

*Maryland Health and Higher Educational  
Facilities Authority*

2004 ANNUAL REPORT



## THE AUTHORITY

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*Maryland is extremely proud of its healthcare 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 healthcare 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

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**In fiscal year 2004**, the Authority marked its 34th year with the highest annual issuance in its history. The Authority is very pleased to report that it issued approximately \$1.4 billion of its revenue bonds on behalf of 15 institutions. Included in this total is \$865,800,629 of refunding bonds issued to take advantage of favorable refunding opportunities in an interest rate environment that provided significant debt service savings.

There were several trends of note in nonprofit healthcare and educational finance in fiscal year 2004. The first was the use of auction rate securities as a means to raise capital. All of the Authority's auction rate securities are insured and involve a 28 or 35 day auction period, with securities remarketed by one or more broker-dealers. This structure avoids the renewal risk inherent in letter of credit-backed transactions and can be a cost effective alternative to fixed rate or 7-day variable rate demand bonds. Another trend was a significant increase in the use of synthetic fixed rate transactions to fix the interest rate on underlying variable rate debt. Borrowing institutions found that their overall cost of capital, including the cost of the interest rate swap, was projected to be lower than the rates on traditional fixed rate bonds.

The Authority's pooled loan programs continue to be useful mechanisms for accessing the capital markets. To date, 50 borrowers have used the Authority's Series D pooled loan program to obtain 76 loans totaling more than \$438 million in bonds. Currently, approximately \$228 million is outstanding in addition to the \$175 million 1985 revolving pooled loan program.

Over the past 34 years, the Authority has sold a total of 325 issues amounting to \$10.07 billion for hospitals, healthcare facilities, colleges, noncollegiate schools, nursing homes and retirement communities. At year end, 130 issues totaling \$5.32 billion remain outstanding.

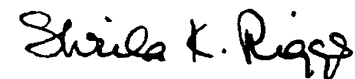
The fiscal year 2004 transactions of note include the \$101,425,000 financing for The Johns Hopkins Hospital, a new money issue to be used for its campus redevelopment; the \$253,860,000 University of Maryland Medical System financing, which included four series of bonds used to take advantage of refunding opportunities, refinancing and continued campus development; the \$170,350,000 MedStar Health financing that refunded a series of variable rate bonds; the \$237,155,000 Johns Hopkins Health System commercial paper financing that provided for the refunding of a number of issues on behalf of The Johns Hopkins Hospital and Bayview Medical Center (Francis Scott Key Medical Center); the \$139,245,000 Anne Arundel Health System financing that provided money for new projects as well as refinancing; and the \$203,190,000 LifeBridge Health financing that provided money for refunding, refinancing and new projects. In addition to the six transactions that were each in excess of \$100 million, there were two issues on behalf of The Johns Hopkins University (new money) and Suburban Hospital (refunding and new money) that exceeded \$70 million each. At the other end of the spectrum and equally important to the Authority's mission, as well as that of the borrower, was the \$4 million financing on behalf of Chester River Health System.

The past year presented a variety of operational challenges for the Authority. For example, Hurricane Isabel forced a five month temporary relocation of the Authority's offices during a period of peak issuance. We are pleased to note that the Authority's contingency plans allowed it to continue full service to all of its borrowers during this period.

The Authority seeks to promote the most cost effective and efficient financing for our education, healthcare and continuing care borrowers. To that end, we will continue to reach out to the investment banking community, commercial banks, institutional investors and other participants in the financial community to assure that our borrowing institutions access the market at the lowest possible rates available.

I know that the members of the Authority join me in expressing appreciation to both our new and long standing partners in the healthcare, education 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, 2004 and its financial statements as audited by PricewaterhouseCoopers LLP.



Sheila K. Riggs  
Chairman

## AUTHORITY MEMBERS

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### **AUTHORITY STAFF**

ANNETTE ANSELM  
*Executive Director*

EDWARD GOLAS, JR.  
*Chief Operating Officer*

CONSTANCE McCREADY  
*Controller*

LENA PRINCE  
*Senior Account Manager*

MARY JANE LUPUS  
*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; and Trustee & former Chairman of the Board- The Maryland Institute.

PAUL B. MERITT, *Vice Chairman*  
Term as member expired 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; Member- United States Association of Small Business and Entrepreneurship; and Executive Board Member- International Council for Small Businesses.

PAIGE T. DAVIS, *Member*  
Term as member expired July 1, 2003\*; resident of Baltimore City; 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 Dobyys 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.

CECIL E. FLAMER, *Member*  
Term as member expired July 1, 2004\*; resident of Baltimore County; Senior Vice President & Chief Administrative Officer- Brown Capital Management; retired Partner- Ernst & Young LLP; Director and Treasurer- Downtown Partnership, Inc.; Member- Board of Sponsors- Loyola College in Maryland; Trustee - Maryland Historical Society Board of Trustees; 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.

WILLARD HACKERMAN, *Member*  
Term as member expires July 1, 2005; resident of Baltimore City; President and Chief Executive Officer- The Whiting Turner Contracting Company; Trustee Emeritus- The Johns Hopkins University; Member- Johns Hopkins Medicine Board of Visitors and University of Maryland School of Medicine Board of Visitors; Director- THE ASSOCIATED; Jewish Community Federation of Baltimore, Inc.; former Member- Maryland Higher Education Commission; and former Vice Chairman- Maryland Economic Development Committee.

FREDERICK W. MEIER, JR.- *Member*  
Term as member expires July 1, 2005; resident of Baltimore City; President- Lord Baltimore Capital Corporation and former Executive Vice President, First Maryland Bancorp; President and Director- Rodney Trust Company; Director- Provident Bancshares Corporation, Attransco, and NORDEN A/S; Member- Investment Committee and former Vice President and Trustee- The Baltimore Museum of Art; Member- Board of Finance, Baltimore City; Honorary Trustee and former President of Board of Trustees- The Boys' Latin School of Maryland; former Member of Board of Governors- The Center Club; former Director- Forestal San Jose (Chile), and Jugos del Sur (Argentina).

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

## FISCAL YEAR 2004 ISSUES

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|                               |                        |
|-------------------------------|------------------------|
| Public & Limited Offerings    | \$1,381,625,000        |
| Private Placements            | 5,367,028              |
| Pooled Loan Program- Series D | 17,000,000             |
|                               | <u>\$1,403,992,028</u> |

### HEALTHCARE FINANCINGS:

#### **\$42,365,000 Mercy Medical Center, Series 2003**

A public offering to refund the Authority's \$46,970,000 Project and Refunding Revenue Bonds, Mercy Medical Center Issue, Series 1993.

#### **\$101,425,000 The Johns Hopkins Hospital, Series 2003**

A public offering for (a) the acquisition of various medical, administrative and other equipment, (b) the construction and equipping of a ten-story, approximately 925,000 square foot cardiovascular and critical care tower, and (c) the construction and equipping of a ten-story, approximately 565,000 square foot children's and maternal hospital.

#### **\$253,860,000 University of Maryland Medical System ("UMMS"), Series 2004 A,B,C&D**

A public offering for (i) the financing of a portion of the cost of acquisition, construction and renovation of certain facilities for the Obligated Group, including (a) the financing or refinancing of routine capital expenditures, (b) the financing or refinancing of the construction of a seven-story inpatient hospital patient care tower and a six-story Medical and Support Services Pavilion for Maryland General Hospital, Inc.; (c) the financing or refinancing of the construction of a seven-story, 804 parking space garage for The North Arundel Hospital Association, Inc.; and (d) the financing or refinancing of a portion of the acquisition, construction, renovation and equipping of certain healthcare facilities, including (without limitation): (1) renovation and fit-out of UMMS-leased or owned floors of the First Center Building located at 110 South Paca Street in the City of Baltimore, Maryland; (2) renovation and fit-out of 29 South Greene Street in the City of Baltimore, Maryland; and (3) the acquisition of a parking lot located at 550 West Pratt Street, Baltimore, Maryland for future development of a building or parking garage of approximately 15 stories; and (ii) the refunding of (a) the Authority's Project and Refunding Revenue Bonds, University of Maryland Medical System Issue, Series 1993; (b) the Authority's Revenue Bonds, Kernan Hospital Issue, Series 1994; (c) the Authority's Revenue Bonds, Maryland General Hospital Issue, Series 1994; (d) the Authority's Refunding Revenue Bonds, North Arundel Hospital Issue, Series 1992; (e) the Authority's Revenue Bonds, North Arundel Hospital Issue, Series 1997A; and (f) the Baltimore City, Maryland, Economic Development Revenue Bonds (Mt. Washington Pediatric Hospital, Inc. Facility), Series 1985.

