

*Maryland Health and Higher Educational
Facilities Authority*

2003 ANNUAL REPORT

THE AUTHORITY

Maryland is extremely proud of its health care and educational institutions, both higher educational and noncollegiate schools. In fact, the strength of these institutions is the foundation of our state's future.

At the Maryland Health and Higher Educational Facilities Authority (the "Authority"), our mission is to assist certain non-profit educational institutions as well as hospitals and related health care organizations in the areas of financing, construction and refinancing. Our goal is to be aware of opportunities to meet the changing needs of our borrowing institutions.

In an effort to ensure the viability of these institutions, the Authority is empowered to perform a variety of important functions on their behalf. These include, but are not limited to, the following:

- *Issue bonds and bond anticipation notes.*
- *Fix, charge and collect rates, rents and fees for the use of projects and their services.*
- *Construct, reconstruct, acquire, maintain, repair, operate and lease projects for institutions.*
- *Enter into contracts for the operation and management of projects.*
- *Make loans to participating institutions for the construction or acquisition of projects.*

As a public instrumentality working to support the financing, construction and refinancing of key institutional projects, the Maryland Health and Higher Educational Facilities Authority plays a vital role in improving the health and well being of our state.

MESSAGE FROM THE CHAIRMAN

In 2003, the Authority continued its longstanding tradition of service to the health care and educational institutions of the State of Maryland. The Authority is pleased to report that it issued \$488,950,000 of revenue bonds on behalf of 15 institutions in 17 separate loans.

The interest rate environment, refinancing opportunities and demand for health care and educational service provided the impetus for 11 hospitals and health care financings as well as 6 financings for educational institutions.

Borrowers continue to manage their debt structure through the use of interest rate swaps to take advantage of the lowest cost of capital.

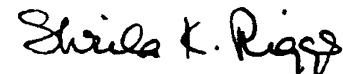
The Authority's pooled loan programs remain useful mechanisms for access to the capital markets. The Authority's Series D pooled loan program provided financing for five educational institutions in 2003. To date, 50 borrowers have used this program for 74 loans totaling more than \$421 million in bonds. Currently, approximately \$295.7 million is outstanding in addition to the \$175 million Series 1985A and Series 1985B revolving pooled loan program.

Over the past 33 years, the Authority has sold a total of 310 issues amounting to \$8.66 billion for hospitals, colleges, noncollegiate schools, nursing homes and retirement communities. At year end, 123 issues totaling \$4.62 billion remain outstanding.

The Authority notes the \$71,715,000 financing for the Frederick Memorial Hospital expansion and modernization; the hospital returned to the market after a hiatus of nine years. Also, included among the eight new borrowing institutions is a \$30,000,000 financing for the Carnegie Institution. This AAA borrower used a variable rate structure to finance a research and laboratory facility located on the Johns Hopkins University campus. Additionally, Sheppard Pratt Health System issued \$91,140,000. Approximately \$45 million was structured as an insured auction rate product. This structure allows Sheppard Pratt to take advantage of the favorable short term interest rate climate without requiring a letter of credit.

I know that the members of the Authority join me in expressing appreciation to both our new and existing institutional partners in the health care, educational and finance communities. The Authority looks forward to additional opportunities for service to the citizens of Maryland.

The Maryland Health and Higher Educational Facilities Authority herewith submits the Annual Report for the year ended June 30, 2003 and its financial statements as audited by PricewaterhouseCoopers, LLP.



Sheila K. Riggs
Chairman

AUTHORITY MEMBERS

AUTHORITY STAFF

ANNETTE ANSELM
Executive Director

EDWARD GOLAS, JR.
Chief Operating Officer

CONSTANCE McCREADY
Controller

MARY JANE LUPUS
Account Manager

LENA PRINCE
Account Manager

KATHY RECH
Account Manager

STEPHANIE BURRELL
Administrative Assistant

AUTHORITY CONSULTANTS

McKennon Shelton & Henn LLP
Bond Counsel

KILLARNEY ADVISORS, INCORPORATED
Financial Advisor

PRICEWATERHOUSECOOPERS LLP
Independent Auditors

AUTHORITY

SHEILA K. RIGGS, *Chairman*
Term as member expires July 1, 2008; resident of Baltimore City; former Chairman of the Board and current member of Finance Committee- Greater Baltimore Medical Center; Director- Provident Bank of Maryland; Trustee & former Chairman of the Board- The Maryland Institute; and Trustee- Bryn Mawr School.

PAUL B. MERITT, *Vice Chairman*
Term as member expires July 1, 2004; resident of Baltimore County; Vice President- Mercantile-Safe Deposit and Trust Company; Member- Maryland Capital Debt Affordability Committee; and Member- Maryland Commission on State Debt.

NANCY K. KOPP, *Ex Officio*
Resident of Montgomery County; Treasurer of the State of Maryland; Chair- Maryland Capital Debt Affordability Committee; Member- Board of Trustees of the Maryland State Retirement and Pension System, Maryland Board of Public Works, Board of State Canvassers, Governor's Salary Commission, Hall of Records Commission, Procurement Advisory Council, Board of Revenue Estimates, Maryland State Employees Surety Bond Committee, Maryland Higher Education Investment Program Board and Maryland Agricultural Land Preservation Foundation.

CATHERINE ASHLEY-COTLEUR, PH.D., *Member*
Term as member expires July 1, 2007; resident of Washington County; Associate Professor- College of Business, Frostburg State University; Member- American Marketing Association and United States Association of Small Business and Entrepreneurship; Vice President, Women's Issues- International Conference of Small Business; former Administrative Assistant- Democratic Caucus, Ohio House of Representatives; former Administrative Assistant to the Speaker, Ohio House of Representatives; former Deputy Director- Ohio Office of Consumer's Counsel; and former Executive Director- Ohio House of Representatives.

* *By the terms of the act, members continue to serve until their successors are appointed.*

PAIGE T. DAVIS, *Member*
Term as member expires July 1, 2003; resident of Howard County; Vice President- The Variable Annuity Marketing Company; Regional Manager- The Variable Annuity Life Insurance Company; and Vice Chairman- Morgan State University Foundation.

THOMAS E. DOBYNS, J.D., *Member*
Term as member expires July 1, 2006; resident of Montgomery County; Principal- Thomas Dobyns Attorney at Law, Chevy Chase, Maryland; Member- Health Law Forum Committee and Affordable Housing and Community Development Law Forum Committee of the American Bar Association, Health Law Section of the District of Columbia Bar, Health Law Section of the Maryland State Bar Association, Habitat for Humanity and Society of St. Andrew; and Advisor- Mercy Southern Health Center.

CECIL E. FLAMER, *Member*
Term as member expires July 1, 2003; resident of Baltimore County; Partner- Ernst & Young LLP; Director and Treasurer- Downtown Partnership, Inc.; Member- Board of Sponsors- Loyola College in Maryland; Director and Immediate Past President- Enoch Pratt Free Library Board of Directors; Former Trustee and Chairman- Enoch Pratt Free Library Board of Trustees; Former Member, Vice-Chair and Treasurer- National Aquarium in Baltimore; Former Director and Chairman- Baltimore City Board of Finance; Former Director and Chairman- Maryland Small Business Development Financing Authority; and Former Director- Morgan State University Foundation.

ROBERT D.H. HARVEY, *Member*
Term as member expires July 1, 2005; resident of Baltimore County; former Chairman of the Board- MNC Financial Corporation and Maryland National Bank; Trustee- Johns Hopkins Bayview Medical Center and Maryland Academy of Sciences; and Trustee Emeritus- The Johns Hopkins University.

