

Finance Authority of Maine

Basic Financial Statements and Management's Discussion and Analysis

Year Ended June 30, 2011

FINANCE AUTHORITY OF MAINE

FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Finance Authority of Maine

We have audited the accompanying financial statements of the business-type activities, the governmental activities, each major fund, and the aggregate remaining fund information of the Finance Authority of Maine, a component unit of the State of Maine, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Finance Authority of Maine's management. Our responsibility is to express opinions on these financial statements based on our audit.

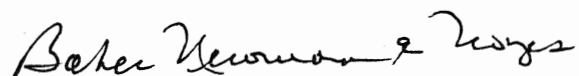
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the governmental activities, each major fund, and the aggregate remaining fund information of the Finance Authority of Maine, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2011 on our consideration of the Finance Authority of Maine's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 2 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Portland, Maine
October 20, 2011



Limited Liability Company

Baker Newman & Noyes, LLC

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

As Management of the Finance Authority of Maine, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2011. As required, the Authority's financial statements are presented in the manner prescribed by Governmental Accounting Standards Board Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34), as amended. Under GASB 34, the Authority's funds are identified as Proprietary, or Business-type, funds, Governmental funds, and Fiduciary funds. The Authority's funds are generally created by federal or state statute.

GASB 34 combines three of the Authority's funds as Proprietary or Business-type: the Mortgage Insurance Program Fund, the Maine College Savings Program Fund, and the Higher Education Loan Purchase Program Fund. The remaining funds, with the exception of the Fiduciary funds, are classified as Governmental Funds, which combine the Authority's business finance-related funds with its education finance-related funds. In addition, the Authority manages funds, the Fiduciary funds, for other Boards or entities either pursuant to statute or contract. These are included in the Statement of Fiduciary Net Assets.

Significant Highlights for the Year Ended June 30, 2011

- The recession's impact on Maine businesses this past year provided another challenge for the Authority's commercial loan loss reserves. Total reserves, or Allowance for Losses on Insured Loans, increased \$1,966,000 or 15.1%, to \$14,979,000 as the Authority increased reserves for existing insured commercial loans and recorded significant reserves for new insured loans closed during the current year. In periods of economic decline, the demand for the Authority's commercial loan insurance increases as financial institutions seek to mitigate risk by requiring the Authority's insurance protection. As a result, the Authority typically experiences an increase in loans insured, and may consequently record an increase in its Allowance for Losses on Insured Loans, during difficult economic times.
- Federal legislation in 2009 eliminated new student loan originations in the Federal Family Education Loan Program (FFELP) as of July 1, 2010, effectively creating a phase-out period of the Program over several years. The Authority serves as the guarantor of these loans in Maine, which were originated by financial institutions participating in the Program, and manages the FFELP for the U. S. Department of Education (DE). At year-end the Authority guaranteed approximately \$765 million of student loans in the Program. Administrative fees earned by serving as Maine's guarantor have historically provided a source of funding for Authority activities such as outreach, financial education, default prevention services, and assistance to financial aid officers at colleges. For the next few years, the Authority expects to continue realizing a revenue stream from the existing guaranteed portfolio as the loans amortize, but loss of revenue from the FFELP will present a challenge to the Authority in future years.
- The Authority served as the State's secondary market for FFELP loans in Maine since 2003, under the Higher Education Loan Purchase Program (HELPP). In FY 2011, the Authority exited the program by selling the loan portfolio and redeeming the outstanding bonds at par. This decision was made after changes in Federal law adversely impacted the economics of making, purchasing and holding Federal student loans. The termination of the program involved Ambac, the bond insurer, and Nelnet, the purchaser of the loans. Ambac's contribution of \$5.1 million, coupled with the cash on hand in the Trust and the discounted purchase price paid for the loans by Nelnet, allowed the Authority to redeem the bonds at par. The Authority was required to accelerate the amortization of the loan origination fees paid on behalf of the students, loan purchase premiums and bond discounts to close out the Trust, leading to a non-cash charge on the statement of income of \$2.1 million. The premiums occurred from the purchase of loans from the originating lenders. The bond discounts were expenses incurred when bonds were issued. Normally the loan origination fees and purchase premiums are amortized over the life of the loans and the bond discounts are amortized over the life of the bonds.

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

- The Maine College Savings Program, d/b/a The NextGen College Investing Plan, experienced a significant increase in net asset values of the Plan's portfolios, due primarily to market value improvement of the investment portfolios during the year. The market value of Plan investments was slightly below \$6.0 billion at year-end, an increase from prior year of \$1.2 billion or 24.3%. These assets are owned by account holders who have opened a college savings account. The Authority administers the program and earns administration fees for its services.
- The Authority's net assets decreased by \$700,000, or 1.8%, to \$38,381,000 for the year ended June 30, 2011. This was due primarily to large provisions recorded for commercial loan losses, and to the expenses for the termination of the HELPP discussed previously. In addition, total revenues increased by \$3,326,000, or 9.1%, to \$39,697,000 for the fiscal year. State funding increased by \$1,326,000, or 418.3%, due primarily to receiving State funding in support of the Authority's commercial loan loss reserves that was not received in the prior year. Investment income decreased by \$1,306,000, or 63.2%, during the year reflecting the effect of lower investment yields available on permissible investments. Interest income on notes receivable was lower by \$1,312,000 or 34.2%, reflecting lower interest earnings in the HELPP due to selling the student loan portfolio during the year. Grant and scholarship revenue increased by \$3,685,000 or 24.6%, reflecting increased resources available to provide assistance to businesses and students. Total Expenses decreased by \$394,000 or 1.0%, to \$38,267,000 for the year. HELPP interest expense declined by \$1,084,000, or 56.6%, due to lower interest rates and lower bond balances owed, and to the redemption of all outstanding bonds toward the end of the year. Additionally, there was a reduction in bond-related expenses in the HELPP of \$248,000 or 46.3%, due to lower bond balances, which serve as the basis for these expenses. Grant and scholarship expenses increased by \$3,107,000 or 15.2%, as available resources were utilized to assist businesses and students with their financing needs. Other operating expenses decreased by \$1,598,000 or 29.8%, due to lower student loan servicing costs, consolidation loan rebate costs, and arbitrage expenses in HELPP.

Overview of the Authority

The Finance Authority of Maine was created in 1983 by an Act of the Maine Legislature (the Act), as a body corporate and politic, and is a public instrumentality of the State of Maine. The Authority's purpose at that time was to provide business-related finance programs. In 1989, the Act was amended to authorize the Authority to administer certain education-related finance programs. The Authority offers financing and loan insurance to Maine businesses, and also offers various educational grant, loan, and loan guaranty programs that assist students in attending institutions of higher education.

The Authority is considered a component unit of the State of Maine, and as such, its financial statements are reflected in the State of Maine general-purpose financial statements. The Authority is a quasi-governmental agency and not a department of the State of Maine. The Authority receives an appropriation from the State of Maine for loan, loan repayment and grant disbursements to education customers. A small portion of the appropriation is used for the administration of state programs.

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

Overview of Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements include Authority-wide financial statements, fund financial statements, and notes to the financial statements. GASB 34 requires the categorization of funds into Proprietary, or Business-type, funds and Governmental Funds, which are then combined into the Authority-wide financial statements. Note 1 of the footnotes to the financial statements describes the arrangement of the funds in greater detail.

Authority-Wide Financial Statements

The Authority-wide financial statements are designed to provide readers with a broad overview of the Authority's finances. The Statement of Net Assets presents information on all of the Authority's assets, liabilities, and net assets, except for those funds that are classified as Fiduciary funds. The Fiduciary funds are presented in the Statement of Fiduciary Net Assets. The Statement of Activities presents information showing functional areas of the Authority and their respective revenues and expenses. The statements are presented on an accrual basis.

The Authority-wide financial statements combine the business-type activities with the governmental activities. Under GASB 34, business-type activities include funds that are intended to recover all or a significant portion of their costs through customer fees and charges. Governmental activities include funds that are supported primarily with intergovernmental revenues such as appropriations or payment of fees by the Federal government.

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's most significant funds and not the Authority as a whole. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority's funds can be divided into two categories: Proprietary Funds and Governmental Funds:

Proprietary Funds – The Authority identifies three funds as Proprietary. They include the Mortgage Insurance Program Fund, the Maine College Savings Program Fund, and the Higher Education Loan Purchase Program Fund. These funds rely on customer fees to cover a significant portion of the operational expenses of the funds.

Governmental Funds – The remainder of the Authority's funds, with the exception of the Fiduciary funds, are grouped into this area. These funds are primarily supported by intergovernmental revenues such as State of Maine appropriations and payments by the Federal government to operate the Federal student loan guaranty program.

Statement of Fiduciary Net Assets – This statement presents the assets held on behalf of other Boards and entities for which the Authority administers programs. All of these funds are listed in Note 1 to the financial statements.

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

Overview of the Authority-Wide Financial Position and Operations

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

Finance Authority of Maine
Authority-Wide Net Assets
(In thousands of dollars)

	Business-Type Activities		Governmental Activities		Total		Total Percent Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	
Cash and investments	\$ 45,437	\$ 51,983	\$ 43,100	\$ 39,645	\$ 88,537	\$ 91,628	(3.4)%
Notes receivable, net	277	167,104	25,475	27,815	25,752	194,919	(86.8)
Capital assets, net	2,163	2,502	-	-	2,163	2,502	(13.5)
Other assets	<u>700</u>	<u>4,373</u>	<u>1,907</u>	<u>2,134</u>	<u>2,607</u>	<u>6,507</u>	<u>(59.9)</u>
Total assets	<u>\$ 48,577</u>	<u>\$ 225,962</u>	<u>\$ 70,482</u>	<u>\$ 69,594</u>	<u>\$ 119,059</u>	<u>\$ 295,556</u>	<u>(59.7)%</u>
Accounts payable and accrued liabilities	\$ 1,907	\$ 7,275	\$ 367	\$ 331	\$ 2,274	\$ 7,606	(70.1)%
Unearned fee income	419	343	843	1,051	1,262	1,394	(9.5)
Undisbursed grant and scholarship funds	-	-	11,832	12,854	11,832	12,854	(8.0)
Allowance for losses on insured commercial loans	14,979	13,013	-	-	14,979	13,013	15.1
Other liabilities	3	916	-	-	3	916	(99.7)
Long-term liabilities:							
Notes and bonds payable:							
Due within one year	-	-	805	805	805	805	-
Due in more than one year	-	171,381	763	818	763	172,199	(99.6)
Program funds:							
Due in more than one year	<u>-</u>	<u>-</u>	<u>48,760</u>	<u>47,688</u>	<u>48,760</u>	<u>47,688</u>	<u>2.2</u>
Total liabilities	17,308	192,928	63,370	63,547	80,678	256,475	(68.5)
Net assets:							
Unrestricted net assets	21,710	20,986	450	450	22,160	21,436	3.4
Restricted assets	7,396	9,546	6,662	5,597	14,058	15,143	(7.2)
Invested in capital assets	<u>2,163</u>	<u>2,502</u>	<u>-</u>	<u>-</u>	<u>2,163</u>	<u>2,502</u>	<u>(13.5)</u>
Total net asset	<u>31,269</u>	<u>33,034</u>	<u>7,112</u>	<u>6,047</u>	<u>38,381</u>	<u>39,081</u>	<u>(1.8)</u>
Total liabilities and net assets	<u>\$ 48,577</u>	<u>\$ 225,962</u>	<u>\$ 70,482</u>	<u>\$ 69,594</u>	<u>\$ 119,059</u>	<u>\$ 295,556</u>	<u>(59.7)%</u>

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

The Authority's total assets decreased by \$176,497,000 or 59.7%, to \$119,059,000 from the beginning to the end of the fiscal year due primarily to the sale of the student loan portfolio and redemption of bonds in the HELPP. Some of the changes in the individual line items are described below:

Cash and Investments

Cash and investments decreased by \$3,091,000 or 3.4%, during the year due primarily to the use of cash in the HELPP to redeem bonds, and to the use of cash in the Maine College Savings Program to pay a legal settlement amount owed and accrued in the prior year.