#### **\$170,350,000 MedStar Health, Series 2004**

A public offering for the refunding of the District of Columbia Multimodal Revenue Bonds, MedStar Health, Inc. Issue (Georgetown University Hospital and Washington Hospital Center Projects), Series 2001A, B,C&D issued to finance (a) the acquisition by MedStar Health of certain assets previously owned by Georgetown University and used in the operation of the Georgetown University Hospital; (b) improvements to and equipping of the Georgetown University Hospital; and (c) improvements to and equipping of the Washington Hospital Center.

#### **\$237,155,000 Johns Hopkins Health System Commercial Paper, Series A,B&C**

A limited offering for the refunding of the Authority's Refunding Revenue Bonds, The Johns Hopkins Hospital Issue, Series 1993, its Refunding Revenue Bonds, Francis Scott Key Medical Center Issue, Series 1993, and its Junior Lien Refunding Revenue Bonds, Francis Scott Key Medical Center Issue, Series 1993

#### **\$139,245,000 Anne Arundel Health System, Series 2004 A,B&C**

A public offering for the financing and refinancing of a portion of certain healthcare facilities, including (without limitation): (a) renovation of approximately 20,500 square feet of space and the addition of approximately 2,700 gross square feet of new space at the first floor level and approximately 300 gross square feet of space at the second level of the Medical Center's Cancer Center to support advanced care and treatment of cancer patients, together with new furnishings and equipment for the Cancer Center, (b) acquisition of approximately 21 acres of land located in Annapolis, Maryland and adjacent open space bounded by U.S. Route 50, Jennifer Road and the access ramp to westbound U.S. 50, through the acquisition of interests in several limited liability companies, (c) acquisition and installation of capital equipment and furnishings, (d) the refinancing of the Authority's Refunding Revenue Bonds, Anne Arundel Medical Center Issue, Series 1993, the proceeds of which were used for the financing and refinancing of the construction, renovation and equipping of certain of the Hospital's existing healthcare facilities, (e) the refinancing of a loan incurred to finance the construction of the Sajak Pavilion, and (f) the refinancing of a loan incurred to finance the acquisition of the Annapolis Exchange building through the acquisition of interests in limited liability companies.

#### **\$25,920,000 Shore Health System, Series 2004**

A public offering for (a) the acquisition, construction and equipping of a telemetry unit, radiology suite and linear accelerator at Easton Memorial Hospital; (b) the construction and equipping of pharmacy facilities and intensive care/telemetry units at Dorchester General Hospital; (c) the acquisition of financial and other information systems and clinical medical equipment for Easton Memorial Hospital and Dorchester General Hospital; and (d) the refinancing of the City of Cambridge, Maryland, Economic Development Revenue Bonds (Dorchester General Hospital Facility), 1994 Series A and 1994 Series B, the proceeds of which were used to finance or refinance the Institution's existing facilities at Dorchester General Hospital.

## FISCAL YEAR 2004 ISSUES

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### **\$203,190,000 LifeBridge Health, Series 2004 A&B**

A public offering for (a) refinancing the Authority's outstanding Project and Refunding Revenue Bonds, Sinai Hospital of Baltimore Issue, Series 1993 and its Project and Refunding Revenue Bonds, Northwest Hospital Center Issue, Series 1993 (b) financing and refinancing the costs of acquisition, construction, renovation and equipping of certain facilities for LifeBridge Health and (c) refunding the Authority's Pooled Loan Program Series D Bonds, LifeBridge Health Issue.

### **\$35,665,000 The Johns Hopkins Medical Institutions Parking Facilities, Series 2004**

A public offering to finance the construction of the South of Orleans Garage, an approximately 700,000 square foot, 2,200-space parking garage on the East Baltimore Campus. In connection with the construction of the South of Orleans Garage, the 1,936-space Broadway Garage will be demolished.

### **\$72,445,000 Suburban Hospital, Series 2004 A&B**

A public offering to (a) refund the Authority's Refunding Revenue Bonds, Suburban Hospital Issue, Series 1993 and (b) finance or refinance the acquisition, construction, renovation and equipping of the Institution's facilities, including patient care areas and plant infrastructure.

### **\$5,367,028 Frederick Memorial Hospital, Lease**

A private placement for the acquisition and installation of capital equipment, including, but not limited to, a Varian 21EX Linear Accelerator, GE PACS System, GEMS HSNi Pro CT Simulator, Digital Radiographic System and Mobile C-Arm Fluoroscope Unit.

## **EDUCATIONAL INSTITUTION FINANCINGS:**

### **\$92,505,000 Johns Hopkins University, Series 2004A**

A public offering for the (a) construction of a 267,000 square foot facility to house research laboratories, supporting spaces, vivarium, administrative offices, and a permanent loading dock located on the University's East Baltimore Campus, (b) construction of a 540-space parking garage and a 44,000 square foot shell office building above it on the University's Homewood Campus, (c) renovation of 132,310 square feet of space located on the campus of Johns Hopkins Bayview Medical Center, including the design and construction of labs, offices, employee fitness center and clinical use facilities, (d) replacement of the 2,500 ton chiller supplying central chilled water to the University's Homewood Campus, and (e) construction of a 26,700 square foot high-density compact shelving facility to accommodate University library collections located at the Applied Physics Laboratory in Howard County, Maryland.

## **NON-COLLEGIATE SCHOOL FINANCINGS:**

### **\$7,500,000 Friends School of Baltimore, Series 2004**

A public offering for the acquisition, construction, renovation and equipping of a two-story, approximately 46,000 square foot academic building to be used as the Middle School; an approximately 10,800 square foot renovation to the Upper School math-science building and construction of an approximately 8,400 square foot, two-story addition to the Upper School math-science building; demolition of an existing building and construction of a new approximately 3,600 square foot, one-story Alumni Center; construction of new technology labs; improvements to the entry; driveway reconstruction; construction of additional playing fields; relocation of tennis courts and parking lots; and miscellaneous renovations, acquisition of equipment and other improvements.

## **POOLED LOAN PROGRAM, SERIES D FINANCINGS:**

### **\$13,000,000 Annapolis Area Christian School**

This loan financed the acquisition, construction and equipping of a new regional high school campus and acquisition, construction, renovation and equipping of the Institution's existing facilities.

### **\$4,000,000 Chester River Health System**

This loan financed the construction of an addition to the Emergency Department, a business office and general stores facilities, new parking, renovations and routine capital expenditures.

## COMBINED BALANCE SHEET

June 30, 2004

(in thousands of dollars)

|   | <b>GENERAL<br/>OPERATING<br/>FUND</b> | <b>PARKING<br/>SYSTEM</b> |
|---|---------------------------------------|---------------------------|
| <b>ASSETS</b>   |                                       |                           |
| Cash and cash equivalents   | \$50                                  | \$3,612                   |
| Investments at fair value   | 15,610                                | 0                         |
| Debt Service Fund   | 0                                     | 2,122                     |
| Debt Service Reserve Fund   | 0                                     | 7,808                     |
| Capital Reserve Fund  | 0                                     | 1,244                     |
| Construction Fund   | 0                                     | 28,745                    |
| Interest receivable   | 232                                   | 0                         |
| Accounts receivable   | 0                                     | 440                       |
| Administrative fees receivable  | 26                                    | 0                         |
| Due from other funds  | 0                                     | 0                         |
| Due from others   | 0                                     | 104                       |
| Prepaid pension and other prepayments                                       | 52                                    | 237                       |
| Fixed assets (net of accumulated depreciation of 10,634)                    | 92                                    | 59,153                    |
| Principal and lease payments receivable subsequent to July 1, 2004          | 0                                     | 0                         |
| Other assets  | 0                                     | 3,320                     |
| <b>TOTAL ASSETS</b>   | <b>\$16,062</b>                       | <b>\$106,785</b>          |
| <b>LIABILITIES AND FUND BALANCES</b>  |                                       |                           |
| <b>LIABILITIES</b>  |                                       |                           |
| Accounts payable and accrued expenses                                       | \$100                                 | \$2,332                   |
| Advance payments and deposits from institutions                             | 0                                     | 0                         |
| Bonds payable (due July 1, 2004)  | 0                                     | 2,124                     |
| Interest payable  | 0                                     | 0                         |
| Due to other funds  | 0                                     | 0                         |
| Bonds, notes and lease obligations payable (due subsequent to July 1, 2004) | 0                                     | 101,956                   |
| <b>TOTAL LIABILITIES</b>  | <b>100</b>                            | <b>106,412</b>            |
| <b>FUND BALANCES</b>  |                                       |                           |
| Reserved for debt service   | 0                                     | 0                         |
| Reserved for loans under Pooled Loan Program                                | 0                                     | 0                         |
| Designated for specific projects  | 0                                     | 0                         |
| Designated for contingencies  | 13,086                                | 0                         |
| Designated for operations   | 2,876                                 | 0                         |
| Designated for Parking System   | 0                                     | 373                       |
| <b>TOTAL FUND BALANCES</b>  | <b>15,962</b>                         | <b>373</b>                |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>                                  | <b>\$16,062</b>                       | <b>\$106,785</b>          |