POSITION VACANCY CREATED ON THE RETIREMENT OF
LEONARD I. FRENKIL HAS NOT BEEN FILLED AS OF JUNE 30, 2003

FISCAL YEAR 2003 ISSUES

Public & Limited Offerings	\$318,430,000
Private Placements	111,255,000
Pooled Loan Program- Series D	<u>59,265,000</u>
	<u>\$488,950,000</u>

HEALTH CARE FINANCINGS:

\$ 71,715,000 Frederick Memorial Hospital, Series 2002

A public financing to expand and modernize the Institution's hospital buildings including the demolition of approximately 128,000 gross square feet, new construction of approximately 272,000 gross square feet, and approximately 144,000 gross square feet of renovation.

\$ 24,000,000 Union Hospital of Cecil County, Series 2002

A public financing for the construction of approximately 12,800 square feet and renovations of approximately 80,000 square feet of the main hospital facilities. Major features of the construction and renovation include: expansion of the emergency room; acquisition of additional MRI, CT scanner, x-ray and ultrasound imaging devices; expansion and consolidation of the laboratory on the ground floor; construction of a new outpatient services concourse and expanded space for related ancillary services; increasing medical records storage space; expansion and upgrading of inpatient care areas; and consolidating and enhancing space for administrative services.

\$ 22,925,000 Adventist Healthcare, Series 2003A

A public financing to refund the City of Tacoma Park Hospital Facilities Revenue Refunding Bonds (Washington Adventist Hospital Project), Series 1991A, Subseries 1.

\$ 39,560,000 Adventist Healthcare, Series 2003B

A public financing for the construction, renovation and purchase of various major medical equipment at the Maryland hospitals and Potomac Ridge and the refinancing of a short-term line of credit debt, the proceeds of which were used for the acquisition of Potomac Ridge.

\$ 54,310,000 Johns Hopkins Hospital, Series 2003A

A public financing to refund the Series A Revenue Bonds previously issued by the Authority to pay a portion of the costs of acquisition of projects leased to the lessee pursuant to certain operating leases and to pay a portion of the costs of additional projects to be leased to the lessee under operating leases to be entered into by the Authority and the lessee.

\$ 14,515,000 Johns Hopkins Hospital, Series 2003C

A private placement for the same purpose as the Johns Hopkins Hospital, Series 2003A above.

\$ 24,490,000 Kennedy Krieger, Series 2003

A public offering to finance and refinance the costs of the acquisition, construction and equipping of an approximately 1,124-space parking garage and a surface parking lot accommodating approximately 117 additional parking spaces to be constructed on a site located on the 800 block of N. Broadway in Baltimore, Maryland.

\$ 91,140,000 Sheppard Pratt, Series 2003A & B

A public offering to finance and refinance the costs of the (i) construction and equipping of the Replacement Hospital on the Towson Campus, (ii) construction of the Gymnasium, (iii) construction of approximately 195,000 square feet of surface parking, (iv) relocation and upgrading of the Electrical Substation and, (v) expansion, renovation and equipping of portions of the existing Health System facilities. A portion of the proceeds were applied to refund the outstanding Baltimore County, Maryland Variable Rate Demand/Fixed Rate Revenue Bonds (The Sheppard and Enoch Pratt Hospital Facility), Series 1992; Frederick County, Maryland Variable Rate Demand/Fixed Rate Revenue Bonds (Sheppard Pratt Residential Treatment Facility), Series 1995; and Frederick County, Maryland Variable/Fixed Rate Revenue Bonds (Sheppard Pratt Facilities), Series 1999.

FISCAL YEAR 2003 ISSUES

EDUCATIONAL INSTITUTION FINANCINGS:

\$ 30,000,000 Carnegie Institution of Washington, Series 2002

A public financing for the construction of an office, research and laboratory facility for the Institution's Department of Embryology on the Baltimore, Maryland campus of the Johns Hopkins University, together with approximately 113 parking spaces in an adjacent building expected to be developed by the University.

RETIREMENT LIVING FACILITIES:

\$ 8,600,000 Annapolis Life Care, Series 2002

A private placement to finance the development and construction of a two story residential assisted living addition to the Ginger Cove life care retirement community, including 30 assisted living units and related common areas totaling approximately 45,284 square feet.

\$ 41,430,000 Mercy Ridge, Series 2003A,B,C&D

A public offering to finance the further development, construction and equipping of a continuing care retirement community, including (without limitation) approximately 149 independent living units, 17 assisted living units and attendant common areas, including a multi-purpose room, swimming pool, theater, bistro and expanded fitness center and additional parking facilities, including approximately 191 outdoor parking spaces and 30 indoor parking spaces, including certain start-up costs related thereto, located at 2525 Pot Spring Road, Timonium, Baltimore County, Maryland.

NON-COLLEGIATE SCHOOL FINANCINGS:

\$ 7,000,000 Beth Tfiloh Dahan Community School, Series 2003

A public offering to finance, refinance or reimburse the costs of all or a portion of (i) the acquisition, construction, renovation and equipping of certain facilities, including (without limitation) its academic, athletic, administrative and support facilities at the Glyndon Campus, including: the construction and equipping of an approximately 45,000 square foot Lower School; the construction and equipping of an approximately 8,000 square foot Community Center and; the construction, renovation and equipping of athletic facilities. A portion of the Glyndon Project was originally financed with the Glyndon Taxable Loan, and (ii) the construction, renovation and equipping of facilities at the Old Court Campus, including the construction of a gymnasium and a performing arts center. A portion of the Old Court Project was originally financed with the Old Court Taxable Loan.

POOLED LOAN PROGRAM, SERIES D FINANCINGS:

\$ 5,000,000 Maryland Institute

This loan financed the construction and equipment for the Brown Center, a new academic building and for other related construction and renovation work at the Fox Building.

\$ 7,910,000 Foundation Schools

This loan financed the construction of a school building that will house an elementary, a middle and a high school to service a population of approximately 300 students with emotional disturbances.

\$ 6,500,000 Connelly School of the Holy Child

This loan financed and refinanced the construction of a new library, technology center, art studio, music/recital room and Middle School classrooms and offices and for the renovation of the current library to provide offices for the School's administration, which was previously financed with a taxable loan through Wachovia Bank.

\$ 10,000,000 Gerstell Academy

This loan financed construction of a school building which will initially provide educational instruction for students from pre-kindergarten and kindergarten levels. As students progress to higher levels, Gerstell will provide education for students through grade 12.

\$ 29,855,000 Villa Julie College

This loan financed the acquisition of up to approximately 35 acres of land and the construction and equipping thereon of seven residence buildings consisting of approximately 144 units as well as a student center, maintenance and security building and gatehouse.

COMBINED BALANCE SHEET

As of June 30, 2003
(in thousands of dollars)

	GENERAL OPERATING FUND	PARKING SYSTEM
ASSETS		
Cash and cash equivalents	\$87	\$1,410
Investments at fair value	14,756	0
Debt Service Fund	0	2,111
Debt Service Reserve Fund	0	5,554
Capital Reserve Fund	0	4,201
Interest receivable	147	0
Accounts receivable	0	422
Administrative fees receivable	26	0
Due from other funds	0	38
Prepaid pension and other prepayments	38	274
Fixed assets (net of accumulated depreciation of 5,285)	119	57,705
Principal and lease payments receivable subsequent to July 1, 2003	0	0
Other assets	0	2,223
TOTAL ASSETS	\$15,173	\$73,938
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable and accrued expenses	\$77	\$1,563
Advance payments and deposits from institutions	0	0
Bonds payable (due July 1, 2003)	0	2,140
Interest payable	0	0
Due to other funds	0	0
Bonds, notes and lease obligations payable (due subsequent to July 1, 2003)	0	69,116
TOTAL LIABILITIES	77	72,819
FUND BALANCES		
Reserved for debt service	0	0
Reserved for loans under Pooled Loan Program	0	0
Designated for specific projects	0	0
Designated for debt service contingencies	12,336	0
Designated for operations	2,760	0
Designated for Parking System	0	1,119
Designated for arbitrage rebate	0	0
TOTAL FUND BALANCES	15,096	1,119
TOTAL LIABILITIES AND FUND BALANCES	\$15,173	\$73,938