Notes Receivable

Notes receivable decreased by \$169,167,000 or 86.8%, during the year due primarily to the sale of the federal student loan portfolio in the HELPP.

Other Assets

Other assets decreased by \$3,900,000 or 59.9%, due primarily to a receivable recorded in the prior year for accrued interest for the HELPP student loan portfolio, which was not recorded for the current year due to the sale of the loan portfolio.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities decreased by \$5,332,000 or 70.1%, due to a \$6,030,000 legal settlement paid to the Authority in the Maine College Savings Program that, at the end of the prior year, was being held for distribution to Program participants.

Allowance for Losses on Insured Commercial Loans

Allowance for losses on insured commercial loans increased by \$1,966,000 or 15.1%, due to increased reserves for existing insured commercial loans at the end of the prior year, and reserves established for new insured loans closed during the current year.

Other Liabilities

Other liabilities decreased by \$913,000 or 99.7%, due primarily to eliminating the arbitrage liability recorded at the end of the prior year in the HELPP.

Notes and Bonds Payable

Notes and bonds payable decreased by \$171,436,000 or 99.6%, due primarily to the redemption of outstanding HELPP bonds during the year.

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

Long-Term Liabilities – Program Funds

The Authority receives State appropriations and funds from the issuance of State of Maine bonds to provide loans. In most cases these funds are classified as undisbursed loans or, once a loan has been closed, as disbursed loans. The undisbursed cash and the notes receivable could be returned to the State of Maine if the State required the return of that funding as a result of program termination or modification. The obligation to return the funds is identified on the balance sheet as a long-term liability, as the return of funds is not anticipated within the next year. These program funds increased by \$1,072,000 or 2.2%, during the fiscal year.

Net Assets

The Authority's mission is to maximize financial benefits and services for its business and education customers while trying to preserve a strong financial position. When the economy is performing well the Authority usually builds its balance sheet. In difficult economic climates, the Authority may continue to provide student and business funding even when net assets could decrease. A strong balance sheet allows the Authority to continue to serve its customers particularly when they need help the most. Alternatively, the Authority could reduce student grants and be more selective in financing troubled businesses to prevent a reduction in net assets. The Authority tries to maintain its balance sheet to permit funding customers at the highest level possible.

For the year, the Authority's net assets decreased by \$700,000 or 1.8%. The decrease resulted primarily from large provisions recorded for commercial loan losses, and from certain expenses incurred in the termination of the HELPP as discussed previously. Further details are discussed below as part of the Statements of Revenues, Expenses and Changes in Net Assets for the Authority's proprietary and governmental funds. The results of operations for both the Authority's proprietary and governmental funds are presented below:

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

Finance Authority of Maine
Authority-wide Changes in Net Assets
(In thousands of dollars)

	<u>2011</u>	<u>2010</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Revenues:				
State funding	\$ 1,643	\$ 317	\$ 1,326	418.3%
Income from user fees	9,911	8,946	965	10.8
Investment income	759	2,065	(1,306)	(63.2)
Administrative revenues	5,009	5,042	(33)	(.7)
Interest income on notes receivable	2,523	3,835	(1,312)	(34.2)
Other income	1,210	1,209	1	.1
Grant and scholarship revenue	<u>18,642</u>	<u>14,957</u>	<u>3,685</u>	<u>24.6</u>
Total revenues	39,697	36,371	3,326	9.1
Expenses:				
Salaries and benefits	3,589	3,821	(232)	(6.1)
External loan servicing expenses	3,459	3,457	2	.1
Interest Expense	830	1,914	(1,084)	(56.6)
Bond related expenses	288	536	(248)	(46.3)
Provision for losses on loans	2,780	3,121	(341)	(10.9)
Grant and scholarship expenses	23,552	20,445	3,107	15.2
Other operating expenses/other	<u>3,769</u>	<u>5,367</u>	<u>(1,598)</u>	<u>(29.8)</u>
Total expenses	38,267	38,661	(394)	(1.0)
Other Activity:				
Gain on bond redemption	-	6,385	(6,385)	-
Loss on termination of student loan program	<u>(2,130)</u>	<u>-</u>	<u>(2,130)</u>	<u>-</u>
Total other	<u>(2,130)</u>	<u>6,385</u>	<u>(8,515)</u>	<u>(133.4)</u>
Change in net assets	<u>\$ (700)</u>	<u>\$ 4,095</u>	<u>\$ (4,795)</u>	<u>(117.1)%</u>

The details of the changes are explained in the proprietary and governmental funds section titled Results of Operations.

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

Results of Operations

Proprietary Funds Results

The net assets of the Authority's proprietary funds decreased by \$1,765,000, or 5.3%, from the prior year. The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets for the proprietary funds for the year ended June 30, 2011:

Finance Authority of Maine
Proprietary Funds
 Statement of Revenues, Expenses and Changes in Net Assets
(In thousands of dollars)

	<u>2011</u>	<u>2010</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Operating revenue:				
Income from user fees	\$ 9,911	\$ 8,946	\$ 965	10.8%
Investment income, HELPP	38	212	(174)	(82.1)
Interest income on notes receivable	2,523	3,835	(1,312)	(34.2)
Grant revenue	<u>2,349</u>	<u>1,985</u>	<u>364</u>	<u>18.3</u>
Total revenue	14,821	14,978	(157)	(1.0)
Operating expenses:				
Salaries and benefits	2,631	2,580	51	2.0
Provision for losses on loans	2,744	3,121	(377)	(12.1)
Interest expense	814	1,898	(1,084)	(57.1)
Customer benefit expenses	7,259	7,473	(214)	(2.9)
Bond related expenses	288	536	(248)	(46.3)
Other operating expenses/other	<u>2,630</u>	<u>4,090</u>	<u>(1,460)</u>	<u>(35.7)</u>
Total operating expenses	<u>16,366</u>	<u>19,698</u>	<u>(3,332)</u>	<u>(16.9)</u>
Operating (loss) income	(1,545)	(4,720)	3,175	(67.3)
Nonoperating revenues (expenses):				
Investment income	562	1,277	(715)	(56.0)
State appropriations	1,000	-	1,000	-
Gain on bond redemption	-	6,385	(6,385)	-
Loss on termination of student loan program	(2,130)	-	(2,130)	-
Other income	<u>348</u>	<u>-</u>	<u>348</u>	<u>-</u>
Total nonoperating revenue	<u>(220)</u>	<u>7,662</u>	<u>(7,882)</u>	<u>(102.9)</u>
Change in net assets	(1,765)	2,942	(4,707)	(160.0)
Net assets at beginning of year	<u>33,034</u>	<u>30,092</u>	<u>2,942</u>	<u>9.8</u>
Net assets at end of year	<u>\$31,269</u>	<u>\$33,034</u>	<u>\$ (1,765)</u>	<u>(5.3)%</u>

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

The proprietary funds include the Mortgage Insurance Program Fund, the Maine College Savings Program Fund, and the Higher Education Loan Purchase Program Fund. Because these programs are classified as business-type funds, non-Program investment income and state appropriations are categorized as non-operating revenue as required by GASB 34. In the governmental funds, these items are listed as revenues. The Mortgage Insurance Program relies on fee revenue and investment income to provide most of its funding for operations. The Maine College Savings Program relies on fee revenue to cover operating expenses. The Higher Education Loan Purchase Program relies on student loan interest income and investment income for funding. An increase in Net Assets in the Mortgage Insurance Program allows the Authority to build its cash reserves for paying financial institutions or bondholders for defaulted insured loans or principal and interest on the bonds. Net Assets in the Maine College Savings Program are used to fund student benefit programs, such as grants and scholarships, for those who qualify for the programs. Net Assets in the Higher Education Loan Purchase Program are used to provide borrower benefits to borrowers of federal student loans.

Operating revenue totaled \$14,821,000, a decrease of 1.0% over prior year. Customer fee revenue accounted for 66.9% of operating revenue, and increased \$965,000 over prior year due primarily to higher administrative fees earned in the Maine College Savings Program, which experienced a \$1.2 billion, or 24.3%, increase in net asset value over the prior year. The total net asset value of the investment funds in the Program was \$6.0 billion on June 30, 2011. The assets are owned by the account holders or their beneficiaries. The Authority earns an administration fee on a portion of the net assets for managing the Program. The assets of the Program are identified in the State of Maine's financial statements. Interest income on notes receivable accounted for 17.0% of operating revenue, and decreased from the prior year by \$1,312,000, as a result of selling the HELPP student loan portfolio.

Nonoperating revenue provided a loss of \$220,000, due primarily to a net loss related to the sale of the HELPP student loan portfolio and redemption of the bonds financing the Program. Large expenses were recorded to recognize accelerated amortization of premiums paid for student loans and discounts for bond issuances. These expenses were somewhat mitigated by a contribution from the insurer of the bonds. Additionally, receipt of state funding in support of commercial loan loss reserves alleviated this loss.

Operating expenses decreased by \$3,332,000 or 16.9%, from the prior year. Interest expense decreased \$1,084,000 or 57.1%, due to redeeming the outstanding bonds that financed the HELPP during the year. Bond-related expenses decreased by \$248,000 or 46.3%, due to lower bond balances, which serve as the basis for these expenses, and to redemption of the bonds. While the allowance for loan losses remains high, provisions for losses on loans decreased \$377,000 or 12.1%, from prior year due to lower provision expense recorded during the current year for both the Mortgage Insurance Fund and the HELPP. Other operating expenses decreased \$1,460,000 or 35.7%, due primarily to lower arbitrage expense and other bond expenses in the HELPP resulting from ending the Program's operations.

Overall, net assets of the proprietary funds decreased by \$1,765,000 or 5.3%, to \$31,269,000.

Governmental Fund Results

GASB 34 treats the presentation of the operating results differently in governmental funds. Revenue less expense is called Change in Fund Balance rather than Change in Net Assets. Also, investment income and appropriations are classified under Revenue, not Nonoperating Revenue.

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

The Fund Balance of the Authority's governmental funds increased by \$1,065,000 or 17.6%, from the prior year. The following table summarizes the Statement of Revenues, Expenses and Changes in Fund Balance for the governmental funds for the year ended June 30, 2011:

Finance Authority of Maine
Governmental Funds
 Statement of Revenues, Expenses and Changes in Fund Balance
(In thousands of dollars)

	<u>2011</u>	<u>2010</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Revenue:				
State appropriations	\$ 643	\$ 317	\$ 326	102.8%
Investment income	159	576	(417)	(72.4)
Administrative revenues	5,009	5,042	(33)	(.7)
Other income	862	1,209	(347)	(28.7)
Grant and scholarship revenue	<u>16,293</u>	<u>12,972</u>	<u>3,321</u>	<u>25.6</u>
Total revenue	22,966	20,116	2,850	14.2
Expenses:				
Salaries and benefits	958	1,241	(283)	(22.8)
External loan servicing expenses	3,459	3,457	2	.1
Provisions for losses on loans	36	-	36	-
Grant and scholarship expenses	16,293	12,972	3,321	25.6
Interest expense	16	16	-	-
Other operating expenses/other	<u>1,139</u>	<u>1,277</u>	<u>(138)</u>	<u>(10.8)</u>
Total expenses	<u>21,901</u>	<u>18,963</u>	<u>2,938</u>	<u>15.5</u>
Changes in fund balance	1,065	1,153	(88)	(7.6)
Fund balance at beginning of year	<u>6,047</u>	<u>4,894</u>	<u>1,153</u>	<u>23.6</u>
Fund balance at end of year	<u>\$ 7,112</u>	<u>\$ 6,047</u>	<u>\$ 1,065</u>	<u>17.6%</u>

The governmental funds include all of the Authority's business lending programs except for the Mortgage Insurance Program, which contains the loan insurance programs. Most of these funds are direct revolving loan programs, including funds such as the Economic Recovery Loan Program Fund and Underground Oil Storage Program Fund. Also, the governmental funds include all of the education-related programs, except for the Maine College Savings Program and Higher Education Loan Purchase Program. This group includes funds such as the Federal Family Education Loan Program (FFELP) Operating Fund, Educators for Maine Loan Program Fund, the Maine State Grant Program Fund, and the Maine Health Professions Loan Program Fund. These funds are classified as governmental funds because most of their revenue is derived from governmental sources and not from customer fees.