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



| TRUSTEED FUNDS     |                 |                    |                       |                       |             |                    |                              |                    |                         |
|--------------------|-----------------|--------------------|-----------------------|-----------------------|-------------|--------------------|------------------------------|--------------------|-------------------------|
| CONSTRUCTION FUNDS | PROGRAM FUNDS   | DEBT               |                       |                       |             | REDEMPTION FUNDS   | DEBT PRINCIPAL ACCOUNT GROUP | ELIMINATIONS       | TOTAL (MEMORANDUM ONLY) |
|                    |                 | DEBT SERVICE FUNDS | SERVICE RESERVE FUNDS | PROJECT RESERVE FUNDS |             |                    |                              |                    |                         |
| \$0                | \$20            | \$5,638            | \$217                 | \$0                   | \$0         | \$0                | \$0                          | \$9,537            |                         |
| 400,135            | 55,653          | 266,381            | 212,779               | 7,720                 | 46          | 0                  | 0                            | 958,324            |                         |
| 0                  | 0               | 0                  | 0                     | 0                     | 0           | 0                  | (2,122)                      | 0                  |                         |
| 0                  | 0               | 0                  | 0                     | 0                     | 0           | 0                  | (7,808)                      | 0                  |                         |
| 0                  | 0               | 0                  | 0                     | 0                     | 0           | 0                  | 0                            | 1,244              |                         |
| 0                  | 0               | 0                  | 0                     | 0                     | 0           | 0                  | (28,745)                     | 0                  |                         |
| 456                | 35              | 264                | 1,032                 | 4                     | 0           | 0                  | 0                            | 2,023              |                         |
| 0                  | 0               | 6,309              | 0                     | 0                     | 0           | 0                  | 0                            | 6,749              |                         |
| 0                  | 0               | 0                  | 0                     | 0                     | 0           | 0                  | 0                            | 26                 |                         |
| 221                | 45              | 2,916              | 0                     | 0                     | 0           | 0                  | 0                            | 3,182              |                         |
| 0                  | 0               | 0                  | 0                     | 0                     | 0           | 0                  | 0                            | 104                |                         |
| 0                  | 0               | 0                  | 0                     | 0                     | 0           | 0                  | 0                            | 289                |                         |
| 0                  | 0               | 0                  | 0                     | 0                     | 0           | 0                  | 0                            | 59,245             |                         |
| 0                  | 0               | 0                  | 0                     | 0                     | 0           | 5,196,584          | 0                            | 5,196,584          |                         |
| 0                  | 0               | 0                  | 0                     | 0                     | 0           | 0                  | 0                            | 3,320              |                         |
| <b>\$400,812</b>   | <b>\$55,753</b> | <b>\$281,508</b>   | <b>\$214,028</b>      | <b>\$7,724</b>        | <b>\$46</b> | <b>\$5,196,584</b> | <b>(\$38,675)</b>            | <b>\$6,240,627</b> |                         |
| \$19,581           | \$226           | \$77               | \$0                   | \$0                   | \$0         | \$0                | \$0                          | \$22,316           |                         |
| 0                  | 0               | 950                | 0                     | 0                     | 0           | 0                  | 0                            | 950                |                         |
| 0                  | 0               | 0                  | 0                     | 0                     | 0           | 0                  | (2,124)                      | 0                  |                         |
| 0                  | 0               | 63,148             | 0                     | 0                     | 0           | 0                  | 0                            | 63,148             |                         |
| 0                  | 47              | 2,908              | 227                   | 0                     | 0           | 0                  | 0                            | 3,182              |                         |
| 0                  | 0               | 121,336            | 0                     | 0                     | 0           | 5,196,584          | (101,956)                    | 5,317,920          |                         |
| <b>19,581</b>      | <b>273</b>      | <b>188,419</b>     | <b>227</b>            | <b>0</b>              | <b>0</b>    | <b>5,196,584</b>   | <b>(104,080)</b>             | <b>5,407,516</b>   |                         |
| 0                  | 0               | 93,089             | 213,801               | 563                   | 46          | 0                  | 94,150                       | 401,649            |                         |
| 0                  | 55,480          | 0                  | 0                     | 0                     | 0           | 0                  | 0                            | 55,480             |                         |
| 381,231            | 0               | 0                  | 0                     | 0                     | 0           | 0                  | (28,745)                     | 352,486            |                         |
| 0                  | 0               | 0                  | 0                     | 0                     | 0           | 0                  | 0                            | 13,086             |                         |
| 0                  | 0               | 0                  | 0                     | 7,161                 | 0           | 0                  | 0                            | 10,037             |                         |
| 0                  | 0               | 0                  | 0                     | 0                     | 0           | 0                  | 0                            | 373                |                         |
| <b>381,231</b>     | <b>55,480</b>   | <b>93,089</b>      | <b>213,801</b>        | <b>7,724</b>          | <b>46</b>   | <b>0</b>           | <b>65,405</b>                | <b>833,111</b>     |                         |
| <b>\$400,812</b>   | <b>\$55,753</b> | <b>\$281,508</b>   | <b>\$214,028</b>      | <b>\$7,724</b>        | <b>\$46</b> | <b>\$5,196,584</b> | <b>(\$38,675)</b>            | <b>\$6,240,627</b> |                         |