The accompanying notes are an integral part of these combined financial statements

TRUSTEED FUNDS								
CONSTRUCTION FUNDS	PROGRAM FUNDS	DEBT SERVICE FUNDS	DEBT SERVICE RESERVE FUNDS	PROJECT RESERVE FUNDS	REDEMPTION FUNDS	DEBT PRINCIPAL ACCOUNT GROUP	ELIMINATIONS	TOTAL (MEMORANDUM ONLY)
\$0	\$237	\$10,254	\$657	\$0	\$0	\$0	\$0	\$12,645
384,168	99,231	156,650	192,241	6,018	49	0	0	853,113
0	0	0	0	0	0	0	(2,111)	0
0	0	0	0	0	0	0	(5,554)	0
0	0	0	0	0	0	0	0	4,201
157	67	184	688	1	0	0	0	1,244
0	0	8,094	0	0	0	0	0	8,516
0	0	0	0	0	0	0	0	26
43	539	4,704	0	0	0	0	0	5,324
0	0	0	0	0	0	0	0	312
0	0	0	0	0	0	0	0	57,824
0	0	0	0	0	0	4,567,132	(63,591)	4,503,541
513	0	24	0	11	0	0	0	2,771
\$384,881	\$100,074	\$179,910	\$193,586	\$6,030	\$49	\$4,567,132	(\$71,256)	\$5,449,517
\$35,798	\$983	\$43	\$0	\$0	\$0	\$0	\$0	\$38,464
0	0	502	0	0	0	0	0	502
0	0	0	0	0	0	0	(2,140)	0
0	0	71,283	0	0	0	0	0	71,283
0	65	4,511	100	11	0	0	0	4,687
0	0	53,116	0	0	0	4,567,132	(69,116)	4,620,248
35,798	1,048	129,455	100	11	0	4,567,132	(71,256)	4,735,184
0	0	50,455	193,486	0	49	0	0	243,990
0	99,026	0	0	0	0	0	0	99,026
349,083	0	0	0	0	0	0	0	349,083
0	0	0	0	0	0	0	0	12,336
0	0	0	0	0	0	0	0	2,760
0	0	0	0	0	0	0	0	1,119
0	0	0	0	6,019	0	0	0	6,019
349,083	99,026	50,455	193,486	6,019	49	0	0	714,333
\$384,881	\$100,074	\$179,910	\$193,586	\$6,030	\$49	\$4,567,132	(\$71,256)	\$5,449,517

COMBINED STATEMENT OF CHANGES IN TRUSTEED FUND BALANCES

For the year ended June 30, 2003 (in thousands of dollars)	CONSTRUCTION FUNDS	PROGRAM FUNDS	DEBT SERVICE FUNDS	DEBT SERVICE RESERVE FUNDS	PROJECT RESERVE FUNDS	REDEMPTION FUNDS	TOTAL (MEMORANDUM ONLY)
Fund balances, June 30, 2002	\$425,845	\$58,804	\$81,798	\$165,705	\$7,007	\$466	\$739,625
ADDITIONS							
Proceeds from sale of bonds and notes:							
Gross proceeds	325,446	72,615	75,352	20,065	497	0	493,975
Underwriters' discount	(2,366)	(244)	0	0	0	0	(2,610)
Original issuance discount	(614)	0	0	0	0	0	(614)
Insurance premium	946	1,990	0	0	0	0	2,936
Interest accrued to date of delivery	0	0	461	0	0	0	461
Payments and contributions received from and on behalf of institutions							
	519	91	454	194	9,779	0	11,037
Lease and loan payments	0	0	80,461	0	0	0	80,461
Debt service- interest	0	0	156,604	0	0	4,887	161,491
Assessment from area hospitals	0	0	0	0	0	514	514
Unrealized gain/(loss) on investments	51	0	173	7,875	0	0	8,099
Transfer from escrow agent	0	0	0	37	0	0	37
Income from investments	11,208	875	1,898	8,105	32	94	22,212
Total additions	335,190	75,327	315,403	36,276	10,308	5,495	777,999
DEDUCTIONS							
Project and financing costs	365,928	52,221	674	0	0	39	418,862
Loans to institutions	0	13,947	0	0	0	0	13,947
Principal (including July 1, 2003 installments funded at June 30, 2003)							
	0	4,190	127,943	0	0	0	132,133
Interest	0	0	192,363	0	0	0	192,363
Required payments to institutions	0	0	81	339	0	0	420
Arbitrage rebate expense	0	0	5	0	51	13	69
Transfers to escrow deposit agents for defeased issues	43,392	0	0	0	0	0	43,392
Retirement of bonds	0	0	0	0	0	18,320	18,320
Total deductions	409,320	70,358	321,066	339	51	18,372	819,506
INTERFUND TRANSFERS	(2,632)	35,253	(25,680)	(8,156)	(11,245)	12,460	0
Fund balances, June 30, 2003	\$349,083	\$99,026	\$50,455	\$193,486	\$6,019	\$49	\$698,118

The accompanying notes are an integral part of these combined financial statements

STATEMENTS OF OPERATIONS AND CHANGES IN GENERAL OPERATING FUND BALANCE

For the years ended June 30, 2003 and 2002
(in thousands of dollars)

	2003	2002
OPERATING REVENUES		
Annual administrative fees	\$1,176	\$1,083
Application fees	70	145
Gain on sale of assets	9	0
Income from investments	631	682
TOTAL OPERATING REVENUES	1,886	1,910
OTHER REVENUES		
Miscellaneous income	1	5
TOTAL OTHER REVENUES	1	5
TOTAL REVENUES	1,887	1,915
 OPERATING EXPENSES		
Salaries	504	468
Employees' insurance, pension and other fringe benefits	84	84
Payroll taxes	40	32
Professional fees	569	648
Office rent	91	88
Office supplies and expenses	41	39
Depreciation	51	35
TOTAL OPERATING EXPENSES	1,380	1,394
Excess of operating revenues over operating expenses	507	521
Unrealized gain on investments	932	607
Excess of revenues over expenses	1,439	1,128
Fund balance, beginning of year	13,657	12,529
Fund balance, end of year	\$15,096	\$13,657

The accompanying notes are an integral part of these combined financial statements

STATEMENTS OF OPERATIONS AND CHANGES IN PARKING SYSTEM FUND BALANCE

For the years ended June 30, 2003 and 2002

(in thousands of dollars)

	2003	2002
OPERATING REVENUES		
Parking permit revenue	\$12,918	\$11,696
Rental revenue	546	529
Interest Income	376	336
TOTAL REVENUES	13,840	12,561
OPERATING EXPENSES		
Purchased services	5,119	5,101
Repairs, maintenance and other	1,317	948
Interest	3,706	3,709
Depreciation and amortization	2,658	2,724
TOTAL EXPENSES	12,800	12,482
Excess of revenues over expenses	1,040	79
Fund balance, beginning of year	79	0
Fund balance, end of year	\$1,119	\$79

The accompanying notes are an integral part of these combined financial statements