Revenues for the year were \$22,966,000, an increase from prior year of \$2,850,000 or 14.2%. This increase came primarily from an increase of \$3,321,000 or 25.6%, in grant and scholarship resources. Investment income decreased by \$417,000 or 72.4%, due to lower yields earned on permissible investments for available cash.

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

Expenses for the year were \$21,901,000, which were higher than prior year by \$2,938,000 or 15.5%. The increase came primarily from larger disbursements of grants and scholarships, which increased by \$3,321,000 or 25.6%.

Overall, the fund balance of the governmental funds increased by \$1,065,000 or 17.6%, to \$7,112,000.

Debt Structure

The Authority's operating expenses are funded primarily through fees for services, investment earnings, and appropriations or other governmental contributions.

The Authority negotiated a funding agreement with the United States Department of Agriculture's Department of Rural Development (USDA) in a prior year whereby the Authority borrowed funds at 1.0% and can relend the money at a higher interest rate to qualified business borrowers. The proceeds from business borrowers are used to repay the USDA note and cover related operating expenses. The outstanding balance for the USDA note was approximately \$818,000 as of June 30, 2011.

The Authority also has a funding agreement from a prior year with the Maine Health Access Foundation, whereby the Authority borrowed funds at 1.0% and can relend the money at a higher interest rate to medical offices for converting their medical records to an electronic format. The proceeds from borrowers are used to repay the Foundation note and cover related operating expenses. The outstanding balance for the Foundation note was \$750,000 as of June 30, 2011.

Recent Developments

The NextGen College Investing Plan (the Program) was established in accordance with Chapter 417-E of Title 20-A of the Maine Revised Statutes Annotated of 1964, as amended (the Act), to encourage the investment of funds to be used for Qualified Higher Education Expenses at institutions of higher education. The Program is designed to comply with the requirements for treatment as a Qualified Tuition Program under Section 529 of the Internal Revenue Code of 1986, as amended (a 529 Savings Plan). The Act authorizes FAME to administer the Program and act as administrator of the Maine College Savings Program Fund (the Program Fund). The Program Fund is held by the Treasurer of the State of Maine (the Treasurer), who invests it under the direction of and with the advice of a seven member Advisory Committee on College Savings, which is chaired by the Treasurer.

Pursuant to a change in Maine law which became effective September 28, 2011, Chapter 417-E of Title 20-A of the Maine Revised Statutes Annotated of 1964 is amended to reflect that beginning July 1, 2012, the Program Fund will be held by FAME, which shall invest it under the direction of and with the advice of the Advisory Committee on College Savings. Until then, the Program Fund will continue to be held by the Treasurer. Once the law becomes effective, the Authority will reflect the total assets held in the Program in an agency fund.

FINANCE AUTHORITY OF MAINE

STATEMENT OF NET ASSETS

June 30, 2011

<u>ASSETS</u>	<u>Business-Type Activities</u>	<u>Governmental Activities</u>	<u>Total</u>
Cash and cash equivalents (note 2)	\$16,802,721	\$22,502,186	\$ 39,304,907
Investments (note 2)	28,633,854	20,597,788	49,231,642
Accounts receivable	173,011	115,950	288,961
Accrued interest receivable	459,251	—	459,251
Notes receivable, net (notes 3 and 7)	277,044	25,475,215	25,752,259
Other assets	68,444	1,791,059	1,859,503
Capital assets, net (note 8)	<u>2,163,142</u>	<u>—</u>	<u>2,163,142</u>
Total assets	<u>\$48,577,467</u>	<u>\$70,482,198</u>	<u>\$ 119,059,665</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Accounts payable and accrued liabilities (note 6)	\$ 1,906,957	\$ 367,468	\$ 2,274,425
Unearned fee income	419,630	842,632	1,262,262
Undisbursed grant and scholarship funds (note 9)	—	11,832,147	11,832,147
Allowance for losses on insured loans (notes 4 and 5)	14,978,843	—	14,978,843
Other liabilities	2,956	—	2,956
Long-term liabilities:			
Due within one year – note payable (note 7)	—	805,493	805,493
Due in more than one year – note payable (note 7)	—	762,689	762,689
Due in more than one year – program funds	<u>—</u>	<u>48,760,024</u>	<u>48,760,024</u>
Total liabilities	17,308,386	63,370,453	80,678,839
Commitments and contingent liabilities (notes 5, 6, 10 and 12)			
Net assets:			
Invested in capital assets	2,163,142	—	2,163,142
Restricted net assets	7,395,810	6,661,713	14,057,523
Unrestricted net assets (note 2)	<u>21,710,129</u>	<u>450,032</u>	<u>22,160,161</u>
Total net assets	<u>31,269,081</u>	<u>7,111,745</u>	<u>38,380,826</u>
Total liabilities and net assets	<u>\$48,577,467</u>	<u>\$70,482,198</u>	<u>\$ 119,059,665</u>

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

	<u>Expenses</u>	<u>Charges for Services</u>
Functions/Programs:		
Governmental activities:		
Federal Guarantee Agency Program	\$ 3,993,338	\$ —
Educational Grant Programs	10,776,513	—
Revolving Loan Programs	1,308,525	—
Gaining Early Awareness & Readiness for Undergraduate Programs	3,249,186	—
Other Governmental Programs	<u>2,573,469</u>	<u>226,896</u>
Total governmental activities	21,901,031	226,896
Business-type activities:		
Mortgage Insurance Program	4,150,846	1,641,302
Maine College Savings Program	9,167,450	8,183,741
Higher Education Loan Purchase Program	<u>3,048,016</u>	<u>2,608,960</u>
Total business-type activities	<u>16,366,312</u>	<u>12,434,003</u>
Total Authority	<u>\$38,267,343</u>	<u>\$12,660,899</u>
		Other activity:
		Investment income
		Other nonoperating income
		Loss on termination of student loan program (note 14)
		Total other activity
		Change in net assets
		Net assets at beginning of year
		Net assets at end of year

See accompanying notes to the financial statements.

<u>Program Revenues</u>		<u>Net Revenue (Expense) and Changes in Net Assets</u>		
<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ 25,838	\$ 5,077,699	\$ 1,110,199	\$ —	\$ 1,110,199
—	10,776,513	—	—	—
10,446	1,252,641	(45,438)	—	(45,438)
—	3,249,186	—	—	—
<u>122,675</u>	<u>2,223,899</u>	<u>1</u>	<u>—</u>	<u>1</u>
158,959	22,579,938	1,064,762	—	1,064,762
—	1,000,000	—	(1,509,544)	(1,509,544)
—	2,348,500	—	1,364,791	1,364,791
<u>38,320</u>	<u>—</u>	<u>—</u>	<u>(400,736)</u>	<u>(400,736)</u>
<u>38,320</u>	<u>3,348,500</u>	<u>—</u>	<u>(545,489)</u>	<u>(545,489)</u>
<u>\$ 197,279</u>	<u>\$25,928,438</u>	1,064,762	(545,489)	519,273
		—	562,413	562,413
		—	347,415	347,415
		<u>—</u>	<u>(2,129,703)</u>	<u>(2,129,703)</u>
		<u>—</u>	<u>(1,219,875)</u>	<u>(1,219,875)</u>
		1,064,762	(1,765,364)	(700,602)
		<u>6,046,983</u>	<u>33,034,445</u>	<u>39,081,428</u>
		<u>\$7,111,745</u>	<u>\$31,269,081</u>	<u>\$38,380,826</u>

FINANCE AUTHORITY OF MAINE

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2011

<u>ASSETS</u>	<u>Mortgage Insurance Program Fund</u>	<u>Maine College Savings Program Fund</u>	<u>Higher Education Loan Purchase Program Fund</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents (note 2)	\$11,767,056	\$4,561,924	\$ 473,741	\$16,802,721
Investments (note 2)	2,794,524	4,449	—	2,798,973
Accounts receivable	57,299	115,712	—	173,011
Accrued interest receivable	459,251	—	—	459,251
Notes receivable, net (note 3)	24,005	—	—	24,005
Other assets	<u>59,678</u>	<u>8,766</u>	<u>—</u>	<u>68,444</u>
Total current assets	15,161,813	4,690,851	473,741	20,326,405
Noncurrent assets:				
Investments (note 2)	20,711,016	3,642,087	1,481,778	25,834,881
Notes receivable, net (note 3)	253,039	—	—	253,039
Capital assets, net (note 8)	<u>2,163,142</u>	<u>—</u>	<u>—</u>	<u>2,163,142</u>
Total noncurrent assets	<u>23,127,197</u>	<u>3,642,087</u>	<u>1,481,778</u>	<u>28,251,062</u>
Total assets	<u>\$38,289,010</u>	<u>\$8,332,938</u>	<u>\$1,955,519</u>	<u>\$48,577,467</u>
<u>LIABILITIES AND NET ASSETS</u>				
Liabilities:				
Accounts payable and accrued liabilities (note 6)	\$ 438,207	\$ 937,128	\$ 531,622	\$ 1,906,957
Unearned fee income	419,630	—	—	419,630
Allowance for losses on insured loans (notes 4 and 5)	14,978,843	—	—	14,978,843
Other liabilities	<u>2,956</u>	<u>—</u>	<u>—</u>	<u>2,956</u>
Total liabilities	15,839,636	937,128	531,622	17,308,386
Commitments and contingent liabilities (notes 5, 6 and 10)				
Net assets:				
Invested in capital assets	2,163,142	—	—	2,163,142
Restricted net assets	—	7,395,810	—	7,395,810
Unrestricted net assets (note 2)	<u>20,286,232</u>	<u>—</u>	<u>1,423,897</u>	<u>21,710,129</u>
Total net assets	<u>22,449,374</u>	<u>7,395,810</u>	<u>1,423,897</u>	<u>31,269,081</u>
Total liabilities and net assets	<u>\$38,289,010</u>	<u>\$8,332,938</u>	<u>\$1,955,519</u>	<u>\$48,577,467</u>