## COMBINED STATEMENT OF CHANGES IN TRUSTEED FUND BALANCES

| For the year ended June 30, 2004<br>(in thousands of dollars)           | <b>CONSTRUCTION<br/>FUNDS</b> | <b>PROGRAM<br/>FUNDS</b> | <b>DEBT<br/>SERVICE<br/>FUNDS</b> | <b>DEBT<br/>SERVICE<br/>RESERVE<br/>FUNDS</b> | <b>PROJECT<br/>RESERVE<br/>FUNDS</b> | <b>REDEMPTION<br/>FUNDS</b> | <b>TOTAL<br/>(MEMORANDUM<br/>ONLY)</b> |
|---|-------------------------------|--------------------------|-----------------------------------|---|--------------------------------------|-----------------------------|--|
| Fund balances, June 30, 2003  | \$349,083                     | \$99,026                 | \$50,455                          | \$193,486                                     | \$6,019                              | \$49                        | \$698,118                              |
| <b>ADDITIONS</b>  |                               |                          |                                   |   |                                      |                             |  |
| Proceeds from sale of bonds and notes:                                  |                               |                          |                                   |   |                                      |                             |  |
| Gross proceeds  | 1,124,535                     | 17,000                   | 307,525                           | 18,965  | 0                                    | 0                           | 1,468,025                              |
| Underwriters' discount  | (6,035)                       | 0                        | 0                                 | 0   | 0                                    | 0                           | (6,035)                                |
| Original issuance discount  | (5,300)                       | 0                        | 0                                 | 0   | 0                                    | 0                           | (5,300)                                |
| Insurance premium   | (18,985)                      | 0                        | 0                                 | 0   | 0                                    | 0                           | (18,985)                               |
| Interest accrued to date of delivery                                    | 0                             | 0                        | 1,812                             | 0   | 0                                    | 0                           | 1,812                                  |
| Payments and contributions received from and on behalf of institutions  | 8,971                         | 0                        | 15,881                            | 12,463  | 8,723                                | 0                           | 46,038                                 |
| Lease and loan payments   | 0                             | 0                        | 126,279                           | 0   | 0                                    | 0                           | 126,279                                |
| Debt service- interest  | 0                             | 0                        | 158,309                           | 0   | 0                                    | 0                           | 158,309                                |
| Unrealized gain/(loss) on investments                                   | (850)                         | 0                        | 129                               | 1,163   | 0                                    | 0                           | 442                                    |
| Transfer from escrow agent  | 0                             | 0                        | 80                                | 0   | 0                                    | 0                           | 80                                     |
| Income from investments   | 7,648                         | 564                      | 1,540                             | 6,352   | 16                                   | 0                           | 16,120                                 |
| Issuance premium  | 11,154                        | 0                        | 296                               | 0   | 0                                    | 0                           | 11,450                                 |
| Sale of real property   | 6,174                         | 0                        | 0                                 | 0   | 0                                    | 0                           | 6,174                                  |
| Transfer from other issuer  | 0                             | 0                        | 82                                | 0   | 0                                    | 0                           | 82                                     |
| <b>Total additions</b>  | <b>1,127,312</b>              | <b>17,564</b>            | <b>611,933</b>                    | <b>38,943</b>                                 | <b>8,739</b>                         | <b>0</b>                    | <b>1,804,491</b>                       |
| <b>DEDUCTIONS</b>   |                               |                          |                                   |   |                                      |                             |  |
| Project and financing costs   | 376,359                       | 55,424                   | 6,505                             | 0   | 0                                    | 235                         | 438,523                                |
| Loans to institutions   | 0                             | 9,328                    | 0                                 | 0   | 0                                    | 0                           | 9,328                                  |
| Principal (including July 1, 2004 installments funded at June 30, 2004) | 44,216                        | 2,304                    | 869,832                           | 0   | 0                                    | 0                           | 916,352                                |
| Interest  | 0                             | 0                        | 201,533                           | 0   | 0                                    | 0                           | 201,533                                |
| Required payments to institutions                                       | 0                             | 0                        | 865                               | 0   | 7,034                                | 0                           | 7,899                                  |
| Transfers to escrow deposit agents for defeased issues                  | 176,819                       | 0                        | 0                                 | 0   | 0                                    | 0                           | 176,819                                |
| Retirement of bonds   | 0                             | 0                        | 784                               | 0   | 0                                    | 0                           | 784                                    |
| <b>Total deductions</b>   | <b>597,394</b>                | <b>67,056</b>            | <b>1,079,519</b>                  | <b>0</b>                                      | <b>7,034</b>                         | <b>235</b>                  | <b>1,751,238</b>                       |
| <b>INTERFUND TRANSFERS</b>  | <b>(497,770)</b>              | <b>5,946</b>             | <b>510,220</b>                    | <b>(18,628)</b>                               | <b>0</b>                             | <b>232</b>                  | <b>0</b>                               |
| Fund balances, June 30, 2004  | \$381,231                     | \$55,480                 | \$93,089                          | \$213,801                                     | \$7,724                              | \$46                        | \$751,371                              |

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, 2004 and 2003

(in thousands of dollars)

|   | <i>2004</i>     | <i>2003</i>     |
|---|-----------------|-----------------|
| <b>OPERATING REVENUES</b>                               |                 |                 |
| Annual administrative fees                              | \$1,286         | \$1,176         |
| Application fees  | 85              | 70              |
| Gain on sale of assets                                  | 0               | 9               |
| Income from investments                                 | 583             | 631             |
| <b>TOTAL OPERATING REVENUES</b>                         | <b>1,954</b>    | <b>1,886</b>    |
| <b>OTHER REVENUES</b>                                   |                 |                 |
| Miscellaneous income                                    | 2               | 1               |
| <b>TOTAL OTHER REVENUES</b>                             | <b>2</b>        | <b>1</b>        |
| <b>TOTAL REVENUES</b>                                   | <b>1,956</b>    | <b>1,887</b>    |
| <br><b>OPERATING EXPENSES</b>                           |                 |                 |
| Salaries  | 537             | 504             |
| Employees' insurance, pension and other fringe benefits | 79              | 84              |
| Payroll taxes   | 36              | 40              |
| Professional fees                                       | 637             | 569             |
| Office rent   | 68              | 91              |
| Office supplies and expenses                            | 38              | 41              |
| Depreciation  | 44              | 51              |
| <b>TOTAL OPERATING EXPENSES</b>                         | <b>1,439</b>    | <b>1,380</b>    |
| Excess of revenues over operating expenses              | 517             | 507             |
| Unrealized gain on investments                          | 349             | 932             |
| Excess of revenues over expenses                        | 866             | 1,439           |
| Fund balance, beginning of year                         | 15,096          | 13,657          |
| <b>Fund balance, end of year</b>                        | <b>\$15,962</b> | <b>\$15,096</b> |

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, 2004 and 2003

(in thousands of dollars)

|  | <b>2004</b>   | <b>2003</b>    |
|--|---------------|----------------|
| <b>OPERATING REVENUES</b>                |               |                |
| Parking permit revenue                   | \$13,663      | \$12,918       |
| Rental revenue                           | 554           | 546            |
| Interest income                          | 339           | 376            |
| <b>TOTAL REVENUES</b>                    | <b>14,556</b> | <b>13,840</b>  |
| <b>OPERATING EXPENSES</b>                |               |                |
| Purchased services                       | 5,113         | 5,119          |
| Repairs, maintenance and other           | 1,109         | 1,317          |
| Interest                                 | 3,663         | 3,706          |
| Depreciation and amortization            | 5,417         | 2,658          |
| <b>TOTAL EXPENSES</b>                    | <b>15,302</b> | <b>12,800</b>  |
| Excess of revenues (under)/over expenses | (746)         | 1,040          |
| Fund balance, beginning of year          | 1,119         | 79             |
| <b>Fund balance, end of year</b>         | <b>\$373</b>  | <b>\$1,119</b> |

*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, 2004 and 2003

(in thousands of dollars)

|   | <b>2004</b> | <b>2003</b> |
|---|-------------|-------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |             |             |
| Excess of revenues over expenses              | \$866       | \$1,439     |
| Items not affecting cash flows                |             |             |
| Depreciation                                  | 44          | 51          |
| Unrealized gain on investments                | (349)       | (932)       |
| Gain on sale of assets                        | 0           | (9)         |
| (Increase)/decrease in operating assets:      |             |             |
| Interest receivable                           | (84)        | 39          |
| Administrative fees receivable                | 0           | 48          |
| Prepaid expenses                              | (14)        | 8           |
| Increase (decrease) in operating liabilities: |             |             |
| Accounts payable and accrued expenses         | 23          | (203)       |
| Total adjustments                             | (380)       | (998)       |
| Cash flows provided by operating activities   | 486         | 441         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |             |             |
| Purchase of investments                       | (19,907)    | (27,018)    |
| Sale and maturities of investments            | 19,402      | 26,674      |
| Purchase of fixed assets                      | (18)        | (45)        |
| Cash flows used in investing activities       | (523)       | (389)       |
| Net (decrease)/increase in cash               | (37)        | 52          |
| Cash, beginning of year                       | 87          | 35          |
| Cash, end of year                             | \$50        | \$87        |

*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, 2004 and 2003

(in thousands of dollars)

|   | <b>2004</b> | <b>2003</b> |
|---|-------------|-------------|
| <b>CASH FLOWS FROM PARKING SYSTEM ACTIVITIES</b>                            |             |             |
| Excess of revenues (under)/over expenses                                    | (\$746)     | \$1,040     |
| Items not affecting cash flows  |             |             |
| Depreciation and amortization   | 5,417       | 2,742       |
| (Increase)/decrease in operating assets:                                    |             |             |
| Accounts receivable   | (18)        | 121         |
| Due from others   | (66)        | 33          |
| Assets whose use is limited or restricted- required for current liabilities | (11)        | 20          |
| Other Assets  | (1,097)     | 112         |
| Prepaid expenses  | 37          | (113)       |
| Increase/(decrease) in operating liabilities:                               |             |             |
| Accounts payable and accrued expenses                                       | 769         | (737)       |
| Total adjustments   | 5,031       | 2,178       |
| Cash flows provided by operating activities                                 | 4,285       | 3,218       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |             |             |
| Increase in construction, debt service and capital reserve funds            | (28,042)    | (337)       |
| Purchase of property, plant and equipment                                   | (6,791)     | (807)       |
| Cash flows used in investing activities                                     | (34,833)    | (1,144)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                 |             |             |
| Proceeds from long term borrowing   | 34,890      | 0           |
| Repayment of long term debt   | (2,140)     | (2,018)     |
| Cash flows provided by/(used in) financing activities                       | 32,750      | (2,018)     |
| Net increase in cash  | 2,202       | 56          |
| Cash, beginning of year   | 1,410       | 1,354       |
| Cash, end of year   | \$3,612     | \$1,410     |

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

## NOTES TO COMBINED FINANCIAL STATEMENTS

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### 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 healthcare 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)

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**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 Johns Hopkins 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 . . . . .                 | 15 years      |
| • Buildings . . . . .                         | 40 years      |
| • Furniture, fixtures and equipment . . . . . | 3 to 15 years |
| • Computer equipment . . . . .                | 3 to 5 years  |
| • Office equipment . . . . .                  | 3 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)

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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 2004 and 2003. 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, 2004 and 2003, was \$2,876,000 and \$2,760,000, respectively. The portion of the General Operating Fund designated to fund contingencies is subject to a 1% limitation on the total bonds outstanding at July 1, 2004. At June 30, 2004, the designated amount was \$13,086,000 which does not exceed the limitation of \$51,965,840.

