respective Obligated Groups is granted pursuant to their respective Master Indentures. If an Agreement Event of Default exists and any required Series 2010B&C Note payment is not made when due, any Gross Receipts subject to this security interest that are then on hand and any such Gross Receipts thereafter received, shall not be commingled or deposited but shall immediately, or upon receipt, be transferred to the Bond Trustee for deposit into the Bond Fund to the extent needed to make the amount on deposit in the Bond Fund at least equal to the requirements of the Bond Fund. The Series 2010B&C Institutions may grant parity liens on Gross Receipts or on their Facilities or Equipment to secure Additional Indebtedness incurred in the future, subject to certain conditions set forth in the Series 2010B&C Loan Agreements. See "Additional Indebtedness" hereinbelow. See also the caption "Security for Bonds" under "Summary of Principal Documents – Summary of the Agreements" in Appendix C hereto. For a discussion of SMMC, Mercy and their Master Indentures, see "The Institutions – The Series 2010B Institutions" and "The Series 2010C Institution."

The foregoing security interest in Gross Receipts is subject to and may be limited by the laws of the United States and the State with respect to bankruptcy, insolvency and creditors' rights generally. For example, all or substantially all Gross Receipts received by a Series 2010B&C Institution after the commencement of a bankruptcy proceeding in which it is the debtor may not be subject to the foregoing pledge or security interest, and the same may be true with respect to Gross Receipts received within 90 days prior to the commencement of such a proceeding. In addition, it may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Receipts (e.g., gifts, donations, insurance proceeds) prior to actual receipt by the Institution.

The effectiveness of the security interests in Gross Receipts granted pursuant to the Loan Agreements and the Master Indenture may also be limited by a number of factors, to the extent applicable, including: (i) statutory liens; (ii) rights arising in favor of the United States of America or any agency thereof; (iii) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; and (iv) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the Maine Uniform Commercial Code as from time to time in effect.

Additional Indebtedness

The Authority may issue Additional Bonds on a parity with the Series 2010B&C Bonds under certain conditions provided in the Bond Indenture. See "Summary of the Original Indenture – Additional Bonds" in Appendix C hereto. Under the Loan Agreements, the Institutions, including the Series 2010B&C Institutions, may also incur Additional Indebtedness, as defined in the Loan Agreements, including Additional Indebtedness secured by a parity lien on the Property or Facility of an Institution (including its Gross Receipts), subject to certain conditions and limitations set forth in the Loan Agreements. For a description of the terms and conditions under which the Series 2010B&C Institutions may incur Additional Indebtedness and grant a security interest in any Property, Facility and Gross Receipts, see "Summary of Principal Documents – Summary of the Agreements – Permitted Debt" and "Permitted Encumbrances" in Appendix C hereto.

RESERVE FUND

General

The Reserve Fund Trustee has established and holds the Reserve Fund. Pursuant to the Act, deposited into the Reserve Fund will be: (i) all money appropriated by the State for the purpose of the Reserve Fund; (ii) all proceeds of Bonds that may be required to be deposited in the Reserve Fund pursuant to the terms and conditions of any bond indenture or bond resolution pursuant to which such

Bonds are issued; (iii) any other money or funds of the Authority that the Authority determines to deposit in the Reserve Fund; and (iv) any other money made available to the Authority for the purpose of the Reserve Fund from any other source or sources. The Reserve Fund is established to service the payment of the principal of and interest on all Bonds issued by the Authority and secured thereby pursuant to the terms of the bond indenture or bond resolution providing for the issuance of such Bonds. The Reserve Fund was initially funded from proceeds of the Series 1991 Bonds and other available moneys in an amount at least equal to the greatest amount of debt service required to be paid in any calendar year with respect to the Series 1991 Bonds. The Reserve Fund was subsequently funded from proceeds of each series of the Prior Bonds issued subsequent to the Series 1991 Bonds and other available moneys in amounts which, together with amounts already in the Reserve Fund, equaled the Reserve Fund Requirement after giving effect to the issuance of the Prior Bonds. The Reserve Fund Requirement, as defined in the Reserve Fund Resolution, equals the greatest amount required to be paid in any calendar year with respect to all Bonds secured thereby. The Reserve Fund Resolution provides that the Authority may from time to time designate other Bonds of the Authority as secured by the Reserve Fund in accordance with the Reserve Fund Resolution. Such designation may be made in the bond resolution or bond indenture delivered in connection with such series of Bonds. Upon the issuance of the Series 2010B&C Bonds, there will be on deposit with the Reserve Fund Trustee an amount that will equal the Reserve Fund Requirement after giving effect to the issuance of the Series 2010B&C Bonds.

Whenever moneys in a bond fund established with respect to a series of Bonds are insufficient to pay principal of or interest on such Bonds when due, the bond trustee for such Bonds shall notify the Authority and the Authority shall promptly notify the Reserve Fund Trustee and direct the Reserve Fund Trustee to transfer money from the Reserve Fund to the bond trustee in the amount of the deficiency. Each loan agreement with an Institution, including the Series 2010B&C Loan Agreements with the Series 2010B&C Institutions, provides that any deficiency in the Reserve Fund resulting from a failure on the part of the Institution to make timely debt service payments under its loan agreement, including any lost investment earnings resulting from a transfer from the Reserve Fund on behalf of such defaulting Institution, shall be made up by such Institution in six substantially equal monthly installments. In addition, under the Loan Agreements the Institutions are required to make up (i) any deficiency in the Reserve Fund resulting from a decline in market value of the investments in the Reserve Fund within three months of any determination by the Reserve Fund Trustee that the Reserve Fund Value is below the Reserve Fund Requirement and (ii) any amounts by which the earnings from the investments held or on deposit in the Reserve Fund are less than the debt service payments and related expenses allocable to that portion of the Bond proceeds which were deposited in the Reserve Fund, in monthly installments.

State Appropriation

The Act provides that in order to assure the maintenance of the Reserve Fund Requirement, there shall be annually appropriated and paid to the Authority for deposit in the Reserve Fund, such sum, if any, as shall be certified by the Executive Director of the Authority to the Governor of the State, as necessary to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement. Under the Act, and for purposes of determining the required amount or amounts to be on deposit in the Reserve Fund, the amount of any letter of credit, insurance contract, surety bond or similar financial undertaking available to be drawn upon and applied to the obligations to which money in the Reserve Fund may be applied is deemed to be and must be counted as money in the Reserve Fund. The Executive Director is required annually, on or before December 1, to make and deliver to the Governor his certificate stating the sum, if any, required to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement and the sum or sums so certified shall be appropriated and paid to the Authority during the then current State fiscal year. The State's fiscal year currently ends on June 30.

The Series 2010B&C Bonds and the aforesaid provisions of the Act do not constitute a legally enforceable obligation upon the State of Maine nor create a debt on behalf of the State. However, there is no constitutional bar to future legislatures to appropriate such sum as shall have been certified by the Executive Director of the Authority to the Governor as necessary to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement. If at any time the Reserve Fund Value exceeds the Reserve Fund Requirement, the excess amount may be transferred to the General Fund. See Appendix C – "Summary of Principal Documents – Summary of the Reserve Fund Resolution."

GENERAL FUND

Under the Reserve Fund Resolution, the Reserve Fund Trustee shall establish and hold the General Fund, to be funded by (i) all money or funds held in the Reserve Fund in excess of the Reserve Fund Requirement; (ii) all investment income or interest earnings on amounts in the Reserve Fund and in the General Fund; (iii) proceeds of any Bonds that may be required to be deposited in the General Fund pursuant to the terms and conditions of any bond indenture or bond resolution; (iv) any other money or funds of the Authority that the Authority determines to deposit in the General Fund; and (v) any other money made available to the Authority for the purpose of the General Fund from any other source or sources. The General Fund is pledged to the security of the Bonds and any Bonds hereafter issued by the Authority and secured thereby pursuant to the terms of the bond indenture or bond resolution providing for the issuance of such Bonds. However, funding of the General Fund is not required, and neither the Authority nor the Reserve Fund Trustee is obligated to maintain funds in the General Fund; accordingly, no assurance can be given that any funds would be available in the General Fund to provide for the payment of the Series 2010B&C Bonds or any other Bonds. Moneys in the General Fund may be used by the Authority, in its sole discretion, for (i) payments of principal of, premium, if any, and interest on any Bonds secured by the Reserve Fund, (ii) payments to or on behalf of an Institution that has borrowed proceeds of Bonds secured by the Reserve Fund, (iii) payments to the Authority free and clear of any lien or pledge under the Reserve Fund Resolution for application to any of the Authority's corporate purposes permitted under the Act, or (iv) other purposes set forth in the Reserve Fund Resolution; provided, however, that under the Reserve Fund Resolution the Authority may not withdraw moneys from the General Fund (other than for the payment of debt service on Bonds) unless there is reasonably projected by the Authority to be sufficient funds after such withdrawal to make the next required payment of principal of or interest on any Bonds secured by the Reserve Fund; and provided further, however, that under the Reserve Fund Resolution the Authority has agreed that it will not use moneys in the General Fund for purposes other than to pay debt service on Bonds secured by the Reserve Fund in the event of a payment default on any such Bonds. See Appendix C – "Summary of Principal Documents – Summary of the Reserve Fund Resolution."

STATE FUNDING INTERCEPT

Under the Act, the Authority may notify the Treasurer of the State of a default or possible default on any of the Authority's bonds, including the Series 2010B&C Bonds. Upon such notification the Treasurer of the State is required under the Act to withhold any funds in the Treasurer's custody that are due and payable to the defaulting Institution and, if no other satisfactory arrangements have been made, make such funds payable to the Authority for payment of the bonds. The Act provides that funds subject to withholding could include federal and state grants, contracts, allocations or appropriations.

Pursuant to such provisions of the Act, the Authority has agreed in the Bond Indenture, but at its sole discretion, to implement the State funding intercept provision and to exercise the remedies provided therein, in the event that any of the Series 2010B&C Institutions defaults on any Note Payment or in the event that the Authority has "reasonable grounds to predict" that any of the Series 2010B&C Institutions will not be able to make Note Payments under its Series 2010B&C Loan Agreement as and when the same shall become due. The Authority shall be the sole party that can determine whether or not to implement such State funding intercept provision, and any determination of "reasonable grounds to predict" a default in Note Payments shall be in the sole discretion of, and as determined by, the Authority. No assurance can be given that the Authority would exercise its rights under the State funding intercept provision in the event of a default by an Institution, or, if it did so, that any funds would be made available thereunder. The Authority is required under the Act to apply any funds received from the State pursuant to such State funding intercept provision implemented with respect to any of the Series 2010B&C Institutions to the payment of debt service on Series 2010B&C Bonds issued on behalf of any such Institution.

Under the Series 2010B&C Loan Agreements, the Authority and each of the Series 2010B&C Institutions have agreed that if the Authority determines to implement the State funding intercept, a joint account will be established, into which all money received from the State will be deposited. Each of the Series 2010B&C Institutions will irrevocably sign multiple blank withdrawal forms with the Authority, which may not be utilized by the Authority until the earlier of the date that (i) the Authority determines to implement the State funding intercept provisions or (ii) an event of default occurs under the Series 2010B&C Loan Agreement of a Series 2010B&C Institution.

No assurance can be given that the Treasurer of the State has the legal right to withhold any funds that are due and payable to a defaulting Series 2010B&C Institution, and to pay such funds to the Authority for payment of the Series 2010B&C Bonds. The rights of the Authority to receive such funds are subject to and may be limited by the laws of the United States and the State with respect to bankruptcy, insolvency and creditors' rights generally.

PLAN OF FINANCE

Upon delivery of the Series 2010B Bonds, the proceeds of the Series 2010B Bonds will be used, together with other available funds, to: (i) refinance the 2010B Refunded Bonds; (ii) fund the Reserve Fund to the Reserve Fund Requirement; and (iii) pay for costs incidental to the issuance of the Series 2010B Bonds. Upon delivery of the Series 2010C Bonds, the proceeds of the Series 2010C Bonds will be used, together with other available funds, to: (i) refinance the 2010C Refunded Bonds; (ii) fund the Reserve Fund to the Reserve Fund Requirement; and (iii) pay for costs incidental to the issuance of the Series 2010C Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore Inc. (the "Verification Agent") will deliver its report verifying the accuracy of (i) the mathematical computations relating to the adequacy of the maturing principal of and interest earned on the Government Obligations and any initial cash balances to be held in escrow to provide for the payment of the principal of and accrued interest and redemption premium, if any, on the Refunded Bonds when due; and (ii) the mathematical computation of actuarial yield on such Government Obligations relating to the Refunded Bonds and on the Series 2010B&C Bonds, which computations support certain opinions of Hawkins Delafield & Wood LLP, Bond Counsel. The Verification Agent will express no opinion on the assumptions provided to it, nor as to the exclusion from gross income of the interest on the Series 2010B&C Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2010B&C Bonds and other available funds are expected to be applied as follows:

Sources of Funds

Principal Amount of the Series 2010B Bonds	$96,755,000
Principal Amount of the Series 2010C Bonds	11,275,000
Net Premium	5,447,369
Moneys Held Under or Transferred From Refunded Bond Indentures	22,307,119
Equity Contributions of Series 2010B Institutions	653,604
Total Sources of Funds	$136,438,092

Uses of Funds

Refunding of Refunded Bonds	$123,331,971
Deposit to Reserve Fund [1]	11,774,504
Legal, Financing and other costs (including Underwriters' discount and the Authority's fees and expenses)	1,331,617
Total Uses of Funds	$136,438,092

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[1] This amount, together with the amount already on deposit in the Reserve Fund, will equal or exceed the Reserve Fund Requirement, being the greatest amount required to be paid in any calendar year with respect to the Prior Bonds and the Series 2010B&C Bonds. See "Security for the Series 2010B&C Bonds – Reserve Fund."

THE INSTITUTIONS

General Descriptions

The Institutions which have borrowed proceeds of Bonds secured by the Reserve Fund are nonprofit and charitable corporations, or certain public instrumentalities or other entities of the State, existing under the laws of the State constituting a participating health care facility, a participating community health or social service facility or participating institution for higher education in accordance with the Act. Each Institution, including each of the Series 2010B&C Institutions, is authorized to operate health care, community health or social service, or educational facilities. The participating health care Institutions include nonprofit hospitals, nursing homes, residential care facilities, continuing care retirement communities, community mental health facilities, community health centers, a scene response air ambulance, and assisted living facilities. A community health or social service facility is defined under the Act as a "community-based facility that provides medical or medically related diagnostic or therapeutic services, mental health or mental retardation services, substance abuse services or family counseling and domestic abuse intervention services, and is licensed by the State." The higher education Institutions include private, nonprofit and charitable institutions and organizations engaged in the operation of, or formed for the purpose of operating, an educational institution within the State, including the Maine Community College System and the University of Maine, that, by virtue of law or charter, is an educational institution empowered to provide a program of education beyond the high school level. In addition, the Act also includes as a higher education Institution the Maine School of Science and Mathematics, which is a public, chartered school located in Limestone, Maine, established for the purpose of providing certain high-achieving high school students with a challenging educational experience. Further, the Act also includes as eligible entities nonprofit and charitable institutions and organizations that provide educational programs to its members or the general public, such as museums, theaters and fine art facilities.

The following provides a brief description of each of the Series 2010B&C Institutions, as well as a general description of the regulatory environment in which the health care Institutions operate. For a listing of all of the Institutions and the amounts of their respective loans, see Appendix A. See also "Bondholders' Risks."

The Series 2010B Institutions

Aroostook is a private, non-profit, acute care hospital located in Presque Isle, Maine. Aroostook is licensed to operate 89 acute care hospital beds, as well as 22 skilled and 50 nursing beds, which provide long-term care. Aroostook provides a full range of inpatient and outpatient acute care medical and surgical services, inpatient rehabilitation services, an End Stage Renal Disease facility, hospital based ambulance service, and outpatient clinics throughout central Aroostook County and northern Maine. Aroostook is a 501(c)(3) organization.

For a description of Birch Bay, see the description of Mount Desert below.

Blue Hill is a not-for-profit, 501(c)(3) general acute care facility located in Blue Hill, Maine. It operates 25 acute care beds and provides, among other services, in-patient and out-patient services, as well as ambulatory care, primary care and mental health services.

Colby is a private, coeducational, residential, liberal arts college founded in 1813 and accredited by the New England Association of Schools and Colleges. Located in Waterville, Maine, Colby has a student population of approximately 1,800. Colby is a Maine non-profit corporation and a 501(c)(3) organization.

Down East is a not-for-profit community hospital located in Machias, Maine. Down East is a subsidiary of Down East Health Systems and was established to provide health care services through its acute care facility to residents of Washington County in the Eastern Maine area. Down East is a 501(c)(3) organization operating 25 acute care beds.

Houlton is a private, non-profit, 501(c)(3) acute care hospital located in Houlton, Maine. Houlton is currently licensed to operate 25 acute care beds and 26 skilled nursing beds. Houlton provides a full range of inpatient and outpatient acute care medical and surgical services, including pediatric care, intermediate care services, obstetrics/nursery, operating room, emergency room, cardiopulmonary therapy, and various specialty clinics. Skilled nursing services provided by Houlton include long-term care and rehabilitative care.

Husson is a private, coeducational institution with a main campus in Bangor, Maine, offering undergraduate and graduate degrees to approximately 2,700 students in business, health, education, communication and other professional programs. Husson is accredited by the New England Association of Schools and Colleges, Inc. and draws students mainly from New England. Husson also has campuses in South Portland, Presque Isle, Calais and Eastport, Maine. An affiliate of Husson, New England School of Communications ("NESCOM"), is located on the Bangor campus and provides education to approximately 500 students in the communications field of television, radio, music, web media and journalism. NESCOM is a separate non-profit corporation with a separate board of directors.

Lincoln is a non-profit, 501(c)(3), 24-bed assisted living facility located in Newcastle, Maine. Lincoln receives income from permanent residents and boarders and is also approved to serve up to ten continuing care retirement subscribers.

MCA is a private 501(c)(3) undergraduate institution of higher education located in Portland, Maine. It offers bachelor degree programs concentrating in the visual arts area with a student body of approximately 300 full-time equivalent students, as well as a master of fine arts graduate degree, a post-baccalaureate program in Art Education and a Continuing Studies program offering professional institutes and course offerings for youth and adults.

MCD is a private 501(c)(3) non-profit organization that promotes health and operates numerous licensed boarding and developmental disabilities services homes throughout Maine. MCD receives funding from international, national and State of Maine grants to provide health-related services.

Mount Desert is a private, nonprofit, 501(c)(3) critical access hospital located in Bar Harbor, Maine, providing health care services through its acute care and specialty care facilities. Mount Desert is licensed by the Maine Department of Health and Human Services. Mount Desert is presently licensed for 25 acute care inpatient beds. Mount Desert is the sole incorporator of Birch Bay Retirement Village, a retirement community that provides assisted living services through congregate housing apartments, assisted living units and assisted living beds dedicated to special care for patients with Alzheimer's/dementia.

Murphy is a private, non-profit, 501(c)(3) organization with principal offices in Auburn, Maine that develops, operates and manages small community-based residential treatment facilities for mentally retarded adult and children of all ages. Murphy also provides other services consistent with the progressive care and treatment of mentally retarded people, including but not limited to: home respite services, and outreach, recreational, vocational and enrichment programs. Murphy's residential facilities are located throughout central Maine.

Parkview is a 501(c)(3), non-profit corporation located in Brunswick, Maine. It is licensed to operate 55 beds and provides a wide range of inpatient, outpatient, and emergency acute care services including medical, surgical and ICU to local residents.

PSHC operates a boarding residential care facility for elderly men and women and an adjacent 32 unit independent congregate apartment facility for elderly persons which is owned by an affiliated entity, PSH II. PSHC is an organization described in Section 501(c)(3) of the Code and is exempt from Federal income taxation under Section 501(a); its affiliate, PSH II, holds title to the 32 unit independent congregate apartment facility as a Section 501(c)(2) title holding company.

RFGH is a non-profit 501(c)(3) acute care hospital located in Skowhegan, Maine. It is licensed as a critical access hospital and is operating 25 acute care beds.

SFSS is a non-profit, 501(c)(3) residential care facility for the elderly located in Portland, Maine with a primary service area of Cumberland County. Substantially all of SFSS's operations relate to its residential care program, including independent and assisted living.

SJC is a private, non-profit, 501(c)(3) co-educational college located in Standish, Maine. SJC is an accredited liberal arts institution serving approximately 1000 full-time undergraduate students primarily from Maine, New Hampshire and Massachusetts. The college also grants undergraduate and graduate degrees through its Graduate and Professional Studies division to approximately 2,500 distance education students residing in all 50 states and over 20 foreign countries.

SJH is a private, 501(c)(3), non-profit, acute care hospital located in Bangor, Maine. SJH is licensed by the State of Maine Department of Health and Human Services to operate 112 beds. SJH provides a full range of inpatient and outpatient acute care medical services, including : general medicine, surgery, orthopedics, emergency, pulmonary, ambulatory surgery, pain management, intensive care, cardiac care, radiology, laboratory, and hyperbaric/wound treatment. SJH's service area contains a population of approximately 150,000 which includes Bangor/Brewer, their suburbs and surrounding rural areas. SJH has been sponsored by the Felician Sisters for more than 60 years and is in the process of transferring sponsorship to Covenant Health Systems, Inc. of Lexington, Massachusetts.

SMMC is a private nonprofit public benefit corporation organized pursuant to the laws of the State of Maine. SMMC operates a 150 bed acute care hospital facility in the City of Biddeford licensed by the State of Maine with physician practices and ambulatory care facilities located in Biddeford, Saco and Kennebunk, Maine. SMMC provides general inpatient medical and surgical services, special intensive and coronary care services, pediatrics, obstetrics and mental health services. In addition, SMMC operates several primary care and specialty care physician practices, and outpatient services including ambulatory surgery, laboratory radiology, emergency, mental health, and rehabilitation. SMMC is a charitable organization described in Section 501(c)(3) of the Code and is classified by the IRS as not a private foundation because it is a hospital within the meaning of Sections 509(a)(1) and 170(b)(1)(A)(iii) of the Code. Therefore, SMMC is exempt from federal income taxation under Section 501(a) of the Code. SMMC is currently the only member of the SMMC Obligated Group (as defined in Appendix C hereto). Each future member of the SMMC Obligated Group, in addition to SMMC, will be jointly and severally liable with respect to all obligations under the SMMC Master Indenture, including the Series 2010B&C Note of SMMC. Certain provisions of the SMMC Master Indenture are summarized in Appendix C hereto.

Spurwink is a private, non-profit 501(c)(3) organization established to provide care, room and board, clinical treatment and education to emotionally handicapped children and adults. Spurwink's main office is in Portland, Maine. Founded in 1960, Spurwink provides day and residential treatment programs in approximately 82 facilities throughout central and southern Maine. Spurwink owns forty-six of the residential facilities and rents thirty-six.

St. Mary's is a private, non-profit, 501(c)(3) acute care hospital located in Lewiston, Maine. St. Mary's is licensed by the Department of Human Services of the State of Maine. Licensed to operate 233 beds, St. Mary's provides a full range of inpatient and outpatient acute care medical services, including general medicine, surgery, obstetrics, emergency, pulmonary, orthopedics, ambulatory surgery, intensive care, radiology, laboratory, cardiac care, anesthetics, alcohol and drug treatment and psychiatry. St. Mary's primary service area has a population of 105,000 and includes the cities of Lewiston and Auburn, their suburbs and surrounding rural communities in Androscoggin County. St. Mary's is managed by and is a subsidiary of St. Mary's Health System, whose sole corporate member is Covenant Health Systems, Inc. of Lexington, Massachusetts.

Thomas is a private, non-profit, 501(c)(3) undergraduate and graduate institution of higher education located in Waterville, Maine. Thomas offers associate, bachelor, and master degree programs in business, education, criminal justice, and liberal arts, and has a student body of approximately 700 full-time students. Thomas also offers continuing education undergraduate and graduate programs with a student enrollment of approximately 300.

York is a private, non-profit, 501(c)(3) acute care hospital located in York, Maine. York Hospital is licensed by the Maine Department of Health and Human Services to operate 79 acute care inpatient beds. York Hospital provides a full range of inpatient and outpatient acute care medical and surgical services, intensive care, obstetrics/nursery, operating room, emergency room, and various specialty clinics, with specific strengths in cardiac catheterization and cardiology.

The Series 2010C Institution

Mercy is a private, 501(c)(3), non-profit, acute care, community hospital located in Portland, Maine. Mercy is licensed to operate 230 beds and provides a full range of inpatient and outpatient acute care services, including medicine, surgery, obstetrics, and alcohol and drug treatment. Each current and future member of the Mercy Obligated Group, in addition to Mercy, will be jointly and severally liable with respect to all obligations under the Mercy Master Indenture, including the Series 2010B&C Note of Mercy. Certain provisions of the Mercy Master Indenture are summarized in Appendix C hereto.

THE MAINE HEALTH CARE REGULATORY ENVIRONMENT

In order to control the cost of healthcare paid for by the Federal and State governments and to maintain or improve the quality of health care, there have been frequent changes to Federal and State statutes, regulations and policies governing the operation and financing of hospitals, nursing facilities, assisted living facilities and various community-based providers of health care and related social services, including mental health and behavioral services. These frequent changes are often motivated by an interest in limiting or controlling the cost of health care services paid for by the government and protecting or improving the quality of health care related services and the extent to which the entire population has access to those services. Further changes addressing these issues are likely to occur frequently for the foreseeable future, and it is not possible to predict the particular effects that new statutes, regulations and policies will have on the health care Institutions. Certain significant statutes, regulations and policies affecting the health care Institutions are described below.

Government Reimbursement Environment for Hospitals

The hospital Institutions rely for a significant portion of their patient service revenues on reimbursement programs administered by the Federal government under Title XVIII of the United States Social Security Act (the "Medicare" program), providing hospital insurance benefits for most individuals over the age of 65 and for those entitled to social security disability benefits. A lesser but also significant portion of the revenues of the hospital Institutions are paid by the State Department of Health and Human Services ("DHHS") in accordance with federal and state regulations adopted under Titles V and XIX of the Social Security Act pursuant to which the federal government reimburses the State for a majority of the costs (the "Medicaid" program). Although recent legislation in Maine has changed the name of the State's Federal Medicaid program to "MaineCare," it will continue to be referred to herein as "Medicaid."

Medicare. Historically, hospitals were reimbursed pursuant to a "reasonable cost" based system of reimbursement, under which increases in a hospital's operating costs were passed on to the federal government. Concerns over dramatically increasing health care costs led to the creation and rolling implementation of the "Prospective Payment System" or "PPS." Today, the reasonable cost based system of hospital reimbursement has been phased out in favor of inpatient and outpatient PPS, or "IPPS" and "OPPS" respectively.

Under the IPPS, inpatient services at general, short term, acute care hospitals (except any hospital which has been designated as a limited service critical access hospital (a "Critical Access Hospital") by certain state and federal authorities) are paid by Medicare on the basis of prospectively determined payment amounts per discharge, rather than on the basis of allowable reasonable costs reported retrospectively. Each inpatient is categorized into a "Medicare severity diagnosis related group" or "MS-DRG" based on the patient's diagnosis and any complications or co-morbidities, and each MS-DRG is assigned a payment weight based on the average resources used to treat Medicare patients in that MS-DRG. The MS-DRG payments are subject to annual adjustments for a variety of factors, some of which are related to changing costs of providing the service but others of which may be related to such extrinsic factors as federal budget constraints. It is not possible to predict the effects of the IPPS on hospital revenues or whether additional changes will be made to the IPPS system.

The Balanced Budget Act of 1997 required the Centers for Medicare and Medicaid Services ("CMS") to develop a PPS for outpatient department hospital services. CMS established an outpatient prospective payment system based on the classification of services delivered in an outpatient setting into "Ambulatory Payment Classification" ("APC") groups. The OPPS was first implemented for services furnished on or after August 1, 2000. Since that time CMS has frequently changed, corrected, delayed and revised the OPPS rules, promulgated payment suspension provisions for un-filed cost reports and established Payment Rates for each calendar year. It is not possible to predict the effects of the OPPS on hospital revenues or whether additional changes will be made to the OPPS system.

Inpatient psychiatric facilities are also paid under a PPS system. Likewise, both long term care hospitals and inpatient rehabilitation facilities are paid under a PPS, as opposed to a reasonable cost system. It is not possible to predict the effects of the evolution from reasonable cost to PPS on hospital revenues or to predict whether additional changes will be made to PPS.

Hospitals designated as Critical Access Hospitals continue to be reimbursed on a reasonable cost basis for services rendered after such designation is approved. Medicare legislation increased the number of allowable beds from 15 to 25, and increased reimbursement to 101 percent of reasonable cost, thereby increasing the number of hospitals in the State that may be designated as Critical Access Hospitals.

Recent Legislation. The American Recovery and Reinvestment Act of 2009 ("ARRA"), also known as the "Stimulus Bill," contained a number of provisions that may impact health care providers. For example, the ARRA provides approximately $19 billion for Medicare and Medicaid health information technology incentives. The incentives are provided through the Medicare program and encourage physicians and hospitals to adopt and use certified electronic health records in a meaningful way (as defined by the Secretary and may include reporting quality measures) before 2015. Providers who do not adopt and use certified electronic health records in a meaningful way before 2015 may be subject to a payment penalty. The ARRA also provided approximately $87 billion in additional federal matching funds for the Medicaid program and increased the federal match rate for state Medicaid programs through the first quarter of federal fiscal year 2010. The newly released federal budget proposed $25.5 billion to extend for an additional six months the temporary increase in the federal match rate for state Medicaid programs. The U.S. Senate passed legislation that will extend the temporary increase for six months and the House is expected to act soon. If passed by the House and signed into law, the extension in the temporary increase in the federal match rate is expected to result in approximately $86 million in additional funds for Maine.

Congress has recently enacted a comprehensive health care reform bill. The primary purpose of the legislation was to extend health insurance coverage to approximately thirty-two (32) million Americans currently uninsured. Under the bill, Medicaid will be expanded to cover all adults earning less than 133% of the federal poverty level, and private health insurance will be made available to individuals and small companies through exchanges that will be run by the states. Individuals who do not buy health care insurance, and employers that do not offer health insurance to workers, will be subject to fines. The expectation is that the reforms will provide coverage to most Americans, with approximately half of those currently uninsured covered through the expansion of Medicaid and more or less the other half through private insurance. Although the federal health care reform act is likely to affect many aspects of hospital care, including the "free care obligations" and the "Dirigo Act" discussed below, it is not possible to predict the effects that these and other federal statutes will have on hospital revenues or whether additional changes will be made to the Medicare payment system in light of Federal budgetary pressures.

Medicaid. The general principle governing Medicaid reimbursement for hospital services to eligible beneficiaries is that reimbursement levels cannot exceed those established for similar Medicare covered services. For inpatient services at hospitals that are not designated as Critical Access Hospitals, Medicaid payment has traditionally been based on the lowest of a "target amount computation" specified in DHHS rules by reference to federal standards, or reasonable cost, or the hospital's charges to the general public for the same services, all as determined in accordance with certain federally prescribed methodologies. As is the case with Medicare, however, the payment methodologies in the Medicaid program continue to evolve. Beginning in 2004, DHHS implemented an inpatient payment system based on a prospectively determined rate per-discharge that is subject to adjustment. For hospital outpatient services, Medicaid reimbursement follows the methodology established by CMS for Medicare-covered services prior to the implementation of PPS methodologies. Medicaid outpatient services are reimbursed at the lower of outpatient costs or charges in accordance with pre-PPS Medicare Principles of Reimbursement.

Medicaid continues to pay hospitals interim payments throughout a hospital's fiscal year based in part on cost report data from previous years. These payments are called prospective interim payments ("PIP"). Due to budgetary pressures, the DHHS frequently changes the regulations governing PIP payments. Currently, PIP payments are made at not less than eighty percent (80%) of a hospital's expected total Medicaid payment. After close of the fiscal year, a retrospective reconciliation is determined for each hospital ("Interim Settlement"), which compares the total PIP payments made to the amount due based upon actual costs and utilization in accordance with state and federal regulations, plus a "disproportionate share hospital" allowance for those hospitals that qualify on the basis of the quantity of service provided to Medicaid-eligible patients and to low-income patients not eligible for Medicaid. The disproportionate share hospital payment is subject to a federally mandated aggregate cap and state budgetary constraints. In recent years, the Interim Settlements to hospitals have been delayed due to State budgetary constraints. The State was able to pay hospitals their Interim Settlements for fiscal years 2005, 2006, and most of the sums owed for fiscal year 2007 from federal stimulus funds that became available on passage of the ARRA (American Recovery and Reinvestment Act of 2009). However, according to the Maine Hospital Association (an advocacy group for Maine hospitals), an estimated balance of $30 million is still owed to Maine hospitals for fiscal year 2007 and hospitals may be owed $200 million or more for the fiscal years 2008 through 2010. It is not possible to predict the effects that these delayed payments may have on individual hospital Institutions or whether State budgetary pressure will continue to cause delays in hospital Interim Settlements.

Medicaid currently reimburses Critical Access Hospitals 109% of reasonable costs of both inpatient and outpatient services and a small adjustment will be made to payments for inpatient services relating to relative share of Medicaid patients. The extent to which these multiple components of Medicaid reimbursement have resulted in payments sufficient to cover actual costs of caring for Medicaid patients has varied from hospital to hospital in recent years. It is not possible to predict the effects that changes to the Medicaid reimbursement system will have on hospital revenues or whether additional changes will be made to the Medicaid payment system in light of recent and continuing State budgetary pressures. There can be no assurance that Medicaid payments will be sufficient to reimburse the hospital Institutions for the costs of the services provided to eligible beneficiaries.

Free Care Obligation. The hospital Institutions also are required by State law to provide care to individuals unable to pay for hospital services due to low income. The hospital Institutions are prohibited from denying service to any State resident "solely because of the inability of the individual to pay for those services." At a minimum, each hospital must conclude that a person is unable to pay when their family income falls below current federal poverty guidelines. Each hospital is required to adopt and follow a “free care policy” that defines how inability to pay will be determined and the services that will be provided. Certain affiliates of hospitals are required to follow analogous policies.

Hospitals are also required under the Emergency Medical Treatment and Active Labor Act (“EMTALA”) to provide screening and stabilization or an appropriate transfer to all patients seeking emergency care, without regard to their ability to pay. Hospitals may be excluded from reimbursement under Medicare for unremedied violations of EMTALA.

On February 5, 2010, the DHHS gave public notice of a “MaineCare Reimbursement Methodology Change.” According to the DHHS, “this change in methodology brings MaineCare hospital reimbursement more in line with the many states which utilize the Medicare DRG reimbursement system and the Medicare APC system, and it also reduces the total MaineCare obligation to hospitals.” Under this proposed methodology, Medicaid inpatient discharges will be reimbursed based on a Medicare DRG based system and outpatient services on a percentage of Medicare APC rates. Hospitals will receive thirty (30) days notice of the “go live” date for these changes. The DHHS estimates these changes will result in an estimated total reimbursement reduction to hospitals in the amount of $1.6 million in state fiscal year 2010 and $14 million in state fiscal year 2011. Finally, effective April 1, 2010, the rule proposes to reduce reimbursement to acute care critical access hospitals to 101% of inpatient and outpatient costs.

On September 22, 2009, the DHHS adopted final rules that reduce hospital reimbursement as mandated by the most recent budget legislation. Inpatient discharge rates for hospitals that are not Critical Access Hospitals were reduced by 6.7% and reimbursement for outpatient services was decreased to 83.8% of costs.

It is possible that the Legislature will consider further reductions in reimbursement to the Institutions as well as enact other tax measures or enrollment caps to address any future budgetary shortfall in the future legislative session and that some of those cuts and taxes may affect the Institutions.

Dirigo Health Plan and Other Regulatory Reforms. On June 18, 2003, Governor Baldacci signed into law An Act to Provide Affordable Health Insurance to Small Businesses and Individuals and to Control Healthcare Costs, commonly referred to as Dirigo Health Plan Reform Act (the “Dirigo Act”). The Dirigo Act contained a number of health care regulatory reforms and established the Dirigo Health Agency, an independent executive agency authorized to purchase health insurance coverage from private carriers and offer it, on a subsidized, sliding scale basis, to individuals and employees with earnings up to 300 percent of the federal poverty level who are ineligible for Medicaid coverage. The Dirigo Act requires hospitals, ambulatory surgical centers and health care practitioners to identify charges for commonly offered health care services to consumers. The Dirigo Act also set forth voluntary cost limits for health care providers, (i) in the case of health care practitioners, limiting the growth of net revenue to 3 percent; (ii) in the case of hospitals, limiting cost increases to no more than 3.5 percent; and (iii) in the case of health insurance carriers, limiting the pricing of products sold in Maine to a level supporting an underwriting gain less federal taxes of no more than 3 percent.

On April 16, 2008, the Governor signed into law An Act to Continue Maine’s Leadership in Covering the Uninsured. This legislation revised the Dirigo Act voluntary cost restraints for hospital providers. The Act encourages hospitals to limit their consolidated operating margin to no more than 3% and voluntarily restrain expense per case mix-adjusted inpatient and volume-adjusted outpatient discharge to no more than 110% of the forecasted increase in the hospital market basket index. This legislation also attempted to replace the Dirigo Act’s Savings Offset Payment funding methodology. However, a referendum challenge succeeded in repealing this provision.

On June 10, 2009, the Governor signed into law An Act to Stabilize Funding and Enable Dirigo Choice to Reach More Uninsured (the "Act"). The Act replaces the Dirigo Act's controversial Savings Offset Payment funding methodology with a more predictable source of funds generated from a "health access payment" of 2.14 percent on paid health insurance claims. Additional funding will come from the Fund for a Healthy Maine, which was created in 1999 to receive Maine's annual tobacco settlement payments. It is possible that these recent developments may impact hospital Institutions, as well as other health care Institutions, both as employers with insured employees and as health care providers.

The Dirigo Act also established a state-wide capital investment fund that limits the resources to be allocated annually under the Maine Certificate of Need ("CON") program, requires that the non-hospital component of the fund account for at least 12.5 percent of the total fund, and changes the CON Act by requiring State approval for purchases of certain kinds of new technology above a threshold level by private health care practitioners. On July 12, 2009, the Governor signed into law "An Act to Amend the Maine Certificate of Need Act of 2002." This legislation made further changes to the CON program by removing the annual update factor for certain monetary thresholds that trigger CON review and revising the threshold for review of replacement equipment. The likely result is that DHHS will have more oversight over proposed capital expenditures by hospital and other health care Institutions.

The CON program incorporates the State Health Plan as part of the review process. The State Health Plan establishes priorities for approval of projects under the CON review process. Highest priority is given to projects that protect health and safety by removing threats to patient safety, incorporating disease detection and demonstrating best practices. High priority is given to applicants that demonstrate compliance with the Dirigo Act's voluntary guidelines or that are moving toward electronic medical records systems. Duplicative projects or those creating new beds or major expansions are not considered priority projects. The State Health Plan is reviewed and amended from time to time. It is possible that changes in the CON legislation and State Health Plan may impact hospital Institutions, as well as other health care Institutions, in their efforts to undertake projects subject to CON review.

Reimbursement Environment for Nursing Facilities and Assisted Living Facilities

Successful operation of nursing facilities and assisted living facilities is highly dependent on the Medicaid program administered by DHHS. The federal government has on occasion threatened to cut off Medicaid funds to states which it felt were not in compliance with its regulations. Any such Federal action taken with respect to the State Medicaid program would likely have a material adverse effect upon the nursing facilities or assisted living facilities of an Institution.

State administrators of the Medicaid program periodically audit the reimbursable costs on which Medicaid reimbursements are based. No assurance can be given that certain costs will not be disallowed with an attendant reduction in rates of reimbursement. Such an audit could result in the nursing facilities and assisted living facilities being required to refund Medicaid reimbursements previously received.

To obtain the necessary Medicaid reimbursement, the nursing facilities and assisted living facilities must be able to attract an adequate number of patients. Demographic changes, competition from other nursing facilities or assisted living facilities, and efforts by DHHS to encourage home and community-based alternatives to care in these facilities could hamper the ability of the nursing facilities or assisted living facilities of an Institution to obtain or maintain satisfactory occupancy ratios.

In recent years, nursing facility bed occupancy has declined. This trend has not affected all nursing facilities equally. A few have experienced little change in their occupancy rates, while most have experienced declines in occupancy as a percentage of available beds, the magnitude and impact of which have varied greatly from facility to facility. Occupancy rates and financial performance are highly correlated in the nursing facility industry. The impact, if any, of the regulatory changes pertaining to nursing facilities on the financial condition of the health care Institutions is not known at this time. Policies designed to achieve reductions in the total number of nursing facility beds may have negative effects on occupancy.

There have been numerous statutory and regulatory changes that may have a material adverse effect on occupancy and financial viability of nursing facilities and assisted living facilities. For example, since 1994, DHHS has required a "Medical Eligibility Determination" ("MED"), using prescribed forms and assessment tools, as a prerequisite to Medicaid coverage of nursing facility services. Unless these medical criteria, as amended from time to time, are met, Medicaid reimbursement for care provided in a nursing facility is unavailable. Accompanying statutory requirements deny all reimbursement for services delivered to any privately-paying resident who does not qualify for nursing facility services under the MED assessment at the time of admission, if that resident later exhausts the private funds and applies for Medicaid benefits but still does not qualify under the MED criteria.

In addition, when individuals apply for Medicaid, they must report financial transactions they have made over a "look back" period. If there have been transfers of assets for less than value, Medicaid imposes a "penalty period" for eligibility, during which an applicant is ineligible for Medicaid. The Deficit Reduction Act of 2005 made two significant changes in the "look back" and "penalty period" calculations that may adversely impact nursing facilities. First, the "look back" period was extended from thirty-six (36) months to sixty (60) months. Second, the "penalty period" now begins on the date of the prospective resident's application for Medicaid as opposed to the date of the transfer for less than value. Thus, DHHS is looking farther back for problematic transfers and the penalty period does not begin until the resident applies for Medicaid.

Federal nursing home quality standards have increased Federal oversight, which is burdensome and expensive to nursing facilities. The regulations provide for fines of up to $10,000 per day for violations of the standards. Increased scrutiny from the United States Health and Human Services' Office of Inspector General has been reported in fraud alerts with respect to the long-term care industry, and the industry can expect increased scrutiny of nursing facilities in the future.

Monthly room charges made to patients of nursing facilities and assisted living facilities are generally paid from one or more of the following sources:

a. Payment from the patient's personal funds (private pay patients);

b. Medicare payments (Federal program for the aged), solely for certain subcategories of care in nursing facilities;

c. Medicaid payments (State program for the medically indigent, funded by State and Federal funds);

d. Veterans Administration payments; or

e. Private long-term care insurance.

Private insurance carriers reimburse their subscribers or make direct payments to health care facilities for expenses of care at established rates. The patient remains responsible for any difference between the insurance proceeds and the total charges. Many private insurance policies do not presently provide benefits for long-term care and treatment in nursing homes.

Under the Medicaid and Medicare programs, nursing facilities and, under the Medicaid program, assisted living facilities, are reimbursed on the basis of prospectively determined payment rates for services to qualified patients. These rates are based on a combination of facility-specific and industry-wide determination of reasonable costs. Under both programs, the amount of reimbursement is subject to certain ceilings. In addition, there are guidelines applied for determining the reasonableness of various allowable costs. During the year, rates for services to Medicare and Medicaid patients are based upon estimates of costs to be incurred. With respect to Medicare and Medicaid, allowable costs include interest, depreciation, amortized financing expenses and certain operating expenses. Each program will reimburse its share of the interest portion of the nursing facility's allowable debt service payments. The allowability of debt service is subject to tests for reasonableness and relationship to the reimbursable services provided, among others. Allowable debt service, like other fixed costs, will not be fully reimbursed if a nursing facility's occupancy falls below certain levels on an annualized basis. Although the principal portion of such debt service payments is not considered to be a reimbursable cost, a depreciation charge on the portion of the buildings and financing expenses allocable to each program is allowed as a reimbursable cost. All costs are subject to an overall ceiling for reimbursement. In determining and allocating costs, the Medicare and Medicaid programs follow generally accepted accounting principles unless their applicable rules specify otherwise.

Medicaid reimbursement for nursing facilities and assisted living facilities is based on the Maine Principles of Reimbursement for Nursing Facilities and Principles of Reimbursement for Residential Care Facilities, respectively. These rules establish a prospective reimbursement system for most facilities by which the payment rate for services is set in advance of the actual provision of the services. For nursing facilities, these rates are adjusted for "case mix," i.e., the intensity of the resources required for treatment of a given population. The Medicaid rate is established in a two-step process. In the first step, a facility's base year cost report is reviewed to extract those costs which are allowable costs. A facility's costs may fall into an allowable cost category, but be determined unallowable because they exceed certain limitations. Allowable base year costs are determined and separated into components: direct, indirect, routine, and fixed costs for nursing facilities, or routine and fixed/capital costs (with allocations of indirect costs) for assisted living facilities. The second step is to apply various aggregate limits, standards, and exclusions to costs incurred in allowable categories, in order to calculate the rate at which the facility's services will be reimbursed. This step is generally described in DHHS's Rules as accomplishing the objective of determining those costs that "must be incurred by an efficiently and economically operated facility," a reference to now-repealed federal statutory standards for reimbursement of nursing facility services, which were echoed in Maine statutory language that currently remains in effect. This step includes the "case mix" adjustment, which depends on classification of each resident into one of 45 "case mix classification groups" based on "minimum data sets" ("MDS") reflecting periodic assessment of each resident's "functional capacity." Errors in these MDS data may subject a nursing facility to substantial reimbursement penalties. The rules applicable to nursing facilities and most assisted living facilities currently provide that DHHS will establish a prospective per diem rate to be paid to each facility until the end of its fiscal year.

Each nursing facility's cost components for the fiscal year defined by the rule from time to time as the base year will be the basis for the rate computations (subject to upper limits). The base year direct, indirect and routine patient care cost components will be trended forward using inflationary factors described in the reimbursement rule.

Upon determination of the final rate, reconciliation must be made between DHHS and the institutional provider. If DHHS determines that a facility was overpaid, the facility must repay the overpayment within sixty (60) days of notice or request that DHHS reduce facility payments during the balance of the fiscal year by the amount of the overpayment.

The methodology prescribed in the Principles for Reimbursement for Assisted Living Services, while similar to that described above for nursing homes, is somewhat less complicated. DHHS will reimburse Assisted Living Facilities a daily rate for covered services provided to eligible residents based on the resident's level of resource needs. Residents are assessed for level of need by reference to an assessment tool, and from the results of the assessment, DHHS assigns the resident to one of eight different resource groups organized by level of need. DHHS then reimburses assisted living providers for services provided to each eligible resident based on their individual resource grouping. As with other types of health care providers, CMS has shifted its retrospective reasonable-cost based payment system to a prospective payment system for Medicare-covered services in skilled nursing facilities ("SNF-PPS"). The SNF-PPS payment rates include the costs of all covered skilled nursing services exclusive of certain costs associated with operating approved educational activities. According to CMS, SNF-PPS will substantially reduce average payments to skilled nursing facilities.

The SNF-PPS payments apply to Medicare beneficiaries during a skilled nursing facility stay covered by the Medicare program. When Medicare beneficiaries are receiving nursing facility services not covered in their entirety by Medicare, certain therapeutic and other services received by those residents are covered under "Part B" of Medicare. Under the consolidated billing requirements adopted in conjunction with the establishment of the SNF-PPS, Medicare Part B covered services provided to a nursing facility resident will no longer be billed separately by each provider of these services. Instead, the nursing facility will be required to bill Medicare on a consolidated basis for most such services delivered to a Medicare-eligible resident, and the nursing facility will be responsible for paying the providers of those services. Physician services and certain other categories are excluded from the consolidated billing requirement. These billing requirements will increase the administrative costs of nursing facilities participating in the Medicare program.

Maine Hospital, Nursing Facility, and Assisted Living Facility Licensing and Operational Regulations

Maine statutes and implementing rules require hospitals, nursing facilities (including nursing homes formerly classified as "intermediate care facilities" or "skilled nursing facilities"), and assisted living facilities (including those formerly classified as ‘‘boarding homes" or ‘‘residential care facilities, and, to a lesser degree, those formerly regulated as "adult foster homes" or "congregate housing services') to obtain and annually renew licenses and to operate pursuant to detailed rules governing the functioning of such facilities. These facilities are subject to periodic and detailed surveys of their operations for the purpose of ensuring compliance with these detailed licensing requirements. For hospital and nursing facilities, these requirements are interrelated with certification and participation rules established at the federal level with respect to the Medicare and Medicaid programs. There are a wide variety of "remedies," ranging from monetary penalties to various controls or limitations on operation, which can be imposed by licensing and certification authorities, in response to operational deficiencies found during these surveys. For hospitals and nursing facilities, these enforcement measures can affect both State licensure and the right to participate in federal health care programs. Compliance with these State and, where applicable, federal regulations requires significant effort and expense on behalf of the facilities and there can be no assurance that hospitals, nursing facilities and assisted living facilities will be able to maintain the necessary licenses in the future or will not be required to spend significant sums in order to maintain their licenses.

In addition to this primary licensure and regulatory framework, numerous health and safety regulations and statutes apply variously to the hospitals, nursing facilities, and assisted living facilities and are enforced by various State agencies. Violation of licensure or health and safety standards could result in closure or requirements that compliance with such standards are to be immediately achieved. Such standards are subject to change and there can be no assurance that in the future these health care, facilities will meet those changed standards or will not be required to spend significant sums in order to comply with those changed standards.

As part of the Dirigo Act described above, the Legislature amended certain provisions of the Maine Certificate of Need law. Among other things, the amendments established a Capital Investment Fund which will serve as a limit on capital expenditures permitted under the Certificate of Need process. Generally speaking, the amendments through the Dirigo Act are designed to limit the number of capital projects approved through the Certificate of Need process. Any Institution that wishes to engage in a project which requires a Certificate of Need, which includes hospitals, ambulatory surgical facilities, nursing facilities and others, would need to comply with the procedural and substantive requirements of the Certificate of Need law and obtain approval of DHHS, subject to the Capital Investment Fund, and possibly subject to other conditions which may affect the financial viability of the projects. Failure to comply with the Certificate of Need law can result in refusal to license and concomitant loss of reimbursement from government and private payors.

The Regulatory and Reimbursement Environment for Community Health and Social Services Facilities

Community health and social services facilities include a variety of organizations that provide various types of outpatient services including preventive care, primary care services, home health services, mental health, mental retardation services, and behavioral health and substance abuse treatment and prevention services. The facilities are subject to regulation by DHHS. Certain facilities providing preventive and primary care may not be licensed by the State, but may be certified and regulated under federal law as rural health clinics if they are located in a qualifying rural shortage area and meet other criteria set forth in federal regulations. Thus, depending on the services provided, a community health or social services facility may be subject to licensure and regulatory control by one or more state or federal agencies. In general, the operation of community health and social services facilities is extensively governed by various regulatory requirements of DHHS. Licensure and certification rules and requirements are generally designed to establish quality care standards for the facilities and to establish standards for recipients of services from the facilities. Compliance with state regulations requires significant effort and expense on behalf of the community health or social services facilities. In light of this significant effort and expense, there can be no assurance that the community health and social services facilities will be able to maintain the necessary licenses or certifications in the future. Also, there can be no assurance that in the future rules will not change, requiring these facilities to spend significant sums in order to comply with the changes.

The State regulations governing community health and social services facilities that are either boarding care facilities or intermediate care facilities are similar to those for nursing homes, and, as with nursing homes, compliance with such State regulations requires significant effort and expense on behalf of the Institutions providing such facilities. There can be no assurance that the boarding care facility or intermediate care facility Institutions will be able to maintain the necessary DHHS licenses in the future, or will not be required to spend significant sums in order to maintain their licenses.

Successful operation of all of these various kinds of facilities is substantially dependent upon Medicaid funding. No assurance can be given that certain costs will not be disallowed with an attendant reduction in reimbursement. An audit could result in the Institutions being required to refund Medicaid reimbursements previously received or could result in the Institutions receiving additional revenues. The Institutions must continue to be able to attract an adequate number of patients to obtain the necessary Medicaid reimbursement. Demographic changes and competition from other kinds of facilities could hamper the ability of the Institutions to obtain or maintain satisfactory occupancy ratios.

In addition, as is the case with other health care providers, the State must administer its programs in accordance with federal regulations in order to receive partial reimbursement from the federal government for the cost of its Medicaid program, and the State depends heavily on the availability of federal funding at the current percentage of total costs. Any federal action reducing funding for the State Medicaid program would probably have a material adverse effect upon participating Institutions.

The community health and social services facilities Institutions which receive a substantial portion of their funding from Medicaid are reimbursed for services on a wide variety of bases often including allowable costs subject to various limitations, constraints and annual audits. Certain services may be limited to fee schedules that do not reflect the full costs of operation. Medicaid reimbursement is based on various program-specific rules establishing principles of reimbursement for each of the services rendered or kinds of facilities involved.

Another significant source of funding for some of the community health and social service facilities Institutions are contracts with DHHS. The contracts specify the extent and nature of services to be provided, the financial terms of the agreement, and legal and regulatory requirements. Funds from the contracts are paid to the Institutions in installments throughout the year and the Institutions receiving such funds are required to submit quarterly reports covering program performances and financial statements. Contracts must be renegotiated and are put out to bid intermittently. Some services are provided by private non-medical institutions (PNMIs) under contract with DHHS but paid for by Medicaid under various reimbursement mechanisms.

PNMIs are defined as an agency or facility that is not, as a matter of regular business, a health insuring organization, hospital, nursing home, or a community health care center, that provides food, shelter, and treatment services to residents in single or multiple facilities. PNMIs must be licensed by DHHS, or must meet comparable licensure standards and/or requirements and staffing patterns as determined by the Department.

Reimbursement for all Medicaid funded programs is under pressure, and many programs are experiencing funding cuts or caps on annual, daily or hourly rates or other limits that will cap or reduce reimbursement. For example, DHHS recently reduced reimbursement for the facility-specific routine component of the room and board portion of payment to certain residential care facilities. In addition, DHHS recently amended the rules relating to reimbursement for bed hold days paid to the private non-medical institution program with the effect of substantially reducing reimbursement for bed hold days.

Reimbursement has also been reduced or proposed to be eliminated or reduced for a wide range of services or providers that may affect the Institutions, including pharmacy providers, providers of services to the mentally retarded and certain rehabilitation, community support, and early intervention services.

Maine continues to experience budgetary shortfalls. Predictions about the existence and amount of any budgetary shortfalls in the future vary widely and will be affected by revenue projections, current Medicaid funding and budget decisions. Such events will place continuing and increasing pressure on governmental programs, including Medicaid reimbursement for community health and social services facilities.

As with all health care institutions, there are a number of other health and safety regulations and statutes applying to the community health and social services facilities which are enforced by various State agencies. Violation of licensure or health and safety standards could result in closure or an order requiring immediate compliance with the standards. Such standards are subject to change, and there can be no assurance that in the future the community health and social services facilities Institutions will meet the changed standards or that the Institutions will not be required to spend significant sums in order to comply with the changed standards.

Demographic changes and competition from other community health and social services facilities or other health care providers could hamper the ability of the Institutions to obtain or maintain satisfactory patient bases.

Another significant source of funding for certain community health and social services facilities may be grants and contracts with various state and federal agencies. The contracts specify the extent and nature of services to be provided, the financial terms of the agreement, and legal and regulatory requirements. Funds from the contracts are paid to such facilities in installments throughout the year and the Institutions receiving such funds are generally required to submit reports covering program performances and financial statements. Contracts must be renegotiated and are put out to bid intermittently. Grants also have to be obtained and renewed intermittently.

Insurers and third party payors may be other sources of funding for certain community health and social service facilities. As managed care contracting, whereby payors for health care services contract with health care providers including community health and social services facilities for the purpose of reducing costs, becomes more prevalent in the State, Institutions providing community health and social services facilities may be exposed to further reductions in revenues as well as increased financial risks.

The Regulatory Environment for Continuing Care Retirement Communities

The Continuing Care Retirement Communities Act (the "CCRCA") was enacted by the Legislature to afford consumer protection in retirement communities which offer continuing care. Under the CCRCA, "continuing care" means "furnishing shelter for the life of the individual or for a period in excess of one year and either health care, supportive services, or both, under an agreement requiring prepayment as defined in the CCRCA, whether or not the shelter and services are provided at the same location, to 3 or more older individuals not related by blood or marriage to the providers." A continuing care retirement community ("CCRC") is licensed and regulated by the Maine Bureau of Insurance. In addition, to the extent health care will be delivered, a CCRC provider must be a health care provider licensed by DHHS and obtain a certificate of need if required under State law.

Under the CCRCA, there are two types of CCRC's based on certificates of authority issued by the Bureau of Insurance. The first is a certification as a life-care community in which the provider expressly provides in a written agreement (1) full and lifetime prepaid health care, prepaid supportive services and shelter, which includes a true continuum of care from independent living through nursing home care, (2) a maintenance fee that may not increase regardless of the level of services provided except for annual increases in the maintenance fee applicable to all subscribers and increases in the maintenance fee to specific subscribers resulting from the voluntary selection of optional services by such subscriber, (3) except for maintenance and insurance premiums, neither the subscriber nor any third party is liable for the cost of health care or supportive services, and (4) the provider provides full and lifetime health care and supportive services and shelter without diminution to a subscriber who has not intentionally depleted that subscriber's resources. A second CCRC certification is available for those providers who fall within the jurisdiction of the CCRCA but do not meet each of the criteria of a certified life-care community.

A CCRC provider may not advertise, solicit, or collect deposits from potential subscribers until it has received a preliminary certificate of authority from the Superintendent of Insurance. Deposits cannot be less than 10 percent nor more than 50 percent of the entrance fee. A CCRC may, however, engage in preliminary marketing upon written approval of the Superintendent of Insurance. Preliminary marketing under the CCRCA consists of (1) advertising of a proposed facility; (2) entering reservation agreements which may be cancelled at the option of either the prospective subscriber or the prospective provider; (3) soliciting, collecting or receiving reservation fees, which (a) do not exceed $1,000 per prospective resident and are deposited in an interest bearing escrow account with the interest accruing for the benefit of the prospective resident; (b) are refundable upon the request of the prospective subscriber; and (c) are not considered deposits for purposes of the CCRCA; and (4) the construction and maintaining of a sales office and model units. The "entrance fee" under the CCRCA means "an initial payment of a sum of money or any other consideration that assures a subscriber a place in a facility for a term of years or for life." An accommodation fee, admission fee, entrance fee or other fee of similar form and application, even if refundable in whole or in part at the termination of the subscriber's contract, is considered to be an "entrance fee." The purchase price of a condominium or a share or shares of membership in a housing cooperative are not considered an entrance fee under the CCRCA. It is the payment of an entrance fee under the CCRCA which meets the criteria of prepayment under the definition of continuing care for determining the jurisdiction of the CCRCA. The CCRCA establishes specific rules and regulations for refunding entrance fees, preliminary marketing, disclosure prospectuses, disclosure of names and addresses of stockholders, directors and officers, subscriber rights and subscriber participation in policy matters of the CCRC's. The CCRCA also requires that a CCRC provider establish and maintain reserves for mortgage debt, operating funds, potential liabilities based on actuarial value and such other standards as determined by the Superintendent of Insurance. Finally, the CCRCA provides that residents of a CCRC have (1) the right to self-organize, (2) the right to be represented by individuals of their own choice, (3) the right to engage in concerted activities for their own purposes, (4) the right to individually and severally obtain outside advice, consultation and services, including medical, legal and financial matters, and (5) the right to independence, dignity, individuality, privacy, choice and a home like environment.

As with health care institutions, CCRC's are subject to a number of health and safety regulations, financial requirements and disclosure requirements which are enforced by various state agencies. For violations of the CCRCA by CCRC providers, the Superintendent of Insurance has the authority to seek cease and desist orders, impose civil penalties and seek other remedies available under applicable law. Further, the Superintendent must examine the affairs of a CCRC provider not less than once every three years, and as often as it deems necessary to protect the interest of the subscribers. Violation of agency regulations could result in the closing of the CCRC or in orders requiring immediate compliance with applicable standards. Further, such standards are subject to change, and there can be no assurance that in the future a CCRC will meet the changed standards or that CCRC's will not be required to spend significant sums in order to comply with the changed standards.

BONDHOLDERS' RISKS

General

The Series 2010B&C Bonds are payable solely from and secured by funds available therefor under the Bond Indenture, including payments made pursuant to the Loan Agreements and funds transferred from the Reserve Fund and the General Fund established under the Reserve Fund Resolution. No representation or assurance can be given that the Series 2010B&C Institutions will generate sufficient revenues to meet their obligations under the Series 2010B&C Loan Agreements, or that other Institutions will generate sufficient revenues to meet their obligations under their Loan Agreements relating to Bonds secured by the Reserve Fund on a parity with the Series 2010B&C Bonds. An Institution's ability to pay its obligations under its Loan Agreement could be adversely affected by (i) with respect to the health care Institutions, future legislation, regulatory actions, economic conditions, changes in the demand for services, physicians' confidence in the Institutions, third party reimbursement (especially Medicaid, in light of recent and predicted State budgetary shortfalls), the Institutions' ability to control expenses and maintain relationships with health maintenance organizations ("HMO's") and preferred provider organizations ("PPO's"), competition, rates, costs or other factors and (ii) with respect to the educational Institutions, economic conditions, demographic trends, availability of financial aid, changes in demand for services, competition, the Institution's ability to control expenses and costs or other factors.

Enforceability of Master Indenture and Other Risks Related to Master Indenture Financings

The state of insolvency, fraudulent conveyance and bankruptcy laws relating to the enforceability of guaranties or obligations issued by a corporation in favor of the creditors of another, or the obligation of a member of an obligated group to make debt service payments on behalf of another member of such obligated group, is unsettled. The ability to enforce a master indenture or any obligations, including SMMC's and Mercy's Series 2010B&C Notes, against any member of the obligated group which would be rendered insolvent thereby could be subject to challenge. A member of the obligated group may not be required to make any payment or to provide for the payment of any obligations, or portion thereof, the proceeds of which were not loaned or otherwise disbursed to such member of the obligated group, to the extent that such transfer would render the member of the obligated group insolvent or which would conflict with, not be permitted by or is subject to recovery for the benefit of other creditors of such member of the obligated group under applicable laws. In particular, such obligations may be voidable under the United States Bankruptcy Code and the Maine fraudulent conveyance statute if the obligation is incurred without "fair", "valuable" or "fairly equivalent" consideration to the obligor and if the incurrence of the obligation thereby renders a member of the obligated group insolvent. The standards for determining the fairness or value of consideration and the manner of determining insolvency may vary under the United States Bankruptcy Code, state fraudulent conveyance statutes and applicable judicial decisions. There is no clear precedent in the law as to whether such payments from a member of the obligated group in order to pay debt service on an obligation may be voided by a trustee in bankruptcy in the event of bankruptcy of the member of the obligated group, or by third-party creditors in an action brought pursuant to state fraudulent conveyance statutes.

Although a master indenture may permit other persons to become members of the obligated group, the current members might remain the only members of the obligated group throughout the term of the Series 2010B&C Bonds. Also, since it is not known which entities, if any, may become additional members of the obligated group, it is unknown what risks the addition of such entities to the obligated group, in light of their financial condition and the nature of their businesses, may present to the Holders of the Series 2010B&C Bonds. In addition, members may be permitted to withdraw from the obligated group, and be released from all obligations previously incurred by the obligated group, if certain conditions are met. See "Summary of Principal Documents – Summary of the Mercy Master Indenture and Summary of the SMMC Master Indenture" in Appendix C hereto.

The obligations of the members of any obligated group will be limited to the same extent as the obligations of debtors typically are affected by bankruptcy, insolvency, fraudulent conveyance and other laws affecting creditors' rights generally and the application of general principles of creditors' rights and other debtor relief laws and as additionally described below.

Risk Factors Affecting Educational Institutions

In the future, the following factors, among others, may adversely affect the operations of educational Institutions to an extent that cannot be determined at this time:

(1) Decreases in population and demographic changes resulting in a reduced demand for the educational opportunities offered by educational Institutions.

(2) Adverse economic conditions resulting in decreased enrollment due to students' inability to pay the cost of tuition.

(3) Reduced availability of or inability to match competitive increases in financial assistance for the payment of tuition.

(4) Competition from public educational institutions and nontraditional educational sources in the ability to attract and retain students.

(5) Decreases in gifts and bequests from alumni resulting from a downturn in economic conditions or adverse publicity or for other reasons.

(6) Decreases in endowment levels due to poor investment returns.

(7) Developments affecting the federal or state tax-exempt status of nonprofit organizations or the municipal real estate tax exemption applicable to nonprofit organizations, including the possibility of the imposition of a municipal service fee in lieu of taxes.

(8) Employee strikes and other adverse labor actions that could result in a substantial reduction in revenues without corresponding decreases in costs.

Factors That Could Affect the Future Financial Condition of the Health Care Institutions

The future financial condition of the health care Institutions could be adversely affected by legislation, regulatory actions, increased competition from other health care providers, third party reimbursement, especially Medicaid in light of recent and predicted State budgetary shortfalls, demand for health care services, demographic changes, malpractice claims and other litigation and other factors, including the following:

Federal Legislation. The increasing cost of health care and concerns about the quality of and access to the health care system are issues which continue to receive a great deal of attention at the federal level. In light of these concerns, legislation may be enacted which could result in limitations on hospital or nursing facility revenues, third-party payments and costs or charges or which could require an increase in the quantity of indigent care required to maintain the Institution's tax-exempt status or could eliminate such status altogether regardless of the level of indigent care. It is impossible to predict the content or impact of any future legislation, regulations and government policies on the hospitals and nursing facilities but it is possible that fundamental changes in the health care delivery and financing system could result from legislative enactments.

Government revenue sources are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries and government funding restrictions, all of which may materially increase or decrease the rates of payment and cash flow to the health care Institutions. There is no assurance that payments made under such programs will remain at levels comparable to the present levels or be sufficient to cover all operating and fixed costs. Legislative proposals to reduce or contain Medicare and Medicaid spending are frequently made in Congress, often as part of larger federal spending or cost containment proposals. Similar proposals are likely in the future.

Maine Legislation and Rules. In recent years, proposals to control or reduce Medicaid spending, or to reallocate Medicaid spending from services provided by the hospital Institutions to less expensive health care providers, have been studied by or been introduced in, and in some cases enacted by, the Maine Legislature. In addition, the financial operations of the hospital Institutions were closely regulated by the State in the past and may, sometime in the future, again be closely regulated by the State. As a result of significant budgetary pressure, there continue to be legislative and rulemaking proposals to control and reduce benefits and Medicaid reimbursement to the health care Institutions. The health care Institutions are unable to predict the negative effects, if any, on operations that may be caused by changes in legislation, rules or both.

Regulatory and Contractual Actions that Could Affect the Health Care Institutions. The health care Institutions are subject to regulatory actions and policy or contractual changes by those governmental and private agencies that administer the Medicare and Medicaid programs and actions by, among others, the National Labor Relations Board, applicable professional review organizations, the Joint Commission on Accreditation of Healthcare Organizations, and the various federal, state and local health planning agencies.

Policy or contractual changes may also be imposed by various private insurers and health benefit programs, including Blue Cross, HMO's, PPO's and others, especially in light of the Dirigo Act. Managed care contracting between health care Institutions and third-party payors, whereby payors for health services contract with health care Institutions or become involved with the provision of health care services for the purpose of reducing costs, is becoming more prevalent in Maine and may result in decreased revenues and increased financial risks for health care Institutions.

So-called "consumer directed health plans" are a fairly new development in the insurance market. Typically these plans involve a high deductible health plan, coupled with a health reimbursement arrangement ("HRA") or, most recently, a health savings account ("HSA"). Enrollees are responsible for the deductibles, and the HRA or HSA provides a source of funding that can be used to pay the deductibles in the event the enrollee incurs medical expenses.

Although the potential for increased bad debt and charity care exists with any high deductible insurance product, because this product is fairly new to the marketplace, its impact on the Institutions, if any, is currently unknown.

Factors That Could Result in Increased Competition. The health care Institutions could face increased competition in the future from other hospitals and skilled nursing facilities and from other health care providers that could offer comparable health care services to the population which the health care Institutions presently serve. This competition could include the establishment, construction or renovation of hospitals, skilled nursing facilities, ambulatory surgical centers, private laboratories and radiological services.