STATEMENTS OF CASH FLOWS FOR THE GENERAL OPERATING FUND

For the years ended June 30, 2003 and 2002

(in thousands of dollars)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	\$1,439	\$1,128
Items not affecting cash flows		
Depreciation	51	35
Unrealized loss on investments	(932)	(607)
Gain on sale of assets	(9)	0
Increase/(decrease) in operating assets:		
Interest receivable	39	30
Administrative fees receivable	48	(71)
Prepaid expenses	8	10
Increase/(decrease) in operating liabilities:		
Accounts payable and accrued expenses	(203)	186
Total adjustments	(998)	(417)
Cash flows provided by operating activities	441	711
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(27,018)	(12,410)
Sale and maturities of investments	26,674	11,792
Purchase of fixed assets	(45)	(92)
Cash flows used in investing activities	(389)	(710)
Net increase in cash	52	1
Cash, beginning of year	35	34
Cash, end of year	\$87	\$35

The accompanying notes are an integral part of these combined financial statements

STATEMENTS OF CASH FLOWS FOR THE PARKING SYSTEM FUND

For the years ended June 30, 2003 and 2002
(in thousands of dollars)

	2003	2002
CASH FLOWS FROM PARKING SYSTEM ACTIVITIES		
Excess of revenues over expenses	\$1,040	\$79
Items not affecting cash flows		
Depreciation and amortization	2,742	2,788
(Increase)/decrease in operating assets:		
Accounts receivable	121	(491)
Due from others	33	0
Assets whose use is limited or restricted- required for current liabilities	20	(599)
Other Assets	112	(955)
Prepaid expenses	(113)	8
Increase/(decrease) in operating liabilities:		
Accounts payable and accrued expenses	(737)	996
Total adjustments	2,178	1,747
Cash flows provided by operating activities	3,218	1,826
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in debt service and capital reserve funds	(337)	(6,072)
Purchase of property, plant and equipment	(807)	(1,836)
Cash flows used in investing activities	(1,144)	(7,908)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term borrowing	0	27,839
Repayment of long term debt	(2,018)	(22,784)
Financing expense	0	(76)
Cash flows provided by financing activities	(2,018)	4,979
Net increase/(decrease) in cash	56	(1,103)
Cash, beginning of year	1,354	2,457
Cash, end of year	\$1,410	\$1,354

The accompanying notes are an integral part of these combined financial statements

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION, ACCOUNTING POLICIES AND FUNDS AND ACCOUNTS

Organization

The Maryland Health and Higher Educational Facilities Authority (the "Authority") was established to assist certain non-profit educational institutions as well as hospitals and related health care institutions in the constructing, financing and refinancing of projects approved by the Authority. Income of the Authority is derived from fees from institutions that have had financing provided by the Authority. Neither the State of Maryland, nor any subdivision thereof, nor the Authority shall be obligated to pay principal or interest on bonds and notes issued by the Authority except from the revenues of the related projects. Neither the faith and credit nor the taxing power of the State of Maryland, of any subdivision thereof or of the Authority is pledged to the payment of the principal or interest on bonds and notes outstanding. The Authority is exempt from federal and state income taxes. The Authority has no taxing power.

Accounting Policies

Basis of Presentation- The accompanying combined financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents- Cash and cash equivalents consist of short term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates market value.

Concentration of Credit Risk- Financial instruments which subject the Authority to concentration of credit risk consist of cash and cash equivalents. The Authority maintains its cash and cash equivalents in financial institutions which are federally insured under the Federal Depository Insurance Act (FDIA). Total deposits at these institutions at times exceed the FDIA insurance limits and therefore, bear the risk of loss. The Authority has not experienced any losses to date.

Investments- Investments are reported at fair market value with net unrealized gains and losses reported in the statement of changes in fund balances. Short term investments maturing within three months or less are carried at original cost which approximates fair value. Market values of investment securities are based on quoted market prices. Interest income is accrued on coupon securities from the last coupon date or purchase date and for discounted securities (e.g., U.S. Treasury Bills) on the effective yield method. Realized gains and losses are recorded on the specific identification method and are computed as the difference between the proceeds of the sale and the original cost of the investments sold. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year are included as a change in the fair value of investments reported in the prior year(s) and the current year. Investments are purchased to mature based on cash flow needs (e.g., project costs), however, investments may be liquidated in the event of an unanticipated refunding of an issue or if there are unanticipated cash flow needs.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

Collateralized Repurchase Agreements- Collateralized repurchase agreements are carried at the value at which the collateral securities will be subsequently resold as specified in the respective agreements plus accrued interest. The market value of the collateral exceeds the carrying value of the collateralized repurchase agreement, plus accrued interest, by at least 102%, as required by the applicable bond resolutions and indentures of trust. It is the Authority's policy to have such underlying collateral deposited in the Authority's account at the Trustee bank or to use a third party collateral agent. The Authority minimizes the credit risk by monitoring the market value of the underlying collateral and obtaining additional collateral as necessary.

Notes Payable- At the time of the Parking System transaction (see note 11), notes were prepared for the reimbursement to the Health System for certain interfund accounts, which were to be settled at the time of the bond issue and a note was prepared for the pooled loan program borrowing for the McElderry property which was not transferred to the Authority. This note is held for the payment of the loan from operating receipts and the current portion is included in notes payable.

Fixed Assets- Furniture and equipment are recorded at cost. Depreciation is provided on a straight line basis over the asset's estimated useful life. Estimated useful lives are as follows:

• Land improvements	10 to 20 years
• Buildings	25 to 50 years
• Fixed equipment	10 to 20 years
• Major movable equipment	5 years
• Furniture and fixtures	5 to 10 years
• Computer equipment	3 to 5 years
• Office equipment	5 to 10 years
• Automobiles	5 years
• Leasehold improvements	7 years

Compensated Absences- The Authority records a liability for amounts due to employees for future absences which are attributable to services performed in the current and prior periods.

Use of Estimates- The preparation of these combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management, where necessary, to make estimates and assumptions that affect the 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.

Funds and Account Group

The Authority maintains books of accounts for the General Operating Fund, the Parking System (see note 11), the Debt Principal Account Group and the required Trusteed Funds of each of the issues of bonds and notes outstanding. Trusteed Funds are maintained in accordance with the requirements of

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

the respective bond and note issue documents. The combined financial statements combine the accounts of all bond and note issues outstanding during the year. Interfund activity is eliminated in combination.

Following is a description of the Funds and Account Group:

General Operating Fund- Accounts for the general administrative operations of the Authority, reflecting fee and investment income and operating expenses. The Authority has waived 75% of its annual administrative fee chargeable to borrowing institutions in 2003 and 2002. The portion of the General Operating Fund designated as reserve for operating expenses, maintained at two times the annual operating expenses of the Authority, at June 30, 2003 and 2002, was \$2,760,000 and \$2,788,000, respectively. The portion of the General Operating Fund designated to fund debt service contingencies is subject to a 1% limitation on the total bonds outstanding at July 1, 2003. At June 30, 2003, the designated amount was \$12,336,000 which does not exceed the limitation of \$46,195,340.

Construction Funds- Account for the receipt and disbursement of monies for project costs arising from construction and equipment purchases for the institutions. All Construction and Additional Facilities Funds are included as Construction funds.

Program Funds- Account for the receipt and disbursement of monies specified as Program Funds in Loan Agreements.

Debt Service Funds- Account for the receipt and disbursement of monies for the payment of interest and principal on bonds and notes. All Debt Service, Principal Amortization, Bond, Special Principal Payment Funds and Revenue Funds (primarily clearing accounts) are included as Debt Service Funds.

Debt Service Reserve Funds- Account for the receipt and disbursement of monies held in reserve in compliance with certain bonds' resolutions. The fund balances are generally required to be maintained at an amount equal to the greatest amount of principal and interest payable in the then current or any future bond year (maximum annual debt service). At June 30, 2003, the fund balances of all issues requiring Debt Service Reserve Funds were in compliance with their respective bond resolutions.