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

PROPRIETARY FUNDS

For the Year Ended June 30, 2011

	<u>Mortgage Insurance Program Fund</u>	<u>Maine College Savings Program Fund</u>	<u>Higher Education Loan Purchase Program Fund</u>	<u>Total</u>
Operating revenues:				
Insurance premiums	\$ 811,937	\$ -	\$ -	\$ 811,937
Investment income (note 2)	-	-	38,320	38,320
Application and commitment fees	339,620	-	-	339,620
Interest income on notes receivable	17,425	-	2,506,393	2,523,818
Grant revenue	-	2,348,500	-	2,348,500
Fee and other income (note 9)	<u>472,320</u>	<u>8,183,741</u>	<u>102,567</u>	<u>8,758,628</u>
Total operating revenues	1,641,302	10,532,241	2,647,280	14,820,823
Operating expenses:				
Salaries and related benefits (note 11)	1,480,257	892,600	257,930	2,630,787
Other operating expenses (notes 8 and 9)	550,184	1,015,557	1,827,949	3,393,690
Allocated operating expenses	(540,158)	-	-	(540,158)
Interest expense	-	-	813,553	813,553
Bond related expenses	-	-	288,227	288,227
Excess arbitrage (note 13)	-	-	(223,092)	(223,092)
Provision for losses on insured commercial loans (note 4)	2,660,563	-	-	2,660,563
Provision for losses on notes receivable (note 4)	-	-	83,449	83,449
Scholarship expenses (note 9)	-	4,604,951	-	4,604,951
Grant expenses	-	2,348,500	-	2,348,500
Matching contributions and rebates (note 9)	<u>-</u>	<u>305,842</u>	<u>-</u>	<u>305,842</u>
Total operating expenses	<u>4,150,846</u>	<u>9,167,450</u>	<u>3,048,016</u>	<u>16,366,312</u>
Operating (loss) income	(2,509,544)	1,364,791	(400,736)	(1,545,489)
Nonoperating revenues (expenses):				
Investment income (note 2)	469,994	92,419	-	562,413
Other income	-	347,415	-	347,415
Loss on termination of student loan program (note 14)	-	-	(2,129,703)	(2,129,703)
Reserve fund balance transfer from state (note 9)	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Total nonoperating revenues (expenses)	<u>1,469,994</u>	<u>439,834</u>	<u>(2,129,703)</u>	<u>(219,875)</u>
Change in net assets	(1,039,550)	1,804,625	(2,530,439)	(1,765,364)
Net assets at beginning of year	<u>23,488,924</u>	<u>5,591,185</u>	<u>3,954,336</u>	<u>33,034,445</u>
Net assets at end of year	<u>\$22,449,374</u>	<u>\$ 7,395,810</u>	<u>\$ 1,423,897</u>	<u>\$31,269,081</u>

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2011

	Mortgage Insurance Program <u>Fund</u>	Maine College Savings Program <u>Fund</u>	Higher Education Loan Purchase <u>Program Fund</u>	<u>Total</u>
Cash flows from operating activities:				
Interest receipts on notes receivable	\$ 17,425	\$ –	\$ 1,110,675	\$ 1,128,100
Fees received from customers	1,857,133	8,360,176	–	10,217,309
Grant revenue	–	2,348,500	–	2,348,500
Payments for operating expenses	(44,494)	(6,566,835)	(1,702,059)	(8,313,388)
Payments to employees	(1,445,389)	(897,530)	(301,227)	(2,644,146)
Investment in notes receivable	–	–	3,823,378	3,823,378
Principal receipts on notes receivable	17,687	–	13,784,804	13,802,491
Payments for scholarships, grants, matching contributions and rebates	–	(7,259,293)	–	(7,259,293)
Default payments made on commercial loan insurance	(717,890)	–	–	(717,890)
Recoveries received from prior commercial loan insurance	23,585	–	–	23,585
Other (payments) receipts	<u>(15,542)</u>	<u>(7,527)</u>	<u>102,567</u>	<u>79,498</u>
Net cash (used) provided by operating activities	(307,485)	(4,022,509)	16,818,138	12,488,144
Cash flows from noncapital and related financing activities:				
Payments on arbitrage liability	–	–	(9,023)	(9,023)
Bond redemptions	–	–	(171,950,000)	(171,950,000)
Interfund transactions	1,524,096	(1,149,047)	(119,899)	255,150
Interest payments on bonds	–	–	(897,213)	(897,213)
Proceeds from sale of loans and accrued interest	–	–	146,282,533	146,282,533
Contributions from bond insurer	–	–	5,182,276	5,182,276
Other nonoperating income	–	347,415	–	347,415
Funds received from other governments	<u>1,000,000</u>	<u>–</u>	<u>–</u>	<u>1,000,000</u>
Net cash provided (used) by noncapital and related financing activities	2,524,096	(801,632)	(21,511,326)	(19,788,862)
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(203,533)	–	–	(203,533)
Cash flows from investing activities:				
Maturities and calls on investments	21,254,075	–	–	21,254,075
Sales of investments	–	6,962,657	172,186,425	179,149,082
Purchases of investments	(21,860,130)	(6,950,030)	(167,365,746)	(196,175,906)
Interest received on investments	<u>787,561</u>	<u>79,706</u>	<u>54,889</u>	<u>922,156</u>
Net cash provided by investing activities	<u>181,506</u>	<u>92,333</u>	<u>4,875,568</u>	<u>5,149,407</u>
Net increase (decrease) in cash and cash equivalents	2,194,584	(4,731,808)	182,380	(2,354,844)
Cash and cash equivalents at beginning of year	<u>9,572,472</u>	<u>9,293,732</u>	<u>291,361</u>	<u>19,157,565</u>
Cash and cash equivalents at end of year	\$ <u>11,767,056</u>	\$ <u>4,561,924</u>	\$ <u>473,741</u>	\$ <u>16,802,721</u>

FINANCE AUTHORITY OF MAINE

STATEMENT OF CASH FLOWS (CONTINUED)

PROPRIETARY FUNDS

For the Year Ended June 30, 2011

	Mortgage Insurance Program <u>Fund</u>	Maine College Savings Program <u>Fund</u>	Higher Education Loan Purchase <u>Program Fund</u>	<u>Total</u>
Reconciliation of operating (loss) income to net cash (used) provided by operating activities:				
Operating (loss) income	\$ (2,509,544)	\$ 1,364,791	\$ (400,736)	\$ (1,545,489)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation	542,727	-	-	542,727
Amortization	-	-	24,072	24,072
Interest income on investments	-	-	(38,320)	(38,320)
Interest expense on bonds	-	-	798,332	798,332
Provision for losses on loans and notes	2,660,563	-	83,449	2,744,012
Default payments made on commercial loan guarantees	(717,890)	-	-	(717,890)
Recoveries received from prior commercial loan guarantees	23,585	-	-	23,585
Allocated expenses	(540,158)	-	-	(540,158)
Changes in operating assets and liabilities:				
Accounts receivable	157,012	176,435	246,011	579,458
Accrued interest receivable	-	-	9,617	9,617
Notes receivable	17,687	-	15,956,836	15,974,523
Other assets	(15,542)	(7,527)	171,844	148,775
Accounts payable and accrued liabilities	(2,169)	(5,556,208)	190,125	(5,368,252)
Accrued arbitrage liability	-	-	(223,092)	(223,092)
Unearned fee income and other liabilities	<u>76,244</u>	<u>-</u>	<u>-</u>	<u>76,244</u>
Net cash (used) provided by operating activities	\$ <u>(307,485)</u>	\$ <u>(4,022,509)</u>	\$ <u>16,818,138</u>	\$ <u>12,488,144</u>

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2011

<u>ASSETS</u>	Federal Guaranty Agency Operating Fund	Educational Grant Fund	Revolving Fund
Cash and cash equivalents (note 2)	\$2,335,538	\$144,014	\$11,616,243
Investments (note 2)	5,065,215	301,712	13,190,986
Accounts receivable	115,950	-	-
Notes receivable, net (notes 3 and 7)	-	-	25,475,215
Other assets	<u>8,819</u>	<u>-</u>	<u>1,782,004</u>
Total assets	<u>\$7,525,522</u>	<u>\$445,726</u>	<u>\$52,064,448</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 300,561	\$ -	\$ 6,918
Unearned fee income	732,187	-	110,445
Undisbursed grant and scholarship funds (note 9)	-	445,308	1,203,502
Note payable (note 7)	-	-	1,568,182
Amounts held under state revolving loan programs (note 9):			
State revolving loan funds disbursed	-	-	27,013,279
State revolving loan funds undisbursed	-	-	20,837,323
Unearned income on undisbursed revolving loan funds	<u>-</u>	<u>-</u>	<u>756,485</u>
Total liabilities	1,032,748	445,308	51,496,134
Fund balances:			
Assigned	-	418	399,375
Restricted	<u>6,492,774</u>	<u>-</u>	<u>168,939</u>
Total fund balances	<u>6,492,774</u>	<u>418</u>	<u>568,314</u>
Total liabilities and fund balances	<u>\$7,525,522</u>	<u>\$445,726</u>	<u>\$52,064,448</u>

See accompanying notes to the financial statements.

Gaining Early Awareness & Readiness for Undergraduate Programs Fund	Other Governmental Funds	Total Governmental Funds
\$ 6,760,282	\$1,646,109	\$22,502,186
—	2,039,875	20,597,788
—	—	115,950
—	—	25,475,215
—	236	1,791,059
<u>\$ 6,760,282</u>	<u>\$3,686,220</u>	<u>\$70,482,198</u>
\$ —	\$ 59,989	\$ 367,468
—	—	842,632
6,760,282	3,423,055	11,832,147
—	—	1,568,182
—	—	27,013,279
—	152,937	20,990,260
—	—	756,485
6,760,282	3,635,981	63,370,453
—	50,239	450,032
—	—	6,661,713
—	50,239	7,111,745
<u>\$ 6,760,282</u>	<u>\$3,686,220</u>	<u>\$70,482,198</u>

FINANCE AUTHORITY OF MAINE

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES**

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2011

	Federal Guarantee Agency Operating <u>Fund</u>	Educational Grant <u>Fund</u>	Revolving <u>Fund</u>
Revenues:			
State appropriations (note 9)	\$ -	\$ -	\$ -
Investment income (note 2)	25,838	-	10,446
Administrative revenues	5,008,511	-	-
Other income	69,188	-	565,992
Grant and scholarship revenues	<u>-</u>	<u>10,776,513</u>	<u>686,649</u>
Total revenues	5,103,537	10,776,513	1,263,087
Expenses:			
Operating expenses:			
Salaries and related benefits (note 11)	397,754	-	-
Other operating expenses	136,857	-	29,196
Allocated operating expenses	-	-	540,158
External loan servicing expenses	3,458,727	-	-
Interest expense	-	-	16,093
Provision for loan losses	-	-	36,429
Grant and scholarship expenses	<u>-</u>	<u>10,776,513</u>	<u>686,649</u>
Total expenses	<u>3,993,338</u>	<u>10,776,513</u>	<u>1,308,525</u>
Excess of revenues over (under) expenses and change in fund balance	1,110,199	-	(45,438)
Fund balances at beginning of year	<u>5,382,575</u>	<u>418</u>	<u>613,752</u>
Fund balances at end of year	<u>\$6,492,774</u>	<u>\$ 418</u>	<u>\$ 568,314</u>

See accompanying notes to the financial statements.

Gaining Early Awareness & Readiness for Undergraduate Programs Fund	Other Governmental Funds	Total Governmental Funds
\$ —	\$ 643,048	\$ 643,048
—	122,675	158,959
—	—	5,008,511
—	226,896	862,076
<u>3,249,186</u>	<u>1,580,851</u>	<u>16,293,199</u>
3,249,186	2,573,470	22,965,793
—	559,935	957,689
—	432,683	598,736
—	—	540,158
—	—	3,458,727
—	—	16,093
—	—	36,429
<u>3,249,186</u>	<u>1,580,851</u>	<u>16,293,199</u>
<u>3,249,186</u>	<u>2,573,469</u>	<u>21,901,031</u>
—	1	1,064,762
<u>—</u>	<u>50,238</u>	<u>6,046,983</u>
<u>\$ —</u>	<u>\$ 50,239</u>	<u>\$ 7,111,745</u>

FINANCE AUTHORITY OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
June 30, 2011

ASSETS HELD FOR OTHERS

Cash and cash equivalents (note 2)	\$ 9,336,739
Investments (note 2)	12,528,565
Accounts receivable from Department of Education	225,090
Accrued interest receivable	212,684
Notes receivable, net	<u>16,611,401</u>
Total assets	<u>\$38,914,479</u>

LIABILITIES

Liabilities:

Accounts payable and other liabilities	\$ 33,416
Due to the U.S. Department of Education (note 12)	3,779,295
Amounts held for State of Maine under revolving loan programs	<u>35,101,768</u>
Total liabilities	<u>\$38,914,479</u>

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

1. Organization and Significant Accounting Policies

Authorizing Legislation

The Finance Authority of Maine (FAME or the Authority) was created in 1983 by the *Finance Authority of Maine Act* (the Act), Title 10, Chapter 110, of the Maine Revised Statutes, as amended, as a body corporate and politic, and a public (tax exempt) instrumentality of the State of Maine. In 1989, the Act was amended to authorize the Authority's administration of educational finance programs found in Title 20-A, Chapters 417-E through 430-B (with the exceptions of Chapters 417-A and 418, which are not administered by the Authority, and 417E – 417F which are administered by the Authority and were enacted in 1998 and 2003, respectively). These financial statements include all of the operations conducted by the Authority.