The health care Institutions which provide nursing home services could face increased competition in the future from other nursing facilities, assisted living facilities and home health agencies that could offer comparable services to the population which such health care Institutions presently serve. This competition could include the establishment, construction or renovation of nursing facilities and boarding facilities and the establishment and growth of existing home health agencies. DHHS is currently encouraging and soliciting the construction or conversion of additional assisted living beds and other facilities viewed as lower-cost alternatives to nursing facility services for some persons requiring long-term health care.

Other Risk Factors. In the future, the following factors, among others, may adversely affect the operations of the health care Institutions to an extent that cannot be determined at this time:

(1) Adoption of legislation which would establish a national health program or special programs of care for the uninsured.

(2) (a) Employee strikes and other adverse labor actions that could result in a substantial reduction in revenues without corresponding decreases in costs or (b) shortages of nurses or other qualified personnel that limit the availability of needed services.

(3) Reduced need for services arising from future medical and scientific advances.

(4) Reduced need for hospital services as a result of medical and technological changes which allow equivalent care to be provided in non-hospital settings.

(5) Reduced demand for the services of the hospitals that might result from decreases in population.

(6) Increased unemployment or other adverse economic conditions in the service area of the hospitals which would increase the proportion of patients who are unable to pay fully for the cost of their care. In addition, increased unemployment caused by a general downturn in the economy of the service area or by the closing of operations of one or more major employers in the service area may result in a loss of Blue Cross/Blue Shield or other private health insurance benefits.

(7) Declines in financial position or fund balance due to poor investment returns.

(8) Any increase in the quantity of indigent care provided.

(9) Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of the hospitals by such means as preventive medicine, improved occupational health and safety and outpatient care.

(10) Developments affecting the federal or state tax-exempt status of nonprofit organizations or the municipal real estate tax exemption applicable to nonprofit organizations, including the possibility of the imposition of a municipal service fee in lieu of taxes.

Risk Factors Affecting Community Health and Social Services Facilities Institutions

The future financial condition of Institutions providing community health and social services facilities could be affected by certain events which might include the following:

Maine Legislation and Rules. In recent years, proposals to control or reduce Medicaid spending have been studied by or introduced in, and in some cases enacted by, the Maine Legislature. As the result of significant budgetary pressure, there continue to be legislation and rulemaking proposals to control or reduce Medicaid benefits and reimbursement to Community Health and Social Services Facilities Institutions. It is impossible to predict the negative effects, if any, on operations that may be caused by changes in legislation.

Appropriation and Contract Risk. A large amount of the revenues of the community health and social services facilities are derived from contracts with DHHS. These contracts are funded through appropriation by the Maine Legislature. There is no guarantee that the Maine Legislature will continue to appropriate funds for the DHHS programs at the current level, nor that such governmental programs will continue to fund the Institutions' programs at their current level. There is continuing budgetary pressure to cut Medicaid benefits and reimbursements.

Decrease in Referrals. The funds received from DHHS are based on a fee for service arrangement. There is no guarantee that the Institutions will continue to receive referrals at the present levels. Any decrease in the number of referrals would cause a corresponding decrease in the amount of the payments received from DHHS.

Other Risk Factors Affecting Community Health and Social Services Facilities Institutions:

(1) Employee strikes and other adverse labor actions that could result in a substantial reduction in revenues without corresponding decreases in costs.

(2) Reduced demand for the services that might result from decreases in population or demographic changes.

(3) Any increase in the quantity of indigent care provided in order to maintain the charitable status of the Institution.

(4) Developments affecting the federal or state tax-exempt status of nonprofit organizations.

(5) Cost and availability of energy.

(6) Imposition of wage and price controls for the health care industry.

(7) Unavailability of tax-exempt financing for future projects of organizations such as community health and social services Institutions or other factors which might limit the availability of financing for future projects.

(8) Increased competition from home health care providers.

Enforceability of Lien on Gross Receipts in the Event of Bankruptcy

The respective Series 2010B&C Loan Agreements provide that the Series 2010B&C Institutions will make payments to the Authority sufficient to pay the principal of the Series 2010B&C Bonds and the interest thereon as the same become due and the Loan Agreements with respect to the Prior Bonds provide that the Institutions other than the Series 2010B&C Institutions will make payments to the Authority sufficient to pay the principal of the Prior Bonds and the interest thereon as the same become due. The obligations of certain Institutions to make such payments are secured in part by liens on all Gross Receipts of such Institutions granted to the Authority under the Loan Agreements or to a master trustee pursuant to a master indenture. In the event of bankruptcy of any Institution, the Bankruptcy Code of 1978, Title 11 of the United States Code, as amended, currently provides that certain Gross Receipts received by an Institution within ninety days before the commencement of a case in bankruptcy and, thereafter, may not be subject to the lien of the Authority or the master trustee, as applicable. In such event the Authority or the master trustee, as applicable, would occupy the position of an unsecured creditor with respect to such Gross Receipts. In addition, the enforcement of the lien on Gross Receipts would be subject to the exercise of equitable jurisdiction by a court which, under certain circumstances, may have power to direct the use of such receipts to meet expenses of the Institutions before payment of debt service.

Realization of Value on the Mortgaged Facilities

The Facilities mortgaged by certain of the Institutions are not comprised of general purpose buildings and would not generally be suitable for industrial or commercial use. Consequently, it would be difficult to find a buyer or lessee for any of such Institutions' Facilities if it were necessary to foreclose. Thus, upon any default by any such Institution, it may not be possible to realize the amount of the Bonds allocable to the Institution from a sale or lease of its Facility.

Appropriation Risk

The provisions of the Act and the Reserve Fund Resolution regarding the Reserve Fund do not constitute a pledge of the faith and credit of the State or a debt obligation of the State. No assurance can be given that the State Legislature will appropriate funds to restore any deficiency in the Reserve Fund resulting from a payment default of one or more of the Series 2010B&C Institutions under the Series 2010B&C Loan Agreements, a default by another Institution under another series of Bonds designated by the Authority as being secured by the Reserve Fund, or a diminution of the market value of the Reserve Fund below the Reserve Fund Requirement which is not made up from payments by the Institutions.

Reserve Fund Investments

Substantially all of the Reserve Fund is currently invested in investment agreements entered into contemporaneously with the issuance of each series of the Prior Bonds. Each of the investment agreement providers is obligated to meet certain rating requirements, as required by the Reserve Fund Resolution and the Bond Indenture. The Authority may enter into similar investment agreements in connection with the issuance of the Series 2010B&C Bonds and any Additional Bonds secured by the Reserve Fund. A minor portion of the Reserve Fund is currently invested in a mutual fund, which must meet certain rating requirements and the investments of which are limited to U.S. Treasury obligations. An additional minor portion of the Reserve Fund is invested in U.S. Treasury obligations. See "Definitions - Permitted Investments" and "Summary of Principal Documents – Summary of the Reserve Fund Resolution" in Appendix C hereto. No assurance can be given that the providers of the investment agreements will be able to continue to meet their obligations under such agreements or maintain the required ratings under the Reserve Fund Resolution and the Bond Indenture.

UNDERWRITING

The Series 2010B&C Bonds are being purchased by the Underwriters, for whom Wells Fargo Bank, National Association is acting as representative. The Underwriters have agreed to purchase the Series 2010B&C Bonds at an aggregate purchase price of $112,812,984.75. The Contract of Purchase for the Series 2010B&C Bonds provides that the Underwriters will purchase all the Series 2010B&C Bonds if any are purchased. The initial public offering prices or yields may be changed by the Underwriters.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank National Association.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an underwriter of the Series 2010B&C Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2010B&C Bonds.

RATINGS

Fitch Ratings ("Fitch") and Moody's Investors Service ("Moody's") have assigned ratings of "AA" and "Aa3," respectively, to the Series 2010B&C Bonds. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. A credit rating is not a recommendation to buy, sell or hold securities. There is no assurance that the ratings will continue for any given period of time or that they might not be revised downward or withdrawn entirely by the rating agencies, if in their judgment circumstances so warrant. None of the Authority, the Series 2010B&C Institutions or the Underwriters has undertaken any responsibility to bring to the attention of the Holders of the Series 2010B&C Bonds any proposed revision or withdrawal or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the ratings might have an adverse effect on the market price of the Series 2010B&C Bonds.

LITIGATION

There is not now pending or to the knowledge of the Authority threatened any litigation restraining or enjoining the issuance or delivery of the Series 2010B&C Bonds or questioning or affecting the validity of the Series 2010B&C Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Authority, nor the title of the present members or other officers of the Authority to their respective offices, is being contested. There is no litigation pending or threatened which in any manner questions the right of the Authority to issue the Series 2010B&C Bonds to finance and refinance the Project in accordance with the provisions of the Act, the Bond Resolution, the Bond Indenture, the Reserve Fund Resolution and the Loan Agreements, or which in any manner questions the right of the Authority to adopt the Reserve Fund Resolution or to pledge the Reserve Fund and the General Fund to secure the payment of the Bonds.

LEGALITY OF SERIES 2010B&C BONDS FOR INVESTMENT AND DEPOSIT

Under the Act, bonds of the Authority (including the Series 2010B&C Bonds) are securities in which all public officers and public bodies of the State and its political subdivisions, all insurance companies and associations and other persons carrying on an insurance business, trust companies, banks, bankers, banking associations, savings banks and savings associations, including savings and loan associations, credit unions, building and loan associations, investment companies, executors, administrators, trustees and other fiduciaries, pension, profit-sharing, retirement funds and other persons carrying on a banking business and all other persons whatsoever, who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest funds, including capital in their control or belonging to them. Under the Act, the bonds of the Authority (including the Series 2010B&C Bonds) are securities that may properly and legally be deposited with and received by any State or municipal public officer or any agency or political subdivision of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized by law.

SERIES 2010B&C BONDS NOT LIABILITY OF THE STATE OF MAINE

The Series 2010B&C Bonds are special obligations of the Authority, payable solely from payments made pursuant to the Loan Agreements, from certain funds held by the Bond Trustee under the Bond Indenture, and from certain funds held by the Reserve Fund Trustee under the Reserve Fund Resolution. The Series 2010B&C Bonds do not constitute or create any debt or liability of or on behalf of the State or any political subdivision thereof or a pledge of the faith and credit of the State or of any political subdivision thereof, but will be payable solely from the funds provided under the Bond Indenture. The issuance of the Series 2010B&C Bonds will not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor.

AGREEMENT OF THE STATE

Under the Act, the State pledges and agrees with the holders of the bonds issued under the Act, and those parties entering into contracts with the Authority, that the State will not limit, alter, restrict or impair the rights vested in the Authority to acquire, construct, reconstruct, maintain and operate any project under the Act or to establish, revise, charge and collect rates, rents, fees and other charges as may be convenient or necessary to produce sufficient revenues to meet the expenses of maintenance and operations thereof and to fulfill the terms of any agreements with holders of bonds or in any way impair the rights and remedies of such holders, until the bonds and interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of bondholders are fully met and discharged. The Act provides that the foregoing does not preclude such limitation or alteration if and when adequate provision is made by law for the protection of bondholders.

LEGAL MATTERS

All legal matters incidental to the issuance of the Series 2010B&C Bonds by the Authority are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority, whose approving opinion, in substantially the form set forth in Appendix D hereto, will be delivered concurrently with the Series 2010B&C Bonds. Certain legal matters are subject to the approval of Verrill Dana LLP, Portland, Maine, counsel to the Authority in connection with the Series 2010B&C Bonds. Certain legal matters will be passed upon for the Underwriters by Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2010B&C Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2010B&C Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the Series 2010B&C Institutions and others in connection with the Series 2010B&C Bonds, and Bond Counsel has assumed compliance by Authority and the Series 2010B&C Institutions with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2010B&C Bonds from gross income under Section 103 of the Code. In addition, in rendering its opinion, Bond Counsel has relied on the opinions of counsel to the Series 2010B&C Institutions regarding, among other matters, the current qualification of the Series 2010B&C Institutions as organizations described in Section 501(c)(3) of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Series 2010B&C Bonds is exempt from the State of Maine income tax imposed on individuals.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2010B&C Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond

Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2010B&C Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2010B&C Bonds in order that interest on the Series 2010B&C Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2010B&C Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2010B&C Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the Series 2010B&C Institutions have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2010B&C Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2010B&C Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2010B&C Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2010B&C Bonds.

Prospective owners of the Series 2010B&C Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2010B&C Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Series 2010B&C Bond of a series (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Series 2010B&C Bonds of that maturity and series was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of a series of Series 2010B&C Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Series 2010B&C Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2010B&C Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2010B&C Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2010B&C Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2010B&C Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Series 2010B&C Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements will apply to interest on tax-exempt obligations, including the Series 2010B&C Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides that payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2010B&C Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2010B&C Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2010B&C Bonds under Federal or state law and could affect the market price or marketability of the Series 2010B&C Bonds. Prospective purchasers of the Series 2010B&C Bonds should consult their own tax advisors regarding the foregoing matters.

FINANCIAL STATEMENTS

Included herein as Appendix B are the audited financial statements of the Authority as of, and for the year ended, June 30, 2009, together with the report thereon dated November 6, 2009 of Baker, Newman & Noyes Limited Liability Company, independent certified public accountants. Such financial statements have been audited by Baker, Newman & Noyes Limited Liability Company, as stated in their report appearing herein.

SECONDARY MARKET DISCLOSURE

A description of certain undertakings by the Authority in connection with Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 is set forth in Appendix C hereto under the caption "Summary of Principal Documents – Summary of the Supplemental Indenture – General Covenants of the Authority – Secondary Market Disclosure." Certain of those undertakings are also summarized below.

(1) Pursuant to the Bond Indenture, the Authority, for the benefit of the Holders of the Bonds, including the Series 2010B&C Bonds, will:

(a) As soon as practicable but in no event later than twelve (12) months after the end of each fiscal year of the Authority, file with the Bond Trustee the "annual financial information" (as such term is used in the Rule) as described in paragraph 3 below, for each Material Obligated Person. Any Material Obligated Person may satisfy the requirement to provide annual financial information by filing with the Authority a current official statement, prospectus or offering statement which contains such annual financial information. "Material Obligated Person" shall mean the Authority by virtue of its title and interest in the Reserve Fund, and shall mean any other entity constituting an "obligated person" (as such term is used in the Rule) and, in the determination of the Authority, meeting the "objective criteria" (as such term is used in the Rule) described as follows. The Authority shall use the following objective criteria in selecting which entities that constitute obligated persons are to be considered Material Obligated Persons from time to time and thus be obligated to provide annual financial information as described in this paragraph 1(a):

(i) An entity shall be considered a Material Obligated Person if it is responsible for the repayment of in excess of twenty percent (20%) of the aggregate principal amount of all loans outstanding made by the Authority to all entities from proceeds of bonds or notes of the Authority, including the Bonds, that are secured by the Reserve Fund established under the Reserve Fund Resolution.

(ii) In addition to any Material Obligated Persons described in paragraph (i) above, any entities designated by the Authority shall be considered Material Obligated Persons during any period of time commencing thirteen (13) months after the State has failed to restore the Reserve Fund to the Reserve Fund Requirement in accordance with the Reserve Fund Resolution and the Act, or commencing on the date that the Legislature of the State has repealed Section 2075 of the Act.

(b) As soon as practicable but in no event later than twelve (12) months after the end of each fiscal year of the Authority and any other Material Obligated Person, respectively, file with the Bond Trustee the audited financial statements of the Authority and any other Material Obligated Person, respectively, prepared in accordance with generally accepted accounting principles, as of the end of such fiscal year, each accompanied by the certificate or opinion of a firm of recognized independent certified public accountants.

(c) In a timely manner, file with the Bond Trustee a certificate of an authorized officer giving notice of material events with respect to the Bonds, as may be required by the Rule, including, but not limited to: principal and interest payment delinquencies of the Authority and of any other Material Obligated Person; defaults of the Authority and of any other Material Obligated Person that are not related to payments; unscheduled draws on the Reserve Fund reflecting financial difficulties of (I) the Authority or its pooled bond financing program financed with the proceeds of the Bonds, or (II) any other Material Obligated Person; unscheduled draws on credit enhancements, reflecting financial difficulties of (I) the Authority or its pooled bond financing program financed with the proceeds of the Bonds, or (II) any other Material Obligated Person; substitution of credit or liquidity providers for the Bonds, if any, or the failure of any such providers to perform under any credit or liquidity facility so provided; adverse tax opinions or events affecting the tax-exempt status of any or all of the Bonds; modifications to the rights of the Bondholders; redemptions or notices of redemption of any or all of the Bonds (other than scheduled mandatory sinking fund redemptions, if any), or defeasance of any or all of the Bonds; release, substitution, or sale of property securing repayment of the Bonds; rating changes with respect to the Bonds; and such other material information.

(2) The Bond Trustee shall, as soon as practicable, provide (i) the MSRB copies of the documents filed with the Bond Trustee as described in paragraphs 1(a), 1(b) and 1(c) above, and (ii) the MSRB notice of the failure of the Authority or, at the direction of the Authority, notice of the failure of any other Material Obligated Person to provide the Authority with the documents including all the information, and at the time, as described in paragraph 1(a) above. For the purposes of this paragraph 2, “MSRB” shall mean the Municipal Securities Rulemaking Board.

(3) In accordance with the Rule, the following is the type of financial information and operating data (if material) to be provided as part of the annual financial information referred to in paragraph 1(a) above:

(a) for the Authority, material information concerning the Reserve Fund established under the Reserve Fund Resolution, including the market value (if applicable) of any individual Permitted Investment and cash held directly in the Reserve Fund, the percentage of the aggregate principal amounts of the Permitted Investments held directly in the Reserve Fund that mature later than five (5) years after the date of such annual financial information, the types of Permitted Investments held in the Reserve Fund, the occurrence of any material investment losses in the Reserve Fund, the identity of any counterparty to any repurchase agreement or guaranteed investment contract, and the downgrade of any Permitted Investment held in the Reserve Fund; and

(b) for any other Material Obligated Person, material information concerning its financial statements, revenues and expenses, and results of operations, fund balances, endowments, investments, and, as applicable to the type of entity constituting a Material Obligated Person, material information concerning utilization statistics, admissions, numbers and types of beds, sources of patient service revenue, emergency room visits, inpatient and outpatient surgical procedures, occupancy percentages, numbers of physicians, employees and labor relations, licensing and accreditations, enrollments, faculty, services provided, births, average length of stay, case mix index, major construction projects, significant incurrences of debt, litigation, research funding, grants, insurance, environmental hazards and numbers of persons served.

(4) Once an entity designated as a Material Obligated Person is no longer a Material Obligated Person as provided in the Bond Indenture, annual financial information will no longer be provided with respect thereto.

(5) The Bond Trustee also shall take such other action with respect to any financial and other statements, reports, certificates and other information as shall be required, in the opinion of counsel, to comply with any and all requirements of the Securities and Exchange Commission or other governmental agency with jurisdiction over the Authority and the Bonds.

(6) The breach by the Authority of its covenants set forth in paragraph 1 above shall, upon satisfaction of certain conditions of the Original Indenture, constitute a Bond Indenture Event of Default. However, acceleration as provided in the Original Indenture shall not be available to the Bond Trustee or the Bondholders as a result of such Bond Indenture Event of Default.

(7) Subject to certain requirements set forth in the Original Indenture and the Supplemental Indenture, the provisions described in this section may be amended without the consent of the Bondholders.

To the best of its knowledge, the Authority is in compliance in all material respects with previous undertakings under the Rule to provide annual financial information or notices of material events.

MISCELLANEOUS

The references herein and in the appendices hereto to the Series 2010B&C Bonds, the Act, the Bond Resolution, the Loan Agreements, the Bond Indenture, the Reserve Fund Resolution and the Tax Regulatory Agreement are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to such statute and documents for full and complete statements therein. The agreements of the Authority with the Holders of the Series 2010B&C Bonds are fully set forth in the Bond Indenture, and neither any advertisement of the Series 2010B&C Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Series 2010B&C Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority and the Bond Trustee.

The information relating to DTC and the book-entry only system described under the heading "The Series 2010B&C Bonds – Book-Entry Only System" has been furnished by DTC. Such information is believed to be reliable, but none of the Authority, the Series 2010B&C Institutions or the Underwriters makes any representations or warranties whatsoever with respect to such information.

The Series 2010B&C Institutions have reviewed the information contained herein which relates to them and have approved all such information for use in this Official Statement. The execution and delivery of this Official Statement by its Executive Director has been duly authorized by the Authority.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

By: /s/ Robert O. Lenna
Robert O. Lenna
Executive Director

Dated: June 10, 2010

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NSTITUTIONS AND THEIR LOANS APPENDIX A

The following table lists (i) the series of Bonds which have been issued by the Authority and designated as secured by the Reserve Fund, (ii) the Institutions which have borrowed proceeds of such Bonds and (iii) the amounts of the Institutions' loans at the time of original issuance of the Bonds and the amounts of such loans currently outstanding. For a generic description of the Institutions, see "The Institutions" herein. See also "Bondholders' Risks."

MAINE HEALTH AND HIGHER EDUCATIONAL FAC LITIES AUTHORITY

ISSUE	INSTITUTION AND CLASSIFICATION		ORIGINAL LOAN	BALANCE OUTSTANDING	
1991	York Hospital	H	2,969,211	0	
	Sebasticook Valley Hospital	H	5,726,540	0	
	Miles Memorial Hospital	H	4,349,489	0	
	Maine Medical Center	H	17,268,369	0	
	Goodall Hospital	H	1,994,295	0	
	Cove's Edge Facility	NH	5,270,331	0	
			$37 578 235	$0	
1992A	Thomas College	C	2,322,975	0	
	Maine Coast Memorial Hospital	H	3,019,400	0	
	Catholic Charities Of Maine	CMH	2,069,275	0	
			$7,411,650	$0	
1992B	Tri-County Mental Health	CMH	1,875,866	0	
	St Joseph Hospital	H	651,305	0	
	Penobscot Bay Medical Center	H	7,633,849	0	
	Mount St. Joseph Nursing Home	NH	1,464,100	879,100	
	Jackson Laboratory	C	23,992,363	0	
	Houlton Regional Hospital	H	6,108,944	0	
			$41,726,427	$879,100	
1993A	Penobscot Bay Medical Center	H	4,456,534	0	
	Millinocket Regional Hospital	H	2,547,125	0	
	Mercy Hospital	H	23,674,478	0	
	Maine Gen Rehab & Nursing Care	NH	9,817,810	0	
	Goodwill Industries Of Maine	CMH	2,789,090	0	
	Community Partners, Inc.	RC	595,366	0	
	Community Living Association	RC	1,824,801	0	
			$45,705,204	$0	
1993B	University Of New England	C	12,347,112	0	
	Cedars Nursing Care Ctr	NH	6,254,238	0	
			$18 601 350	$0	
1993C	Maine Medical Center	H	62,535,238	0	
			$62,535,238	$0	
1993D	York Hospital	H	3,875,000	480,000	(1)
	Waldo County General Hosp	H	3,040,000	0	
	Unity College	C	390,000	0	
	St. Mary's General Hospital	H	19,455,000	0	
	St. Marguerite d'Youville Pavl	NH	9,750,000	0	
	Spurwink School, The	CMH	8,765,000	0	
	Maine Maritime Academy	C	3,385,000	0	
	Lakewood dba Lakewood Cont Care	NH	2,880,000	0	
	John F. Murphy Homes	RC	1,180,000	505,000	(1)
	Inland Hospital	H	6,555,000	0	
	Franklin Memorial Hospital	H	6,060,000	0	
	Central Maine Medical Ctr	H	20,970,000	0	
			$86 305 000	$985 000	
1994A	St Joseph Hospital	H	2,375,195	0	
	Spurwink School, The	CMH	2,508,900	0	
	Mount St. Joseph Nursing Home	NH	9,673,037	6,208,037	
	HealthReach Network (KVRHA)	CH	1,033,330	0	
	Farmington Home For The Aged	RC	629,313	184,313	
	Community Living Association	RC	322,225	0	
			$16,542,000	$6,392,350	

ISSUE	INSTITUTION AND CLASSIFICATION		ORIGINAL LOAN	BALANCE OUTSTANDING	
1994B	York Hospital	H	1,863,840	0	
	St Joseph Hospital	H	18,579,805	0	
	Redington-Fairview Genl Hosp	H	6,344,070	0	
	Maine College Of Art	C	3,857,935	0	
	Houlton Regional Hospital	H	3,806,705	0	
	College Of The Atlantic	C	2,354,260	0	
			$36,806,615	$0	
1995A	University Of New England	C	15,884,737	0	
	Spurwink School, The	CMH	852,400	597,400	(1)
	Goodwill Industries Of Maine	CMH	2,716,819	0	
	Bowdoin College	C	11,425,875	0	
			$30,879,831	$597,400	
1995B	Bowdoin College	C	16,130,295	0	
			$16 130 295	$0	
1995C	Sweetser	CMH	2,092,422	272,422	
	Penobscot Bay Medical Center	H	7,541,799	0	
	Mid-Coast Hospital	H	2,847,839	0	
			$12,482,060	$272,422	
1996A	Miles Memorial Hospital	H	573,800	0	
	Maine Coast Memorial Hospital	H	1,304,400	0	
	Kno-Wal-Lin Home Health Care Inc.	SS	1,013,033	0	
	John F. Murphy Homes	RC	1,271,079	0	
	Houlton Regional Hospital	H	2,696,414	0	
	Goodall Hospital	H	6,447,939	0	
	Families United	CMH	412,565	92,565	
	Colby College	C	12,527,005	0	
			$26,246,234	$92,565	
1996B	Western Maine Health Care	NH	2,463,625	1,043,625	
	St Joseph's College	C	4,149,632	0	
	Spurwink School, The	CMH	4,829,249	0	
	Maine Medical Center	H	26,956,602	0	
			$38 399 108	$1 043 625	
1997A	Bates College	C	7,728,856	5,978,856	
			$7 728 856	$5 978 856	
1997B	Spurwink School, The	CMH	1,202,959	632,959	
	Maine General Medical Center	H	45,478,919	21,558,919	
	Goodall Hospital	H	1,569,788	0	
			$48,251,665	$22,191,878	
1998A	York Hospital	H	2,302,682	1,687,682	(1)
	Mount Desert Island Hospital	H	1,975,701	1,045,701	(1)
	Mercy Hospital	H	16,768,127	10,523,127	(2)
	JHA Properties, Inc	RC	14,152,281	8,822,281	
	Downeast Community Hospital	H	9,173,883	5,453,883	(1)
	Colby College	C	10,104,167	0	
	Bowdoin College	C	13,212,787	0	
	Blue Hill Memorial Hospital	H	3,048,750	2,338,750	(1)
			$70,738,378	$29,871,424	
1998B	Thomas College	C	2,406,904	1,536,225	(1)
	St Joseph's College	C	7,843,591	4,580,888	(1)
	St Joseph Hospital	H	15,714,999	10,321,190	(1)
	Spurwink School, The	CMH	1,093,881	836,819	(1)
	Redington-Fairview Genl Hosp	H	6,632,260	3,902,506	(1)
	Parkview Adventist Medical Ctr	H	3,161,281	1,667,000	(1)
	Maine College Of Art	C	4,353,562	2,729,044	(1)
	Houlton Regional Hospital	H	4,221,007	2,935,731	(1)
	Home for Aged-The Park Danforth	RC	5,596,250	4,356,250	
	Eastern Maine Medical Ctr	H	13,963,693	0	
	Cove's Edge Facility	NH	4,199,135	3,264,695	
	College Of The Atlantic	C	3,671,362	2,559,850	
	Acadia Hospital	H	19,669,680	0	
			$92,527,605	$38,690,197	

ISSUE	INSTITUTION AND CLASSIFICATION		ORIGINAL LOAN	BALANCE OUTSTANDING	
1998C	Waldo County General Hosp	H	9,179,130	7,374,130	
	Tri-County Mental Health	CMH	601,053	466,053	
	St Andrews Hospital	H	10,313,080	8,288,080	
	Medical Care Development	RC	3,075,248	935,248	(1)
	Bowdoin College	C	5,197,505	0	
			$28,366,015	$17,063,510	
1999A	York Hospital	H	4,631,151	1,086,151	(1)
	St. Mary's General Hospital	H	5,970,250	4,860,250	(1)
	St Joseph Hospital	H	3,073,081	1,457,628	(1)
	Southern Maine Medical Center	H	11,556,463	5,141,463	(1)
	Phillips-Strickland House	RC	4,483,531	3,638,531	(1)
	Penobscot Bay Medical Center	H	8,735,230	3,545,230	
	Miles Memorial Hospital	H	4,167,000	2,587,000	
	Maine Medical Center	H	21,966,191	17,581,191	
	Kennebec Mental Health Assoc	CMH	1,066,005	526,005	
	Eastern Maine Medical Ctr	H	25,150,003	0	
			$90,798,905	$40,423,450	
1999B	York Hospital	H	3,573,500	0	
	Sweetser	CMH	2,527,500	1,717,500	
	Mid-Coast Hospital	H	26,637,700	0	
	John F. Murphy Homes	RC	1,186,600	0	
	Goodwill Industries Of Maine	CMH	3,612,700	0	
	Community Partners, Inc.	RC	837,100	512,100	
			$38,375,100	$2,229,600	
2000A	Bates College	C	10,768,938	0	
			$10 768 938	$0	
2000B	Bates College	C	11,453,000	0	
			$11,453,000	$0	
2000C	York Hospital	H	3,910,488	0	
	St Joseph's College	C	7,991,083	0	
	Penobscot Bay Medical Center	H	1,626,055	1,346,055	
	Martin's Point Health Care	CH	10,624,820	0	
	Lincoln Home, The	RC	4,345,529	3,675,529	(1)
	Husson University	C	3,524,613	2,924,613	(1)
	Camden Health Care Center	NH	15,916,065	0	
			$47 938 651	$7 946 196	
2001A	University Of New England	C	9,174,210	7,704,210	
	St. Mary's General Hospital	H	2,991,300	2,516,300	(1)
	St Joseph Hospital	H	1,777,088	1,007,088	(1)
	Rumford Community Home	NH	2,855,744	2,400,744	
	Mercy Hospital	H	2,128,088	0	
	Goodwill Industries Of Maine	CMH	2,323,324	1,953,324	
	Franklin Memorial Hospital	H	10,498,446	9,148,446	
	Bridgton Hospital	H	8,784,489	7,459,489	
	Birch Bay Retirement Village	RC	8,976,976	7,676,976	(1)
	Aroostook Medical Center, The	H	12,038,909	7,413,909	(1)
			$61 548 572	$47 280 485	
2001B	Sebasticook Valley Hospital	H	5,052,578	3,422,578	
	Maine Coast Memorial Hospital	H	2,808,815	1,968,815	
	Catholic Charities Of Maine	CMH	1,904,805	1,339,805	
			$9 766 198	$6 731 198	
2001C	Colby College	C	10,527,381	6,697,381	(1)
	Bowdoin College	C	14,570,407	0	
			$25,097,788	$6,697,381	
2001D	York Hospital	H	1,326,314	661,314	(1)
	University Of New England	C	17,949,976	15,059,976	
	Sweetser	CMH	4,411,023	3,696,023	
	Seventy Five State Street	RC	3,664,279	2,479,279	(1)
	Miles Memorial Hospital	H	3,613,010	3,028,010	
	Maine Medical Center	H	9,511,355	4,231,355	
	John F. Murphy Homes	RC	1,764,685	1,189,685	(1)
	Cove's Edge Facility	NH	4,619,071	3,069,071	
			$46 859 712	$33 414 712	

ISSUE	INSTITUTION AND CLASSIFICATION		ORIGINAL LOAN	BALANCE OUTSTANDING
2002A	St Joseph Hospital	H	4,234,333	2,174,333
	Spring Harbor	H	26,808,973	23,033,973
	Sebasticook Valley Hospital	H	655,975	160,975
	Penobscot Valley Hospital	H	1,652,738	1,187,738
	Goodall Hospital	H	5,794,800	1,439,800
	Calais Regional Hospital	H	897,450	0
	Birch Bay Retirement Village	RC	2,293,988	1,968,988
	Aroostook Medical Center, The	H	8,802,053	6,667,053
			$51,140,308	$36,632,858
2002B	University Of New England	C	5,356,944	4,606,944
	Colby College	C	2,127,000	2,127,000
			$7,483,944	$6,733,944
2003A	Thomas College	C	4,322,945	3,737,945
	St Joseph's College	C	5,890,640	5,095,640
	Central Maine Medical Ctr	H	48,833,630	42,258,630
			$59,047,215	$51,092,215
2003B	St Joseph's College	C	7,569,715	4,606,550
	Colby College	C	10,261,795	9,476,795
	Bowdoin College	C	32,461,661	0
	Bates College	C	3,561,113	2,001,113
			$53 854 284	$16 084 458
2003C	York Hospital	H	1,039,138	429,138
	Maine Coast Memorial Hospital	H	5,506,829	4,961,829
			$6,545,966	$5,390,966
2003D	University Of New England	C	10,245,419	7,770,419
	Tri-County Mental Health	CMH	1,524,436	1,124,436
	Penobscot Bay Medical Center	H	5,785,131	3,895,131
	Millinocket Regional Hospital	H	2,139,881	1,619,881
	Maine Gen Rehab & Nursing Care	NH	6,834,881	4,059,881
	Houlton Regional Hospital	H	4,168,269	3,083,269
	Goodwill Industries Of Maine	CMH	1,038,286	373,286
	Community Living Association	RC	1,022,090	277,090
			$32,758,394	$22,203,394
2004A	University Of New England	C	14,385,500	11,735,500
	St. Mary's General Hospital	H	16,219,620	12,329,620
	St. Marguerite d'Youville Pavl	NH	8,095,074	5,280,074
	Spurwink School, The	CMH	9,184,819	7,189,819
	Penobscot Bay Medical Center	H	6,993,649	5,708,649
	Maine Maritime Academy	C	2,707,625	2,102,625
	Lakewood dba Lakewood Cont Care	NH	1,562,600	677,600
	Inland Hospital	H	3,840,981	1,680,981
	Goodwill Industries Of Maine	CMH	2,464,163	2,014,163
	Community Living Association	RC	210,525	95,525
			$65,664,555	$48,814,555
2004B	York Hospital	H	1,774,675	1,314,675
	Sweetser	CMH	4,794,410	4,374,410
	Sebasticook Valley Hospital	H	747,965	457,965
	Piper Shores	CCR	30,146,249	26,886,249
	John F. Murphy Homes	RC	1,807,195	1,497,195
			$39,270,496	$34,530,496
2005A	Colby College	C	16,495,188	15,890,188
	Bowdoin College	C	28,032,200	0
			$44,527,388	$15,890,188
2005B	Central Maine Medical Ctr	H	25,999,353	21,694,353
			$25,999,353	$21,694,353
2006A	Youth Alternatives, Inc.	SS	4,376,750	4,181,750
	Maine General Medical Center	H	29,040,735	24,015,735
	Maine Gen Retirement Community	CCR	9,825,000	8,650,000
	Inland Hospital	H	1,302,520	1,197,520
	Houlton Regional Hospital	H	1,340,500	1,160,500
	Franklin Memorial Hospital	H	1,236,500	286,500
			$47 122 005	$39 492 005

ISSUE	INSTITUTION AND CLASSIFICATION		ORIGINAL LOAN	BALANCE OUTSTANDING
2006B	University Of New England	C	8,832,564	8,322,564
	Bowdoin College	C	8,488,075	0
	Bates College	C	35,483,875	34,758,875
			$52 804 514	$43 081 439
2006C	Maine Medical Center	H	28,442,500	0
			$28,442,500	$0
2006D	Maine Medical Center	H	18,550,744	0
			$18,550,744	$0
2006E	Maine Medical Center	H	79,477,407	0
			$79 477 407	$0
2006F	York Hospital	H	2,013,800	1,438,800
	University Of New England	C	11,529,898	11,084,898
	Southern Maine Medical Center	H	16,231,278	15,551,278
	Seventy Five State Street	RC	3,594,863	3,494,863
	Penobscot Bay Medical Center	H	1,966,009	1,756,009
	Mount Desert Island Hospital	H	707,200	547,200
	Maine Community College System	C	22,622,173	22,622,173
	Maine College Of Art	C	2,132,068	2,022,068
	Knox Housing Pres d/b/a Bartlett House	RC	1,897,200	1,797,200
	Goodall Hospital	H	5,947,548	5,477,548
	Franklin Memorial Hospital	H	13,800,083	13,525,083
			$82,442,116	$79,317,116
2006G	Colby College	C	12,963,260	12,613,260
			$12,963,260	$12,613,260
2006H	Mercy Hospital	H	63,689,498	63,689,498
			$63 689 498	$63 689 498
2007A	York Hospital	H	6,792,433	6,377,433
	St Joseph's College	C	9,675,913	9,045,913
	Spurwink School, The	CMH	2,668,500	2,093,500
	Mid-Coast Hospital	H	24,435,500	22,895,500
	Martin's Point Health Care	CH	9,638,900	9,063,900
	Kno-Wal-Lin Home Health Care Inc.	SS	818,588	753,588
	John F. Murphy Homes	RC	1,587,202	1,317,202
	Houlton Regional Hospital	H	2,153,848	1,983,848
	Goodwill Industries Of Maine	CMH	3,278,188	3,073,188
	Goodall Hospital	H	5,108,908	4,698,908
	Colby College	C	8,408,859	7,243,859
	Camden Health Care Center	NH	14,429,588	13,569,588
			$88,996,423	$82,116,423
2007B	St. Mary's General Hospital	H	6,240,500	6,240,500
	Redington-Fairview Genl Hosp	H	21,831,421	21,416,421
	Penobscot Bay Medical Center	H	5,731,750	5,376,750
	Mount Desert Island Hospital	H	4,403,488	3,983,488
	Lakewood dba Lakewood Cont Care	NH	6,558,250	6,353,250
	Inland Hospital	H	2,978,651	2,888,651
	Downeast Community Hospital	H	937,005	847,005
	College Of The Atlantic	C	6,178,528	6,058,528
	Colby College	C	10,665,000	10,550,000
			$65,524,592	$63,714,592
2008A	Maine Medical Center	H	98,339,594	95,694,594
			$98,339,594	$95,694,594
2008B	Maine Medical Center	H	23,386,500	19,426,500
			$23,386,500	$19,426,500
2008C	York Hospital	H	1,542,670	1,447,670
	University Of New England	C	23,087,800	22,967,800
	Penobscot Bay Medical Center	H	6,055,825	5,945,825
	Morrison Developmental Center	SS	2,951,425	2,896,425
	John F. Murphy Homes	RC	603,182	513,182
	Colby College	C	11,819,944	11,254,944
			$46 060 846	$45 025 846

ISSUE	INSTITUTION AND CLASSIFICATION		ORIGINAL LOAN	BALANCE OUTSTANDING	
2008D	York Hospital	H	2,545,119	2,545,119	
	Mid-Coast Hospital	H	11,597,269	11,597,269	
	Maine Coast Memorial Hospital	H	6,461,131	6,461,131	
	Houlton Regional Hospital	H	3,341,156	3,341,156	
	Bates College	C	14,106,163	13,361,163	
			$38,050,837	$37,305,837	
2009A	York Hospital	H	1,550,075	1,550,075	
	University Of New England	C	26,729,750	26,729,750	
	Goodwill Industries Of Maine	CMH	5,822,788	5,822,788	
	Central Maine Medical Ctr	H	51,877,412	51,877,412	
			$85 980 025	$85 980 025	
2010A	Eastern Maine Medical Ctr	H	65,520,550	65,520,550	
	Bates College	C	12,705,444	12,705,444	
	Acadia Hospital	H	11,251,775	11,251,775	
			$89 477 769	$89 477 769	
2010B	York Hospital	H	3,162,944	3,162,944	
	Thomas College	C	1,381,138	1,381,138	
	St. Mary's Regional Medical Center	H	7,221,825	7,221,825	
	St Joseph Hospital	H	11,659,512	11,659,512	
	Spurwink School, The	CMH	1,360,650	1,360,650	
	Southern Maine Medical Center	H	4,271,113	4,271,113	
	Seventy Five State Street	RC	2,302,264	2,302,264	
	St Joseph's College	C	4,332,750	4,332,750	
	Redington-Fairview Genl Hosp	H	3,539,829	3,539,829	
	Phillips-Strickland House	RC	3,503,250	3,503,250	
	Parkview Adventist Medical Ctr	H	1,446,495	1,446,495	
	Mount Desert Island Hospital	H	912,200	912,200	
	Medical Care Development	RC	688,021	688,021	
	Maine College Of Art	C	2,563,244	2,563,244	
	Lincoln Home, The	RC	3,569,250	3,569,250	
	John F. Murphy Homes	RC	1,536,500	1,536,500	
	Husson University	C	2,848,725	2,848,725	
	Houlton Regional Hospital	H	2,669,919	2,669,919	
	Downeast Community Hospital	H	4,794,169	4,794,169	
	Colby College	C	6,100,949	6,100,949	
	Blue Hill Memorial Hospital	H	2,222,919	2,222,919	
	Birch Bay Retirement Village	RC	7,747,125	7,747,125	
	Aroostook Medical Center, The	H	6,243,450	6,243,450	
			86,078,240	86,078,240	
2010C	Mercy Hospital	H	10,177,256	10,177,256	
			10 177 256	10 177 256	
	TOTALS		$2,471,424,659	$1,276,536,885	(3)

H	Hospitals
NH	Long Term Care Facilities
C	Educational Institutions
CMH	Community Mental Health Care Facilities
RC	Residential Care Facilities
CH	Community Health Care Facilities
SS	Social Services
CCR	Continuing Care Retirement Communities

Totals may not add due to rounding

(1) To be refunded with the proceeds of the Series 2010B bonds.
(2) To be refunded with the proceeds of the Series 2010C bonds.
(3) Excludes amounts of loans to be refunded with the proceeds of the Series 2010 B & C Bonds.
(4) The anticipated closing date for the Series 2010 B & C Bonds is June 24, 2010

Report As Of 06/15/10

APPENDIX B

FINANCIAL STATEMENTS OF AUTHORITY

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BAKER | NEWMAN | NOYES LLC
Certified Public Accountants

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

TABLE OF CONTENTS

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 EDUCATION 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 EDUCATION 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.

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SUPPLEMENTAL SCHEDULES

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	Elimi-nations	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

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

The following are definitions of certain words and terms used in this Official Statement and summaries of the Original Indenture, the Supplemental Indenture, the Reserve Fund Resolution, the Agreements, the Mercy Hospital Master Trust Indenture (the "Mercy Master Indenture") and the Webber Hospital Association d/b/a Southern Maine Medical Center Master Trust Indenture (the "SMMC Master Indenture"). The Agreements are substantially similar but separate contracts between the Authority and each Institution. The summaries do not purport to set forth all of the provisions of said documents, to which reference is made for the complete and actual terms thereof. Words and terms used herein that are not defined herein shall have the same meanings as set forth in the Original Indenture, the Supplemental Indenture, the Reserve Fund Resolution, each of the Agreements, the Mercy Master Indenture and the SMMC Master Indenture as the case may be.

IMPLEMENTATION OF SUPPLEMENTAL INDENTURE AMENDMENT

Section 9.02 of the Original Indenture provides that the Original Indenture may be amended in accordance with the terms and conditions of such section and will be effective upon receipt of the requisite consents as provided therein.

By their purchase of the Series 2010B and 2010C Bonds, the original purchasers thereof (i) shall consent, and shall be deemed to have consented, to the amendment to the Original Indenture described below (the "2010 Amendments") and (ii) shall waive, and shall be deemed to have waived, any and all other formal notice, implementation or timing requirements that may otherwise be required under the Original Indenture in order to implement the 2010 Amendments. It is not expected that the 2010 Amendments will be effective upon the issuance of the Series 2010B and 2010C Bonds.

Amendment To Section 1.01 Of The Original Indenture. Section 1.01 of the Original Indenture is hereby amended as follows:

"Advance-Refunded Municipal Bonds" shall mean municipal obligations that (i) are not subject to redemption prior to maturity or (ii) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions.

"Permitted Investments" shall mean and include any of the following, if and to the extent the same are at the time legal investments of the Issuer's money:

(A) Government Obligations;

(B) Government Obligations which have been stripped of their unmatured interest coupons and interest coupons stripped from Government Obligations and receipts, certificates or other similar documents evidencing ownership of future principal or interest payments due on Government Obligations which are held in a custody or trust account by a commercial bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $20,000,000;

(C) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following: Federal Home Loan Banks; Federal Home Loan Mortgage Corporation (including participation certificates); Federal National Mortgage Association; Government National Mortgage Association; Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Export-Import Bank of the United States; or Federal Land Banks;

(D) All other obligations issued or unconditionally guaranteed as to the timely payment of principal and interest by an agency or Person controlled or supervised by and acting as an instrumentality of the United States government pursuant to authority granted by Congress;

(E) (i) Interest-bearing time or demand deposits, certificates of deposit, or other similar banking arrangements with any government securities dealer, bank, trust company, savings and loan association, national banking association or other savings institution (including the Bond Trustee or any affiliate thereof), provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation or (ii) interest-bearing time or demand deposits or certificates of deposit with any bank, trust company, national banking association or other savings institution (including the Bond Trustee or any affiliate thereof), provided such deposits and certificates are in or with a bank, trust company, national banking association or other savings institution whose (or whose parent's) long-term unsecured debt is rated in either of the two highest long term rating categories by Moody's or S&P, and provided further that with respect to (i) and (ii) any such obligations are held by, or are in the name of, the Bond Trustee or a bank, trust company or national banking association (other than the issuer of such obligations);

(F) Repurchase agreements collateralized by securities described in subparagraphs (a), (b), (c) or (d) above with any financial institution that has an uninsured, unsecured and unguaranteed obligation rated, or is itself rated, in one of the three highest rating categories by Moody's or by S&P (including the Bond Trustee or any affiliate of the Bond Trustee), provided that (1) a specific written repurchase agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the Bond Trustee or an independent third party acting solely as agent for the Bond Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $25,000,000, and the Bond Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Bond Trustee, (3) a perfected first security interest under the Uniform Commercial Code of the State, or book entry procedures in such securities is created for the benefit of the Bond Trustee, (4) the repurchase agreement has a term of thirty days or less, or provides that the Bond Trustee or its agent will value the collateral securities no less frequently than monthly and the Bond Trustee will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation, and (5) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%;

(G) Shares of a fixed income mutual fund, exchange traded fund or other collective investment fund registered under the federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, rated in one of the two highest long term rating categories by S&P or Moody's, including without limitation, any mutual fund for which the Bond Trustee or an affiliate of the Bond Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (a) the Bond Trustee or an affiliate of the Bond Trustee receives fees from such funds for services rendered, (b) the Bond Trustee charges and collects fees for services rendered pursuant to the Bond Indenture, which fees are, separate from the fees received from such funds, and (c) services performed for such funds and pursuant to the Bond Indenture may at times duplicate those provided to such funds by the Bond Trustee or its affiliates; and

(H) Commercial paper rated in the highest rating category by Moody's or S&P;

(I) Investment agreements, including guaranteed investment contracts, that are obligations of an entity whose senior long-term debt obligations or claims-paying ability are rated, or guaranteed by an entity whose obligations are rated (at the time the investment is entered into), in one of the two highest long-term rating categories by S&P or Moody's; and

(J) Advance - Refunded Municipal Bonds rated in the highest rating category by Moody's or S&P Ratings Group;

(K) Obligations issued by any State of the United States of America or any political subdivision or instrumentality thereof that are rated in one of the three highest rating categories by Moody's or S&P;

(L) Forward delivery agreements, forward supply contracts, or similar products that provide for the delivery of the securities listed in paragraphs (a), (b), (c), (d) or (h) above;

For the purpose of this definition, references to rating categories refers to such categories without regard to numerical or symbol modifiers (*i.e*. "AA+", "AA" and "AA-" constitute a single category).

DEFINITIONS

"Accountant" shall mean any firm of recognized independent certified public accountants appointed by the Institution and reasonably acceptable to the Authority.

"Accounts Receivable" shall mean any and all rights of the Institution to payment for services rendered or for goods sold or leased which is not evidenced by an instrument or chattel paper, whether or not it has been earned by performance, including, but without limiting the generality of the foregoing, all "accounts" as defined in 11 M.R.S.A. § 9-1102(2).

"Act" shall mean the Maine Health and Higher Educational Facilities Authority Act, Chapter 413 of Title 22, Sections 2051 to 2077, inclusive, of the Maine Revised Statutes Annotated, as it may be amended from time to time.

"Additional Bonds" shall mean the bonds or notes issued by the Authority pursuant to Section 2.13 of the Original Indenture and secured by the Reserve Fund.

"Additional Indebtedness" shall mean any Indebtedness incurred by the Institution subsequent to the issuance of the Series 2010B and 2010C Notes.

"Additional Notes" shall mean the notes issued by the Institution pursuant to Section 3.05 of the Agreement to secure Additional Bonds issued by the Authority pursuant to Section 2.13 of the Original Indenture.

"Advance-Refunded Municipal Bonds" shall mean obligations described in Section 9 of "Permitted Investments".

"Affiliate" shall mean a corporation, partnership, joint venture, association, foundation, business trust or similar entity organized under the laws of the United States of America or a state thereof which (i) directly or indirectly controls the Institution, (ii) is directly or indirectly controlled by the Institution or (iii) is directly or indirectly controlled by or under common control by the same Person as the Institution. For purposes of this definition, control means the power to direct the management policies of a Person through the ownership of a majority of its voting securities, the right to designate or elect a majority of the members of its board of directors or other governing board or body.

"Agreement" shall mean with respect to the Reserve Fund Resolution and the Original Indenture, individually and collectively, each Loan Agreement or Loan Agreement and Mortgage, dated as of June 1, 2010, by and between the Authority and each Institution, and when amended or supplemented, each such Agreement, as amended or supplemented, and with respect to the Supplemental Indenture and the Series 2010B and 2010C Bonds, shall mean the Series 2010B and 2010C Agreement.

"Agreement Event of Default" shall mean any one or more of those events set forth in Section 6.01 of the Agreement.

"Allocable Share" shall mean, with respect to each Series of Bonds, that percentage of Outstanding Bonds of a Series attributable to amounts outstanding under the loan to each respective Institution made pursuant to its Agreement with proceeds of such Series of Bonds, which Allocable Share shall be initially as set forth in each Agreement relating to such series of Bonds, but which shall be adjusted to reflect prepayments of Notes of such Series made by the Institution, and prepayments made by other institutions which are borrowing a portion of the proceeds of the Bonds of such Series, and which Allocable Share shall be derived by the application of a percentage, the numerator of which shall be the Outstanding principal balance of the Institution's Note of such Series at the time of calculation and the denominator of which shall be the Outstanding principal balance of all notes (including the Note) of such Series issued by all institutions (including the Institution) upon delivery of the Bonds of such Series at the time of calculation; provided, however, that with respect to payments due on each Bond Payment Date with respect to principal of and interest on the Bonds of a Series, Allocable Share shall mean such portion of each such payment designated in each Agreement as being allocable to the Institution; and provided further, however, any reference to an institution's Allocable Share of costs, expenses, payments, etc., shall mean: (i) in the event that any amount, cost, expense or payment is related to a specific Institution because of any action or inaction on the part of such specific Institution or actions required to investigate or review the circumstances of such Institution, all of such amount, cost, expense or payment; and (ii) in the event that any amount, cost, expense or payment is not so related to a specific Institution, but rather to all, or a group of, Institutions, the percentage of such amount, cost, expense or payment computed by utilizing a fraction, the numerator of which is the then Outstanding principal balance of the Institution's Note at the time of calculation and the denominator of which is the then Outstanding principal balance of all notes issued on behalf of all Institutions in question; provided, however, that Allocable Share may be adjusted in the sole discretion of the Authority as may be reasonable and appropriate under the circumstances. For purposes of this definition, the Outstanding principal balance of an Institution's Note may be reduced only to the extent of the actual amount of payments made thereon, and not by reason of any discharge in bankruptcy, compromise or otherwise.

"Alternate Debt" shall mean Indebtedness of the Institution permitted by Section 5.21 of the Agreement.

"Annual Administrative Fee" shall mean the annual fee for the general administrative services of the Authority which for each Bond Year shall be an amount equal to that shown on the prevailing fee schedule of the Authority.

"Annual Debt Service" shall mean the Long-Term Debt Service Requirement for the Fiscal Year in question.

"Architect" shall mean any firm of recognized independent architects appointed by the Institution and acceptable to the Authority.

"Authenticating Agent" shall mean the Bond Trustee, and any successor to its duties under the Bond Indenture.

"Authority" shall mean the Maine Health and Higher Educational Facilities Authority, a public body corporate and politic of the State of Maine.

"Authority Representative" shall mean the Chairman, Vice Chairman, Executive Director or Secretary of the Authority or such other Person as the Authority may designate to act on its behalf by written certificate furnished to the Institution and the Bond Trustee containing the specimen signature of such Person and signed on behalf of the Authority by the Chairman, Vice Chairman, Executive Director or Secretary.

"Balloon Indebtedness" shall mean (i) Long-Term Indebtedness, or Short-Term Indebtedness which is intended to be refinanced upon or prior to its maturity by Long-Term Indebtedness so that such Short-Term

Indebtedness will be Outstanding, in the aggregate, for more than one year as certified in an Officer's Certificate, twenty-five percent (25%) or more of the initial principal amount of which matures (or is payable at the option of the holder) in any twelve month period, if such twenty-five percent (25%) or more is not to be amortized to below twenty-five percent (25%) by mandatory redemption prior to such twelve month period, or (ii) any portion of an issue of Long-Term Indebtedness which, if treated as a separate issue of Indebtedness, would meet the test set forth in clause (i) of this definition and which Indebtedness is designated as Balloon Indebtedness in an Officer's Certificate stating that such portion shall be deemed to constitute a separate issue of Balloon Indebtedness.

"Beneficial Owner" shall mean whenever used with respect to a Bond, the Person in whose name such Bond is recorded as the beneficial owner of such Bond by a participant on the records of such participant or such Person's subrogee.

"Board" shall mean the directors of the Authority.

"Bond" or "Bonds" shall mean the Authority's Revenue Bonds, Series 2010B and 2010C, dated their date of issuance, any bonds on a parity therewith previously issued by the Authority pursuant to the Bond Indenture, and any Additional Bonds issued under the Bond Indenture.

"Bond Counsel" shall mean an attorney or firm of attorneys of national recognition experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds selected or employed by the Authority and reasonably acceptable to the Bond Trustee.

"Bond Fund" shall mean the fund created pursuant to Section 5.01(a) of the Original Indenture.

"Bond Indenture" shall mean, collectively, the Original Indenture as previously supplemented and as further supplemented by the Supplemental Indenture, pursuant to which Bonds secured by the Reserve Fund have been or are issued and Outstanding.

"Bond Indenture Event of Default" shall mean any one or more of those events set forth in Section 7.01 of the Original Indenture and Section 7.1 of the Supplemental Indenture.

"Bond Index" shall mean, at the option of the Institution as directed by an Officer's Certificate, either (i) but only in the case of tax-exempt obligations, the 30-year Revenue Bond Index published most recently by The Bond Buyer, or a comparable index if such Revenue Bond Index is not so published, or (ii) in the case of tax-exempt obligations or in all other cases, the interest rate or interest index as may be certified to the Authority and the Bond Trustee as appropriate to the situation by a firm of nationally recognized investment bankers or a financial advisory firm experienced in such field and acceptable to the Authority.

"Bond Insurance Policy" shall mean, with respect to any Series of Bonds, the municipal bond insurance policy, if any, or other credit enhancement, if any, issued by the Bond Insurer guaranteeing the scheduled payment of principal of and interest on such Bonds when due.

"Bond Insurer" shall mean, with respect to any Series of Bonds, the entity, if issuing a Bond Insurance Policy with respect thereto.

"Bond Payment Date" shall mean each date on which interest or both principal and interest shall be payable on any of the Bonds according to their respective terms so long as any Bonds are Outstanding.

"Bond Purchase Contract" shall mean the contract of purchase between the Authority and the Original Purchaser pertaining to the sale of the Series 2010B and 2010C Bonds.

"Bond Resolution" shall mean, with respect to the Series 2010B and 2010C Bonds, the Bond Resolution relating to the financing and refinancing of the Projects with the proceeds of the Series 2010B and 2010C

Bonds adopted by the Authority, and with respect to any other Series of Bonds, the bond resolution of the Authority authorizing such Series of Bonds.

"Bond Trustee" shall mean, with respect to the Series 2010B and 2010C Bonds, U.S. Bank National Association, of Boston, Massachusetts, and any successor to its duties under the Bond Indenture, and with respect to each other Series of Bonds, shall mean the financial institution identified as the Bond Trustee in the Bond Indenture or Supplement authorizing such Series of Bonds.

"Bond Year" shall mean the period commencing July second of each year and ending July first of the next year.

"Book-Entry Bonds" shall mean any Bonds held by DTC as the registered owner thereof pursuant to the terms and provisions of the Bond Indenture.

"Buildings" shall mean the buildings, structures, fixtures and improvements now or hereafter located on the Land.

"Business Day" shall mean any day of the week other than Saturday, Sunday or a day which shall be in the State of Maine or in the jurisdiction of the Reserve Fund Trustee, the Bond Trustee, the Paying Agent, the Authenticating Agent, the Registrar or the Bond Insurer a legal holiday or a day on which banking corporations are authorized or obligated by law or executive order to close.

"Capitalization" shall mean the sum of (i) the aggregate principal amount of all outstanding Long-Term Indebtedness of the Institution (less the amount of any Debt Reserves) plus (ii) the Fund Balance of the Institution.

"Capitalized Interest" shall mean that portion of the proceeds of any Indebtedness or any other funds (other than Debt Reserves) that are held in trust and are restricted to be used to pay interest due or to become due on Indebtedness.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Completion Indebtedness" shall mean any Indebtedness incurred by the Institution for the purpose of financing the completion of constructing or equipping facilities for the construction or equipping of which some Indebtedness has theretofore been incurred in accordance with the provisions of the Agreement, to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time, and in accordance with the general plans and specifications for such facility as originally prepared with only such changes as have been made in conformity with the documents pursuant to which such Indebtedness was originally incurred, including funding Debt Reserves.

"Construction Fund" shall mean the fund created pursuant to Section 4.01 of the Original Indenture.

"Consultant" shall mean a Person selected by the Institution which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the Institution, and which is either (i) a nationally recognized professional management consultant or Accountant in the area of hospital finance, nursing home finance, college finance, university finance, community mental health provider finance, or the finance of other eligible entities, as applicable, and reasonably acceptable to the Authority, and having the skill and experience necessary to render the particular opinion, certificate or report required by the provisions of the Agreement in which such requirement appears, or (ii) the Accountant which is the Institution's external auditing firm.

"Corporate Trust Office" shall mean the principal corporate trust office of the Bond Trustee.

"Credit Enhancer" shall mean any financial institution that insures, guarantees or otherwise secures the payment of principal of and interest on any Bonds.

"Current Assets" shall mean cash and cash equivalent deposits, marketable securities, interests in mutual funds of marketable securities, Accounts Receivable, accrued interest receivable, funds designated by the Governing Body for any specific purpose and any other assets of the Institution ordinarily considered current assets under generally accepted accounting principles.

"Debt Reserves" shall mean that portion of the proceeds of any Indebtedness or any other funds (other than Capitalized Interest) that are held in trust and are restricted to be used to pay principal or principal and interest due or to become due on Indebtedness (including the Institution's Allocable Share, if any, of money and investments held in the Reserve Fund).

"Discount Indebtedness" shall mean Indebtedness sold to the original purchaser thereof (other than any underwriter or other similar intermediary) at a discount from the par amount of such Indebtedness.

"DTC" shall mean The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York, and its successors and assigns.

"Earnings Fund" shall mean the fund created pursuant to Section 5.01 of the Original Indenture.

"Encumbered" shall mean subject to a Lien mentioned in subsection (1), (2), (3), (13), (15), (16), or (17) of Section 5.14(b) of the Agreement.

"Equipment" shall mean the equipment, machinery, furnishings, fixtures (to the extent not a part of the Buildings), and other similar items of tangible personal property necessary or convenient for the operation of the Facility, whether now owned or held or hereafter acquired, less any equipment, machinery, furnishings, fixtures to the extent not a part of the Buildings, and other similar items which may actually be disposed of or removed pursuant to the Agreement.

"Facility" shall mean the Land, the Buildings and the Equipment located thereon.

"Fiscal Year" shall mean the fiscal year of the Institution, which shall be the fiscal year designated from time to time in writing by the Institution to the Authority and the Bond Trustee.

"Fund Balance" shall mean (i) for a Person that is a Tax-Exempt Organization, the aggregate fund balance of such Person, and (ii) for a Person that is not a Tax-Exempt Organization, the excess of assets over liabilities of such Person.

"Future Test Period" shall mean the two full Fiscal Years immediately following the computation then being made, or, if such computation is then being made in connection with the provision of funds for capital improvements, following completion of the capital improvements then being financed.

"General Fund" shall mean the General Fund created pursuant to Section 2.02 of the Reserve Fund Resolution.

"Governing Body" shall mean the Institution's board of trustees.

"Government Obligations" shall mean direct general obligations of, or obligations the timely payment of principal and interest on which are fully and unconditionally guaranteed by, the United States of America, or any other investments defined as "United States Obligations" in paragraph (1) of "Permitted Investments".

"Gross Receipts" shall mean all receipts, revenues, income and other moneys received by or on behalf of the Institution, including, but without limiting the generality of the foregoing, revenues derived from the ownership or operation of the Property, including insurance and condemnation proceeds with respect to the Property or any portion thereof, and all rights to receive the same, whether in the form of Accounts Receivable, contract rights or other rights, and the proceeds of such rights, and whether now owned or held or hereafter coming into existence; provided, however, that gifts, grants, bequests, donations and contributions heretofore or hereafter made and designated or specified by the granting authority, donor or maker thereof as being for specified purposes (other than payment of debt service on Indebtedness) and the income derived therefrom to the extent required by such designation or specification shall be excluded from Gross Receipts.

"Guaranty" shall mean all obligations of the Institution guaranteeing in any manner, whether directly or indirectly, any obligation of any other Person which would, if such other Person were the Institution, constitute Indebtedness under the Agreement, unless the obligation of such other Person is other than for the payment of a sum certain or reasonably ascertainable.

"Hazardous Materials" shall mean, without limitation, asbestos, gasoline, petroleum products, explosives, radioactive materials, polychlorinated biphenyls or related or similar materials, or any other substance or material defined as a hazardous or toxic substance, material or waste by any applicable federal, State or local law, ordinance, rule or regulation.

"Historic Test Period" shall mean, at the option of the Institution, either (i) any twelve (12) consecutive calendar months out of the most recent period of eighteen (18) full calendar months, or (ii) the most recent period of twelve (12) full consecutive calendar months for which the financial statements of the Institution have been reported upon by an Accountant, or (iii) the most recent Fiscal Year of the Institution.

"Holder" or "Bondholder" shall mean the registered owner of any Bond, including DTC as the sole registered owner of Book-Entry Bonds .

"Income Available for Debt Service" shall mean, with respect to the Institution, as to any period of time, net income, or excess of revenue and, in the case of community health and social services facilities, contributions, grants and other support, over expenses (including investment income, gifts and bequests, but excluding donor restricted funds, and the income and other proceeds thereon, to the extent restricted by the donor thereof to other than Operating Expenses) before depreciation, amortization and interest, as determined in accordance with generally accepted accounting principles consistently applied; provided, that no determination thereof shall take into account (i) any revenue or expense of any Person which is not the Institution, (ii) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not in the ordinary course of business, (iii) the net proceeds of insurance (other than business interruption insurance) and condemnation awards, (iv) any non-reoccurring accounting changes, or (v) unrealized gains or losses from investment (notwithstanding generally accepted accounting principles).

"Indebtedness" shall mean all obligations for payments of principal and interest with respect to money borrowed, incurred or assumed by the Institution from another Person, including Guaranties, purchase money mortgages, financing or capital leases, installment purchase contracts or other similar instruments in the nature of a borrowing by which the Institution will be unconditionally obligated to pay. Nothing in this definition or otherwise shall be construed to count Indebtedness more than once.

"Initial Administrative Fee" shall mean the fee, payable from the Construction Fund to the Authority, for its initial services in regard to the financing and refinancing of the Project in an amount specified in the Authority's prevailing fee schedule.

"Institution" shall mean, with respect to the Reserve Fund Resolution and the Original Indenture, each private, nonprofit and charitable corporation organized and existing under the laws of the State of Maine, operating community health or social service, hospital, nursing home, residential care, continuing care retirement community, assisted living, community mental health, community health center, scene response air ambulance, college or university facilities located in Maine, which has borrowed or will borrow all or a portion of the proceeds of one or more Series of Bonds from the Authority pursuant to one or more Agreements, including the Series 2010B and 2010C Institutions, and with respect to the Supplemental Indenture, the Series 2010B and 2010C Agreements, and the Series 2010B and 2010C Bonds shall mean the Series 2010B and 2010C Institutions.

"Institution Representative" shall mean the Person at the time designated to act on behalf of the Institution by written certificate furnished to the Authority and the Bond Trustee, containing the specimen signature of such Person and signed on behalf of the Institution by its chairman, its president or chief executive officer, or its chief financial officer. Such certificate may designate an alternate or alternates who shall have the same authority, duties and powers as such Institution Representative.

"Insurance Consultant" shall mean a Person appointed by the Institution and reasonably acceptable to the Authority, qualified to survey risks and to recommend insurance coverage for hospital, nursing home, community mental health, college, university or other eligible entity facilities and organizations engaged in like operations, who may be a broker or agent with whom the Institution transacts business, but who shall have no interest, direct or indirect, in the Institution and shall not be a member, director or employee of either the Institution or the Authority.

"Interest Account" shall mean the account of the Bond Fund created pursuant to Section 5.01(a)(i) of the Original Indenture.

"Land" shall mean the real property, interests in real property, rights-of-way, easements, licenses, and other rights in real property described in Schedule A to the Agreement.

"Law or Regulation Circumstances" shall mean the occurrence of the following: (i) applicable laws, governmental regulations, third-party reimbursement methods or governmental insurance programs shall prevent or substantially impair, have prevented or substantially impaired or will prevent or substantially impair the Institution from generating sufficient Income Available for Debt Service to comply with the particular requirement of the Agreement in question, (ii) the effect upon the Institution of the circumstances set forth in clause (i) above shall have been confirmed by a signed Consultant's opinion (or in the discretion of the Authority, an Officer's Certificate) delivered to the Authority and the Bond Trustee, (iii) an Officer's Certificate shall have been delivered to the Authority and the Bond Trustee stating that the Institution has generated the maximum Income Available for Debt Service which, in the opinion of such officer, could reasonably be generated given the circumstances set forth in clause (i) above, and (iv), but only at the request of the Authority, there shall have been delivered to the Authority and the Bond Trustee an Opinion of Counsel as to any conclusions of law supporting the opinion of the Consultant. Law or Regulation Circumstances shall not been deemed to include, or to have occurred as a result of, the Authority's implementation of the State Funding Intercept as described in the Agreement.

"Lien" shall mean any mortgage, pledge, leasehold interest, security interest, choate or inchoate lien, judgment lien, easement, or other encumbrance on title, including, but not limited to, any mortgage or pledge of, security interest in or lien or encumbrance on any Property of the Institution which secures any Indebtedness or any other obligation of the Institution.

"Long-Term Debt Service Coverage Ratio" shall mean the ratio for the period in question of Income Available for Debt Service to Maximum Annual Debt Service. In the event that any provision of the Agreement or the Bond Indenture requires the computation of the Long-Term Debt Service Coverage Ratio, whether for the Historic Test Period or for the Future Test Period, and such computation does not produce the coverage ratio otherwise required by the provision of the Agreement or the Bond Indenture in question, the coverage ratio requirement of such provision shall nevertheless be deemed satisfied if Law or Regulation Circumstances exist, and if there is delivered to the Authority and the Bond Trustee a Consultant's opinion, report or certificate to the effect that the Long-Term Debt Service Coverage Ratio for the Future Test Period is projected to be not less than the highest practicable level, but in no event less than 1.00. Notwithstanding anything in the Agreement to the contrary requiring a Consultant's opinion, report or certificate, projections of the Long-Term Debt Service Coverage Ratio may be made by an Officer's Certificate if (i) the Long-Term Debt Service Coverage Ratio for the Historic Test Period as shown by an Officer's Certificate exceeded 1.50, and (ii) the Long-Term Debt Service Coverage Ratio for the Future Test Period is projected by an Officer's Certificate to exceed 1.50, unless the Authority, in its sole discretion, requires that such Long-Term Debt Service Coverage Ratio calculations be made by a Consultant's opinion or report.