Project Reserve Funds- Account for the receipt and disbursement of monies held in reserve which are, in general, used should major repairs to a project be necessary. The fund balances are established by the bond indentures and resolutions of certain issues. At June 30, 2003, the fund balances of all issues requiring Project Reserve Funds were in compliance with their respective bond indentures and resolutions. All Renewal and Replacement, Continuing Care Reserve, Loan Reserve, Depreciation Reserve Funds and Arbitrage Rebate Funds are included as Project Reserve Funds.

Redemption Funds- Account for the accumulation of monies not required by other funds for the eventual redemption or repurchase of bonds.

Debt Principal Account Group- Account for the noncurrent portions of bonds, notes, and lease obligations payable and the principal and lease payments receivable from the institutions. The terms of the lease and loan agreements between the Authority and the institutions require payments in amounts necessary to service the interest and principal of the related bonds, notes and lease obligations outstanding. The principal and lease payments receivable from the institutions represent the minimum amount necessary, when combined with balances available within trusteed funds, to liquidate the principal portion of the related bonds, notes, and lease obligations outstanding.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2: INVESTMENTS

The composition of the investments of the funds, at fair value, at June 30, 2003, is as follows (in thousands of dollars):

	<i>GENERAL OPERATING FUNDS</i>	<i>CONSTRUCTION FUNDS</i>	<i>PROGRAM FUNDS</i>	<i>DEBT SERVICE FUNDS</i>	<i>DEBT SERVICE RESERVE FUNDS</i>	<i>PROJECT RESERVE FUNDS</i>	<i>REDEMPTION FUNDS</i>
Certificates of Deposit	\$100	\$0	\$0	\$0	\$0	\$0	\$0
Collateralized Repurchase Agreements	0	59,211	0	0	25,160	0	0
U.S. Treasury Bills	0	0	0	0	0	0	0
U.S. Treasury Notes and Bonds	3,750	0	0	0	0	0	0
Obligations of U.S. Government Corporations and Agencies	10,906	287,440	0	87,274	136,633	497	0
Money Market Accounts	0	37,565	99,231	69,376	30,448	5,522	0
Total Estimated Market Value	\$14,756	\$384,216	\$99,231	\$156,650	\$192,241	\$6,019	\$0
Amortized Cost	\$13,822	\$384,168	\$99,231	\$156,477	\$184,366	\$6,018	\$0

The amortized cost and estimated market values of investments of all funds are as follows (in thousands of dollars):

	<i>AMORTIZED COST</i>	<i>GROSS UNREALIZED LOSSES</i>	<i>GROSS UNREALIZED GAINS</i>	<i>ESTIMATED MARKET VALUE</i>
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$517,420	\$0	\$9,031	\$526,451
Other Investments	326,662	0	0	326,662
Total	\$844,082	\$0	\$9,031	\$853,113

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

The following table presents the carrying amount of investments by type and category to give an indication of the level of risk assumed by the Authority at June 30, 2003 (in thousands of dollars):

<i>INVESTMENT TYPE</i>	<i>CATEGORY</i>			<i>AMORTIZED</i>
	<i>I</i>	<i>II</i>	<i>III</i>	<i>COST</i>
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$517,420	\$0	\$0	\$517,420
Other Investments	242,291	84,371	0	326,662
Total	\$759,711	\$84,371	\$0	\$844,082

The three risk categories are defined as follows: (I) Insured, registered or securities held by the entity or its agent (bank trust department) in entity's name (name of the Authority). (II) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name. (III) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the entity's name.

The amortized cost and estimated market value of investments at June 30, 2003, by contractual maturity, are shown below (in thousands of dollars). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<i>ESTIMATED MARKET VALUE</i>	<i>AMORTIZED COST</i>
Due in one year or less	\$572,994	\$572,443
Due after one year through five years	199,634	197,580
Due after five years through ten years	77,527	71,101
Due after ten years	2,958	2,958
	\$853,113	\$844,082

Proceeds from sales of investments during 2003 were \$2,196,202. Gross gains of \$17,926 and no gross losses were realized on those sales based on the specific identification method.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3: BONDS, NOTES AND LEASE OBLIGATIONS PAYABLE

In general, bonds mature serially in varying annual installments. Certain issues include term bonds payable from annual sinking fund requirements. Notes represent temporary financings to provide institutions with interim construction funds until permanent financings are arranged through the sale of long-term bonds. On July 1, 2003, all amounts related to debt service requirements at June 30, 2003 were liquidated.

The Authority may hold title to or have a first mortgage on the buildings and related facilities financed by the bonds and utilized by the institutions. The lease and loan payments receivable from the institutions generally correspond to the amortization of the respective bond and note issues. Titles to and first mortgages on the buildings and related facilities revert to the institutions upon final payment of the respective bond issues.

Under the Authority's Capital Lease Financing programs, approved institutions may borrow funds to finance eligible equipment purchases. Repayment of funds disbursed to participating institutions are collateralized by the individual obligations of the institution and by security interests in the equipment purchased. The leases under these programs are recorded as financing leases.

As of June 30, 2003, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars):	<i>FINAL MATURITY</i>	<i>AMOUNT ISSUED</i>	<i>BONDS AND NOTES PAYABLE JULY 1, 2003</i>	<i>BONDS AND NOTES PAYABLE SUBSEQUENT TO JULY 1, 2003</i>
PUBLIC OFFERINGS				
The Johns Hopkins University, Series 1983, dated January 1, 1983	2013	\$42,210 *	\$1,715	\$7,945
Pooled Loan Program, Series 1985A and 1985B, dated December 1, 1985	2035	175,000	0	175,000
The Johns Hopkins Hospital, Series 1990, dated January 1, 1990	2019	21,204 *	0	16,309
University of Maryland Medical System, Series 1991B, dated January 1, 1991	2022	29,970 *	0	27,315
Pooled Loan Program, Commercial Paper Series C, dated June 1, 1992	2015	60,000	0	60,000
Union Hospital of Cecil County, Series 1992, dated July 1, 1992	2022	4,340 *	0	2,320
North Arundel Hospital, Series 1992, dated July 1, 1992	2021	31,755	835	27,060

* Net of principal amount defeased.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

As of June 30, 2003, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars):	<i>FINAL MATURITY</i>	<i>AMOUNT ISSUED</i>	<i>BONDS AND NOTES PAYABLE JULY 1, 2003</i>	<i>BONDS AND NOTES PAYABLE SUBSEQUENT TO JULY 1, 2003</i>
Mercy Medical Center, Series 1993, dated January 1, 1993	2022	46,970	940	39,190
Anne Arundel Medical Center, Series 1993, dated January 1, 1993	2023	73,170	1,765	61,635
Baltimore County General Hospital, Series 1993, dated January 1, 1993	2013	29,320	1,650	22,055
The Johns Hopkins Hospital, Series 1993, dated January 1, 1993	2023	82,515	2,900	74,185
University of Maryland Medical System, Series 1993, dated January 1, 1993	2023	119,425	3,880	109,375
Sinai Hospital, Series 1993, dated January 1, 1993	2023	89,505	2,405	80,900
Francis Scott Key Medical Center, Series 1993, dated January 1, 1993	2025	109,125	2,555	99,730
Doctors Community Hospital, Series 1993, dated July 1, 1993	2024	65,165	740	62,565
Montgomery General Hospital, Series 1993, dated July 1, 1993	2023	21,230	495	17,825
Greater Baltimore Medical Center, Series 1993, dated July 1, 1993	2019	76,425	2,540	63,785
Suburban Hospital, Series 1993, dated July 1, 1993	2021	63,290	2,000	58,830
Peninsula Regional Medical Center, Series 1993, dated July 1, 1993	2023	62,510	1,465	51,010
Frederick Memorial Hospital, Series 1993, dated July 1, 1993	2028	55,060	945	47,870
Edenwald, Series 1993, dated July 1, 1993	2014	25,740	0	17,335
Kennedy Krieger Institute, Series 1993D, dated July 1, 1993	2023	12,200	0	10,600