The Authority provides commercial financing and loan insurance to Maine businesses. Also, the Authority is authorized to carry out various programs to provide financial and other assistance to Maine students and their parents to finance costs of attendance at institutions of higher education.

For financial reporting purposes, the Authority is considered a component unit of the State of Maine and as such, the Authority's financial statements are reflected in the State of Maine's general-purpose financial statements. The Authority is a quasi-independent agency and not a department of the State of Maine.

The financial statements also include the accounts and activities of FAME Opportunities, Inc., a separate 501(c)(3) organization formed and controlled by the Authority. The operations of FAME Opportunities, Inc. are immaterial.

Basis of Accounting

The Authority follows the accrual basis of accounting and, accordingly, recognizes revenue as earned and expenses as incurred.

As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting*, the Authority has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

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

Separate fund financial statements are provided for governmental and proprietary funds. The Authority maintains its accounting records and prepares its financial statements for all funds using the accrual basis of accounting. The difference from using the modified accrual method for governmental activities is immaterial. Major individual governmental funds, proprietary funds and fund groups are reported as separate columns in the fund financial statements.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

1. **Organization and Significant Accounting Policies (Continued)**

Fund Structure

The following business-type activities of the Authority are classified as proprietary funds:

Mortgage Insurance Program Fund

This fund consists of activities primarily relating to providing capital to a broad range of commercial borrowers that may be denied commercial credit but through the provision of the Authority's loan insurance to financial institutions. The Authority receives loan insurance fees from the financial institutions (which may pass the cost to the ultimate borrower).

Maine College Savings Program Fund

This fund accounts for the activities relating to the Maine College Savings Program d/b/a "The NextGen College Investing Plan," a qualified tuition program pursuant to Section 529 of the Internal Revenue Code to encourage Maine families to save and invest for higher education expenses of a designated beneficiary. The Authority receives an administrative fee from some participants based on the net asset value of the account.

Included in the fund are funds provided by the Alford Scholarship Foundation granted to participants in the Harold Alford College Challenge (HACC). The HACC provides a \$500 grant to each Maine resident baby named as a Designated Beneficiary on a NextGen Account by the baby's first birthday. HACC grants may only be withdrawn for qualified higher education expenses defined under Section 529 of the Internal Revenue Code. The Program is further described in note 9.

Higher Education Loan Purchase Program Fund

This fund consists of activities primarily relating to the purchase or origination by the Authority of Federal Family Education Loan Program (FFELP) student loans. The program was funded through a \$75,000,000 bond issuance in fiscal year 2004 (the 2003 Series bonds), a \$100,000,000 bond issuance in fiscal year 2005 (the 2005 Series bonds), as well as a \$140,000,000 bond issuance in fiscal year 2007 (the 2007 Series bonds). The Authority has used all bond proceeds from the 2003 and 2005 bond issuances to finance student loan purchases. The Authority has ceased acquiring loans as a result of changes in the law. Bond proceeds from the 2007 bond issue not used to finance student loan purchases were used to redeem outstanding bonds in 2010. In 2011 all loans were sold and all outstanding bonds were redeemed. See note 14.

The following governmental activities of the Authority are classified as governmental funds:

Federal Guarantee Agency Operating Fund

This fund accounts for the activities under the FFELP. The Authority, in conjunction with the U.S. Department of Education, made educational related federal loan guarantees to eligible Maine students and their families to attend post-secondary schools. The Authority received revenue in fiscal year 2011 from the U.S. Department of Education for managing the Maine FFELP portfolio.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

1. **Organization and Significant Accounting Policies (Continued)**

On March 30, 2010, H.R.4872, *The Health Care and Education Reconciliation Act of 2010* (HCERA), was signed into law. HCERA provides that after June 30, 2010, all subsidized and unsubsidized Stafford Loans, PLUS loans and Consolidation loans can only be made under the government's Federal Direct Loan Program. As a consequence, the Authority will no longer receive revenue for the origination of FFELP loans. Additionally, as the principal balance of outstanding FFELP loans is amortized, the portfolio will decrease as will revenue associated with maintenance of the FFELP portfolio.

Educational Grant Fund

This fund accounts for the activities relating to providing grants to eligible undergraduate Maine students who have the greatest financial need and who attend private or public post-secondary institutions of higher learning. The funding for this program is received directly from the State of Maine on an annual basis.

Revolving Fund

This fund primarily consists of the funds relating to the Authority's administration of State of Maine revolving loan programs. These are State programs administered by the Authority, which provide either educational or commercial loans on a revolving basis. This fund records the aggregate activity of these programs. The program funding levels are derived from the State of Maine, except for the Intermediary Relending Loan Program which is a Federal program. Loans are granted with and without interest charges depending on the program and in some cases there is also loan forgiveness. This fund consists of funds of the following programs:

- Underground Oil Storage Replacement Program
- Economic Recovery Loan Program
- Waste Reduction and Recycling Loan Program
- Educators for Maine Program
- Health Professionals Loan Program
- Dental Loan and Loan Repayment Programs
- Regional Economic Development Revolving Loan Program
- Plymouth Waste Oil Loan Program
- Clean Fuel Vehicle Program
- Intermediary Relending Program
- Waste Motor Oil Disposal Site Remediation Program
- Maine Health Access Foundation Loan Program
- Dental Equipment Loan and Student Loan Repayment Program

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)

This fund accounts for the activities relating to GEAR-UP, a need-based scholarship fund which is funded by the U.S. Department of Education to the Maine Department of Education as grantee. FAME administers the scholarship in accordance with a memorandum of agreement with the Maine Department of Education. The funds are granted to qualifying students for attendance at college.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

1. Organization and Significant Accounting Policies (Continued)

Other Governmental Funds

The Authority administers various other governmental and educational related programs. This fund group records the aggregate activity and reflects the combination of these programs. The State of Maine provides program funding on an annual basis for the Higher Education Fund. FAME Opportunities, Inc. relies on private individuals and corporations for contributions. The Paul Douglas Loan Fund was previously funded by the Federal government. The Robert C. Byrd Honors Scholarship Program was funded by the Federal Government in 2011. Doctors for Maine's Future was funded in fiscal years 2009 and 2010 only. The U.S. Department of Justice's Bureau of Justice Assistance funded the John R. Justice Program for one year only. The State of Maine provided funding for the Food Processing Grant Program. The College Access Challenge Grant is funded by the Federal Government. This fund group consists of the following:

Higher Education Fund
Paul Douglas Loan Fund
FAME Opportunities, Inc.
Robert C. Byrd Honors Scholarship Program
Doctors for Maine's Future
John R. Justice Grant Program
Food Processing Grant Program
College Access Challenge Grant

Agency Funds

Additionally, pursuant to a contract, the Authority provides administrative, financial services support and other services for the Kim Wallace Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Nutrient Management Fund, the Payroll Processing Insurance Fund, the Northern Maine Transmission Corporation, the Department of Agriculture for the Agriculture Marketing Loan Fund and the Potato Marketing Improvement Fund, the Department of Labor for the Occupational Safety Program Fund and the Small Enterprise Growth Board. The Authority also holds and administers the State of Maine's portion of the U.S. Department of Education's Federal Student Loan Reserve Fund, which is the property of the Federal government.

The Authority acts in a custodian capacity for these Funds. The resources in these Funds cannot be used to support the Authority's operations. These Funds are combined in the Statement of Fiduciary Net Assets and presented as Agency Funds.

Restriction on Net Assets

The restricted net assets of the Authority are restricted to a specific use by contract, bond indenture and/or federal or state statutes and regulations. Financial activities and resulting account balances that are not so restricted are presented in the Statement of Net Assets as unrestricted net assets. The Authority's unrestricted net assets are generally intended for use for program related activities.

Fund Balances

GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires the fund balance of governmental funds be classified based on a hierarchy of constraints imposed on the use of resources. The fund balances must be identified as nonspendable, restricted, committed, assigned or unassigned.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

1. Organization and Significant Accounting Policies (Continued)

Restricted fund balances include amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The assigned fund balance classification is intended to be used for specific purposes, but assigned fund balances do not meet the criteria to be classified as restricted.

There are no funds with fund balance classified as nonspendable, committed or unassigned. The Authority considers amounts to have been spent when an expenditure is incurred for both restricted and assigned fund balances. Assigned fund balances are reflected as unrestricted net assets on the statement of net assets.

The fund balance of the Authority's Federal Guaranty Agency Operating Fund, Intermediary Relending Program (Revolving Fund) and Maine Health Access Foundation Loan Program (Revolving Fund) are restricted. Pursuant to the *Higher Education Act*, the Authority may use the Operating Fund's balance only for guarantee agency-related activities, including student financial aid-related activities for the benefit of students. Pursuant to the governing agreement with the United States Department of Agriculture, and related regulatory instructions issued by the Department's Farmers Home Administration, the Intermediary Relending fund balance may be used only for program purposes, including administration costs, technical assistance to borrowers, bad debts, repayment of debt or lending to eligible borrowers. Pursuant to the governing agreement with the Maine Health Access Foundation, the Maine Health Access Foundation Loan Program's fund balance may be used only for program purposes, including the Authority's administrative and technical expenses.

The fund balances attributable to the Educational Grant Fund, Educators for Maine Program (Revolving Fund), Health Professional Loan Program (Revolving Fund), and Higher Education Program (Other Governmental Funds) are assigned. Fund balances may be assigned by the CEO who has statutory power to supervise the Authority's administrative and technical affairs. To the extent such assignments are utilized in the budgeting process, they are approved by the Board of Directors. The appropriation that funds these programs generally give guidance as to what the principal of the appropriation must be used for, but are generally silent as the treatment of any earnings on such funds. It has been the Authority's policy to use these earnings for the programs funded by the principal of the appropriation, including administrative costs.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates utilized in the preparation of the financial statements of the Authority relate to the allowance for losses on insured commercial loans and accrued arbitrage.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

1. Organization and Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of preparing the statement of cash flows for the proprietary funds, the Authority considers certain highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments made in highly liquid investments with a maturity of three months or less from bond proceeds of the Higher Education Loan Purchase Program Fund are considered investments. (See note 7).

Investments

Investments are carried at fair value. Unrealized gains and losses due to changes in fair values of investments are included in investment income.

The Authority invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statement.

Notes Receivable

Notes receivable are carried at the principal amount outstanding less an allowance for losses. The allowance for losses on notes receivable is established through a provision for losses on notes receivable charged to operations. Notes receivable losses are charged against the allowance when management believes collectibility of the loan principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses based on an evaluation of collectibility and prior loss experience.

Losses on notes receivable in the revolving loan programs are recognized by charging the amount held under the revolving loan program liability accounts when the notes receivable are forgiven or charged off.

Capital Assets

The Authority's capital assets are recorded at cost and depreciation is provided on the straight-line method over the estimated useful lives of the assets. Capital asset acquisitions that equal or exceed \$1,000 are capitalized. The Authority's capital assets are comprised primarily of a floor of a building owned in common and improvements thereon in Augusta, Maine and computer hardware and software.