"Long-Term Debt Service Requirement" shall mean, for any period of time, the aggregate of the scheduled payments to be made (other than from amounts irrevocably deposited with the Bond Trustee or a lender for purposes of such payments) in respect of principal and interest on Outstanding Long-Term Indebtedness of the Institution during such period, also taking into account (i) with respect to Balloon Indebtedness, the provisions of the Agreement, (ii) with respect to Variable Rate Indebtedness, the provisions of the Agreement, (iii) with respect to Discount Indebtedness, the provisions of the Agreement, (iv) with respect to Debt Reserves, the provisions of the Agreement, (v) with respect to Capitalized Interest, the provisions of the Agreement, and (vi) with respect to Indebtedness represented by a Guaranty, the provisions of the Agreement.

"Long-Term Indebtedness" shall mean all Indebtedness, other than Short-Term Indebtedness, for any of the following:

(i) Payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of longer than one year;

(ii) Payments under leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one year; and

(iii) Payments under installment purchase contracts having an original term in excess of one year.

"Maximum Annual Debt Service" shall mean, at the time of computation, the greatest Long-Term Debt Service Requirement for the then current or any future Fiscal Year.

"Moody's" shall mean Moody's Investors Service, Inc., and its successors.

"Municipality" shall mean the respective town in which each Institution is located, which itself is located in the State of Maine.

"Non-Recourse Indebtedness" shall mean any Indebtedness secured by a Lien, which Indebtedness is not a general obligation of the Institution, and the liability for which Indebtedness is effectively limited to the Property subject to such Lien with no recourse, directly or indirectly, to any other Property of the Institution.

"Note" shall mean any Note issued, authenticated and delivered by an Institution under the Agreement and as, applicable, a master trust indenture, and, with respect to the Series 2010B and 2010C Bonds, shall mean any Note issued, authenticated and delivered by a Series 2010B and 2010C Institution under a Series 2010B and 2010C Agreement, including the Series 2010B and 2010C Notes and any Additional Notes.

"Note Payments" shall mean all payments to be made by the Institution under the Notes issued to or for the account of the Authority.

"Officer's Certificate" shall mean a certificate signed by the chairman of the Governing Body, or the president, chief executive officer, chief financial officer or executive director of the Institution, or any other officer of the Institution duly authorized or designated by the Governing Body of the Institution and acceptable to the Authority.

"Operating Expenses" shall mean the total operating expenses of the Institution, as determined in accordance with generally accepted accounting principles consistently applied.

"Operating Revenues" shall mean the total operating revenues of the Institution less applicable deductions from operating revenues, as determined in accordance with generally accepted accounting principles consistently applied.

"Opinion of Bond Counsel" shall mean an opinion in writing signed by Bond Counsel.

"Opinion of Counsel" shall mean a written opinion of an attorney or firm of attorneys reasonably acceptable to the Bond Trustee and, to the extent the Authority is asked to take action in reliance thereon, the Authority, and who (except as otherwise expressly provided in the Agreement or in the Bond Indenture) may be either counsel for the Institution or for the Bond Trustee. The Bond Trustee will be deemed to have accepted an attorney or a firm of attorneys specified in a notice to the Bond Trustee if the Bond Trustee does not object to such attorney or firm within fourteen (14) days after the giving of notice in accordance with the Agreement.

"Original Indenture" shall mean the Bond Indenture, dated as of April 1, 1995, by and between the Authority and the Bond Trustee.

"Original Purchaser" shall mean the Persons designated in the Bond Purchase Contract as the initial purchaser or purchasers of the Series 2010B and 2010C Bonds or, if so designated in such Bond Purchase Contract, the representatives or lead or managing underwriters of such initial purchasers.

"Outstanding", when used with reference to the Bonds, shall mean, as of any date of determination, all Bonds theretofore authenticated and delivered except: (i) Bonds theretofore cancelled by the Bond Trustee or delivered to the Bond Trustee for cancellation; (ii) Bonds which are deemed paid and no longer Outstanding as provided in the Bond Indenture; (iii) Bonds in lieu of which other Bonds have been issued pursuant to the provisions of the Bond Indenture relating to Bonds destroyed, stolen or lost, unless evidence satisfactory to the Bond Trustee has been received that any such Bond is held by a bona fide purchaser; and (iv) for purposes of any consent or other action to be taken under the Bond Indenture or under the Agreement by the Holders of a specified percentage of principal amount of Bonds, Bonds held by or for the account of the Authority, the Institution, or any Person controlling, controlled by, or under common control with, either of them.

"Outstanding", when used with reference to Notes, Guaranties and all other Indebtedness, shall mean, as of any date of determination, all Notes, Guaranties and all other Indebtedness theretofore issued or incurred and not paid and discharged except: (i) Notes theretofore cancelled by the Bond Trustee or delivered to the Bond Trustee for cancellation; (ii) Notes or Guaranties which are deemed paid and no longer Outstanding as provided in the Agreement; (iii) Notes for which provision for payment has been made in the manner provided in the Agreement; (iv) Notes in lieu of which other Notes have been authenticated and delivered or have been paid unless proof satisfactory to the Bond Trustee has been received that any such Note is held by a bona fide purchaser; and (v) Indebtedness not represented by Notes or Guaranties which has been cancelled, paid in full, discharged in full by the obligee or defeased with Government Obligations or Advance-Refunded Municipal Bonds.

"Paying Agent" shall mean the Bond Trustee and any other banks or trust companies and their successors designated as the paying agencies or places of payment for the Bonds.

"Permitted Acquisitions" shall mean acquisitions of Property permitted by Section 5.16 of the Agreement.

"Permitted Debt" shall mean Indebtedness of the Institution permitted by Section 5.18 of the Agreement.

"Permitted Dispositions" shall mean dispositions of Property permitted by Section 5.15 of the Agreement.

"Permitted Encumbrances" shall mean encumbrances on Property permitted by Section 5.14 of the Agreement.

"Permitted Guarantees" shall mean guarantees by the Institution permitted by Section 5.19 of the Agreement.

"Permitted Investments" shall mean and include the following, if and to the extent the same are at the time legal for investment of the Authority's money:

(1) (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated (collectively, "United Stated Obligations").

(2) Federal Housing Administration debentures.

(3) Obligations of government-sponsored agencies which are <u>not</u> backed by the full faith and credit of the U.S. government:

-Federal Home Loan Mortgage Corporation (FHLMC)
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
Senior Debt obligations
-Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives) Consolidated systemwide bonds and notes
-Federal Home Loan Banks (FHL Banks)
Consolidated debt obligations
-Federal National Mortgage Association (FNMA)
Senior debt obligations Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
-Student Loan Marketing Association (SLMA)
Senior debt obligations (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
-Financing Corporation (FICO)
Debt obligations
-Resolution Funding Corporation (REFCORP)
Debt obligations

(4) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least $5 million.

(6) Commercial paper (having original maturities of not more than 270 days) rates "A-1+" by S&P and "Prime-1" by Moody's.

(7) Money market funds rated “AAm” or “AAm-G” by S&P, or better.

(8) “State Obligations” which means:

(a) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated “A3” by Moody’s and “A” by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(b) Direct, general short-term obligations of any state agency or subdivision described in (a) above and rated “A-1+” by S&P and “Prime-1” by Moody’s.

(c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated “AA” or better by S&P and “Aa” or better by Moody’s.

(9) Pre-refunded municipal obligations rated “AAA” by S & P and “Aaa” by Moody’s meeting the following requirements:

(a) the municipal obligations are (i) not subject to redemption prior to maturity or (ii) the trustee has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions; and

(b) the municipal obligations are secured by cash or United States Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(c) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification”);

(d) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for the owners of the municipal obligations;

(e) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(f) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(10) Repurchase agreements:

With (1) any domestic bank the long term debt of which is rated at least “AA” by S&P and “AA” by Moody’s; (2) any foreign bank the long term debt of which is rated at least “AA” by S&P and “Aa” by Moody’s; (3) any broker-dealer with “retail customers” which has, or the parent company (which guarantees the broker dealer) of which has, long-term debt rated at least “AA” by S&P and “Aa” by Moody’s which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation (SIPC); or (4) any other entity described above rated “A” or better and acceptable to the Bond Insurer, provided that:

(a) The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's in an "A" rated structured financing (with a market value approach);

(b) Failure to maintain the requisite collateral percentage will require the Authority or the Bond Trustee to liquidate the collateral;

(c) The Bond Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);

(d) The repurchase agreement shall state and an opinion of counsel shall be rendered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(e) The transferor represents that the collateral is free and clear of any third party liens or claims;

(f) The repurchase agreement is a "repurchase agreement" as defined in the United States Bankruptcy Code and, if the provider is a domestic bank, a "qualified financial contract" as defined in the Financial Institution Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and such bank is subject to FIRREA;

(g) There is or will be a written agreement governing every repurchase transaction;

(h) The Authority and the Bond Trustee each represent that it has no knowledge of any fraud involved in the repurchase transaction; and

(i) The Authority and the Bond Trustee receive the opinion of counsel to the provider (which opinion shall be addressed to the Authority and the Bond Insurer) that such repurchase agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms.

(j) the repurchase agreement shall provide that if during term:

> (i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider must at the direction of the Authority or the Bond Trustee (who shall give such direction if so directed by the Bond Insurer), within 10 days of receipt of such direction, either (1) maintain collateral at levels and of the type as shall be reasonably acceptable to the Bond Insurer; or (2) repurchase all, collateral and terminate the agreement, and
>
> (ii) the providers rating by either Moody's or S&P is withdrawn or suspended or falls below "A" by S&P or "A2" Moody's as appropriate, the provider must, at the direction of the Authority or the Bond Trustee (who shall give such direction if so directed by the Bond Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement.

In either case with no penalty or premium to the Authority or Bond Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least “AA” and “Aa” by S&P and Moody’s respectively.

(11) Investment agreements with a domestic or foreign bank the long-term debt of which is rated at least “AA” by S&P and “Aa” by Moody’s; provided that, by the terms of the investment agreement;

(a) interest payments are to be made to the Bond Trustee at times and in amount as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

(b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days’ prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date);

(c) the investment shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;

(d) a fixed guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified under the Bond Indenture;

(e) the Authority of the Bond Trustee receives the opinion of counsel to the provider (which opinion shall be addressed to the Authority and the Bond Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Bond Insurer;

(f) the investment agreement shall provide that if during its term

(i) the provider’s rating by either S&P or Moody’s falls below “AA” or “Aa” respectively, the provider must, at the direction of the Authority or the Bond Trustee (who shall give such direction if so directed by the Bond Insurer), within 10 days of receipt of such direction, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider’s books) to the Authority, the Bond Trustee or a third party acting solely as agent therefor (the “Holder of the Collateral”) collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody’s in an “A” rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment, and

(ii) the provider’s rating by either S&P or Moody’s is withdrawn or suspended or falls below “A” or “A2”, respectively, the provider must, at the direction of the Authority of the Bond Trustee (who shall give such direction if so directed by the Bond Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment.

In either case with no penalty or premium to the Authority or Bond Trustee; and

(g) The investment agreement shall state and an opinion of counsel shall be required that the Holder of the Collateral has perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(h) the investment agreement must provide that if during its term

(i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction the Authority or the Bond Trustee (who shall give such direction if so directed by the Bond Insurer), be accelerated an amount invested and accrued by unpaid interest thereon shall be repaid to the Authority or Bond Trustee, as appropriate, and

(ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Bond Trustee as appropriate.

(12) Subject to the prior written approval of the Bond Insurer, such other obligation as shall be permitted investments of the Authority or the Bond Trustee, as appropriate.

With respect to the Reserve Fund Resolution, "Permitted Investments" shall have the meaning as set forth therein.

"Permitted Releases" shall mean releases of mortgages on or security interests in Property permitted by Section 5.17 of the Agreement.

"Permitted Reorganizations" shall mean the consolidation, merger, or reorganization of the Institution permitted by Section 5.20 of the Agreement.

"Person" shall include an individual, association, unincorporated organization, corporation, partnership, joint venture, or government or agency or political subdivision thereof.

"Pledged Revenues" shall mean all revenues, proceeds and receipts of the Authority derived from the Note Payments, and the proceeds of the Bonds pending their application in accordance with the Bond Indenture.

"Principal Account" shall mean the account of the Bond Fund created pursuant to Section 5.01(a)(ii) of the Original Indenture.

"Project" shall mean the improvements of the Facility of each Institution described in Schedule B to each Agreement, to be financed and refinanced from the proceeds of a series of Bonds.

"Property" shall mean any and all assets of the Institution, any land, leasehold interests, buildings, machinery, equipment, hardware, and inventory of the Institution wherever located and whether now owned or hereafter acquired, any and all rights, titles and interests in and to any and all fixtures, and property whether real or personal, tangible or intangible and wherever situated and whether now owned or hereafter acquired and shall include all Current Assets, unrestricted funds, restricted funds and endowments, revenues, receipts or other moneys, or right to receive any of the same, including, without limitation, Gross Receipts, Accounts Receivable, the Land, the Buildings, the Equipment, the Project, contract rights, deposit accounts, investment property and general intangibles, and all proceeds of all of the foregoing. In the case of community health or social service facilities and nursing homes, property shall not include funds of clients of the Institution held by or under the control of the Institution for the benefit of such clients. In the case of educational facilities, property shall not include federal or State financial aid moneys held for the benefit of students.

"Property, Plant and Equipment" shall mean all Property of the Institution which is property, plant and equipment under generally accepted accounting principles.

"Rebate Fund" shall mean the fund created pursuant to Section 5.01 of the Original Indenture.

"Record Date" shall mean, with respect to the Series 2010B and 2010C Bonds, each June 15 and December 15 and, with respect to any other Bonds, such dates as may be established therefor in the Supplement authorizing such other Bonds.

"Redemption Account" shall mean the account of the Bond Fund created pursuant to Section 5.01(a)(iv) of the Original Indenture.

"Redemption Price" shall mean, when used with respect to a Bond or portion thereof to be redeemed, the principal amount of such Bond or portion thereof plus the applicable premium, if any, payable upon redemption thereof.

"Registrar" shall mean the Bond Trustee, and any successor to its duties under the Bond Indenture.

"Renewal Fund" shall mean the fund created pursuant to Section 5.01 of the Original Indenture.

"Representation Letter" shall mean the Representation Letter from the Authority and the Bond Trustee to DTC with respect to one or more Series of Bonds.

"Reserve Fund" shall mean the Maine Health Facilities' Reserve Fund created pursuant to the Reserve Fund Resolution.

"Reserve Fund Requirement" shall mean, at the time of computation, for the then current or any future calendar year, the greatest amount required to be paid in any such calendar year with respect to the Bonds during such calendar year (giving allowance for the computation of debt service on the Bonds of each series for future calendar years as may be provided in the Bond Indenture or Agreement related to such particular series of Bonds); provided, however, that proceeds of a series of Bonds deposited into the Reserve Fund shall in no event exceed the highest amount permitted under the Internal Revenue Code of 1986, as amended to the date of issuance of such series.

"Reserve Fund Resolution" shall mean the Resolution Establishing the Maine Health Facilities' Reserve Fund adopted by the Authority on December 6, 1991, and when amended or supplemented, such Reserve Fund Resolution, as amended or supplemented.

"Reserve Fund Trustee" shall mean U.S. Bank National Association, as successor to Shawmut Bank, N.A., of Boston, Massachusetts, and any successor to its duties under the Reserve Fund Resolution.

"Reserve Fund Value" shall have the meaning ascribed thereto in the Reserve Fund Resolution.

"Serial Bonds" shall mean the Bonds which are so designated in the Bond Indenture and are stated to mature in annual installments.

"Series 2010B and 2010C Agreements" shall mean, individually and collectively, each Loan Agreement or Loan Agreement and Mortgage, dated as of June 1, 2010, by and between the Authority and each Series 2010B and 2010C Institution, and when amended or supplemented, such Series 2010B and 2010C Agreements as amended or supplemented.

"Series 2010B and 2010C Bonds" shall mean the bonds designated Maine Health and Higher Educational Facilities Authority Revenue Bonds, Series 2010B and 2010C, to be issued pursuant to the Bond

Resolution and the Bond Indenture to finance and refinance the costs of the Projects for each of the Series 2010B and 2010C Institutions.

"Series 2010B and 2010C Institutions" shall mean those Institutions set forth in the forepart of this Official Statement.

"Series 2010B and 2010C Note" shall mean the Series 2010B and 2010C Notes created and issued by the Series 2010B and 2010C Institutions pursuant to the Series 2010B and 2010C Agreements, issued to the Bond Trustee as assignee of the Authority by the Series 2010B and 2010C Institutions, to evidence the loan to the Series 2010B and 2010C Institutions from the Authority of a portion of the proceeds of the Series 2010B and 2010C Bonds, in substantially the form set forth in Schedule C to the Series 2010B and 2010C Agreements.

"Short-Term Indebtedness" shall mean all Indebtedness, other than Long-Term Indebtedness, for any of the following:

(i) Payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less; (ii) Payments under leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and (iii) Payments under installment purchase contracts having an original term of one year or less.

"Sinking Fund Account" shall mean the account of the Bond Fund created pursuant to Section 5.01(a)(iii) of the Original Indenture.

"Sinking Fund Account Requirement" shall mean, as to Term Bonds having the same stated maturity date, the aggregate principal amount of such Bonds required to be retired on or before the corresponding Sinking Fund Account Retirement Date.

"S&P" shall mean Standard & Poor's, and its successors.

"Sinking Fund Account Retirement Date" shall mean, as to Term Bonds having the same stated maturity date, the date on or before which such Term Bonds are required to be retired in an amount equal to the Sinking Fund Account Requirement for such date.

"State" shall mean the State of Maine.

"Subordinated Indebtedness" shall mean all obligations incurred or assumed by the Institution, the payment of which is by its terms specifically subordinated to payments on all Notes, or the principal of and interest on which would not be paid (whether by the terms of such obligation or by agreement of the obligee) when the Notes are in default or while bankruptcy, insolvency, receivership or other similar proceedings are instituted and implemented.

"Supplement" shall mean, with respect to the Reserve Fund Resolution, a resolution of the Authority supplementing or modifying the provisions of the Reserve Fund Resolution adopted by the Authority in accordance with the provisions of the Reserve Fund Resolution, and shall mean, with respect to the Bond Indenture, an indenture supplementing or modifying the provisions of the Bond Indenture entered into by the Authority and the Bond Trustee in accordance with the Original Indenture.

"Supplemental Indenture" shall mean the Forty-First Supplemental Bond Indenture dated as of June 1, 2010, by and between the Authority and the Bond Trustee.

"Tax-Exempt Organization" shall mean a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) and exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Tax Regulatory Agreement" shall mean, with respect to the Series 2010B and 2010C Bonds, the Tax Regulatory Agreement, dated the date of delivery of the Series 2010B and 2010C Bonds, by and among the Authority, each Series 2010B and 2010C Institution and the Bond Trustee.

"Term Bonds" shall mean the Bonds designated as Term Bonds in the Bond Indenture.

"Transaction Test" shall mean the Authority and the Bond Trustee shall have received any one of the following:

(A) a Consultant's opinion, report or certificate demonstrating that the Long-Term Debt Service Coverage Ratio for the Future Test Period is projected to be not less than 1.35.

(B) an Officer's Certificate demonstrating that the Long-Term Debt Service Coverage Ratio for the Historic Test Period, assuming that the proposed additional Long-Term Indebtedness had been incurred at the beginning of the Historic Test Period and as such the proposed Long-Term Indebtedness is added to the then current aggregate outstanding principal amount of all Long-Term Indebtedness, is not less than 1.25.

(C) (1) an Officer's Certificate demonstrating that the Long-Term Debt Service Coverage Ratio for the Historic Test Period is not less than 1.20, and (2) a Consultant's opinion, report or certificate demonstrating that the Long-Term Debt Service Coverage Ratio for the Future Test Period is projected to be not less than 1.30.

(D) an Officer's Certificate, verified by an opinion, report or certificate of an Accountant, demonstrating, based upon audited financial statements for the Historic Test Period, that immediately after the proposed transaction the aggregate principal amount of all outstanding Long-Term Indebtedness (less the amount of any Debt Reserves) will not exceed sixty percent (60%) of the Capitalization of the Institution.

(E) In the case of community health or social service facilities, the Transaction Test shall be satisfied by the delivery of an Officer's Certificate demonstrating that (i) the Department of Health and Human Services of the State or another educational or welfare department of the State has issued a Contract for Purchase of Community Services or similar arrangement in the amount necessary to provide for debt service of the projected Indebtedness for a period of not less than one year, together with a copy of such contract, and (ii) the Institution is in good standing as a community mental health provider by the Department of Health and Human Services of the State.

The requirements of clauses (A) through (C) of the definition of Transaction Test above shall be deemed satisfied if Law or Regulation Circumstances exist, and if there is delivered to the Authority and the Bond Trustee a Consultant's opinion, report or certificate (or at the discretion of the Authority, an Officer's Certificate) to the effect that the Long-Term Debt Service Coverage Ratio for the Future Test Period is projected to be not less than the highest practicable level, but in no event less than 1.00.

Each community health or social services facility agrees that it shall not employ paragraph (E) above to satisfy the Transaction Test without obtaining the prior written consent of the Authority, which consent shall be in the sole and absolute discretion of the Authority. Prior to granting consent, the Authority shall be entitled to request any additional documents or certificates from the Institution, the Department of Health and Human Services of the State or any other educational or welfare department of the State which it deems appropriate, including but not limited to a letter from the Department of Health and Human Services evidencing the support of such department to the Institution's incurrence of the Indebtedness.

"Value" when used in connection with Property, Plant and Equipment or other Property of the Institution, shall mean: (i) at the option of the Institution (a) the cost basis of such Property, net of accumulated depreciation, as it is carried on the books of the Institution and in conformity with generally accepted accounting principles consistently applied, and when used in connection with Property, Plant and Equipment or other Property of the Institution, means the aggregate of the cost bases so determined with respect to such Property of the Institution or (b) the appraised value of such Property as determined by an appraiser who is a Member of the Appraisal Institute (MAI) and reasonably acceptable to the Authority and the Bond Trustee, such appraisal taking place within two (2) years of the date such value is used in any computation or calculation required by the Agreement, and (ii) when used in connection with Accounts Receivable, Current Assets and Gross Receipts, shall mean the value of such items as set forth in the most recent audited financial statements of the Institution.

"Variable Rate Indebtedness" shall mean Indebtedness that bears interest at a variable, adjustable or floating rate.

SUMMARY OF THE RESERVE FUND RESOLUTION

Reserve Fund and General Fund

Creation, Administration and Maintenance of Reserve Fund. (a) Upon the adoption of the Reserve Fund Resolution by the Authority and the acceptance of the Reserve Fund Resolution by the Reserve Fund Trustee, the Reserve Fund Trustee shall create the Reserve Fund to be held in trust for the Holders of the Bonds.

(a) Within the Reserve Fund the Reserve Fund Trustee shall, by ledger entry only, create, for each series of Bonds, an account for each Institution borrowing proceeds of a series of Bonds pursuant to an Agreement. Within each such account the Reserve Fund Trustee shall, by ledger entry only, keep records of each Institution's equity contribution to the Reserve Fund, if any, each Institution's allocable share, if any, of investment earnings, if any, on any and all Permitted Investments, if any, held in the Reserve Fund from time to time, and each Institution's allocable share, if any, of deposits to (from whatever source), and withdrawals from, the Reserve Fund. The Authority shall designate, in each Bond Indenture pursuant to which Bonds are issued, whether or not the proceeds of such Bonds (or other funds) deposited into the Reserve Fund shall constitute an asset of the Authority or an asset of an Institution or group of Institutions. If funds deposited into the Reserve Fund are designated as being an asset of the Authority, the amount of proceeds of such Bonds lent to Institutions pursuant to the related Agreements shall not include the amounts so deposited into the Reserve Fund, and the Institutions shall have no rights or liabilities (other than the liabilities described in Section 2.01(e) of the Reserve Fund Resolution) with respect to such moneys in the Reserve Fund, or any investment earnings thereon. In no event shall any such designation prevent any and all moneys held on deposit in the Reserve Fund from being applied to pay debt service on any bonds as may be necessary because of a failure to make a Note Payment by one or more Institutions or otherwise.

(b) The Authority shall establish and maintain the Reserve Fund in accordance with the provisions of the Reserve Fund Resolution. There shall be deposited into the Reserve Fund, promptly upon receipt by the Reserve Fund Trustee, (i) all money appropriated by the State for the purpose of the Reserve Fund; (ii) all proceeds of Bonds that may be required to be deposited in the Reserve Fund pursuant to the terms and conditions of any Bond Indenture or Bond Resolution; (iii) any other money or funds of the Authority that the Authority determines to deposit in the Reserve Fund (including, but not limited to, any money or funds held in a construction fund, bond fund or debt service fund established under a Bond Indenture or Bond Resolution); and (iv) any other money made available to the Authority for the purpose of the Reserve Fund from any other source or sources (including, but not limited to, equity contributions made by Institutions). The Reserve Fund Trustee is directed to make such deposits into the Reserve Fund as are required to be made under the Reserve Fund Resolution. All money and securities held in the Reserve Fund shall be used, disbursed and applied only in accordance with the provisions of the Reserve Fund Resolution and for no other purpose. Money and securities held in the Reserve Fund shall not be withdrawn therefrom at any time in such amount as would reduce the Reserve Fund Value of money and securities in the Reserve Fund to an amount less than the Reserve Fund Requirement other than in accordance with the provisions of and for the purposes prescribed by the Reserve Fund Resolution and by Section 2075(1)(A) of the Act, being: (i) payment of interest then due and payable on Bonds; (ii) payment of the principal of Bonds then maturing and payable; (iii) sinking fund payments with respect to Bonds; (iv) the retirement of Bonds in accordance with the terms of any Bond Indenture; or (v) the payment for which other money of the Authority is not then available for payment of interest, principal or sinking fund payments or the retirement of Bonds in accordance with the terms of any such Bond Indenture, all as provided in the Reserve Fund Resolution.

(c) In order to assure the maintenance of the Reserve Fund in an amount equal to the Reserve Fund Requirement and in compliance with the requirements of the Act, the Authority shall cause its Executive Director annually, on or before each December 1, to make and deliver to the Governor of the State a certificate stating the amount, if any, required to restore the Reserve Fund to the Reserve Fund Requirement, and a copy of any such certificate shall be promptly delivered by the Executive Director of the Authority to the Reserve Fund Trustee. All money received by the Authority from the State pursuant to any such certification, in accordance with the provisions of Section 2075(1)(C) of the Act, shall be paid to the Reserve Fund Trustee for deposit into the Reserve Fund.

(d) In addition to the provisions of paragraph (d) above, in order to further assure the maintenance of the Reserve Fund in an amount equal to the Reserve Fund Requirement, the Authority covenants that with respect to each series of Bonds to be secured by the Reserve Fund it will cause each Institution borrowing all or a portion of the proceeds of a series of Bonds to covenant with the Authority in the applicable Agreement that the payments to be made by such Institution to the Authority pursuant to such Agreement shall include:

(i) such Institution's allocable share (within the meaning of the Reserve Fund Resolution as set forth below) of the amount or amounts to be deposited into the Reserve Fund sufficient to cause the Reserve Fund Value to be not less than the Reserve Fund Requirement, within three months (in three substantially equal monthly installments) after a computation of the Reserve Fund Value by the Reserve Fund Trustee indicates that the Reserve Fund Value is below the Reserve Fund Requirement, in the event that such deficiency results from a decline in the market value of Permitted Investments held in the Reserve Fund; provided, however, that the Institution shall not be required to make such three monthly installments required by this clause in the event that the Authority and such Institution shall have entered into an arrangement or contract to provide for the replenishment of any such deficiency, or the Authority otherwise provides for the replenishment of such deficiency, and such deficiency is replenished within such three month period;

(ii) such Institution's allocable share (within the meaning of the Reserve Fund Resolution as set forth below) of the amount or amounts to be deposited into the Reserve Fund sufficient to cause the Reserve Fund Value to be not less than the Reserve Fund Requirement, in six substantially equal monthly installments after any transfer of funds by the Reserve Fund Trustee from the Reserve Fund, as a result of such Institution's failure to make a timely payment or payments due to the Authority under an Agreement with respect to debt service on Bonds, or as a result of the recovery of any payment made to a Holder in the event that such payment is determined to constitute an avoidable preference to such Holder; provided, however, that the Institution shall not be required to make such six monthly installments required by this clause in the event that the Authority and such Institution shall have entered into an arrangement or contract to provide for the replenishment of any such deficiency, or the Authority otherwise provides for the replenishment of such deficiency, and such deficiency is replenished within such six month period;

(iii) such Institution's allocable share (within the meaning of the Reserve Fund Resolution as set forth below) of lost investment earnings on moneys in the Reserve Fund, as determined by the Authority in its sole discretion, as a result of a transfer of funds by the Reserve Fund Trustee from the Reserve Fund in an amount in excess of such Institution's allocable share of the Reserve Fund, within six months, as a result of such Institution's failure to make a timely payment or payments due to the Authority under an Agreement with respect to debt service on Bonds, or as a result of the recovery of any payment made to a Holder in the event that such payment is determined to constitute an avoidable preference to such Holder; provided, however, that the Institution shall not be required to make such six monthly installments required by this clause in the event that the Authority and such Institution shall have entered into an arrangement or contract to provide for the replenishment of any such deficiency, or the Authority otherwise provides for the replenishment of such deficiency, and such deficiency is replenished within such six month period; and

(iv) such Institution's allocable share (within the meaning of the Reserve Fund Resolution as set forth below) of any and all amounts by which the earnings from the investments held or on deposit in the Reserve Fund are less than the debt service payments and related expenses due with respect to an amount of Bonds, the proceeds of which were deposited into the Reserve Fund, as determined by the Authority from time to time, in monthly installments; provided, however, that the Institution shall not be required to make such installments required by this clause in the event that the Authority and such Institution shall have entered into an arrangement or contract to provide for the replenishment of any such deficiency, or the Authority otherwise provides for the replenishment of such deficiency, and such deficiency is replenished within thirty (30) days.

When used in the Reserve Fund Resolution, any reference to an Institution's "allocable share" or "allocable portion" of amounts in a fund or account, costs, expenses, payments etc. shall mean: (i) in the event that any amount, cost, expense or payment is related to a specific Institution because of any action or inaction on the part of such specific Institution, all of such amount, cost, expense or payment; and (ii) in the event that any amount, cost, expense or payment is not so related to a specific Institution, but rather to all, or a group of, Institutions, the percentage of such amount, cost, expense or payment computed by utilizing a fraction, the numerator of which is the then Outstanding principal amount of Bonds issued on behalf of such Institution and the denominator of which is the then Outstanding principal amount of all Bonds issued on behalf of all Institutions in question; provided, however, that "allocable share" and "allocable portion" may be adjusted in the sole discretion of the Authority as may be reasonable and appropriate under the circumstances.

(e) From time to time in accordance with a Bond Indenture, all or a portion of a series of Bonds may be defeased, refunded, redeemed or otherwise deemed paid and no longer Outstanding under the Reserve Fund Resolution or under such Bond Indenture. In such event and simultaneously therewith, the Reserve Fund Trustee, upon receipt of written directions from the Authority, shall transfer from the Reserve Fund the applicable Institution's allocable share of moneys or investments held in the Reserve Fund to the applicable Bond Trustee for application, either directly or by deposit into an escrow fund or a redemption fund, to such defeasance, refunding, redemption or payment of such Bonds, or to such other use permitted by law, all as may be directed by the Authority; provided, however, that no such transfer shall occur if (i) the money in the Reserve Fund allocable to such Institution has been designated by the Authority, pursuant to the Reserve Fund Resolution, as being an asset of the Authority, or (ii) the result of such transfer is to cause the amounts held on deposit in the Reserve Fund to be less than the Reserve Fund Requirement. (Section 2.01)

Creation and Administration of General Fund. (a) Upon the adoption of the Reserve Fund Resolution by the Authority and the acceptance of the Reserve Fund Resolution by the Reserve Fund Trustee, the Reserve Fund Trustee shall establish the General Fund to be held in trust for the Holders of the Bonds.

(b) The Authority shall maintain the General Fund established by the Reserve Fund Trustee in accordance with the provisions of the Reserve Fund Resolution. There shall be deposited into the General Fund, promptly upon receipt by the Reserve Fund Trustee, (i) all money or funds held in the Reserve Fund in excess of the Reserve Fund Requirement; (ii) all investment income or interest earnings on amounts in the Reserve Fund (so long as the Reserve Fund Value equals or exceeds the Reserve Fund Requirement) and in the General Fund, as provided in, and subject to, the provisions of the Reserve Fund Resolution; (iii) all proceeds of Bonds that may be required to be deposited in the General Fund pursuant to the terms and conditions of any Bond Indenture or Bond Resolution; (iv) any other money or funds of the Authority that the Authority determines to deposit in the General Fund; and (v) any other money made available to the Authority for the purpose of the General Fund from any other source or sources. The Reserve Fund Trustee is directed to make such deposits into the General Fund as are required to be made under the Reserve Fund Resolution. All money and securities held in the General Fund shall be used, disbursed and applied only in accordance with the provisions of the Reserve Fund Resolution and for no other purpose. Money and securities held in the General Fund may be utilized by the Authority, in its sole discretion, upon written direction by the Authority to the Reserve Fund Trustee, for (i) payments of principal of, premium, if any, and interest on Bonds; (ii) payments to an Institution as may from time to time be determined by the Authority; (iii) payments by the Authority of obligations of an Institution that might arise under the Reserve Fund Resolution, under a Bond Indenture, under an Agreement or under a Tax Regulatory Agreement, including, but not limited to, any rebate liability under the Internal Revenue Code of 1986, as amended, or any initial or annual administrative fees of the Authority, the Reserve Fund Trustee or a Bond Trustee; (iv) payments to the United States, to the Earnings Fund or to the Rebate Fund, as may be directed by the Authority; or (v) payments to the Authority free and clear of any lien or pledge under the Reserve Fund Resolution for application to any of the Authority's corporate purposes permitted under the Act; provided, however, that the Authority may not withdraw moneys from the General Fund (other than to provide for the payment of principal of or interest on Bonds secured by the Reserve Fund) unless there is reasonably projected by the Authority to be sufficient funds after such withdrawal available in the General Fund, or otherwise readily available, to make the next required payment of principal of or interest on

Bonds secured by the Reserve Fund; and provided further, however, that the Authority may not withdraw moneys from the General Fund (other than to provide for the payment of principal of or interest on Bonds secured by the Reserve Fund) in the event of a payment default on Bonds secured by the Reserve Fund at any time after the Authority has notice or knowledge of such a default until such default has been cured or in the event the Reserve Fund Trustee has drawn upon the Reserve Fund or the General Fund to pay its fees and expenses unless such amounts have been reimbursed to the Reserve Fund or the General Fund, as the case may be.

(c) Within the General Fund the Reserve Fund Trustee shall, by ledger entry only, create, for each series of Bonds, an account for each Institution borrowing proceeds of a series of Bonds pursuant to an Agreement. Within each such account the Reserve Fund Trustee shall, by ledger entry only, keep records of each Institution's allocable share of investment earnings, if any, on any and all Permitted Investments, if any, held in the General Fund from time to time, and each Institution's allocable share of deposits to (from whatsoever source), and withdrawals from, the General Fund. All amounts held or on deposit in the General Fund shall constitute assets of the Authority, and the Institution shall have no rights or liabilities (other than for payment of any rebate obligation to the United States) with respect to such moneys in the General Fund, or any investment earnings thereon. (Section 2.02)

Application of Bond Proceeds and Other Moneys. (a) All proceeds of the sale of a series of Bonds, and any moneys provided by an Institution, shall be paid to the Bond Trustee as provided in the applicable Bond Indenture, at or prior to the delivery of such series of Bonds. Such funds shall be deposited by the Bond Trustee in the manner determined by the applicable Bond Indenture. Each such Bond Indenture (i) shall provide for the transfer, concurrently with the delivery of the applicable series of Bonds, by the Bond Trustee to the Reserve Fund Trustee of amounts to be deposited into the Reserve Fund and (ii) may provide for the transfer, concurrently with the delivery of the applicable series of Bonds, by the Bond Trustee to the Reserve Fund Trustee of amounts to be deposited into the General Fund. Such amounts to be deposited into the Reserve Fund or into the General Fund may be derived, in whole or in part, from proceeds of a series of Bonds, from an Institution's equity contribution, or from any other sources permitted by the Act. Upon receipt of any such funds, from a Bond Trustee or otherwise, the Reserve Fund Trustee shall promptly deposit such funds into the Reserve Fund or into the General Fund, as the case may be, as set forth in the Bond Indenture.

(b) Notwithstanding anything in the Reserve Fund Resolution to the contrary, in the event that any money is deposited into any fund or account under the Reserve Fund Resolution, inadvertently or otherwise, that is not required or necessary to be deposited therein pursuant to the terms of the Reserve Fund Resolution, such money shall be transferred by the Reserve Fund Trustee, at the direction of the Authority, to any other fund or account created under the Reserve Fund Resolution or under a Bond Indenture or to any other Person, including, but not limited to, the Authority, a Bond Trustee, an Institution, the State of Maine or the United States.

(c) Notwithstanding anything in the Reserve Fund Resolution to the contrary, upon the occurrence and continuance of a Bond Indenture Event of Default relating to the payment of debt service on the Bonds, and the failure of the Authority to exercise any and all reasonable remedies then available to the Authority, the Bond Trustee may enforce the rights or obligations of the Authority under such Bond Indenture or under the Reserve Fund Resolution as may relate to such Bond Indenture Event of Default, including, but not limited to, directing the Reserve Fund Trustee to transfer funds from the Reserve Fund or the General Fund to such Bond Trustee for deposit into the Bond Fund created pursuant to such Bond Indenture; provided, however, that in no event shall a Bond Trustee be permitted or have the right to exercise powers of the Authority under Sections 2075 or 2076 of the Act. (Section 2.03)

Utilization of Reserve Fund. (a) When moneys held under a Bond Indenture in a bond fund or otherwise are insufficient to pay principal of, premium, if any, or interest on Bonds when due, moneys in the Reserve Fund shall be used at the direction of the Authority to augment payments due for principal, premium, if any, or interest on the Bonds, including, but not limited to, the payment of the principal of, premium, if any, or interest on a series of Bonds in any year of maturity of such series of Bonds or in the event of the redemption in whole or in part of such series of Bonds in accordance with the applicable Bond Indenture. The Authority covenants that, upon the occurrence of any such deficiency for which the Authority has received notice from the applicable Bond Trustee, the Authority shall promptly (and in any event no later than the Business Day prior to the next interest payment date for such Bonds) notify the Reserve Fund Trustee thereof and direct the Reserve Fund Trustee to apply money in the Reserve Fund to replenish such deficiency (not later than the Business Day prior to the next interest payment date for such Bonds) unless the Authority shall have otherwise elected to promptly utilize other available money to replenish such deficiency and shall have provided such other available money to the applicable Bond Trustee. Upon receipt by the Reserve Fund Trustee of notice from the Authority of the existence of such insufficiency for the payment of principal of, premium, if any, or interest on Bonds when due, the Reserve Fund Trustee shall promptly transfer funds from the Reserve Fund (as a first priority, from the account within the Reserve Fund designated for the particular Institution or Institutions whose failure to make a payment when due under an Agreement gave rise to such deficiency, if such deficiency arises from such failure of an Institution or Institutions, and after such account has been depleted, if applicable, from all other accounts within the Reserve Fund, pro-rata among all such other accounts according to the amounts then credited to such accounts) to the applicable Bond Trustee for subsequent and prompt application by the Bond Trustee to the payment of principal of, premium, if any, or interest on Bonds when due in accordance with the applicable Bond Indenture. When moneys in the Reserve Fund are so used, the Reserve Fund Trustee shall forthwith give written notice thereof to the Authority. If at any time the Reserve Fund Value exceeds the Reserve Fund Requirement, from other than investment earnings thereon (which shall be transferred to the General Fund), such excess may be transferred, at the written direction of the Authority, to the General Fund for application to any purpose permitted under the Reserve Fund Resolution.

(b) In addition to the uses specified in paragraph (a) above, the Reserve Fund shall also be available for the reimbursement to a Holder of any payment of principal of, premium, if any, or interest on Bonds which payment is subsequently recovered from any Holder pursuant to a final judgment by a court or competent jurisdiction that such payment constitutes an avoidable preference to such Holder within the meaning of any applicable bankruptcy law. (Section 2.04)

Investment of Moneys Held in the Reserve Fund and in the General Fund. (a) Moneys in the Reserve Fund and in the General Fund held by the Reserve Fund Trustee shall be invested by the Reserve Fund Trustee, as soon as possible upon receipt in Permitted Investments as directed in writing by the Authority, or as selected by the Reserve Fund Trustee in the absence of direction by the Authority.

(b) Amounts credited to any account within the Reserve Fund or in the General Fund may be invested on a commingled basis, together with amounts credited to one or more other accounts within the Reserve Fund or within the General Fund, in the same Permitted Investment, provided that (i) each such investment complies in all respects with the provisions of subsection (a) of this section as they apply to such account for which the joint investment is made and (ii) the Reserve Fund Trustee maintains separate records for such account and such investments are accurately reflected therein.

(c) The Reserve Fund Trustee may make any investment permitted by this section, through or with its own commercial banking or investment departments unless otherwise directed by the Authority.

(d) The Reserve Fund Trustee shall calculate the Reserve Fund Value semiannually on or as of each January 1 and July 1, unless the Permitted Investments on deposit in the Reserve Fund have an average aggregate weighted term to maturity not greater than five (5) years. In addition, the Reserve Fund Trustee shall calculate the Reserve Fund Value as requested from time to time by the Authority, but not more frequently than once each calendar month. In computing the amount in the Reserve Fund, Permitted Investments purchased as an investment of moneys therein shall be valued at their Reserve Fund Value. The Reserve Fund Trustee shall compute the Reserve Fund Value, and give written notice of the Reserve Fund Value and the date of its computation, to the Authority, as may be requested from time to time by the Authority, but not more frequently than once each calendar month.

(e) The Reserve Fund Trustee shall sell at the best price obtainable, or present for redemption, any Permitted Investment purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Reserve Fund or from the General Fund.

(f) Neither the Reserve Fund Trustee nor the Authority shall knowingly use or direct or permit the use of any moneys of the Authority in its possession or control in any manner which would cause any

Bond to be an "arbitrage bond" within the meaning ascribed to such term in Section 148 of the Code, or any successor section of the Code.

(g) Notwithstanding any provision of the Reserve Fund Resolution, the Authority shall observe its covenants and agreements contained in each Tax Regulatory Agreement, to the extent that and for so long as such covenants and agreements are required by law.

(h) The Reserve Fund Trustee shall terminate any repurchase agreement with respect to an investment in the Reserve Fund upon a failure of the counter party thereto to maintain the requisite collateral percentage required under the Reserve Fund Resolution after any applicable restoration period and, if not paid by the counter party in immediately available funds against transfer of the repurchase agreement securities, liquidate such collateral.

(i) The Reserve Fund Trustee shall give notice to any provider of an investment agreement with respect to an investment in the Reserve Fund in accordance with the terms of the investment agreement so as to receive funds thereunder without penalty or premium paid.

(j) The Reserve Fund Trustee shall, upon receipt of actual knowledge of the withdrawal or suspension of either of the ratings of an investment agreement provider with respect to an investment in the Reserve Fund or a lowering of the ratings thereon below "A", so notify each Credit Enhancer and, if so directed by one or more Credit Enhancers, shall demand further collateralization of the agreement or liquidation thereof.

(k) If at any time an investment of amounts in the Reserve Fund is made, which investment thereafter ceases to constitute a Permitted Investment, and such investment, when aggregated with all other then non-conforming investments, exceeds ten percent (10%) of the funds then credited to the Reserve Fund, the Reserve Fund Trustee shall promptly sell or liquidate such investment, unless otherwise approved by the Credit Enhancers. (Section 2.05)

Investment Income. An account of all investment income or interest earnings on amounts allocable to each series of the Bonds in the Reserve Fund or in the General Fund shall be given on a monthly basis by the Reserve Fund Trustee to the Authority and to the applicable Bond Trustee, with instructions to such Bond Trustee to the effect that such amounts are to be credited by ledger entry by the applicable Bond Trustee to the applicable Earnings Fund (as established in the applicable Bond Indenture) as provided in the Bond Indenture.

All income and gain from investment of the Reserve Fund, so long as the Reserve Fund Value equals or exceeds the Reserve Fund Requirement, shall be transferred to the General Fund. All income and gain from investment of the General Fund, so long as the Reserve Fund Value equals or exceeds the Reserve Fund Requirement, shall be retained in the General Fund. All income and gain from investment of the Reserve Fund or the General Fund, so long as the Reserve Fund Value is less than the Reserve Fund Requirement, shall be retained in or transferred to, as the case may be, the Reserve Fund. Any loss realized from investments of money in the Reserve Fund or in the General Fund shall be charged to the fund from which such investment was made. (Section 2.07)

The Reserve Fund Trustee

Removal and Resignation of the Reserve Fund Trustee. The Reserve Fund Trustee may at any time with notice to the Authority, the Credit Enhancers, the Bond Trustees and the Institutions, resign or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Bonds then Outstanding or by the Credit Enhancers of at least a majority of the aggregate principal amount of Bonds then Outstanding. Written notice of such resignation or removal shall be given to the Authority and each Credit Enhancer and such resignation or removal shall only take effect upon the appointment and qualification of, and acceptance by, a successor Reserve Fund Trustee. In the event a successor Reserve Fund Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation is given, the

Reserve Fund Trustee or the Authority may apply to any court of competent jurisdiction for the appointment of a successor Reserve Fund Trustee to act until such time as a successor is appointed as provided in this section.

In addition, the Reserve Fund Trustee may be removed at any time with or without cause, by Supplement to the Reserve Fund Resolution signed by the Authority so long as the Authority determines, in such Supplement, that the removal of the Reserve Fund Trustee shall not have an adverse effect upon the rights or interests of the Bondholders.

In the event of the resignation or removal of the Reserve Fund Trustee or in the event the Reserve Fund Trustee is dissolved or otherwise becomes incapable to act as the Reserve Fund Trustee, the Authority shall be entitled to appoint a successor Reserve Fund Trustee. In such event, the successor Reserve Fund Trustee shall cause notice to be mailed to the Holders of all Bonds then Outstanding in such manner deemed appropriate by the Authority. If the Reserve Fund Trustee resigns, the resigning Reserve Fund Trustee shall pay for such notice. If the Reserve Fund Trustee is removed, is dissolved, or otherwise becomes incapable of acting as Reserve Fund Trustee, the Authority shall pay for such notice.

Any corporation or association that succeeds to the corporate trust business of the Reserve Fund Trustee as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, shall thereby become vested with all the property, rights and powers of the Reserve Fund Trustee under the Reserve Fund Resolution, without any further act or conveyance.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Reserve Fund Trustee shall be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in the State and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least $50,000,000 (or such lesser amount as may be approved by the Credit Enhancers), if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Every successor Reserve Fund Trustee howsoever appointed under the Reserve Fund Resolution shall execute, acknowledge and deliver to its predecessor and also to the Authority an instrument in writing, accepting such appointment under the Reserve Fund Resolution, and thereupon such successor Reserve Fund Trustee, without further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor shall execute and deliver an instrument transferring to such successor Reserve Fund Trustee all the rights, powers and trusts of such predecessor. The predecessor Reserve Fund Trustee shall execute any and all documents necessary or appropriate to convey all interest it may have to the successor Reserve Fund Trustee. The predecessor Reserve Fund Trustee shall promptly deliver all records relating to the trust or copies thereof and communicate all material information it may have obtained concerning the trust to the successor Reserve Fund Trustee.

Each successor Reserve Fund Trustee, not later than ten (10) days after its assumption of the duties under the Reserve Fund Resolution, shall mail a notice of such assumption to each Bond Trustee, who in turn shall mail a notice of such assumption to the applicable Institution and to each applicable Holder of a registered Bond. (Section 4.06)

Supplements

Supplements Not Requiring Consent of Bondholders. Prior to the issuance of any Bonds designated by the Authority in a Bond Indenture as being secured by the Reserve Fund, the Reserve Fund Resolution may be amended or modified by Supplement or otherwise, as directed by the Executive Director of the Authority, without the consent of or notice to any of the Holders, for any purpose consistent with the goals and intentions of the Authority under the Act. After the issuance of any Bonds designated by the Authority in a Bond Indenture as being secured by the Reserve Fund, without the consent of or notice to any of the Holders, the Authority may adopt and the Reserve Fund Trustee may accept, one or more Supplements for one or more of the following purposes:

(a) to cure any ambiguity or formal defect or omission in the Reserve Fund Resolution, so long as such amendment is not inconsistent with the terms of the Reserve Fund Resolution;

(b) to correct or supplement any provision in the Reserve Fund Resolution which may be inconsistent with any other provision in the Reserve Fund Resolution, or, with the consent of each Credit Enhancer, to make any other provisions with respect to matters or questions arising under the Reserve Fund Resolution which shall not materially adversely affect the interests of the Holders;

(c) To grant or confer upon the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;

(d) To secure additional revenues or provide additional security or reserves for payment of the Bonds;

(e) To preserve the exemption of the interest income borne on the Bonds from federal income taxes;

(f) To remove the Reserve Fund Trustee; and

(g) To address any regulatory changes, whether Federal or State, or any changes in the Code or the regulations or rulings under the Code, or any other significant changes in the health care industry; provided, however, that prior to the effectiveness of any such Supplement, notice of the substance of such Supplement shall be given in writing by or on behalf of the Authority to any rating agency then rating the Outstanding Bonds, and such rating agency or agencies shall have indicated in writing that the ratings then in effect on the Bonds shall not be withdrawn or reduced as a result of such Supplement. (Section 5.01)

Supplements Requiring Consent of Bondholders. (a) Other than Supplements referred to in the prior section and subject to the terms and provisions and limitations contained in the Reserve Fund Resolution and not otherwise, the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, anything contained in the Reserve Fund Resolution to the contrary notwithstanding, to consent to and approve the adoption by the Authority and the acceptance by the Reserve Fund Trustee of such Supplements as shall be deemed necessary and desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Reserve Fund Resolution; provided, however, nothing in this section shall permit or be construed as permitting a Supplement which would:

> (i) reduce the Reserve Fund Requirement or otherwise reduce or eliminate the effectiveness of the Reserve Fund replenishment mechanism provided in the Act without the consent of the Holder of such Bond;
>
> (ii) prefer or give a priority to any Bond over any other Bond without the consent of the Holder of each Bond then Outstanding not receiving such preference or priority; or
>
> (iii) reduce the aggregate principal amount of Bonds then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Bonds then Outstanding.

(b) If at any time the Authority shall request the Reserve Fund Trustee to accept a Supplement pursuant to this section, the Reserve Fund Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed acceptance of such Supplement to be mailed by first class mail, postage prepaid, to all Holders of Bonds then Outstanding at their addresses as they appear on the registration books provided for in each Bond Indenture. The Reserve Fund Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail, or the failure of such Bondholder to receive, the notice required by this section, and any such failure shall not affect the validity of such Supplement when consented to and approved as provided in this section. Such notice shall briefly set forth the nature of the proposed Supplement and shall state that copies thereof are on file at the office of the Reserve Fund Trustee for inspection by all Bondholders.

(c) If within such period, not exceeding three years, as shall be prescribed by the Authority, following the first giving of such notice, the Reserve Fund Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Bonds specified for the Supplement in question which instrument or instruments shall refer to the proposed Supplement described in such notice and shall specifically consent to and approve the adoption and acceptance thereof in substantially the form of the copy thereof referred to in such notice as on file with the Reserve Fund Trustee, thereupon, but not otherwise, the Reserve Fund Trustee may accept such Supplement in substantially such form, without liability or responsibility to any Holder of any Bond, whether or not such Holder shall have consented thereto.

(d) Any such consent shall be binding upon the Holder of the Bond giving such consent and upon any subsequent Holder of such Bond and of any Bond issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bond giving such consent or by a subsequent Holder thereof by filing with the Reserve Fund Trustee, prior to the acceptance by the Reserve Fund Trustee of such Supplement, such revocation. At any time after the Holders of the required principal amount or number of Bonds shall have filed their consents to the Supplement, the Reserve Fund Trustee shall make and file with the Authority a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(e) If the Holders of the required principal amount or number of the Bonds Outstanding shall have consented to and approved the acceptance of such Supplement as provided in the Reserve Fund Resolution, no Holder of any Bond shall have any right to object to the acceptance thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the acceptance thereof, or to enjoin or restrain the Reserve Fund Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

(f) Supplements pursuant to Section 5.02 of the Reserve Fund Resolution shall not become effective unless each Credit Enhancer has consented to such Supplement. (Section 5.02)

SUMMARY OF THE ORIGINAL INDENTURE

In consideration of the factors stated in the Bond Indenture, the Authority has executed the Bond Indenture and grants a security interest in, releases, assigns, transfers, pledges and grants and conveys unto the Bond Trustee and its successors and assigns forever with power of sale the following described property:

(a) All rights and interests of the Authority in, under and pursuant to the Agreement, including, but not limited to, the Notes and the present and continuing right (i) to make claim for, collect or cause to be collected, receive or cause to be received all revenues, receipts and other sums of money payable or receivable thereunder, (ii) to bring acts and proceedings thereunder or for the enforcement thereof and (iii) to do any and all things which the Authority is or may become entitled to do under the Agreement; provided that the assignment described by this clause shall not include the rights of the Authority to exercise powers under Sections 2075 or 2076 of the Act, any assignment of any obligation of the Authority under the Agreement or any right of the Authority thereunder to grant approvals, consents or waivers, to receive notices, or for indemnification or reimbursement of costs and expenses.

(b) The right and title of the Authority in the real property and interests therein constituting a part of each Facility (as defined in each Agreement), together with all buildings, structures, improvements, and related facilities now or hereafter located thereon, together with the tenements, hereditaments, servitudes, appurtenances, rights, privileges and immunities thereunto belonging or appertaining which may from time to time be subject to the mortgages on each Facility to the extent such interest has been granted by an Institution to the Authority pursuant to an Agreement.

(c) The right and title of the Authority in the Equipment (as defined in each Agreement), now or hereafter owned, constituting a part of each Facility, any of which may from time to time be subject to the security interests in the Equipment to the extent such interest has been granted by an Institution to the Authority pursuant to an Agreement.

(d) The right and title of the Authority in the Gross Receipts (as defined in each Agreement) of each Institution, now or hereafter received, any of which may from time to time be subject to the security interests in the Gross Receipts to the extent such interest has been granted by an Institution to the Authority pursuant to an Agreement.

(e) Pledged Revenues and amounts on deposit from time to time in the Funds and Accounts created pursuant to the Bond Indenture, including the earnings thereon, subject to the provisions of the Bond Indenture permitting the application thereof for the purpose and on the terms and conditions set forth therein; provided, however, that there is expressly excluded from any pledge, assignment, lien or security interest created by the Bond Indenture the rights of the Authority to exercise powers under Sections 2075 or 2076 of the Act, and any amount set apart and transferred to the Rebate Fund.

(f) Any and all other real or personal property of any kind specifically conveyed from time to time by delivery or by writing, pledged, assigned or transferred, as and for additional security for the Bonds, by the Authority or by anyone in its behalf or with its written consent, or by the Institution, in favor of the Bond Trustee, which is authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the Bond Indenture.

(g) Amounts on deposit from time to time in the Reserve Fund and in the General Fund created pursuant to the Reserve Fund Resolution, including the earnings thereon, subject to the provisions of the Reserve Fund Resolution permitting the application thereof for the purpose and on the terms and conditions set forth therein, and the rights of the Reserve Fund Trustee designated therein and the parity rights of the holders of all bonds, including but not limited to the Bonds, secured by the Reserve Fund; provided, however, that there is expressly excluded from any pledge, assignment, lien or security interest created by the Reserve Fund Resolution or the Bond Indenture, the rights of the Authority to exercise powers under Sections 2075 or 2076 of the Act, and in no event shall any Holders of Bonds or the Bond Trustee be permitted to exercise any powers under Sections 2075 or 2076 of the Act. (Granting Clauses)

All Bonds Equally and Ratably Secured; Bonds Not General Obligations of the Authority. All Bonds issued under the Bond Indenture and at any time Outstanding shall in all respects be equally and ratably secured thereby, without preference, priority, or distinction on account of the date or dates or the actual time or times of the issuance or maturity of the Bonds, so that all Bonds at any time issued and Outstanding under the Bond Indenture shall have the same right, lien, and preference thereunder, and shall all be equally and ratably secured thereby. The Bonds are special obligations of the Authority payable solely from and secured by a pledge of Pledged Revenues and funds provided therefor under the Bond Indenture. Neither the State nor any political subdivision thereof shall be obligated to pay the principal of or interest on the Bonds, other than from Pledged Revenues, and neither the faith and credit nor the taxing power of the State or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. (Section 1.03)

Authorization and Terms of Bonds

Additional Bonds. One or more series of Additional Bonds may be authenticated and delivered by the Authenticating Agent upon original issuance from time to time pursuant to the Bond Indenture (i) to complete or make additions or improvements to any Project for any Institution, (ii) to provide extensions, additions, improvements or repairs to any Project or any Facility for any Institution, (iii) to refund any or all Outstanding Bonds issued under the Bond Indenture or (iv) to provide additional funds for the Reserve Fund created under the Reserve Fund Resolution. The proceeds of any Additional Bonds shall be applied as provided in the Supplement authorizing such Additional Bonds.

(a) The Authority shall not issue any Additional Bonds under the Bond Indenture unless at or prior to the delivery to the Authenticating Agent of an order from the Authority to authenticate and deliver such Additional Bonds there shall be filed with the Bond Trustee (in addition to all other documents required by the Bond Indenture or the related Supplement): (1) a certificate of an Authority Representative, stating that the Authority is in compliance with the provisions of the Reserve Fund Resolution and is not then in default on any Bonds Outstanding or in the performance of any of the covenants, conditions, agreements or provisions contained in the Bond Indenture or the Agreement; (2) a certificate of an Institution Representative for each Institution then participating in the issuance of the Additional Bonds, stating that the Institution is not then in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Agreement, if any; and (3) evidence satisfactory to the Bond Trustee that, after giving effect to the issuance of the Additional Bonds and the application of the proceeds thereof and other moneys in accordance with the Supplement to the Bond Indenture and the Reserve Fund Resolution, the Reserve Fund Value shall be at least equal to the Reserve Fund Requirement, as provided in the Reserve Fund Resolution.

(b) The Authority shall not issue any Additional Bonds on behalf of an Institution that has any Notes then Outstanding, for the purposes described in clauses (i) or (ii) of the first paragraph above, unless at or prior to the delivery of such Additional Bonds there shall be filed with the Authority and the Bond Trustee, in addition to the certificates required by subsection (a) above, evidence that the conditions precedent to the incurrence of Alternate Debt set forth in the applicable Agreement shall have been satisfied.

(c) The Authority may issue and the Authenticating Agent may authenticate and deliver one or more Series of refunding bonds as Additional Bonds to refund one or more Series, or portions of series, of Outstanding Bonds issued by the Authority; provided the Authority shall not issue and the Authenticating Agent shall not authenticate and deliver refunding bonds as Additional Bonds to refund less than all Outstanding Bonds unless the requirements of subsection (b) above have been satisfied.

(d) Prior to the issuance of any Additional Bonds on behalf of an Institution that has any Notes then Outstanding, the Authority and such Institution shall enter into an amendment to such Institution's Agreement or a supplemental or additional Agreement which shall provide, among other things, that the Institution shall deliver a supplemental Note or a replacement Note, that the Institution shall comply with any and all payment obligations with respect to the Reserve Fund as set forth in the Agreement, and that the payments under the

Agreement shall be increased and computed so as to amortize in full the principal of and interest on such Additional Bonds and any other costs in connection therewith. An executed counterpart of such amendment to such Agreement or supplemental or additional Agreement shall be delivered to the Bond Trustee prior to the authentication and delivery of such Additional Bonds by the Authenticating Agent. Nothing contained in the Bond Indenture shall be construed as prohibiting the Authority from issuing refunding bonds as other than Additional Bonds pursuant to its corporate powers under a separate resolution or indenture for the purpose of refunding all or a portion of the Outstanding Bonds without complying with the conditions contained in subsection (c) above. (Section 2.13)

Revenue and Funds

Flow of Funds. The Bond Trustee shall bill each Institution on a monthly basis for Note Payments and for installments of the Authority's Annual Administrative Fee. The Annual Administrative Fee, and the Bond Trustee's fees and expenses, shall be billed in accordance with the Agreement, shall upon receipt be deposited into the Expense Fund, and the installments of the Annual Administrative Fee received by the Bond Trustee from or on behalf of an Institution shall be free and clear of the lien of the Bond Indenture and shall be deposited into the Expense Fund and therefrom shall be remitted by the Bond Trustee to the Authority, for application by the Authority to any purpose permitted by law. So long as any Bonds are Outstanding in each Bond Year, Note Payments received by the Bond Trustee shall be applied in the following manner and order of priority:

(a) On or before the last day of each month to the Interest Account the amount, if any, necessary to cause the amount then being credited to the Interest Account, together with investment earnings, to be not less than one-sixth of the amount of interest to be paid on Outstanding Bonds on the next Bond Payment Date. Moneys in the Interest Account shall be used to pay interest on Bonds as it becomes due.

(b) On or before the last day of each month, commencing on the last day of July during each Bond Year ending on a date on which Serial Bonds mature to the Principal Account the amount necessary to cause the amount then being credited to the Principal Account, together with investment earnings, to be not less than one-twelfth of the principal amount of Serial Bonds Outstanding which will mature on the last day of such Bond Year. Moneys in the Principal Account shall be used to retire Serial Bonds by payment at their scheduled maturity.

(c) On or before the last day of each month, commencing on the last day of July each Bond Year ending on a date which is a Sinking Fund Account Retirement Date, to the Sinking Fund Account the amount necessary to cause the amount credited to the Sinking Fund Account, together with investment earnings, to be not less than one-twelfth of the unsatisfied Sinking Fund Account Requirements to be satisfied on or before the last day of such Bond Year. Moneys in the Sinking Fund Account shall be used to retire Term Bonds by purchase, by mandatory redemption or by payment at their schedule maturity.

(d) If on the 26th day of any month, or at any other time when moneys in the Principal Account or Sinking Fund Account and Interest Account of the Bond Fund are insufficient or are anticipated to be insufficient to pay principal of or interest on Bonds when due, the Bond Trustee shall promptly so notify the Authority, and request that the Authority make provisions to remedy such deficiency or otherwise request that the Authority (i) notify the Reserve Fund Trustee of such deficiency and (ii) direct the Reserve Fund Trustee to provide to the Bond Trustee moneys from the Reserve Fund to augment payments due for principal of or interest on the Bonds, in accordance with the Reserve Fund Resolution. The Authority covenants that, upon the occurrence of any such deficiency for which the Authority has received notice from the Bond Trustee, the Authority shall promptly notify the Reserve Fund Trustee thereof and direct the Reserve Fund Trustee to transfer money from the Reserve Fund to the Bond Trustee in an amount sufficient to replenish such deficiency unless the Authority shall have otherwise elected to utilize promptly other available money to replenish such deficiency and shall have provided such other available money to the Bond Trustee.

(e) If the Institution makes an optional prepayment of any installment on its Notes, the amount so paid shall be credited to the Redemption Account and applied promptly by the Bond Trustee, first, to cause the amounts credited to the Interest Account, the Principal Account or the Sinking Fund Account of the Bond Fund, or the Reserve Fund, in that order, to be not less than the amounts then required to be credited thereto and, then to retire Bonds by purchase, redemption or both purchase and redemption in accordance with the Institution's directions. Any such redemption shall be of Bonds then subject to optional redemption at the Redemption Price then applicable for optional redemption of such Bonds.

The principal amount of any Term Bonds of a Series so purchased or redeemed shall be credited against the unsatisfied balance of the Institution's Allocable Share of Sinking Fund Account Requirements for such Series and maturity in order of Sinking Fund Account Retirement Dates.

Upon receipt by the Bond Trustee of moneys accompanied by a certificate of an Institution Representative stating that such moneys are insurance proceeds paid with respect to casualty losses, or condemnation awards, with respect to a Facility, and a certificate of an Authority Representative stating that such moneys are to be applied to redeem Bonds in accordance with the Bond Indenture and specifying the amount, Series and maturities of Bonds to be redeemed, the Bond Trustee shall credit such moneys to the Redemption Account and shall apply such moneys to redeem Bonds in accordance with such certificates and the Bond Indenture.

Any balance remaining in the Redemption Account after the purchase or redemption of Bonds in accordance with the Institution's directions, or in any event on the day following the Bond Payment Date next succeeding the prepayment by the Institution, shall be transferred to the Interest Account, the Principal Account or Sinking Fund Account, as directed by the Authority.

(f) Notwithstanding anything in the Bond Indenture to the contrary, in the event that any money is deposited into any Fund or Account under the Bond Indenture, inadvertently or otherwise, that is not required or necessary to be deposited therein pursuant to the terms of the Bond Indenture, or that is not necessary for the redemption of Bonds that have been called for redemption, such money shall be transferred by the Bond Trustee, at the direction of the Authority, to any other Fund or Account created under the Bond Indenture or under the Reserve Fund Resolution or to any other Person, including, but not limited to, the Authority, an Institution, the Reserve Fund Trustee, the State of Maine or the United States. (Section 5.03)

<u>Investment of Moneys Held by the Bond Trustee</u>. (a) (i) Moneys in all Funds and Accounts held by the Bond Trustee shall be invested by the Bond Trustee, as soon as possible upon receipt in Permitted Investments as directed in writing by an Institution, with respect to its Account(s) within the Construction Fund or the Renewal Fund, and by the Authority, with respect to all other Funds and Accounts, including the Account(s) within the Construction Fund established to pay costs of issuance, or in the absence of a specific direction by the Authority or an Institution, in accordance with a standing general direction, subject to the following; provided however that the amounts on deposit in the Interest Account representing Capitalized Interest may be invested only in Government Obligations. The maturity date or the date on which such Permitted Investments may be redeemed at the option of the holder thereof shall coincide as nearly as practicable with (but in no event shall be later than) the date or dates in which moneys in the Funds or Accounts for which the investments were made will be required for the purposes thereof.

(ii) For purposes of the paragraph above, moneys in the Funds or Accounts held by the Bond Trustee shall be invested in Permitted Investments maturing or redeemable at the option of the Bond Trustee not later or no less frequently than the respective following dates or periods of time: (A) Principal Account and Sinking Fund Account, the day preceding the last day of each Bond Year; (B) Interest Account, the day preceding the next Bond Payment Date; and (C) Redemption Account, the day preceding the next date on which Bonds are to be redeemed or are expected to be purchased.

(b) Amounts credited to a Fund or Account may be invested, together with amounts credited to one or more other Funds or Accounts, in the same Permitted Investment, provided that (i) each such investment complies in all respects with the provisions of subsection (a) above as they apply to each Fund or Account for which the joint investment is made and (ii) the Bond Trustee maintains separate records for each Fund and Account and such investments are accurately reflected therein.

(c) The Bond Trustee may make any investment permitted by this section, through or with its own commercial banking or investment departments unless otherwise directed by the Authority or an Institution as provided above.

(d) The Bond Trustee shall sell at the best price obtainable, or present for redemption, any Permitted Investment purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account for which such investment was made.

(e) Neither the Bond Trustee nor the Authority shall knowingly use or direct or permit the use of any moneys of the Authority in its possession or control in any manner which would cause any Bond to be an "arbitrage bond" within the meaning ascribed to such term in Section 148 of the Code, or any successor section of the Code.