* Net of principal amount defeased.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

As of June 30, 2003, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars):	<i>FINAL MATURITY</i>	<i>AMOUNT ISSUED</i>	<i>BONDS AND NOTES PAYABLE JULY 1, 2003</i>	<i>BONDS AND NOTES PAYABLE SUBSEQUENT TO JULY 1, 2003</i>
Washington County Hospital, Series 1994, dated January 1, 1994	2009	12,415	0	4,770
Maryland General Hospital, Series 1994, dated January 1, 1994	2024	30,000	590	25,630
Kernan Hospital, Series 1994, dated January 1, 1994	2024	19,050	395	16,350
Pooled Loan Program (1994), Series D, dated January 1, 1994	2024	362,126	4,450	283,835
The Johns Hopkins Medical Institutions Parking, dated January 1, 1996	2026	42,425	320	40,520
Mercy Medical Center, Series 1996, dated January 1, 1996	2026	30,000	565	27,420
Loyola College, Series 1996A, dated October 1, 1996	2026	49,810	0	45,595
Loyola College, Series 1996B, dated October 1, 1996	2013	14,900	0	11,300
The Johns Hopkins Health System (Bayview Campus), Series 1996, dated July 1, 1996	2027	14,440	275	12,880
North Arundel Hospital, Series 1997A, dated January 1, 1997	2032	21,000	500	18,600
Pickersgill, Series 1997A, dated January 1, 1997	2010	14,285	0	12,010
Pickersgill, Series 1997B, dated January 1, 1997	2021	3,910	0	3,910
The Johns Hopkins University, Series 1997, dated January 1, 1997	2027	14,985	275	13,725
Stella Maris, Series 1997, dated January 1, 1997	2021	21,985	0	20,740

* Net of principal amount defeased.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

	<i>FINAL MATURITY</i>	<i>AMOUNT ISSUED</i>	<i>BONDS AND NOTES PAYABLE JULY 1, 2003</i>	<i>BONDS AND NOTES PAYABLE SUBSEQUENT TO JULY 1, 2003</i>
As of June 30, 2003, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars):				
Bradford Oaks Nursing & Rehab Center, Series 1997, dated July 10, 1997	2027	13,780	0	12,725
Broadmead, Series 1997, dated July 1, 1997	2017	11,995	465	9,765
Kennedy Krieger, Series 1997, dated November 1, 1997	2022	13,670	380	12,770
Catholic Health Initiatives, Series 1997B, (St. Joseph Medical Center), dated November 25, 1997	2015	30,500	0	23,900
Charlestown Community, Series 1998A, dated January 1, 1998	2026	40,960	0	38,700
Charlestown Community, Series 1998B, dated January 1, 1998	2026	25,285	0	24,000
Calvert Memorial Hospital, Series 1998, dated January 1, 1998	2026	27,860	530	25,535
The Johns Hopkins University, Series 1998, dated April 2, 1998	2020	192,510	5,435	160,890
JHM/Howard County General Hospital Acquisition, Series 1998, dated June 1, 1998	2030	133,910	1,995	131,915
PUMH of Maryland, Inc. (Heron Point of Chestertown) Series 1998A & 1998B, dated June 15, 1998	2026	35,115	0	35,115
Green Acres School, Series 1998, dated August 5, 1998	2028	4,460	80	4,150
Anne Arundel Medical Center, Series 1998, dated July 1, 1998	2033	69,840	1,010	68,830
The Maryland Institute College of Art, Series 1998, dated July 15, 1998	2029	17,950	0	16,725
Upper Chesapeake Hospitals, Series 1998A&B, dated July 1, 1998	2038	110,605	0	101,030

* Net of principal amount defeased.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

As of June 30, 2003, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars):	<i>FINAL MATURITY</i>	<i>AMOUNT ISSUED</i>	<i>BONDS AND NOTES PAYABLE JULY 1, 2003</i>	<i>BONDS AND NOTES PAYABLE SUBSEQUENT TO JULY 1, 2003</i>
Union Hospital of Cecil County, Series 1998, dated July 1, 1998	2029	17,675	565	16,220
College of Notre Dame of Maryland, Series 1998, dated September 1, 1998	2023	11,995	0	10,795
Memorial Hospital of Easton, Series 1998, dated October 1, 1998	2019	33,470	990	29,720
Memorial Hospital of Easton, Series 1999, dated April 1, 1999	2009	4,260	390	2,805
Medlantic/Helix, Series 1998A, dated December 1, 1998	2038	166,605	0	166,605
Medlantic/Helix, Series 1998B, dated December 1, 1998	2038	116,910	0	116,910
Kaiser Permanente Revenue Bonds, 1998 Series A, dated December 1, 1998	2015	12,825	0	12,825
Charity Obligated Group - DCNHC Western MD Health Sys., Series 1999A, dated February 4, 1999	2029	24,665	0	23,110
The Johns Hopkins Hospital, Series 1999, dated January 1, 1999	2038	52,515	0	52,515
Roland Park Place, Series 1999, dated May 1, 1999	2024	34,195	85	33,990
Loyola College, Series 1999, dated June 1, 1999	2039	33,355	0	33,355
Glen Meadows Retirement Community, Series 1999A & 1999B, dated August 25, 1999	2029	20,410	530	19,400
Catholic Health Initiatives, Series 2000A, dated March 1, 2000	2024	23,455	0	22,125
Mercy Ridge, Series 2000, dated March 1, 2000	2031	69,305	0	29,180
University of Maryland, Series 2000, dated April 1, 2000	2030	123,110	615	121,825
The Johns Hopkins University, Series A, C/P, dated June 13, 2000	2004	50,000	0	44,394

* Net of principal amount defeased.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

As of June 30, 2003, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars):	<i>FINAL MATURITY</i>	<i>AMOUNT ISSUED</i>	<i>BONDS AND NOTES PAYABLE JULY 1, 2003</i>	<i>BONDS AND NOTES PAYABLE SUBSEQUENT TO JULY 1, 2003</i>
North Arundel Hospital, Series 2000, dated November 21, 2000	2031	15,000	0	15,000
The Bullis School, Series 2000, dated November 28, 2000	2030	20,400	0	20,400
The Johns Hopkins University, Series 2001A, dated March 15, 2001	2013	20,355	410	19,070
The Johns Hopkins University, Series B, C/P, dated March 22, 2001	2004	42,984	0	42,984
Collington Episcopal Lifecare, Series 2001, dated May 9, 2001	2023	48,355	0	45,435
The McLean School, Series 2001, dated May 30, 2001	2031	9,080	135	8,945
Roland Park Country School, Series 2001, dated June 7, 2001	2026	7,500	0	5,950
The Johns Hopkins Hospital, Series 2001, dated August 29, 2001	2034	101,355	0	99,320
The Johns Hopkins Medical Institutions Parking Facilities, Series 2001, dated August 29, 2001	2034	28,030	0	28,030
The Johns Hopkins University, Series 2001B, dated August 30, 2001	2041	85,775	0	85,775
University of Maryland Medical System, Series 2001, dated December 5, 2001	2034	100,000	0	100,000
Greater Baltimore Medical Center, Series 2001, dated December 6, 2001	2034	52,830	0	52,830
Mercy Medical Center, Series 2001, dated December 12, 2001	2031	49,480	0	49,480
Maryland Institute College of Art, Series 2001, dated December 19, 2001	2036	25,000	0	25,000
University of Maryland Medical System, Series 2002A, dated January 30, 2002	2032	57,655	860	56,795
The Johns Hopkins University, Series 2002A, dated February 13, 2002	2032	106,725	0	106,725
Board of Child Care, Series 2002, dated May 8, 2002	2032	39,280	1,135	38,145