Discount and Issuance Costs on Bonds

Bond discount is amortized over the life of the bonds as an interest yield adjustment. Bond issuance costs are amortized by the straight-line method over the life of the bonds.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

1. **Organization and Significant Accounting Policies (Continued)**

Allowance for Losses on Insured Loans

The Authority has established an allowance to absorb probable losses on commercial loans it insures. This allowance is adjusted by provisions charged to operating expense and by recoveries on losses previously charged off. The amount of the allowance, which represents probable, but not actual losses, is determined by management's evaluation of the insured loan portfolio. Primary considerations in this evaluation are loss experience, the character and changes in the size of the portfolio, business and economic conditions, the value of the collateral and the maintenance of the allowance at a level adequate to absorb losses.

Revolving Loan Programs

Funds received, including interest, for revolving loan programs are recorded as a liability in "amounts held under State revolving loan programs".

Grants

Unrestricted grants are recorded as revenue when received. Restricted grants are recorded as revenue upon compliance with the restrictions. Amounts received for grant programs are recorded in "undisbursed grant funds" until they become unrestricted; at that time revenues equal to the expenses are recognized since these grants are expenditure-driven.

Mortgage Insurance Premiums

The Authority's fee for insuring business loans may range from 1/2% to 2% per year of the outstanding insured portion of the principal balance of the business loan on the loan's annual anniversary date. Such mortgage insurance fees received in advance of the insurance period, are deferred and are recognized as income over the insurance period.

Application and Commitment Fees

The Authority charges a fee for the review of applications for certain types of tax-exempt bonds and for the allocation of the state ceiling of tax-exempt bond cap. The fees are taken into income when they are no longer refundable and when the Authority has performed the service. The Authority also charges an application and/or commitment fee on certain commercial loan insurance. Certain loans also require that a commitment fee be charged to the borrower.

FFELP Support

The Authority receives a percentage of the amounts collected on defaulted loans, a portfolio maintenance fee and a default aversion fee from the U.S. Department of Education (DE) as its primary support for the administration of the FFELP. These fees are recorded as administrative revenues when earned. An estimate of default aversion fees that will need to be repaid to DE is recorded as unearned fee income.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

1. **Organization and Significant Accounting Policies (Continued)**

Allocation of Administrative Expenses

Administrative expenses are allocated to the various funds based on the estimated time spent during the period on each program. Some funds can only be charged with a fixed amount of administrative expenses as allowed by the State. Consequently, all expenses in excess of this amount are absorbed by the Mortgage Insurance Program Fund.

Operating Revenue and Expenses

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues in the Mortgage Insurance Fund include fees received from providing services, insurance premiums and interest income on notes receivable. Operating revenues in the Maine College Savings Program Fund include fees received from providing services. Operating revenues in the Higher Education Loan Purchase Program Fund include investment income and interest income on notes receivable. Operating revenues for all proprietary funds are essentially fees received for providing services.

Operating expenses in the Mortgage Insurance Fund and the Maine College Savings Program Fund include, as applicable, salaries and related benefits, other operating expenses, provision for losses on insured loans, scholarships, matching contributions and rebates. Operating expenses in the Higher Education Loan Purchase Program Fund include interest on bonds, salaries and related benefits, bond related expenses and administrative expenses. Operating expenses for all proprietary funds are the costs of providing the services and operating all programs. All revenues and expenses not categorized above are reported as nonoperating revenues and expenses.

Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation. All vacation pay is accrued when incurred in the government-wide, proprietary, and governmental fund financial statements.

Implementation of New Accounting Pronouncement

Effective July 1, 2010, the Authority adopted the provisions of GASB Statement No. 54. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to observe constraints upon the use of resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable. GASB provides for the following classifications: restricted, committed, assigned and unassigned based on the constraints that are placed on the use of the resources. All fund balances had been previously reflected as unreserved. There was no change in the total fund balance as a result of implementation of this standard. See fund balances above for additional information.

2. **Cash and Investments**

The Authority maintains a cash and investment pool that is available for use by its various funds. Interest earnings are allocated to the various funds based upon each fund's average monthly balance.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

2. Cash and Investments (Continued)

Cash and Cash Equivalents

The carrying amounts, which represent both fair value and cost, of cash and cash equivalents for the Authority at June 30, 2011 are presented below:

Cash held in demand deposit accounts and on hand	\$ 2,435,677
Money market accounts and repurchase agreements	<u>2,884,973</u>
Total carrying amount of deposits	5,320,650
Amounts held in State of Maine Treasurer's Cash Pool (consisting of cash and cash equivalents, repurchase agreements, Certificates of Deposit, U.S. investments and corporate bonds)	<u>33,984,257</u>
	<u>\$39,304,907</u>

Of the total carrying amount of deposits of \$5,320,650 at June 30, 2011, the corresponding bank balances were \$4,923,884. The difference between the carrying amounts of deposits and bank balances consists primarily of checks issued but not cashed and a deposit in transit. The amount of bank balances covered by Federal depository insurance was \$1,614,206 at June 30, 2011, leaving \$3,309,679 uninsured, of which \$1,145,526 was collateralized by Repurchase Agreements issued by Bangor Savings Bank in the Authority's name.

The Authority invests monies that are not needed for immediate use primarily with the State of Maine. The State of Maine sponsors an internal investment pool (the Treasurer's Cash Pool). The Authority's participation is voluntary. The State of Maine Treasurer's Cash Pool is primarily comprised of investment vehicles with short maturities and management of the Authority characterizes the investments within the pool as low risk. The State of Maine's Treasurer's Cash Pool is not rated by external rating agencies. The Authority's management considers this investment vehicle a money market instrument and generally carries the amounts in the pool at cost.

Included in cash and cash equivalents on the Statement of Fiduciary Net Assets is \$9,336,739 held in the Authority's name in the State of Maine Treasurer's Cash Pool.

At June 30, 2011, the Authority's management had reserved \$546,105 of cash to fund a moral obligation capital reserve for certain small business mortgage loans and the costs of property maintenance related to an acquired property (see note 6). The Authority's management has also designated \$546,105 of the Mortgage Insurance Program net assets as a reserve for these matters.

A summary of the fair values of investment securities as of June 30, 2011 is as follows:

Cash management funds	\$ 4,191,291
U.S. Treasury obligations	8,140,015
U.S. Government-sponsored enterprise bonds	42,740,324
Merrill Lynch principal plus portfolio	4,449
Corporate bonds	<u>6,684,128</u>
	61,760,207
Less: investments recorded in statement of fiduciary net assets	<u>\$12,528,565</u>
Investments recorded in statement of net assets	<u>\$49,231,642</u>

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

2. Cash and Investments (Continued)

The maturities or repricings of debt securities at June 30, 2011 are as follows:

	<u>2012</u>	<u>2013 – 2016</u>	<u>2017 – 2021</u>	<u>Total</u>
U.S. Treasury obligations	\$1,262,794	\$ 6,877,221	\$ –	\$ 8,140,015
U.S. Government-sponsored enterprises (FHLB, FNMA, etc.)	1,026,505	31,182,030	10,531,789	42,740,324
Corporate bonds	<u>505,225</u>	<u>6,178,903</u>	<u>–</u>	<u>6,684,128</u>
	<u>\$2,794,524</u>	<u>\$44,238,154</u>	<u>\$10,531,789</u>	<u>\$57,564,467</u>

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

The scheduled maturities or repricings of debt securities which are callable at June 30, 2011 are as follows:

	<u>2012</u>	<u>2013 – 2016</u>	<u>2017 – 2021</u>	<u>Total</u>
U.S. Government-sponsored enterprises (FHLB, FNMA, etc.)	<u>\$ –</u>	<u>\$12,912,499</u>	<u>\$7,354,606</u>	<u>\$20,267,105</u>

The Authority is authorized to invest funds not needed currently to meet its obligations with the Treasurer of the State of Maine or in any such manner as provided for by law.

Included in investment income for the year ended June 30, 2011, is \$414,533 of net unrealized losses from the change in market value of investment securities.

Interest Rate Risk: The Authority manages interest rate risk according to its investment policy by generally prohibiting investments in securities maturing more than 10 years from the date of purchase. Specifically, a minimum of 25% of investable funds (including cash) will be invested in securities with a maturity of one year or less; a maximum of 75% will be invested in securities with a maturity of one to five years; and a maximum of 25% will be invested in securities with a maturity of five years to ten years.

The Authority places the vast majority of its investments in short-term investments such as those in the State Treasurers Cash Pool. U.S. Government-sponsored enterprise bond purchases are laddered according to maturities in order to balance interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Authority. The Authority's investment policy limits its investments to those with high credit quality such as U.S. Treasury Obligations and U.S. Government-sponsored enterprises, as rated by rating agencies such as Moody's (minimum rating of Aa3) or Standard and Poor's (minimum rating of AA-), guaranteed investment contracts backed by high credit quality insurance companies or letters of credit, or investment in FFELP student loans.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

2. Cash and Investments (Continued)

At June 30, 2011, the ratings for investments in debt securities are summarized as follows. These ratings were as of June 30, 2011 and are not necessarily the ratings that existed at the time of purchase.

<u>Issuer</u>	<u>Rating</u>	<u>Fair Value</u>
U.S. Treasury obligations ⁽²⁾	AAA	\$ 8,140,015
U.S. government-sponsored enterprises ⁽¹⁾⁽²⁾	AAA	42,740,324
Corporate bonds	AAA	3,321,770
Corporate bonds	AA+	1,287,758
Corporate bonds	AA	1,041,830
Corporate bonds	AA-	527,545
Corporate bonds ⁽³⁾	A	505,225
Other	N/A	<u>4,449</u>
		<u>\$57,568,916</u>

⁽¹⁾ Includes FHLMC, FHLB, FFCB, FNMA

⁽²⁾ On August 5, 2011 this category was downgraded to AA+ by Standard and Poor's

⁽³⁾ This corporate bond matures September 29, 2011

Concentration of Credit Risk: The Authority's investment policy restricts investments to prescribed categories and the Authority closely monitors its concentration to any one issuer through consultation with its investment advisor, which monitors the credit quality of the issuers.

In accordance with the investment policy, the investments in securities will not exceed the following maximum limits in each of the categories listed below as a percentage of the total portfolio.

	<u>Maximum of the Total Portfolio</u>
Maine State Treasurer's Cash Pool	100%
U.S. Treasury	100
Federal Instrumentalities	85
Repurchase Agreements	85
Prime Commercial Paper	50
Money Market Mutual Funds	25
Certificates of Deposit	40
Tax Exempt Obligations	20
Corporate Bonds	20
Government Bond Funds	20
FFELP Loans	40

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, or for investments the failure of a counterparty, the Authority's deposits or investments may not be returned to it. The Authority's policy to manage the custodial risk of its deposits is to have the underlying investments held by its agent in the nominee's name. The Authority's investments in bonds are held by the Authority's agent in the agent's nominee's name. The Authority's investment advisor monitors the agent's credit quality.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

3. Notes Receivable

The following is a summary of notes receivable at June 30, 2011:

Mortgage Insurance Program:	
6.0% note, due fiscal 2011	\$ 271,750
Various notes receivable	<u>5,294</u>
	277,044
Notes receivable in the Revolving Fund:	
Underground Oil Storage Replacement Program	1,607,600
Economic Recovery Program, net	6,747,151
Educators for Maine Program	5,823,600
Health Professions Loan Program	10,951,361
Regional Economic Development Revolving Loan Program	101,563
Intermediary Relending Program, net	<u>243,940</u>
	<u>25,475,215</u>
Total notes receivable, net	<u>\$ 25,752,259</u>

An allowance for losses on notes receivable has been established for the Economic Recovery Program Fund, to consider potential losses. The allowance is netted against the notes receivable balances for the program. As of June 30, 2011, the allowance had a balance of \$5,230,588. Because the Economic Recovery Program Fund is a state revolving loan program administered by the Authority, there is no effect on the Statement of Revenues, Expenses and Changes in Fund Balances for the change in the allowance for losses for this Fund. The allowance account is off-set against amounts held under revolving loan program accounts.