(f) Notwithstanding any provision of the Bond Indenture, the Authority and the Bond Trustee shall observe the covenants and agreements contained in the Tax Regulatory Agreements, to the extent that and for so long as such covenants and agreements are required by law. (Section 5.05)

Investment Income; Earnings Fund. All investment income or interest earnings on all Funds and Accounts shall be credited by ledger entry (or actually deposited if so directed by an Institution as to its allocable share of earnings, in a written notice delivered to the Authority and the Bond Trustee) upon receipt by the Bond Trustee to the Earnings Fund. The Bond Trustee shall also keep an account of all investment income or interest earnings on the Reserve Fund and the General Fund by ledger entry credit to the Earnings Fund, but only upon receipt by the Bond Trustee from the Reserve Fund Trustee or the Authority of information related to such income or earnings. The Bond Trustee shall keep accounts of all amounts credited by ledger entry (or actually deposited if so directed by an Institution as to its allocable share of earnings, in a written notice delivered by the Institution to the Authority and the Bond Trustee) into the Earnings Fund to indicate the Fund or Account (including the Reserve Fund and the General Fund) source of the income or earnings. The Bond Trustee shall bill each Institution that amount as is set forth as such Institution's Rebate Amount (as defined in the applicable Tax Regulatory Agreement) in a written certificate delivered by the applicable Institution to the Bond Trustee pursuant to the applicable Tax Regulatory Agreement, and upon receipt from the applicable Institution deposit such amount in the Rebate Fund as described in the applicable Tax Regulatory Agreement. Such certificate shall be delivered by the Institution not less frequently than every Computation Date (as defined in the applicable Tax Regulatory Agreement); provided, that the Institution, at its option, may file such certificate more frequently. All actual investment income and interest earnings, if merely credited to the Earnings Fund by ledger entry, will be dealt with as follows. Except as otherwise provided in the Bond Indenture, interest income and gain received, or loss realized, from investments of moneys in any Fund or Account shall be credited, or charged, as the case may be, to such respective Fund or Account. All income and gain from investment of the Interest Account shall be transferred to the Account or Accounts within the Construction Fund (as may be directed by the Authority) prior to the completion of a Project, and thereafter, unless otherwise directed by the Authority, shall be retained in the Interest Account and credited (as may be directed by the Authority) against the interest component of the next forthcoming Note Payment. Income and gain from Redemption Account investments may be transferred to any other Fund or Account upon direction of the Authority. Investment income credited to either the Interest Account, the Principal Account or the Sinking Fund Account shall be transferred thereto unless otherwise directed by the Authority, and shall be a credit (as may be directed by the Authority) against the next forthcoming Note Payment to be deposited to such respective Account. (Section 5.07)

Rebate Fund. (a) The Rebate Fund and the amounts deposited therein shall not be subject to a security interest, pledge, assignment, lien or charge in favor of the Bond Trustee or any owner of a Bond, but shall be held by the Bond Trustee as trustee for the benefit of the United States. For purposes of this section only, the term Bond Year shall have the meaning set forth in the applicable Tax Regulatory Agreement.

(b) The Bond Trustee, upon the receipt of a certification of the Rebate Amount from an Institution Representative, shall deposit in the Institution's Account within the Rebate Fund an amount such that the amount held in the Rebate Fund after such deposit is equal to the Rebate Amount (for the applicable Institution) calculated as of the Computation Date (as defined in the applicable Tax Regulatory Agreement) in accordance with the applicable Tax Regulatory Agreement. If there has been delivered to the Bond Trustee a certification of the

Rebate Amount in conjunction with the completion of a Project or the restoration of a Project from the Renewal Fund, at any time during a Bond Year the Bond Trustee shall deposit in the applicable Institution's Account within the Rebate Fund at that time an amount such that the amount held in the Rebate Fund after such deposit is equal to the Rebate Amount (for the applicable Institution), calculated at the completion of the applicable Project or of the restoration of the applicable Project as aforesaid. The amount deposited in the Rebate Fund pursuant to the previous sentences shall be withdrawn from the Earnings Fund to the extent moneys are available.

(c) In the event that on the first day of any Bond Year the amount on deposit in an Institution's Account within the Rebate Fund exceeds the Rebate Amount (for the applicable Institution), the Bond Trustee, upon the receipt of written instructions from an Institution Representative for the applicable Institution specifying the amount of the excess, shall withdraw such excess amount and deposit it in the Construction Fund prior to the completion of the applicable Project, or, after the completion of the applicable Project, deposit it in the Redemption Account of the Bond Fund.

(d) The Bond Trustee, upon the receipt of written instructions from an Institution Representative for the applicable Institution and an aggregate report from the Authority, with respect to each payment to be made to the United States pursuant to such instructions in accordance with the applicable Tax Regulatory Agreement setting forth the amount of such payment, shall pay to the United States, out of amounts in the Rebate Fund, (i) not less frequently than once each five (5) Bond Years, an amount such that, together with prior amounts paid to the United States, the total paid to the United States is equal to ninety percent (90%) of the Rebate Amount with respect to the Bonds as of the date of such payment and (ii) notwithstanding the provisions of the Bond Indenture, not later than sixty (60) days after the date on which all Bonds have been paid in full, all of the Rebate Amount as of the date of payment.

(e) Notwithstanding any provisions of the Bond Indenture, the obligation to remit the Rebate Amount to the United States and to comply with all other requirements described by this section and of any Tax Regulatory Agreement shall survive the defeasance or payment in full of the Bonds, to the extent that and for so long as such covenants and agreements are required by law.

(f) The Bond Trustee shall be deemed conclusively to have complied with the provisions of this section if it makes payments in accordance with the certifications and written directions of the Institutions provided in accordance with this section. The Bond Trustee shall not be required to take any actions required under this section in the absence of such certifications of the Institutions, except as required by the Bond Indenture. (Section 5.08)

Renewal Fund. The net proceeds of insurance with respect to casualty losses or of condemnation awards related to a Project shall be deposited into the Renewal Fund or into the Redemption Account of the Bond Fund, at the option of the applicable Institution. The Bond Trustee shall promptly notify the Authority of any deposit into the Renewal Fund. Any deposit into the Renewal Fund shall be to an Account therein designated for the applicable Institution with respect to whose Facility the casualty loss or condemnation award has occurred. Amounts on deposit in the Renewal Fund shall be subject to the applicable Tax Regulatory Agreement, but otherwise may be requisitioned by such Institution for any of its corporate purposes, after making any transfer to the Rebate Fund as required by the applicable Tax Regulatory Agreement. If amounts deposited into the Renewal Fund with respect to any particular Institution have been on deposit therein for a period of twenty-four (24) months without substantial steps being taken to repair, rebuild or replace such Institution's Facility, as determined by the Authority, such amounts shall be transferred to the Redemption Account for application to the optional redemption of Bonds pursuant to the optional redemption provisions for a Series of Bonds, as directed by the Authority, unless such Institution shall have delivered a certificate satisfactory to the Authority and the Bond Trustee evidencing the plans of such Institution to repair, rebuild or replace such Facility in due course. (Section 5.09)

Defaults and Remedies

Bond Indenture Events of Default. Each of the following is declared a "Bond Indenture Event of Default" under the Bond Indenture:

(a) If payment (for purposes of this clause, payment shall not include any payment made by any Bond Insurer pursuant to any Bond Insurance Policy) by the Authority in respect of any installment of interest on any Bond shall not be made in full when the same becomes due and payable (other than as a result of a Bond Indenture Event of Default described in clause (f) or (g) below);

(b) If payment (for purposes of this clause, payment shall not include any payment made by any Bond Insurer pursuant to any Bond Insurance Policy) by the Authority in respect of the principal of or redemption premium, if any, on any Bond shall not be made in full when the same becomes due and payable, whether at maturity or by proceedings for redemption or by declaration of acceleration or otherwise (other than as a result of a Bond Indenture Event of Default described in clause (f) or (g) below);

(c) The Authority shall fail duly to observe or perform any covenant or agreement on its part under the Bond Indenture for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Authority by the Bond Trustee or any Bond Insurer, or to the Authority and the Bond Trustee by the Holders of at least two-thirds in aggregate principal amount of Bonds then Outstanding or by any Bond Insurer. If the breach of covenant or agreement is one which cannot be completely remedied within the thirty (30) days after written notice has been given, it shall not be a Bond Indenture Event of Default as long as (i) the Authority has taken active steps within the thirty (30) days after written notice has been given to remedy the failure and is diligently pursuing such remedy and, (ii) such failure is remedied within sixty (60) days after written notice has been given (or each Bond Insurer has consented in writing to a longer grace period);

(d) The entry of a decree or order by a court having jurisdiction in the premises adjudging the Authority a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Authority under the Federal Bankruptcy Code or any other applicable Federal or state law, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of the Authority or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of ninety (90) consecutive days;

(e) The commencement by the Authority of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the commencement of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other similar applicable Federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Authority or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due;

(f) If there occurs an Agreement Event of Default pursuant to Section 6.01(a) of the Agreement and such Event of Default shall continue for two (2) days or if there occurs any other Agreement Event of Default; and

(g) If as a result of the failure of an Institution to make payments under an Agreement, there is a deficiency in the Reserve Fund below the Reserve Fund Requirement, and thereafter the Authority shall fail or refuse to comply with the provisions of the Reserve Fund Resolution or of Section 2075(1)(C) of the Act, or if such amounts as shall be certified by the Executive Director of the Authority to the Governor of the State pursuant to such provisions of the Act shall not be appropriated and paid to the Authority for deposit with the Reserve Fund Trustee into the Reserve Fund in an amount sufficient to cause the amounts on deposit in the Reserve Fund to equal at least the Reserve Fund Requirement, prior to the end of the then current fiscal year of the State. (Section 7.01)

Acceleration; Annulment of Acceleration. (a) Upon the occurrence of a Bond Indenture Event of Default described under paragraphs (a), (b), (c), (d) or (e) in the previous section, then, without any further action, but only with the consent of the Bond Insurer of a Series of Bonds with respect to acceleration of the Series of Bonds insured by such Bond Insurer so long as it is not then in default of its payment obligations under the Bond Insurance Policy for such Series of Bonds, all Bonds Outstanding shall become and be immediately due and payable, anything in the Bonds or in the Bond Indenture to the contrary notwithstanding. If such Bond Indenture Event of Default shall be remedied prior to payment in full of all principal of, and interest on, all Bonds Outstanding, and each applicable Bond Insurer shall consent, then the acceleration described in the immediately preceding sentence shall be reversed, and the Bonds shall remain Outstanding as though no such Bond Indenture Event of Default had occurred. Upon the occurrence and during the continuation of a Bond Indenture Event of Default described under paragraphs (f) or (g) of the preceding section, the Authority, but only with the consent of the Bond Insurer of a Series of Bonds with respect to the acceleration of the Series of Bonds insured by such Bond Insurer so long as it is not then in default of its payment obligations under the Bond Insurance Policy for such Series of Bonds, shall have the right and power to direct the Bond Trustee to accelerate either all or a portion of the Bonds then Outstanding and, to declare that all or a portion of the Bonds Outstanding shall become and be immediately due and payable, anything in the Bonds or in the Bond Indenture to the contrary notwithstanding. If the Bond Indenture Event of Default described under paragraphs (f) or (g) of the preceding section has resulted from the failure of one or more, but less than all, of the Institutions to make Note Payments when due, then the Authority, but only with the consent of the Bond Insurer for a Series of Bonds with respect to the acceleration of such Series of Bonds so long as it is not then in default of its payment obligations under the Bond Insurance Policy for such Series of Bonds, shall have the right and power to direct the Bond Trustee to accelerate all or a portion of the Bonds allocable to the Institution or Institutions as to which such Agreement Event of Default has arisen. In the event of any such allocable partial acceleration, Bonds to be accelerated shall be in a principal amount equal as nearly as possible to the defaulting Institution's Allocable Share of all of the Bonds, rounded as directed by the Authority, unless otherwise determined in writing by the Authority to the Bond Trustee, and the Bonds to be so accelerated shall be selected by the Authority from each Series and maturity of Bonds in any manner determined by the Authority. It is the intention of the Authority that the default of any single Institution under such Institution's Agreement shall (i) not result in the acceleration of amounts due to the Authority under the Agreements of the non-defaulting Institutions, and (ii) permit the Authority to direct, in its sole discretion, (A) a partial acceleration of such defaulting Institution's Allocable Share of all of the Bonds (whether or not such partially accelerated Bonds can be repaid upon their acceleration), but only with the consent of the Bond Insurer for a Series of Bonds with respect to the acceleration of such Series of Bonds so long as such Bond Insurer is not then in default of its payment obligations under its Bond Insurance Policy for such Series of Bonds, (B) the continued payment of debt service on all Bonds Outstanding provided that sufficient funds therefor are available from whatever source, or (C) the exercise of any other remedy or remedies, if any, available by law or under the Bond Indenture as the Authority determines, in its sole discretion, to be appropriate under the circumstances.

In the event of any such full or partial acceleration of Bonds, there shall be due and payable on the Bonds so declared due and payable an amount equal to the total principal amount of all such Bonds so declared due and payable, plus all interest accrued thereon and which accrues to the date of payment. The Bond Trustee shall give written notice of such full or partial acceleration to the Authority, the Registrar, and the Institutions, and the Bond Trustee shall give notice to the Bondholders in the same manner as for a notice of redemption under Article III of the Bond Indenture stating the accelerated date on which the Notes and the Bonds shall be due and payable.

(b) At any time after the principal of any of the Notes and the Bonds shall have been so declared to be due and payable, if the declaration that the Notes are immediately due and payable is annulled, the declaration that the Bonds are immediately due and payable shall also, without further action, be annulled and the Bond Trustee shall promptly give notice of such annulment in the same manner as described by subsection (a) above for giving notice of acceleration. No such annulment shall extend to or affect any subsequent Bond Indenture Event of Default or impair any right consequent thereon.

(c) Anything in the Bond Indenture to the contrary notwithstanding, upon the occurrence and continuance of a Bond Indenture Event of Default under Section 7.01(a), (b), (c), (d) or (e) of the Bond Indenture, the Bond Trustee, at the direction of the Bond Insurer for a Series of Bonds so long as such Bond Insurer is not in default of its payment obligations under the Bond Insurance Policy for such Series of Bonds, or at the direction of the Holders of at least two-thirds in aggregate principal amount of Bonds Outstanding (but only with the consent of the Bond Insurer for a Series of Bonds so long as such Bond Insurer is not in default of its payment obligations under the Bond Insurance Policy for such Series of Bonds), shall have the right and power to direct, and control the exercise of, any remedies available under the Bond Indenture, under the Reserve Fund Resolution and under the Agreements that relate to the Series of Bonds, as if such Bond Insurer were the sole Holder of all of such Series of

Bonds, so long as such Bond Insurer is not then in default of its payment obligations under the Bond Insurance Policy for such Series of Bonds.

In the event the maturity of the Bonds of a Series is accelerated, the Bond Insurer for such Series of Bonds may elect, in its sole discretion, to pay accelerated principal and interest accrued or accreted, as applicable, on such principal to the date of acceleration and the Bond Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Bond Insurer's obligations under the Bond Insurance Policy for such Series of Bonds shall be fully discharged. (Section 7.02)

Additional Remedies and Enforcement of Remedies. (a) Upon the occurrence and continuance of any Bond Indenture Event of Default, the Bond Trustee may, or upon the written request of the Holders of not less than two-thirds in an aggregate principal amount of the Bonds Outstanding (for purposes of this section the Bond Insurer for a Series of Bonds shall be deemed the sole Holder of all of the Bonds Outstanding of such Series so long as such Bond Insurer is not then in default of its payment obligations under the Bond Insurance Policy for such Series of Bonds), together with indemnification of the Bond Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Bondholders and the Bond Insurer under the Bond Indenture and under the Act and the Bonds by such suits, actions or proceedings as the Bond Trustee, being advised by counsel, shall deem expedient, including but not limited to: (i) civil action to recover money or damages due and owing; (ii) civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Bonds; (iii) enforcement of any other right of the Bondholders conferred by law or by the Bond Indenture; (iv) enforcement of any other right conferred upon the Authority by the Agreements; and (v) if a Bond Indenture Event of Default has occurred and is continuing under Section 7.01(a) or (b) of the Bond Indenture, enforcement of any right or duty of the Authority set forth in the Reserve Fund Resolution.

(b) Regardless of the happening of a Bond Indenture Event of Default, the Bond Trustee, if requested in writing by the Holders of not less than two-thirds in aggregate principal amount of the Bonds then Outstanding (for purposes of this section the Bond Insurer for a Series of Bonds shall be deemed the Holder of all of the Bonds Outstanding of such Series so long as such Bond Insurer is not then in default of its payment obligations under the Bond Insurance Policy for such Series of Bonds), shall upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised by counsel shall be necessary or expedient (i) to prevent any impairment of the security under the Bond Indenture by any acts which may be unlawful or in violation of the Bond Indenture, or (ii) to preserve or protect the interests of the Holders, provided that such request is in accordance with law. (Section 7.04)

Application of Revenues and Other Moneys After Default. During the continuance of a Bond Indenture Event of Default all moneys received by the Bond Trustee pursuant to any right given or action taken under the provisions of the Bond Indenture shall, after payment of the reasonable costs and expenses of the proceedings which result in the collection of such moneys and of the reasonable fees, expenses and advances incurred or made by the Bond Trustee and the Authority with respect thereto, be deposited in the Bond Fund, and all amounts held by the Bond Trustee under the Bond Indenture shall be applied as follows:

(a) Unless the principal of all Outstanding Bonds shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on the Bonds in the order of maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal amounts or Redemption Price of any Bonds which shall have become due (other than Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Bond Indenture), whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the principal amounts or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If the principal amounts of all Outstanding Bonds shall have become or have been declared due and payable, to the payment of the principal amounts and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal amounts and interest, to the Persons entitled thereto without any discrimination or preference.

(c) If the principal amounts of all Outstanding Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Bond Indenture, then, subject to the provisions of paragraph (b) above in the event that the principal amounts of all Outstanding Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) above.

Whenever moneys are to be applied by the Bond Trustee pursuant to this section, such moneys shall be applied by it at such times, and from time to time, as the Bond Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Bond Trustee shall apply such moneys, it shall fix the date (which shall be a Bond Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the principal amounts to be paid on such dates shall cease to accrue. The Bond Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any Bond until such Bond shall be presented to the Bond Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Bonds and interest thereon have been paid under the Bond Indenture and all expenses and charges of the Bond Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Authority or as a court of competent jurisdiction may direct. (Section 7.05)

Bondholders' Control of Proceedings. If a Bond Indenture Event of Default shall have occurred and be continuing, notwithstanding anything in the Bond Indenture to the contrary, the Holders of a majority in aggregate principal amount of Bonds then Outstanding (for purposes of this section the Bond Insurer for a Series of Bonds shall be deemed the sole Holder of all of the Bonds Outstanding of such Series so long as such Bond Insurer is not then in default of its payment obligations under the Bond Insurance Policy for such Series of Bonds) shall have the right, at any time, by any instrument in writing executed, and delivered to the Bond Trustee to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Bond Indenture, provided that such direction is in accordance with law and the provisions of the Bond Indenture (including indemnity to the Bond Trustee as provided in the Bond Indenture), and provided that nothing described by this section shall impair the right of the Bond Trustee in its discretion to take any other action under the Bond Indenture which it may deem proper and which is not inconsistent with such direction by Bondholders. (Section 7.08)

Individual Bondholder Action Restricted. (a) No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Bond Indenture or for the execution of any trust thereunder or for any remedy thereunder unless:

(i) a Bond Indenture Event of Default has occurred (A) under subsection (a) or (b) of Section 7.01 thereof of which the Bond Trustee is deemed to have notice, or (B) under subsection (c), (d), (e), (f) or (g) of Section 7.01 thereof as to which the Bond Trustee has actual knowledge or as to which the Bond Trustee has been notified in writing;

(ii) the Holders of at least two-thirds in aggregate principal amount of Bonds Outstanding (for purposes of this section the Bond Insurer for a Series of Bonds shall be deemed the sole Holder of all of the Bonds Outstanding of such Series so long as such Bond Insurer is not then in default of its payment obligations under the Bond Insurance Policy for such Series of Bonds) shall have made written request to the Bond Trustee to proceed to exercise the powers granted in the Bond Indenture or to institute such action, suit or proceeding in its own name;

(iii) such Bondholders shall have offered the Bond Trustee indemnity as provided in the Bond Indenture;

(iv) the Bond Trustee shall have failed or refused to exercise the powers granted in the Bond Indenture or to institute such action, suit or proceedings in its own name for a period of sixty (60) days after receipt by it of such request and offer of indemnity; and

(v) during such sixty (60) day period no direction inconsistent with such written request shall have been delivered to the Bond Trustee by the Holders of a majority in aggregate principal amount of Bonds then Outstanding in accordance with the Bond Indenture.

(b) No one or more Holders of Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security of the Bond Indenture or to enforce any right thereunder except in the manner therein provided and for the equal benefit of the Holders of all Bonds Outstanding.

(c) Nothing contained in the Bond Indenture shall affect or impair, or be construed to affect or impair, the right of the Holder of any Bond (i) to receive payment of the principal of or interest on such Bond on or after the due date thereof or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no Holder of any Bond may institute or prosecute any such suit or enter judgment therein if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien thereof on the moneys, funds and properties pledged thereunder for the equal and ratable benefit of all Holders of Bonds. (Section 7.09)

Notice of Default. (a) Promptly, but in any event within thirty (30) days after (i) the occurrence of a Bond Indenture Event of Default under Section 7.01(a) or (b) thereof, which the Bond Trustee is deemed to have notice, or (ii) receipt, in writing or otherwise, by the Bond Trustee of actual knowledge or notice of a Bond Indenture Event of Default under Section 7.01 (c), (d), (e), (f) or (g) thereof, the Bond Trustee shall, unless such Bond Indenture Event of Default shall have theretofore been cured, give written notice thereof by first class mail to each Holder of a Bond then Outstanding, provided that, except in the case of a default in the payment of principal amounts, Sinking Fund Installments, or the Redemption Price of or interest on any of the Bonds, the Bond Trustee may withhold such notice to such Holders if, in its sole judgment, it determines that the withholding of such notice is in the best interests of the Bondholders.

(b) The Bond Trustee shall immediately notify the Authority and each Bond Insurer of the occurrence of a Bond Indenture Event of Default under Section 7.01(a) or (b) thereof. The Bond Trustee shall, within five (5) Business Days after the Bond Trustee has received actual knowledge or notice, in writing or otherwise, of a Bond Indenture Event of Default under Section 7.01(c), (d), (e), (f) or (g) thereof, notify the Authority and each Bond Insurer thereof. (Section 7.12)

Limitation of the Authority's Liability. No agreements or provisions contained in the Bond Indenture nor any agreement, covenant or undertaking by the Authority contained in any document executed by the Authority in connection with any Project or the issuance, sale and delivery of the Bonds shall give rise to any pecuniary liability of the Authority or a charge against its general credit, or shall obligate the Authority financially in any way, except with respect to the Pledged Revenues and their application as provided in the Bond Indenture. No failure of the Authority to comply with any term, covenant or agreement in the Bond Indenture or in any document executed by the Authority in connection with the Project, shall subject the Authority to liability for any claim for damages, costs or other financial or pecuniary charge except to the extent that the same can be paid or recovered from the Pledged Revenues. Nothing in the Bond Indenture shall preclude a proper party in interest from seeking and obtaining, to the extent permitted by law, specific performance against the Authority for any failure to comply with any term, condition, covenant or agreement therein; provided, that no costs, expenses or other monetary relief shall be recoverable from the Authority except as may be payable from the Pledged Revenues. (Section 7.13)

<u>The Bond Trustee</u>

<u>Removal and Resignation of the Bond Trustee</u>. The Bond Trustee may resign at any time with notice to the Authority, each Bond Insurer, the Reserve Fund Trustee or the Institutions, or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Bonds then Outstanding or by the Bond Insurers. Written notice of such resignation or removal shall be given to the Authority, each Bond Insurer and the Institutions and such resignation or removal shall only take effect upon the appointment and qualification of, and acceptance by, a successor Bond Trustee. In the event a successor Bond Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation is given, the Bond Trustee, the Authority, any Bond Insurer or the Institutions may apply to any court of competent jurisdiction for the appointment of a successor Bond Trustee to act until such time as a successor is appointed as provided in the Bond Indenture.

In addition, the Bond Trustee may be removed at any time with or without cause, by a Supplement signed by the Authority so long as (i) no Agreement Event of Default or Bond Indenture Event of Default shall have occurred and be continuing and (ii) the Authority determines, in such Supplement, that the removal of the Bond Trustee shall not have an adverse effect upon the rights or interests of the Bondholders.

In the event of the resignation or removal of the Bond Trustee or in the event the Bond Trustee is dissolved or otherwise becomes incapable to act as the Bond Trustee, the Authority shall be entitled to appoint a successor Bond Trustee after consultation with the Institutions. In such event, the successor Bond Trustee shall cause notice to be mailed to the Holders of all Bonds then Outstanding in such manner deemed appropriate by the Authority.

Any corporation or association that succeeds to the corporate trust business of the Bond Trustee as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, shall thereby become vested with all the property rights and powers of the Bond Trustee under the Bond Indenture, without any further act or conveyance.

If the Holders of a majority of the principal amount of Bonds then Outstanding object to the successor Bond Trustee so appointed by the Authority and if such Holders designate another Person qualified to act as the Bond Trustee, the Authority shall then appoint as the Bond Trustee the Person so designated by the Holders.

Each successor Bond Trustee, not later than ten (10) days after its assumption of the duties, shall mail a notice of such assumption to each Holder of a registered Bond. (Section 8.06)

<u>Supplements</u>

<u>Supplements Not Requiring Consent of Bondholders</u>. The Authority and the Bond Trustee may, without the consent of or notice to any of the Holders, enter into one or more Supplements for one or more of the following purposes (provided that no Supplement pursuant to clause (b) or (h) below shall be effective prior to the receipt of the written consent of each Bond Insurer, so long as such Bond Insurer is not then in default of its payment obligations under its Bond Insurance Policy):

(a) to cure any ambiguity or formal defect or omission in the Bond Indenture so long as such amendment is not inconsistent with the terns of the Bond Indenture;

(b) to correct or supplement any provision in the Bond Indenture which may be inconsistent with any other provision in the Bond Indenture, or to make any other provisions with respect to matters or questions arising thereunder which shall not materially adversely affect the interests of the Holders or of the Bond Insurers;

(c) To grant or confer upon the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;

(d) To secure additional revenues or provide additional security or reserves for payment of the Bonds;

(e) To preserve the exemption of the interest income borne on the Bonds from Federal income taxes;

(f) To authorize the issuance of Additional Bonds under the Bond Indenture;

(g) To remove the Bond Trustee in accordance with the Bond Indenture;

(h) To address any regulatory changes, whether Federal or State, or any changes in the Code or the regulations or rulings under the Code, or any other significant changes in the health care industry; provided, however, that prior to the effectiveness of any such Supplement, notice of the substance of such Supplement shall be given in writing by or on behalf of the Authority to any rating agency then rating the Outstanding Bonds, and such rating agency or agencies shall have indicated in writing that the ratings then in effect on the Bonds shall not be withdrawn or reduced as a result of such Supplement; and

(i) To make any amendments to the provisions of Section 6.08 of the Bond Indenture that are necessary or appropriate to reflect changes in secondary market disclosure regulations or secondary market disclosure industry standards applicable to the Bonds or similar types of securities. (Section 9.01)

Supplements Requiring Consent of Bondholders. (a) Other than Supplements referred to in the immediately preceding section and subject to the terms and provisions and limitations contained in the Bond Indenture and not otherwise, each Bond Insurer (so long as each Bond Insurer is not then in default of its payment obligations under its Bond Insurance Policy) and the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, anything contained in the Bond Indenture to the contrary notwithstanding, to consent to and approve the execution by the Authority and the Bond Trustee of such Supplements as shall be deemed necessary and desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained therein; provided, however, no Supplement shall:

(i) extend the stated maturity of or time for paying interest on any Bond or reduce the principal amount of or the redemption premium or rate of interest payable on any Bond without the consent of the Holder of such Bond;

(ii) prefer or give a priority to any Bond over any other Bond without the consent of the Holder of each Bond then Outstanding not receiving such preference or priority; or

(iii) reduce the aggregate principal amount of Bonds then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Bonds then Outstanding.

(b) If at any time the Authority shall request the Bond Trustee to enter into a Supplement the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplement to be mailed by first class mail, postage prepaid, to all Holders of Bonds then Outstanding at their addresses as they appear on the registration books provided for in the Bond Indenture. The Bond Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail, or the failure of such Bondholder to receive such notice and any such failure shall not affect the validity of such Supplement when consented to and approved as described in this section. Such notice shall briefly set forth the nature of the proposed Supplement and shall state that copies thereof are on file at the office of the Bond Trustee for inspection by all Bondholders.

(c) If within such period, not exceeding three years, as shall be prescribed by the Institution, following the first publication of such notice, the Bond Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Bonds specified in subsection (a) above for the Supplement in question which instrument or instruments shall refer to the proposed Supplement described in such notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice as on file with the Bond Trustee, thereupon, but not otherwise, the Bond Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Holder of any Bond, whether or not such Holder shall have consented thereto.

(d) Any such consent shall be binding upon the Holder of the Bond giving such consent and upon any subsequent Holder of such Bond and of any Bond issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bond giving such consent or by a subsequent Holder thereof by filing with the Bond Trustee, prior to the execution by the Bond Trustee of such Supplement, such revocation. At any time after the Holders of the required principal amount or number of Bonds shall have filed their consents to the Supplement, the Bond Trustee shall make and file with the Authority a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(e) If the Holders of the required principal amount or number of the Bonds Outstanding shall have consented to and approved the execution of such Supplement as provided in the Bond Indenture, no Holder of any Bond shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. (Section 9.02)

Amendments to Agreements not Requiring Consent of Bondholders. The Authority and the Bond Trustee may without the consent of or notice to any of the Holders, consent to and join in the execution and delivery of any amendment, change or modification of the Agreements as may be required (i) by the provisions of the Bond Indenture or of the Agreements; (ii) to cure any ambiguity or formal defect or omission therein so long as such amendment is not inconsistent with the terms thereof; (iii) to preserve the exemption of the interest borne on the Bonds from federal income taxes; or (iv) in connection with any other change therein as to which there is filed with the Bond Trustee and the Authority the prior written consent of each Bond Insurer (so long as such Bond Insurer is not then in default of its payment obligations under its Bond Insurance Policy), and an Opinion of Counsel stating that the proposed change will not adversely affect the interests of the Holders, and which in the opinion of the Bond Trustee will not adversely affect the interests of the Holders, the Bond Insurers or the Bond Trustee. (Section 9.04)

Amendments to Agreements Requiring Consent of Bondholders. (a) Except for amendments, changes or modifications to the Agreements referred to in the immediately preceding section, the Authority and the Bond Trustee may consent to and join in the execution and delivery of any amendment, change or modification to the Agreements only upon the consent of each Bond Insurer (so long as such Bond Insurer is not then in default of its payment obligations under its Bond Insurance Policy) and of not less than a majority in aggregate principal amount of Bonds then Outstanding as provided in the Bond Indenture, provided, however, no such amendment, change or modification may affect the obligation of the Institution to make payments under the Notes or reduce the amount of or extend the time for making such payments without the consent of the Holders of all Bonds then Outstanding.

(b) If at any time the Authority and the Institution shall request the consent of the Bond Trustee to any such amendment, change or modification to any Agreement the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed amendment, change or modification to be given in the same manner as provided in Section 9.02 of the Bond Indenture with respect to Supplements thereto. Such notice shall briefly set forth the nature of the proposed amendment, change or modification and shall state that copies thereof are on file at the office of the Bond Trustee for inspection by all Bondholders.

(c) If the consent to and approval of the execution of such amendment, change or modification is given by the Holders of not less than the aggregate principal amount or number of Bonds specified in subsection (a) above within the time and in the manner as provided by Section 9.02 of the Bond Indenture with respect to Supplements thereto, but not otherwise, such amendment, change or modification may be consented to, executed and delivered upon the terms and conditions and with like binding effect upon the Holders as provided in the Bond Indenture with respect to Supplements thereto. (Section 9.05)

Satisfaction and Discharge

Discharge. If payment of all principal of, premium, if any, and interest on the Bonds in accordance with their terms and as provided in the Bond Indenture is made, or is provided for, and if all other sums payable by the Authority thereunder shall be paid or provided for, then the liens, estates and security interests granted in the Bond Indenture shall cease. Thereupon, upon the request of the Authority, and upon receipt by the Bond Trustee of an Opinion of Counsel stating that all conditions precedent to the satisfaction and discharge of the lien of the Bond Indenture have been satisfied, the Bond Trustee shall execute and deliver proper instruments acknowledging such satisfaction and discharging the lien of the Bond Indenture and the Bond Trustee shall transfer all property held by it under the Bond Indenture, other than moneys or obligations held by the Bond Trustee for payment of amounts due or to become due on the Bonds, to the Authority, an Institution or such other Person as may be entitled thereto as their respective interests may appear. Such satisfaction and discharge shall be without prejudice to the rights of the Bond Trustee thereafter to charge and be compensated or reimbursed for services rendered and expenditures incurred in connection with the Bond Indenture.

The Authority or any Institution may at any time surrender to the Bond Trustee for cancellation any Bonds previously authenticated and delivered which the Authority or such Institution may have acquired in any manner whatsoever and such Bond upon such surrender and cancellation shall be deemed to be paid and retired. (Section 10.01)

Providing for Payment of Bonds. Payment of all of the Bonds may be provided for by the deposit with the Bond Trustee of moneys or non-callable Government Obligations or Advance-Refunded Municipal Bonds, or any combination thereof. The moneys and the maturing principal and interest income on such non-callable Government Obligations or Advance-Refunded Municipal Bonds, if any, shall be sufficient to pay when due the principal or Redemption Price of and interest on such Bonds. The moneys, non-callable Government Obligations and Advance-Refunded Municipal Bonds shall be held by the Bond Trustee irrevocably in trust for the Holders of such Bonds solely for the purpose of paying the principal or Redemption Price of and interest on such Bonds as the same shall mature, come due or become payable upon prior redemption, and, if applicable, upon simultaneous direction, expressed to be irrevocable, to the Bond Trustee as to the dates upon which any such Bonds are to be redeemed prior to their respective maturities.

If payment of the Bonds is so provided for, the Bond Trustee shall mail a notice so stating to each Holder of a Bond.

In connection with any advance refunding or advance defeasance of a Series of Bonds, (i) there shall be delivered to the Bond Trustee a verification report of an Accountant as to the sufficiency of the escrow so established; (ii) any escrow agreement established in connection with such advance refunding or advance defeasance shall provide that no substitution of a defeasance obligation shall be permitted except with another eligible defeasance obligation and upon delivery of a new verification report; and (iii) there shall be delivered to the

Authority, the Bond Trustee and the Bond Insurer, if any, for such Series of Bonds an Opinion of Bond Counsel to the effect that such Series of Bonds are no longer deemed "Outstanding" under the Bond Indenture.

Amounts paid by a Bond Insurer under a Bond Insurance Policy shall not be deemed paid for purposes of the Bond Indenture and shall continue to be due and owing until paid by the Authority or the Institutions in accordance with the Bond Indenture.

Bonds the payment of which has been provided for in accordance with the Bond Indenture shall no longer be deemed Outstanding thereunder or secured thereby. The obligation of the Authority in respect of such Bonds shall nevertheless continue but the Holders thereof shall thereafter be entitled to payment only from the moneys, Government Obligations or Advance-Refunded Municipal Bonds deposited with the Bond Trustee to provide for the payment of such Bonds.

No Bond may be so provided for if, as a result thereof or of any other action in connection with which the provision for payment of such Bond is made, the interest payable on any Bond is made subject to federal income taxes. The Bond Trustee may rely upon an Opinion of Bond Counsel (which opinion may be based upon a ruling or rulings of the Internal Revenue Service) to the effect that the provisions of this paragraph will not be breached by so providing for the payment of any Bonds. (Section 10.02)

SUMMARY OF THE SUPPLEMENTAL INDENTURE

Authorization and Terms of Bonds

Authorization and Designation. (a) The Authority authorizes the issuance of the Series 2010B and 2010C Bonds pursuant to the Act for the purpose of providing funds to lend to the Institutions to aid in financing and refinancing the cost of the Projects. The Series of Bonds so authorized shall be designated Maine Health and Higher Educational Facilities Authority Revenue Bonds, Series 2010B and 2010C, and shall be issued and sold as directed by the Board in accordance with the Bond Indenture.

(b) The Authority designates the Series 2010B and 2010C Bonds as bonds secured under the Reserve Fund Resolution, and the Series 2010B and 2010C Bonds shall be secured by the Maine Health Facilities' Reserve Fund created and maintained pursuant to the Reserve Fund Resolution.

(c) The Authority designates the amounts, funds, moneys and investments deposited into the Reserve Fund pursuant to Section 5.02 of the Original Indenture in connection with the issuance of the Series 2010B and 2010C Bonds as assets of the Authority, and not as assets of the Institutions.

(d) The Series 2010B and 2010C Bonds are being issued as Additional Bonds pursuant to Section 2.13 of the Original Indenture, and shall be on a parity with all Bonds issued from time to time or secured under the Original Indenture. (Section 2.1)

Revenues and Funds

Creation of Funds and Accounts. Upon the issuance of the Series 2010B and 2010C Bonds, the Funds and Accounts created pursuant to Section 5.01 of the Original Indenture shall be utilized by the Bond Trustee for the proceeds of the Series 2010B and 2010C Bonds and all other amounts related thereto. (Section 5.1)

Application of Bond Proceeds and Other Moneys. (a) All proceeds of the sale of the Series 2010B and 2010C Bonds and all moneys provided by the Institutions in connection with the Series 2010B and 2010C Bonds, shall be paid to the Bond Trustee or to the Reserve Fund Trustee against receipt therefor, at or prior to the delivery of the Series 2010B and 2010C Bonds. Such funds shall be deposited by the Bond Trustee or by the Reserve Fund Trustee as directed by the Authority in its General Certificate delivered at or prior to the issuance of the Series 2010B and 2010C Bonds.

(b) Any moneys provided by the Institutions subsequent to the delivery of the Series 2010B and 2010C Bonds in accordance with Section 5.03 of the Agreement shall be deposited by the Bond Trustee into the Institutions' Accounts for such Series within the Construction Fund.

(c) Money in the Construction Fund shall be applied as provided in Sections 4.01 and 4.02 of the Original Indenture. Moneys representing capitalized interest shall be invested as part of the Construction Fund and shall be invested only in such instruments as are Permitted Investments for moneys in the Construction Fund. (Section 5.2)

General Covenants of the Authority

Secondary Market Disclosure. (a) In order to assist the Original Purchasers in their compliance with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"), the Authority covenants that, for the benefit of the Holders of the Bonds, it will:

> (i) As soon as practicable but in no event later than twelve (12) months after the end of each fiscal year of the Authority, file with the Bond Trustee the "annual financial information" (as such term is used in the Rule) as described in paragraph (c) below, for each "Material Obligated Person". Any Material Obligated Person may satisfy the requirement to

provide annual financial information by filing with the Bond Trustee a current official statement, prospectus or offering statement which contains such annual financial information. "Material Obligated Person" shall mean the Authority, by virtue of its title and interest in the Reserve Fund, and shall mean any other entity constituting an "obligated person" (as such term is used in the Rule) and, in the determination of the Authority, meeting the "objective criteria" (as such term is used in the Rule) described as follows. The Authority shall use the following objective criteria in selecting which entities that constitute obligated persons are to be considered Material Obligated Persons from time to time and thus be obligated to provide annual financial information under this paragraph (a)(i).

> (A) An entity shall be considered a Material Obligated Person if it is responsible for the repayment of in excess of twenty percent (20%) of the aggregate principal amount of all loans outstanding made by the Authority to all entities from proceeds of bonds or notes of the Authority, including the Bonds, that are secured by the Reserve Fund established under the Reserve Fund Resolution.
>
> (B) In addition to any Material Obligated Persons described in paragraph (A) above, any entities designated by the Authority shall be considered Material Obligated Persons during any period of time commencing thirteen (13) months after the State of Maine has failed to restore the Reserve Fund to the Reserve Fund Requirement in accordance with Section 2.01(d) of the Reserve Fund Resolution and Section 2075(1)(C) of the Act, or commencing on the date that the Legislature of the State of Maine has repealed Section 2075 of the Act.

(ii) As soon as practicable but in no event later than twelve (12) months after the end of each fiscal year of the Authority and any other Material Obligated Person, respectively, file with the Bond Trustee the audited financial statements of the Authority and any other Material Obligated Person, respectively, prepared in accordance with generally accepted accounting principles, as of the end of such fiscal year, each accompanied by the certificate or opinion of a firm of recognized independent certified public accountants.

(iii) In a timely manner, file with the Bond Trustee a certificate of an Authority Representative giving notice of material events with respect to the Bonds as may be required by the Rule, including, but not limited to: principal and interest payment delinquencies of the Authority and of any other Material Obligated Person; defaults of the Authority and of any other Material Obligated Person that are not related to payments; unscheduled draws on the Reserve Fund reflecting financial difficulties of (I) the Authority or its moral obligation pooled bond program financed with proceeds of the Bonds or (II) any other Material Obligated Person; unscheduled draws on credit enhancements related to the Bonds, reflecting financial difficulties of (I) the Authority or its moral obligation pooled bond program financed with proceeds of the Bonds or (II) any other Material Obligated Person; substitution of credit or liquidity providers for the Bonds, if any, or the failure of any such providers to perform under any credit or liquidity facility so provided; adverse tax opinions or events affecting the tax-exempt status of any or all of the Bonds; modifications to the rights of the Bondholders; redemptions or notices of redemption of any or all of the Bonds (other than scheduled mandatory sinking fund redemptions); defeasances of any or all of the Bonds; release, substitution, or sale of property securing repayment of the Bonds; rating changes with respect to the Bonds; and such other material information as the Authority determines should be disclosed or is required to be disclosed under the Rule.

(b) The Bond Trustee shall, as soon as practicable, provide (i) the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access system, copies of the documents filed with the Bond Trustee pursuant to paragraphs (a)(i) and (a)(ii) of this Section, copies of the documents and notices filed with the Bond Trustee pursuant to paragraph (a)(iii) of this Section, notice of the failure of the Authority or any other

Material Obligated Person to provide the Bond Trustee with the documents including all the information, and at the time, specified by paragraph (a)(i) of this Section.

(c) In accordance with the Rule, the following is the type of financial information and operating data (if material) to be provided as part of the annual financial information required under Section 6.1(a)(i) of the Supplemental Indenture:

(i) for the Authority, material information concerning the Reserve Fund established under the Reserve Fund Resolution, including the market value (if applicable) of any individual Permitted Investment and cash held directly in the Reserve Fund, the percentage of the aggregate principal amounts of the Permitted Investments held directly in the Reserve Fund that mature later than five (5) years after the date of such annual financial information, the types of Permitted Investments held in the Reserve Fund, the occurrence of any material investment losses in the Reserve Fund, the identity of any counterparty to any repurchase agreement or guaranteed investment contract, and the downgrade of any Permitted Investment held in the Reserve Fund; and

(ii) for any other Material Obligated Person, material information concerning its financial statements, revenues and expenses, and results of operations, fund balances, endowments, investments, and, as applicable to the type of entity constituting a Material Obligated Person, material information concerning utilization statistics, admissions, numbers and types of beds, sources of patient service revenue, emergency room visits, inpatient and outpatient surgical procedures, occupancy percentages, numbers of physicians, employees and labor relations, licensing and accreditations, enrollments, faculty, services provided, births, average length of stay, case mix index, major construction projects, significant incurrences of debt, litigation, research funding, grants, insurance, environmental hazards and numbers of persons served.

(d) The Authority, in its discretion, may determine that any entity once designated as a Material Obligated Person shall no longer be considered a Material Obligated Person and as such with respect to which annual financial information will no longer be provided or required under the Supplemental Indenture.

(e) The Bond Trustee also shall take such other action with respect to any financial and other statements, reports, certificates and other information as shall be required, in the Opinion of Counsel, to comply with any and all requirements of the Securities and Exchange Commission or other governmental agency with jurisdiction over the Authority and the Bonds.

(f) The breach by the Authority of its covenants set forth in paragraph (a) above shall upon satisfaction of the conditions of Section 7.01(c) of the Original Indenture, constitute a Bond Indenture Event of Default. However, acceleration as provided in Section 7.02 of the Original Indenture shall not be available to the Bond Trustee or the Bondholders as a result of such Bond Indenture Event of Default. Nothing in Section 7.09 of the Original Indenture shall affect or impair or be construed to effect or impair the rights of the Holders or Beneficial Owner of any Bond to seek compliance with the provisions of this section.

(g) Notwithstanding the provisions of Section 9.01(i) of the Original Indenture, Section 6.1 of the Supplemental Indenture may be amended without the consent of the Bondholders upon satisfaction of the following:

(i) there shall be delivered to the Bond Trustee a certificate of the Authority stating that (A) such amendment is to be made in connection with a change in circumstance that arose from a change in legal (including regulatory) requirements, change in law (including rules and regulations) or in the interpretation thereof, or change in identity, nature or status of the Material Obligated Person in question, or type of business conducted by such Material Obligated Person, and (B) the undertaking provided for by Section 6.1 of the Supplemental Indenture, as amended, would have complied with the Rule as of the date of the original issuance of the Series 2010B and

2010C Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances (the requirements of subsection (g)(i)(B) may be satisfied by an Opinion of Bond Counsel); and

(ii) there shall be delivered to the Bond Trustee an Opinion of Bond Counsel or a determination by a Person unaffiliated with the Authority (such person may be the Bond Trustee) to the effect that the amendment does not materially impair the interest of Bondholders. In lieu of satisfaction of this subsection (g)(ii) the Authority may obtain the prior written consent of the holders of the Bonds pursuant to Article IX of the Original Indenture.

All opinions and certificates delivered pursuant to subsection (g) shall be delivered to the MSRB. In addition, in connection with any amendment to this section, the annual information to be provided pursuant to subsection (c) next following such amendment shall provide, in narrative form, the reasons for such amendment and the impact of the change in the type of operating data or financial information to be provided. (Section 6.1)

Default and Remedies

Bond Indenture Events of Default. Each of the provisions of Section 7.01 of the Original Indenture is declared a "Bond Indenture Event of Default" under the Supplemental Indenture. (Section 7.1)

Uniform Commercial Code Remedies. In addition to every other remedy given to the Bond Trustee under Article VII of the Original Indenture, upon the occurrence and during the continuation of a Bond Indenture Event of Default, the Bond Trustee shall have all rights and remedies of a secured party under the Maine Uniform Commercial Code as in effect at the time such rights or remedies are exercised. (Section 7.2)

SUMMARY OF THE AGREEMENTS

Issuance of Series 2010B and 2010C Bonds and Series 2010B and 2010C Notes

Additional Notes. The Institution may issue Additional Notes, on a parity with the Series 2010B and 2010C Notes, but only to secure Additional Bonds issued on behalf of the Institution in accordance with the Bond Indenture and secured by the Reserve Fund. (Section 3.05)

Security for Bonds. (a) The Institution agrees that the principal and Redemption Price of and the interest on the Bonds shall be payable in accordance with the Bond Indenture and the right, title and interest of the Authority under the Agreement and in and to the Series 2010B and 2010C Notes, any Additional Notes issued to secure Additional Bonds, the Note Payments and other amounts paid or payable by the Institution thereunder, other than fees and expenses payable or reimbursable to the Authority, shall be assigned and pledged by the Authority to the Bond Trustee pursuant to the Bond Indenture to secure the payment of the Bonds. The Institution agrees that all of the rights accruing to or vested in the Authority with respect to the Notes or under the Agreement may be exercised, protected and enforced by the Bond Trustee for or on behalf of the Holders in accordance with the provisions of the Agreement and the Bond Indenture.

(b) The Agreement is executed in part to induce the purchase by others of the Bonds, and to induce the Bond Trustee and the Reserve Fund Trustee to accept their duties and obligations under the Bond Indenture and Reserve Fund Resolution, respectively, and, accordingly, all covenants and agreements on the part of the Institution and the Authority, as set forth in the Agreement, are to be for the benefit of the owners from time to time of the Bonds, the Bond Trustee and the Reserve Fund Trustee.

(c) The Institution agrees to do all things within its power in order to comply with and to enable the Authority to comply with all requirements related to the Institution, and to fulfill and to enable the Authority to fulfill all covenants related to the Institution, of the Bond Resolution, the Tax Regulatory Agreement and the Bond Indenture.

(d) The Institutions whose Notes are secured by a mortgage on the Land agree to deliver or cause to be delivered, at the Institution's expense, at the time of the delivery of the Series 2010B and 2010C Bonds, a title insurance policy, or a title opinion, with respect to the Land satisfactory to the Authority and its counsel.

(e) As security for its obligation to make the Note Payments required under the Agreement, the Institution by the Agreement grants to the Authority a security interest in all Gross Receipts, and authorizes the Authority or its representatives to file financing statements with respect thereto. For those Institutions whose obligations are secured under a Master Indenture, the pledge of Gross Receipts is set forth in such Master Indenture. The existence of such security interest shall not prevent the expenditure, deposit or commingling of Gross Receipts by the Institution so long as no Agreement Event of Default exists and all required Note Payments under the Agreement are made when due. Without limiting the generality of the foregoing, this security interest shall apply to all rights to receive Gross Receipts whether in the form of Accounts Receivable, contract rights or other rights, and to the proceeds of such rights. This security interest shall apply to all of the foregoing, whether now existing or hereafter coming into existence and whether now owned or held or hereafter acquired by the Institution to the extent permitted by law. If an Agreement Event of Default exists and any required Note Payment under the Agreement is not made when due, any Gross Receipts subject to this security interest which are then on hand and any such Gross Receipts thereafter received, shall not be commingled or deposited by the Institution but shall immediately, or upon receipt, be transferred to the Bond Trustee (giving recognition to proration for any parity security interest in Gross Receipts granted in accordance with the Agreement) for deposit into the Bond Fund to the extent needed to make the amount on deposit in the Bond Fund not less than the requirements of the Bond Fund. The Institution represents that as of the date of the delivery of the Agreement it has granted no security interest in Gross Receipts prior to or equal to the security interest granted by this section, except as may be described in such Institution's Agreement.

(f) The Institution hereby represents that as of the date of delivery of the Agreement it has granted no security interest in its Gross Receipts prior to or equal to the security interest referred to in this section but for any applicable security interest listed as a pre-existing encumbrance as may be described in such Institution's Agreement. (Section 3.06)

Payments

Payments of Principal, Premium and Interest. The Institution covenants that it will duly and punctually pay the principal of and interest and any premium on the Notes at the dates and in the places and manner mentioned therein and in the Agreement. Notwithstanding any schedule of payments to be made on the Notes set forth therein or in the Agreement, the Institution agrees to make payments upon the Notes and be liable therefor at the times and in the amounts equal to the amounts to be paid as principal or Redemption Price of or interest on the Institution's Allocable Share of the Bonds from time to time Outstanding under the Bond Indenture as the same shall become due whether at maturity, upon redemption, by declaration of acceleration or otherwise.

All amounts payable with respect to the Notes or under the Agreement by the Institution to the Authority, except as otherwise expressly provided therein, shall be paid to the Bond Trustee for the account of the Authority so long as any Bonds remain Outstanding.

The Institution agrees and represents that it has received fair consideration in return for the obligations undertaken and to be undertaken by the Institution resulting from each Note issued or to be issued by the Institution under the Agreement. (Section 4.01)

Note Payments. (a) The Note Payments shall be made pursuant to the Agreement. In addition to the Note Payments, the Institution shall at the same time make payments of installments of the Annual Administrative Fee as provided in the Agreement. Any scheduled payment which shall not be paid when due shall bear interest at the highest rate of interest borne on any Bond from the date the Note Payment is due until the same shall be paid.

(b) The Note Payments shall include the amount, if any, necessary to cause the amount credited to the Interest Account together with available moneys and investment earnings on investments then on deposit in the Interest Account, if such earnings will be received before the next Bond Payment Date as determined by the Bond Trustee (but only to the extent that such moneys or investment earnings have not previously been credited for purposes of such calculation), to be not less than the applicable percentage of interest to be paid on the Institution's Allocable Share of Outstanding Bonds on such Bond Payment Date. The Note Payments to be made pursuant to this paragraph (b) shall be appropriately adjusted to reflect the date of issuance of the Bonds and accrued or capitalized interest, if any, deposited in the Interest Account.

(c) The Note Payments shall include (after credit for any investment earnings in such Account that have not previously been credited), during each Bond Year ending on a date on which Serial Bonds mature, the amount necessary to cause the amount credited to the Principal Account, together with the available moneys and investment earnings on investments then on deposit in the Principal Account, if such earnings will be received before the last day of the Bond Year as determined by the Bond Trustee (but only to the extent that such moneys or investment earnings have not previously been credited for purposes of such calculation), to be not less than the applicable percentage of the principal amount of the Institution's Allocable Share of Serial Bonds Outstanding which will mature on the last day of the Bond Year.

(d) The Note Payments shall include (after credit for any investment earnings in such Account that have not previously been credited), during each Bond Year ending on a date which is a Sinking Fund Account Retirement Date, the amount necessary to cause the amount credited to the Sinking Fund Account, together with available moneys and investment earnings on investments then on deposit in the Sinking Fund Account, if such earnings will be received before the last day of the Bond Year as determined by the Bond Trustee (but only to the extent that such moneys or investment earnings have not previously been credited for purposes of such calculation), to be not less than one-twelfth of the Institution's Allocable Share of Sinking Fund Account Requirements to be satisfied on or before the last day of the Bond Year.

(e) The Note Payments shall include the Institution's allocable share (within the meaning of the Reserve Fund Resolution) of the amount or amounts to be deposited into the Reserve Fund sufficient to cause the Reserve Fund Value to be not less than the Reserve Fund Requirement, within three months (in three substantially equal monthly installments) after a computation of the Reserve Fund Value by the Reserve Fund Trustee indicates that the Reserve Fund Value is below the Reserve Fund Requirement, in the event that such deficiency results from a decline in the market value of Permitted Investments held in the Reserve Fund; provided, however, that the Institution shall not be required to make such payments in the event that the Authority and the Institution shall have entered into an arrangement or contract to provide for the replenishment of any such deficiency, or the Authority otherwise provides for the replenishment of such deficiency, and such deficiency is replenished within such three month period, as provided in the Reserve Fund Resolution.

(f) The Note Payments shall include the Institution's allocable share (within the meaning of the Reserve Fund Resolution) of the amount or amounts to be deposited into the Reserve Fund sufficient to cause the Reserve Fund Value to be not less than the Reserve Fund Requirement, in six substantially equal monthly installments after any transfer of funds by the Reserve Fund Trustee from the Reserve Fund in accordance with the Reserve Fund Resolution, as a result of the Institution's failure to make a timely payment or payments due to the Authority under the Agreement with respect to debt service on the Bonds, or as a result of the recovery of any payment made to a Holder in the event that such payment is determined to constitute an avoidable preference to such Holder, as provided in the Reserve Fund Resolution; provided, however, that the Institution shall not be required to make such payments in the event that the Authority and the Institution shall have entered into an arrangement or contract to provide for the replenishment of any such deficiency, or the Authority otherwise provides for the replenishment of such deficiency, and such deficiency is replenished within such six month period, as provided in the Reserve Fund Resolution.

(g) The Note Payments shall include the Institution's allocable share (within the meaning of the Reserve Fund Resolution) of lost investment earnings on moneys in the Reserve Fund, as determined by the Authority in its sole discretion, as a result of a transfer of funds by the Reserve Fund Trustee from the Reserve Fund in accordance with the Reserve Fund Resolution, in an amount in excess of the Institution's allocable share (within the meaning of the Reserve Fund Resolution) of the Reserve Fund, within six months, as a result of the Institution's failure to make a timely payment or payments due to the Authority under the Agreement with respect to debt service on the Bonds, or as a result of the recovery of any payment made to a Holder in the event that such payment is determined to constitute an avoidable preference to such Holder, as provided in the Reserve Fund Resolution; provided, however, that the Institution shall not be required to make such payments in the event that the Authority and the Institution shall have entered into an arrangement or contract to provide for the replenishment of any such deficiency, or the Authority otherwise provides for the replenishment of such deficiency, and such deficiency is replenished within such six month period, as provided in the Reserve Fund Resolution.

(h) The Note Payments shall include the Institution's allocable share (within the meaning of the Reserve Fund Resolution) of any and all amounts by which the earnings from the investments held or on deposit in the Reserve Fund are less than the debt service payments and related expenses due with respect to an amount of Bonds, the proceeds of which were deposited into the Reserve Fund, as determined by the Authority from time to time and as communicated in writing to the Bond Trustee and the Institution, in monthly installments; provided, however, that the Institution shall not be required to make such installments required by this clause in the event that the Authority and such Institution shall have entered into an arrangement or contract to provide for the replenishment of any such deficiency, or the Authority otherwise provides for the replenishment of such deficiency, and such deficiency is replenished within thirty (30) days.

(i) The Note Payments shall include the Institution's allocable share (within the meaning of the Reserve Fund Resolution) of the amount or amounts to be deposited into any other fund or account established under the Bond Indenture, in six substantially equal monthly installments, after any transfer of funds by the Bond Trustee, whether at the direction of the Authority or otherwise, from any such fund or account, as a result of the Institution's failure to make a timely payment or payments due to the Authority under the Agreement.

(j) The Note Payments shall include the Institution's allocable share of any and all amounts due with respect to any rebate due to the United States pursuant to the Code and the Tax Regulatory Agreement. (Section 4.02)

Obligations Unconditional. The Agreement is a general obligation of the Institution and the obligations of the Institution to make payments pursuant thereto and pursuant to the Notes and to perform and observe all agreements on its part contained in the Agreement shall be absolute and unconditional. Until the Agreement is terminated or payment in full of the Institution's Allocable Share of all Bonds is made or is provided for in accordance with the Bond Indenture, the Institution (i) will not suspend or discontinue any payments thereunder or neglect to perform any of its duties required thereunder or under the Tax Regulatory Agreement; (ii) will perform and observe all of its obligations set forth in the Agreement and in the Tax Regulatory Agreement; and (iii) except as provided in the Agreement, will not terminate the Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration; commercial frustration of purpose; any change in the tax or other laws or administrative rulings of, or administrative actions by or under authority of, the United States of America or of the State; or any failure of the Authority to perform and observe any obligation set forth in the Agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Agreement, the Tax Regulatory Agreement or the Bond Indenture.

Nothing contained in this section shall be construed to release the Authority from the performance of any of its obligations contained in the Agreement. In the event the Authority fails to perform any such obligation, the Institution may institute such action against the Authority as the Institution may deem necessary and to the extent permitted by law to compel performance so long as such action shall not violate the terms or conditions of the Agreement, and provided that no costs, expenses or other monetary relief shall be recovered from the Authority except as may be payable from the Pledged Revenues. The Institution may, however, at its own cost and expense and in its own name or, to the extent lawful and upon written notice to, and prior receipt of written consent of the Authority, in the name of the Authority, prosecute or defend any action or proceeding or take any other action involving third Persons which the Institution deems reasonably necessary in order to secure or protect its rights under the Agreement. In such event the Authority agrees, to the extent reasonable, to cooperate fully with the Institution, but at the Institution's expense, and, to the extent reasonable, to take all action necessary to effect the substitution of the Institution for the Authority in any such action or proceeding if the Institution shall so request.

Notwithstanding any other provisions contained in the Agreement, the rights of the Bond Trustee or any party or parties on behalf of whom the Bond Trustee is acting (including, specifically, but without limitation, the right to receive the Note Payments) shall not be subject to any defense, set-off, counterclaim or recoupment whatsoever, whether arising out of any breach of any duty or obligation of the Authority or the Bond Trustee owing to the Institution, or by reason of any other indebtedness or liability at any time owing by the Authority or the Bond Trustee to the Institution. (Section 4.06)

Particular Covenants

Covenants as to Corporate Existence, Maintenance of Property, Etc. The Institution covenants in the Agreement:

(a) Except as otherwise expressly provided in the Agreement, to preserve its corporate or other separate legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and to be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualifications; provided, however, that nothing contained in the Agreement shall be construed to obligate it to retain or preserve any of its rights or licenses no longer used or useful in the conduct of its business.

(b) At all times to cause its business to be carried on and conducted and its Property to be maintained, preserved and kept in good repair, working order and condition and all needful and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in the Agreement shall be construed (i) to prevent it from ceasing to operate any portion of its Property, if in its judgment (evidenced, in the case of such a cessation other than in the ordinary course of business, by a determination by its Governing Body delivered to the Authority and the Bond Trustee) it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same as a Permitted Disposition in accordance with the provisions of the Agreement and within a reasonable time endeavors to effect such sale or other disposition, or (ii) to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or useful in the conduct of its business.

(c) To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply in all material respects with any and all applicable laws of the United States and the several states thereof and to duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Property; provided, nevertheless, that nothing contained in the Agreement shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it shall be contested in good faith; provided, however, that no such contest shall subject the Bond Trustee or the Authority to the risk of any liability, and, in any event, that the Institution shall indemnify the Bond Trustee and the Authority against any liability resulting from such contest.

(d) Promptly to pay all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; provided, however, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof; provided, however, that no such contest shall subject the Bond Trustee or the Authority to the risk of any liability, and, in any event, that the Institution shall indemnify the Bond Trustee and the Authority against any liability resulting from such contest.

(e) Promptly to pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Notes issued and Outstanding under the Agreement) whose validity, amount or collectibility is being contested in good faith; provided, however, that no such contest shall subject the Bond Trustee or the Authority to the risk of any liability, and, in any event, that the Institution shall indemnify the Bond Trustee and the Authority against any liability resulting from such contest.

(f) At all times to comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness; provided, however, that it shall have the right to contest in good faith any such terms, covenants or provisions and pending such contest may delay or defer compliance therewith; provided, however, that no such contest shall subject the Bond Trustee or the Authority to the risk of any liability, and, in any event, that the Institution shall indemnify the Bond Trustee and the Authority against any liability resulting from such contest.

(g) To procure and maintain all necessary licenses, permits, and, if applicable, certifications, and use its best efforts to maintain accreditation of its facilities by appropriate accrediting organizations. If applicable, the Institution will use its best efforts to maintain its status as a provider of services eligible for reimbursement under appropriate third party payor programs and comparable programs, including future governmental programs.

(h) To take no action or suffer any action to be taken by others under its control which would result in the interest on any Bond becoming subject to federal income taxes.

(i) On the date on which the Institution becomes subject to the provisions of the Agreement and at all times thereafter, to consent to the jurisdiction of the courts of the State for causes of action arising solely under the terms of the Agreement.

(j) That all action heretofore and hereafter taken by the Institution to operate and maintain the Institution's Property, Plant and Equipment and to maintain the Project, and all actions hereafter taken by the Authority to maintain the Project upon the recommendation or request of any officer, employee or agent of the Institution have been and will be in full compliance with the Bond Resolution, the Bond Indenture, the Tax

Regulatory Agreement, the Agreement and will comply in all material respects with all pertinent laws, ordinances, rules, regulations and orders applicable to the Institution or the Authority; and in connection with the operation, maintenance, repair and replacement of the Institution's Property, Plant and Equipment, that it shall comply in all material respects with all applicable ordinances, laws, rules, regulations and orders of the United States of America, the State, or the Municipality of the Institution.

(k) That the Institution's Property, Plant and Equipment have been and will be in compliance in all material respects with all applicable zoning, subdivision, building, land use, environmental and similar laws and ordinances; and that it shall not take any action or request the Authority to take any action which would cause such Property or any part thereof to be in violation of such laws or ordinances. The Institution acknowledges that any review of any such actions heretofore or hereafter taken by the staff or counsel of the Authority has been or will be solely for the protection of the Authority.

(l) To hold and use the Facility for community health or social service facility, hospital, nursing home, residential care facility, continuing care retirement community, assisted living facility, community mental health, community health center, scene response air ambulance, college or university purposes in a manner consistent with the Act so long as the principal of and interest on the Institution's Note has not been fully paid and retired and all other conditions of the Bond Indenture with respect to the Institution, the Tax Regulatory Agreement and the Agreement have not been satisfied and the lien and security interests created under the Bond Indenture and the Agreement have not been released in accordance with the provisions of the Agreement.

(m) The Project shall be used only for the purposes described in the Act and no part of the Project shall be used for any purpose which would cause the Authority's financing and refinancing of the Project to constitute a violation of the First Amendment of the United States Constitution; and, in particular, that no part of the Project, so long as it is owned or controlled by the Institution, shall be used for any sectarian instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination in a manner which would violate the First Amendment of the United States Constitution; and any proceeds of any sale, lease, taking by eminent domain of the Project or other disposition thereof shall not be used for, or to provide a place for, such instruction, worship or program. The provisions of the foregoing sentence shall, to the extent permitted and required by law, survive termination of the Agreement.

(n) To provide ample parking for the Facility at a site or sites convenient for its operation.

(o) To provide at least thirty (30) days prior written notice to the Authority and the Bond Trustee of the commencement by the Institution of proceedings to be adjudicated a bankrupt or insolvent, or any other similar action described in Section 6.01(d) or (e) of the Agreement. (Section 5.01)

Preservation of Exempt Status. (a) The Institution represents and warrants that as of the date of the Agreement: (i) it is an organization described in Section 501(c)(3) of the Code; (ii) it has received a letter or determination from the Internal Revenue Service, or has otherwise been designated pursuant to a group ruling or otherwise by the Internal Revenue Service, to that effect; (iii) such letter or determination has not been modified, limited or revoked; (iv) it is in compliance with all terms, conditions and limitations, if any, contained in or forming the basis of such letter or determination; (v) the facts and circumstances which form the basis of such letter or determination continue substantially to exist as represented to the Internal Revenue Service; (vi) it is not a "private foundation" as defined in Section 509 of the Code; (vii) it is exempt from Federal income taxes under Section 501(a) of the Code and it is in compliance with the provisions of said Code and any applicable regulations thereunder necessary to maintain such status; and (viii) it is a "participating community health or social service facility", a "participating health care facility", or a "participating institution for higher education" within the meaning of the Act, being a nonprofit community health or social service facility, hospital, nursing home, residential care facility, continuing care retirement community, assisted living facility, community mental health facility, community health center, scene response air ambulance, college or university located within and incorporated under the laws of the State, and if applicable, licensed as such by the appropriate department of the State, or licensed for all services requiring licensure by the appropriate department or bureau of the State.

(b) The Institution agrees that (i) it shall not perform any acts, enter into any agreements, carry on or permit to be carried on at the Facility, or permit the Facility to be used in or for any trade or business, which shall adversely affect the basis for the exemption under Section 501 of such Code; (ii) it shall not use more than three percent (3%) (or such higher percentage, if any permitted by the Code with respect to the bonds to be refunded with a portion of the proceeds of the Series 2010B and 2010C Bonds) of the Institution's Allocable Share of the net proceeds of the Bonds or permit the same to be used, directly or indirectly, in any trade or business that constitutes an unrelated trade or business as defined in Section 513(a) of the Code or in any trade or business carried on by any Person or Persons who are not governmental units or Tax-Exempt Organizations; (iii) it shall not directly or indirectly use the proceeds of the Bonds to make or finance loans to Persons other than governmental units or Tax-Exempt Organizations; (iv) it shall not take any action or permit any action to be taken on its behalf, or cause or permit any circumstances within its control to arise or continue, if such action or circumstances, or its expectation on the date of issuance of the Bonds, would cause the Bonds to be "arbitrage bonds" under the Code or cause the interest paid by the Authority on the Bonds to be subject to Federal income tax in the hands of the holders thereof; and (v) it shall use its best efforts to maintain the tax-exempt status of the Bonds.

The Institution (or any related person, as defined in Section 147(a)(2) of the Code) shall not, pursuant to an arrangement, formal or informal, purchase the Bonds in an amount related to the amount of the payments due from the Institution under the Agreement. (Section 5.02)

<u>Immunity and Indemnity</u>. (a) In the exercise of the powers of the Authority and its members, directors, officers, employees, agents and consultants under the Bond Resolution, the Bond Indenture, the Tax Regulatory Agreement and the Agreement including, without limiting the foregoing, the application of moneys and the investment of funds, the Authority shall not be accountable to the Institution for any action taken or omitted by it or its members, directors, officers, employees, agents and consultants in good faith and believed by it or them to be authorized or within the discretion or rights or powers conferred. The Authority and its members, directors, officers, employees, agents and consultants shall be protected in its or their acting upon any paper or documents believed by it or them to be genuine, and it or they may conclusively rely upon the advice of counsel and may (but need not) require further evidence of any fact or matter before taking any action. No recourse shall be had by the Institution for any claims based on the Bond Resolution, the Tax Regulatory Agreement, the Bond Indenture or the Agreement or any instruments or documents related thereto against any member, director, officer, employee, agent or consultant of the Authority alleging personal liability on the part of such Person unless such claims are based upon the bad faith, fraud or deceit of such Person.