* Net of principal amount defeased.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

As of June 30, 2003, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars):	<i>FINAL MATURITY</i>	<i>AMOUNT ISSUED</i>	<i>BONDS AND NOTES PAYABLE JULY 1, 2003</i>	<i>BONDS AND NOTES PAYABLE SUBSEQUENT TO JULY 1, 2003</i>
Carroll County General Hospital, Series 2002, dated June 13, 2002	2037	91,760	0	91,760
Hebrew Home of Greater Washington, Series 2002, dated June 19, 2002	2032	13,140	0	13,140
Holton Arms School, Series 2002, dated June 20, 2002	2032	21,000	0	21,000
Frederick Memorial Hospital, Series 2002, dated July 15, 2002	2035	71,715	0	71,715
Union Hospital of Cecil County, Series 2002, dated October 15, 2002	2032	24,000	260	23,740
Carnegie Institution of Washington, Series 2002, dated October 23, 2002	2037	30,000	0	30,000
Adventist HealthCare, Series 2003A, dated February 15, 2003	2025	22,925	0	22,925
Adventist HealthCare, Series 2003B, dated February 27, 2003	2033	39,560	0	39,560
Johns Hopkins Hospital, Series 2003A, dated March 6, 2003	2013	54,310	0	54,310
Kennedy Krieger, Series 2003, dated April 27, 2003	2033	24,490	0	24,490
Sheppard Pratt, Series 2003A&B, dated May 1, 2003	2036	91,140	0	91,140
Mercy Ridge, Series 2003A,B,C&D dated June 1, 2003	2035	41,430	0	41,430
Beth Tfiloh Dahan Community School, Series 2003, dated June 25, 2003	2025	7,000	0	7,000
Public Offerings Outstanding		4,911,054	50,070	4,404,042
PRIVATE PLACEMENTS				
Homewood Retirement Center, Series B, dated July 1, 1981	2005	7,475	31	495
University Physicians, Series 1994, dated June 8, 1994	2014	14,250	325	9,850
Greater Baltimore Medical Center, Series 1995, dated July 1, 1995	2025	10,000	235	8,710
Capital College, Series 1995, dated July 1, 1995	2020	8,000	100	6,750

* Net of principal amount defeased.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

	<i>FINAL MATURITY</i>	<i>AMOUNT ISSUED</i>	<i>BONDS AND NOTES PAYABLE JULY 1, 2003</i>	<i>BONDS AND NOTES PAYABLE SUBSEQUENT TO JULY 1, 2003</i>
As of June 30, 2003, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars):				
Calvert Health Ventures, Series A, dated January 1, 1997	2022	2,600	300	1,300
Augsburg Lutheran, Series 1997, dated January 1, 1997	2022	9,300	190	8,605
The Johns Hopkins Hospital, Series B, dated January 1, 1997	2027	3,404	325	2,375
Doctors' Community Hospital, Series 1997, dated July 1, 1997	2017	7,800	310	6,145
The Norwood School, Series 1998, dated November 1, 1998	2025	10,505	0	7,175
Woodbourne Center, Series 1998, dated November 1, 1998	2020	3,115	0	1,845
Doctors' Community Hospital, Series 1997 (2nd delivery), dated January 1, 1997	2017	6,115	335	4,865
Washington Episcopal School, Series 1999, dated January 26, 1999	2029	11,768	14	11,484
Washington Episcopal School, Series 1999 (Taxable), dated January 26, 1999	2029	632	1	531
Barnesville School, Series 1999, dated March 9, 1999	2024	3,790	0	3,100
Charles E. Smith Jewish Day School, Series 1999, dated June 1, 1999	2029	12,600	0	10,850
The Boys' Latin School of Maryland, Series 1999, dated August 1, 1999	2019	6,700	0	6,220
Landon School, Series 1999, dated November 1, 1999	2024	11,000	0	9,800
Stone Ridge, Series D, dated November 23, 1999	2020	8,130	140	7,280
Trinity School, Series 2001 dated October 31, 2001	2026	9,000	0	9,000
St Anne's Day School, Series 2001 dated November 30, 2001	2026	5,000	0	4,165

* Net of principal amount defeased.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

As of June 30, 2003, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars):	<i>FINAL MATURITY</i>	<i>AMOUNT ISSUED</i>	<i>BONDS AND NOTES PAYABLE JULY 1, 2003</i>	<i>BONDS AND NOTES PAYABLE SUBSEQUENT TO JULY 1, 2003</i>
Community Support Services, Series 2001 dated December 10, 2001	2031	2,660	0	2,642
St John's Episcopal Day School, Series 2001 dated December 21, 2001	2032	7,000	0	6,695
Memorial Hospital of Easton, Series 2001 dated December 21, 2001	2006	4,500	0	1,835
Severn School, Series 2002 dated February 2, 2002	2027	17,000	26	4,407
Lifebridge Health, Series 2002 dated March 8, 2002	2007	7,107	0	4,715
Annapolis Life Care, Series 2002 dated July 9, 2002	2013	8,600	0	7,736
Johns Hopkins Hospital, Series 2003C, dated March 6, 2003	2013	14,515	0	14,515
Private Placements Outstanding		212,566	2,332	163,090
Total Outstanding		\$5,123,620	\$52,402	\$4,567,132

* Net of principal amount defeased.

NOTE 4: POOLED LOAN PROGRAMS

POOLED LOAN PROGRAM- SERIES 1985A/1985B

During fiscal year 1986, the Authority issued \$175,000,000 of its Revenue Bonds, Pooled Loan Program Issue. The Series 1985A/1985B pooled loan program was established in order to fund a revolving loan pool for loans to finance and refinance projects for the acquisition, construction and equipping of projects pursuant to separate loan agreements backed by a letter of credit. As of June 30, 2003, there were \$108,294,141 of outstanding loans receivable under the Program to seven different institutions. During the year ended June 30, 2003, \$13,946,798 of new loans were drawn and \$5,835,657 of loan principal was repaid. Unfunded loan commitments totaled \$2,211,993 at June 30, 2003.

POOLED LOAN PROGRAM- SERIES C

The Series C pooled loan program was established for the financing of projects for The Johns Hopkins Hospital through the issuance of commercial paper. As of June 30, 2003, there were \$60,000,000 of outstanding loans receivable under this program. During the year ended June 30, 2003, no new loans were made and no principal was repaid.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

POOLED LOAN PROGRAM- SERIES D

The Series D pooled loan program refinanced the 1989A issue and had the effect of converting debt from commercial paper to convertible bonds and also had the purpose of assisting institutions to finance and refinance a portion of the costs of acquisition, construction and equipping of projects backed by a letter of credit. As of June 30, 2003, there were \$295,705,000 of outstanding loans receivable under this program to twenty-eight institutions. During the year ended June 30, 2003, \$59,265,000 of new loans were drawn and \$5,080,000 of loan principal was repaid. Commitments for authorized and undrawn loans at June 30, 2003 amounted to \$13,000,000.

POOLED LOAN PROGRAM- SERIES E

The Series E pool was established to fill the need to establish a pooled loan program series of bonds for taxable projects on a taxable basis for the financing or refinancing of acquisition, construction and equipping of taxable projects backed by a letter of credit. As of June 30, 2003, there were no outstanding loans receivable under this program. During the year ended June 30, 2003 no new loans were drawn and no principal was repaid. There were no commitments for authorized and undrawn loans at June 30, 2003.