The Authority has established an allowance account to absorb probable losses on loans held under the Intermediary Relending Program. The amount of the allowance and the provision for losses is determined by management's evaluation of the loan portfolio. The following is the activity in the allowance for losses on loans during the year ended June 30, 2011:

Beginning balance	\$ -
Provision for losses	<u>36,429</u>
Ending balance	<u>\$ 36,429</u>

Security on the Mortgage Insurance Program notes generally includes a mortgage on the underlying property or other tangible business assets. Notes receivable under the Underground Oil Storage Replacement, Economic Recovery Loan, Regional Economic Development Revolving Loan and Intermediary Relending Program are secured by various property and equipment and in some cases, are unsecured. The other notes for educational purposes are unsecured. Notes receivable, other than those in the Mortgage Insurance Program, bear interest from 0% to 10.25%, and are due on various dates up to 2037.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

4. Allowance for Losses on Insured Loans

The Authority has established an allowance account to absorb probable losses on the commercial loans it insures (see note 5). The amount of the allowance and the provision for losses is determined by management's evaluation of the insured portfolio. The following is the activity in the allowance for losses on insured commercial loans during the year ended June 30, 2011:

Beginning balance	\$13,012,585
Default payments	(717,890)
Provision for losses	2,660,563
Recoveries on prior default payments	<u>23,585</u>
 Ending balance	 <u>\$14,978,843</u>

The Authority had established an allowance account to absorb probable losses on loans held under the Higher Education Loan Purchase Program (HELPP). The amount of the allowance and the provision for losses was determined by management's evaluation of the loan portfolio. All loans in the HELPP program were sold in 2011. The following is the activity in the allowance for losses on loans during the year ended June 30, 2011:

Beginning balance	\$ 161,941
Charge offs	(103,844)
Provision for losses	83,449
Recovery realized upon sale of loans	<u>(141,546)</u>
 Ending balance	 <u>\$ —</u>

5. Off-Balance Sheet Financial Instruments, Commitments, Contingencies and Concentrations of Credit Risk

The Authority is insuring loans made by financial institutions to qualifying businesses under its various insurance programs. The Authority is contingently liable for the insured portion of payments due on these loans.

At June 30, 2011, the Authority had the following insurance outstanding for commercial loans:

	<u>Approximate Principal Balance Insured</u>
Loan Insurance Program	\$68,268,000
Electric Rate Stabilization Program	<u>12,165,000</u>
	<u>\$80,433,000</u>

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

5. **Off-Balance Sheet Financial Instruments, Commitments, Contingencies and Concentrations of Credit Risk (Continued)**

The bonds issued under the Electric Rate Stabilization Program (see note 10) are secured by capital reserve funds held by a trustee and are also moral obligations of the State of Maine. An Act to Encourage Electric Rate Stabilization was enacted by the State of Maine legislature providing that any revenue obligation securities issued for electric rate stabilization projects, secured by capital reserve funds, are limited obligations of the Authority, and are not payable from any assets or funds of the Authority. The Maine Revised Statutes provide that the Authority shall annually certify to the Governor the amount necessary to restore the capital reserve fund securing these obligations to the capital reserve requirement. The State of Maine will first fund the capital reserve requirement from the State Contingency Account as established by the Maine Revised Statutes or shall appropriate the funds during the current State fiscal year. Although the Maine Statutes contain provisions to fund the capital reserve requirements for obligations issued under the Electric Rate Stabilization Act, no assurance can be given that future legislatures will appropriate funds that are required to restore the amount in the capital reserve fund to the capital reserve requirement annually; however, there is no constitutional bar to future legislatures to appropriate such funds. As of June 30, 2011, the capital reserve requirement had been met.

At June 30, 2011, the Authority was insuring loans with an aggregate outstanding principal balance approximating \$9,277,000 which were ninety or more days delinquent. The aggregate insured balance of these loans was approximately \$6,105,000 at June 30, 2011.

The Authority's exposure to credit loss in the event of nonperformance by the other parties is equal to the amount insured including the Authority's share of expenses and any accrued interest. The amount and nature of collateral held varies but may include accounts receivable, inventory, property, plant and equipment. Insurance is extended after a review of the subject's creditworthiness, among other considerations.

In addition, the Authority has entered into commitments to insure loans at some future date. At June 30, 2011, these commitments under the Loan Insurance Program were approximately \$7,566,000.

Substantially all of the Authority's loan customers and loan insurance participants are located in the State of Maine. The only significant concentrations of credit risk in the Authority's loan portfolio at June 30, 2011, are the geographical concentration and the electric utility industry. The credit risk in the electric utility industry relates to the Authority insuring approximately \$12,165,000 for a project involving a Maine electric utility. The Electronic Rate Stabilization Bonds were paid in full in August 2011.

The Authority has legislative authority to incur Full Faith and Credit Obligations and Moral Obligations of the State of Maine in an aggregate amount not to exceed \$792,165,000 at June 30, 2011. Such insurance obligations are detailed below:

	<u>Authorized</u>	<u>Outstanding</u>
Full Faith and Credit of the State of Maine:		
Commercial Insurance Authority	\$ 90,000,000	\$48,021,877
Veterans Mortgage Insurance Authority	4,000,000	688,166
Higher Education Bonds	4,000,000	-

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

5. Off-Balance Sheet Financial Instruments, Commitments, Contingencies and Concentrations of Credit Risk (Continued)

	<u>Authorized</u>	<u>Outstanding</u>
Moral Obligation of the State of Maine:		
Commercial Loan Insurance	\$ 150,000,000	\$19,557,957
Electric Rate Stabilization Bonds	12,165,000	12,165,000
Major Business Expansion Projects	120,000,000	-
Workers Compensation Residual Market Projects	57,000,000	-
Solid Waste Bonds	50,000,000	-
Supplemental Student Loan Program	50,000,000	-
Transmission Facilities Projects	100,000,000	-
Waste Motor Oil Revenue Fund	<u>35,000,000</u>	<u>13,820,000</u>
Total Moral Obligation	<u>574,165,000</u>	<u>45,542,957</u>
Total authorized and committed	<u>\$ 672,165,000</u>	<u>\$94,253,000</u>

The Authority carries insurance to cover its exposure to various risks of loss excluding losses on loan insurance. There were no significant uninsured losses during 2011 and 2010.

6. Acquired Property

The Authority holds title to land that it acquired in the course of a bankruptcy proceeding. The property is carried at no value in the Authority's Statement of Net Assets. The land was previously owned by a company that operated a tannery and apparently used the land as a site for disposal of its industrial waste. The Authority takes the position that it is not liable for clean-up costs at the site because it acquired title to the property involuntarily. However, it has entered into a Memorandum of Understanding with the Maine Department of Environmental Protection and the Federal Environmental Protection Agency (EPA) pursuant to which it has paid a portion of the past and future clean up costs on the site and has undertaken ongoing site maintenance responsibilities. The EPA has formally de-listed the site so that it is no longer considered an active Comprehensive Environmental Response, Clean-up and Liability Act (CERCLA) site, but the site remains under the oversight of the Maine Department of Environmental Protection (MEDEP).

Included in accounts payable and accrued liabilities at June 30, 2011, is \$146,000 accrued by management of the Authority to record potential costs associated with site protection and monitoring functions for which the Authority may be held liable. The Authority may be liable for additional payments if there is an extraordinary event on the property. The Authority's legal counsel is unable to estimate an amount or range of possible liability at this time.

The MEDEP has informally notified the Authority that if contaminants migrate onto and contaminate adjacent residential water supplies, the Authority should assume mitigation costs. The mitigation costs are undetermined at this time. The Authority continues to assert that it is not liable. The Authority's legal counsel is unable to estimate an amount or range of a satisfactory settlement at this time for these matters.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

7. Notes and Bonds Payable

Notes Payable

Notes payable consists of the following at June 30, 2011:

Note payable ⁽¹⁾ , interest fixed at 1.0%, principal and interest payments due until 2025. Assets of the Intermediary Relending Loan Program are pledged to secure the note.	\$ 818,182
Note payable ⁽²⁾ , interest only payments fixed at 1.0%, principal and interest due at the option of the lender. Assets of the Maine Health Access Foundation Loan Program are pledged to secure the note.	<u>750,000</u>
	1,568,182
Less: current portion of notes payable	<u>805,493</u>
Noncurrent portion of notes payable	<u>\$ 762,689</u>

The proceeds from the note payable⁽¹⁾ are required to be used to originate notes receivable in the Intermediary Relending Loan Program, which is included in the Revolving Fund and is a governmental type fund. The proceeds from the note payable⁽²⁾ are required to be used to originate notes receivable in the Maine Health Access Foundation Loan Program, which is included in the Revolving Fund and is a governmental type fund.

The debt service requirements for notes payable through 2016 and in five-year increments thereafter to maturity for the Authority, are as follows:

<u>Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 805,493	\$ 11,932	\$ 817,425
2013	56,048	7,627	63,675
2014	56,609	7,066	63,675
2015	57,175	6,500	63,675
2016	57,746	5,929	63,675
2017 – 2021	297,511	20,865	318,376
2022 – 2025	<u>237,600</u>	<u>5,801</u>	<u>243,401</u>
	<u>\$1,568,182</u>	<u>\$65,720</u>	<u>\$1,633,902</u>

The above debt schedule assumes repayment of the \$750,000 note in 2012.

Bonds Payable

During 2011, the Authority retired \$54,150,000 of 2003 Series, and \$47,400,000 of 2005 Series bonds and \$70,400,000 of 2007 Series bonds for a total of \$171,950,000. The bonds were previously issued to finance the acquisition and origination of student loans. The Authority realized a loss of \$362,973, net of the write off of bond discounts and bond issuance costs and reversal of accrued arbitrage liability (see notes 13 and 14).

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

7. Notes and Bonds Payable (Continued)

The following summarizes the debt activity for the Authority for the year ended June 30, 2011:

	<u>Notes Payable</u>	<u>Bonds Payable</u>
Balance at beginning of year	\$1,623,125	\$ 171,381,082
Principal reductions	(54,943)	(171,950,000)
Accretion of discount	<u>—</u>	<u>568,918</u>
Balance at end of year	<u>\$1,568,182</u>	<u>\$ —</u>

8. Capital Assets

Capital assets activity for the year ended June 30, 2011, was as follows:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2011</u>
Building and improvements	\$ 2,002,619	\$ —	\$ (5,372)	\$ 1,997,247
Computer and office equipment	1,769,132	203,533	(806,516)	1,166,149
Software development	<u>1,155,899</u>	<u>—</u>	<u>(12,536)</u>	<u>1,143,363</u>
	4,927,650	203,533	(824,424)	4,306,759
Less accumulated depreciation for:				
Building and improvements	(700,448)	(69,219)	5,372	(764,295)
Computer and office equipment	(1,472,066)	(202,636)	806,516	(868,186)
Software development	<u>(252,800)</u>	<u>(270,872)</u>	<u>12,536</u>	<u>(511,136)</u>
Total accumulated depreciation	<u>(2,425,314)</u>	<u>(542,727)</u>	<u>824,424</u>	<u>(2,143,617)</u>
	<u>\$ 2,502,336</u>	<u>\$(339,194)</u>	<u>\$ —</u>	<u>\$ 2,163,142</u>

Depreciation expense of \$542,727 was charged to various funds as part of allocated operating expenses.