(b) The Institution will pay and will indemnify, defend and hold the Authority (including any Person at any time serving as a member, director, officer, employee, agent or consultant of the Authority in their capacity as such) harmless from and against the Institution's Allocable Share of all claims, liabilities, losses, damages, costs, expenses (including reasonable attorneys' fees), suits and judgments of any kind arising out of (i) injury to or death of any Person or damage to property in or upon any property of the Institution financed or refinanced, directly or indirectly, out of Bond proceeds or the occupation, use, possession or condition of such property or any part thereof or relating to the foregoing, (ii) any violation of any law, ordinance or regulation affecting such property or any part thereof or the ownership, occupation, use, possession or condition thereof, (iii) the issuance and sale of the Bonds or any of them, (iv) the execution and delivery of the Agreement or of the Bond Indenture or of any document executed or approved by an Institution required thereby or in furtherance of the transactions contemplated thereby, (v) the performance of any act required of any indemnitee under the Agreement or of the Bond Indenture or in furtherance of the transactions contemplated thereby or (vi) the presence, disposal, escape, seepage, leakage, spillage, discharge, emission, release, or threatened release of any Hazardous Materials on, from, or affecting the Property or any other property, or any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials, or any lawsuit brought or threatened, settlement reached, or government order relating to such Hazardous Materials in connection with the Property, or any violation of laws, orders, regulations, requirements or demands of government authorities, which are based upon or in any way related to such Hazardous Materials including, without limitation, the costs and expenses of any remedial action, attorney and consultant fees, investigation and laboratory fees, court costs and litigation expenses. The Institution will also indemnify, defend and hold harmless the Bond Trustee, the Reserve Fund Trustee, any Paying Agent, the Authenticating Agent and the Registrar and any Person serving as a director, officer, employee, agent or consultant of any of them in such Person's capacity as such from and against the

Institution's Allocable Share of all claims, liabilities, losses, damages, costs, expenses (including attorneys' fees), suits and judgments arising out of events described in the foregoing clauses (i),(ii), (iv), (v), (vi) and clause (iii) with respect to the initial issuance and sale of the Series 2010B and 2010C Bonds by the Authority to the Original Purchaser and arising out of actions taken by the Bond Trustee, any Paying Agent, the Authenticating Agent and the Registrar pursuant to its duties and responsibilities under the Bond Indenture or arising out of the actions taken by the Reserve Fund Trustee pursuant to the Reserve Fund Resolution; provided, however, that in no event shall the Institution be called upon to indemnify or hold harmless the aforementioned indemnitees for a sum in excess of its allocable share of such claim.

(c) The Authority shall promptly, upon receipt of notice of the existence of a claim or the commencement of a proceeding regarding which indemnity under the Agreement may be sought, notify the Institution in writing thereof. If such a proceeding is commenced against the Authority, the Institution may participate in the proceeding and, to the extent it elects to do so, may assume the defense thereof with counsel satisfactory to the Authority. If, however, the Authority is advised in an Opinion of Counsel that there may be legal defenses available to it which are different from or in addition to those available to the Institution, or if the Institution fails to assume the defense of such proceeding or to employ such counsel for that purpose (reasonably acceptable to the Institution) within a reasonable time after notice of commencement of the proceeding, the Institution shall not be entitled to assume the defense of the proceeding on behalf of the Authority, but shall be responsible for the reasonable fees, costs and expenses of the Authority in conducting its defense. (Section 5.06)

Limitation of Authority's Liability. No obligation of the Authority under or arising out of the Agreement, or any document executed by the Authority in connection with any Property of the Institution financed or refinanced, directly or indirectly, out of Bond proceeds or the issuance, sale or delivery of any Bonds shall impose, give rise to or be construed to authorize or permit a debt or pecuniary liability of, or a charge against the general credit of, the Authority, the State or any political subdivision of the State, but each such obligation shall be a limited obligation of the Authority payable solely from the Pledged Revenues. (Section 5.07)

Information. The Institution agrees, whenever requested by the Authority, and at the time or times requested by the Authority, to provide and certify or cause to be provided and certified such information concerning the Institution, its finances and operations, including, but not limited to, its annual audited financial statements, and other topics as the Authority reasonably considers necessary to enable the Authority (i) to accomplish the sale of the Bonds at the time when such securities are to be offered for sale, (ii) to enable counsel to the Authority, Bond Counsel and counsel to the Original Purchasers of the Bonds to issue their opinions and otherwise advise the Authority or the Original Purchasers as to the transaction or the capacity of the parties to enter into the same, (iii) to provide adequate information to prospective purchasers of the Bonds, governmental agencies or information repositories necessary to satisfy, in the Authority's discretion, then existing disclosure requirements for the resale of the Bonds in the secondary market, including, but not limited to, the requirements of Section 6.08 of the Original Indenture, Section 6.01 of the Supplemental Indenture and Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, or (iv) to enable the Authority to make any reports required by law, governmental regulation or the Bond Indenture. (Section 5.12)

Permitted Encumbrances. (a) The Institution covenants that, except as described by paragraph (b) below, the Institution shall not create, permit to be created, or suffer to be created, any Lien upon any of the Institution's Property now owned or hereafter acquired.

(b) Permitted Encumbrances include only the following:

(1) the mortgage to the Authority created upon the Facility by the Agreement, if any;

(2) the security interest to the Authority created upon the Equipment by the Agreement, if any;

(3) the security interest to the Authority created upon the Gross Receipts by the Agreement, if any;

(4) any Lien upon the Facility or Gross Receipts only if and to the extent that such portion of the Facility or Gross Receipts has been or could have been released as a Permitted Release under the Agreement;

(5) any Lien upon Property only if and to the extent that such Property could have been disposed of as a Permitted Disposition;

(6) any Lien upon the Facility or Gross Receipts given to secure Subordinated Indebtedness that is by its terms specifically junior and subordinate, as the case may be, to the mortgage on the Facility, security interest in the Equipment, and security interest in the Gross Receipts given by the Institution to the Authority under the Agreement;

(7) any Lien upon Property (other than Current Assets) that is not part of the Facility, without limitation;

(8) any Lien in the form of a purchase money mortgage or security interest given to secure Permitted Debt described in Section 5.18(b)(9), (10) or (21) of the Agreement;

(9) any Lien arising by reason of good faith deposits with the Institution in connection with leases of real estate or personalty, bids or contracts (other than contracts for the payment of money), deposits by the Institution to secure public or statutory obligations, or to secure, or given in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(10) any Lien arising by reason of deposits with, or the giving of any form of security to, any captive insurance company, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental or administrative regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Institution, an Affiliate or other related Person to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(11) any Lien in the form of a judgment lien or notice of pending action against the Institution so long as such judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleadings has not lapsed;

(12) any choate or inchoate Lien in the form of (A) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (1) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the value thereof, or (2) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due for less than one hundred twenty days or, in the aggregate, secure claims of less than $200,000; (C) easements, rights-of-way, servitudes, restrictions and other minor

defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; and (D) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property or materially and adversely affect the value thereof;

(13) any Lien described in Schedule D (Pre-Existing Permitted Encumbrances) of the applicable Agreement which is existing on the date of authentication and delivery of the Series 2010B and 2010C Note, including renewals or refinancings thereof, provided that no such Lien may be extended or modified to apply to any Property of the Institution not subject to such Lien on such date, unless such Lien as so extended or modified otherwise qualifies as a Permitted Encumbrance under the Agreement;

(14) any Lien (other than a Lien on Property which is part of the Facility, on Gross Receipts or on Accounts Receivable) securing Non-Recourse Indebtedness;

(15) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, any Lien on Property (other than a Lien on Property which is part of the Facility) acquired by the Institution if the assumption of the Indebtedness, if any, secured by the Lien by the Institution is Permitted Debt permitted under the provisions of the Agreement, and if an Officer's Certificate is delivered to the Authority and the Bond Trustee certifying that (A) the Lien and the Indebtedness, if any, secured thereby were created and incurred by a Person other than the Institution prior to the acquisition of such Property by the Institution, (B) the Lien was created prior to the decision of the Institution to acquire the Property and was not created for the purpose of enabling the Institution to avoid the limitations of the Agreement on creation of Liens on Property of the Institution and (C) the Lien attaches solely to the Property acquired and such Lien does not by its terms extend, automatically or otherwise, to the other Property of the Institution;

(16) any Lien on Property, other than a Lien on the Property described in the following paragraph, if, prior to the creation of such Lien or the acquisition of Property subject to such Lien an Officer's Certificate is delivered to the Authority and the Bond Trustee stating that (A) after giving effect to the Lien, the Value of the Property which is Encumbered in accordance with this paragraph will not exceed fifteen percent (15%) of the Value of the Property, Plant and Equipment and Current Assets of the Institution as of the end of the Historic Test Period (giving effect to the receipt of any gifts or grants by the Institution); and (B) the creation of the proposed Lien will not adversely affect the repayment of any Notes issued under the Agreement;

(17) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, any Lien on inventory, Accounts Receivable, or Gross Receipts, which Lien secures either Short-Term Indebtedness incurred in compliance with the provisions of the Agreement or Non-Recourse Indebtedness incurred in compliance with the provisions of the Agreement if, prior to the creation of such Lien or the acquisition of Property subject to such Lien an Officer's Certificate is delivered to the Authority and the Bond Trustee stating that after giving effect to the Lien, the Value of the Property which is subject to such Lien will not exceed, at the election of the Institution, the greater of either (A) fifteen percent (15%) of the Value of the Property, Plant and Equipment and Current Assets of the Institution as of the end of the Historic Test Period or (B) seventy-five percent (75%) of the aggregate net Accounts Receivable of the Institution as of the end of the Historic Test Period;

(18) any Lien representing rights of setoff and banker's liens with respect to funds on deposit in a financial institution in the ordinary course of business;

(19) any Lien on Property received by the Institution through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(20) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, any Lien in favor of the holder or holders of Alternate Debt on a parity basis with the Liens and pledges in favor of the Authority created by the Agreement;

(21) any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;

(22) any Lien, in the case of a hospital or nursing home, on moneys deposited by patients or others with the Institution as security for or as prepayment for the cost of patient care;

(23) any Lien, in the case of a hospital or nursing home, due to rights of third-party payors for recoupment of amounts paid to the Institution;

(24) any Lien relating to the leasing of furniture, fixtures and/or equipment in the ordinary course of business;

(25) any Lien securing Completion Indebtedness incurred pursuant to the terms of Section 5.18(b)(11) of the Agreement;

(26) any Lien, in the case of a hospital or nursing home, representing statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. §291 et seq. and similar rights under other federal and state statutes;

(27) any Lien on Accounts Receivable securing or deemed to secure any Indebtedness incurred in accordance with the Agreement; such Lien shall be entitled to a parity position with the Lien on Accounts Receivable created by the Agreement. (Section 5.14)

Permitted Dispositions. (a) The Institution covenants that, except for Permitted Dispositions described in paragraph (b) below, the Institution shall not sell, lease, remove, transfer, assign, convey or otherwise dispose of any of the Institution's Property.

(b) Permitted Dispositions include only the following:

(1) the disposition of Property if the Value of such Property disposed of in any one Fiscal Year is less than the greater of five percent (5%) of the Value of the Property, Plant and Equipment at the close of the immediately preceding Fiscal Year or five percent (5%) of the Value of Property, Plant and Equipment as shown in the audited financial statements of the Institution for its fiscal year ended in 2007, without limitation;

(2) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, the disposition of Property if the Value of such Property disposed of in any one Fiscal Year equals or exceeds the greater of five percent (5%) of the Value of the Property, Plant and Equipment at the close of the immediately preceding Fiscal Year or five percent (5%) of the Value of Property, Plant and Equipment as shown in the audited financial statements of the Institution for its fiscal year ended in 2007; provided, however, that (i) the Institution certifies to the Authority and the Bond Trustee that such disposal shall not decrease the scope of the Facility so that the Facility becomes inadequate for the requirements of the Institution or the Authority, (ii) the proceeds of such disposition are utilized by the Institution to purchase or obtain Property (including Current Assets) of similar value to the disposed Property or are transferred to the Redemption Account and used for the redemption of Bonds, and (iii) an

Officer's Certificate is delivered to the Authority and the Bond Trustee to the effect that the Long-Term Debt Service Coverage Ratio for the Future Test Period, after giving effect to such disposition, will be at least equal to 1.25;

(3) the disposition of Land that is unused or surplus upon which none of the Project, the Buildings or the Equipment is situated;

(4) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, disposition of Property that is not part of the Facility and that does not generate Gross Receipts, based upon an Officer's Certificate in form satisfactory to the Authority and the Bond Trustee; provided that the Institution certifies to the Authority and the Bond Trustee that either (i) the Long-Term Debt Service Coverage Ratio for the Future Test Period, after giving effect to such disposition, will be at least equal to 1.50; (ii) the Long-Term Debt Service Coverage Ratio for the Future Test Period, after giving effect to such disposition, will not decrease from what it had been prior to such disposition and will be at least equal to 1.25; or (iii) the Property disposed of has a current Value of less than the greater of ten percent (10%) of the Value of the Property, Plant and Equipment at the close of the immediately preceding Fiscal Year or ten percent (10%) of the Value of Property, Plant and Equipment as shown in the audited financial statements of the Institution for its fiscal year ended in 2007;

(5) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, the disposition of all or any portion of Property to an Affiliate; provided that: (i) prior to the effective date of such disposition, the Authority and the Bond Trustee shall have been provided with an Opinion of Bond Counsel to the effect that such disposition is not in contravention of the Act and will not adversely affect the exemption from federal or State income tax of the interest paid or payable on the Bonds; (ii) the transferee shall assume in writing, and the Institution shall retain, all of the obligations of the Institution under the Agreement; (iii) prior to the effective date of such disposition, the Authority and the Bond Trustee shall have been provided with an Opinion of Counsel to the effect that the security interest in the Gross Receipts and in the Equipment (which is not the subject of such disposition) created under the Agreement, and the mortgage lien on the Facility (which is not the subject of such disposition) created under the Agreement, shall not be adversely affected; (iv) prior to the effective date of such disposition, such transferee shall have pledged its gross revenues to the Authority to the effect that such revenues are treated as Gross Receipts; (v) all covenants, agreements and obligations set forth in the Agreement shall be implemented and administrated on a consolidated basis between the Institution and such transferee; (vi) the Institution and the Affiliate certify to the Authority and the Bond Trustee that immediately subsequent to such disposition neither the Institution nor the Affiliate shall be in default of any of the covenants, agreements and obligations set forth in the Agreement; and (vii) an Opinion of Counsel shall be delivered to the Authority to the effect that the assumption by the Affiliate of all covenants, agreements and obligations in the Agreement shall be valid and binding and enforceable in accordance with its terms to the extent of the Value of the Property transferred; such opinion may be qualified only to the extent that enforceability may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and by general principles of equity;

(6) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, the disposition of all or any portion of Property to another entity, whether or not such other entity is an Affiliate; provided that: (i) prior to the effective date of such disposition, the Authority and the Bond Trustee shall have been provided with an Opinion of Bond Counsel to the effect that such disposition is not in contravention of the Act and will not adversely affect the exemption from federal or State income tax of the interest paid or payable on the Bonds; (ii) the transferee shall assume in writing, and the Institution shall retain, all of the obligations of the Institution under the Agreement; (iii) prior to the effective date of such disposition, the Authority and the Bond Trustee shall have been provided with an Opinion of Counsel to the effect that the security interest in the Gross Receipts and in the Equipment (which is not the subject of

the disposition) created under the Agreement, and the mortgage lien on the Facility (which is not the subject of the disposition) created under the Agreement, shall not be adversely affected; (iv) prior to the effective date of such disposition, such transferee shall have pledged its gross revenues to the Authority to the effect that such revenues are treated as Gross Receipts; (v) all covenants, agreements and obligations set forth in the Agreement shall be implemented and administrated on a consolidated basis between the Institution and such transferee; (vi) prior to the effective date of such disposition, the Authority and the Bond Trustee shall have been provided with (A) a Consultant's opinion, certificate or report to the effect that the Long-Term Debt Service Coverage Ratio of the Institution would have been at least 1.25 for the Historic Test Period, with the Long-Term Debt Service Coverage Ratio calculated as if the disposition had occurred at the beginning of such Historic Test Period, or (B) a Consultant's opinion, certificate or report to the effect that the projected Long-Term Debt Service Coverage Ratio of the Institution for the Future Test Period is (1) greater than 1.30 during the Future Test Period, or (2) equal to or greater than the projected Long-Term Debt Service Coverage Ratio for the Institution during the Future Test Period, assuming such disposition would not have occurred; (vii) the Institution and such other entity certify to the Authority and the Bond Trustee that immediately subsequent to such disposition neither the Institution nor such other entity shall be in default under any of the covenants, agreements or obligations set forth in the Agreement; and (viii) an Opinion of Counsel shall be delivered to the Authority to the effect that the assumption by the other entity of all covenants, agreements and obligations in the Agreement shall be valid and binding and enforceable in accordance with its terms to the extent of the Value of the Property transferred; such opinion may be qualified only to the extent that enforceability may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and by general principles of equity;

(7) the disposition of Property in the case of any proposed or potential condemnation or taking for public or quasi-public use of the Property or any portion thereof, provided that the proceeds of any such condemnation or taking shall be applied in the manner set forth in Section 5.25 of the Agreement;

(8) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, the disposition of Property to any Person if prior to the sale, lease, removal or other disposition there is delivered to the Authority and the Bond Trustee an Officer's Certificate stating that in the judgment of the signer such Property has, or within the next succeeding twenty-four (24) calendar months is reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property;

(9) the disposition of Property in the ordinary course of business;

(10) the disposition of Property (other than Current Assets) that does not constitute part of the Facility of the Institution, without limitation;

(11) the disposition of Property if such Property is replaced promptly by other Property of comparable utility or worth;

(12) the disposition of Property if the Institution receives fair market value therefor and the proceeds of such disposition are applied to the purchase of additional capital assets, applied to the defeasance, discharge, redemption or retirement of Indebtedness or deposited into a depreciation reserve fund;

(13) the disposition of Property to any Person, provided that prior to the sale, lease, removal or other disposition any one of the clauses of the Transaction Test shall have been

satisfied; provided, that in calculating the Transaction Test, income or other revenues derived from the Property to be sold, leased, removed or otherwise disposed of shall not be included;

(14) the disposition of Property constituting the sale, assignment or other disposition of Accounts Receivable to a Person, including an Affiliate, provided that the transaction is commercially reasonable and for consideration deemed fair and adequate in an Officer's Certificate delivered to the Authority and the Bond Trustee; and

(15) the disposition or transfer of Land, Buildings or other Property (other than cash, investments and Current Assets) to an Affiliate; provided that such Land, Buildings or other Property (other than cash, investments and Current Assets) are not at the time of such disposition part of, or necessary to, or, in the reasonable judgment of the Institution evidenced by an Officer's Certificate, appropriate for, the operation of the primary facilities of the Institution. (Section 5.15)

Permitted Acquisitions. (a) The Institution covenants that, except for Permitted Acquisitions described in paragraph (b) below, the Institution shall not acquire, by any means, any asset which upon its acquisition will become Property, the acquisition of which will, or is anticipated to, increase the average annual Operating Expenses of the Institution during the Future Test Period by more than twenty percent (20%) over the average annual Operating Expenses of the Institution during the Historic Test Period.

(b) Permitted Acquisitions include only the following:

(1) the acquisition of Property with the proceeds of Bonds, Alternate Debt, or Permitted Debt or as part of a Permitted Reorganization;

(2) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, the acquisition of any Property; provided that:

(i) in the case of the acquisition of any existing Property which was in operation during the Historic Test Period immediately preceding the proposed date of acquisition and with respect to which books of account were maintained setting forth (or from which may be derived) revenues and expenses with respect to such Property, a Consultant's opinion, report or certificate is delivered to the Authority and the Bond Trustee to the effect that the Long-Term Debt Service Coverage Ratio of the Institution for such Historic Test Period, after taking into account the revenues and expenses with respect to such Property as shown on or derived from the books of account relating to such Property as if the proposed acquisition had occurred at the beginning of such Historic Test Period, would have been at least 1.25; or

(ii) in the case of the acquisition of any Property, there is delivered to the Authority and the Bond Trustee (A) an Officer's Certificate to the effect that for the Historic Test Period, the Long-Term Debt Service Coverage Ratio of the Institution, based upon its books of account, was not less than 1.75, or (B) a Consultant's opinion, report or certificate to the effect that for the Future Test Period, the Long-Term Debt Service Coverage Ratio of the Institution is projected to be either greater than 1.30 or greater than the projected Long-Term Debt Service Coverage Ratio of the Institution for the Future Test Period if such acquisition is not undertaken;

(3) the acquisition of any unencumbered Current Asset. (Section 5.16)

Permitted Releases. (a) The Authority and the Institution covenant that, except for Permitted Releases described in paragraph (b) below, the Authority and the Institution shall not release any of the Facility from the mortgage lien created by the Agreement, or any of the Gross Receipts or any of the Equipment from the security interest created by the Agreement (and the Authority shall release from such lien and/or security interest any Property released pursuant to a Permitted Release).

(b) Permitted Releases include only the following:

(1) a release made with respect to the Facility or Gross Receipts or other Property in which the Institution has granted a lien or security interest to the Authority that is to be disposed of in conjunction with a Permitted Disposition;

(2) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, a release made with respect to the Facility or Gross Receipts that are permitted to be disposed of, but in fact are not to be disposed of, in accordance with the provisions of the Agreement relating to Permitted Dispositions;

(3) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, a release made with respect to the Facility or Gross Receipts; provided that:

(i) prior to the effective date of such release, the Authority and the Bond Trustee shall have been provided with an Opinion of Bond Counsel to the effect that, as a legal matter, such release will not adversely affect the exemption from federal or State income tax of the interest paid or payable on the Bonds;

(ii) prior to the effective date of such release, the Authority and the Bond Trustee shall have been provided with an Opinion of Counsel to the effect that the remaining security interest in the Gross Receipts and in the Equipment created under the Agreement, and the remaining mortgage lien on the Facility created under the Agreement shall not be adversely affected; and

(iii) prior to the effective date of such release the Authority and the Bond Trustee shall have been provided with a Consultant's opinion, report or certificate to the effect that the Long-Term Debt Service Coverage Ratio of the Institution would have been at least 1.25 for the Historic Test Period, with the Long-Term Debt Service Coverage Ratio calculated as if the release had occurred at the beginning of such Historic Test Period. (Section 5.17)

Permitted Debt. (a) The Institution covenants that, except for Permitted Debt described in paragraph (b) below, the Institution shall not incur Additional Indebtedness, directly, indirectly or contingently.

(b) Permitted Debt includes only the following:

(1) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, Alternate Debt;

(2) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, Additional Indebtedness owed to the Authority incurred by the Institution to secure Additional Bonds of the Authority; provided that the Institution evidences satisfaction of the requirements for the incurrence of Alternate Debt under Section 5.21 of the Agreement or Long-Term Indebtedness under paragraph (b)(10) below;

(3) Permitted Guarantees;

(4) any Indebtedness represented by a letter of credit reimbursement agreement or other similar reimbursement agreement entered into by the Institution and a financial institution providing either a liquidity or credit support with respect to any other Indebtedness incurred in accordance with any other provision of this paragraph (b);

(5) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, Additional Indebtedness secured by a Permitted Encumbrance described in Section 5.14(b)(4) or (5) of the Agreement; provided that such Additional Indebtedness incurred pursuant to this subsection (5) shall be in an aggregate amount (such aggregate amount in the case of a lease or rental obligation shall equal the aggregate rent discounted to present value attributable to the noncancellable portion of the lease payable over the term of the lease discounted for the portion of rent which represents interest computed in accordance with generally accepted accounting principles) which does not in the aggregate at any time of computation exceed ten percent (10%) of the Income Available for Debt Service of the Institution for the Historic Test Period;

(6) Additional Indebtedness, other than, and in addition to, that described in clause (5) above, in an amount which does not in the aggregate at any time of computation exceed ten percent (10%) of the Income Available for Debt Service of the Institution for the Historic Test Period;

(7) interim Additional Indebtedness with respect to the Project for which money is available therefor in the Construction Fund;

(8) any Indebtedness (or obligations not for borrowed money), which Indebtedness or obligation is not generally treated as indebtedness, such as contributions for employee benefit plans, social security alternative plans, self-insurance programs, captive insurance companies and unemployment insurance liabilities;

(9) Additional Indebtedness secured by purchase money mortgages or purchase money security interests for the purpose of acquiring Property which constitutes capital assets for the Institution and the term of which does not exceed the useful life of such Property; provided, however, that before such Permitted Debt may be incurred the Institution shall deliver to the Authority and the Bond Trustee, a Consultant's opinion, report or certificate showing that the average annual Long-Term Debt Service Coverage Ratio for the Historic Test Period, as adjusted to include average annual interest payable on such Permitted Debt and depreciation to be taken on the Property being acquired during the Future Test Period, shall not be less than 1.30;

(10) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, Long-Term Indebtedness (except that the consent of the Authority shall not be required under clause (i) below) if prior to incurrence of the Long-Term Indebtedness, there is delivered to the Authority and the Bond Trustee:

> (i) Evidence that at least one of the components of the Transaction Test shall have been satisfied; or
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> (ii) An Officer's Certificate (A) to the effect that the total principal amount of Long-Term Indebtedness to be incurred at such time, when added to the aggregate principal amount of all other Long-Term Indebtedness theretofore issued pursuant to this clause (ii) and then Outstanding, will not exceed fifteen percent (15%) of the Operating Revenues of the Institution for the Historic Test Period and (B) projecting that the provisions of Section 5.22 of the Agreement shall be complied with for the Future Test Period, taking into consideration projected revenues and the proposed Indebtedness. Any Long-

Term Indebtedness or portion thereof incurred under this subsection which is Outstanding at any time shall be deemed to have been incurred under one of the clauses of the definition of Transaction Test if at any time subsequent to the incurrence thereof there shall be filed with the Authority and the Bond Trustee an Officer's Certificate to the effect that such Outstanding Indebtedness or portion thereof would satisfy such other provision, specifying such other provision, and thereupon the amount deemed to have been incurred and to be Outstanding under this subsection shall be deemed to have been reduced by such amount and to have been incurred under such other provision. If the terms of such other provision require a Consultant's opinion, report or certificate, such opinion, report or certificate, shall also be obtained and filed with the Authority and the Bond Trustee;

(11) Completion Indebtedness, to the extent that there is submitted to the Authority and the Bond Trustee a certificate of an Architect to the effect that the net proceeds of such proposed Completion Indebtedness, other than amounts required to be deposited into any Debt Reserves, is needed for the completion of the construction or equipping of the facilities in question;

(12) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, Long-Term Indebtedness incurred for the purpose of refunding, including advance refunding, any Outstanding Long-Term Indebtedness; provided that there is delivered to the Authority and the Bond Trustee an Officer's Certificate to the effect that either (i) such refunding will not increase Maximum Annual Debt Service by more than ten percent (10%) during the years that the Indebtedness to be refunded would have been Outstanding but for such proposed refunding or (ii) such refunding will result in a present value savings in the Long-Term Debt Service Requirement;

(13) any Indebtedness not mentioned in any other subsection of this section incurred in the ordinary course of business;

(14) Short-Term Indebtedness, provided that immediately after the incurrence of such Indebtedness the aggregate Outstanding principal amount of all such Short-Term Indebtedness does not exceed the greater of (i) sixty (60) days' Operating Expenses of the Institution for the Historic Test Period, (ii) fifteen percent (15%) of the aggregate of Operating Revenues of the Institution for the Historic Test Period, or (iii) seventy-five percent (75%) of the aggregate net Accounts Receivable of the Institution as of the end of the Historic Test Period; provided that for a period of at least thirty (30) days in each Fiscal Year, the principal amount of all such Indebtedness shall be reduced to not in excess of the greater of seven (7) days' Operating Expenses of the Institution for the Historic Test Period or five percent (5%) of the aggregate of Operating Revenues of the Institution for the Historic Test Period, unless there is filed with the Authority and the Bond Trustee an Officer's Certificate to the effect that such Short-Term Indebtedness, because of changes in law or regulations, must or reasonably should remain Outstanding in excess of such seven (7) days' or five percent (5%) limitation. Short-Term Indebtedness may also be incurred if such Short-Term Indebtedness could be incurred under the Agreement assuming it were Long-Term Indebtedness;

(15) Non-Recourse Indebtedness, in a principal amount Outstanding at any one time not in excess of fifteen percent (15%) of Operating Revenues for the Historic Test Period, which Non-Recourse Indebtedness is: (i) secured by a Lien on Property which is part of the Property, Plant and Equipment which Lien is created in compliance with the provisions of Section 5.14(b)(16) or (17) of the Agreement or (ii) secured by a Lien on Property which is inventory or pledges of gifts or grants to be received in the future without limit, provided that such gifts or grants shall be excluded from the calculation of Income Available for Debt Service so long as such Indebtedness is Outstanding;

(16) Subordinated Indebtedness; provided that no such Subordinated Indebtedness shall result in an increase in Annual Debt Service of the Institution by more than twenty percent (20%) during the Future Test Period (on an average annual basis) over Annual Debt Service during the Historic Test Period;

(17) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, Balloon Indebtedness, provided that (i)(A) the final maturity of such Balloon Indebtedness is more than eighteen (18) months from the date of its incurrence or the date of any calculation in respect of such Balloon Indebtedness or (B) the Institution has obtained a commitment on commercially reasonable terms from a financial institution providing for the refinancing of such Balloon Indebtedness over a period of at least thirty-six (36) months; and (ii) the conditions to the incurrence of Indebtedness described in subsection (b)(10) above are satisfied assuming, at the option of the Institution, that (w) such Indebtedness will be amortized over (I) twenty (20) years, if such debt matures twenty (20) or more years after the date of calculation, (II) the remaining term to maturity, if such term is less than twenty (20) years from the date of calculation, or (III) the term of refinancing if such debt is subject to a binding commitment for the refinancing of such debt, in each case with level annual debt service, at a rate of interest equal to that derived from the Bond Index, as determined by an Officer's Certificate, (x) such Indebtedness will be amortized during the term to the maturity thereof by deposits made by the Institution to a sinking fund therefor pursuant to the terms of such Indebtedness or in accordance with a sinking fund schedule therefor established by resolution of the Governing Body of the Institution adopted at or subsequent to the time of the incurrence of such Indebtedness, as certified in an Officer's Certificate, provided that, at the time of such calculation, all deposits required to have been made into such sinking fund prior to such date shall have been made, (y) the principal of such Indebtedness is due and payable on the due date thereof, or in the case of Balloon Indebtedness payable at the option of the holder thereof, on the date on which such Indebtedness may first be tendered for payment by the holder thereof, or (z) the principal of and interest on such Indebtedness is due and payable at the times and in the amounts specified in the refinancing commitment therefor, if any, referred to in clause (i)(B) above, and that the interest rate thereon equals the interest rate specified in such refinancing commitment; provided, however, that the provisions of clause (w) immediately above or, in the case of Balloon Indebtedness payable at the option of the holder, clause (x) immediately above may be implemented only in the event that (I) such Balloon Indebtedness to be incurred (together with all other Balloon Indebtedness) is in a principal amount not in excess of five percent (5%) of Operating Revenues for the Historic Test Period, or (II) the Institution has obtained a commitment on commercially reasonable terms from a financial institution providing for the refinancing of such Balloon Indebtedness over a period of at least sixty (60) months;

(18) Indebtedness in the form of a borrowing from an Affiliate, from any foundation affiliated with the Institution or a Subsidiary, or from any restricted funds of an Affiliate;

(19) Long-Term Indebtedness incurred (i) not in connection with any other Indebtedness at such time being incurred, and (ii) primarily for the purpose of funding any Debt Reserves, other than a Debt Reserve created in connection with an advance refunding or a cross-over refunding;

(20) Indebtedness in the form of a guaranty or confirmation of liability of a Subsidiary incurred directly or indirectly with respect to a self-insurance or captive insurance program benefitting the Institution;

(21) Indebtedness in the form of installment purchase contracts, leases, purchase money mortgages, loans, sale agreements or other borrowing instruments; provided that the aggregate Annual Debt Service on the Indebtedness permitted by this clause (21) shall not in any Fiscal Year exceed two and one-half percent (2.5%) of total Operating Revenues for the Historic Test Period;

(22) Indebtedness incurred or deemed incurred by virtue of any recourse obligation associated with any sale or assignment of Accounts Receivable, but in no event in an amount in excess of the monetary consideration received from any such sale or assignment. (Section 5.18)

Permitted Guarantees. (a) The Institution covenants that, except for Permitted Guarantees described in paragraph (b) below, the Institution shall not guarantee the payment of Indebtedness of third parties (other than by endorsement for collection or deposit of checks or drafts or by the guaranty of third party loans to patients).

(b) Permitted Guarantees, to the extent permitted by law, include only the following:

(1) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, the Guaranty of Indebtedness if such Guaranty could then be incurred by the Institution as Indebtedness, Alternate Debt, Long-Term Indebtedness, Short-Term Indebtedness, or as Balloon Indebtedness under the Agreement, in each case, if elected by the Institution, taking the following sentence into account. For purposes of any covenants or computations provided for in this clause (1), the aggregate annual principal and interest payments on, and the principal amount of, any indebtedness of a Person which is the subject of a Guaranty under the Agreement and which would, if such obligation were incurred by the Institution, constitute Long-Term Indebtedness, shall be deemed equivalent to twenty percent (20%) of the actual Annual Debt Service on, and principal amount of, such indebtedness (assuming the definitions of the Agreement apply to such Indebtedness), so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles, provided, however, that the Annual Debt Service on, and principal amount of, any Long-Term Indebtedness represented by a Guaranty shall be deemed equivalent to all of the actual Annual Debt Service, and principal amount of, such Indebtedness, if a payment has been made by the Institution on such Guaranty within three (3) years of the date of any computation to be made under this clause (1) (assuming the definitions of the Agreement apply to such Indebtedness). Also for purposes of any covenants or computations provided for in the Agreement, the aggregate annual principal and interest payments on, and principal amount of, any Short-Term Indebtedness represented by a Guaranty of obligations of a Person shall be deemed equivalent to the actual principal and interest payments on the Indebtedness which is the subject of the Guaranty (assuming the definitions in the Agreement apply to such Indebtedness). (Section 5.19)

Permitted Reorganizations. (a) The Institution covenants that, except for Permitted Reorganizations described in paragraph (b) below, the Institution shall not merge, consolidate or participate in a reorganization with any other corporation.

(b) Permitted Reorganizations include only the following:

(1) with the prior written consent of the Authority, which consent shall not be unreasonably withheld, a merger, consolidation or reorganization in which (i) either the Institution will be the continuing corporation, or the successor corporation shall be a corporation organized and existing under the laws of the United States of America or a state thereof and such corporation shall expressly assume the due and punctual payment of the principal of and premium, if any, and interest on all Outstanding Notes according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Agreement by a supplement satisfactory to the Authority and the Bond Trustee, executed and delivered to the Authority and the Bond Trustee by such corporation; (ii) the Institution immediately after such merger, consolidation or reorganization would not be in default in the performance or observance of any covenant or condition contained in the Agreement; (iii) the Transaction Test shall have been satisfied; and (iv) there shall have been delivered to the Authority and the Bond Trustee, an Opinion of Bond Counsel, in form and substance satisfactory to the Authority and the Bond Trustee, to the effect that under then existing law the consummation of such merger, consolidation

or reorganization would not adversely affect the validity of the Bonds or the exemption from federal income taxation of interest payable on such Bonds.

(c) In case of any such consolidation, merger or reorganization and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Agreement as the Institution. Such successor corporation thereupon may cause to be signed, and may issue in its own name Notes under the Agreement. All Outstanding Notes so issued by such successor corporation under the Agreement shall in all respects have the same legal rank and benefit under the Agreement as Outstanding Notes theretofore or thereafter issued in accordance with the terms of the Agreement as though all of such Notes had been issued thereunder by the Institution without any such consolidation, merger or reorganization having occurred.

(d) In case of any such consolidation, merger or reorganization such changes in phraseology and form (but not in substance) may be made in Notes thereafter to be issued as may be appropriate.

(e) The Authority and the Bond Trustee shall receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger or reorganization, and any such assumption, complies with the provisions of this section and that it is proper for the Authority under the provisions of the Agreement described by this section and the provisions of the Agreement governing amendments and supplements to join in the execution of the supplement to the Agreement described by this section. (Section 5.20)

Alternate Debt. (a) The Institution, with the prior written consent of the Authority (which consent may, but is not required to, be given if all of the conditions described by this section are met) may incur Alternate Debt by borrowing money from the Authority or other lenders (institutional or otherwise) other than under the Agreement or by assuming debt owing to others, but only as described in this section. Holders of Alternate Debt shall be entitled to a parity position with the Authority as to, and only as to, (i) the full faith and credit of the Institution, including all security provided under the Agreement, (ii) the security interest created by the Agreement in the Gross Receipts, (iii) the security interest created by the Agreement in the Equipment, and (iv) the mortgage lien of the Authority created by the Agreement in the Facility. Any security given by the Institution to holders of Alternate Debt shall also be granted, on a parity, to the Authority as further security for the Bonds. No holder of Alternate Debt, other than the Authority, shall be entitled to any benefit from amounts held under the Bond Indenture or under the Reserve Fund Resolution.

(b) The Institution may incur Alternate Debt only after certifying to the Bond Trustee and the Authority that the conditions precedent to the incurring of such Alternate Debt have been satisfied as set forth in the Agreement. Alternate Debt may be incurred from time to time pursuant to the Agreement for the purpose of (i) paying the costs of completing, making additions to, or improving the Project; (ii) providing extensions, additions, improvements or repairs to the Project or the Facility or any of the Institution's other Property; (iii) providing additional funds for the Reserve Fund created under the Reserve Fund Resolution or (iv) refinancing any outstanding Alternate Debt or Outstanding Bonds. Whenever the Institution desires to incur Alternate Debt for the purposes described in clauses (i) or (ii) above, it shall cause to be prepared and filed with the Bond Trustee and the Authority the items specified below:

> (1) a certificate of an Institution Representative or an Architect, setting forth the estimated cost of the proposed extensions, additions, repairs or improvements, including an allowance for contingencies, interest during construction and financing costs, the estimated date on which such extensions, additions, repairs or improvements will first be placed in service and the amount, if any, to be provided or already provided by the Institution from other sources toward payment of the costs of such extensions, additions, repairs or improvements and the manner in which such funds will be provided;
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> (2) a certificate of an Institution Representative, stating that the Institution is not then in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Agreement.

(c) The Institution shall not incur any Alternate Debt for the purposes described in clauses (i) or (ii) above unless at or prior to the incurrence of such Alternate Debt there shall be filed with the Authority and the Bond Trustee, in addition to the certificates required by subsection (b) above, an Officer's Certificate to the effect that (A) the provisions of any one of the clauses of the Transaction Test shall have been satisfied; or (B) the Institution's Income Available for Debt Service during the Historic Test Period shall have been equal to at least 120% of Maximum Annual Debt Service and, in the event that the proposed Alternate Debt exceeds 10% of Income Available for Debt Service during the Historic Test Period, the Institution shall have provided a Consultant's opinion, which may be based upon a report as to financial feasibility and any assumptions stated therein, which the Consultant deems to be reasonable, to the effect that the estimated average annual Income Available for Debt Service for the Future Test Period will be at least equal to 120% of Maximum Annual Debt Service. The Institution shall not incur any Alternate Debt for the purpose described in clause (iv) above unless at or prior to the incurrence of such Alternate Debt there shall be filed with the Authority and the Bond Trustee an Officer's Certificate to the effect that (A) the provisions of one of the clauses of the Transaction Test shall have been satisfied, or (B) the provisions of Section 5.18(b)(12) of the Agreement shall have been satisfied. (Section 5.21)

Rate Covenant. (a) Except as permitted by the paragraphs below, the Institutions shall, consistent with the purposes and standards of the Institution (as determined in good faith by the Governing Body), use their best reasonable efforts to maintain for each Fiscal Year the ratio of Income Available for Debt Service to Annual Debt Service at least at 1.20 or such other ratio as shall be set forth in an Institution's Agreement. If such ratio, as calculated at the end of any Fiscal Year, is below the level specified in the first sentence of this paragraph, the Institution covenants to retain a Consultant, within sixty (60) days after the end of such Fiscal Year, to make recommendations to increase such ratio for subsequent Fiscal Years of the Institution at least to the required level or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. The Institution agrees that it will, to the extent permitted by law, charter, by-laws or contract, follow the recommendations of the Consultant, unless the Governing Body adopts a resolution certifying to the effect that such recommendations are not in the best interests of the Institution and the Holders of the Bonds, and files a certified copy of such resolution with the Bond Trustee and the Authority. So long as the Institution shall retain a Consultant and the Institution shall follow such Consultant's recommendations to the extent permitted by law, charter, by-laws or contract, this section shall be deemed to have been complied with even if such ratio for any subsequent Fiscal Year of the Institution is below the required level, unless such ratio at the end of any Fiscal Year of the Institution is less than 1.00. The Institution shall no longer be required to retain such Consultant if and for so long as such ratio is restored to and maintained at the level specified in the first sentence of this paragraph.

(b) If Law or Regulation Circumstances exist, which prevent compliance with the ratios set forth in the paragraph above, said section shall be deemed satisfied as long as: (i) the Institution maintains for each Fiscal Year the ratio of Income Available for Debt Service to Annual Debt Service at least at 1.00; (ii) the opinion or report of a Consultant issued with respect to the Law or Regulation Circumstances is received by the Authority and the Bond Trustee within six months of the Institution's failure to maintain the coverage ratio referred to in the paragraph above, and is received at least once during every uninterrupted three year period thereafter that the Institution fails to maintain such ratio; and (iii) an Officer's Certificate is received by the Authority and the Bond Trustee at least once during each year during which the Consultant's opinion or report referred to in clause (ii) above is not received by the Authority and the Bond Trustee, which Officer's Certificate confirms the continued existence of the factual circumstances giving rise to the Law or Regulation Circumstances.

(c) In the case of community health facilities, the ratio set forth in paragraph (a) above shall be deemed satisfied so long as: (i) the ratio of Income Available for Debt Service to Annual Debt Service shall be at least 1.05 and (ii) the ratio of the sum of Income Available for Debt Service and unrestricted Fund Balance to Annual Debt Service shall be at least 1.25. (Section 5.22)

Insurance. The Institution agrees that it will maintain, or cause to be maintained, insurance (including one or more self-insurance programs considered to be adequate under the provisions of the Agreement) covering such risks and in such amounts as, in its reasonable judgment, is adequate to protect it and its Property and operations. The insurance required to be maintained pursuant to the Agreement shall, upon request of the Authority, be subject to the review of an Insurance Consultant every two years, commencing on the last day of the Fiscal Year ending in 2010, and the Institution agrees that it will follow any recommendations of the Insurance Consultant, except to the extent that its Governing Body determines in good faith that such recommendations are unreasonable and delivers an Officer's Certificate to the Authority and the Bond Trustee setting forth the reasons for such determination. The Institution agrees that it will deliver or cause to be delivered to the Authority and the Bond Trustee at or prior to the delivery of the Series 2010B and 2010C Bonds, and thereafter annually within thirty (30) days after the beginning of the next succeeding Fiscal Year, an Officer's Certificate setting forth a description of the insurance maintained, or caused to be maintained, by the Institution pursuant to this section and then in effect and stating whether such insurance and the manner of providing such insurance and any reductions or eliminations of the amount of any insurance coverage during the annual period covered by such report comply with the requirements of the Agreement and adequately protect the Institution and its Property and operations. Such annual report shall also set forth any recommendations of the Insurance Consultant as to additional insurance, if any, reasonably required (during the period preceding the next such annual report) for the protection referred to in the next preceding sentence in light of available insurance coverage and practice in the community health or social service facility, hospital, nursing home, residential care facility, continuing care retirement community, assisted living facility, community mental health facility, community health center, scene response air ambulance, college or university industry, as applicable, and, if any change shall be made in such insurance as to either amount or type of coverage, a description and notice of such change shall be immediately furnished to the Authority and the Bond Trustee by the Institution. In the event that the Institution fails to maintain any insurance as provided in the Agreement, the Authority may procure and maintain such insurance at the expense of the Institution. All policies and certificates of insurance required by the Agreement shall name the Bond Trustee and the Authority as an additional insured and shall be open to inspection by the Authority and the Bond Trustee at all reasonable times. (Section 5.23)

Reduction and Modification of Insurance Coverage. (a) If the Institution has or hereafter obtains any of the following types of insurance, it must secure the concurrence of an Insurance Consultant before it may materially reduce or eliminate (other than in the ordinary course of business) the amount of its insurance coverage for the following types of insurance: (i) comprehensive general public liability insurance, including product liability, blanket contractual liability and automobile insurance including owned, non-owned and hired automobiles (excluding collision and comprehensive coverage thereon), (ii) fire, flood, lightning, windstorm, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke and uniform standard coverage and vandalism and malicious mischief endorsements and business interruption insurance covering such perils, (iii) if a community health or social service facility, hospital, nursing home, residential care facility, continuing care retirement community, assisted living facility, community mental health facility, community health center or scene response air ambulance, professional liability or medical malpractice insurance, (iv) worker's compensation insurance, (v) boiler insurance, and (vi) business interruption insurance.

(b) In making its decision whether to concur in such reductions or eliminations the Insurance Consultant may take into account whether the Institution has established an adequate self-insurance program with respect to the risk involved in accordance with subsection (d) below.

(c) Insurance required under the Agreement may be in the form of a blanket insurance policy or policies and in the case of all policies may include additional names of insureds. Required limits of coverage may be provided by so-called "umbrella" coverages.

(d) In lieu of obtaining third-party coverage for the foregoing risks, the Institution may self-insure any of the required coverages (or a portion thereof) except for the coverages described in subsection (a)(ii) above and (v) above, provided, that if such self-insurance is other than in the ordinary course of business, it delivers to the Authority and the Bond Trustee a report of an Insurance Consultant stating that the Institution's decision to self-insure such risks is consistent with proper management and insurance practices. In addition, as long as the Institution maintains any self-insurance against professional liability, the Institution will upon request by the Authority, but not more frequently than once every two years, provide the Authority and the Bond Trustee, with a report of an Insurance Consultant concerning the adequacy of funding and the funding determination processes employed by the Institution for such self-insurance.

(e) The Institution may also arrange insurance coverage through a captive insurance company provided an Insurance Consultant's report indicates that such insurance is consistent with proper management and insurance practices.

(f) In the event that the insurance required by the Agreement is not commercially available and the Institution has chosen not to self-insure against such losses, the Institution shall employ an Insurance Consultant acceptable to the Authority, who shall review the insurance coverage of the Institution and the Property, Plant and Equipment and make recommendations on the types, amounts and provisions of insurance that should be carried. Insurance requirements shall be modified to conform with the recommendations of the Insurance Consultant except as the Authority and the Bond Trustee may authorize deviations from such recommendations. (Section 5.24)

Insurance and Condemnation Proceeds. (a) The Institution may make agreements and covenants with the holders of Indebtedness which is incurred in compliance with the provisions of the Agreement and which is secured by a Permitted Encumbrance with respect to the application or use to be made of insurance proceeds or condemnation awards which may be received in connection with Property which is subject to such Permitted Encumbrance.

(b) After application in accordance with subsection (a) above, remaining amounts received by the Institution as insurance proceeds with respect to any casualty loss or as condemnation awards may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the payment or prepayment of any Note or Notes in accordance with the terms thereof, subject to compliance with the provisions of the Agreement; provided that if the amount of such proceeds or awards received with respect to any casualty loss or condemnation exceeds ten percent (10%) of the Value of the Property, Plant and Equipment, the Institution agrees that it will promptly remit such proceeds or awards to the Bond Trustee, and the Institution may elect to direct the Bond Trustee to cause such funds to be applied either (i) to the repair, reconstruction, restoration or replacement of the damaged or condemned facility or the purchase of capital equipment or (ii) to the prepayment of Notes issued and Outstanding, pro-rata among all such Notes. If the Institution elects clause (i) above, any remaining balance of such funds after such repair, reconstruction, restoration or replacement shall be paid to the Institution. (Section 5.25)

Debt Service on Balloon Indebtedness. For purposes of the computation of the Long-Term Debt Service Requirement or Annual Debt Service, whether historic or projected, Balloon Indebtedness shall, at the election of the Institution, be deemed to be Indebtedness which, at the later of the date of its original incurrence or the date of calculation, was payable over (a) twenty (20) years, if such debt matures twenty (20) or more years after the date of calculation, (b) the remaining term to maturity of such Indebtedness, if such term is less than twenty (20) years from the date of calculation, or (c) the term of refinancing if such Indebtedness is subject to a binding commitment for the refinancing of such Indebtedness, in each case with level annual debt service, at a rate of interest equal to that derived from the Bond Index, as determined by an Officer's Certificate. (Section 5.26)

Debt Service on Variable Rate Indebtedness. For purposes of the computation of the projected (but not historic) Long-Term Debt Service Requirement or Annual Debt Service, Variable Rate Indebtedness shall be deemed Indebtedness which bears interest at a rate derived from the Bond Index, all as determined by an Officer's Certificate. (Section 5.27)

Debt Service on Discount Indebtedness. For purposes of the computation of the Long-Term Debt Service Requirement or Annual Debt Service, whether historic or projected, the amount of principal represented by Discount Indebtedness shall, at the election of the Institution, be deemed to be the accreted value of such Indebtedness computed on the basis of a constant yield to maturity. (Section 5.28)

Credit for Debt Reserves. For purposes of the computation of the Long-Term Debt Service Requirement or Annual Debt Service, whether historic or projected, the Institution may subtract from principal due on Indebtedness any Debt Reserves which are available and are actually to be applied to make such principal payment in the year such Indebtedness matures or is redeemed or otherwise retired, at the time of such computation for the period in question. (Section 5.29)

Credit for Capitalized Interest. For purposes of the computation of the Long-Term Debt Service Requirement or Annual Debt Service, whether historic or projected, the Institution may subtract from interest due on

Indebtedness any Capitalized Interest which is available and is to be applied to make such interest payment in the year such interest comes due, at the time of such computation for the period in question. (Section 5.30)

State Funding Intercept. The Institution acknowledges the State Funding Intercept provisions set forth in Section 2076 of the Act, and agrees to cooperate with the Authority in the event that the Authority determines, in the Authority's sole discretion, to implement such State Funding Intercept provisions with respect to the Institution. In particular, the Institution covenants that it shall promptly establish a joint account with the Authority (the "Joint Account"), to be held by a financial institution acceptable to the Authority and the Institution, and into which Joint Account all money received from the State shall be deposited, on and after the Authority's implementation of the State Funding Intercept provisions with respect to the Institution. The withdrawal of money from the Joint Account shall require the signature of the Authority and the Institution, but in compliance with such signature requirement the Institution shall, promptly upon establishment of the Joint Account, irrevocably file its signature on multiple blank withdrawal forms with the Authority, which the Authority agrees may not be utilized by the Authority to withdraw money from the Joint Account unless and until the earlier of either (i) the Authority determines to implement the State Funding Intercept provisions, or (ii) an Agreement Event of Default shall have occurred. If after the Authority's implementation of the State Funding Intercept provisions, the Authority in its sole discretion determines to suspend or terminate the implementation of such provisions, then the deposits to the Joint Account need not be made unless and until the Authority again determines to implement such provisions.

The Authority and the Institution acknowledge that the provisions of this section relating to the State Funding Intercept and to the Joint Account are not, and are not to be deemed to constitute, a lien, pledge, encumbrance or security interest on or in any revenues or receipts of the Institution granted or suffered to exist by the Institution. To the extent that, notwithstanding the preceding sentence, the State Funding Intercept or the Joint Account or both are considered by a court or other competent governmental body to constitute such a lien, pledge, encumbrance or security interest on or in any revenues or receipts of the Institution, then the Authority and the Institution acknowledge that any such lien, pledge, encumbrance or security interest on or in any such revenues or receipts shall be junior and subordinate to any lien, pledge, encumbrance or security interest on or in any such revenues or receipts specifically granted by the Institution to the Authority from time to time, and further acknowledge that any funds available in the Joint Account or otherwise derived by virtue of the State Funding Intercept shall be applied in a manner consistent with any such prior lien, pledge, encumbrance or security interest granted by the Institution to the Authority. The provisions of this paragraph shall in no way be deemed or interpreted to diminish, reduce or eliminate the Institution's pledge of Gross Receipts to the Authority provided for in the Agreement.

In the event that the Authority implements the State Funding Intercept, it shall, within thirty (30) days after such implementation, give written notice thereof to the Institution and the Bond Trustee.

In the event the implementation of the State Funding Intercept terminates in accordance with the Act, and the Institution is current in the payment of all amounts due under the Agreement and as Note Payments, the balance then on deposit in the Joint Account shall be transferred to the Institution. (Section 5.31)

Events of Default and Remedies

Agreement Events of Default. Each of the following events constitute an "Agreement Event of Default":

(a) The Institution fails to make, within five (5) days of the due date thereof, any payment of the principal of, the premium, if any, and interest on any Note Payment (which shall include all amounts due under Section 4.02 of the Agreement) when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof.

(b) The Institution fails duly to observe or perform any other covenant or agreement on its part under the Agreement or under the Tax Regulatory Agreement for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Institution by the Authority or the Bond Trustee, or to the Institution, the Authority and the Bond Trustee by the holders of at least two-thirds in aggregate principal amount of the Notes then Outstanding. If the breach of covenant or agreement is one which cannot be completely remedied within the thirty (30) days after written notice has been given, it shall not be an Agreement Event of Default as long as (i) the Institution has taken active steps within the thirty (30) days after written notice has been given to remedy the failure and is diligently pursuing such remedy, and (ii) such failure is remedied within sixty (60) days after written notice has been given or, if such failure cannot reasonably be remedied within sixty (60) days, the Institution continues thereafter to diligently pursue and obtain such remedy.

(c) The Institution defaults in the payment of any Indebtedness for borrowed moneys (other than Notes and other than Guaranties issued and Outstanding under the Agreement which are, and other than any other Indebtedness which is, Non-Recourse Indebtedness), which Indebtedness is in a principal amount in excess of one percent (1%) of Operating Revenues of the Institution, whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired where the effect of such default is to accelerate the maturity of such Indebtedness or to permit the holders thereof (or a trustee on behalf of such holders) to cause such Indebtedness to become due prior to its stated maturity, or an event of default as defined in any mortgage, indenture or instrument, under which there may be issued or by which there may be secured or evidenced, any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, shall occur, provided, however, that such default shall not constitute an Agreement Event of Default within the meaning of this section if within thirty (30) days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, whichever is longer, (i) the Institution in good faith commences proceedings to contest the existence or payment of such Indebtedness, and either (ii) sufficient moneys or other adequate security are escrowed with a bank or trust company for the payment of such Indebtedness, or (iii) enforcement of such Indebtedness shall be stayed.

(d) The entry of a decree or order by a court having jurisdiction in the premises adjudging the Institution a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Institution under the Federal Bankruptcy Code or any other applicable federal or State law, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of the Institution or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of sixty (60) consecutive days.

(e) The commencement by the Institution of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the commencement of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other similar applicable federal or State law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Institution or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

Upon having actual notice of the existence of an Agreement Event of Default, the Authority or the Bond Trustee shall serve written notice thereof upon the Institution unless the Institution has expressly acknowledged the existence of such Agreement Event of Default in a writing delivered by the Institution to the Authority or the Bond Trustee or filed by the Institution in any court. (Section 6.01)

Remedies in General; Statutory Power of Sale. Upon the occurrence and during the continuance of any Agreement Event of Default, the Authority or the Bond Trustee on behalf of the Authority may take such action as the Authority or the Bond Trustee deem necessary or appropriate to collect amounts due under the

Agreement, to enforce performance and observance of any obligation or agreement of the Institution under the Agreement or to protect the interests securing the same, and may, without limiting the generality of the foregoing and in accordance with applicable law:

(a) Exercise any or all rights and remedies given by the Agreement or available under the Agreement or given by or available under any other instrument of any kind securing the Institution's performance under the Agreement.

(b) Take any action at law or in equity to collect the Note Payments then due, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, agreement or covenant of the Institution under the Agreement.

(c) Apply to a court of competent jurisdiction for the appointment of a receiver (but only in the case of an Agreement Event of Default not described in Section 6.01(b) or (c) of the Agreement) of any or all of the property of the Institution, such receiver to have such powers as the court making such appointment may confer. The Institution consents and agrees, and will if requested by the Bond Trustee consent and agree at the time of application by the Bond Trustee for appointment of a receiver, to the appointment of such receiver and that such receiver may be given the right, power and authority, to the extent the same may lawfully be given, to take possession of and operate and deal with such property and the revenues, profits and proceeds therefrom, with like effect as the Institution could do so, and to borrow money and issue evidences of indebtedness as such receiver.

In the event of any Agreement Event of Default and during the continuation thereof, the Authority, in addition to any other right or remedies it may have at law or equity, shall have the right to and may enter into the Facility without being liable for any prosecution or damages therefor and may dispossess the Institution and may lease the Facility or any part thereof to another party for a term which may extend beyond the term of the Agreement, and receive the rent therefor, upon such terms as shall be satisfactory to the Authority. Such entry by the Authority shall not operate to release the Institution from any sums to be paid or covenants to be performed under the Agreement during the full term of the Agreement. In addition, the Institution agrees that the receipt of rents, awards, and any other moneys or evidences of the Agreement, and any disposition of the same by the Authority shall not constitute a waiver of the right of foreclosure and sale of the Facility by the Authority or the Bond Trustee in the case of an Agreement Event of Default.

For the purpose of leasing the Facility to another party, the Authority shall be authorized to make such repairs or alterations in or to the Facility as the Authority may deem necessary to place the same in good order and condition. The Institution shall be liable to the Authority for the cost of such repairs or alterations and all expenses of such leasing. If the sum realized or to be realized from the leasing is insufficient to satisfy the sum payable by the Institution under the Agreement, the Authority, at its option, may require the Institution to pay such deficiency month by month, or may hold the Institution liable in advance for the entire deficiency to be realized during the term of the leasing of the Facility. Notwithstanding such entry by the Authority, the Institution agrees that any utility service (including heat) furnished to the Facility by the Institution prior to such entry shall continue to be furnished by the Institution to the Facility at the expense of the Institution.

The Agreements which include mortgage provisions are predicated upon the condition that all covenants and agreements shall be fully performed, and upon an Agreement Event of Default and during the continuation thereof, the Authority shall have the right of foreclosure and any and all other rights and remedies given to a mortgagee and secured party under the law of the State, the Agreement and any instrument it secures. The Agreement is given primarily for a business, commercial or agricultural purpose, and therefore, the Authority shall have "THE STATUTORY POWER OF SALE" pursuant to Section 501-A of Title 33 of the Maine Revised Statutes Annotated, as amended, which POWER is expressly incorporated in the Agreement by reference. Such STATUTORY POWER OF SALE shall be in addition to all rights and remedies set forth in the Agreement or available under applicable law. Upon any Agreement Event of Default, the Authority or its agent or attorney, may sell the Facility or such portion thereof as may remain subject to the Agreement in case of any partial release thereof, either as a whole or in parcels, together with all improvements that may be thereon, by a public sale on or near any part of the Facility then subject to the Agreement or at some placed in the municipality or at the Authority's principal place of business or at any other office of the Authority or any attorney or agent thereof located in the same county in which any part of the Facility is located, first complying with the terms of the Agreement and the statutes relating to the foreclosure of a mortgage by the exercise of a POWER OF SALE, and the Authority may convey the same by proper deed or deeds to the purchaser or purchasers absolutely and in fee simple; and such sale shall forever bar the Institution and all Persons claiming under it from all right and interest in the Facility whether at law or in equity. In exercising any power of sale under this section, it is agreed that a parcel may consist wholly of real estate, wholly of tangible personal property or any combination of both.

All rights and remedies in the Agreement given or granted to the Authority are cumulative, non-exclusive and in addition to any and all rights and remedies that the Authority may have or be given by reason of any law, statute, ordinance or otherwise. Without limiting the generality of the foregoing, the Authority shall have all rights and remedies of a secured party under the Maine Uniform Commercial Code (as in effect at the time such rights or remedies are exercised) with respect to (i) the Equipment, (ii) any fixtures or tangible personal property which are or may become part of the Facility, and (iii) the Gross Receipts. The Authority may deal with such as collateral under said Code or as part of the Facility mortgage under the Agreement or in part one and in part the other. Notice in accordance with Section 7.10 of the Agreement, mailed to the Institution at least fifteen (15) days before any proposed realization upon such collateral shall constitute reasonable notification of such event under said Uniform Commercial Code. (Section 6.02)

Miscellaneous

Amendments and Supplements. The Agreement may be amended, changed or modified only as provided in the Bond Indenture. (Section 7.01)

SUMMARY OF THE MERCY HOSPITAL MASTER INDENTURE

DEFINITIONS

The following are definitions of certain terms used in this Summary of the Master Indenture and shall have the following meaning.

"Accelerable Instrument" means any Obligation or any mortgage, indenture, loan agreement or other instrument under which there has been issued or incurred, or by which there is secured, any Indebtedness or other financial obligation evidenced by an Obligation, which Obligation or instrument provides that, upon the occurrence of an event of default under such Obligation or instrument, the holder thereof (or a credit enhancer exercising the rights of such holder) may request that the Master Trustee declare such Obligation or Indebtedness or other financial obligation due and payable prior to the date on which it would otherwise become due and payable.

"Adjusted Expenses" means, for any period, the aggregate of all expenses calculated under generally accepted accounting principles, including without limitation any taxes, incurred by the Person or group of Persons involved during such period, minus (a) interest on Long-Term Indebtedness, (b) depreciation and amortization, (c) any unrealized loss resulting from changes in the value of investment securities, (d) extraordinary or nonrecurring expenses or losses (including without limitation any losses on the sale or other disposition of fixed or capital assets or facilities not in the ordinary course of business and losses on the extinguishment of debt), (e) any expenses resulting from a forgiveness of or the establishment of reserves against Indebtedness of an Affiliate which does not constitute an extraordinary expense and, if such calculation is being made with respect to the System or the Obligated Group, excluding any such expenses attributable to transactions between any System Affiliate (or Member of the Obligated Group) and any other System Affiliate (or Member of the Obligated Group), (f) any losses resulting from any reappraisal, revaluation or write-down of any fixed or capital asset, facility or good-will, (g) any unrealized losses on or related to any Hedging Obligations or other hedges or derivatives, and (h) any losses or expenses or other items that would be considered by the Obligated Group Agent to be non-cash items of the Person or group of Persons involved.

"Affiliate" means a corporation, limited liability company, partnership, joint venture, association, business trust or similar entity (a) which is controlled directly or indirectly by a Member; or (b) a majority of the members of the Directing Body of which are members of the Directing Body of a Member. For the purposes of this definition, control means with respect to: (a) a corporation having stock, the ownership, directly or indirectly, of more than 50% of the securities (as defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the directors of such corporation; (b) a not for profit corporation not having stock, having the power to elect or appoint, directly or indirectly, a majority of the members of the Directing Body of such corporation; or (c) any other entity, the power to direct the management of such entity through the ownership of at least a majority of its voting securities or the right to designate or elect at least a majority of the members of its Directing Body, by contract or otherwise. For the purposes of this definition, "Directing Body" means with respect to: (a) a corporation having stock, such corporation's board of directors and the owners, directly or indirectly, of more than 50% of the securities (as defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporation's directors (both of which groups shall be considered a Directing Body); (b) a not for profit corporation not having stock, such corporation's members if the members have complete discretion to elect the corporation's directors, or the corporation's directors if the corporation's members do not have such discretion; and (c) any other entity, its governing board or body. For the purposes of this definition, all references to directors and members shall be deemed to include all entities performing the function of directors or members however denominated.

"Ancillary Obligation" means an Obligation, expressly identified as such in a Supplemental Master Indenture or in an Officer's Certificate delivered to the Master Trustee, as being entered into in order to evidence or secure financial obligations of a Member in an agreement that is ancillary to any direct Indebtedness, such as a reimbursement agreement, liquidity agreement, standby bond purchase agreement, rate maintenance agreement or similar agreement, unless and until and to the extent any such agreement constitutes a direct obligation of a Member to repay money borrowed, credit extended or the equivalent thereof, at which time such Obligation shall be deemed a Debt Obligation.

"Assigned Contracts" means the Indemnification, Security and Loan Agreements and Amended and Restated Indemnification, Security and Loan Agreements, by and between the Corporation and each other Member of the Obligated Group, the Guaranty Agreements between the Corporation and each other Member of the Obligated Group, the Security Agreements pledging Gross Revenues to the Corporation or to a regional health corporation from each other Member of the Obligated Group (or assigned by a regional healthcare corporation to the Corporation) and the UCC-1 Financing Statements evidencing the pledge of Gross Revenues.

"Balloon Indebtedness" means (1) Long-Term Indebtedness, or Short-Term Indebtedness which is intended to be refinanced upon or prior to its maturity by Long-Term Indebtedness so that such Short-Term Indebtedness will be Outstanding, in the aggregate, for more than one year as certified in an Officer's Certificate, twenty-five percent (25%) or more of the initial principal amount of which Long-Term or Short-Term Indebtedness matures (or is payable at the option of the holder) in any twelve month period, if such twenty-five percent (25%) or more is not to be amortized to below twenty-five percent (25%) by mandatory redemption prior to such twelve month period, or (2) any portion of an issue of Long-Term Indebtedness which, if treated as a separate issue of Indebtedness, would meet the test set forth in clause (1) of this definition and which Indebtedness is designated as Balloon Indebtedness in an Officer's Certificate stating that such portion shall be deemed to constitute a separate issue of Balloon Indebtedness.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of a Person to have been duly adopted by the Governing Body of such Person and to be in full force and effect on the date of such certification, and delivered to the Master Trustee.

"Bondholder," "holder" or "owner of the Bonds" means the registered owner of any Related Bond.

"Bond Index" means, at the option of the Obligated Group Agent as directed by an Officer's Certificate, either (i) the 30-year Revenue Bond Index published most recently by The Bond Buyer, or a comparable index if such Revenue Bond Index is not so published, or (ii) such other interest rate or interest index as may be certified in writing to the Master Trustee as appropriate to the situation by the Obligated Group Agent.

"Book Value," when used with respect to Property, means the value of such Property, net of accumulated depreciation and amortization, as reflected in the most recent consolidated audited financial statements of the System or, at the option of the Obligated Group Agent, the Obligated Group, which have been prepared in accordance with generally accepted accounting principles, provided that such aggregate shall be calculated in such a manner that no portion of the value of any Property of any System Affiliate or Member of the Obligated Group, as the case may be, is included more than once.

"Business Day" means a day which is not (a) a Saturday, Sunday or legal holiday on which banking institutions in the Commonwealth of Pennsylvania or the State of New York are authorized or required by law to close or (b) a day on which the New York Stock Exchange is closed.

"Capitalized Interest" means amounts irrevocably deposited in escrow to pay interest on Long-Term Indebtedness or Related Bonds and interest earned on amounts irrevocably deposited in escrow to the extent such interest earned is required to be applied to pay interest on Long-Term Indebtedness or Related Bonds.

"Capitalized Lease" means any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee.

"Capitalized Rentals" means, as of the date of determination, the amount at which the aggregate Net Rentals due and to become due under a Capitalized Lease under which a Person is a lessee would be reflected as a liability on a balance sheet of such Person.

"Code" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code in the Master Indenture shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section which are applicable to the Related Bonds or the use of the proceeds thereof.

"Completion Indebtedness" shall mean any Indebtedness incurred for the purpose of financing the completion of constructing or equipping facilities for the construction or equipping of which some Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time, and in accordance with the general plans and specifications for such facility as originally prepared with only such changes as have been made in conformity with the documents pursuant to which such Indebtedness was originally incurred, including funding debt service reserve funds related thereto.

"Consultant" means a professional consulting, financial advisory, accounting, investment banking or commercial banking firm selected by the Obligated Group Agent and not unacceptable to the Master Trustee, having the skill and experience necessary to render the particular report required and having a favorable and nationally recognized reputation for such skill and experience, which firm does not control any Member of the Obligated Group or any Affiliate thereof and is not controlled by or under common control with any Member of the Obligated Group or an Affiliate thereof.

"Controlling Member" means the Member designated by the Obligated Group Agent to establish and maintain control over a Designated Affiliate as provided by Section 401(C).

"Corporation" means Catholic Health East, a Pennsylvania nonprofit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"Counsel" means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include legal counsel for the Corporation, any other Member or the Master Trustee.

"Current Assets" means cash and cash equivalent deposits, marketable securities, accounts receivable, accrued interest receivable and any other assets of a Person ordinarily considered current assets under generally accepted accounting principles.