**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 and indentures. 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, 2004, the fund balances of all issues requiring Debt Service Reserve Funds were in compliance with their respective bond resolutions and indentures.

**Project Reserve Funds-** Account for the receipt and disbursement of monies held in reserve which are, in general, to be 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, 2004, 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 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 trustee 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, 2004, is as follows (in thousands of dollars):

|   | <i>GENERAL<br/>OPERATING<br/>FUNDS</i> | <i>CONSTRUCTION<br/>FUNDS</i> | <i>PROGRAM<br/>FUNDS</i> | <i>DEBT<br/>SERVICE<br/>FUNDS</i> | <i>DEBT<br/>SERVICE<br/>RESERVE<br/>FUNDS</i> | <i>PROJECT<br/>RESERVE<br/>FUNDS</i> | <i>REDEMPTION<br/>FUNDS</i> |
|---|--|-------------------------------|--------------------------|-----------------------------------|---|--------------------------------------|-----------------------------|
| Commercial Paper  | \$0                                    | \$0                           | \$0                      | \$4,062                           | \$0   | \$0                                  | \$0                         |
| Collateralized Repurchase<br>Agreements                     | 0                                      | 65                            | 0                        | 14,338                            | 0   | 0                                    | 0                           |
| U.S. Treasury Notes and Bonds                               | 3,940                                  | 0                             | 0                        | 3,572                             | 7,066   | 0                                    | 0                           |
| Obligations of U.S. Government<br>Corporations and Agencies | 11,670                                 | 366,115                       | 6,659                    | 194,085                           | 196,946                                       | 497                                  | 0                           |
| Money Market Accounts                                       | 0                                      | 33,955                        | 48,994                   | 50,324                            | 8,767   | 7,223                                | 46                          |
| <b>Total Estimated Market Value</b>                         | <b>\$15,610</b>                        | <b>\$400,135</b>              | <b>\$55,653</b>          | <b>\$266,381</b>                  | <b>\$212,779</b>                              | <b>\$7,720</b>                       | <b>\$46</b>                 |
| <b>Amortized Cost</b>                                       | <b>\$15,261</b>                        | <b>\$400,985</b>              | <b>\$55,653</b>          | <b>\$266,251</b>                  | <b>\$211,616</b>                              | <b>\$7,720</b>                       | <b>\$46</b>                 |

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

|   | <i>AMORTIZED<br/>COST</i> | <i>GROSS<br/>UNREALIZED<br/>LOSSES</i> | <i>GROSS<br/>UNREALIZED<br/>GAINS</i> | <i>ESTIMATED<br/>MARKET<br/>VALUE</i> |
|---|---------------------------|--|---------------------------------------|---------------------------------------|
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$789,720                 | \$921                                  | \$1,708                               | \$790,507                             |
| Other investments   | 167,812                   | 0                                      | 5                                     | 167,817                               |
| <b>Total</b>  | <b>\$957,532</b>          | <b>\$921</b>                           | <b>\$1,713</b>                        | <b>\$958,324</b>                      |

## 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, 2004 (in thousands of dollars):

| <b>INVESTMENT TYPE</b>  | <b>CATEGORY</b> |           |            | <b>AMORTIZED COST</b> |
|---|-----------------|-----------|------------|-----------------------|
|   | <b>I</b>        | <b>II</b> | <b>III</b> |                       |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$789,720       | \$0       | \$0        | \$789,720             |
| Other investments   | 153,409         | 14,403    | 0          | 167,812               |
| Total   | \$943,129       | \$14,403  | \$0        | \$957,532             |

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, 2004, 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.

|  | <b>ESTIMATED MARKET VALUE</b> | <b>AMORTIZED COST</b> |
|--|-------------------------------|-----------------------|
| Due in one year or less                | \$707,202                     | \$706,810             |
| Due after one year through five years  | 168,400                       | 167,465               |
| Due after five years through ten years | 57,143                        | 56,970                |
| Due after ten years                    | 25,579                        | 26,287                |
|  | \$958,324                     | \$957,532             |

Proceeds from sales of investments during 2004 were \$55,291,560. Gross gains of \$1,164,201 and gross losses of \$21,824 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, 2004, all amounts related to debt service requirements at June 30, 2004 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 financings, 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 are recorded as financing leases on the Authority's books.

| As of June 30, 2004, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars): | <i>FINAL<br/>MATURITY</i> | <i>AMOUNT<br/>ISSUED</i> | <i>BONDS AND<br/>NOTES<br/>PAYABLE<br/>JULY 1, 2004</i> | <i>BONDS AND<br/>NOTES PAYABLE<br/>SUBSEQUENT TO<br/>JULY 1, 2004</i> |
|---|---------------------------|--------------------------|---|---|
| <b>PUBLIC OFFERINGS</b>   |                           |                          |   |   |
| The Johns Hopkins University, Series 1983,<br>dated January 1, 1983   | 2013                      | \$52,870                 | \$1,810   | \$6,135   |
| Pooled Loan Program, Series 1985A and 1985B,<br>dated December 1, 1985  | 2035                      | 175,000                  | 0   | 175,000   |
| The Johns Hopkins Hospital, Series 1990,<br>dated January 1, 1990   | 2019                      | 90,169                   | 0   | 16,309  |
| University of Maryland Medical System, Series 1991B,<br>dated January 1, 1991   | 2022                      | 38,670                   | 0   | 27,315  |
| Union Hospital of Cecil County, Series 1992,<br>dated July 1, 1992  | 2022                      | 14,145                   | 330   | 1,990   |
| Baltimore County General Hospital, Series 1993,<br>dated January 1, 1993  | 2013                      | 29,320 (1)               | 5,475   | 0   |
| Sinai Hospital, Series 1993,<br>dated January 1, 1993   | 2023                      | 89,505 (1)               | 32,405  | 0   |
| Doctors Community Hospital, Series 1993,<br>dated July 1, 1993  | 2024                      | 65,165                   | 780   | 61,785  |
| Montgomery General Hospital, Series 1993,<br>dated July 1, 1993   | 2023                      | 21,230                   | 520   | 17,305  |

(1) These bonds were defeased and discharged on April 15, 2004.

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

| As of June 30, 2004, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars): | <i>FINAL<br/>MATURITY</i> | <i>AMOUNT<br/>ISSUED</i> | <i>BONDS AND<br/>NOTES<br/>PAYABLE<br/>JULY 1, 2004</i> | <i>BONDS AND<br/>NOTES PAYABLE<br/>SUBSEQUENT TO<br/>JULY 1, 2004</i> |
|---|---------------------------|--------------------------|---|---|
| Greater Baltimore Medical Center, Series 1993,<br>dated July 1, 1993  | 2019                      | 76,425                   | 2,670   | 61,115  |
| Suburban Hospital, Series 1993,<br>dated July 1, 1993   | 2021                      | 63,290 (2)               | 2,080   | 56,750  |
| Peninsula Regional Medical Center, Series 1993,<br>dated July 1, 1993   | 2023                      | 62,510                   | 1,535   | 49,475  |
| Frederick Memorial Hospital, Series 1993,<br>dated July 1, 1993   | 2028                      | 55,060                   | 990   | 46,880  |
| Edenwald, Series 1993,<br>dated July 1, 1993  | 2014                      | 25,740                   | 0   | 16,150  |
| Kennedy Krieger Institute, Series 1993D,<br>dated July 1, 1993  | 2023                      | 12,200                   | 0   | 10,300  |
| Washington County Hospital, Series 1994,<br>dated January 1, 1994   | 2009                      | 12,415                   | 0   | 3,755   |
| Maryland General Hospital, Series 1994,<br>dated January 1, 1994  | 2024                      | 30,000 (3)               | 25,630  | 0   |
| Kernan Hospital, Series 1994,<br>dated January 1, 1994  | 2024                      | 19,050 (3)               | 16,350  | 0   |
| The Johns Hopkins Medical Institutions Parking,<br>dated January 1, 1996  | 2026                      | 42,425                   | 340   | 40,180  |
| Mercy Medical Center, Series 1996,<br>dated January 1, 1996   | 2026                      | 30,000                   | 595   | 26,825  |
| Loyola College, Series 1996A,<br>dated October 1, 1996  | 2026                      | 49,810                   | 0   | 44,775  |
| Loyola College, Series 1996B,<br>dated October 1, 1996  | 2013                      | 14,900                   | 0   | 10,500  |
| The Johns Hopkins Health System (Bayview Campus), Series 1996,<br>dated July 1, 1997                                  | 2027                      | 14,440                   | 285   | 12,595  |
| Pickersgill, Series 1997A,<br>dated January 1, 1997   | 2010                      | 14,285                   | 0   | 11,485  |

(2) These bonds were defeased and discharged on June 3, 2004.