NOTE 5: ARBITRAGE EARNINGS

Pursuant to the Tax Reform Act of 1986, certain arbitrage investment earnings related to bonds issued subsequent to December 31, 1985 are required to be rebated to the federal government at the end of five years in order to maintain tax-exempt status. The indentures for applicable bond issues require that any arbitrage earnings rebate be funded by the affected institution if and when due. Rebates are accrued at the end of five years when the liability is determined.

NOTE 6: COMMITMENTS AND CONTINGENCIES

At June 30, 2003, contractual commitments have been made for the completion of various construction projects. In the opinion of the Authority, amounts in the respective Construction Funds for these projects, together with anticipated investment earnings available for payment of project costs, should be sufficient to meet the Authority's pro-rata share of open contractual obligations for the respective projects. The institutions participating in these projects have acknowledged that they are responsible if total project costs exceed the amount of available Construction Funds and that they have sufficient equity to cover any excess costs.

The Authority has a lease commitment for office space through December 31, 2007. At June 30, 2003 the minimum rental commitments for office space over the next five years, and in the aggregate, are as follows:

2004	\$85,563
2005	85,563
2006	85,563
2007	42,782
2008	0
	<u>\$299,471</u>

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7: FIXED ASSETS

	General Operating Fund	Parking System
Fixed asset balances at June 30, 2003 are as follows (in thousands of dollars):		
Land improvements	\$0	\$2,434
Buildings	0	56,738
Fixed equipment	0	0
Major moveable equipment	0	0
Furniture and fixtures	24	3,078
Computer equipment	177	0
Office equipment	14	0
Automobiles	28	0
Leasehold improvements	6	82
Construction in progress	0	528
	249	62,860
Less: accumulated depreciation	130	5,155
	<u>\$119</u>	<u>\$57,705</u>

NOTE 8: PENSION PLAN

The Authority's employees participate in the Maryland State Retirement and Pension System. The Authority's contribution is based upon a percentage of annual gross wages paid to employees. Certain employees of the Authority also make a contribution for pension benefits; the percentage range of contributions, as determined by the Pension System is 3.0%-2.8% for 2003 and 2002. The Authority's pension expense for 2003 and 2002 amounted to \$15,271 and \$13,096, respectively, and is included in the General Operating Fund.

The Maryland State Retirement and Pension System's Plan Information is publicly available from the Maryland State Retirement Agency.

NOTE 9: RELATED PARTIES

Members of the Authority abstain from voting on any project resolution in which the member has any interest to the extent required by the Maryland Public Ethics Law.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10: DEFEASED ISSUES

The Authority has issued bonds in prior years for the purpose of refunding bond issues that were outstanding. The proceeds of the 'refunding bonds were deposited into irrevocable escrow trusts. The trusts are held by independent trustees and are invested in obligations of the United States Government which mature and bear interest in such amounts and at such times as will be sufficient to pay the principal and interest of the defeased bonds upon maturity. Accordingly, the escrow funds, as well as the defeased bonds are not reflected in the financial statements of the Authority.

Defeased Bonds Outstanding at June 30, 2003 are as follows
(in thousands of dollars);

Charity Obligated Group - Daughters of Charity, Series 1997D	\$27,605
Franklin Square Hospital, Series A	4,350
Good Samaritan Hospital, Series 1993	42,020
Helix Health, Series 1997	130,110
Howard County General Hospital, Series A (1978)	6,320
Howard County General Hospital, Series 1993	50,935
The Johns Hopkins Hospital Redevelopment, 1979 Series	26,180
The Johns Hopkins University, Series 1999	77,805
Memorial Hospital of Cumberland, Series 1992	1,815
North Charles General Hospital, Series A (1977)	4,335
Union Memorial Hospital, Series 1991A	7,180
	<hr/>
	\$378,655

NOTE 11: THE JOHNS HOPKINS MEDICAL INSTITUTIONS PARKING FACILITIES

The Johns Hopkins Parking Corporation (the "Parking Corporation") is a not-for-profit corporation that was formed on June 30, 1997 by The Johns Hopkins Health System Corporation (the "Health System") for the purpose of owning and operating its parking operation. These parking facilities provide parking to patients, visitors, employees, physicians, students, and others using the facilities of The Johns Hopkins Hospital (the "Hospital") and The Johns Hopkins University (the "University").

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

In order to satisfy certain financial objectives of the Hospital and the University; the Authority, the Hospital, the University, the Parking Corporation and the Health System entered into a Use Agreement dated as of June 30, 2001 under which, among other things, the Lease Agreement between the Authority and the Hospital was cancelled, leaving title to the Parking System in the Authority. As such, the Authority acquired all of the assets and the related debt of the Parking Corporation on June 30, 2001 except for the land of a satellite parking lot that was retained by the Parking Corporation, and certain affiliate receivables. The transaction was completed with no consideration paid by the Authority and the assets acquired and the liabilities assumed were recorded at fair value. Under the Use Agreement, the parties have agreed that (1) the Parking System shall continue to be operated for the use of patients, visitors, employees, physicians, students and others using the facilities of the Hospital and the University on the East Baltimore Campus, (2) the Parking System will be operated by a manager reasonably acceptable to the sponsoring institutions as a stand alone financial enterprise on a self-sufficient basis, (3) the operations, repairs and debt service will be payable solely from the parking receipts, (4) the financial operations of the Parking System shall, at a minimum, support a debt service coverage ratio of 1.15, (5) Outstanding debt will continue to be payable solely from the parking receipts, (6) any parking receipts not required to pay the costs of operations, repairs and debt service, to maintain reserves required under The Johns Hopkins Medical Institutions Parking Facilities Amended and Restated Bond Resolution and the Use Agreement and to pay rentals payable under the Ground Lease, between the Hospital and the Authority, shall be Resolution and the Use Agreement and (7) upon the expiration of the Ground Lease, the Parking System, any parking receipts and amounts on deposit in the funds and accounts created by the Resolution and the Use Agreement shall vest in the Health System.

Under the Use Agreement, the Hospital, the University, the Parking Corporation and the Health System have agreed that except for the Parking System and certain excluded facilities providing approximately 270 parking spaces, neither the Hospital nor the University shall construct, acquire or operate any structures, facilities or other properties providing parking for patients, visitors, employees, physicians, students and other persons using the principal health care facilities of the Hospital at the East Baltimore campus or the adjacent facilities of the University.

Broadway Services, Inc., a subsidiary of the Dome Corporation that in turn is owned equally by the Health System and the University, has managed the Parking System since 1983 and has entered into a Management Agreement with the Authority to manage the Parking System. The Management Agreement expires on December 31, 2005 and may be extended by agreement of the Authority and Broadway Services, Inc. with the approval of the sponsoring institutions.

NOTE 12: SUBSEQUENT BOND ISSUES

Subsequent to June 30, 2003 the following bonds were issued:

\$42,365,000 Revenue Bonds, Mercy Medical Center, Series 2003

\$13,000,000 Revenue Bonds, Pooled Loan Program, Series D on behalf of Annapolis Area Christian School

Subsequent to June 30, 2003 the following bonds were authorized:

\$110,000,000 Revenue Bonds on behalf of The Johns Hopkins Hospital

REPORT OF INDEPENDENT AUDITORS



To the Members of the Maryland Health
and Higher Educational Facilities Authority

In our opinion, the accompanying combining balance sheet and the related combining statement of changes in trustee fund balances and the statements of operations and changes in general operating fund balance and cash flows for the general operating fund and parking system fund present fairly, in all material respects, the financial position of the Maryland Health and Higher Educational Facilities Authority (the "Authority") at June 30, 2003 and the combining changes in its trustee balances for the year then ending, and the results of operating and cash flows for the general operating fund and parking system fund balances for the years ended June 30, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America. 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 audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

September 18, 2003
Baltimore, MD