"Current Value" means the estimated fair market value of Property, which fair market value shall be evidenced by an Officer's Certificate delivered to the Master Trustee.

"Debt Obligation" means an Obligation issued to secure or evidence any Indebtedness, including but not limited to a Guaranty, authorized to be issued by a Member pursuant to the Master Indenture that has been authenticated by the Master Trustee pursuant to Section 204 of the Master Indenture.

"Debt Service Requirements" means, with respect to the period of time for which calculated, the aggregate of the payments required to be made during such period in respect of principal (whether at maturity, as a result of mandatory sinking fund redemption, mandatory prepayment or otherwise) and interest on outstanding Long-Term Indebtedness of each Person or a group of Persons with respect to which calculated; provided that: (a) interest shall be excluded from the determination of the Debt Service Requirements to the extent that Capitalized Interest is available to pay such interest; (b) principal of Indebtedness shall be excluded from the determination of Debt Service Requirements to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied to pay such principal and such amounts so required to be applied are sufficient to pay such principal; (c) in the case of any Guaranty, the principal of (and premium, if any) and interest and other debt service charges on the debt that is Guaranteed for the period of time for which Debt Service Requirements are calculated shall not be included in the calculation of Debt Service Requirements to the extent required by Section 410(b)(9) of the Master Indenture with respect to any Permitted Guaranty, and otherwise shall not be included in such calculation unless the Person that gave such Guaranty was actually required to make, or transfer funds to enable the Primary Obligor to make, any payment with respect to such debt during such period, in which case the total amount paid by such Person with respect to such Guaranty in such period shall be included in the calculation of the Debt Service Requirements of such Person for such period; (d) to the extent that interest on any Indebtedness is the subject of or related to any Hedging Obligation, the Obligated Group at its option may determine from time to time whether or not to treat such interest payments due on Indebtedness as being equal to the net amounts paid and received by the Obligated Group pursuant to such Hedging Obligation; and (e) to the extent that interest on any Indebtedness is the subject of or related to any rate maintenance agreement or other similar agreement, the Obligated Group at its option may determine from time to time whether or not to treat such interest payments due on Indebtedness as being equal to the net amount paid and received by the Obligated Group pursuant to such rate maintenance agreement or other similar agreement.

"Designated Affiliate" means any Person which has been designated as such in accordance with Section 401(C) of the Master Indenture so long as such Person's status as a Designated Affiliate has not been terminated as provided in Section 401(C). The Designated Affiliates, as of the date of the Master Indenture, are listed on Exhibit B to the Master Indenture. The Obligated Group Agent may from time to time deliver a revised Exhibit B to the Master Trustee, indicating additions or deletions of Designated Affiliates.

"Discount Indebtedness" means Indebtedness sold to the original purchaser thereof (other than any underwriter or other similar intermediary) at a discount from the par amount of such Indebtedness.

"Escrow Securities" means, (i) with respect to any Obligation which secures a series of Related Bonds, the securities permitted to be used to refund or advance refund such series of Related Bonds under the Related Bond Indenture, or (ii) with respect to any other Obligation, those securities identified in the Supplemental Master Indenture pursuant to which such Obligations were issued.

"Facilities" means all land, leasehold interests and buildings and all fixtures and equipment (as defined in the Uniform Commercial Code or equivalent statute in effect in the state where such fixtures or equipment are located) of a Person.

"Fiscal Year" means any twelve-month period beginning on January 1 of any calendar year and ending on December 31 of such calendar year or such other consecutive twelve-month period selected by the Obligated Group Agent as the fiscal year for the System or the Obligated Group and designated from time to time in writing by the Obligated Group Agent to the Master Trustee; for purposes of making historical calculations or determinations set forth in the Master Indenture on a Fiscal Year basis, or for purposes of combinations or consolidation of accounting information, with respect to those entities whose actual fiscal year is different from that designated above, the actual fiscal year of such entities which ended within the Fiscal Year of the System or the Obligated Group shall be used; provided, however, that for purposes of making any calculations or determinations as set forth in the Master Indenture, the Obligated Group Agent may designate in writing to the Master Trustee as the "Fiscal Year" any twelve-month period. Whenever the Master Indenture refers to a Fiscal Year of a specific entity, such reference shall be to the actual fiscal year adopted by such entity.

"Future Test Period" means the two full Fiscal Years immediately following the computation then being made, or, if such computation is then being made in connection with the provision of funds for capital improvements, following completion of the capital improvements then being financed.

"Governing Body" means the board of directors, board of trustees or similar group in which the right to exercise the powers of corporate directors or trustees is vested or an executive committee of such board or any duly authorized committee of that board to which the relevant powers of that board have been lawfully delegated.

"Gross Revenues" means all revenues, rents, profits, receipts, benefits, royalties, and income of any Member arising from services provided by Members or arising in any manner with respect to, incident to or on account of the Members' operations, including, without limitation, (i) the Members' rights under agreements with insurance companies, Medicare, Medicaid, governmental units and prepaid health organizations, including health care insurance receivables and rights to Medicare and Medicaid loss recapture under applicable regulations to the extent not prohibited by applicable law, rules or regulations; (ii) gifts, grants, bequests, donations, contributions and pledges to any Member; (iii) insurance proceeds or any award, or payment in lieu of an award, resulting from condemnation proceedings; and (iv) all proceeds from the sale or other transfer of any goods, inventory and other tangible and intangible property, and all rights to receive the foregoing, whether now owned or hereafter acquired by any Member and regardless of whether generated in the form of accounts, accounts receivable, contract rights, chattel paper, documents, general intangibles, instruments, investment property, proceeds of insurance and all proceeds of the foregoing; excluding, however, gifts, grants, bequests, donations, contributions and pledges to any Member theretofore or thereafter made, and the income and gains derived therefrom, which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with its use for payments required under the Master Indenture or on any Obligations or Indebtedness.

"Gross Revenues Account" means the account of that name established pursuant to Section 208 of the Master Indenture.

"Guaranty" means all obligations of a Person guaranteeing, or in effect guaranteeing, any Indebtedness or other obligation of any Primary Obligor in any manner, whether directly or indirectly including but not limited to obligations incurred through an agreement, contingent or otherwise, by such Person: (l) to purchase such Indebtedness or obligation or any Property constituting security therefor; (2) to advance or supply funds: (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain working capital or other balance sheet condition; (3) to purchase securities or other Property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of the Primary Obligor to make payment of the Indebtedness or obligation; or (4) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof.

"Hedging Obligation" means an Obligation, expressly identified as such in a Supplemental Master Indenture or in an Officer's Certificate delivered to the Master Trustee as being entered into in order to hedge the interest payable on all or a portion of any Indebtedness, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g., a call, put, cap, floor or collar) and which arrangement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof.

"Historic Test Period" means, at the option of the Obligated Group Agent, either (i) any twelve (12) consecutive calendar months out of the most recent period of eighteen (18) full calendar months, or (ii) the most recent period of twelve (12) full consecutive calendar months for which audited financial statements of the Obligated Group are available, or (iii) the most recent Fiscal Year of the Obligated Group.

"Income Available for Debt Service" means, for any period, the excess of Revenues over Adjusted Expenses of the Person or group of Persons involved; provided, that the term "Income Available for Debt Service" shall also include all Income Available for Debt Service of any Person that has outstanding Indebtedness (such terms being applicable as if such Person were a Member of the Obligated Group) that is guaranteed by the Obligated Group or any Member of the Obligated Group pursuant to any Permitted Guaranty, but only to the extent, by percentage of such Person's Income Available for Debt Service, that such Permitted Guaranty is counted toward Debt Service Requirements pursuant to Section 410(b)(9) of the Master Indenture (i.e., either twenty percent (20%) or one hundred percent (100%) of such Person's Income Available for Debt Service).

"Indebtedness" means, for any Person, (a) indebtedness incurred or assumed by such Person for borrowed money or for the acquisition, construction or improvement of Property other than goods that are acquired in the ordinary course of business of such Person; (b) Capitalized Rentals or Capitalized Lease obligations of such Person; and (c) all Guaranties by such Person (weighted, with respect to Permitted Guarantees, as provided in Section 410(b(9) of the Master Indenture), and shall include Non-Recourse Indebtedness; provided that Indebtedness shall not include Indebtedness of one System Affiliate or Member to another System Affiliate or Member, any Guaranty by any System Affiliate or Member of Indebtedness of any other System Affiliate or Member, the joint and several liability of any System Affiliate or Member on Indebtedness issued by another System Affiliate or Member, any Hedging Obligation, any Ancillary Obligation, or any obligation to repay moneys deposited by patients or others with a System Affiliate or Member as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to endowment or similar funds deposited by or on behalf of such residents.

"Insurance Consultant" means a Person appointed by the Obligated Group Agent and not reasonably objected to by the Master Trustee, qualified to survey risks and to recommend insurance coverage for heath care facilities and organizations engaged in like operations, who may be a broker or agent with whom a Member of the Obligated Group transacts business, but who shall have no interest, direct or indirect, in any Member of the Obligated Group and shall not be a member, director or employee of any Member of the Obligated Group.

"Lien" means any mortgage, lease or pledge of, security interest in or lien, charge, restriction or encumbrance on any Property of the Person involved which secures Indebtedness (other than from one System Affiliate or Member to another System Affiliate or Member).

"Long-Term Debt Service Coverage Ratio" means, for any period of time, the ratio determined by dividing (i) Income Available for Debt Service of the System or, at the option of the Obligated Group Agent, the Obligated Group, for that period by (ii) the Debt Service Requirements on Long-Term Indebtedness of the System or, at the option of the Obligated Group Agent, the Obligated Group; provided that when such calculation is being made with respect to the System or the Obligated Group, Income Available for Debt Service and Debt Service Requirements shall be determined only with respect to those Persons who are System Affiliates or Members of the Obligated Group, as the case may be, at the close of such period. Notwithstanding anything in the Master Indenture to the contrary requiring a Consultant's opinion, report or certificate, projections of the Long-Term Debt Service Coverage Ratio may be made by an Officer's Certificate if the Long-Term Debt Service Coverage Ratio for the Future Test Period, as shown by an Officer's Certificate, is projected to exceed 1.50.

"Long-Term Indebtedness" means, with respect to any Person, (a) all Indebtedness of such Person for money borrowed or credit extended which is not Short-Term; (b) all Indebtedness of such Person incurred or assumed in connection with the acquisition or construction of Property which is not Short-Term; (c) the Person's Guaranties of Indebtedness which are not Short-Term; and (d) Capitalized Rentals under Capitalized Leases entered into by the Person; provided, however, that Indebtedness that could be described by more than one of the foregoing categories shall not in any case be considered more than once for the purpose of any calculation made pursuant to the Master Indenture.

"Master Indenture" means the Amended and Restated Master Trust Indenture dated as of January 1, 1998, amended and restated as of September 30, 2006, among the Corporation, the other Members of the Obligated Group and the Master Trustee, as it may from time to time be further amended or supplemented in accordance with the terms of the Master Indenture.

"Master Trustee" means The Bank of New York Trust Company, N.A., or any successor trustee under the Master Indenture.

"Material Designated Affiliate" means any Designated Affiliate whose total revenues as set forth on its financial statements for the most recently completed Fiscal Year for such Designated Affiliate exceed 5% of the combined total revenues of the Obligated Group and the System Affiliates as set forth on the combined financial statements for the most recently completed Fiscal Year of the System.

"Material Obligated Group Member" means any Obligated Group Member whose total revenues as set forth on its financial statements for the most recently completed Fiscal Year for such Member exceed 5% of the combined total revenues of the Obligated Group and the System Affiliates as set forth on the combined financial statements for the most recently completed Fiscal Year of the System.

"Maximum Annual Debt Service" means, at the time of computation, the greatest Debt Service Requirements on Long-Term Indebtedness for the then current or any future Fiscal Year.

"Member" or "Member of the Obligated Group" means the Corporation, the other initial Members of the Obligated Group listed on Exhibit A to the Master Indenture, and any Person who is listed on Exhibit A to the Master Indenture after designation as a Member of the Obligated Group pursuant to the terms of the Master Indenture. The Obligated Group Agent may from time to time deliver a revised Exhibit A to the Master Trustee, indicating additions or deletions of Members of the Obligated Group.

"Net Assets" means (i) for a Person that is a Tax-Exempt Organization, the aggregate net assets of such Person, and (ii) for a Person that is not a Tax-Exempt Organization, the excess of assets over liabilities of such Person.

"Net Proceeds" means, when used with respect to any insurance or condemnation award or sale consummated under threat of condemnation, the gross proceeds from the insurance or condemnation award or sale with respect to which that term is used less all expenses (including attorney's fees and expenses, adjuster's fees and any expenses of the Master Trustee) incurred in the collection of such gross proceeds.

"Net Rentals" means all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under a lease or sublease of real or personal Property excluding any amounts required to be paid by the lessee (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net Rentals for any future period under any so-called "percentage lease" shall be computed on the basis of the amount reasonably estimated to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period; provided that the amount estimated to be payable under any such percentage lease shall in all cases recognize any change in the applicable percentage called for by the terms of such lease.

"Non-Recourse Indebtedness" means any Indebtedness the liability for which is effectively limited to Property, Plant and Equipment and the income therefrom, the cost of which Property, Plant and Equipment shall have been financed solely with the proceeds of such Indebtedness with no recourse, directly or indirectly, to any other Property of any Member or to the general credit of any Member.

"Obligated Group" means the Corporation, the other initial Members of the Obligated Group, and any other Person which has fulfilled the requirements for entry into the Obligated Group set forth in Section 403 of the Master Indenture and which has not ceased such status pursuant to Section 404 of the Master Indenture.

"Obligated Group Agent" means the Corporation or such other Member as may be designated from time to time pursuant to written notice to the Master Trustee, executed by an authorized officer of the Corporation or, if the Corporation is no longer a Member of the Obligated Group, of each Member of the Obligated Group.

"Obligations" means any Debt Obligations, Hedging Obligations, or Ancillary Obligations authorized to be issued by a Member pursuant to the Master Indenture which has been authenticated by the Master Trustee pursuant to Section 204 of the Master Indenture.

"Obligation holder," "holder" or "owner of the Obligation" means the registered owner of any fully registered or book entry Obligation unless alternative provision is made in the Supplemental Master Indenture pursuant to which such Obligation is issued for establishing ownership of such Obligation, in which case such alternative provision shall control.

"Officer's Certificate" means a certificate signed, in the case of a certificate delivered by or on behalf of the Obligated Group, by the President or any Vice-President or any other authorized officer of the Obligated Group Agent.

"Operating Expenses" means the total operating expenses of the System Affiliates or, at the option of the Obligated Group Agent, the Obligated Group, as determined in accordance with generally accepted accounting principles consistently applied.

"Operating Revenues" means the total operating revenues of the System Affiliates or, at the option of the Obligated Group Agent, the Obligated Group, less applicable deductions from operating revenues, as determined in accordance with generally accepted accounting principles consistently applied.

"Outstanding" means, in the case of Indebtedness of a Person other than Related Bonds or Obligations, all such Indebtedness of such Person which has been issued except any such portion thereof canceled after purchase on the open market or surrendered for cancellation or because of payment at or redemption prior to maturity, any such Indebtedness in lieu of which other Indebtedness has been duly issued and any such Indebtedness which is no longer deemed outstanding under its terms and with respect to which such Person is no longer liable under the terms of such Indebtedness.

"Outstanding Obligations" or "Obligations Outstanding" means all Obligations which have been duly authenticated and delivered by the Master Trustee under the Master Indenture, except:

(a) Obligations canceled after purchase in the open market or because of payment at or prepayment or redemption prior to maturity;

(b) (i) Obligations for the payment or redemption of which cash or Escrow Securities shall have been theretofore deposited with the Master Trustee (whether upon or prior to the maturity or redemption date of any such Obligations); provided that if such Obligations are to be prepaid or redeemed prior to the maturity thereof, notice of such prepayment or redemption shall have been given or irrevocable arrangements satisfactory to the Master Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Master Trustee shall have been filed with the Master Trustee and (ii) Obligations securing Related Bonds for the payment or redemption of which cash or Escrow Securities shall have been theretofore deposited with the Related Bond Trustee (whether upon or prior to the maturity or redemption date of any such Obligations); provided that if such Related Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Obligations in lieu of which others have been authenticated thereunder; and

(d) For the purpose of all consents, approvals, waivers and notices required to be obtained or given under the Master Indenture, Obligations held or owned by a Member of the Obligated Group or by a System Affiliate.

Notwithstanding the foregoing, any Obligation securing Related Bonds shall be deemed outstanding if such Related Bonds are Outstanding.

"Outstanding Related Bonds" or "Related Bonds Outstanding" means all Related Bonds which have been duly authenticated and delivered by the Related Bond Trustee under the Related Bond Indenture and are deemed outstanding under the terms of such Related Bond Indenture or, if such Related Bond Indenture does not specify when Related Bonds are deemed outstanding thereunder, all such Related Bonds which have been so authenticated and delivered, except:

(a) Related Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Related Bonds for the payment or redemption of which cash or Escrow Securities shall have been theretofore deposited with the Related Bond Trustee (whether upon or prior to the maturity or redemption date of any such Bonds) in accordance with the Related Bond Indenture; provided that if such Related Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Related Bonds in lieu of which others have been authenticated under the Related Bond Indenture; and

(d) For the purposes of all covenants, approvals, waivers and notices required to be obtained or given under the Related Bond Indenture, Related Bonds held or owned by a Member or by a System Affiliate.

"Permitted Dispositions" means dispositions of Property permitted by Section 411 of the Master Indenture.

"Permitted Encumbrances" means, as of any particular time:

(a) any Lien on Property acquired subject to an existing Lien, if at the time of such acquisition, the aggregate amount remaining unpaid on the Indebtedness secured thereby (whether or not assumed by a Member of the Obligated Group) does not exceed the fair market value or (if such Property has been purchased) the lesser of the acquisition price or the fair market value of the Property subject to such Lien, as determined in good faith by the Obligated Group Agent;

(b) any Lien on any Property of any Material Obligated Group Member granted in favor of or securing Indebtedness to any System Affiliate;

(c) any Lien (i) on Property if such Lien equally and ratably secures all of the Obligations and, if the Obligated Group Agent shall so determine, any other Indebtedness or obligation of any Member of the Obligated Group or any other System Affiliate or (ii) on Gross Revenues pledged pursuant to Section 208 of the Master Indenture;

(d) Liens on or in Property given, granted, bequeathed or devised by the owner thereof existing at the time of such gift, grant, bequest or devise, provided that such Liens secure Indebtedness which is not assumed by a Member of the Obligated Group and such Liens attach solely to the Property (including the income therefrom) which is the subject of such gift, grant, bequest or devise;

(e) Liens on proceeds of Indebtedness (or on income from the investment of such proceeds) pending application to the purposes for which such Indebtedness was incurred, or that secure payment of such Indebtedness and any security interest in any rebate fund established pursuant to the Code, any depreciation reserve, debt service reserve or interest reserve, debt service fund or any similar fund established pursuant to the terms of any Supplemental Master Indenture, Related Bond Indenture or Related Loan Document in favor of the Master Trustee, a Related Bond Trustee, a Related Issuer or the holder of the Indebtedness issued pursuant to such Supplemental Master Indenture, Related Bond Indenture or Related Loan Document or the provider of any liquidity or credit support for such Related Bond or Indebtedness;

(f) Liens on Escrow Securities;

(g) any Lien on any Related Bond or any evidence of Indebtedness of any Member of the Obligated Group acquired by or on behalf of any Member of the Obligated Group by the provider of liquidity or credit support for such Related Bond or Indebtedness;

(h) Liens on accounts receivable (i) arising as a result of the sale of such accounts receivable with or without recourse, provided that the principal amount of Indebtedness secured by any such Lien does not exceed the aggregate sales price of such accounts receivable received by the Member or Designated Affiliate selling the same by more than twenty percent (20%); or (ii) to secure Indebtedness incurred pursuant to Section 410(b)(16) of the Master Indenture;

(i) Liens on any Property of a Member of the Obligated Group in effect on the effective date of the Master Indenture, including but not limited to those listed on Exhibit C to the Master Indenture, or existing at the time any Person becomes a Member of the Obligated Group; provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of such Member of the Obligated Group not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(j) Liens on Property of a Person existing at the time such Person is merged into or consolidated with a Member of the Obligated Group, or at the time of a sale, lease or other disposition of the properties of a Person as an entirety or substantially as an entirety to a Member of the Obligated Group which becomes part of a Property that secures Indebtedness that is assumed by a Member of the Obligated Group as a result of any such merger, consolidation or acquisition; provided, that no such Lien may be increased, extended, renewed, or modified after such date to apply to any Property of a Member of the Obligated Group not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(k) Liens which secure Non-Recourse Indebtedness incurred pursuant to Section 410(b)(6) of the Master Indenture;

(l) Liens arising out of Capitalized Leases;

(m) Liens on Property of a Material Obligated Group Member securing Indebtedness, in addition to those Liens permitted elsewhere in this definition of Permitted Encumbrances, if the total aggregate Book Value (or at the option of the Obligated Group Agent, Current Value) of the Property subject to a Lien of the type described in this subsection (m) does not exceed twenty percent (20%) of the combined value of the Property of the System Affiliates (calculated on the same basis as the value of Property subject to such Lien); and

(n) Liens on any Property of a Material Obligated Group Member given (by mortgage, security interest, conveyance in trust, deed, sale, or lease) in order to satisfy the legal or policy requirements of any Related Issuer with respect to their issuance of any Related Bonds;

(o) any Lien that may be required from time to time to satisfy any collateralization requirements relating to any Hedging Obligation;

(p) any Lien on Property or Gross Revenues required by, or resulting from, any lease agreement whereby a Member of the Obligated Group leases a hospital or health care facility or facilities from a governmental unit or units; and

(q) any Lien in the nature of a purchase money mortgage if, after giving effect to such Lien, such purchase money mortgage secures an amount not in excess of the cost of the particular asset to which such Lien relates and any related financing charges, where such purchase money mortgage constitutes a Lien on fixed assets acquired or constructed by a Member and granted contemporaneously with such acquisition or construction, and which Lien secures all or a portion of the related purchase price or construction cost of such assets.

"Permitted Guarantees" means any Guaranty by any Member of the Obligated Group permitted under Section 410(b)(9) of the Master Indenture.

"Permitted Indebtedness" means Indebtedness of any Members of the Obligated Group permitted under Section 410 of the Master Indenture.

"Permitted Investments" shall mean (i) with respect to any Obligation which secures a series of Related Bonds, the obligations in which the Related Bond Trustee may invest funds under the Related Bond Indenture, (ii) with respect to any Obligations for which a Supplemental Master Indenture specifies certain permitted investments, the investments so specified and (iii) in all other cases such legal and prudent investments as are designated by the Obligated Group Agent.

"Permitted Reorganizations" means any consolidation, merger or reorganization of any of the Members of the Obligated Group permitted by Section 408 of the Master Indenture.

"Person" means any natural person, firm, joint venture, joint operating agreement, association, partnership, business trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

"Primary Obligor" means the Person who is primarily obligated on an obligation which is guaranteed by another Person.

"Property" means any and all rights, titles and interests in and to any and all property, whether real or personal, tangible (including cash) or intangible, wherever situated and whether now owned or hereafter acquired, including but not limited to Gross Revenues.

"Property, Plant and Equipment" means all Property of each System Affiliate or, at the option of the Obligated Group Agent, each Member of the Obligated Group, which is classified as property, plant and equipment under generally accepted accounting principles.

"Related Bonds" means (a) any revenue bonds or similar obligations issued by any state, commonwealth or territory of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of which are loaned or otherwise made available to any Member or System Affiliate in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation or Obligations to or upon the order of such governmental issuer and (b) any revenue or general obligation bonds issued by the Corporation, any other Member, any System Affiliate or any other Person in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation or Obligations to the holder of such bonds or the Related Bond Trustee.

"Related Bond Indenture" means any indenture, bond resolution or similar instrument pursuant to which any series of Related Bonds is issued.

"Related Bond Trustee" means any trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Indenture, the Related Issuer.

"Related Issuer" means any issuer of a series of Related Bonds.

"Related Loan Document" means any document or documents (including without limitation any loan agreement, lease, sublease or installment sales contract) pursuant to which any proceeds of any Related Bonds are loaned to, advanced to or made available to or for the benefit of any Member or System Affiliate (or any Property financed or refinanced with such proceeds is leased, sublet or sold to a Member or System Affiliate).

"Revenues" means, for any period, (a) in the case of any Person providing health care services, the sum of (i) net patient service revenues plus (ii) other operating revenues, plus (iii) non-operating revenues (other than income derived from the sale of assets not in the ordinary course of business or any gain from the extinguishment of debt or other extraordinary item or earnings which constitute Capitalized Interest or earnings on amounts which are irrevocably deposited in escrow to pay the principal of or interest on Indebtedness); and (b) in the case of any other Person, gross revenues less sale discounts and sale returns and allowances, as determined in accordance with generally accepted accounting principles; but excluding in any event in both clause (a) and clause (b): (i) any unrealized gain or loss resulting from changes in the value of investment securities, (ii) extraordinary or nonrecurring gains or losses (including without limitation any gains on the sale or other disposition of fixed or capital assets or facilities not in the ordinary course of business and gains on the extinguishment of debt), (iii) any gains or earnings resulting from any reappraisal, revaluation or write-up of fixed or capital asset, facility or good-will, (iv) any revenues constituting deferred revenues related to entrance fees, (v) any unrealized gains or losses on or related to any Hedging Obligations or other hedges or derivatives, or (vi) any revenue or income or other items that would be considered by the Obligated Group Agent to be non-cash items of the Person or group of Persons involved; provided, however, that if such calculation is being made with respect to the System or the Obligated Group, such calculation shall be made in such a manner so as to exclude any revenues attributable to transactions between any System Affiliate or Member of the Obligated Group, as the case may be, and any other System Affiliate or Member of the Obligated Group, as the case may be.

"Short-Term," when used in connection with Indebtedness, means Indebtedness of a Person for money borrowed or credit extended having an original maturity less than or equal to one year and not renewable at the option of the debtor for, or subject to any binding commitment to refinance or otherwise provide for such Indebtedness having, a term greater than one year beyond the date of original issuance.

"Subordinated Indebtedness" means all obligations incurred or assumed, the payment of which is by its terms specifically subordinated to payments on all Obligations, or the principal of and interest on which would not be paid (whether by the terms of such obligation or by agreement of the obligee) when the Obligations are in default or while bankruptcy, insolvency, receivership or other similar proceedings are instituted and implemented.

"Supplemental Master Indenture" means an indenture amending or supplementing the Master Indenture entered into pursuant to Article VII of the Master Indenture after the date of the Master Indenture.

"System" means the affiliated group of Persons comprised of all the System Affiliates.

"System Affiliate" means each Member of the Obligated Group, each Affiliate of the Corporation or of any other Member of the Obligated Group, each Designated Affiliate and each other Person with whom a Member or Designated Affiliate has in place a contract or other agreement whereby such Person is obligated to make payments in respect of Obligations as described in Section 401(B) of the Master Indenture.

"Tax-Exempt Organization" means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxation under Section 501(a) of the Code, and which is not a "private foundation" within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Transaction Test" means the Master Trustee shall have received any one of the following:

(i) an Officer's Certificate demonstrating that the Long-Term Debt Service Coverage Ratio for the Historic Test Period, assuming that the proposed additional Long-Term Indebtedness had been incurred, or that the proposed transaction had occurred, at the beginning of the Historic Test Period, is not less than 1.10; or

(ii) an Officer's Certificate demonstrating (a) that the Long-Term Debt Service Coverage Ratio for the Historic Test Period was not less than 1.10, and (b) that the Long-Term Debt Service Coverage Ratio for the Future Test Period is projected to be not less than 1.10 or, if less, is projected to be greater than such ratio would have been if the proposed transaction had not taken place; or

(iii) an Officer's Certificate demonstrating that immediately after the proposed transaction the aggregate principal amount of all outstanding Long-Term Indebtedness of the Members of the Obligated Group (excluding any Guarantees) will not exceed sixty-five percent (65%) of the sum of (a) the aggregate principal amount of all outstanding Long-Term Indebtedness of the Members of the Obligated Group (excluding Guarantees) plus (b) the aggregate Net Assets of the Members of the Obligated Group.

"Variable Rate Indebtedness" means Indebtedness that bears interest at a variable, adjustable or floating rate.

The Obligations.

Series, Designation and Amount of Obligations. No Obligations may be issued under the provisions of the Master Indenture except in accordance with this Article. Other than the Obligated Group Agent, no authorization or approval of any Member of the Obligated Group, Designated Affiliate or System Affiliate is required under the Master Indenture for the issuance of Obligations. No Obligations may be issued under the Master Indenture unless (i) such Obligation is executed by the Obligated Group Agent; or (ii) with the written consent of the Obligated Group Agent, such Obligation is executed by any other Member of the Obligated Group. The total amount of Obligations, the number of Obligations and the series of Obligations that may be created under the Master Indenture is not limited and shall be as set forth in the Supplemental Master Indenture providing for the issuance thereof. Each series of Obligations shall be issued pursuant to a Supplemental Master Indenture. Each series of Obligations shall be designated so as to differentiate the Obligations of such series from the Obligations of any other series. Unless provided to the contrary in a Supplemental Master Indenture, Obligations shall be issued as fully registered Obligations. (Section 201)

General Covenants.

Payment of Principal, Premium, if any, and Interest and Other Amounts; Designated Affiliates. (a) Each Member unconditionally and irrevocably (subject to the right of such Member to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of Section 404 of the Master Indenture), jointly and severally covenants that it will promptly pay the principal of, premium, if any, and interest on, and all other amounts due under, every Obligation issued under the Master Indenture and any other payments, including the purchase price of Related Bonds tendered or deemed tendered for purchase pursuant to the terms of a Related Bond Indenture or Related Loan Document required by the terms of such Obligations, at the place, on the dates and in the manner provided in the Master Indenture and in said Obligations according to the true intent and meaning thereof. Notwithstanding any schedule of payments upon the Obligations set forth in the Master Indenture or in the Obligations, each Member unconditionally and irrevocably (subject to the right of such Member to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of Section 404 of the Master Indenture), jointly and severally agrees to make payments upon each Obligation and be liable therefor at the times and in the amounts (including principal, interest and premium, if any, and all other amounts due thereunder) equal to the amounts to be paid as interest, principal at maturity or by mandatory sinking fund redemption, or premium, if any, upon any Related Bonds from time to time outstanding and upon any other financial obligations evidenced or secured by an Obligation. If any Member does not tender payment of any installment of principal, premium or interest on, or any other amounts due under, any Obligation when due and payable, the Master Trustee shall provide prompt written notice of such nonpayment to such Member and the Obligated Group Agent.

(b) Each Controlling Member shall cause each of its Designated Affiliates and shall use reasonable efforts to cause each of its other System Affiliates (subject to contractual and organizational limitations) to pay, loan or otherwise transfer to the Obligated Group Agent or other Member such amounts as are necessary to duly and punctually pay the principal of, premium, if any, and interest on all Outstanding Obligations and any other payments due under any Obligation, including the purchase price of Related Bonds tendered for purchase pursuant to the terms of a Related Bond Indenture or Related Loan Document, required by the terms of such Obligations, on the dates, at the times and at the places and in the manner provided in such Obligations, the applicable Supplemental Master Indenture and the Master Indenture, when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise.

(c) The Obligated Group Agent shall at all times maintain an accurate and complete list of all Persons that are Obligated Group Members, Designated Affiliates and System Affiliates. With respect to each such Person, and so long as such Person is designated as a Designated Affiliate, the Obligated Group Agent, or any Member designated by the Obligated Group Agent as the Controlling Member, shall either (a) maintain, directly or indirectly, control of each Designated Affiliate, including the power to direct the management, policies, disposition of assets and actions of such Designated Affiliate to the extent required to cause such Designated Affiliate to comply with the terms and conditions of the Master Indenture, whether through the ownership of voting securities, by contract, partnership interests, membership, reserved powers, or the power to appoint members, trustees or directors or otherwise, or (b) execute and have in effect such contracts or other agreements that the Obligated Group Agent or

Controlling Member, in its sole judgment, deems sufficient for it to cause such Designated Affiliate to comply with the terms and conditions of the Master Indenture. Any Person will cease to be a Designated Affiliate upon the declaration of the Obligated Group Agent in an Officer's Certificate delivered to the Master Trustee, and upon such declaration, such Person shall no longer be subject to any of the covenants applicable to a Designated Affiliate under the Master Indenture. Notwithstanding anything to the contrary in the Master Indenture, no Person shall cease to be a Designated Affiliate or a System Affiliate if any Outstanding Related Bonds have been issued for the benefit of such Person until there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that, under then existing law, the cessation by such Person of its status as a Designated Affiliate or System Affiliate will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable thereon to which such Related Bond would otherwise be entitled. (Section 401)

(d) Each Controlling Member covenants that it will cause, pursuant to Section 401(C), each of its Designated Affiliates to comply with the terms and conditions of the Master Indenture which are applicable to such Designated Affiliate, and of the Related Loan Document, if any, to which such Designated Affiliate is a party. The Members covenant that they will take such action as they deem reasonably necessary to ensure that the System Affiliates comply with the terms or conditions of the Master Indenture applicable to the System Affiliates. (Section 401)

Performance of Covenants. Each Member covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Master Indenture and in each and every Obligation executed, authenticated and delivered under the Master Indenture and will perform all covenants and requirements imposed on the Obligated Group Agent or any Member under the terms of any Related Bond Indenture. (Section 402)

General Covenants; Right of Contest. Each Member covenants to, and each Controlling Member covenants to cause each of its Designated Affiliates to:

(a) Except as otherwise expressly provided in the Master Indenture (i) preserve its corporate or other separate legal existence, (ii) preserve all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs as then conducted and (iii) be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs requires such qualification; provided, however, that nothing contained in the Master Indenture shall be construed to obligate such Member or Designated Affiliate to retain, preserve or keep in effect the rights, licenses or qualifications no longer used or useful in the conduct of its business.

(b) In the case of any Person which is a Tax-Exempt Organization at the time it becomes a Member or Designated Affiliate, so long as the Master Indenture shall remain in force and effect and so long as all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or provision for such payment has not been made, to take no action or suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, which could result in any such Related Bond being declared invalid or result in the interest on any Related Bond, which is otherwise exempt from federal or state income taxation, becoming subject to such taxation.

(c) At its sole cost and expense, promptly comply with all present and future laws, ordinances, orders, decrees, decisions, rules, regulations and requirements of every duly constituted governmental authority, commission and court and the officers thereof which may be applicable to it or any of its affairs, business, operations and Property, any part thereof, any of the streets, alleys, passageways, sidewalks, curbs, gutters, vaults and vault spaces adjoining any of its Property or any part thereof or to the use or manner of use, occupancy or condition of any of its Property or any part thereof, if the failure to so comply would have a materially adverse affect on the operations or financial affairs of the Obligated Group, taken as a whole.

The foregoing notwithstanding, any Member, Designated Affiliate or System Affiliate may (i) cease to be a not for profit corporation or (ii) take actions which could result in the alteration or loss of its status as a Tax-Exempt Organization if prior thereto there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that such actions would not adversely affect the validity of any

Related Bond, the exemption from federal or state income taxation of interest payable on any Related Bond otherwise entitled to such exemption or adversely affect the enforceability in accordance with its terms of the Master Indenture against any Person.

No Member, Designated Affiliate or System Affiliate shall be required to remove any Lien required to be removed under Section 412, pay or otherwise satisfy and discharge its obligations, Indebtedness (other than any Obligations), demands and claims against it or to comply with any Lien, law, ordinance, rule, order, decree, decision, regulation or requirement referred to in Section 412, so long as such Member, Designated Affiliate or System Affiliate shall contest, in good faith and at its cost and expense, in its own name and behalf, the amount or validity thereof, in an appropriate manner or by appropriate proceedings which shall operate during the pendency thereof to prevent the collection of or other realization upon the obligation, Indebtedness, demand, claim or Lien so contested, and the sale, forfeiture, or loss of its Property or any part thereof, provided, that no such contest shall subject any Related Issuer, any Obligation holder or the Master Trustee to the risk of any liability. While any such matters are pending, such Member, Designated Affiliate or System Affiliate shall not be required to pay, remove or cause to be discharged the obligation, Indebtedness, demand, claim or Lien being contested unless such Member, Designated Affiliate or System Affiliate agrees to settle such contest. Each such contest shall be promptly prosecuted to final conclusion (subject to the right of such Member, Designated Affiliate or System Affiliate engaging in such a contest to settle such contest), and in any event the Member, Designated Affiliate or System Affiliate will save all Obligation holders and the Master Trustee harmless from and against all losses, judgments, decrees and costs (including attorneys' fees and expenses in connection therewith) as a result of such contest and will, promptly after the final determination of such contest or settlement thereof, pay and discharge the amounts which shall be determined to be payable therein, together with all penalties, fines, interests, costs and expenses thereon or incurred in connection therewith. (Section 405)

Insurance. Each Member shall and each Controlling Member covenants to cause each of its Designated Affiliates to, maintain or cause to be maintained at its sole cost and expense, insurance with respect to its Property, the operation thereof and its business against such casualties, contingencies and risks (including but not limited to public liability and employee dishonesty) and in amounts not less than is customary in the case of corporations engaged in the same or similar activities and similarly situated and as is adequate to protect its Property and operations. (Section 406)

Long-Term Debt Service Coverage Ratio. Each Member covenants and agrees to, and each Controlling Member covenants to cause each of its Designated Affiliates to, conduct its business on a revenue producing basis and to charge such fees and rates and to exercise such skill and diligence as to provide income from its Property together with other available funds sufficient to pay promptly all payments of principal and interest on its Indebtedness, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law. Each Member further covenants and agrees that it will, and each Controlling Member covenants that it will cause each of its Designated Affiliates to, from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of Section 407 of the Master Indenture.

The Obligated Group Agent shall calculate the Income Available for Debt Service of the System or, at the option of the Obligated Group Agent, the Obligated Group, for each Fiscal Year and the Long-Term Debt Service Coverage Ratio of the System or the Obligated Group, as the case may be, for such Fiscal Year and deliver a copy of such calculations to the Persons to whom financial statements are required to be delivered under Section 409 of the Master Indenture.

If in any Fiscal Year the Long-Term Debt Service Coverage Ratio of the System or the Obligated Group, as the case may be, is less than 1.10 to 1, the Obligated Group Agent shall at its expense retain a Consultant, in a timely manner but in no event later than ninety (90) days after the date on which the Obligated Group Agent determines that such Long-Term Debt Service Coverage Ratio is less than 1.10 to 1, to prepare a report and make recommendations with respect to the rates, fees and charges of the System or the Obligated Group, as the case may be, and the System's or the Obligated Group's, as the case may be, methods of operation and other factors affecting their financial condition in order to increase such Long-Term Debt Service Coverage Ratio to at least 1.10 to 1.

A copy of the Consultant's report and recommendations, if any, shall be filed with the Obligated Group Agent and the Master Trustee. Each Member shall follow and each Controlling Member shall cause each Designated Affiliate to follow each recommendation of the Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of such Member) and permitted by law. The Members shall take such steps as they consider feasible to cause System Affiliates that are not Members or Designated Affiliates to follow each recommendation of the Consultant applicable to such System Affiliate. Section 407 of the Master Indenture shall not be construed to prohibit any Person from serving indigent patients to the extent required for such Person to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge or at reduced rates so long as such service does not prevent the System or the Obligated Group, as the case may be, from satisfying the other requirements of Section 407 of the Master Indenture.

The foregoing provisions notwithstanding, if in any Fiscal Year the Long-Term Debt Service Coverage Ratio of the System or the Obligated Group, as the case may be, is less than 1.10 to 1, the Obligated Group Agent shall not be required to retain a Consultant to make such recommendations if: (a) there is filed with the Master Trustee a written report of a Consultant which contains an opinion of such Consultant to the effect that applicable laws or regulations have prevented the System or the Obligated Group, as the case may be, from generating Income Available for Debt Service during such Fiscal Year in an amount sufficient to produce a Long-Term Debt Service Coverage Ratio of the System or the Obligated Group, as the case may be, of 1.10 to 1 or higher; (b) the report of such Consultant indicates that the fees and rates charged by the System Affiliates or the Members of the Obligated Group, as the case may be, are such that, in the opinion of the Consultant, the System Affiliates or the Members of the Obligated Group, as the case may be, have generated the maximum amount of Revenues reasonably practicable given such laws or regulations; and (c) the Long-Term Debt Service Coverage Ratio of the System or the Obligated Group, as the case may be, was at least 1.00 to 1 for such Fiscal Year. The Obligated Group Agent shall not be required to cause the Consultant's report referred to in the preceding sentence to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group Agent provides to the Master Trustee an Officer's Certificate or an opinion of Counsel to the effect that the applicable laws and regulations underlying the Consultant's report delivered in respect of the previous Fiscal Year have not changed in any material way. (Section 407)

<u>Permitted Reorganizations</u>. (a) Each Member agrees that it will not merge into, or consolidate with, one or more corporations that are not Members, or allow one or more of such corporations to merge into it, or sell or convey all or substantially all of its Property to any Person who is not a Member, unless:

(i) Any successor corporation or other legal entity to such Member (including without limitation any purchaser of all or substantially all the Property of such Member) is a corporation or other legal entity organized and existing under the laws of the United States of America or a state thereof and shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation or other legal entity to assume, jointly and severally, the due and punctual payment of the principal of, premium, if any, and interest on, and any other amounts due under, all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture to be kept and performed by such Member;

(ii) Immediately after such merger or consolidation, or such sale or conveyance, no Member would be in default in the performance or observance of any covenant or condition of any Related Loan Document or the Master Indenture;

(iii) If all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or fully provided for, there shall be delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance would not adversely affect the validity of such Related Bonds or the exemption otherwise available from federal or state income taxation of interest payable on such Related Bonds; and

(iv) The Obligated Group shall have delivered an Officer's Certificate to the Master Trustee demonstrating that the Transaction Test will be met, assuming the incurrence of $1.00 of additional Indebtedness, after giving effect to the proposed Permitted Reorganization.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Indenture as such Member and the Member party to such transaction, if it is not the survivor, shall thereupon be relieved of any further obligation or liabilities under the Master Indenture or upon the Obligations and such Member as the predecessor or non-surviving corporation may thereupon or at any time thereafter be dissolved, wound up or liquidated. Any successor corporation to such Member thereupon may cause to be signed and may issue in its own name Obligations under the Master Indenture and the predecessor corporation shall be released from its obligations under the Master Indenture and under any Obligations, if such predecessor corporation shall have conveyed all or substantially all Property owned by it (or all such Property shall be deemed conveyed by operation of law) to such successor corporation. All Obligations so issued by such successor corporation under the Master Indenture shall in all respects have the same legal rank and benefit under the Master Indenture as Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued under the Master Indenture by such prior Member without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate.

(d) The Master Trustee may rely upon an opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of Section 408 of the Master Indenture and that it is proper for the Master Trustee under the provisions of Article VII and of Section 408 of the Master Indenture to join in the execution of any instrument required to be executed and delivered by Section 408 of the Master Indenture.

(e) Except as may be expressly provided in any Supplemental Master Indenture, the ability of any Designated Affiliate or any System Affiliate to merge into, or consolidate with, one or more corporations, or allow one or more corporations to merge into it, or sell or convey all or substantively all of its Property to any Person is not limited by the provisions of the Master Indenture. Notwithstanding anything to the contrary in the Master Indenture, no System Affiliate shall engage in any merger or consolidation or disposition of substantially all of its assets if any Outstanding Related Bonds have been issued for the benefit of such System Affiliate until there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that, under then existing law, such action will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable thereon to which such Related Bond would otherwise be entitled. (Section 408)

<u>Financial Statements, Etc.</u> The Corporation and each Member covenant that they will, and will cause each System Affiliate controlled by the Corporation or such Member to, keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of the Corporation and the System Affiliates in accordance with generally accepted accounting principles consistently applied except as may be disclosed in the notes to the audited financial statements referred to in subparagraph (A) below, and the Obligated Group will furnish to the Master Trustee:

(a) As soon as practicable after they are available, but in no event more than 150 days after the last day of each Fiscal Year, a financial report of the System or, at the option of the Obligated Group Agent, of the Obligated Group, for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants selected by the Obligated Group Agent prepared on a combined or consolidated, or combining or consolidating, basis in accordance with generally accepted accounting principles, covering the operations of the System or the Obligated Group, as the case may be, for such Fiscal Year and containing an audited consolidated statement of financial position of the System or, at the option of the Obligated Group Agent, of the Obligated Group, as of the end of such Fiscal Year and an audited consolidated and an unaudited consolidating statement of changes in net assets and statement of cash flows of the System or, at the option of the Obligated Group Agent, of the Obligated Group, for such Fiscal Year and an audited consolidated and an unaudited consolidating statement of operations of the System or, at the option of the Obligated Group Agent, of the Obligated Group, for such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year.

(b) If the statements referred to in subsection (A) above do not include the results of operations of any Material Obligated Group Member or Material Designated Affiliate, as soon as practicable, but in no event more than 150 days after the last day of each Fiscal Year for such Material Obligated Group Member or Material Designated Affiliate, a financial statement for such Material Obligated Group Member or Material Designated Affiliate for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants selected by such Material Obligated Group Member or Material Designated Affiliate prepared on a combined or consolidated basis to include the results of operations of all Persons required to be consolidated or combined with such Material Obligated Group Member or Material Designated Affiliate in accordance with generally accepted accounting principles and containing at least the results of operations of such Material Obligated Group Member or Material Designated Affiliate for the Fiscal Year and a statement of financial position as of the end of such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year for such Material Obligated Group Member or Material Designated Affiliate.

(c) If financial statements have been delivered to the Master Trustee pursuant to the provisions of subsection (B) above, then, as soon as practicable, but in no event more than 180 days after the last day of each Fiscal Year of the Obligated Group Agent, the result of operations and statement of financial position including the Obligated Group prepared by or at the direction of the chief financial officer of the Obligated Group Agent based upon the audited financial statements described in subsections (A) and (B) above (such result of operations and statement of financial position being referred to in the Master Indenture as the "Obligated Group Financial Statements"), together with a certificate of the chief financial officer of the Obligated Group Agent stating that the Obligated Group Financial Statements were prepared in accordance with generally accepted accounting principles (except for required consolidations) and that the Obligated Group Financial Statements reflect the results of the operations of only the Members of the Obligated Group and that all Members of the Obligated Group are included.

(d) At the time of delivery of the financial report referred to in subsection (A) above, an Officer's Certificate, stating that the Obligated Group Agent has made a review of the activities of each Member, Designated Affiliate and System Affiliate during the preceding Fiscal Year for the purpose of determining whether or not the Members, Designated Affiliates and System Affiliates have complied with all of the terms, provisions and conditions of the Master Indenture and that each Member, Designated Affiliate and System Affiliate has kept, observed, performed and fulfilled each and every covenant, provision and condition of the Master Indenture on its part to be performed and is not in default in the performance or observance of any of the terms, covenants, provisions or conditions of the Master Indenture, or if any such Person shall be in default such certificate shall specify all such defaults and the nature thereof. (Section 409)

<u>Permitted Indebtedness</u>. (a) The Members of the Obligated Group covenant that, except for Permitted Indebtedness described in paragraph (b) of Section 410 of the Master Indenture, the Members of the Obligated Group shall not incur additional Indebtedness, directly, indirectly or contingently.

(b) Permitted Debt shall include only the following:

1. Long-Term Indebtedness, if prior to the incurrence of such Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate demonstrating that the Transaction Test shall have been met for, and giving effect to, the incurrence of such Indebtedness;

2. Long-Term Indebtedness, if prior to the incurrence of such Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate to the effect that the total principal amount of Long-Term Indebtedness to be incurred at such time, when added to the aggregate principal amount of all other Long-Term Indebtedness theretofore issued pursuant to this paragraph (b)(2) and then Outstanding, will not exceed thirty-five percent (35%) of the Operating Revenues of the Obligated Group

for the Historic Test Period. Any Long-Term Indebtedness or portion thereof incurred under this paragraph (b)(2) which is Outstanding at any time shall be deemed to have been incurred under one of paragraph (i), (ii) or (iii) of the Transaction Test if at any time subsequent to the incurrence thereof there shall be filed with the Master Trustee an Officer's Certificate to the effect that such Outstanding Indebtedness or portion thereof would satisfy such other provision, specifying such other provision, and thereupon the amount deemed to have been incurred and to be Outstanding under this paragraph (b)(2) shall be deemed to have been reduced by such amount and to have been incurred under such other provision;

3. Completion Indebtedness, if prior to the incurrence of such Completion Indebtedness there is delivered to the Master Trustee an Officer's Certificate (i) to the effect that the net proceeds of such proposed Completion Indebtedness is needed for the completion of the construction or equipping of the facilities in question; (ii) to the effect that the original Indebtedness for the facilities in question when incurred was assumed to be sufficient for the projected costs; (iii) describing the reasons why such Completion Indebtedness is necessary; (iv) certifying as to the amount needed for the completion of the facilities in question; and (v) certifying that the principal amount of such Completion Indebtedness will not exceed twenty percent (20%) of the initial principal amount of the Indebtedness originally incurred for the facilities in question;

4. Long-Term Indebtedness incurred for the purpose of refunding, including advance refunding, any Outstanding Long-Term Indebtedness, if prior to the incurrence of such Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate to the effect that either (i) such refunding will not increase Maximum Annual Debt Service by more than ten percent (10%) during the years that the Indebtedness to be refunded would have been Outstanding but for such proposed refunding or (ii) such refunding will result in a present value savings in the Long-Term Debt Service Requirement;

5. Short-Term Indebtedness, provided that immediately after the incurrence of such Indebtedness the aggregate Outstanding principal amount of all Short-Term Indebtedness does not exceed fifteen percent (15%) of the aggregate Operating Revenues of the Obligated Group for the Historic Test Period;

6. Non-Recourse Indebtedness, in a principal amount Outstanding at any one time not in excess of fifteen percent (15%) of Operating Revenues for the Historic Test Period, which Non-Recourse Indebtedness is: (i) secured by a Lien on Property which is part of the Property, Plant and Equipment; or (ii) secured by a Lien on Property which is inventory or pledges of gifts or grants to be received in the future without limit; provided that such gifts or grants shall be excluded from the calculation of Income Available for Debt Service so long as such Non-Recourse Indebtedness is Outstanding;

7. Subordinated Indebtedness, without limitation;

8. Balloon Indebtedness, provided that, after giving effect to the provisions of Section 415 of the Master Indenture, such Balloon Indebtedness can be incurred under the provisions of Section 410(b)(1) or (2) of the Master Indenture;

9. Permitted Guarantees, (i) if such Guaranty could then be incurred by the Obligated Group as Long-Term Indebtedness under Section 410(b)(1) or (2) of the Master Indenture, as Short-Term Indebtedness under Section 410(b)(5) of the Master Indenture, or as Balloon Indebtedness under Section 410(b)(8) of the Master Indenture, provided that in each case for purposes of any computations provided for in this paragraph (b)(9)(i), the aggregate annual principal and interest payments on, and the principal amount of, any indebtedness of a Person which is the subject of a Guaranty under the Master Indenture and which would, if such obligation were incurred by the Obligated Group, constitute Long-Term Indebtedness, shall be deemed equivalent to twenty percent (20%) of the actual Debt Service Requirements on, and principal amount of, such indebtedness (assuming the definitions of the Master Indenture apply to such indebtedness), so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles; provided, however, that the Debt Service Requirements on, and principal amount of, any Long-Term Indebtedness represented by a Guaranty shall be deemed equivalent to one hundred percent

(100%) of the actual Debt Service Requirements on, and principal amount of, such indebtedness, if a payment has been made by the Obligated Group on such Guaranty within three (3) years of the date of any computation to be made under this paragraph (b)(9)(i) (assuming the definitions of the Master Indenture apply to such indebtedness); also for purposes of any covenants or computations provided for in the Master Indenture, the aggregate annual principal and interest payments on, and principal amount of, any Short-Term Indebtedness represented by a Guaranty of obligations of a Person shall be deemed equivalent to the actual principal and interest payments on the indebtedness which is the subject of the Guaranty (assuming the definitions of the Master Indenture apply to such indebtedness); (ii) if such Guaranty is of Indebtedness of another Member of the Obligated Group, which Indebtedness has been or could be incurred as Permitted Indebtedness under the Master Indenture; or (iii) if such Guaranty is of indebtedness of a System Affiliate;

10. Indebtedness represented by a letter of credit reimbursement agreement or other similar reimbursement agreement entered into by any member of the Obligated Group and a financial institution providing either a liquidity or credit support with respect to any other Indebtedness incurred in accordance with any other provision of Section 410(b) of the Master Indenture;

11. Indebtedness in the form of a borrowing from another Member of the Obligated Group or from a System Affiliate;

12. Indebtedness in the form of any other financial obligation to another Member of the Obligated Group or to a System Affiliate;

13. Indebtedness incurred on an interim basis with respect to any construction project for which money is available therefor in the construction fund for such project;

14. Indebtedness incurred in the ordinary course of business;

15. Indebtedness in the form of a guaranty or confirmation of liability of an Affiliate incurred directly or indirectly with respect to a self-insurance or captive insurance program benefiting any Member of the Obligated Group;

16. Indebtedness incurred or deemed incurred by virtue of any recourse obligation associated with any sale or assignment of accounts receivable, but in no event in an amount in excess of (i) the monetary consideration received from any such sale or assignment; or (ii) twenty percent (20%) of the total amount of accounts receivable of the Obligated Group as of the end of the Historic Test Period. (Section 410)

<u>Permitted Dispositions</u>. (a) The Members of the Obligated Group covenant that, except for Permitted Dispositions described in paragraph (b) of Section 411 of the Master Indenture, the Members of the Obligated Group shall not sell, lease, remove, transfer, assign, convey or otherwise dispose of any Property of the Members of the Obligated Group.

(b) Permitted Dispositions shall include only the following:

1. the disposition of Property if the Book Value of such Property disposed of in any one Fiscal Year is not in excess of ten percent (10%) of the Book Value of the Property of the System as of the end of the Historic Test Period;

2. the disposition of Property if the Book Value of such Property disposed of in any one Fiscal Year exceeds ten percent (10%) of the Book Value of the Property of the System; provided, however, that an Officer's Certificate is delivered to the Master Trustee demonstrating that the Transaction Test shall have been met for, and giving effect to, such proposed Permitted Disposition;

3. the disposition of real property that is unused or surplus upon which none of the Facilities are situated;

4. the disposition of Property in the case of any proposed or potential condemnation or taking for public or quasi-public use of the Property or any portion thereof, provided that the proceeds of any such condemnation or taking shall be applied in the manner set forth in Section 406 (h) and (i) of the Master Indenture;

5. the disposition of Property to any Person if such Property has, or within the next succeeding twenty-four (24) calendar months is reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property;

6. the disposition of Property in the ordinary course of business;

7. the disposition of Property (other than Current Assets) that does not constitute part of the health care Facilities of the Obligated Group;

8. the disposition of Property if such Property is replaced promptly by other Property of comparable utility or worth;

9. the disposition of Property if the Obligated Group, or any Member thereof, receives fair market value therefor;

10. the disposition of Property constituting the sale, assignment or other disposition of accounts receivable, provided that the transaction is commercially reasonable and for consideration deemed fair and adequate in an Officer's Certificate delivered to the Master Trustee;

11. the disposition of Property to another Member of the Obligated Group or to a System Affiliate;

12. the disposition of Property in connection with a Permitted Reorganization. (Section 411)

Permitted Encumbrances. No Material Obligated Group Member shall create or incur or permit to be created or incurred or to exist any Lien on any Property of such Member, except for Permitted Encumbrances. (Section 412)

Right to Consent, Etc. Each Member shall have the right to agree in any Related Bond Indenture, Related Loan Document or Supplemental Master Indenture pursuant to which an Obligation is issued that, so long as any Related Bonds remain outstanding under such Related Bond Indenture or such Obligation remains outstanding, any or all provisions of the Master Indenture which provide for approval, consent, direction or appointment by the Master Trustee, provide that anything must be satisfactory or acceptable to the Master Trustee or not unacceptable to the Master Trustee, allow the Master Trustee to request anything or contain similar provisions granting discretion to the Master Trustee may also require or allow, as the case may be, the approval, consent, appointment, satisfaction, acceptance, request or like exercise of discretion by the Related Issuer, the Related Bond Trustee, the credit enhancer of any Related Bonds, or the holders of some specified percentage of such Obligations as provided for in such Obligations, or any one thereof, and that all items required to be delivered or addressed to the Master Trustee under the Master Indenture may also be delivered or addressed to the Related Issuer, such Obligation holders, the credit enhancer of any Related Bonds, and the Related Bond Trustee, or any one thereof, unless waived thereby. (Section 413)

Indemnity. Each Member will pay, and will protect, indemnify and save the Master Trustee (and its directors, officers, employees and agents) harmless from and against any and all liabilities, losses, damages, costs and expenses (including reasonable attorneys' fees and expenses of such Member and the Master Trustee), causes of action, suits, claims, demands and judgments of whatsoever kind and nature (including those arising or resulting from any injury to or death of any person or damage to Property) arising from or in any manner directly or indirectly growing out of or connected with the following:

1. the use, non-use, condition or occupancy of any of the Property of any Member, any repairs, construction, alterations, renovation, relocation, remodeling and equipping thereof or thereto or the condition of any of such Property including adjoining sidewalks, streets or alleys and any equipment or Facilities at any time located on such Property or used in connection therewith but which are not the result of the negligence of the Master Trustee;

2. violation of any agreement, warranty, covenant or condition of the Master Indenture, except by the Master Trustee;

3. violation of any contract, agreement or restriction by any Member relating to its Property, which shall have existed at the commencement of the Master Indenture;

4. violation of any law, ordinance, regulation or court order affecting any Property of any Member or the ownership, occupancy or use thereof; and

5. any statement or information concerning any Member or its officers and members or its Property, contained in any official statement or other offering document furnished to the Master Trustee or the purchaser of any Obligations or any Related Bonds, that is untrue or incorrect in any material respect, and any omission from such official statement or other offering document of any statement or information which should be contained therein for the purpose for which the same is to be used or which is necessary to make the statements therein concerning any Member, its officers and members and its Property not misleading in any material respect, provided that the official statement or other offering document has been approved by a Member of the Obligated Group and the indemnified party did not have knowledge of the omission or misstatement or did not use the official statement or other offering document with reckless disregard of or gross negligence in regard to the accuracy or completeness of the official statement or other offering document.

Such indemnity shall extend to each Person, if any, who "controls" the Master Trustee as that term is defined in Section 15 of the Securities Act of 1933, as amended. The respective obligations of the Members under Section 414 of the Master Indenture to indemnify and hold harmless the Master Trustee shall survive satisfaction and discharge of the Master Indenture and the replacement or resignation of the Master Trustee.

In the event of settlement of any litigation commenced or threatened, such indemnity shall be limited to the aggregate amount paid under a settlement effected with the written consent of the Obligated Group Agent.

The Master Trustee shall promptly notify the Obligated Group Agent in writing of any claim or action brought against the Master Trustee, its directors, officers, employees and agents, or any controlling person, as the case may be, in respect of which indemnity may be sought against any Member, setting forth the particulars of such claim or action, and the Obligated Group will assume the defense thereof, including the employment of counsel satisfactory in the reasonable discretion of the Master Trustee or such controlling person, as the case may be, and the payment of all expenses. The Master Trustee or any such controlling person, as the case may be, may employ separate counsel in any such action and participate in the defense thereof, and the reasonable fees and expenses of such counsel shall not be payable by the Obligated Group unless such employment has been specifically authorized by the Obligated Group Agent. (Section 414)

Debt Service on Balloon Indebtedness. For purposes of the computation of the Debt Service Requirement, whether historic or projected, Balloon Indebtedness shall, at the election of the Obligated Group Agent, be deemed to be Indebtedness which was payable over (a) thirty (30) years from the date of incurrence of such Indebtedness, (b) the remaining term to maturity of such Indebtedness, or (c) the term of refinancing if such

Indebtedness is subject to a binding commitment for the refinancing of such Indebtedness, in each case with level annual debt service, at a rate of interest equal to that derived from the Bond Index, as determined by an Officer's Certificate. (Section 415)

Debt Service on Variable Rate Indebtedness. For purposes of the computation of the projected (but not historic) Debt Service Requirement, Variable Rate Indebtedness shall be deemed Indebtedness maturing in accordance with its terms, and which bears interest at a rate derived from the Bond Index, all as determined by an Officer's Certificate. (Section 416)

Debt Service on Discount Indebtedness. For purposes of the computation of the Debt Service Requirement, whether historic or projected, the amount of principal represented by Discount Indebtedness shall, at the election of the Obligated Group Agent, be deemed to be the accreted value of such Indebtedness computed on the basis of a constant yield to maturity. (Section 417)

Remedies

Events of Default. Each of the following events is declared an "event of default":

(a) failure of the Obligated Group to pay any installment of interest or principal, or any premium, or any other amount due, on any Obligation when the same shall become due and payable, whether at maturity, upon any date fixed for prepayment or by acceleration or otherwise and the continuance of such failure for ten days (or any shorter grace period required in the Supplemental Master Indenture pursuant to which such Obligation was issued); or

(b) failure of any Member to comply with, observe or perform any other covenants, conditions, agreements or provisions of the Master Indenture and to remedy such default within 60 days after written notice thereof to such Member and the Obligated Group Agent from the Master Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Debt Obligations; provided, that if such default cannot with due diligence and dispatch be wholly cured within 60 days but can be wholly cured, the failure of the Member to remedy such default within such 60-day period shall not constitute a default under the Master Indenture if the Member shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch; or

(c) any representation or warranty made by any Member in the Master Indenture or in any Supplemental Master Indenture or in any statement or certificate furnished to the Master Trustee or the purchaser of any Obligation or Related Bond in connection with the delivery of any Obligation or sale of any Related Bond or furnished by any Member pursuant to the Master Indenture or any Supplemental Master Indenture proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 60 days after written notice thereof to the Obligated Group Agent by the Master Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Debt Obligations; or

(d) default in the payment of the principal of, premium, if any, or interest on any Indebtedness for borrowed money (other than Non-Recourse Indebtedness) of any Member, including without limitation any Indebtedness created by any Related Loan Document, as and when the same shall become due, or an event of default as defined in any mortgage, indenture, loan agreement or other instrument under or pursuant to which there was issued or incurred, or by which there is secured, any such Indebtedness (including any Obligation) of any Member, and which default in payment or event of default entitles the holder thereof (or any credit enhancer exercising the rights of such holder) to declare or, in the case of any Obligation, to request that the Master Trustee declare, such Indebtedness due and payable prior to the date on which it would otherwise become due and payable; provided, however, that if such Indebtedness is not evidenced by an Obligation or issued, incurred or secured by or under a Related Loan Document, a default in payment thereunder shall not constitute an "event of default" under the Master Indenture unless the unpaid principal amount of such Indebtedness, together with the unpaid principal amount of all other Indebtedness so in default, exceeds 10% of Current Assets of the System as shown on or derived from the then latest available audited consolidated financial statements of the System; or

(e) any judgment, writ or warrant of attachment or of any similar process shall be entered or filed against any Member or against any Property of any Member and remains unvacated, unpaid, unbonded, unstayed or uncontested in good faith for a period of 60 days; provided, however, that none of the foregoing shall constitute an event of default unless the amount of such judgment, writ, warrant of attachment or similar process, together with the amount of all other such judgments, writs, warrants or similar processes so unvacated, unpaid, unbonded, unstayed or uncontested, exceeds 10% of Current Assets of the System as shown on or derived from the then latest available audited consolidated financial statements of the System; or

(f) any Material Obligated Group Member admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for such Member, or for the major part of its Property; or

(g) a trustee, custodian or receiver is appointed for any Material Obligated Group Member or for the major part of its Property and is not discharged within 60 days after such appointment; or

(h) bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against any Material Obligated Group Member (other than bankruptcy proceedings instituted by any Material Obligated Group Member against third parties), and if instituted against any Material Obligated Group Member are allowed against such Member or are consented to or are not dismissed, stayed or otherwise nullified within 60 days after such institution. (Section 502)

Acceleration. If an event of default has occurred and is continuing, the Master Trustee may, and if requested by either the holders of not less than 25% in aggregate principal amount of Outstanding Debt Obligations or the holder of any Accelerable Instrument under which Accelerable Instrument an event of default exists (which event of default permits the holder thereof to request that the Master Trustee declare such Indebtedness evidenced by an Obligation due and payable prior to the date on which it would otherwise become due and payable), shall, by notice in writing delivered to the Obligated Group Agent, declare the entire principal amount of or other amounts evidenced under all Obligations then outstanding under the Master Indenture and the interest accrued thereon immediately due and payable, and the entire principal or other amounts and such interest shall thereupon become immediately due and payable, subject, however, to the provisions of Section 511 of the Master Indenture with respect to waivers of events of default. The foregoing notwithstanding, if the Supplemental Master Indenture creating an Obligation or Obligations includes a requirement that the consent of any credit enhancer, liquidity provider or any other Person be obtained prior to the acceleration of such Obligation or Obligations, the Master Trustee may not accelerate such Obligation or Obligations without the consent of such Person. (Section 503)

Remedies; Rights of Obligation Holders. Upon the occurrence of any event of default under the Master Indenture, the Master Trustee may pursue any available remedy including a suit, action or proceeding at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Obligations outstanding under the Master Indenture and any other sums due under the Obligations or under the Master Indenture and may collect such sums in the manner provided by law out of the Property of any Member wherever situated.

If an event of default shall have occurred, and if it shall have been requested so to do by either the holders of 25% or more in aggregate principal amount of Debt Obligations outstanding or the holder of an Accelerable Instrument upon whose request pursuant to Section 503 of the Master Indenture the Master Trustee has accelerated the Obligations (and upon the provision of indemnity satisfactory to the Master Trustee in its sole discretion), the Master Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Section 504 as the Master Trustee shall deem most expedient in the interests of the holders of Debt Obligations; provided, however, that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by Counsel (who may be its own Counsel) that the action so requested may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of Obligations not parties to such request.

No remedy by the terms of the Master Indenture conferred upon or reserved to the Master Trustee (or to the holders of Debt Obligations) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Master Trustee or to the holders of Debt Obligations under the Master Indenture now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or event of default shall impair any such right or power or shall be construed to be a waiver of any such default or event of default, or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or event of default under the Master Indenture, whether by the Master Trustee or by the holders of Debt Obligations, shall extend to or shall affect any subsequent default or event of default or shall impair any rights or remedies consequent thereon. (Section 504)

Direction of Proceedings by Holders. The holders of a majority in aggregate principal amount of the Debt Obligations then outstanding which have become due and payable in accordance with their terms or have been declared due and payable pursuant to Section 503 of the Master Indenture and have not been paid in full in the case of remedies exercised to enforce such payment, or the holders of a majority in aggregate principal amount of the Debt Obligations then outstanding in the case of any other remedy, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Master Indenture and that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by Counsel (who may be its own Counsel) that the action so directed may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of the Obligations not parties to such direction. Pending such direction from the holders of a majority in aggregate principal amount of the Debt Obligations outstanding, such direction may be given in the same manner and with the same effect by the holder of an Accelerable Instrument upon whose request pursuant to Section 503 of the Master Indenture the Master Trustee has accelerated the Obligations.

The foregoing notwithstanding, the holders of a majority in aggregate principal amount of the Debt Obligations then outstanding which are entitled to the exclusive benefit of certain security in addition to that intended to secure all or other Obligations shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture, the Supplemental Master Indenture or Indentures pursuant to which such Obligations were issued or so secured or any separate security document in order to realize on such security; provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and of the Master Indenture. (Section 505)

Appointment of Receivers. Upon the occurrence of an event of default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Master Trustee and the holders of Obligations under the Master Indenture, the Master Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the rights and properties pledged under the Master Indenture and of the revenues, issues, payments and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer. (Section 506)

Application of Moneys. All moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of this Article V (except moneys held for the payment of Obligations called for prepayment or redemption which have become due and payable) shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the fees of, expenses, liabilities and advances incurred or made by the Master Trustee, any Related Issuers and any Related Bond Trustees, be applied as follows:

(a) Unless all Obligations shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due on the Obligations, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

Second: To the payment to the persons entitled thereto of the unpaid principal and premium, if any, on the Obligations which shall have become due (other than Obligations called for redemption or payment for payment of which moneys are held pursuant to the provisions of the Master Indenture), in the order of the scheduled dates of their payment, and, if the amount available shall not be sufficient to pay in full Obligations due on any particular date, then to the payment ratably, according to the amount of principal and premium due on such date, to the persons entitled thereto without any discrimination or privilege; and

Third: To the payment to the persons entitled thereto of any other amounts which have become due under any and all Obligations; and

Fourth: To the payment to the persons entitled thereto of all unpaid amounts under any Obligations, payment of which was extended by such persons as described in Section 501 of the Master Indenture.