(3) These bonds were defeased and discharged on January 22, 2004.

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

| As of June 30, 2004, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars): | <i>FINAL<br/>MATURITY</i> | <i>AMOUNT<br/>ISSUED</i> | <i>BONDS AND<br/>NOTES<br/>PAYABLE<br/>JULY 1, 2004</i> | <i>BONDS AND<br/>NOTES PAYABLE<br/>SUBSEQUENT TO<br/>JULY 1, 2004</i> |
|---|---------------------------|--------------------------|---|---|
| Pickersgill, Series 1997B,<br>dated January 1, 1997   | 2021                      | 3,910                    | 0   | 3,910   |
| The Johns Hopkins University, Series 1997,<br>dated January 1, 1997   | 2027                      | 14,985                   | 290   | 13,435  |
| Stella Maris, Series 1997,<br>dated January 1, 1997   | 2021                      | 21,985                   | 715   | 19,345  |
| Bradford Oaks Nursing & Rehab Center, Series 1997,<br>dated July 10, 1997   | 2027                      | 13,780                   | 0   | 12,480  |
| Broadmead, Series 1997,<br>dated July 1, 1997   | 2017                      | 11,995                   | 490   | 9,275   |
| Kennedy Krieger, Series 1997,<br>dated November 1, 1997   | 2022                      | 13,670                   | 405   | 12,365  |
| Catholic Health Initiatives, Series 1997B, (St. Joseph Medical Center),<br>dated November 25, 1997                    | 2015                      | 30,500                   | 0   | 22,300  |
| Charlestown Community, Series 1998A,<br>dated January 1, 1998   | 2026                      | 40,960                   | 0   | 38,700  |
| Charlestown Community, Series 1998B,<br>dated January 1, 1998   | 2026                      | 25,285                   | 0   | 22,600  |
| Calvert Memorial Hospital, Series 1998,<br>dated January 1, 1998  | 2026                      | 27,860                   | 550   | 24,985  |
| The Johns Hopkins University, Series 1998,<br>dated April 2, 1998   | 2020                      | 192,510                  | 5,745   | 155,145   |
| JHM/Howard County General Hospital Acquisition, Series 1998,<br>dated June 1, 1998                                    | 2030                      | 133,910                  | 2,075   | 129,840   |
| PUMH of Maryland, Inc. (Heron Point of Chestertown) Series 1998A & 1998B,<br>dated June 15, 1998                      | 2026                      | 35,115                   | 0   | 35,115  |
| Green Acres School, Series 1998,<br>dated August 5, 1998  | 2028                      | 4,460                    | 85  | 4,065   |
| Anne Arundel Medical Center, Series 1998,<br>dated July 1, 1998   | 2033                      | 69,840                   | 1,050   | 67,780  |

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

| As of June 30, 2004, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars): | <i>FINAL<br/>MATURITY</i> | <i>AMOUNT<br/>ISSUED</i> | <i>BONDS AND<br/>NOTES<br/>PAYABLE<br/>JULY 1, 2004</i> | <i>BONDS AND<br/>NOTES PAYABLE<br/>SUBSEQUENT TO<br/>JULY 1, 2004</i> |
|---|---------------------------|--------------------------|---|---|
| Maryland Institute College of Art, Series 1998,<br>dated July 15, 1998  | 2029                      | 17,950                   | 0   | 16,385  |
| Upper Chesapeake Hospitals, Series 1998A&B<br>dated July 1, 1998  | 2038                      | 110,605                  | 0   | 99,800  |
| Union Hospital of Cecil County, Series 1998,<br>dated July 1, 1998  | 2029                      | 17,675                   | 260   | 15,960  |
| College of Notre Dame of Maryland, Series 1998,<br>dated September 1, 1998  | 2023                      | 11,995                   | 0   | 10,470  |
| Memorial Hospital of Easton, Series 1998,<br>dated October 1, 1998  | 2019                      | 33,470                   | 1,025   | 28,695  |
| Memorial Hospital of Easton, Series 1999,<br>dated April 1, 1999  | 2009                      | 4,260                    | 410   | 2,395   |
| Medlantic/Helix, Series 1998A,<br>dated December 1, 1998  | 2038                      | 166,605                  | 0   | 166,605   |
| Medlantic/Helix, Series 1998B,<br>dated December 1, 1998  | 2038                      | 116,910                  | 0   | 116,910   |
| Kaiser Permanente, 1998 Series A,<br>dated December 1, 1998   | 2015                      | 12,825                   | 0   | 12,825  |
| Charity Obligated Group - DCNHC Western MD Health Sys., Series 1999A<br>dated February 4, 1999                        | 2029                      | 24,665                   | 0   | 22,660  |
| The Johns Hopkins Hospital, Series 1999,<br>dated January 1, 1999   | 2038                      | 52,515                   | 0   | 52,515  |
| Roland Park Place, series 1999,<br>dated May 1, 1999  | 2024                      | 34,195                   | 925   | 33,065  |
| Loyola College, Series 1999<br>dated June 1, 1999   | 2039                      | 33,355                   | 0   | 33,355  |
| Glen Meadows Retirement Community, Series 1999A & 1999B,<br>dated August 25, 1999                                     | 2029                      | 20,410                   | 280   | 19,385  |
| Catholic Health Initiatives, Series 2000A,<br>dated March 1, 2000   | 2024                      | 23,455                   | 0   | 21,585  |

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

| As of June 30, 2004, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars): | <i>FINAL<br/>MATURITY</i> | <i>AMOUNT<br/>ISSUED</i> | <i>BONDS AND<br/>NOTES<br/>PAYABLE<br/>JULY 1, 2004</i> | <i>BONDS AND<br/>NOTES PAYABLE<br/>SUBSEQUENT TO<br/>JULY 1, 2004</i> |
|---|---------------------------|--------------------------|---|---|
| Mercy Ridge, Series 2000,<br>dated March 1, 2000  | 2031                      | 69,305                   | 0   | 29,180  |
| University of Maryland, Series 2000<br>dated April 1, 2000  | 2030                      | 123,110                  | 650   | 121,175   |
| North Arundel Hospital, Series 2000<br>dated November 21, 2000  | 2031                      | 15,000                   | 0   | 15,000  |
| The Bullis School, Series 2000<br>dated November 28, 2000   | 2030                      | 20,400                   | 360   | 20,040  |
| The Johns Hopkins University, Series 2001A<br>dated March 15, 2001  | 2013                      | 20,355                   | 405   | 18,665  |
| Collington Episcopal Lifecare, Series 2001<br>dated May 9, 2001   | 2023                      | 48,355                   | 0   | 45,370  |
| The McLean School, Series 2001<br>dated May 30, 2001  | 2031                      | 9,080                    | 140   | 8,805   |
| Roland Park Country School, Series 2001<br>dated June 7, 2001   | 2026                      | 7,500                    | 0   | 5,440   |
| The Johns Hopkins Hospital, Series 2001<br>dated August 29, 2001  | 2034                      | 101,355                  | 0   | 97,825  |
| The Johns Hopkins Medical Institutions Parking Fac, Series 2001<br>dated August 29, 2001                              | 2034                      | 28,030                   | 0   | 28,030  |
| The Johns Hopkins University, Series 2001B<br>dated August 30, 2001   | 2041                      | 85,775                   | 0   | 85,775  |
| University of Maryland Medical System, Series 2001<br>dated December 5, 2001  | 2034                      | 100,000                  | 0   | 100,000   |
| Greater Baltimore Medical Center, Series 2001<br>dated December 6, 2001   | 2034                      | 52,830                   | 0   | 52,830  |
| Mercy Medical Center, Series 2001<br>dated December 12, 2001  | 2031                      | 49,480                   | 0   | 49,480  |
| Maryland Institute College of Art, Series 2001<br>dated December 19, 2001   | 2036                      | 25,000                   | 0   | 25,000  |



## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

| As of June 30, 2004, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars): | <i>FINAL<br/>MATURITY</i> | <i>AMOUNT<br/>ISSUED</i> | <i>BONDS AND<br/>NOTES<br/>PAYABLE<br/>JULY 1, 2004</i> | <i>BONDS AND<br/>NOTES PAYABLE<br/>SUBSEQUENT TO<br/>JULY 1, 2004</i> |
|---|---------------------------|--------------------------|---|---|
| University of Maryland Medical System, Series 2002A<br>dated January 30, 2002   | 2032                      | 57,655                   | 1,000   | 55,795  |
| The Johns Hopkins University, Series 2002A<br>dated February 13, 2002   | 2032                      | 106,725                  | 0   | 106,725   |
| Board of Child Care, Series 2002<br>dated May 8, 2002   | 2032                      | 39,280                   | 1,315   | 36,830  |
| Carroll County General Hospital, Series 2002<br>dated June 13, 2002   | 2037                      | 91,760                   | 0   | 91,760  |
| Hebrew Home of Greater Washington, Series 2002<br>dated June 19, 2002   | 2032                      | 13,140                   | 0   | 13,140  |
| Holton Arms School, Series 2002<br>dated June 20, 2002  | 2032                      | 21,000                   | 0   | 21,000  |
| Frederick Memorial Hospital, Series 2002<br>dated July 15, 2002   | 2035                      | 71,715                   | 0   | 71,715  |
| Union Hospital of Cecil County, Series 2002<br>dated October 15, 2002   | 2032                      | 24,000                   | 410   | 23,330  |
| Carnegie Institution of Washington, Series 2002<br>dated October 23, 2002   | 2037                      | 30,000                   | 0   | 30,000  |
| Adventist HealthCare, Series 2003A<br>dated February 15, 2003   | 2025                      | 22,925                   | 0   | 22,925  |
| Adventist HealthCare, Series 2003B<br>dated February 27, 2003   | 2033                      | 39,560                   | 0   | 38,860  |
| Johns Hopkins Hospital, Series A<br>dated March 6, 2003   | 2013                      | 54,310                   | 0   | 41,735  |
| Kennedy Krieger, Series 2003<br>dated April 27, 2003  | 2033                      | 24,490                   | 0   | 24,490  |
| Sheppard Pratt, Series 2003A<br>dated May 1, 2003   | 2036                      | 45,590                   | 0   | 45,590  |
| Sheppard Pratt, Series 2003B<br>dated May 1, 2003   | 2028                      | 45,550                   | 0   | 45,550  |

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

| As of June 30, 2004, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars): | <i>FINAL<br/>MATURITY</i> | <i>AMOUNT<br/>ISSUED</i> | <i>BONDS AND<br/>NOTES<br/>PAYABLE<br/>JULY 1, 2004</i> | <i>BONDS AND<br/>NOTES PAYABLE<br/>SUBSEQUENT TO<br/>JULY 1, 2004</i> |
|---|---------------------------|--------------------------|---|---|
| Mercy Ridge, Series 2003A,B,C&D<br>dated June 1, 2003   | 2035                      | 41,430                   | 0   | 41,430  |
| Beth Tfiloh Dahan Community School, Series 2003<br>dated June 25, 2003  | 2025                      | 7,000                    | 0   | 7,000   |
| Mercy Medical Center, Series 2003<br>dated August 21, 2003  | 2022                      | 42,365                   | 1,545   | 40,820  |
| The Johns Hopkins Hospital, Series 2003<br>dated September 1, 2003  | 2034                      | 101,425                  | 0   | 101,425   |
| University of Maryland Medical Center, Series 2004A,B,C&D<br>dated January 22, 2004                                   | 2032                      | 253,860                  | 1,990   | 251,870   |
| MedStar Health, Series 2004<br>dated February 3, 2004   | 2033                      | 170,350                  | 0   | 170,350   |
| Anne Arundel Health System, Series 2004 A,B&C<br>dated February 19, 2004  | 2034                      | 139,245                  | 0   | 139,245   |
| LifeBridge Health System, Series 2004<br>dated March 15, 2004   | 2034                      | 203,190                  | 0   | 203,190   |
| Friends School of Baltimore, Series 2004<br>dated April 1, 2004   | 2029                      | 7,500                    | 0   | 7,500   |
| Shore Health System, Series 2004<br>dated April 8, 2004   | 2029                      | 25,920                   | 0   | 25,920  |
| The Johns Hopkins University, Series 2004A<br>dated April 21, 2004  | 2038                      | 92,505                   | 0   | 92,505  |
| The Johns Hopkins Medical Institutions Parking Fac, Series 2004<br>dated April 26, 2004                               | 2034                      | 35,665                   | 0   | 35,665  |
| Suburban Hospital, Series 2004<br>dated June 3, 2004  | 2029                      | 58,490                   | 0   | 72,445  |
| Public Offerings Outstanding  |                           | 5,042,499                | 113,915   | 4,481,999   |

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

| As of June 30, 2004, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars): | <i>FINAL<br/>MATURITY</i> | <i>AMOUNT<br/>ISSUED</i> | <i>BONDS AND<br/>NOTES<br/>PAYABLE<br/>JULY 1, 2004</i> | <i>BONDS AND<br/>NOTES PAYABLE<br/>SUBSEQUENT TO<br/>JULY 1, 2004</i> |
|---|---------------------------|--------------------------|---|---|
| <b>PRIVATE PLACEMENTS</b>   |                           |                          |   |   |
| Homewood Retirement Center, Series B,<br>dated July 1, 1981   | 2005                      | 7,475                    | 0   | 221   |
| Pooled Loan Program, Series D (1994),<br>dated January 1, 1994  | 2024                      | 362,126                  | 3,895   | 221,495   |
| University Physicians, Series 1994,<br>dated June 8, 1994   | 2014                      | 14,250                   | 325   | 9,200   |
| Greater Baltimore Medical Center, Series 1995,<br>dated July 1, 1995  | 2025                      | 10,000                   | 245   | 8,465   |
| Capital College, Series 1995,<br>dated July 1, 1995   | 2020                      | 8,000                    | 112   | 6,526   |
| Augsburg Lutheran, Series 1997,<br>dated January 1, 1997  | 2022                      | 9,300                    | 205   | 8,400   |
| The Johns Hopkins Hospital, Series B,<br>dated January 1, 1997  | 2027                      | 3,404                    | 0   | 2,000   |
| Doctors' Community Hospital, Series 1997,<br>dated July 1, 1997   | 2017                      | 7,800                    | 325   | 5,820   |
| The Norwood School, Series 1998,<br>dated November 1, 1998  | 2025                      | 10,505                   | 0   | 4,820   |
| Woodbourne Center, Series 1998,<br>dated November 1, 1998   | 2020                      | 3,115                    | 0   | 1,735   |
| Doctors' Community Hospital, Series 1997 (2nd delivery),<br>dated January 1, 1997                                     | 2017                      | 6,115                    | 350   | 4,515   |
| Washington Episcopal School, Series 1999,<br>dated January 28, 1999   | 2029                      | 11,768                   | 0   | 11,337  |
| Washington Episcopal School, Series 1999 (Taxable),<br>dated January 26, 1999   | 2029                      | 632                      | 0   | 526   |
| Barnesville School, Series 1999,<br>dated March 9, 1999   | 2024                      | 3,790                    | 0   | 2,875   |
| Charles E. Smith Jewish Day School, 1999 Issue,<br>dated June 1, 1999   | 2029                      | 12,600                   | 0   | 9,600   |