(b) If all Obligations shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal, premium, if any, and interest and all other amounts then due and unpaid upon the Obligations without preference or priority of principal, premium, interest or other amounts over the others, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal, premium, if any, interest and all other amounts to the persons entitled thereto without any discrimination or privilege; provided that no amount shall be paid to any Obligation holder who has extended the time for payment of either principal or interest or other amounts as described in Section 501 until all other principal, premium, if any, interest and all other amounts owing on Obligations have been paid; and

(c) If all Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article V, then, subject to the provisions of paragraph (b) of Section 507 of the Master Indenture in the event that all Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of Section 507 of the Master Indenture.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of Section 507 of the Master Indenture, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts to be paid on such date shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the holder of any unpaid Obligation until such Obligation shall be presented to the Master Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all Obligations and interest thereon have been paid under the provisions of Section 507 of the Master Indenture and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the person entitled to receive the same; if no other person shall be entitled thereto, then the balance shall be paid to the Obligated Group Agent on behalf of the Members. (Section 507)

Remedies Vested in Master Trustee. All rights of action including the right to file proof of claims under the Master Indenture or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any trial or other proceedings relating thereto and any such suit or proceeding instituted by the Master Trustee shall be brought in its name as Master Trustee without the necessity of joining as plaintiffs or defendants any holders of the Obligations, and any recovery of judgment shall be for the equal benefit of the holders of the Outstanding Obligations. Upon the occurrence of an Event of Default, the Master Trustee shall, in addition to any other remedies available under the Master Indenture or under applicable law, have the right to enforce the covenants of each Controlling Member to cause its Designated Affiliates to comply, and to enforce the covenant to cause each System Affiliate to comply, with the covenants applicable thereto as provided in Section 401 of the Master Indenture. (Section 508)

Rights and Remedies of Obligation Holders. No holder of any Obligation shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Master Indenture or for the execution of any trust of the Master Indenture or for the appointment of a receiver or any other remedy under the Master Indenture, unless a default shall have become an event of default and (a) the holders of 25% or more in aggregate principal amount (i) of the Debt Obligations which have become due and payable in accordance with their terms or have been declared due and payable pursuant to Section 503 of the Master Indenture and have not been paid in full in the case of powers exercised to enforce such payment or (ii) the Obligations then outstanding in the case of any other exercise of power or (b) the holder of an Accelerable Instrument upon whose request pursuant to Section 503 of the Master Indenture the Master Trustee has accelerated the Obligations, shall have made written request to the Master Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers thereinbefore granted or to institute such action, suit or proceeding in its own name, and shall have offered indemnity to the Master Trustee for its fees and expenses in an amount satisfactory to the Master Trustee in its sole discretion, and unless the Master Trustee shall thereafter fail or refuse to exercise the powers thereinbefore granted, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are declared in every case at the option of the Master Trustee to be conditions precedent to the execution of the powers and trusts of the Master Indenture and to any action or cause of action for the enforcement of the Master Indenture, or for the appointment of a receiver or for any other remedy under the Master Indenture; it being understood and intended that no one or more holders of the Obligations shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Master Indenture by its, his or their action or to enforce any right under the Master Indenture except in the manner in the Master Indenture provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner in the Master Indenture provided and for the equal benefit of the holders of all Obligations outstanding. Nothing in the Master Indenture contained shall, however, affect or impair the right of any holder to enforce the payment of the principal of, premium, if any, and interest on, or any other amounts due under, any Obligation at and after the maturity thereof, or the obligation of the Members to pay the principal, premium, if any, and interest on, or any other amounts due under, each of the Obligations issued under the Master Indenture to the respective holders thereof at the time and place, from the source and in the manner in said Obligations expressed. (Section 509)

Termination of Proceedings. In case the Master Trustee shall have proceeded to enforce any right under the Master Indenture by the appointment of a receiver, or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Master Trustee, then and in every case the Members and the Master Trustee shall, subject to any determination in such proceeding, be restored to their former positions and rights under the Master Indenture with respect to the Property pledged and assigned under the Master Indenture, and all rights, remedies and powers of the Master Trustee shall continue as if no such proceedings had been taken. (Section 510)

Waiver of Events of Default. If, at any time after all Obligations shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as thereinafter provided and before the acceleration of any Related Bond, any Member shall pay or shall deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Obligations and the principal and premium, if any, of, and any other amounts due under, all such Obligations that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate borne by such Obligations to the date of such payment or deposit, to the extent permitted by law) and the expenses of the Master Trustee, and any and all events of default under the Master

Indenture, other than the nonpayment of any amounts due under such Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case the holders of a majority in aggregate principal amount of all Debt Obligations then outstanding and the holder of each Accelerable Instrument who requested the giving of notice of acceleration, by written notice to the Obligated Group Agent and to the Master Trustee, may waive all events of default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent event of default, or shall impair any right consequent thereon. (Section 511)

Members' Rights of Possession and Use of Property. So long as each Member is in full compliance with the terms and provisions of the Master Indenture, each Member shall be suffered and permitted to possess, use and enjoy its Property and appurtenances thereto free of claims of the Master Trustee. (Section 512)

Related Bond Trustee or Bondholders Deemed To Be Obligation Holders. For the purposes of the Master Indenture, unless a Related Bond Trustee elects to the contrary or contrary provision is made in a Related Bond Indenture, each Related Bond Trustee shall be deemed the holder of the Obligation or Obligations pledged to secure the Related Bonds with respect to which such Related Bond Trustee is acting as trustee. If such a Related Bond Trustee so elects or the Related Bond Indenture so provides, the holders of each series of Related Bonds (or, in lieu thereof, the credit enhancer for such Related Bonds) shall be deemed the holders of the Obligations to the extent of the principal amount of the Obligations to which such Related Bonds relate. (Section 513)

The Master Trustee.

Resignation by the Master Trustee. The Master Trustee and any successor Master Trustee may at any time resign from the trusts created by the Master Indenture by giving thirty days' written notice to the Obligated Group Agent and by registered or certified mail to each registered owner of Obligations then outstanding and to each holder of Obligations as shown by the list of Obligation holders required by the Master Indenture to be kept at the office of the Master Trustee or its agent. Such resignation shall take effect at the end of such thirty days or when a successor Master Trustee has been appointed and has assumed the trusts created by the Master Indenture, whichever is later, or upon the earlier appointment of a successor Master Trustee by the Obligation holders or by the Obligated Group. Such notice to the Obligated Group Agent may be served personally or sent by registered or certified mail. (Section 607)

Removal of the Master Trustee. The Master Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to the Master Trustee and to the Obligated Group Agent, and signed by the owners of a majority in aggregate principal amount of Debt Obligations then outstanding. So long as no event of default or event which with the passage of time or giving of notice or both would become such an event of default has occurred and is continuing under the Master Indenture, the Master Trustee may be removed with or without cause at any time by an instrument or concurrent instruments in writing signed by the Obligated Group Agent, delivered to the Master Trustee. (Section 608)

Supplements of Master Indentures.

Supplemental Master Indentures Not Requiring Consent of Obligation Holders. Subject to the limitations set forth in Section 702 of the Master Indenture with respect to Section 701 of the Master Indenture, the Members (or the Obligated Group Agent on their behalf) and the Master Trustee may, without the consent of, or notice to, any of the Obligation holders, amend or supplement the Master Indenture, for any one or more of the following purposes:

(a) To cure any ambiguity or defective provision in or omission from the Master Indenture in such manner as is not inconsistent with and does not impair the security of the Master Indenture or adversely affect the holder of any Obligation;

(b) To grant to or confer upon the Master Trustee for the benefit of the Obligation holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the

Obligation holders and the Master Trustee, or either of them, to add to the covenants of the Members for the benefit of the Obligation holders or to surrender any right or power conferred under the Master Indenture upon any Member;

(c) To assign and pledge under the Master Indenture any additional revenues, properties or collateral;

(d) To evidence the succession of another entity to the agreements of a Member or the Master Trustee, or the successor to any thereof under the Master Indenture;

(e) To permit the qualification of the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter in effect or to permit the qualification of any Obligations for sale under the securities laws of any state of the United States;

(f) To provide for the refunding or advance refunding of any Obligation;

(g) To provide for the issuance of Obligations;

(h) To reflect the addition to or withdrawal of a Member from the Obligated Group or the addition or deletion of any Designated Affiliate, including the necessary changes to Exhibit A and Exhibit B to the Master Indenture;

(i) To provide for the issuance of Obligations with original issue discount, provided such issuance would not materially adversely affect the holders of Outstanding Obligations;

(j) To permit an Obligation to be secured by security which is not extended to all Obligation holders;

(k) To permit the issuance of Obligations which are not in the form of a promissory note;

(l) To modify or eliminate any of the terms of the Master Indenture; provided, however, that such Supplemental Master Indenture shall expressly provide that any such modifications or eliminations shall become effective only when there is no Obligation outstanding of any series created prior to the execution of such Supplemental Master Indenture;

(m) To modify, eliminate or add to the provisions of the Master Indenture if the Master Trustee shall have received (i) written confirmation from each rating agency that such change will not result in a withdrawal or reduction of its credit rating assigned to any series of Obligations or Related Bonds, as the case may be, or a report, opinion or certification of a Consultant to the effect that such change is consistent with then current industry standards, and (ii) an Officer's Certificate to the effect that, in the judgment of the Obligated Group Agent, such change is necessary to permit any Member of the Obligated Group to affiliate or merge with, on acceptable terms, one or more corporations that provide health care services and such modification is in the best interests of the holders of the Outstanding Obligations; and

(n) To make any other change which does not materially adversely affect the holders of any of the Obligations and does not materially adversely affect the holders of any Related Bonds, including without limitation any modification, amendment or supplement to the Master Indenture or any indenture supplemental hereto in such a manner as to establish or maintain exemption of interest on any Related Bonds under a Related Bond Indenture from federal income taxation under applicable provisions of the Code.

Any Supplemental Master Indenture providing for the issuance of Obligations shall set forth the date thereof, the date or dates upon which principal of, premium, if any, and interest on, and any other amounts due under, such Obligations shall be payable, the other terms and conditions of such Obligations, the form of such

Obligations and the conditions precedent to the delivery of such Obligations which shall include, among other things:

(a) delivery to the Master Trustee of an opinion of Counsel acceptable to the Master Trustee to the effect that all requirements and conditions to the issuance of such Obligations, if any, set forth in the Master Indenture and in the Supplemental Master Indenture have been complied with and satisfied; and

(b) delivery to the Master Trustee of an opinion of Counsel acceptable to the Master Trustee to the effect that neither registration of such Obligations under the Securities Act of 1933, as amended, nor qualification of such Supplemental Master Indenture under the Trust Indenture Act of 1939, as amended, is required, or, if such registration or qualification is required, that the Obligated Group has complied with all applicable provisions of said acts.

If at any time the Obligated Group Agent shall request the Master Trustee to enter into any Supplemental Master Indenture pursuant to subsection (m) above, the Master Trustee shall cause notice of the proposed execution of such Supplemental Master Indenture to be given to each rating agency then maintaining a rating on any Obligations or Related Bonds, in the manner provided in Section 1004 of the Master Indenture at least 15 days prior to the execution of such Supplemental Master Indenture, which notice shall include a copy of the proposed Supplemental Master Indenture. (Section 701)

Supplemental Master Indentures Requiring Consent of Obligation Holders. In addition to Supplemental Master Indentures covered by Section 701 of the Master Indenture and subject to the terms and provisions contained in Section 702 of the Master Indenture, and not otherwise, the holders of not less than 51% in aggregate principal amount of the Debt Obligations which are outstanding under the Master Indenture at the time of the execution of such Supplemental Master Indenture or, in case less than all of the several series of Debt Obligations are affected thereby, the holders of not less than 51% in aggregate principal amount of the Debt Obligations of each series affected thereby which are outstanding under the Master Indenture at the time of the execution of such Supplemental Master Indenture, shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by the Members and the Master Trustee of such Supplemental Master Indentures as shall be deemed necessary and desirable by the Members for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture or in any Supplemental Master Indenture; provided, however, that nothing contained in Section 702 or in Section 701 of the Master Indenture shall permit, or be construed as permitting, (a) an extension of the stated maturity or reduction in the principal or other amount of or reduction in the rate or extension of the time of paying of interest on or reduction of any premium payable on the redemption of, any Obligation, without the consent of the holder of such Obligation, (b) a reduction in the aforesaid aggregate principal or other amount of Obligations the holders of which are required to consent to any such Supplemental Master Indenture, without the consent of the holders of all the Obligations at the time outstanding which would be affected by the action to be taken, (c) the creation of any lien ranking prior to or on a parity with the lien of the Master Indenture with respect to the trust estate, if any, subject to the Master Indenture or terminate the lien of the Master Indenture on any Property at any time subject to the Master Indenture or deprive the holder of any Obligation of the security afforded by the lien of the Master Indenture except as otherwise provided in the Master Indenture, or (d) modification of the rights, duties or immunities of the Master Trustee, without the written consent of the Master Trustee.

If at any time the Obligated Group Agent shall request the Master Trustee to enter into any such Supplemental Master Indenture for any of the purposes of Section 702 of the Master Indenture, the Master Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplemental Master Indenture to be mailed by first class mail postage prepaid to each holder of an Obligation or, in case less than all of the series of Obligations are affected thereby, of an Obligation of the series affected thereby. Such notice shall briefly set forth the nature of the proposed Supplemental Master Indenture and shall state that copies thereof are on file at the corporate trust office of the Master Trustee identified in such notice for inspection by all Obligation holders. The Master Trustee shall not, however, be subject to any liability to any Obligation holder by reason of its failure to mail such notice, and any such failure shall not affect the validity of such Supplemental Master Indenture when consented to and approved as provided in Section 702 of the Master Indenture. If the holders of not less than 51% in aggregate principal amount of the Debt Obligations or the Debt Obligations of each series affected thereby, as the case may be, which are outstanding under the Master Indenture at the time of the execution of any such Supplemental Master Indenture shall have consented to and approved the execution thereof as in the Master Indenture provided, no holder of any Obligation shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or the Members from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such Supplemental Master Indenture as in Section 702 of the Master Indenture permitted and provided, the Master Indenture shall be and be deemed to be modified and amended in accordance therewith.

For the purpose of obtaining the foregoing consents, the determination of who is deemed the holder of an Obligation held by a Related Bond Trustee shall be made in the manner provided in Section 513. (Section 702)

<u>Satisfaction of the Master Indenture.</u>

<u>Defeasance</u>. If the Members shall pay or provide for the payment of the entire indebtedness on all Obligations (including, for the purposes of Section 801 of the Master Indenture, any Obligations owned by a Member) outstanding in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on, and any other amounts due under, all Obligations outstanding, as and when the same become due and payable;

(b) by depositing with the Master Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Obligations outstanding (including the payment of premium, if any, and interest payable on, and any other amounts due under, such Obligations to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested at the direction of the Obligated Group Agent in Escrow Securities, in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations outstanding at or before their respective maturity dates; it being understood that the investment income on such Escrow Securities may be used at the direction of the Obligated Group Agent for any other purpose permitted by law;

(c) by delivering to the Master Trustee, for cancellation by it, all Obligations outstanding; or

(d) by depositing with the Master Trustee, in trust, before maturity, Escrow Securities in such amount as the Master Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the amounts due on all Obligations outstanding at or before their respective maturity or due dates;

and if the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group and, if any such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice, then and in that case (but subject to the provisions of Section 803 of the Master Indenture) the Master Indenture and the estate and rights granted under the Master Indenture shall cease, determine, and become null and void, and thereupon the Master Trustee shall, upon written request of the Obligated Group Agent, and upon receipt by the Master Trustee of an Officer's Certificate and an opinion of Counsel acceptable to the Master Trustee, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Master Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Master Indenture and the lien of the Master Indenture. The satisfaction and discharge of the Master Indenture shall be without prejudice to the rights of the Master Trustee to charge and be reimbursed by the Obligated Group for any expenditures which it may thereafter incur in connection herewith. The foregoing notwithstanding, the liability of the Obligated Group in respect of the Obligations shall continue, but the holders thereof shall thereafter be entitled to payment only out of the moneys or Escrow Obligations deposited with the Master Trustee as aforesaid.

Any moneys, funds, securities, or other property remaining on deposit under the Master Indenture (other than said Escrow Securities or other moneys deposited in trust as above provided) shall, upon the full satisfaction of the Master Indenture, forthwith be transferred, paid over and distributed to the Obligated Group Agent.

The Obligated Group may at any time surrender to the Master Trustee for cancellation by it any Obligations previously authenticated and delivered which the Obligated Group may have acquired in any manner whatsoever, and such Obligations, upon such surrender and cancellation, shall be deemed to be paid and retired. (Section 801)

<u>Provision for Payment of a Particular Series of Obligations or Portion Thereof</u>. If the Obligated Group shall pay or provide for the payment of the entire indebtedness on all Obligations of a particular series or a portion of such a series (including, for the purpose of Section 802 of the Master Indenture, any such Obligations owned by a Member) in one of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on, and any other amounts due under, all Obligations of such series or portion thereof outstanding, as and when the same shall become due and payable; (b)by depositing with the Master Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Obligations of such series or portion thereof outstanding (including the payment of premium, if any, and interest payable on, and any other amounts due under, such Obligations to the maturity or redemption date), provided that such moneys, if invested, shall be invested at the direction of the Obligated Group Agent in Escrow Securities in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations of such series or portion thereof outstanding at or before their respective maturity dates; it being understood that the investment income on such Escrow Securities may be used at the direction of the Obligated Group Agent for any other purpose permitted by law; (c) by delivering to the Master Trustee, for cancellation by it, all Obligations of such series or portion thereof outstanding; or (d) by depositing with the Master Trustee, in trust, Escrow Securities in such amount as the Master Trustee shall determine will, together with the income or increment to accrue thereon without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations of such series or portion thereof at or before their respective maturity dates;

and if the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group with respect to such series of Obligations or portion thereof, and, if any such Obligations of such series or portion thereof are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice, then in that case (but subject to the provisions of Section 803 of the Master Indenture) such Obligations shall cease to be entitled to any lien, benefit or security under the Master Indenture. (Section 802)

<u>Satisfaction of Related Bonds</u>. The provisions of Section 801 and Section 802 of the Master Indenture notwithstanding, any Obligation which secures a Related Bond (i) shall be deemed paid and shall cease to be entitled to the lien, benefit and security under the Master Indenture in the circumstances described in subsection (b)(ii) of the definition of "Outstanding Obligations" contained in Article I; and (ii) shall not be deemed paid and shall continue to be entitled to the lien, benefit and security under the Master Indenture unless and until such Related Bond shall cease to be entitled to any lien, benefit or security under the Related Bond Indenture pursuant to the provisions thereof. (Section 803)

SUMMARY OF THE SMMC MASTER INDENTURE

DEFINITIONS

The following are definitions of certain terms used in this Summary of the Master Indenture and in the Official Statement .

"Accountant" shall mean a firm of nationally recognized independent certified public accountants to whom the Master Trustee makes no reasonable objection.

"Accounts Receivable" shall mean any and all right to payment for services rendered or for goods sold or leased which is not evidenced by an instrument or chattel paper, other than rights to payment related to services rendered at or goods' sold or leased at the Excluded Property.

"Additional Indebtedness" shall mean any Indebtedness issued under the Master Indenture or otherwise (including all Notes and all Guarantees other than any guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group) incurred subsequent to the issuance of the Series 1 Notes under Supplemental Master Trust Indenture No. 1 to the Master Indenture, dated as of November 1, 1989.

"Aggregate Income Available for Debt Service" shall mean, as to any period of time, the aggregate of Income Available for Debt Service of each member of the Obligated Group for such period, determined in such manner that no portion of Income Available for Debt Service of any such member is included more than once.

"Annual Debt Service" shall mean the Long-Term Debt Service Requirement for the Fiscal Year in question.

"Balloon Indebtedness" shall mean (i) Long-Term Indebtedness, or Short-Term Indebtedness which is intended to be refinanced upon or prior to its maturity (and which Short-Term Indebtedness is subject to a commercially reasonable binding commitment for such refinancing) so that such Short-Term Indebtedness will be Outstanding for more than one year as certified in an Officer's Certificate, twenty-five percent (25%) of more of the initial principal amount of which matures (or is payable at the option of the holder) in any twelve month period, if such twenty-five percent (25%) or more is not to be amortized to below twenty-five percent (25%) by mandatory redemption prior to such twelve month period, or (ii) any portion of an issue of Long-Term Indebtedness which, if treated as a separate issue of Indebtedness would meet the test set forth in clause (i) of this definition and which Indebtedness is designated as Balloon Indebtedness in an Officer's Certificate stating that such portion shall be deemed to constitute a separate issue of Balloon Indebtedness.

"Bond Index" shall mean, at the option of the Obligated Group Agent, either (i) the Bond Buyer thirty (30) year "Revenue Bond Index", as then published most recently by The Bond Buyer, New York, New York, or, if such index is no longer available, such index for comparable thirty (30) year maturity tax-exempt revenue bonds as may be certified to the Master Trustee by a firm of investment bankers or a financial advisory firm, or (ii) the interest rate or interest index as may be certified to the Master Trustee as appropriate to the situation by a firm of nationally recognized investment bankers or a financial advisory firm experienced in such field.

"Capitalization" shall mean the sum of (i) the aggregate principal amount of all outstanding Long-Term Indebtedness of the Obligated Group plus (ii) the aggregate Fund Balance of the Obligated Group.

"Capitalized Interest" shall mean that portion of the proceeds of any Indebtedness or any other funds (other than Debt Reserves) that are held in trust and are restricted to be used to pay interest due or to become due on Indebtedness.

"Completion Indebtedness" shall mean any Indebtedness incurred by the Institution or any Note Obligor for the purpose of financing the completion of constructing or equipping facilities for the construction or equipping of which some Indebtedness has thereofore been incurred in accordance with the provisions of the Master Indenture, to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time.

"Consultant" shall mean a person or firm selected by the Obligated Group Agent which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the Institution or any other Note Obligor, and which is a nationally recognized professional management consultant (which may be the Institution's external auditing firm) acceptable to the Master Trustee and having the skill and experience necessary to render the particular report required by the provisions of the Master Indenture in which such requirement appears.

"Corporate Trust Office" shall mean the office of the Master Trustee at which its principal corporate trust business is conducted, which at the date of the Master Indenture is located at Exchange Street, Bangor, Maine, Attention: Corporate Trust Department.

"Current Assets" shall mean any Property constituting cash and cash equivalent deposits, marketable securities, Accounts Receivable, accrued interest receivable, funds designated by a Governing Body for any specific purpose and any other intangible assets of the Obligated Group ordinarily considered current assets under generally accepted accounting principles.

"Debt Reserves" shall mean that portion of the proceeds of any Indebtedness or any other funds (other than Capitalized Interest) that are held in trust and are restricted to be used to pay principal or interest due or to become due on Indebtedness.

"Discount Indebtedness" shall mean Indebtedness sold to the original purchaser of the Master Indenture (other than any underwriter or other similar intermediary) at a discount from the par amount of such Indebtedness.

"Encumbered" shall mean subject to a Lien mentioned in subsection (v), (vi), (vii), (viii) or (ix) of Section 5.11(b) of the Master Indenture.

"Event of Default" shall mean any one or more of those events set forth in Section 6.01 of the Master Indenture.

"Excluded Property" shall mean all real property of the Obligated Group (other than the real property described in Exhibit A to the Master Indenture) and all buildings and improvements now or hereafter located on the Excluded Property and all personal property now or hereafter owned or used on or at the Excluded Property.

"Fiscal Year" shall mean the fiscal year of the Obligated Group, which shall be the fiscal year designated from time to time in writing by the Obligated Group Agent to the Master Trustee; for purposes of making historical calculations or determinations set forth in the Master Indenture on a Fiscal Year basis, or for purposes of combinations or consolidation of accounting information, with respect to those Note Obligors whose actual fiscal year is different from that designated above, the actual fiscal year of such Note Obligors which ended within the Fiscal Year of the Obligated Group shall be used; provided, however, that for purposes of making any calculations or determinations as set forth in the Master Indenture, the Obligated Group Agent may designate as the "Fiscal Year" any twelve-month period. Whenever the Master Indenture refers to a Fiscal Year of a specific Note Obligor, such reference shall be to the actual fiscal year adopted by such Note Obligor.

"Fund Balance" shall mean (i) for a person that is a Tax-Exempt organization, the aggregate fund balance of such person, and (ii) for a person that is not a Tax-Exempt Organization, the excess of assets of liabilities of such person.

"Future Test Period" shall mean the two full Fiscal Years immediately following the computation then being made, or, if such computation is then being made in connection with the provision of funds for capital improvements, following completion of the capital improvements then being financed.

"Governing Body" shall mean, when used with respect to the Institution, its board of directors, and when used with respect to any other Note Obligor, its board of directors, board of trustees, or other board or group of individuals in which the power to direct the management and policies of the Note Obligor are vested.

"Gross Receipts" shall mean all receipts, revenues, income and other moneys received by or on behalf of any one or more members of the Obligated Group, including, but without limiting the generality of the foregoing, revenues derived from the ownership or operation of Property, including insurance and condemnation proceeds with respect to Property or any portion of the Master Indenture, and all rights to receive the same, whether in the form of accounts, Accounts Receivable, contract rights or other rights, and the proceeds of such rights, and whether now owned or held or hereafter coming into existence: provided, however, that the following shall be excluded from Gross Receipts: (a) gifts, grants, bequests, donations and contributions heretofore or hereafter made and designated or specified by the granting authority, donor or maker of the Master Indenture as being for specified purposes (other than payment of debt service on Indebtedness) and the income derived therefrom to the extent required by such designation or specification and (b) the Excluded Property and the income or gain derived from the lease or other use of the Master Indenture or from the sale or other disposition of the Master Indenture and all insurance proceeds and eminent domain recoveries received in connection therewith.

"Guaranty" shall mean all obligations of the Institution or any Note Obligor guaranteeing in any manner, whether directly or indirectly, any obligation of any other person which would, if such other person were a member of the Obligated Group, constitute Indebtedness under the Master Indenture, unless the obligation of such other person is other than for the payment of a sum certain or, as to interest, a sum readily ascertainable by reference to an index.

"Historic Test Period" shall mean, at the option of the Obligated Group Agent, either (i) any twelve (12) consecutive calendar months out of the most recent period of eighteen (18) full calendar months, or (ii) the most recent period of twelve (12) full consecutive calendar months for which the financial statements of each member of the Obligated Group have been reported upon by an Accountant, or (iii) the most recent Fiscal year of the Obligated Group.

"Income Available for Debt Service" shall mean, with respect to each member of the Obligated Group, as to any period of time, net income, or excess of revenue over expenses (including investment income, gifts and bequests, but excluding donor restricted funds and the income thereon to the extent restricted by the donor of the Master Indenture to other than operating expenses) before depreciation, amortization and interest, as determined in accordance with generally accepted accounting principles consistently applied; provided, that no determination of the Master Indenture shall take into account (i) any revenue or expense of any person which is not a member of the Obligated Group, (ii) any gain or loss resulting from either the extinguishment or Indebtedness or the sale, exchange or other disposition of capital assets not in the ordinary course of business, (iii) the net proceeds of insurance (other than business interruption insurance) and condemnation awards, or (iv) any revenue or expense related to the Excluded Property.

"Indebtedness" shall mean all obligations for payments of principal and interest with respect to money borrowed, incurred or assumed by one or more members of the Obligated Group, including Guarantees (other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group), except obligations of a member of the Obligated Group to another member. Nothing in this definition or otherwise shall be construed to count Indebtedness more than once.

"Institution" shall mean the private, not-for-profit and charitable corporation organized and existing under the laws of the State of Maine, operating health care facilities located in the City of Biddeford, Maine, the corporate name of which is The Webber Hospital Association d/b/a Southern Maine Medical Center, and its successors.

"Insurance Consultant" shall mean a person or firm duly licensed under the laws of the State of Maine selected by the Institution and qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

"Law or Regulation Circumstances" shall mean the occurrence of the following: (i) applicable laws, governmental regulations, third-party reimbursement methods or private or governmental insurance-programs which have prevented or will prevent the Obligated Group from generating sufficient Aggregate Income Available for Debt Service to comply with the particular requirement of the Master Indenture in question, (ii) the effect upon the Obligated Group of the circumstances set forth in clause (i) above shall have been confirmed by a signed Consultant's opinion delivered to the Master Trustee, (iii) an Officer's Certificate shall have been delivered to the Master Trustee stating that the Obligated Group has generated the maximum Aggregate Income Available for Debt Service which, in the opinion of such officer, could reasonably be generated given the circumstances set forth in clause (i) above, and (iv), but only at the request of the Master Trustee, there shall have been delivered to the Master Trustee an Opinion of Counsel as to any conclusions of law supporting the opinion or report of the consultant.

"Lien" shall mean any mortgage, pledge, security interest, lien, judgment lien, easement, or other encumbrance on title, including, but not limited to, any mortgage or pledge of, security interest in or lien or encumbrance on any Property of the Institution or any Note Obligor which secures any indebtedness or any other obligation of the Institution or any Note Obligor, or which secures any obligation of any person other than an obligation to the Institution or any Note Obligor, excluding liens applicable to Property in which the Institution or any Note Obligor has only a leasehold interest unless the lien secures Indebtedness of the Institution or any Note Obligor, provided that any lien or encumbrance upon the Excluded Property shall not constitute a Lien.

"Long-Term Debt Service Coverage Ratio" shall mean the ratio for the period in question of Aggregate Income Available for Debt Service to Maximum Annual Debt Service. Notwithstanding anything in the Master Indenture to the contrary requiring a Consultant's opinion, report or certificate, projections of the Long-Term Debt Service Coverage Ratio may be made by an Officer's Certificate if (i) the ratio of Aggregate Income Available for Debt Service to Annual Debt Service for the Historic Test Period exceeded 1.50, and (ii) the Long-Term Debt Service Coverage Ratio immediately following the transaction in question exceeds 1.50, unless the Related Bond Issuers, if any, in its or their sole discretion, require that such Long-Term Debt Service Coverage Ratio calculations be made by a Consultant's opinion or report.

"Long-Term Debt Service Requirement" shall mean, for any period of time, the aggregate of the scheduled payments to be made (other than amounts irrevocably deposited with a Related Bond Trustee or otherwise held for the benefit of a lender for purposes of such payments) in respect of principal and interest on Outstanding Long-Term indebtedness of each member of the Obligated Group during such period, also taking into account (i) with respect to Balloon Indebtedness, the provisions of Section 5.18 of the Master Indenture, (ii) with respect to Variable Rate Indebtedness, the provisions of Section 5.19 of the Master Indenture, (iii) with respect to Discount Indebtedness, the provisions of Section 5.20 of the Master Indenture, (iv) with respect to Debt Reserves, the provisions of Section 5.21 of the Master Indenture, (v) with respect to Capitalized Interest, the provisions of Section 5.22 of the Master Indenture, and (vi) with respect to Indebtedness represented by a Guaranty of obligations of a person which is not a member of the Obligated Group, the provisions of Section 5.10(b) of the Master Indenture.

"Long-Term Indebtedness" shall mean all Indebtedness, other than Short-Term Indebtedness, for any of the following:

(i) Payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;

(ii) Payments under leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one year; and

(iii) Payments under installment purchase contracts having an original term in excess of one year.

"Master Indenture" shall mean the Master Trust Indenture, dated as of November 1, 1989, by and between the Institution and the Master Trustee, as the same may be amended or supplemented from time to time in accordance with the provisions of the Master Indenture.

"Master Trustee" shall mean U.S. Bank National Association, as successor master trustee, and its successors in the trusts created under the Master Indenture.

"Material Adverse Effect" shall mean a state of affairs which materially and adversely affects the financial condition, business, results of operations, assets or property of the Obligated Group taken as a whole:

"Maximum Annual Debt Service" shall mean the highest Long-Term Debt Service Requirement for the then current or any future Fiscal Year.

"Non-Recourse Indebtedness" shall mean any Indebtedness secured by a Lien, which Indebtedness is not a general obligation of the Obligated Group or of any Note obligor or of the Institution, and the liability for which Indebtedness is effectively limited to the Property subject to such Lien with no recourse, directly or indirectly, to any other Property of the Institution or any other Note Obligor.

"Note" shall mean any Note issued, authenticated and delivered under the Master Indenture. References to a series of Notes or to Notes of a series shall mean the Notes or series of Notes issued pursuant to a single Related Supplement.

"Noteholder" or "Holder" shall mean the registered owner of any Note in registered form or the bearer of any Note in coupon form which is not registered or is registered to bearer.

"Note Obligor" shall mean the Institution and any other person which has become a Note Obligor under the Master Indenture in accordance with the provisions of Section 5.07 of the Master Indenture.

"Obligated Group" shall mean the Institution and each Note Obligor.

"Obligated Group Agent" shall mean the Institution, or such other member of the Obligated Group as the then incumbent Obligated Group Agent shall designate as a Successor by an officer's Certificate delivered to the Master Trustee.

"Officer's Certificate" shall mean a certificate signed by the chairman of the Governing Body, or the president or chief executive officer, or the chief financial officer, of the Obligated Group Agent.

"Operating Revenues" shall mean the total operating revenues of the Obligated Group (other than such related to the Excluded Property) less applicable deductions from operating revenues as determined in accordance with generally accepted accounting principles consistently applied.

"Opinion of Bond Counsel" shall mean an opinion in writing signed by an attorney or firm of attorneys acceptable to the Master Trustee and experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

"Opinion of Counsel" shall mean a written opinion of an attorney or firm of attorneys, who may be counsel for the Institution, or other counsel acceptable to the Master Trustee.

"Outstanding", when used with reference to Notes, Guarantees and all other Indebtedness, shall mean, as of any date of determination, all Notes, Guarantees and all other Indebtedness thereofore issued or incurred and not paid and discharged other than (i) Notes thereofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Notes or Guarantees deemed paid and no longer outstanding as provided in Section 3.02 of the Master Indenture, (iii) Notes for which provision for payment has been made in the manner provided in the Master Indenture, (iv) Notes and any coupons appurtenant thereto in lieu of which other Notes have been authenticated and delivered or have been paid unless proof satisfactory to the Master Trustee has been received that any such Note is held by a bona fide purchaser, and (v) Indebtedness not represented by Notes or Guarantees which has been cancelled, paid in full, discharged in full by the obligee or defeased.

"Permitted Liens" shall have the meaning given in Section 5.11 of the Master Indenture.

"Person" or "person" shall include an individual, association, unincorporated organization, corporation, partnership, joint venture, or government or .agency or political subdivision of the Master Indenture.

"Property" shall mean any and all land, leasehold interests, buildings, machinery, equipment, hardware, and inventory of the Institution and each Note Obligor wherever located and whether now or hereafter acquired, any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated and whether now or hereafter acquired and shall include all revenues, receipts or other moneys, or right to receive any of the same, including, without limitation, total assets of each member of the Obligated Group, Current Assets, Gross Receipts, accounts, Accounts Receivable, contract rights and general intangibles, and all proceeds of all of the foregoing; provided, however, that real property included in Property shall initially be limited to the real property described in Exhibit A to the Master Indenture, and that Excluded Property shall not constitute Property.

"Property, Plant and Equipment" shall mean all Property of the members of the Obligated Group which is property, plant and equipment under generally accepted accounting principles.

"Related Bonds" shall mean the revenue bonds or other obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws of the Master Indenture or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf of the Master Indenture ("governmental issuer"), pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to (i) the Institution or a Note Obligor in consideration of the execution, authentication and delivery of a Note or Notes to or for the order of such governmental issuer, or (ii) any person other than the Institution or a Note Obligor in consideration of the issuance to such governmental issuer (iii) by such person of any indebtedness or other obligation of such person, and (B) by the Institution or a Note Obligor of a Guaranty issued under the Master Indenture in respect of such indebtedness or other obligation.

"Related Bond Indenture" shall mean any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

"Related Bond Issuer" shall mean the governmental issuer of any issue of Related Bonds.

"Related Bond Trustee" shall mean the trustee and its successors in the trusts created under any Related Bond indenture, and if there is no such trustee, shall mean the Related Bond Issuer.

"Related Supplement" shall mean an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture for the purpose of creating a particular series of Notes or a particular Guaranty issued under the Master Indenture.

"Short-Term Indebtedness" shall mean all Indebtedness, other than Long-Term Indebtedness, for any of the following: (i) payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less; (ii) payments under leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and (iii) payments under installment purchase contracts having an original term of one year or less.

"Standby Indebtedness" shall mean any Subordinated Indebtedness which by its terms may not be accelerated or demanded as to either principal or interest at any time prior to a declaration of an Event of Default under the Master Indenture.

"Subordinated Indebtedness" shall mean all obligations incurred or assumed by one or more members of the Obligated Group, the payment of which in the event of any default under the notes is by its terms specifically subordinated to payments on all Notes, or the principal of and interest on which would not be paid (whether by the terms of such obligation or by agreement of the obligee) when the Notes are in default or while bankruptcy, insolvency, receivership or other similar proceedings are instituted and implemented.

"Subsidiary" shall mean a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or a state thereof which is directly or indirectly controlled by or under common control by the same person as, the Institution or any other Subsidiary. For purposes of this definition, control means the power to direct the management and policies of a person through the ownership of a majority of its voting securities, the right to designate or elect a majority of the members of its board of directors or other governing board or body or the power or right to direct the management and policies of a person by contract or otherwise.

"Tax-Exempt Organization" shall mean a person organized under the laws of the United States of America or any state of the Master Indenture which is an organization described in Section 501(c)(3) and exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended, or corresponding provisions of federal income tax laws from time to time in effect.

"Total Assets" shall mean all Property of the members of the Obligated Group which is considered total assets under generally accepted accounting principles.

"Transaction Test" shall mean the Master Trustee shall have received any one of the following:

(A) an Officer's Certificate demonstrating that the Long-Term Debt Service Coverage Ratio for the Historic Test Period is not less than 1.50.

(B) a Consultant's opinion, report or certificate demonstrating that the Long-Term Debt service Coverage Ratio for the Future Test Period is projected to be not less than 1.35.

(C) an Officer's Certificate demonstrating that the Long-Term Debt Service Coverage Ratio for the Historic Test Period, assuming that the proposed additional Long-Term Indebtedness had been incurred at the beginning of the Historic Test Period and as such the proposed Long-Term Indebtedness is added to the then current aggregate outstanding principal amount of all Long-Term Indebtedness, is not less than 1.20.

(D) a consultant's opinion, report or certificate demonstrating that the Long-Term Debt Service Coverage Ratio for the Historic Test Period, assuming that the proposed transaction occurred at the beginning of the Historic Test Period and as such (1) the proposed Long-Term Indebtedness is added to the then current aggregate outstanding principal amount of all Long-Term Indebtedness and (2) any increase in the Income Available for Debt Service projected to be generated by the Obligated Group at the end of the Future Test Period is added to the then current Income Available for Debt Service, is projected to be not less than 1.25 or, if less, is projected to be greater than such ratio would have been if the proposed transaction had not taken place.

(E) (1) an officer's Certificate demonstrating that the Long-Term Debt Service Coverage Ratio for the Historic Test Period is not less than 1.35, and (2) a Consultant's opinion, report or certificate demonstrating that the Long-Term Debt Service Coverage Ratio for the Future Test Period is projected to be not less than 1.25 or, if less, is projected to be greater than such ratio would have been if the proposed transaction had not taken place.

(F) a Consultant's opinion, report or certificate demonstrating that the ratio of Income Available for Debt Service for the Historic Test Period, to projected Maximum Annual Debt Service for the Future Test Period, is projected to be not less than 1.20 or, if less, is projected to be greater than such ratio would have been if the proposed transaction had not taken place.

(G) a Consultant's opinion, report or certificate demonstrating that (1) the Long-Term Debt Service Coverage Ratio for the Future Test Period is projected to be not less than 1.20, and (2) the Long-Term Debt Service Coverage Ratio for the Future Test Period is projected to be no more than twenty percent (20%) lower than the Long-Term Debt Service Coverage Ratio would have been if the proposed transaction had not taken place.

(H) an Officer's Certificate, verified by an opinion, report or certificate of an Accountant, demonstrating, based upon audited financial statements for the Historic Test Period, that immediately after the proposed transaction the aggregate principal amount of all outstanding Long-Term Indebtedness will not exceed sixty percent (60%) of the capitalization' of the members of the Obligated Group. The requirements of clauses (A) through (H) of the definition of Transaction Test above shall be deemed satisfied if Law or Regulation Circumstances exist, and if there is delivered to the Master Trustee a Consultant's opinion, report or certificate to the effect that the Long-Term Debt Service Coverage Ratio for the Future Test Period is projected to be not less than the highest practicable level, but in no event less than 1.00.

"Unencumbered" shall mean not subject to a Lien mentioned in subsection (v), (vi), (vii), (viii) or (ix) of Section 5.11(b) of the Master Indenture.

"Value" when used in connection with Property, Plant and Equipment or other Property of the Institution or any Note Obligor, shall mean at the option of the Note Obligor (a) the cost basis of such property, net of accumulated depreciation, as it is carried on the books of such person and in conformity with generally accepted accounting .principles consistently applied, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the cost bases so determined with respect to such Property of each member of the Obligated Group determined in such a manner that no portion of such cost basis of Property of any member is included more than once or (b) the appraised value of such property as determined by an appraiser acceptable to the Master Trustee, such appraisal taking place within two (2) years of the date such value is used in any computation or calculation in the Master Indenture.

"Variable Rate Indebtedness" shall mean Indebtedness that bears interest at a variable, adjustable or floating rate.

Authorization, Issuance and Terms of Notes and Guaranties

Series and Amount of Notes. The number of series of Notes that may be created under the Master Indenture is not limited. The aggregate principal amount of Notes of each series that may be issued, authenticated and delivered under the Master Indenture is not limited except as limited by the provisions of the Master Indenture or of the Related Supplement. (Section 2.01)

Particular Covenants of the Institution and Each Note Obligor

Payment of Principal and Interest. The Institution, and each Note Obligor, jointly and severally covenant to promptly pay or cause to be paid the principal of, premium, if any, and interest on each Note issued under the Master Indenture, regardless of when such Note was issued, at the place, on the dates and in the manner provided in the Master Indenture, in the Related Supplement and in said Notes and any coupons appertaining thereto according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

The Institution and each Note Obligor agree and represent that they have each received fair consideration in return for the obligations undertaken and to be undertaken by the Institution and each Note Obligor resulting from each Note issued or to be issued by the Institution and any Note Obligor under the Master Indenture.

In connection with the issuance of the initial Note under the Master Indenture, the Institution granted and conveyed to the Holder of such Note a security interest in the Gross Receipts, in order to secure, on a parity basis, the payment of all sums to be paid by the Institution and any other members of the Obligated Group to all Holders of Notes secured by a pledge of Gross Receipts and issued under the Master Indenture. (Section 5.01)

Covenants as to Corporate Existence, Maintenance of Property, Etc. The Institution and each Note Obligor, respectively, by the Master Indenture, covenant:

(a) Except as otherwise expressly provided in the Master Indenture, to preserve its corporate or other separate legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and to be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualifications; provided, however, that nothing in the Master Indenture contained shall be construed to obligate it to retain or preserve any of its rights or licenses which, in the good faith opinion of the Institution or such Note Obligor, are no longer used or useful in the conduct of its business.

(b) At all times to cause its business to be carried on and conducted and its Property to be maintained, preserved and kept in good repair, working order and condition and all needful and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in the Master Indenture shall be construed (i) to prevent it from ceasing to operate any portion of its Property, if in its judgment (evidenced, in the case of such a cessation other than in the ordinary course of business, by a determination by its Governing Body) it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same in accordance with the provisions of the Master Indenture and within a reasonable time endeavors to effect such sale or other disposition, or (ii) to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses which, in the good faith opinion of the Institution or such Note Obligor, are no longer used or useful in the conduct of its business.

(c) To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the several states thereof and to duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Property wherever the failure to effect such compliance would have a Material Adverse Effect; provided, nevertheless, that nothing contained in the Master Indenture shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it shall be contested in good faith; provided, however, that the Obligated Group agrees that no such contest shall subject the Master Trustee or any Related Bond Issuer to the risk of any liability, and, in any event, that the Obligated Group shall jointly and severally indemnify the Master Trustee and any Related Bond Issuer against any liability resulting from such contest.

(d) Promptly to pay all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property wherever the failure to effect such compliance would have a Material Adverse Effect; provided, however, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof; provided, however, that the Obligated Group agrees that no such contest shall subject the Master Trustee or any Related Bond Issuer to the risk of any liability, and, in any event, that the Obligated Group shall jointly and severally indemnify the Master Trustee and any Related Bond Issuer against any liability resulting from such contest.

(e) Promptly to pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable wherever the failure to effect such compliance would have a Material Adverse Effect, other than any thereof (exclusive of the Notes and Guaranties issued and outstanding under the Master Indenture) whose validity, amount or collectibility is being contested in good faith; provided, however, that the Obligated Group agrees that no such contest shall subject the master Trustee or any Related Bond issuer to the risk of any liability, and, in any event, that the Obligated Group shall jointly and severally indemnify the Master Trustee and such Related Bond Issuer against any liability resulting from such contest.

(f) At all times to comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness wherever the failure to effect such compliance would have a Material Adverse Effect; provided, however, that it shall have the right to contest in good faith any such terms, covenants or provisions and pending such contest may delay or defer compliance therewith; provided, however, that the Obligated Group agrees that no such contest shall subject the Master Trustee or any Related Bond Issuer to the risk of any liability, and, in any event, that the Obligated Group shall jointly and severally indemnify the Master Trustee and any Related Bond Issuer against any liability resulting from such contest.

(g) To procure and maintain all necessary material licenses and permits and maintain all categories of accreditation of its health care facilities (other than those of a type for which accreditation is not then available) by the Joint Commission on Accreditation of Health care Organizations and the status of its health care facilities (other than those not currently having such status) as a provider of health care services eligible for reimbursement under any appropriate third-party payor programs and comparable programs, including future governmental programs as long as, in the opinion of the Institution or the Note Obligor involved, such eligibility or accreditation status is in the best interests of the Institution.

(h) In the case of the Institution and each Note Obligor which is a Tax-Exempt Organization at the time it becomes a Note Obligor, so long as any Related Bond the income on which is exempt from federal income taxation remains outstanding under the Related Bond Indenture, to take no action or suffer any action to be taken by others under their control which would result in the interest on any Related Bond becoming subject to federal income taxes. Notwithstanding the foregoing, not-for-profit members of the Obligated Group may relinquish their status as a Tax-Exempt Organization or change to a for-profit status provided that (i) the Master Trustee receives an Officer's Certificate stating that such change is in the best interest of the Obligated Group and stating the reasons therefor and (ii) the Obligated Group enters into such agreements and arrangements, acceptable to the Master Trustee, as may be necessary to preserve the tax-exempt status of any tax-exempt Related Bonds that will remain outstanding after the conversion. The Obligated Group shall deliver to the Master Trustee an Opinion of Bond Counsel confirming that such agreements and arrangements will preserve such tax-exempt status prior to approving such agreements and arrangements. In addition, to the extent that a conversion to for-for profit status might affect the validity that of any securities issued by a Related Bond Issuer, the Master Trustee also may require an Opinion of Bond Counsel confirming that such validity will continue.

(i) On the date on which the Institution and each Note Obligor becomes subject to the provisions of the Master Indenture and at all times thereafter, to consent to the jurisdiction of the courts of the State of Maine for causes of action arising solely under the terms of the Master Indenture and to appoint and maintain an agent (which may be the Obligated Group Agent) in the State of Maine to receive service of process for this limited purpose.

(j) Notwithstanding the above paragraphs from Section 5.02 of the Master Indenture, the members of the Obligated Group may change their status with respect to accreditations, licenses, approvals and qualifications, upon filing with the Master Trustee an Officer's Certificate to the effect that (i) the proposed change is in the best interest of the Obligated Group and stating the reasons therefor and (ii) such change will not have a Material Adverse Effect. (Section 5.02)

Rate Covenant. (a) The Obligated Group shall maintain for each Fiscal Year the ratio of Aggregate Income Available for Debt Service to Annual Debt Service at least at 1.20. If such ratio, as calculated at the end of any Fiscal Year, is below 1.20, the Obligated Group covenants to retain a Consultant, within sixty (60) days after the end of such Fiscal Year, to make recommendations to increase such ratio for subsequent Fiscal Years of the Obligated Group at least to the required level of 1.20 or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level, but in no event less than 1.00. The Institution and each Note Obligor, respectively, agree that it will, to the extent permitted by law and so long as such recommendations are not unreasonable, follow the recommendations of the Consultant. So long as the Obligated Group shall retain a Consultant and the Institution and each Note obligor shall follow such Consultant's recommendations to the extent permitted by law and so long as such recommendations are not unreasonable, Section 5.03 of the Master Indenture shall be deemed to have been complied with even if such ratio for any subsequent Fiscal Year of the Obligated Group is below the required level of 1.20. The Obligated Group shall no longer be required to retain such Consultant if and for so long as such ration is restored to and maintained at not less than 1.20.

(b) If Law or Regulation Circumstances exist, which above prevent compliance with the ratio set forth in Section 5.03(a) above, the requirements set forth in said Section shall be deemed satisfied as long as and Officer's Certificate is received by the Master Trustee at least once during each year that Law or Regulation Circumstances exist, which Officer's Certificate confirms the continued existence of the factual circumstances giving rise to the Law or Regulation Circumstances; provided, however, that in no event shall the ratio of Aggregate Income Available for Debt Service to Annual Debt Service for any Fiscal year be less than 1.00. (Section 5.03)

Limitations on Incurrence of Additional Indebtedness. The Institution and each Note Obligor, respectively, agrees that it will not incur any Additional Indebtedness other than Additional Indebtedness consisting of one or more of the following:

(a) Long-Term Indebtedness, including Notes and Guaranties, if prior to incurrence of the Long-Term Indebtedness, there is delivered to the Master Trustee:

(i) Evidence that at least one of the components of the Transaction Test shall have been satisfied; or

(ii) An Officer's Certificate (A) to the effect that the total principal amount of Long-Term indebtedness to be incurred at such time, when added to the aggregate principal amount of all other Long-Term Indebtedness theretofore issued pursuant to clause (ii) of Section 5.04 of the Master Indenture and then outstanding, will not exceed ten percent (l0%) of the Operating Revenues of the Obligated Group for the Historic Test Period and (B) projecting that the provisions of Section 5.03 of the Master Indenture shall be complied with for the Future Test Period, taking into consideration projected revenues and the proposed Indebtedness. Any Long-Term Indebtedness or portion thereof incurred under subsection (a)(ii) of Section 5.03 of the Master Indenture *which* is outstanding at any time shall be deemed to have been incurred under one of clause (A) through (H) of the definition of Transaction Test if at any time subsequent to the incurrence thereof there shall be filed with the Master Trustee an Officer's Certificate to the effect that such Outstanding Indebtedness or portion thereof would satisfy such other provision, specifying such other provision, and thereupon the amount deemed to have been incurred and to be Outstanding under subsection (a)(ii) of Section 5.03 of the Master Indenture shall be deemed to have been reduced by such amount and to have been, incurred under such other provision. If the terms of such other provision require a Consultant's opinion, report or certificate, such opinion, report or certificate, shall also be obtained and filed with the Master Trustee.

(b) Completion Indebtedness, without limitation, except for any limitations which may be established in a supplement to the Master Indenture; provided, that the Master Trustee shall have received (i) an Officer's Certificate stating that at the time the original Indebtedness for the facilities to be completed was issued, the Institution had reason to believe that the proceeds of such Indebtedness together with other moneys then expected to be available would provide sufficient moneys for the completion of such facilities; and (ii) a statement of an architect or an expert acceptable to the Master Trustee setting forth the amount estimated to be needed to complete the facilities.

(c) Long-Term Indebtedness incurred for the purpose of refunding, including advance refunding, any Outstanding Long-Term Indebtedness; provided, that if such Long-Term Indebtedness increases the Annual Debt Service of the Obligated Group by more than ten percent (10%), the provisions of Section 5.04(a) of the Master Indenture must also be satisfied.

(d) Short-Term Indebtedness, provided that immediately after the incurrence of such Indebtedness the aggregate outstanding principal amount of all such Short-Term Indebtedness does not exceed the greater of fifteen percent (15%) of the aggregate of Operating Revenues of the Obligated Group for the Historic Test Period or seventy-five percent (75%) of the aggregate net Accounts Receivable of the Obligated Group as of the end of the Historic Test Period; provided that for a period of at least thirty (30) days in each Fiscal Year the Outstanding principal amount of all such Indebtedness shall not exceed the greater of five percent (5%) of the aggregate of operating Revenues of the Obligated Group for the Historic Test Period or twenty-five percent (25%) of the aggregate net Accounts Receivable of the Obligated Group as of the end of the Historic Test Period, unless there is filed with the Master Trustee an Officer's Certificate to the effect that such Short-Tern Indebtedness, because of changes in law or regulations, must or reasonably should remain Outstanding in excess of such five percent (5%) or twenty-five percent (25%) limitation. Short-Term Indebtedness may also be incurred if such Short-Term Indebtedness Could be incurred under Section 5.04(a) of the Master Indenture assuming it were Long-Term Indebtedness.

(e) Non-Recourse Indebtedness which is:

(i) Secured by a Lien on Property which is part of the Property, Plant and Equipment which Lien is created in compliance with the provisions of Section 5.11(b)(vii) of the Master Indenture; or

(ii) Secured by a Lien on Property which is inventory or pledges of gifts or grants to be received in the future without limit, provided that such gifts or grants shall be excluded from the calculation of Income Available for Debt Service so long as such Indebtedness is outstanding.

(f) Subordinated Indebtedness, without limitation.

(g) Any Indebtedness not mentioned in any other subsection of Section 5.04 of the Master Indenture incurred in the ordinary course of business.

(h) Any Indebtedness not for borrowed money, such as social security and unemployment insurance liabilities.

(i) Balloon Indebtedness, provided that (i)(A) the final maturity of such Balloon Indebtedness is more than eighteen (18) months from the later of the date of its incurrence or the date of any calculation in respect of any such Balloon Indebtedness or (B) the Obligated Group has obtained a commitment on commercially reasonable terms from a financial institution providing for the refinancing of such Balloon indebtedness over a period of at least eighteen (18) months; and (ii) the conditions to the incurrence of indebtedness described in Section 5.04(a) (i) or (ii) of the Master Indenture are satisfied assuming that such Indebtedness will be amortized over a period not to exceed (i) twenty (20) years from the date of such calculation, if the maturity of such Indebtedness equals or exceeds twenty (20) years; (ii) the remaining term of such Indebtedness if the maturity is less than twenty (20) years, or (iii) the term of any binding refinancing agreement, in each case with level annual debt service, at a rate of interest equal to the actual rate of interest on such Indebtedness, or if such Indebtedness is Variable Rate Indebtedness, interest shall be calculated in accordance with Section 5.19 of the Master Indenture.

(j) Any indebtedness represented by a letter of credit reimbursement agreement or other similar reimbursement agreement entered into by a member of the Obligated Group and an institution providing either a liquidity or credit support with respect to any other Indebtedness incurred in accordance with any other provision of Section 5.04 of the Master Indenture.

(k) Indebtedness in the form of installment purchase contracts, leases, purchase money mortgages, loans, sale agreements or other typical borrowing instruments; provided that the aggregate Annual Debt Service on the Indebtedness permitted under this clause (k) shall not in any Fiscal Year exceed two and one-half percent (2.5%) of total Operating Revenues for the most recent completed Fiscal Year.

(l) Long-Term Indebtedness incurred (iii) not in connection with any other Indebtedness at such time being incurred and (iv) primarily for the purpose of funding any Debt Reserves, other than a Debt Reserve created in connection with an advance refunding or a cross-over refunding. (Section 5.04)

<u>Sale, Lease or Other Disposition of Property</u>. The Institution and each Note Obligor, respectively, agrees that it will not, in the aggregate, in any Fiscal Year sell, lease or otherwise dispose of Property the value of which would cause the aggregate value of Property so transferred by members of the Obligated Group in such Fiscal Year to exceed the greater of $1,500,000 or five percent (5%) of the Total Assets of the Obligated Group at the end of the most recent Fiscal Year, except for transfers, sales or leases of Property:

(a) to any person if prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate stating that in the judgment of the signer such property has, or within the next succeeding twenty-four (24) calendar months is reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property; or

(b) to another member of the Obligated Group; or

(c) in the ordinary course of business; or

(d) that do not constitute part of the health care facilities of the Obligated Group, without limitation; or

(e) if such Property is replaced promptly by other Property of comparable utility or worth; or

(f) if the Obligated Group receives fair market value therefor and the proceeds of such disposition are applied to the purchase of additional capital assets, applied to the defeasance, discharge, redemption or retirement of Indebtedness or deposited into a depreciation reserve fund; or

(g) to a person which is not a member of the Obligated Group provided that prior to the sale, lease or other disposition the Transaction Test of Section 5.05 of the Master Indenture shall have been satisfied. The requirements of clause (g) of Section 5.05 of the Master Indenture shall be deemed satisfied if Law or Regulation Circumstances exist, and if there is delivered to the Master Trustee a signed Consultant's opinion to the effect that the projected Long-Term Debt Service Coverage Ratio for each of the next two full Fiscal Years following the transaction in question will not be less than 1.00; or

(h) constituting all or substantially all of its property to any person in accordance with Section 5.06 of the Master Indenture. (Section 5.05)

Consolidation, Merger, Sale or Conveyance. (a) The Institution and each Note Obligor may merge or consolidate with any member of the Obligated Group and may sell or convey all or substantially all of its assets to any member of the Obligated Group. The Institution and each Note obligor, respectively, covenants that it will not merge or consolidate with any other corporation not a member of the Obligated Group or sell or convey all or substantially all of its assets to any person not a member of the Obligated Group unless:

(i) Either it will be the continuing corporation, or the successor corporation (if other than a member of the Obligated Group) shall be a corporation organized and existing under the laws of the United States of America or a state thereof and such corporation shall become a member of the Obligated Group or shall otherwise expressly assume the due and punctual payment of the principal of and premium, if any, and interest on all Outstanding Notes and Guaranties issued under the Master Indenture according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture by a Supplement satisfactory to the Master Trustee, executed and delivered to the Master Trustee by such corporation; and

(ii) No member of the Obligated Group immediately after such merger or consolidation, or such sale or conveyance, would be in default in the performance or observance of any covenant or condition contained in the Master Indenture and the conditions described in subsections (b)(viii)(A) and (d) of Section 5.11 of the Master Indenture would be met for the creation of a Lien on Property, Plant and Equipment and the condition described in subsection (a) of Section 5.04 of the Master Indenture would be met for the incurrence of one dollar of additional Long-Term Indebtedness; and

(iii) The Transaction Test shall have been satisfied; and

(iv) If all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, there shall have been delivered to the Master Trustee, the Related Bond Issuer, and the Related Bond Trustee, an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, the Related Bond Issuer, and the Related Bond Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not adversely affect the validity of such Related Bond or exemption from federal income taxation of interest payable on such Related Bond.

(b) in case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Indenture as the Institution or a Note Obligor, as the case may be. Such successor corporation thereupon may cause to be signed, and may issue in its own name Notes or Guaranties issuable under the Master Indenture; and upon the order of such successor corporation and subject to all the terms, conditions and limitations in the Master Indenture, the Master Trustee shall authenticate and shall deliver Notes that such successor corporation shall have caused to be signed and delivered to the Master Trustee. All outstanding Notes so issued and all outstanding Guaranties issued by such successor Corporation under the Master Indenture shall in all respects have the same legal rank and benefit under the Master Indenture as Outstanding Notes or Guaranties theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Notes and Guaranties had been issued under the Master Indenture by the Institution without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Notes thereafter to be issued as may be appropriate.

(d) The Master Trustee shall receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of Section 5.06 of the Master Indenture and that it is proper for the Master Trustee under the provisions of the Master Indenture to join in the execution of the Supplement provided for in Section 5.06 of the Master Indenture. (Section 5.06)

Persons Becoming Note Obligors. (a) If at any time the Institution and any person shall determine that such person should become a Note Obligor under the Master Indenture, the Institution and the person may execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master trustee, containing the agreement of such person (A) to become a Note Obligor under the Master Indenture and thereby become subject to compliance with all provisions of the Master Indenture pertaining to a Note Obligor, including the performance and observance of all covenants and obligations of a Note Obligor under the Master Indenture, and (B) guaranteeing to the Master Trustee and each other member of the Obligated Group that all Notes and Guarantees issued and then outstanding under the Master Indenture will be paid in accordance with the terms thereof and of the Master Indenture, when due.

(b) Each instrument executed and delivered to the Master Trustee in accordance with subsection (a) of this section shall be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, (i) to the effect that such instrument has been duly authorized, executed and delivered by the Institution and such person and constitutes a valid and binding obligation enforceable in accordance with its terms to the extent of the fair market value of any consideration received by such person in exchange for its becoming a Note Obligor, except that such Opinion of Counsel may state that enforceability may be limited by bankruptcy laws, insolvency laws and other laws affecting creditor's rights generally, and may contain such other qualifications as shall be satisfactory to the Master Trustee, and (ii) as to such matters incidental to the transactions contemplated by this section as the Master Trustee may deem necessary.

(c) It shall be a condition precedent to the consummation of any transaction involving an instrument to be executed and delivered to the Master Trustee in accordance with subsection (a) of Section 5.07 of the Master Indenture that the Master Trustee shall. also have received (i) an Officer's Certificate which demonstrates that, immediately upon any person becoming a Note Obligor as part of such transaction, no member of the Obligated Group would be in default in the performance or observance of any covenant or condition to be performed or observed by it under the Master Indenture and any member of the Obligated Group would meet the conditions described in subsections (b)(viii)(A) and (d) of Section 5.11 of the Master Indenture for the creation of a Lien on Property, Plant and Equipment and subsection (a) of Section 5.04 of the Master Indenture for the incurrence of one dollar of additional Long-Term Indebtedness, (ii) if all amounts due or to become due on any Related Bond have not been paid to the holder thereof, an opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, the Related Bond Issuer, and the Related Bond

Trustee, to the effect that under then existing law the consummation of such transaction, whether or not contemplated on any date of the delivery of any such Related Bond, would not adversely affect the validity of such Related Bond or the exemption from federal income taxation of interest payable on any such Related Bond, and (iii) evidence that the Transaction Test shall have been satisfied. (Section 5.07)

Restrictions on Guarantees. (a) The Institution and each Note Obligor, respectively, agrees that it will not enter into, or become liable after the date of the Master Indenture in respect of, any Guaranty unless (i) such Guaranty is of Indebtedness of another member of the Obligated Group, or (ii) such Guaranty is of obligations of a person which is not a member of the Obligated Group, and such Guaranty could then be incurred as Long-Term Indebtedness under Section 5.04(a), of the Master Indenture as Short-Term indebtedness under Section 5.04(d) of the Master Indenture, or as Balloon Indebtedness under Section 5.04(i) of the Master Indenture, in each case taking subsection (b) of Section 5.10 of the Master Indenture into account.

(b) For purposes of any covenants or computations provided for of the Master Indenture, the aggregate annual principal and interest payments on, and the principal, amount of, any indebtedness of a person which is not a member of the Obligated Group which is the subject of a Guaranty under the Master Indenture and which would, if such obligation were incurred by a member of the Obligated Group, constitute Long-Term Indebtedness, shall be deemed equivalent to twenty percent (20%) of the actual Annual Debt Service on, and principal amount of, such Indebtedness (assuming the definitions of the Master Indenture apply to such Indebtedness), so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles, provided, however, that the Annual Debt Service on, and principal amount of, any Long-Term indebtedness represented by a Guaranty shall be deemed equivalent to all of the actual Annual Debt Service, and principal amount of, such indebtedness, if a payment has been made by any member of the Obligated Group on such Guaranty within three years of the date of any computation to be made under the Master Indenture (assuming the definitions of the Master Indenture apply to such Indebtedness). Also for purposes of any covenants or computations provided for in the Master Indenture, the aggregate annual principal and interest payments on, and principal amount of, any Short-Term Indebtedness represented by a Guaranty of obligations of a person which is not a member of the Obligated Group shall be deemed equivalent to the actual principal and interest payments on the Indebtedness which is the subject of the Guaranty (assuming the definitions of the Master Indenture apply to such Indebtedness). (Section 5.10)

Limitations on Creation of Liens. (a) The Institution and each Note Obligor, respectively, agrees that it will not create or suffer to be created or exist any Lien upon Property now owned or hereafter acquired by it other than Permitted Liens.

(b) Permitted Liens shall consist of the following:

(i) Liens arising by reason of good faith deposits with the Institution or any Note Obligor in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by the Institution or any Note Obligor to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(ii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Institution, any Note Obligor, or a Subsidiary to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(iii) Any judgment lien or notice of pending action against the Institution or any Note Obligor so long as such judgment, attachment, trustee process or the related pending action is being contested and execution thereon is stayed or while the period for responsive pleadings has not lapsed;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (1) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the value thereof, or (2) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due for less than ninety (90) days; (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (D) rights reserved to or vested in any municipality or public authority to control or regulate any property or to use such Property in any manner; and (E) to the extent that it affects title to any Property, the Master Indenture;

(v) Any Lien described in Exhibit B to the Master Indenture which is existing on the date of authentication and delivery of the initial series of Notes, including renewals or refinancings thereof, provided that no such Lien may be extended or modified to apply to any Property of the Institution or any Note obligor not subject to such Lien on such date, unless such Lien as so extended or modified otherwise qualifies as a Permitted Lien under the Master Indenture;

(vi) Any Lien (other than a Lien on Property which is part of the Property, Plant and Equipment or on Accounts Receivable) securing Non-Recourse Indebtedness;

(vii) Any Lien on Property (other than a Lien on property which is part of the Property, Plant and Equipment) acquired by the Institution or a Note obligor if the assumption of the Indebtedness secured by the Lien by the Institution or Note Obligor is Additional Indebtedness permitted under the provisions of Section 5.04 of the Master Indenture, and if an Officer's Certificate is delivered to the Master Trustee certifying that (A) the Lien and the Indebtedness secured thereby were created and incurred by a person other than the Institution or Note obligor acquiring such Property prior to acquisition of such Property by the Institution or Note Obligor, and (e) the Lien was created prior to the decision of the Institution or Note Obligor to acquire the Property and was not created for the purpose of enabling the Institution or Note Obligor to avoid the limitations of the Master Indenture on creation of Liens on Property of the Obligated Group;

(viii) Any Lien on Property, other than a Lien on the Property described in (ix) below, if, prior to the creation of such Lien or the acquisition of Property subject to such Lien an Officer's Certificate is delivered to the Master Trustee stating that (A) after giving effect to the Lien, the Value of all Property which is Encumbered will not exceed fifteen percent (15%) of the Value of the Property, Plant and Equipment of the Obligated Group as of the end of the Historic Test Period; and (B) the creation of the proposed Lien will not have a Material Adverse Effect;

(ix) Any Lien on inventory, Accounts Receivable, or pledges of gifts or grants to be received in the future, which Lien secures either Short-Term Indebtedness incurred in compliance with the provisions of Section 5.04(d) of the Master Indenture or Non-Recourse Indebtedness incurred in compliance with the provisions of Section 5.04(e) of the Master Indenture if, prior to the creation of such Lien or the acquisition of Property subject to such Lien an Lien Officer's Certificate is delivered to the Master Trustee stating that after giving effect to the Lien, the Value of the Property which is subject to such Lien will not exceed, at the election of the Obligated Group Agent, either (A) fifteen percent (15%) of the value of the Property, Plant and Equipment and Current Assets of the Obligated Group as of the end of the Historic Test Period, or (B) seventy-five percent (75%) of the aggregate net Accounts Receivable of the Obligated Group as of the end of the Historic Test period;

(x) Any Lien representing statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. §291 et seq. and similar rights under other federal and state statutes;

(xi) Liens on Property received by any member of the Obligated Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of property or the income thereon;

(xii) Any Lien in favor of the Master Trustee securing all Notes and Guarantees on a parity basis;

(xiii) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;

(xiv) Liens on moneys deposited by patients or others with any member of the Obligated Group as security for or as prepayment for the cost of patient care;

(xv) Any Lien due to rights of third-party payors for recoupment of amounts paid to any member of the Obligated Group;

(xvi) Any parity or subordinate Lien (as to payment and timing of payment) on Gross Receipts granted by a member of the Obligated Group to secure any Long-Term Indebtedness that is Outstanding under the Master Indenture;

(xvii) Any Lien in the form of an installment purchase contract, lease, purchase money mortgage or security interest given to secure any Indebtedness incurred in accordance with Section 5.04 of the Master Indenture; and

(xviii) Any Lien representing rights of setoff and banker's liens with respect to funds on deposit in a financial institution in the ordinary course of business.

(c) Sections 5.12 and 5.11 of the Master Indenture are covenants, the breach of which may result in an Event of Default under Section 6.01 of the Master Indenture. Sections 5.12 and 5.11 of the Master Indenture are not intended by the parties to the Master Indenture to be a grant of any security or any property interest in Property of any member of the Obligated Group.

(d) Notwithstanding the provisions of Sections 5.12 and 5.11 of the Master Indenture, the Institution and each Note Obligor may create or suffer to be created or exist a Lien upon Property, in favor of the holder of any Indebtedness, with prior notice to the Master Trustee but without the consent of the Master Trustee or of the Holders of any Notes, so long as such Lien, or a Lien at least on a parity therewith, is effectively granted in favor of the Holders of all Outstanding Notes and all Notes to become Outstanding under the Master Indenture.

(e) The Master Trustee and the Institution agree that the Institution may and will grant a first security interest in its Gross Receipts to the Related Bond Issuer of the Related Bonds issued in connection with the issuance and delivery of the initial Note issued under the Master Indenture. (Section 5.11)

Restrictions on Encumbering Revenues. The Institution and each Note Obligor, respectively, covenants that it will not cause or permit any of its revenues, receipts or other moneys, or right to receive any of the same, including, without limitation, accounts, Accounts Receivable, contract rights and general intangibles, and all proceeds of all of the foregoing, whether cash or non-cash, to become Encumbered except (i) with respect to a Permitted Lien created under Section 5.11 of the Master Indenture, or (ii) as permitted by Section 5.15 of the Master Indenture with respect to insurance or condemnation proceeds or awards. (Section 5.12)

Insurance. The Institution and each Note Obligor, respectively, agrees that it will maintain, or cause to be maintained, insurance (including one or more self-insurance programs considered to be adequate under the provisions of Section 5.14(d) of the Master Indenture) covering such risks and in such amounts as, in its judgment, is adequate to protect it and its Properties and operations. The term “insurance” as used in Sections 5.13 and 5.14 of the Master Indenture shall not include any employee benefit program, whether or not qualified under ERISA and whether or not funded by insurance. If the Master Trustee or a Related Bond Issuer or Related Bond Trustee shall so request in writing the insurance required to be maintained pursuant to the Master Indenture shall be subject to the review of an Insurance Consultant every five years, commencing on the last day of the Fiscal Year ending in 1990, and the Institution and each Note Obligor, respectively, agrees that it will follow any reasonable recommendations of the Insurance Consultant which are consistent with the then current practices of health care facilities in the State of Maine, except to the extent that its Governing Body determines that such recommendations are not in the best interests of the Institution, the reasons for such determination to be set forth in an Officer’s Certificate delivered to the Master Trustee. The Institution and each Note Obligor, respectively, agrees that it will deliver or cause to be delivered to the Master Trustee annually, on or prior to a date designated by the Institution upon reasonable prior notice to the Master Trustee, an Officer's Certificate setting forth a description of the insurance maintained, by such person pursuant to Section 5.13 of the Master Indenture and then in effect and stating whether such insurance and the manner of providing such insurance and any reductions or eliminations of the amount of any insurance coverage during the annual period covered by such report comply with the requirements of Section 5.13 and Section 5.14 of the Master Indenture and adequately protect such person and its Properties and operations. Such report shall also set forth any recommendations of the Insurance consultant as to additional insurance, if any, reasonably required (during the period preceding the next such annual report) for the protection referred to in the next preceding sentence in light of available insurance coverage and practice in the health care industry. (Section 5.13)

Reduction and Modification of Insurance Coverage. (a) The Institution and each Note Obligor covenants to maintain the following types of insurance, and must secure the concurrence of an Insurance Consultant, except to the extent that its Governing Body determines that the Insurance Consultant’s failure to concur is unreasonable, the reasons for such determination to be set forth in an officer's Certificate delivered to the Master Trustee, before it may reduce or eliminate the amount of its insurance coverage for the following types of insurance: (i) comprehensive general public liability insurance, including product liability, blanket contractual liability and automobile insurance including owned, non-owned and hired automobiles (excluding collision and comprehensive coverage thereon), (ii) fire, lightning, windstorm, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke and uniform standard coverage and vandalism and malicious mischief endorsements and business interruption insurance covering such perils, (iii) professional liability or medical malpractice insurance, (iv) workmen's compensation insurance, (v) boiler insurance, and (vi) business interruption insurance.

(b) In making its decision whether to concur in such reductions or eliminations the Insurance Consultant shall take into account whether the Institution or Note Obligor has established an adequate self-insurance program with respect to the risk involved in accordance with subsection 5.14(d) of the Master Indenture.

(c) Insurance required under the Master Indenture may be in the form of a blanket insurance policy or policies and in the case of all policies may include additional names of insureds. Required limits of coverage may be provided by so-called “umbrella” coverages.

(d) In lieu of obtaining third-party coverage for the foregoing risks, the Obligated Group may self-insure any of the required coverages (or a portion thereof) except for the coverages described in Section 5.14(a)(ii) and (v) of the Master Indenture provided it delivers to the Master Trustee a report of an Insurance Consultant stating that the Obligated Group's decision to self-insure such risks is consistent with proper management and insurance practices. In addition, as long as the Obligated Group maintains any self-insurance against professional liability, the Obligated Group will provide the Master Trustee biennially (every two years) with a report of an Insurance Consultant concerning the adequacy of funding and the funding determination processes employed by the Obligated Group for such self-insurance.

(e) The Obligated Group may also arrange insurance coverage through a captive insurance company provided an insurance consultant's report indicates that such insurance is consistent with proper management and insurance practices.

(f) In the event that the insurance required by the Master Indenture is not commercially available and the Obligated Group has chosen not to self-insure against such losses, the Obligated Group shall employ an insurance Consultant reasonably acceptable to the Master Trustee, who shall review the insurance coverage of the Obligated Group and the Property, Plant and Equipment and make recommendations on the types, amounts and provisions of insurance that should be carried. Insurance requirements shall be modified to conform with the reasonable recommendations of the Insurance Consultant which are consistent with the then current practices of health care facilities in the State of Maine except as the Master Trustee may authorize deviations from such recommendations. (Section 5.14)

Insurance and Condemnation Proceeds. (a) The Institution or any Note Obligor may make agreements and covenants with the holder of Indebtedness which is incurred in compliance with the provisions of the Master Indenture and which is secured by a Permitted Lien with respect to the application or use to be made of insurance proceeds or condemnation awards which may be received in connection with Property which is subject to such Permitted Lien.

(b) After application in accordance with subsection (a) above, remaining amounts received by the Institution or any Note Obligor as insurance proceeds with respect to any casualty loss or as condemnation awards may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the payment or prepayment of any Note or Notes in accordance with the terms thereof and of the Related Supplement, subject to compliance with the provisions of the Master Indenture; provided that if the amount of such proceeds or awards received with respect to any casualty loss or condemnation remaining after application of subsection (a) above exceeds ten percent (10%) of the Value of the Property, Plan and Equipment, the Institution and each Note Obligor, respectively, agrees that it will promptly remit such proceeds or awards to the Master Trustee, if required, and the Institution may elect to direct the Master Trustee to cause such funds to be applied either (i) to the repair, reconstruction, restoration or replacement of the damaged or condemned facility or the purchase of capital equipment or (ii) to the prepayment of Notes issued and Outstanding, pro-rata among all such Notes. If the Institution elects clause (i) above, any remaining balance of such funds after such repair, reconstruction, restoration or replacement shall be paid to the institution. (Section 5.15)

Filing of Financial Statements Certificate of No Default, Other Information. The Institution and each Note Obligor, respectively, covenants that it will, through the Obligated Group Agent:

(a) As soon as practicable but in no event later than five months after the end of each Fiscal Year, file with the Master Trustee, with each Noteholder who may have so requested or in whose behalf the Master Trustee may have so requested (i) its revenue and expense statement (or a revenue and expense statement of any consolidated group of companies of which it is a member) for such Fiscal Year and (ii) its balance sheet (or a balance sheet of any consolidated group of companies of which it is a member) as of the end of such Fiscal Year, each accompanied by the certificate or opinion of an Accountant.

(b) As soon as practicable but in any event no later five months after the end of each Fiscal Year file, or cause to be filed, with the Master Trustee and with each Noteholder who may have so requested or in whose behalf the Master Trustee may have so requested (i) a combining revenue and expense statement of the Institution (or of any consolidated group of companies of which the Institution is a member) and each Note Obligor (or of which any consolidated group of companies of which such Note Obligor is a member) presenting each separately and combined, along with combining entries eliminating material inter-company balances and transactions, for such Fiscal Year and (ii) a combining balance sheet presented on the basis described in (i) above as of the end of such Fiscal Year, each accompanied by the certificate or opinion of an Account.

(c) As soon as practicable but in no event later than five months after the end of each Fiscal Year, file with the Master Trustee, and with each Noteholder who may have so requested or in whose behalf the Master Trustee may have so requested, an Officer’s Certificate which shows the computations necessary to ascertain whether or not the ratio set forth in Section 5.03 of the Master Indenture has been achieved for such Fiscal Year and stating whether or not to the best knowledge of the signers the Institution or such Note Obligor is in default in the performance of any covenant contained in the Master Indenture, and, if so, specifying each such default of which the signers may have knowledge

(d) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs (or of any consolidated group of companies of which it is a member) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the matter Trustee may reasonably request.

(e) Within thirty (30) days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant or an Insurance Consultant. (Section 5.17)

Debt Service on Balloon Indebtedness. For purposes of the computation of the Long-Term Debt Service Requirement, Annual Debt Service or Maximum Annual Debt Service, whether historical or projected, Balloon Indebtedness shall, at the election of the Obligated Group Agent, be deemed to be Indebtedness which, at the later of the date of its original Incurrence or the date of calculation, was payable over: (i) a twenty (20) year term, if the maturity of such Indebtedness equals or exceeds twenty (20) years, (ii) the remaining term of such Indebtedness, if the maturity is less than twenty (20) years, or (iii) the term of any binding refinancing commitment; in each case with level annual debt service, at a rate of interest equal to the actual rate of interest on such Indebtedness, except that if such Indebtedness is Variable Rate Indebtedness, interest shall be calculated in accordance with Section 5.19 of the Master Indenture; provided, however, that if such Balloon Indebtedness were required to be subject to a binding commitment for refinancing, then the assumed amortization of such Balloon Indebtedness shall conform to the terms of such commitment. (Section 5.18)

Debt Service on Variable Rate Indebtedness. For purposes of the computation of the projected Long-Term Debt Service Requirement, Annual Debt Service or Maximum Annual Debt Service, Variable Rate Indebtedness shall be deemed Indebtedness which bears interest at a rate derived from the Bond index, all as determined by an Officer's Certificate. (Section 5.19)

Debt Service on Discount Indebtedness. For purposes of the computation of the Long-Term Debt Service Requirement, Annual Debt Service or Maximum Annual Debt Service, whether historical or projected, the amount of principal represented by Discount Indebtedness shall, at the election of the Obligated Group Agent, be deemed to be the accreted value of such Indebtedness computed on the basis of a constant yield to maturity. (Section 5.20)

Credit for Debt Reserves. For purposes of the computation of the Long-Term Debt Service requirement, Annual Debt Service or Maximum Annual Debt Service, whether historic or projected, the Obligated Group may subtract from principal due on Indebtedness any Debt Reserves which are available and are actually to be applied to make such principal payment in the year such Indebtedness matures or is redeemed or otherwise retired, at the time of such computation for the period in question. (Section 5.21)

Credit for Capitalized Interest. For purposes of the computation of the Long-Term Debt Service Requirement, Annual Debt Service or Maximum Annual Debt Service, whether historic or projected, the Obligated Group may subtract from interest due on indebtedness any Capitalized Interest which is available and is to be applied to make such interest payment in the year such interest comes due, at the time of such computation for the period in question. (Section 5.22)

Debt Service on Standby Indebtedness. For purposes of the computation of the Long-Term Debt Service Requirement, Annual Debt Service or Maximum Annual Debt Service, whether historic or projected, the Obligated Group may disregard the principal amount of and interest and premium, if any, on Standby Indebtedness. (Section 5.23)

Defaults and Remedies

Events of Defaults. Event of Default, as used in the Master Indenture, shall mean any of the following events:

(a) The Obligated Group shall fail to make, within five (5) business days of the due date thereof, any payment of the principal of, the premium, if any, and interest on any Note or any payment required by any Guaranty issued and outstanding under the Master Indenture when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Indenture and the Related Supplement.

(b) The Institution or any Note Obligor shall fail duly to observe or perform any covenant or agreement on its part under the Master indenture or any Related Supplement for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the members of the Obligated Group by the Master Trustee, or to the members of the Obligated Group and the Master Trustee by the holders of at least twenty-five percent (25%) in aggregate principal amount of Notes then Outstanding. If the breach of covenant or agreement is one which cannot be completely remedied within the thirty (30) days after written notice has been given, it shall not be an Event of Default as long as the Institution or Note Obligor has taken active steps within the thirty (30) days after written notice has been given to remedy the failure and is diligently pursuing such remedy.

(c) The Institution or any Note Obligor shall default in the payment of any Indebtedness for borrowed moneys (other than notes or Guarantees issued and Outstanding under the Master Indenture which are, and other than any other indebtedness which is, Non-Recourse Indebtedness), in a principal amount in excess of one percent (1%) of Operating Revenues of the Obligated Group, whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired where the effect of such default is to accelerate the maturity of such Indebtedness or to permit the holders thereof (or a trustee on behalf of such holders to cause such Indebtedness to become due prior to its stated maturity, or an event of default as defined in any mortgage, indenture or instrument, under which there may be issued or by which there may be secured or evidenced, any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, shall occur, provided, however, that such default shall not constitute an Event of Default within the meaning of Section 6.01 of the Master Indenture if within thirty (30) days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, whichever is longer, (i) the members of the Obligated Group in good faith commence proceedings to contest the existence or of such Indebtedness, and (ii) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness.

(d) The entry of a decree or order by a court having jurisdiction in the premises adjudging the Institution or any Note Obligator a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Institution or any Note Obligor under the Federal Bankruptcy Code or any other applicable Federal or state law, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of the Institution or any Note Obligor or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of sixty (60) consecutive days.

(e) The institution by the Institution or any Note Obligor of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other similar applicable Federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Institution or any Note Obligor or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

(f) An event of default added pursuant to any Related Supplement.

Provided, however, that an event described in subsections (d) or (e) of Section 6.01 of the Master Indenture above shall not be an Event of Default if, excluding from the Obligated Group the member or members as to which the event described in subsection (d) or (e) of Section 6.01 of the Master Indenture has occurred, there is compliance with the provisions of Article V of the Master Indenture and an Officer's Certificate as to such compliance is delivered to the Master Trustee within sixty (60) days of the receipt of notice of the existence of such event. (Section 6.01)

Acceleration Annulment of Acceleration. (a) Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee shall immediately give notice to the Noteholders and each Related Bond Trustee, and the Master Trustee may and, upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Notes outstanding (other than Notes which represent Non-Recourse Indebtedness), shall, by notice to the members of the Obligated Group, declare all Notes Outstanding immediately due and payable, whereupon such Notes shall become and be immediately due and payable, anything in the Notes or in the Master Indenture to the contrary notwithstanding. In such event, there shall be due and payable on the Notes an amount equal to the total principal amount of all such Notes, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues to the date of payment.

(b) At any time after the principal of the Notes shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Notes outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee (including counsel fees) and any paying agents, (iii) all other amounts then payable by the Obligated Group under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the master Trustee; and (iv) every Event of Default (other than a default in the payment of the principal of such Notes then due only because of such declaration) shall have been remedied, then the Master Trustee shall annul such declaration and its consequences with respect to any Notes or portions thereof not then due by their terms. No annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon. (Section 6.02)

Additional Remedies and Enforcement of Remedies. (a) Upon the occurrence and continuance of any Event Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Notes Outstanding, together with indemnification of the master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Noteholders under the Master Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) Enforcement of the right of the Noteholders to collect and enforce the payment of amounts due or becoming due under the Notes;

(ii) Suit upon all or any part of the Notes;

(iii) Civil action to require any person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Notes to account as if it were the trustee of any express trust for the Holders of Notes so secured;

(iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Notes; and

(v) Enforcement of any other right of the Noteholders conferred by law or by the Master Indenture.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Notes then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture, or (ii) to preserve or protect the interests of the Holders, provided that *such* request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the, provisions of the Master Indenture and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of the Holders of Notes not making such request. (Section 6.03)

<u>Application of Revenues and Other Moneys After Default</u>. During the continuance of an Event of Default all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Indenture, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances incurred or made by the Master Trustee with respect thereto (including counsel fees) shall be applied as follows:

(a) Unless the principal of all Outstanding Notes shall have become or have been declared due and payable:

<u>First</u>: To the payment to the persons entitled thereto of all installments of interest then due on the Notes in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

<u>Second</u>: To the payment to the persons entitled thereto of the unpaid principal installments of any Notes which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Notes on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all Outstanding Notes shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Notes without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

(c) If the principal of all Outstanding Notes shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Master Indenture, then, subject to the provisions of paragraph (b) of Section 6.04 of the Master Indenture in the event that the principal of all outstanding Notes shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of Section 6.04 of the Master Indenture.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of Section 6.04 of the Master Indenture, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid coupon or Note until such coupon or such Note and all unmatured coupons, if any, appertaining to such Note shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Notes and interest thereon have been paid under the provisions of Section 6.04 of the Master Indenture and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the person entitled to receive the same; if no other person shall be entitled thereto, then the balance shall be paid to the members of the Obligated Group, their successors, or as a court of competent jurisdiction may direct. (Section 6.04)

Noteholders Control of Proceedings. If an Event of Default shall have occurred and be continuing, notwithstanding anything in the Master Indenture to the contrary, the Holders of at least a majority in aggregate principal amount of Notes then outstanding shall have the right, at any time, by any instrument in writing executed and delivered to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Master Indenture (including indemnity to the Master Trustee as provided in the Master Indenture) and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of Noteholders not joining in such direction and provided further that nothing in Section 6.07 of the Master Indenture shall impair the right of the Master Trustee in its discretion to take any other action under the Master Indenture which it may deem proper and which is not inconsistent with such direction by Noteholders. (Section 6.07)

Waiver of Event of Default. (a) No delay or omission of the Master Trustee or omission of the Master Trustee or of any Holder of the Notes to exercise any right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by the Master Indenture to the Master Trustee and the Holders of the Notes, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee may waive any Event of Default, which in its opinion has been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy under the Master Indenture.

(c) Notwithstanding anything contained in the Master Indenture to the contrary, the Master Trustee, upon the written request of the holders of at least a majority of the aggregate principal amount of Notes then Outstanding, shall waive any Event of Default under the Master Indenture and its consequences;

provided, however, that, except under the circumstances set forth in subsection (b) of Section 6.02 of the Master Indenture, a default in the payment of the principal of, premium, if any, or interest on any Note, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the molders of all the Notes at the time Outstanding.

(d) in case of any waiver by the Master Trustee of an Event of Default under the Master Indenture, the members of the Obligated Group, the Master Trustee and the Noteholders shall be restored to their former positions and rights under the Master Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. (Section 6.09)

Appointment of Receiver. Upon the occurrence of any Event of Default unless the same shall have been waived as provided in the Master Indenture, the Master Trustee shall be entitled as a matter of right if it shall so elect, (i) forthwith end without declaring the Notes to be due and payable, (ii) after declaring the same to be due and payable, or (iii) upon the commencement of an action to enforce the specific performance of the Master Indenture or in aid thereof or upon the commencement of any other judicial proceeding to enforce any right of the Master Trustee or the Noteholders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group with such powers as the court making such appointment shall confer. The Institution and each Note Obligor, respectively, consents and agrees, and will if requested by the Master Trustee consent and agree at the time of application by the Master Trustee for appointment of such receiver, to the appointment of such receiver may be given the right, power and authority, to the extent the same may lawfully be given, to take possession of and operate and deal with such Property and the revenues, profits and proceeds therefrom, with like effect as the Institution or Note Obligor could do so, and to borrow money and issue evidences of indebtedness as such receiver. (Section 6.10)

Supplements and Amendments

Supplements Not Requiring Consent of Noteholders. The Institution, an each Note Obligor, when authorized by resolution or other action of equal formality by its Governing Body, and the master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Supplements for one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission in the Master Indenture.

(b) To correct or supplement any provision in the Master Indenture which may be inconsistent with any other provision in the Master Indenture, or to make, add, delete, or modify any other provisions with respect to Matters or questions arising under the Master Indenture which shall not materially adversely affect the interest of the Holders.

(c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the previsions of Section 8.02(a) of the Master Indenture.

(d) To qualify the Master indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.

(e) To create and provide for the issuance of a series of Notes or a Guaranty as permitted under the Master Indenture.

(f) To obligate a successor to the institution or other Note Obligor as provided in Section 5.06 of the Master Indenture. (Section 8.01)

Supplements Requiring Consent of Noteholders. (a) Other than Supplements referred to in Section 9.01 of the Master Indenture and subject to the terms and provisions and limitations contained in the

Master Indenture and not otherwise, the Holders of not less than a majority in aggregate principal amount of the Notes then Outstanding shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by the Institution, and each Note Obligor, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee of such Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture; provided, however, nothing in this section shall permit or be construed as permitting a Supplement which would:

(i) Extend the stated maturity of or time for interest on any Note or reduce the principal amount of or redemption premium or rate of interest payable on any Note without the consent of the Holder of such Note;

(ii) Modify, alter, amend, add to or rescind any of the terms or provisions contained in Article V of the Master Indenture in any manner which would materially and adversely affect the interests of the Noteholders or any of them without the consent of the Holders of all Notes then Outstanding; or

(iii) Reduce the aggregate principal amount of Notes then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Notes then Outstanding.

(b) If at any time the Institution, and each Note Obligor, shall request the Master Trustee to enter into a Supplement pursuant to Section 8.02 of the Master Indenture, which request is accompanied by a copy of the resolution or other action of its Governing Body certified by its secretary or if it has no secretary, its comparable officer, and the proposed Supplement and if within such period, not exceeding three years, as shall be prescribed by the Institution and each Note Obligor, following the request, the Master Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount of number of Notes specified in subsection (a) for the Supplement in question which instrument or instruments shall refer to the proposed Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as, on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Holder of any Note, whether or not such Holder shall have consented thereto.

(c) Any such consent shall be binding upon the Holder of the Note giving such consent and upon any subsequent Holder of such Note and of any Note issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Note giving such consent or by a subsequent Holder thereof by filing *with* the Master Trustee, prior to the execution by the Master Trustee of such Supplement, such revocation and, if such Note or Notes are transferable by delivery, proof that such Notes are held by the signer of such revocation in the manner permitted by the Master Indenture. At any time after the Holders of the required Principal amount or number of Notes shall have filed their consents to the Supplement, the Master Trustee shall make and file with the institution and each Note Obligor, a written Statement shall be conclusive that such consents have been filed.

(d) If the Holders of the required principal amount or number of the Notes Outstanding shall have consented to and approved the execution of such Supplement as provided in the Master Indenture, no Holder of any Note shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or the Institution or any Note Obligor from executing the same or from taking any action pursuant to the provisions thereof. (Section 8.02)

Satisfaction and Discharge of the Master Indenture

Satisfaction and Discharge of Master Indenture. If (i) the Institution or any Note Obligor shall deliver to the Master Trustee for cancellation all Notes theretofore authenticated (other than any Notes which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced or paid) and not theretofore cancelled, or (ii) all Notes not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable, or (ii) the members of the Obligated Group or any thereof shall deposit with the Master Trustee or with a bank or trust company acceptable to the Master Trustee pursuant to an agreement between the Institution and such bank or trust company in form acceptable to the Master Trustee) as trust funds the entire amount of moneys or investment obligations sufficient to pay at maturity or upon redemption all Notes not theretofore cancelled or delivered to the Master Trustee for cancellation, including principal and interest due or to become due to such date of maturity or redemption date, as the case may be, and if in the case of clause (ii), or (iii) above the members of the Obligated Group or any thereof shall also pay or cause to be paid all other sums payable under the Master Indenture by the members of the Obligated Group or any thereof, including any amounts due to the Master Trustee, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the members of the Obligated Group or any thereof, and at the cost and expense of the members of the Obligated Group or any thereof, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture; provided, however, that if there exists a Related Bond Indenture or Related Supplement with respect to any Indebtedness Outstanding under the Master Indenture, the type of investment obligations permitted for purposes of clause (iii) above shall, with respect to such Indebtedness only, be limited to the type of investment obligations permitted under such Related Bond Indenture or Related Supplement for the discharge of the Related Bonds or Indebtedness. The Institution and each Note Obligor, respectively, by the Master Indenture agrees to reimburse the Master Trustee for any costs or expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with the Master Indenture or such Note. (Section 9.01)

APPENDIX D

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June 24, 2010

Maine Health and Higher
Educational Facilities Authority
127 Community Drive
P.O. Box 2268
Augusta, Maine 04330

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of $96,755,000 Revenue Bonds, Series 2010B (the "Series 2010B Bonds") and the $11,275,000 Revenue Bonds, Series 2010C Bonds (the "Series 2010C Bonds", and collectively with the Series 2010B Bonds, the "Bonds"), of the Maine Health and Higher Educational Facilities Authority (the "Authority"), a public body corporate and politic of the State of Maine

The Bonds are issued under and pursuant to the Maine Health and Higher Educational Facilities Authority Act, Chapter 413 of Title 22, Sections 2051 to 2077, inclusive, of the Maine Revised Statutes Annotated, as it may be amended from time to time (the "Act"), and under and pursuant to a bond resolution of the Authority adopted on April 17, 2010 (the "Bond Resolution"), the Resolution Establishing the Maine Health Facilities' Reserve Fund adopted on December 6, 1991 (the "Reserve Fund Resolution") and a Bond Indenture dated as of April 1, 1995 (the "Original Bond Indenture") and the Forty-First Supplemental Bond Indenture dated as of June 1, 2010 (the "Forty-First Supplemental Indenture", and together with the Original Bond Indenture, the "Bond Indenture"), both by and between the Authority and U.S. Bank National Association, as Bond Trustee (the "Bond Trustee").

The Bonds are dated their date of delivery and bear interest from such date at the rates per annum payable on January 1, 2011 and semiannually thereafter on each January 1 and July 1 and mature on July 1 in the years and in the respective principal amounts as follows:

Series 2010B

Year	Amount	Interest Rate	Year	Amount	Interest Rate
2011	$6,245,000	2.500%	2019	$ 5,905,000	4.500%
2012	6,380,000	3.000	2019	840,000	4.000
2013	6,555,000	3.000	2020	5,610,000	5.000
2014	2,340,000	5.000	2021	4,815,000	5.250
2014	4,595,000	3.000	2021	310,000	4.000
2015	5,455,000	5.000	2022	4,025,000	5.250
2015	860,000	3.000	2022	110,000	4.000
2016	4,105,000	4.000	2023	3,595,000	5.250
2016	2,460,000	3.500	2023	565,000	4.000
2017	6,605,000	4.000	2025	6,865,000	4.125
2018	5,890,000	4.500	2031	11,650,000	4.500
2018	975,000	3.125			

Series 2010C

Year	Amount	Interest Rate	Year	Amount	Interest Rate
2011	$715,000	2.500%	2018	$ 885,000	3.125%
2012	740,000	3.000	2019	915,000	3.375
2013	765,000	3.000	2020	940,000	3.500
2014	780,000	3.000	2021	975,000	3.750
2015	810,000	3.000	2022	1,010,000	4.000
2016	830,000	3.000	2023	1,050,000	4.000
2017	860,000	3.000			

The Bonds are subject to redemption prior to maturity upon the terms and conditions provided therein, in the Bond Resolution and in the Bond Indenture. The Bonds are in the form of fully-registered bonds in the denomination of $5,000 and integral multiples thereof and are numbered separately from R-1 upward in order of issuance.

We have also examined an executed copy of each Loan Agreement or Loan Agreement and Mortgage, dated as of June 1, 2010 (collectively, the "Agreements") between the Authority and the institutions named therein (such institution borrowing a portion of the proceeds of the Bonds is referred to herein as an "Institution" and collectively, the "Institutions"). The applicable Institution has agreed in its Agreement, among other things, to make payments to the Authority in amounts and at the times stated therein which will be applied, together with funds available under the Reserve Fund Resolution, to pay the principal of, redemption premium, if any, and interest on the Institution's allocable share of the Bonds when due.

The Authority reserves the right to issue additional bonds on the terms and conditions and for the purposes stated in the Bond Indenture. Under the provisions of the Bond Indenture all such bonds will rank equally as to security with the Bonds.

We are of the opinion that:

(1) The Authority is duly created and validly existing under the provisions of the Act and has good right and lawful authority to utilize proceeds of the Bonds to assist the Institutions in the financing and refinancing of the Projects (as defined in the Agreements), and to establish and maintain payments, fees or charges in respect thereof and collect revenues therefrom and to perform all obligations of the Authority under the Bond Resolution, the Reserve Fund Resolution and the Bond Indenture in those respects.

(2) The Authority has the right and power under the Act to adopt the Bond Resolution and the Reserve Fund Resolution, and the Bond Resolution and the Reserve Fund Resolution have been duly and lawfully adopted by the Authority, are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms, and no other authorization for the Bond Resolution or the Reserve Fund Resolution is required. The Bond Resolution, the Reserve Fund Resolution and the Bond Indenture create the valid pledge which they purport to create of the Pledged Revenues (as defined in the Agreements) and all income and receipts earned on funds held or set aside under the Bond Indenture and the Reserve Fund Resolution, subject only to the application thereof to the purposes and on the conditions permitted by the Bond Indenture and the Reserve Fund Resolution, as the case may be.

(3) The Authority is duly authorized and entitled to issue the Bonds and the same have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of Maine, including the Act, and the Bond Resolution, the Reserve Fund Resolution and the Bond Indenture, and constitute valid, binding, special obligations of the Authority, enforceable in accordance with their terms and the terms of the Bond Resolution, the Reserve Fund Resolution and the Bond Indenture and entitled to the benefits of the Act and of the Bond Resolution, the Reserve Fund Resolution and the Bond Indenture.

(4) The Agreements have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Institutions, constitute valid and legally binding agreements by and between the parties thereto, enforceable in accordance with their terms.

(5) The Bond Indenture has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Bond Trustee, constitutes a valid and legally binding agreement by and between the parties thereto, enforceable in accordance with its terms.

(6) Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the Institutions, and others in connection with the Bonds, and we have assumed compliance by the Authority and the Institutions with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered The Authority and the Institutions have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

On the date of delivery of the Bonds, the Authority, the Institutions and the Bond Trustee will execute a Tax Regulatory Agreement (the "Tax Regulatory Agreement") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Regulatory Agreement, the Authority and the Institutions covenant that they will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for Federal income tax purposes, be excluded from gross income.

In rendering the opinion in paragraph 6 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Regulatory Agreement with respect to matters affecting the status of interest paid on the Bonds, and (ii) compliance by the Institutions with the procedures and covenants set forth in the Tax Regulatory Agreement as to such tax matters.

(7) Under existing statutes, interest on the Bonds is exempt from the State of Maine income tax imposed on individuals.

(8) The Authority is authorized and under the Reserve Fund Resolution has covenanted and is obligated to cause to be made by its Executive Director and delivered to the Governor of the State annually, on or before December 1, his certificate as provided for by the Act, stating the amount, if any, required to restore the Reserve Fund (as defined in the Reserve Fund Resolution) to the amount of the Reserve Fund Requirement (as defined in the Reserve Fund Resolution).

(9) Section 2075 of the Act (i) does not bind or obligate the State to appropriate and pay to the Authority in any future year the amount duly certified to the Governor by the Executive Director of the

Authority as necessary to restore the Reserve Fund to the Reserve Fund Requirement, the language of such Section being permissive only, but there is no constitutional bar to future Legislatures making such appropriations for such purposes if they elect to do so, and (ii) does not constitute a loan of credit of the State or create an indebtedness on the part of the State, in violation of the provisions of Article IX, Section 14, of the Constitution of the State.

Except as stated in paragraphs 6 and 7 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof.

Furthermore, we express no opinion herein as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

We render our opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update, revise or supplement this opinion after the issue date to reflect any action hereafter taken or not taken, or any facts or circumstances, or any change in law or interpretations thereof, or otherwise, that may hereafter arise or occur, or for any other reason.

In rendering our opinion, we have relied on the opinions of counsel to the Institutions, regarding, among other matters, the current qualification of the Institutions as organizations described in Section 501(c)(3) of the Code. We note that the opinions of counsel to the Institutions are subject to a number of qualifications and limitations. Failure of the Institutions to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of the Institutions' status as organizations described in Section 501(c)(3) of the Code may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The foregoing opinions are qualified only to the extent that the enforceability of the Bonds, the Bond Resolution, the Reserve Fund Resolution, the Bond Indenture, the Tax Regulatory Agreement and the Agreements may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We have examined an executed Bond, and in our opinion the form of said Bond and its execution are regular and proper.

Very truly yours,

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY • REVENUE BONDS, SERIES 2010B AND SERIES 2010C

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Certified Public Accountants

Maine Health and Higher Educational Facilities Authority

Basic Financial Statements
and Management's Discussion and Analysis

Year Ended June 30, 2010
With Independent Auditors' Report

Integrity•Service•Solutions

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

Basic Financial Statements and Management's Discussion and Analysis

For the Year Ended June 30, 2010

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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, 2010, 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, 2010, 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 October 28, 2010 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 additional information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such additional 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
October 28, 2010

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

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, 2010. 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

- On September 30, 2009, the Authority sold the net assets of Portland Center for Assisted Living (the Center), its formerly wholly-owned subsidiary, and recognized a gain on sale of $892,194. Operating results of the Center for the period July 1, 2009 through September 30, 2009, and the gain on sale have been reported as discontinued operations on the 2010 statement of revenues, expenses and changes in net assets in the accompanying financial statements. Refer to note 10 of the financial statements for a summary of the transaction.
- Operating income for the Authority's Operating Fund before transfers and discontinued operations was $2,264,514 for fiscal year 2010, a decrease of $1,804,765 or 44% from fiscal year 2009. This decrease was primarily due to two factors. There was a decrease in income from investments of approximately $575,000 due to the board adopting a resolution establishing a supplemental reserve fund within the Authority's reserve fund resolution, resulting in a transfer of $24,221,739 of cash and investments from the operating resolution to the reserve fund resolution. Secondly, the board approved a decrease in Authority fees charged to the institutions, effective January 1, 2010, which was the primary factor in a total reduction in administrative and other fee revenue of approximately $1,122,900 from 2009.
- Total revenues of $62,039,692 for fiscal year 2010 were a decrease of $4,529,433 or 7% from fiscal year 2009. The decrease was due to a decrease in income from investments, a scheduled reduction in interest received from institutions and a board approved decrease in Authority fees.
- The Authority's loans receivable from institutions at June 30, 2010 of $1,278,873,763 represents a net increase of $76,761,885 or 6% from the balance at June 30, 2009. This increase is the net result of the bond issuances described below, and repayment of loans by institutions during fiscal year 2010.
- The Authority's gross bonds outstanding at June 30, 2010 of $1,406,290,000 represent a net increase of $81,275,000 or 6% from the balance at June 30, 2009. This increase is due to the net impact of the issuance of $92,780,000 in 2009A reserve fund bonds, $97,240,000 in 2010A reserve fund bonds and $108,030,000 in 2010BC reserve funds bonds, a portion of which refunded $162,585,000 of outstanding maturities within the 1993D, 1995A, 1998A, 1998B, 1998C, 1999A, 2000C, 2001A, 2001C and 2001D bond series, less scheduled bond principal payments (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 $48,254,705 at June 30, 2010. This represents an increase of $4,530,192 or 10.4% over the previous fiscal year, which is the Authority's 2010 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. We have broken out the 2009 Portland Center total assets, liabilities and net assets on the balance sheet below to facilitate comparison with 2010. We have also reclassified 2009 operating results of Portland Center on the statement of revenues, expenses and changes in net assets below to facilitate comparison with 2010.

Balance Sheet

	2010	2009	% Change
Current assets:			
Cash and cash equivalents	$ 11,190,323	$ 11,401,459	(1.9)%
Investments held by trustee, at fair value	30,870,224	34,473,356	(10.5)
Board-designated cash and investments	7,122,830	25,122,442	(71.6)
Accrued investment income	599,698	256,621	133.7
Loans receivable from institutions	42,791,340	49,362,675	(13.3)
Loan receivable from operating fund	–	660,000	(100.0)
Interest and other receivables from institutions	2,795,064	2,289,438	22.1
Fees and other amounts due from other funds	1,261,877	2,378,251	(46.9)
Total current assets	96,631,356	125,944,242	(23.3)
Noncurrent assets:			
Investments held by trustee, at fair value	128,735,865	120,845,109	6.5
Board-designated cash and investments	24,324,395	–	–
Loans receivable from institutions	1,236,082,423	1,152,749,203	7.2
Loan receivable from operating fund	–	1,398,013	(100.0)
Notes, advances and other receivables from institutions, net of allowance of $617,900 in 2010 and $732,000 in 2009	216,100	131,744	64.0
Total noncurrent assets	1,389,358,783	1,275,124,069	9.0
Total Portland Center assets	–	5,561,404	(100.0)
Total assets	$ 1,485,990,139	$ 1,406,629,715	5.6%
Current liabilities:			
Bonds payable	$ 43,020,000	$ 50,235,000	(14.4)%
Interest payable	24,986,302	26,652,666	(6.3)
Fees and other amounts due to operating fund	1,261,877	2,378,251	(46.9)
Accounts payable	397,696	358,918	10.8
Rebate payable to Internal Revenue Service	851,204	56,529	1405.8
Deferred revenue	3,163,980	2,845,334	11.2
Other liabilities	–	284,000	(100.0)
Total current liabilities	73,681,059	82,810,698	(11.0)
Noncurrent liabilities:			
Bonds payable	1,363,270,000	1,274,780,000	6.9
Rebate payable to Internal Revenue Service	784,375	1,476,193	(46.9)
Total noncurrent liabilities	1,364,054,375	1,276,256,193	6.9
Total Portland Center liabilities	–	3,838,311	(100.0)
Total liabilities	1,437,735,434	1,362,905,202	5.5
Net assets:			
Unrestricted net assets	48,254,705	42,001,420	14.9
Total Portland Center net assets	–	1,723,093	(100.0)
Total net assets	48,254,705	43,724,513	10.4
Total liabilities and net assets	$ 1,485,990,139	$ 1,406,629,715	5.6%

Statements of Revenues, Expenses and Changes in Net Assets

	2010	2009	% Change
Operating revenues:			
Interest and other amounts from institutions	$ 49,815,285	$ 55,481,214	(10.2)%
Interest on loans receivable from operating fund	36,500	214,155	(83.0)
Administrative and other fees	2,186,902	3,309,779	(33.9)
Income from investments	5,551,780	6,475,237	(14.3)
Net increase in the fair value of investments	1,118,720	120,453	828.8
Interest income from advances and notes receivable from institutions	33,910	35,778	(5.2)
Other income	3,296,595	932,509	253.5
Total operating revenues	62,039,692	66,569,125	(6.8)
Operating expenses:			
Bond issuance costs	3,193,945	788,440	305.1
Interest expense	54,844,081	60,748,835	(9.7)
Operating expenses	746,763	685,497	8.9
Bad debt provision	(398,260)	–	–
Other expenses	307,708	1,117,474	(72.5)
Total operating expenses	58,694,237	63,340,246	(7.3)
Operating income from continuing operations	3,345,455	3,228,879	3.6
Discontinued operations:			
Operating income from discontinued operations	292,543	817,593	(64.2)
Gain on sale of Portland Center	892,194	–	–
Operating income	4,530,192	4,046,472	12.0
Net assets, beginning of year	43,724,513	39,678,041	10.2
Net assets, end of year	$ 48,254,705	$ 43,724,513	10.4%

Accrued investment income at June 30, 2010 increased $343,077 or 133.7% from fiscal year 2009 due to an increase in the amount invested in long term municipal bonds. These municipal bonds replaced some of the long term guaranteed investment contracts that had been downgraded, subsequently liquidated and invested in low yielding cash and cash equivalents in 2009 (see note 3).

Interest and other receivables from institutions at June 30, 2010 increased $505,626 from prior year or 22.1% from balances at June 30, 2009 primarily due to the timing of transfers from capitalized interest accounts held by the trustee.

Loans receivable from operating fund decreased 100% from fiscal year 2009 due to the sale of Portland Center and corresponding payoff of the remaining taxable financing reserve fund loan (see note 10 for details).

Fees and other amounts due from other funds and related fees and other amounts due to the operating fund decreased $1,116,374 or 46.9% over fiscal year 2009 due to a Board authorized decrease in Authority fees charged to institutions, which was effective as of January 1, 2010.

Deferred revenue increased $318,646 or 11.2% in fiscal year 2010 over fiscal year 2009. The increase is a result of deferring monthly debt service installment payments received from institutions that subsequently refunded with the 2010BC reserve issue. The funds will be used against future debt service payments.

Rebate payable to the Internal Revenue Service at June 30, 2010 increased $102,857 or 6.7% from June 30, 2009. This increase is the result of the net difference between additional accrued liability for fiscal year 2010 and rebate payments to the Internal Revenue Service during fiscal year 2010.

The change in the fair value of investments in 2010 was a net increase of $1,118,720 versus a net increase of $120,453 in 2009. The increases experienced during fiscal 2010 are the result of fluctuations in the interest rate environment which resulted in an increase of the fair 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, municipal bonds and guaranteed investment contracts. Investments are carried at fair value, and unrealized gains and losses (primarily due to fluctuations in market interest rates) are recognized in the statements of revenues, expenses and changes in 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.

Interest on loans receivable from operating fund decreased $177,655 or 83% from fiscal year 2009 due to the sale of Portland Center and the corresponding payoff of the remaining taxable financing reserve fund loan.

Income from investments for fiscal year 2010 decreased $923,457 or 14.3% from fiscal year 2009. This decrease is the result of low short term interest rates throughout fiscal 2010 and the full year impact of replacing downgraded GICs in prior year with lower yielding alternatives.

Administrative and other fees decreased $1,122,877 or 33.9% from fiscal year 2009 due to a Board approved decrease in Authority fees charged to the institutions effective January 1, 2010.

Other revenue for fiscal year 2010 increased $2,364,086 or 253.5% from fiscal year 2009. This increase is primarily the result of new bonds being issued during fiscal year 2010, which resulted in additional revenue received from borrowers to pay related costs of issuance. The bond issuance costs for fiscal year 2010 have also increased.

Operating income from discontinued operations is less than 2009 due to there being only three months of operations in 2010.

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, 2010

ASSETS

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Current assets:				
Cash and cash equivalents (note 2)	$11,190,323	$ –	$ –	$ 11,190,323
Investments held by trustee, at fair value (note 3)	–	30,658,381	211,843	30,870,224
Board-designated cash and investments, at fair value (note 3)	7,122,830	–	–	7,122,830
Accrued investment income	11,349	587,438	911	599,698
Loans receivable from institutions (note 9)	–	42,186,340	605,000	42,791,340
Interest and other receivables from institutions	–	2,793,298	1,766	2,795,064
Fees and other amounts due from other funds	1,261,877	–	–	1,261,877
Total current assets	19,586,379	76,225,457	819,520	96,631,356
Noncurrent assets:				
Investments held by trustee, at fair value (notes 3 and 6)	–	127,792,742	943,123	128,735,865
Board-designated cash and investments, at fair value (notes 1 and 3)	–	24,324,395	–	24,324,395
Loans receivable from institutions (note 9)	–	1,234,350,546	1,731,877	1,236,082,423
Notes, advances and other receivables from institutions, net of allowance of $617,900 (note 9)	216,100	–	–	216,100
Total noncurrent assets	216,100	1,386,467,683	2,675,000	1,389,358,783
Total assets	$19,802,479	$1,462,693,140	$3,494,520	$1,485,990,139

LIABILITIES AND NET ASSETS

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Current liabilities:				
Bonds payable (note 4)	$ –	$ 42,415,000	$ 605,000	$ 43,020,000
Interest payable	–	24,976,619	9,683	24,986,302
Fees and other amounts due to operating fund	–	1,085,348	176,529	1,261,877
Accounts payable	93,064	303,137	1,495	397,696
Rebate payable to Internal Revenue Service	–	851,204	–	851,204
Deferred revenue	–	3,161,421	2,559	3,163,980
Total current liabilities	93,064	72,792,729	795,266	73,681,059
Noncurrent liabilities:				
Bonds payable (notes 4 and 8)	–	1,360,595,000	2,675,000	1,363,270,000
Rebate payable to Internal Revenue Service	–	784,375	–	784,375
Total noncurrent liabilities	–	1,361,379,375	2,675,000	1,364,054,375
Total liabilities	93,064	1,434,172,104	3,470,266	1,437,735,434
Net assets:				
Unrestricted net assets	19,709,415	28,521,036	24,254	48,254,705
Total net assets	19,709,415	28,521,036	24,254	48,254,705
Total liabilities and net assets	$19,802,479	$1,462,693,140	$3,494,520	$1,485,990,139

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2010

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Operating revenues:				
Interest and other amounts from institutions	$ –	$49,604,680	$210,605	$ 49,815,285
Interest on loans receivable from operating fund	–	–	36,500	36,500
Administrative and other fees	2,186,902	–	–	2,186,902
Income from investments	501,742	4,983,201	66,837	5,551,780
Net increase (decrease) in the fair value of investments	(152,187)	1,270,907	–	1,118,720
Interest income from advances and notes receivable from institutions	33,910	–	–	33,910
Other income	102,650	3,193,945	–	3,296,595
Total operating revenues	2,673,017	59,052,733	313,942	62,039,692
Operating expenses:				
Bond issuance costs	–	3,193,945	–	3,193,945
Interest expense	–	54,554,681	289,400	54,844,081
Operating expenses (note 7)	746,763	–	–	746,763
Bad debt provision	(398,260)	–	–	(398,260)
Other expenses	60,000	221,570	26,138	307,708
Total operating expenses	408,503	57,970,196	315,538	58,694,237
Operating income (loss) from continuing operations before operating transfers	2,264,514	1,082,537	(1,596)	3,345,455
Operating transfers (note 1)	(24,221,739)	24,221,739	–	–
Operating income (loss) from continuing operations	(21,957,225)	25,304,276	(1,596)	3,345,455
Discounted operations:				
Operating income from discontinued operations (note 10)	292,543	–	–	292,543
Gain on sale of Portland Center assets (note 10)	892,194	–	–	892,194
Operating income (loss)	(20,772,488)	25,304,276	(1,596)	4,530,192
Net assets, beginning of year	40,481,903	3,216,760	25,850	43,724,513
Net assets, end of year	$ 19,709,415	$28,521,036	$ 24,254	$48,254,705

See accompanying notes.

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2010

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Operating activities:				
Cash received from institutions	$ 2,186,902	$ 98,584,157	$ 1,604,736	$ 102,375,795
Cash received from operating fund	–	–	2,094,513	2,094,513
Cash payments to institutions	–	(137,988,554)	–	(137,988,554)
Cash received from other income	102,650	–	–	102,650
Cash payments for operating expenses	(756,378)	(224,548)	(34,767)	(1,015,693)
Cash received from (paid to) other funds	1,116,374	(936,227)	(180,147)	–
Net cash (used) provided by operating activities	2,649,548	(40,565,172)	3,484,335	(34,431,289)
Noncapital financing activities:				
Proceeds from bonds payable	–	306,495,421	–	306,495,421
Other proceeds from institutions in conjunction with bond issuance	–	18,946,878	–	18,946,878
Principal paid on bonds payable	–	(49,390,000)	(4,800,000)	(54,190,000)
Interest paid on bonds payable	–	(53,532,008)	(303,601)	(53,835,609)
Paid to refunding escrows	–	(168,629,662)	–	(168,629,662)
Bond and other proceeds passed-on to borrowers	–	(10,162,447)	–	(10,162,447)
Issuance costs paid	–	(3,193,945)	–	(3,193,945)
Net cash provided (used) by noncapital financing activities	–	40,534,237	(5,103,601)	35,430,636
Investing activities:				
Purchase of investment securities	(20,326,953)	(468,378,152)	(8,354,901)	(497,060,006)
Proceeds from sale and maturities of investment securities	13,952,639	463,709,164	9,904,516	487,566,319
Income received from investments and advances	575,896	4,744,519	69,651	5,390,066
Interest rebate paid to U.S. Government	–	(44,596)	–	(44,596)
Net decrease in notes, advances and other receivable from institutions	29,904	–	–	29,904
Net cash (used) provided by investing activities	(5,768,514)	30,935	1,619,266	(4,118,313)
Cash flows of discontinued operations – operating	255,788	–	–	255,788
Cash flows of discontinued operations – noncapital financing	(2,094,513)	–	–	(2,094,513)
Cash flows of discontinued operations – investing	3,443,262	–	–	3,443,262
Net increase in cash and cash equivalents	1,604,537	–	–	1,604,537
Decrease in cash and cash equivalents	(1,514,429)	–	–	(1,514,429)
Cash and cash equivalents, beginning of year	12,704,752	–	–	12,704,752
Cash and cash equivalents, end of year	$ 11,190,323	$ –	$ –	$ 11,190,323

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS
(CONTINUED)

For the Year Ended June 30, 2010

	Consolidated Operating Fund (Note 10)	Reserve Fund	Taxable Financing Reserve Fund	Total
Reconciliation of operating income (loss) to net cash (used) provided by operating activities:				
Operating income (loss)	$ (20,772,488)	$ 25,304,276	$ (1,596)	$ 4,530,192
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:				
Income from discontinued operations	(292,543)	–	–	(292,543)
Gain on sale of discontinued operations	(892,194)	–	–	(892,194)
Investment and interest income	(535,652)	(4,983,201)	(66,837)	(5,585,690)
Net (increase) decrease in the fair value of investments	152,187	(1,270,907)	–	(1,118,720)
Transfer of investments to supplemental reserve	24,221,739	(24,221,739)	–	–
Bad debt provision	(398,260)	–	–	(398,260)
Interest expense on bonds payable	–	54,554,681	289,400	54,844,081
Change in assets and liabilities:				
Loans receivable from institutions	–	(88,810,879)	1,382,913	(87,427,966)
Loan receivable from operating fund	–	–	2,058,013	2,058,013
Accrued interest and other receivables from institutions	–	(514,285)	8,659	(505,626)
Due to/from other funds	1,116,374	(936,227)	(180,147)	–
Accounts payable and other liabilities	50,385	(2,978)	(8,629)	38,778
Deferred revenue	–	316,087	2,559	318,646
Net cash (used) provided by operating activities	$ 2,649,548	$ (40,565,172)	$ 3,484,335	$ (34,431,289)

Summary of noncash transactions:

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 included the operations of Portland Center for Assisted Living f/k/a Woodford Park Nursing Care Center, Inc. (the Center), from July 1, 2009 through September 30, 2009, at which time all assets of the Center were sold (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.

In fiscal 2010, the Authority's Board of Directors adopted a resolution establishing a supplemental reserve fund within the Authority's reserve fund resolution. As part of this resolution, $24,221,739 of cash and investments were transferred from the operating fund resolution to the reserve fund resolution, which at the discretion of the Authority, shall serve as additional security for one or more series of bonds. At any time that the reserve fund investments exceed the reserve fund requirement (see note 6), the Authority may transfer any amounts held under the supplemental reserve back to the Authority's operating fund. The balance in the supplemental reserve of $24,324,395 at June 30, 2010, is presented as Board-designated cash and investments on the balance sheet.

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 and are not reflected on the accompanying balance sheet. (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 cash and cash equivalents of the Authority's operating fund at June 30, 2010 consist of approximately $500,000 insured and $1,068,866 noninsured deposits with banks, and $4,616,365 of money market funds held by a custodian and secured by short-term U.S. Treasury obligations.

The Authority invests monies with the State of Maine. The State of Maine sponsors an internal investment pool (the Treasurer's Cash Pool). The Authority's participation is voluntary. The State of Maine Treasurer's Cash Pool is primarily comprised of investment vehicles with short maturities and management of the Authority characterizes the investments within the pool as low risk. The State of Maine's Treasurer's Cash Pool is not rated by external rating agencies. The Authority's management considers this investment vehicle a money market instrument and generally carries the amounts in the pool at cost. At June 30, 2010, the Authority had approximately $5,005,000 invested in the Treasurer's Cash Pool.

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 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 remitted to the Authority are recorded as other income. Other premiums and discounts are passed on to the borrowers, and are, therefore, not recorded.

2. Significant Accounting Policies (Continued)

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.

Principles of Consolidation

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

The net assets of the Center were sold in 2010 (see note 10). The income from operations of the Center through the date of sale and the related gain on sale are presented as discontinued operations on the accompanying statement of revenues, expenses and changes in net assets.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 Cash and Investments

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises and certain state and local governments, as well as certain investment contracts and collateralized repurchase agreements. The trustees/custodians invest available cash in accordance with Maine statutes, applicable Series Resolutions and Tax Regulatory Agreements. At June 30, 2010, investments are categorized as follows:

	Fair Value
Consolidated Operating Fund	
Board-designated investments:	
U.S. Government-sponsored enterprises bonds and notes	$ 7,122,830
	$ 7,122,830

3. Investments Held by Trustee and Board-Designated Cash and Investments (Continued)

	Fair Value
Reserve Fund	
Investments held by trustee:	
U.S. Government-sponsored enterprises bonds and notes	$ 7,468,976
Guaranteed investment contracts	69,304,055
Municipal bonds	40,469,490
Cash and cash equivalents	41,208,602
	$158,451,123
Board Designated Cash and Investments:	
U.S. Government-sponsored enterprises bonds and notes	$ 9,649,473
Cash and cash equivalents	14,674,922
	$ 24,324,395
Taxable Financing Reserve Fund	
Investments held by trustee:	
Guaranteed investment contracts	$ 625,975
Cash and cash equivalents	528,991
	$ 1,154,966

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, 2010:

	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.)	$ 7,122,830	$5,100,950	$2,021,880	$ –	$ –

3. Investments Held by Trustee and Board-Designated Cash and Investments (Continued)

	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than Ten Years
Reserve Fund					
U.S. Government-sponsored enterprises bonds and notes (FHLB, FNMA, etc.)	$ 17,118,449	$2,979,469	$6,670,004	$2,562,225	$ 4,906,751
Guaranteed investment contracts	69,304,055	–	–	–	69,304,055
Municipal bonds	40,469,490	–	–	–	40,469,490
	$126,891,994	$2,979,469	$6,670,004	$2,562,225	$ 114,680,296
Taxable Financing Reserve Fund					
Guaranteed investment contracts	$ 625,975	$ –	$ 625,975	$ –	$ –

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, 2010.

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).

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, 2010, 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
GE Funding Capital Market Service	AA+	3,479,154
Total		$65,019,941

3. Investments Held by Trustee and Board-Designated Cash and Investments (Continued)

	Rating	
Taxable Financing Reserve Fund		
Guaranteed Investment Contracts Provided By:		
Transamerica Life Insurance Company	AA-	$ 238,375
Protective Life Insurance Company	AA-	387,600
Total		$ 625,975

During prior years, 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. 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 or better as of June 30, 2010.

Trustee held cash and cash equivalents at June 30, 2010 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, 2010

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2010
Reserve Fund:			
Series 1992B, 3.0% – 5.875%, dated September 15, 1992	1993 – 2022	$ 44,850,000	$ 990,000
Series 1994A, 3.3% – 6.0%, dated March 1, 1994	1994 – 2024	18,380,000	7,340,000
Series 1995C, 3.875% – 6.2%, dated August 1, 1995	1996 – 2025	13,745,000	505,000
Series 1996A, 3.75% – 5.625%, dated August 15, 1996	1997 – 2026	28,515,000	140,000
Series 1996B, 4.5% – 5.75%, dated October 15, 1996	1997 – 2026	41,855,000	1,270,000
Series 1997A, 4.3% – 5.7%, dated June 1, 1997	2000 – 2027	8,310,000	6,560,000
Series 1997B, 4.25% – 5.0%, dated December 1, 1997	1998 – 2018	52,640,000	26,370,000
Series 1998A, 4.0% – 5.28%, dated March 18, 1998	1999 – 2028	76,800,000	10,035,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2010
Reserve Fund (continued):			
Series 1998B, 3.7% – 5.0%, dated June 1, 1998	1999 – 2028	$ 100,540,000	$ 11,145,000
Series 1998C, 2.95% – 5.1%, dated November 1, 1998	1999 – 2029	30,585,000	17,570,000
Series 1999A, 3.5% – 5.25%, dated April 15, 1999	1999 – 2030	98,385,000	27,290,000
Series 1999B, 4.0% – 6.0%, dated December 1, 1999	2000 – 2029	41,505,000	2,515,000
Series 2000C, 4.375% – 5.75%, dated July 15, 2000	2001 – 2030	51,540,000	1,470,000
Series 2001A, 3.45% – 5.25%, dated February 15, 2001	2002 – 2031	66,585,000	31,090,000
Series 2001B, 3.25% – 5.20%, dated May 15, 2001	2002 – 2022	10,615,000	7,580,000
Series 2001D, 3.0% – 5.0%, dated November 1, 2001	2002 – 2031	50,700,000	32,310,000
Series 2002A, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	56,040,000	41,130,000
Series 2002B, 3.0% – 5.125%, dated July 1, 2002	2003 – 2032	8,175,000	7,425,000
Series 2003A, 2.25% – 5.0%, dated January 15, 2003	2004 – 2032	63,080,000	55,125,000
Series 2003B, 2.0% – 5.0%, dated July 1, 2003	2004 – 2033	59,245,000	18,155,000
Series 2003C, 2.0% – 4.6%, dated July 1, 2003	2004 – 2033	7,050,000	5,895,000
Series 2003D, 2.0% – 5.0%, dated September 1, 2003	2004 – 2023	35,880,000	25,325,000
Series 2004A, 2.0% – 5.375%, dated June 3, 2004	2004 – 2025	72,315,000	55,465,000
Series 2004B, 3.00% – 5.00%, dated December 9, 2004	2006 – 2034	42,265,000	37,525,000
Series 2005A, 3.0% – 5.0%, dated August 17, 2005	2006 – 2035	48,325,000	17,720,000
Series 2005B, 3.5% – 5.0%, dated December 29, 2005	2006 – 2030	28,325,000	24,020,000
Series 2006A, 3.5% – 5.0%, dated February 2, 2006	2006 – 2035	51,855,000	44,225,000
Series 2006B, 3.5% – 5.0%, dated April 6, 2006	2007 – 2036	56,795,000	46,190,000

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2010
Reserve Fund (continued):			
Series 2006F, 4.0% – 5.0%, dated September 7, 2006	2007 – 2036	$ 89,125,000	$ 86,000,000
Series 2006G, variable rate, dated September 7, 2006	2008 – 2036	14,200,000	13,850,000
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	89,615,000
Series 2007B, 4.0% – 5.0%, dated November 1, 2007	2008 – 2037	70,470,000	68,660,000
Series 2008A, variable rate, dated May 22, 2008	2008 – 2036	107,180,000	104,535,000
Series 2008B, variable rate, dated June 19, 2008	2008 – 2014	25,985,000	22,025,000
Series 2008C, 3.0% – 5.0%, dated June 19, 2008	2009 – 2038	49,540,000	48,505,000
Series 2008D, 3.0% – 5.75%, dated December 3, 2008	2009 – 2038	41,735,000	40,990,000
Series 2009A, 2.0% – 5.125%, dated December 10, 2009	2010 – 2039	92,780,000	92,780,000
Series 2010A, 2.5% – 5.25% dated April 22, 2010	2011 – 2040	97,240,000	97,240,000
Series 2010B, 2.5% – 5.25% dated June 24, 2010	2011 – 2031	96,755,000	96,755,000
Series 2010C, 2.5% – 4.0% dated June 24, 2010	2011 – 2023	11,275,000	11,275,000
		$2,126,080,000	1,403,010,000
Current portion			42,415,000
Noncurrent portion			$1,360,595,000

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
2011	$ 42,415,000	$ 53,003,784	$ 95,418,784
2012	54,860,000	54,563,132	109,423,132
2013	59,485,000	52,634,059	112,119,059
2014	60,135,000	50,564,926	110,699,926
2015	61,750,000	48,387,257	110,137,257
2016 – 2020	294,125,000	206,335,763	500,460,763
2021 – 2025	285,375,000	143,725,960	429,100,960
2026 – 2030	251,775,000	86,349,755	338,124,755
2031 – 2035	185,455,000	39,047,379	224,502,379
2036 – 2040	104,160,000	9,600,548	113,760,548
2041	3,475,000	86,875	3,561,875
Total	$1,403,010,000	$744,299,438	$2,147,309,438

Taxable Financing Reserve fund bonds payable consist of the following at June 30, 2010:

	Original Maturity	Original Amount Issued	Outstanding June 30, 2010
Taxable Financing Reserve Fund:			
Series 1993A, variable interest rate, dated January 1, 1993	1993 – 2012	$57,125,000	$ 615,000
Series 1993B, variable interest rate, dated October 27, 1993	1994 – 2013	25,060,000	970,000
Series 1996A, variable interest rate, dated February 22, 1996	1996 – 2016	16,440,000	1,695,000
		$98,625,000	3,280,000
Current portion			605,000
Noncurrent portion			$2,675,000

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

Year Ending	Principal	Interest	Total
2011	$ 605,000	$211,068	$ 816,068
2012	655,000	166,124	821,124
2013	700,000	117,791	817,791
2014	495,000	75,410	570,410
2015	255,000	49,034	304,034
2016 – 2017	570,000	40,774	610,774
	$3,280,000	$660,201	$3,940,201

4. Bonds Payable (Continued)

The following summarizes bonds payable activity for the Authority for the year ended June 30, 2010:

	Reserve Fund	Taxable Financing Reserve Fund
Balance, beginning of year	$1,316,935,000	$8,080,000
Issuances, at par	298,050,000	–
Redemptions:		
Principal payments	49,390,000	4,800,000
Bonds refunded (note 8)	162,585,000	–
Balance, end of year	$1,403,010,000	$3,280,000

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 .22% to .42% at June 30, 2010. Within the Taxable Financing Reserve Funds, variable interest rates are set at LIBOR + .40%, which approximates .75% at June 30, 2010.

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, 2010:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2010
General Resolution:			
Southern Maine Medical Center, Series 1989, 5.9% – 7.3%, dated November 1, 1989	1990 – 2014	$ 11,885,000	$ 875,000
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	290,000
Mid Coast Geriatrics, Series 2002, 4.5% – 5.4%, dated July 1, 2002	2006 – 2043	8,830,000	8,355,000
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
		$161,215,000	$148,720,000

5. Conduit Debt (Continued)

The following is a summary of conduit debt activity for the year ended June 30, 2010:

Bonds outstanding as of June 30, 2009	$149,080,000
Less: Redemptions during fiscal 2010	360,000
Bonds outstanding as of June 30, 2010	$148,720,000

At June 30, 2010, there were approximately $13,485,000 of defeased bonds remaining outstanding with respect to advance refunded conduit debt of 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, 2010, the required debt service reserve was approximately $113,141,000 and the fair value of the debt service reserve assets totaled approximately $127,793,000.

In addition, the Authority maintains a supplemental reserve as described in note 1. The fair value of these assets at June 30, 2010 is approximately $24,324,000.

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, 2010, the required debt service reserve was approximately $844,500 and the fair value of the debt service reserve assets totaled approximately $943,000.

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 $464,000 of expense under this agreement in 2010.

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 April 22, 2010, the Authority issued $97,240,000 in 2010A reserve fund resolution revenue bonds with an average interest rate of 4.84%, a portion of which was used ($41,125,000) to in-substance defease $44,160,000 of outstanding maturities within the 1998B and 1999A bond series. The net proceeds of approximately $45,349,000, 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 defeased bonds.

On June 24, 2010, the Authority issued $108,030,000 in 2010B and C reserve fund resolution revenue bonds with an average interest rate of 4.36%, all of which was used to in-substance defease $118,425,000 of certain outstanding maturities within the 1993D, 1995A, 1998A, 1998B, 1998C, 1999A, 2000C, 2001A, 2001C and 2001D bond series. The net proceeds of approximately $123,281,000, 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 defeased bonds.

At June 30, 2010, there were approximately $247,610,000 of in-substance defeased bonds remaining outstanding with respect to all advance-refunding 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 $394,000 within the taxable financing reserve fund resolution, and has loaned from its operating fund approximately $331,000 to an institution with outstanding loans owed to the Authority of approximately $8,800,000 within the reserve fund resolution at June 30, 2010. 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 2010. The Authority also has approximately $387,000 of other receivables outstanding within the operating fund at June 30, 2010, primarily related to amounts due from institutions to reimburse the Authority for arbitrage and other payments made on their behalf.

At June 30, 2010, the Authority has established a $617,900 reserve in the operating fund related to the above loans, advances and other receivables outstanding.

10. Discontinued Operations

On September 30, 2009, the Authority sold the net assets of Portland Center for Assisted Living to PCAL Devonshire Associates, LLC and recognized a gain on sale of $892,194. The following is a summary of cash consideration received and uses of funds upon sale:

Cash consideration:	
Sales price	$7,405,000
Other miscellaneous proceeds	34,239
Less debt service reserve fund deposit on hand	(886,000)
	6,553,239
Cash used:	
Settlement with Department of Health and Human Services, including depreciation recapture	2,337,999
Pay-off of loan to Taxable Financing Reserve Fund Resolution	1,398,013
	3,736,012
Net proceeds paid to the Authority's Operating Fund Group	$2,817,227

The following represents the Center's balance sheet at time of sale and reconciliation of the gain recognized on sale:

	September 30, 2009
Assets:	
Cash and cash equivalents	$ 3,873,460
Resident accounts receivable	128,226
Assets whose use is limited	504,745
Net property, plant and equipment	2,666,961
Deferred financing costs	67,054
Other assets	45,405
	7,285,851
Liabilities:	
Accounts payable and other liabilities	86,560
Deferred revenue	12,666
Resident funds held in trust	36,487
Estimated third-party payor settlement	1,181,877
Deposit liability	2,645,215
Loans payable to Authority's taxable financing reserve fund	1,398,013
Advances and accrued interest due to the Authority's operating fund	9,350,256
	14,711,074
Net deficit	$ (7,425,223)
The net proceeds paid to the Authority were applied as follows:	
Advances and accrued interest due to the Authority's operating fund	$ 9,350,256
Net deficit	(7,425,223)
	1,925,033
Net proceeds paid to the Authority's operating fund group	2,817,227
Recognized gain on sale	$ 892,194

10. Discontinued Operations (Continued)

Amounts included in the consolidated operating fund statement of revenues, expenses and changes in net assets with respect to the discontinued operations of the Center are as follows:

Gross resident service revenue	$ 2,255,912
Contractual adjustments under third-party reimbursement programs	(933,568)
Net resident service revenue	1,322,344
Other income	10,993
Resident service and other operating expenses	(1,004,294)
Income from operations	329,043
Interest expense to taxable financing reserve fund	(36,500)
Net income	$ 292,543

Amounts above do not include interest on loans to the Authority's operating fund.

SUPPLEMENTAL SCHEDULE

SCHEDULE 1

MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2010

		Program Revenues				Net Revenue (Expense) and Changes in net assets
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Health and Higher Educational Facilities Authority	$(58,694,237)	$55,266,542	$6,320,945	$ –	$ –	$ 2,893,250
Total	$(58,694,237)	$55,266,542	$6,320,945	$ –	$ –	2,893,250
General revenues:						
Unrestricted interest and investment earnings						349,555
Miscellaneous income						102,650
Extraordinary items (discontinued operations)						1,184,737
Total general revenues and extraordinary items						1,636,942
Changes in net assets						4,530,192
Net assets, beginning of year						43,724,513
Net assets, end of year						$48,254,705