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

| As of June 30, 2004, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars): | <i>FINAL<br/>MATURITY</i> | <i>AMOUNT<br/>ISSUED</i> | <i>BONDS AND<br/>NOTES<br/>PAYABLE<br/>JULY 1, 2004</i> | <i>BONDS AND<br/>NOTES PAYABLE<br/>SUBSEQUENT TO<br/>JULY 1, 2004</i> |
|---|---------------------------|--------------------------|---|---|
| The Boys Latin School of Maryland, Series 1999,<br>dated August 1, 1999   | 2019                      | 6,700                    | 0   | 5,965   |
| Landon School, Series 1999,<br>dated November 1, 1999   | 2024                      | 11,000                   | 0   | 9,800   |
| Stone Ridge, Series D,<br>dated November 23, 1999   | 2020                      | 8,130                    | 145   | 6,990   |
| The Johns Hopkins University, Commercial Paper, Series A,<br>dated June 13, 2000                                      | 2004                      | 50,000                   | 0   | 44,394  |
| The Johns Hopkins University, Commercial Paper, Series B,<br>dated March 22, 2001                                     | 2004                      | 42,984                   | 0   | 55,716  |
| Trinity School, Series 2001,<br>dated October 31, 2001  | 2026                      | 9,000                    | 0   | 8,835   |
| St. Anne's Day School,<br>dated November 8, 2001  | 2026                      | 5,000                    | 0   | 4,074   |
| Community Support Services,<br>dated December 10, 2001  | 2031                      | 2,660                    | 0   | 1,560   |
| St. John's Episcopal Day School,<br>dated December 21, 2001   | 2032                      | 7,000                    | 0   | 6,924   |
| Memorial Hospital of Easton Lease,<br>dated December 21, 2001   | 2006                      | 4,500                    | 0   | 1,962   |
| Severn School, 2002A,<br>dated February 2, 2002   | 2027                      | 17,000                   | 31  | 3,014   |
| LifeBridge Health Lease,<br>dated March 8, 2002   | 2007                      | 7,107                    | 0   | 3,954   |
| Annapolis Life Care, Series 2002<br>dated July 9, 2002  | 2013                      | 8,600                    | 0   | 8,515   |
| Johns Hopkins Hospital, Series 2003C<br>dated March 6, 2003   | 2013                      | 14,515                   | 0   | 13,575  |
| Johns Hopkins Health System, Commercial Paper, Series A,<br>dated February 9, 2004                                    | 2022                      | 75,165                   | 0   | 75,165  |
| Johns Hopkins Health System, Commercial Paper, Series B,<br>dated February 9, 2004                                    | 2024                      | 101,240                  | 750   | 101,240   |

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

| As of June 30, 2004, the contractual amount of bonds and notes outstanding were as follows (in thousands of dollars): | <i>FINAL<br/>MATURITY</i> | <i>AMOUNT<br/>ISSUED</i> | <i>BONDS AND<br/>NOTES<br/>PAYABLE<br/>JULY 1, 2004</i> | <i>BONDS AND<br/>NOTES PAYABLE<br/>SUBSEQUENT TO<br/>JULY 1, 2004</i> |
|---|---------------------------|--------------------------|---|---|
| Johns Hopkins Health System, Commercial Paper, Series C,<br>dated February 9, 2004                                    | 2023                      | 60,000                   | 0   | 60,000  |
| Frederick Memorial Hospital Lease,<br>dated June 23, 2004   | 2010                      | 5,367                    | 0   | 5,367   |
| Private Placements Outstanding  |                           | 982,013                  | 6,383   | 720,218   |
| Total Outstanding   |                           | \$6,021,792              | \$120,298   | \$5,196,584   |

### 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 letters of credit. As of June 30, 2004, there were \$111,786,584 of outstanding loans receivable under the Program to six different institutions. During the year ended June 30, 2004, \$9,327,810 of new loans were drawn and \$5,835,367 of loan principal was repaid. Unfunded loan commitments totaled \$1,112,683 at June 30, 2004.

#### 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, 2004, no new loans were made and the principal was entirely repaid with the proceeds of the Johns Hopkins Health System, Series C Commercial Paper.

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

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### POOLED LOAN PROGRAM- SERIES D

The Series D pooled loan program refinanced a prior issue of commercial paper with seven-day demand notes to convertible bonds. The purpose of the program is to assist 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, 2004, there were \$225,390,000 of outstanding loans receivable under this program to twenty-seven institutions. During the year ended June 30, 2004, \$17,000,000 of new loans were drawn and \$87,315,000 of loan principal was repaid. There were no commitments for authorized and undrawn loans at June 30, 2004.

### 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 loan and lease agreements 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, 2004, contractual commitments have been made by participating institutions for the completion of various construction 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, 2004 the minimum rental commitments for office space over the next five years and in the aggregate, are as follows:

|      |                  |
|------|------------------|
| 2005 | \$85,563         |
| 2006 | 85,563           |
| 2007 | 42,782           |
| 2008 | 0                |
| 2009 | 0                |
|      | <u>\$213,908</u> |

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7: FIXED ASSETS

|   | <u>General<br/>Operating<br/>Fund</u> | <u>Parking<br/>System</u> |
|---|---------------------------------------|---------------------------|
| Fixed asset balances at June 30, 2004 are as follows (in thousands of dollars): |                                       |                           |
| Land improvements   | \$0                                   | \$2,434                   |
| Buildings   | 0                                     | 56,778                    |
| Furniture and fixtures  | 24                                    | 3,084                     |
| Computer equipment  | 192                                   | 0                         |
| Office equipment  | 16                                    | 0                         |
| Automobiles   | 28                                    | 0                         |
| Leasehold improvements  | 6                                     | 82                        |
| Construction in progress  | 0                                     | 7,235                     |
|   | 266                                   | 69,613                    |
| Less: accumulated depreciation  | 174                                   | 10,460                    |
|   | <u>\$92</u>                           | <u>\$59,153</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 2.9%-3.0% for 2004 and 2003. The Authority's pension expense for 2004 and 2003 amounted to \$15,400 and \$15,271, 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 all deliberation and do not vote on any matters in which they have 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 or redemption. 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, 2004 are as follows

(in thousands of dollars);

|   |                  |
|---|------------------|
| Franklin Square Hospital, Series A                    | \$2,810          |
| Good Samaritan Hospital, Series 1993                  | 40,480           |
| Helix Health, Series 1997                             | 126,435          |
| Howard County General Hospital, Series A (1978)       | 5,460            |
| Howard County General Hospital, Series 1993           | 49,775           |
| The Johns Hopkins Hospital Redevelopment, 1979 Series | 22,420           |
| The Johns Hopkins University, Series 1999             | 77,805           |
| Memorial Hospital of Cumberland, Series 1992          | 935              |
| North Charles General Hospital, Series A (1977)       | 3,575            |
| Union Memorial Hospital, Series 1991A                 | 6,980            |
|   | <u>\$336,675</u> |

### NOTE 11: THE JOHNS HOPKINS MEDICAL INSTITUTIONS PARKING SYSTEM

In order to satisfy certain financial objectives of The Johns Hopkins Hospital (the "Hospital"), The Johns Hopkins University (the "University") and The Johns Hopkins Health System Corporation (the "Health System"), the Authority, the Hospital, the University and the Health System entered into a Use Agreement dated as of June 30, 2001 under which, among other things, a Lease Agreement between the Authority and the Hospital was cancelled, leaving title to certain parking facilities (the "Parking System") in the Authority. As such, the Authority acquired all of the assets and the related debt of the Parking System on June 30, 2001 except for the land of a satellite parking lot that was retained by an affiliate of the Hospital, 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 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 retained in the funds and accounts created by the 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.



## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

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Under the Use Agreement, the Hospital, the University 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 healthcare 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**

At June 30, 2004 the following bonds were authorized but not issued:

- \$15,000 revenue bonds on behalf of La Fondation du Lycee Francais International de Washington (French International School)
- \$20,000,000 revenue bonds on behalf of Annapolis Life Care

Subsequent to June 30, 2004 the following bonds were issued:

- \$32,925,000 Revenue Bonds, Calvert Memorial Hospital, Series 2004
- \$22,185,000 Revenue Bonds, Goucher College, Series 2004

Subsequent to June 30, 2004 the following bonds were authorized:

- \$17,000,000 Revenue Bonds, Pooled Loan Program Series D on behalf of Washington College
- \$3,000,000 revenue bonds on behalf of Chesapeake Academy
- \$102,000,000 revenue bonds on behalf of Adventist HealthCare

## REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying combined balance sheet and the related combined statement of changes in trustee fund balances and the statements of operations and changes in fund balances 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, 2004 and the combined changes in its trustee fund balances for the year then ending, and the results of operations and cash flows for the general operating fund and parking system fund balances for the years ended June 30, 2004 and 2003, 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. 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, 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 10, 2004  
Baltimore, MD