9. Transactions with the State of Maine

Amounts received in governmental and business-type activities from the State of Maine for the year ended June 30, 2011, are summarized below:

Received for grant programs	\$ 16,680,252
Received for loan programs	7,641,337
General State of Maine appropriations	643,048
Reserve fund transfers	1,000,000

The Authority received a \$1,000,000 reserve fund balance transfer from the State of Maine. The Maine Revised Statutes provide that, if certain conditions are met, the State will transfer to the Authority funds, as available, from the State's Loan Insurance Reserves, up to \$1,000,000 per fiscal year.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

9. Transactions with the State of Maine (Continued)

Maine College Savings Program Fund

The Authority administers the Maine College Savings Program Fund (the Fund) for the State of Maine with advice from the Advisory Committee on College Savings, which is chaired by the Treasurer of the State of Maine. The NextGen College Investing Plan is the primary program of the Fund which was established in accordance with the Maine Revised Statutes to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education. The program has been designed to comply with the requirements for treatment as a "Qualified Tuition Program" under Section 529 of the Internal Revenue Code. The NextGen College Investing Plan had approximately \$6,000,000,000 in net asset value at June 30, 2011. The Fund is held by the Treasurer of the State of Maine. The Authority and the Treasurer of the State of Maine have entered into a management agreement with Merrill Lynch, Pierce, Fenner and Smith Incorporated to manage the program and invest the funds. As the primary consideration for its administrative duties, the Authority receives a monthly fee at an annual rate up to 0.15% of the average daily net asset value of certain plan assets. The administrative fees earned were \$8,183,741 in fiscal year 2011.

Administrative fees are used to provide benefits as defined by statute and program rules. Program benefits to Maine account holders or Maine students include fee rebates, initial matching grants, annual matching grants, and scholarships. Program benefit expenses were \$4,910,793 in fiscal year 2011. After matching grants are awarded, they no longer are included in the assets of the Maine College Savings Program Fund. They are held with other assets of the Plan in the NextGen College Investing Plan assets held by the Treasurer of the State of Maine. These grants, including earnings thereon, are not the property of account participants or designated beneficiaries unless and until withdrawn for qualified higher education expenses of designated beneficiaries.

Similarly, included in the NextGen College Investing Plan assets held by the Treasurer of the State of Maine, and not reflected in the assets of the Maine College Savings Program Fund in these financial statements, are grants provided by the Alford Scholarship Foundation to fund the HACC for Maine resident babies that are named as designated beneficiaries on NextGen accounts by the baby's first birthday. HACC grants, including earnings thereon, are not the property of Account participants or designated beneficiaries and may only be withdrawn for qualified higher education expenses of designated beneficiaries. These grants are designated as restricted gifts to the Authority until so withdrawn. If not withdrawn within the required time period the funds must be redistributed by the Authority for the benefit of another eligible designated beneficiary or, if so requested, returned to the grantor. The gift is recorded as program revenue, and the conditional allocation to account participants is recorded as grant expense.

10. Revenue Bonds

In accordance with the Act, the Authority is authorized to assist, review and approve the issuance of Revenue Obligation Securities, which enable applicants, public or private, to finance projects through the issuance of tax exempt securities by the Authority or municipalities. Occasionally, the Authority insures the repayment of a portion of the mortgage loans securing these bonds. Since inception, the Authority has insured the repayment of certain revenue obligation securities which are included in the amount of the Authority's principal balance insured at June 30, 2011 (See note 5).

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

10. Revenue Bonds (Continued)

The Authority has authorized the issuance of taxable economic development revenue bonds (SMART revenue bonds) for the purpose of funding portions of permanent mortgage loans that are to be originated and insured by the Authority. The SMART revenue bonds which had an original balance of \$1,350,000 were paid off as of June 30, 2011.

In accordance with the Act to Encourage Electric Rate Stabilization, the Authority was authorized to assist, review, approve and issue Revenue Obligation Securities, which enable applicants to reduce operating costs of electric utilities by buying out power purchase agreements. At June 30, 2011, the balance of the outstanding Electric Rate Stabilization bonds and the Authority's insurance totaled \$12,165,000. See note 5.

Each series of these bonds are limited obligations of the Authority, separately secured by a pledge of the revenues and collateral derived in connection with the mortgage loan financed from the proceeds of such series (conduit debt). All costs of originating the bonds, including underwriter's discount, are paid by the borrowers. The principal and interest paid by each borrower is at an amount equal to the amount of principal and interest due to the bondholders. Because the bonds represent only a contingent liability to the Authority, in that the Authority is not responsible for payment of the bonds unless the borrower defaults on an insured bond, the amount of bonds payable, the related mortgages receivable and the cash held in trust have not been recorded on the Authority's Statement of Net Assets.

In fiscal 2010, the Authority issued Waste Motor Oil Revenue Bonds to provide for certain response costs related to a waste motor oil disposal site. These bonds are special limited obligations of the Authority, payable solely from revenues accumulated in the State of Maine Waste Motor Oil Revenue Fund. Amounts in the Waste Motor Oil Revenue Fund are expected to be derived principally from payments of a premium on the purchase within the State of Maine of specified motor vehicle oil. The bonds do not constitute a debt or pledge of faith and credit of the Authority or the State, and accordingly, have not been reported in the accompanying financial statements. At June 30, 2011, Waste Motor Oil Revenue Bonds outstanding totaled \$13,820,000.

11. Deferred Compensation and Pension Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits the employees to defer a portion of their salary until future years. The Authority does not match any deferred compensation under this plan. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency. The Authority has established a trust for the exclusive benefit of the participants and their beneficiaries. As a result, the plan assets and corresponding liability are not presented in the Authority's Statement of Net Assets at June 30, 2011.

Currently, the Authority offers a Simplified Employee Pension Plan to its employees. All contributions made by the Authority go into this plan. Pension expense was \$220,310 in fiscal year 2011.

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

12. Federal Student Loan Reserve Fund

The Authority holds and administers the Federal Student Loan Reserve Fund for the U.S. Department of Education. The *Higher Education Amendments of 1998* (the Amendments) required the creation of a Federal Student Loan Reserve Fund (the Federal Fund) and a Guarantee Agency Operating Fund (the Operating Fund). Under this legislation, substantially all existing reserve funds, securities and other liquid assets were deposited and transferred into the Federal Student Loan Reserve Fund. Ongoing deposits into the Federal Student Loan Reserve Fund include reinsurance payments, the complement of reinsurance on default collections, insurance premiums charged to borrowers and interest income. According to the Amendments, the Federal Student Loan Reserve Fund is the property of the Federal government (the U.S. Department of Education or DE) and can only be used to pay lender claims and a default aversion fee to the Operating Fund. The Federal Student Loan Reserve Fund is treated as an agency fund within the Authority's Statement of Fiduciary Net Assets.

The Amendments also created a Guarantee Agency Operating Fund, which is the sole property of the Authority. This fund is used to account for the activities of the FFELP that are outside the Federal Fund. The fund can be used for the administration of the programs authorized by the Act, as amended, and other related activities under the statute. Prior to July 1, 2010, deposits into this fund included a processing fee paid by DE on new loans disbursed (origination fee). Currently a portfolio maintenance fee is paid by DE on all outstanding loans, a default aversion fee is paid from the Federal Student Loan Reserve Fund and collections on defaulted loans after subtracting amounts to be paid to DE are deposited into this fund. The Federal Guarantee Agency Operating Fund is a governmental fund of the Authority.

Total outstanding guarantees issued under the FFELP approximated \$765,011,000 at June 30, 2011. A portion of defaults on FFELP loan guarantees are paid by DE through the Federal Student Loan Reserve Fund. At June 30, 2011, the reserve level was approximately \$3,779,000.

13. Accrued Arbitrage Liability

The Education Loan Revenue bonds issued by the Authority are subject to Internal Revenue Service regulations which limit the amount of income which may be earned on certain cash equivalents, investments and student loans acquired with bond proceeds. Any excess earnings are to be refunded to the Federal government. During fiscal 2011, the Authority redeemed all outstanding Education Loan Revenue Bonds (see note 14). The Authority estimated that there was no arbitrage liability at June 30, 2011.

The following is a schedule of the activity in accrued arbitrage liability during 2011:

Beginning balance	\$ 814,134
Paid to the U.S. Treasury	(9,023)
Decrease in arbitrage liability	(223,092)
Decrease related to retirement of bonds	<u>(582,019)</u>
Ending balance	\$ <u> —</u>

FINANCE AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

14. Higher Education Loan Purchase Program

On March 17, 2011, the Authority sold its portfolio of federal student loans under the Higher Education Loan Purchase Program. The aggregate principal amount of such loans outstanding at June 30, 2010 was approximately \$166,810,000. On the sale date, the outstanding aggregate loan principal had been reduced to approximately \$149,760,000. This transaction resulted in a loss on sale of loans of approximately \$6,950,000 which was comprised of the amortization of the premium paid to purchase loans and deferred origination fees as well as the reversal of the allowance for losses on loans. The loans were sold at 96% of the principal balance plus accrued interest. The proceeds of the sale of loans, combined with Program cash on hand and a contribution of funds from the bond insurer of approximately \$5,180,000 were used to fully redeem at par the \$171,950,000 in 2003 Series, 2005 Series and 2007 Series auction rate bonds and accrued interest outstanding, all of which were secured by the loans sold. The redemption of bonds occurred on scheduled auction dates from March 24, 2011 through the final redemption on April 21, 2011. The bond redemption resulted in a net loss of approximately \$360,000 which was comprised primarily of the amortization of bond discount and issuance costs net of the reversal of the accrued arbitrage liability (see note 13).

Loss on the termination of the student loan program was comprised of the following:

Contributions from bond insurer	\$ 5,182,276
Loss on bond redemption	(362,973)
Loss on sale of loans	<u>(6,949,006)</u>
Loss on termination of student loan program	<u>\$ (2,129,703)</u>

15. Subsequent Event

The NextGen College Investing Plan (the Program) was established in accordance with Chapter 417-E of Title 20-A of the Maine Revised Statutes Annotated of 1964, as amended (the Act), to encourage the investment of funds to be used for Qualified Higher Education Expenses at institutions of higher education. The Program is designed to comply with the requirements for treatment as a Qualified Tuition Program under Section 529 of the Internal Revenue Code of 1986, as amended (a 529 Savings Plan). The Act authorizes FAME to administer the Program and act as administrator of the Maine College Savings Program Fund (the Program Fund). The Program Fund is held by the Treasurer of the State of Maine (the Treasurer), who invests it under the direction of and with the advice of a seven member Advisory Committee on College Savings, which is chaired by the Treasurer.

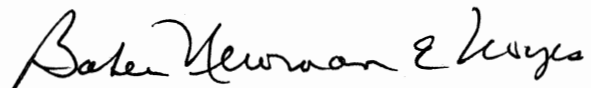
Pursuant to a change in Maine law which became effective September 28, 2011, Chapter 417-E of Title 20-A of the Maine Revised Statutes Annotated of 1964 is amended to reflect that beginning July 1, 2012, the Program Fund will be held by FAME, which shall invest it under the direction of and with the advice of the Advisory Committee on College Savings. Until then, the Program Fund will continue to be held by the Treasurer. Once the law becomes effective, the Authority will reflect the total assets held in the Program in an agency fund.

**INDEPENDENT AUDITORS' REPORT
ON THE SUPPLEMENTARY INFORMATION**

To Board of Directors
Finance Authority of Maine

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information included in Schedule 1 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Portland, Maine
October 20, 2011



Limited Liability Company

FINANCE AUTHORITY OF MAINE

COMBINING SCHEDULE OF FIDUCIARY NET ASSETS

AGENCY FUNDS

June 30, 2011

<u>ASSETS</u>	<u>Federal Student Loan Reserve Fund</u>	<u>Potato Marketing Improvement Fund</u>	<u>Agriculture Marketing Loan Fund</u>	<u>Small Enterprise Growth Fund</u>
Cash and cash equivalents	\$3,554,205	\$ 2,228,544	\$ 504,577	\$1,732,292
Investments	-	4,835,421	1,094,815	3,758,666
Accounts receivable	225,090	-	-	-
Accrued interest receivable	-	199,616	-	-
Notes receivable, net	<u>-</u>	<u>6,479,755</u>	<u>5,926,828</u>	<u>-</u>
Total assets	<u>\$3,779,295</u>	<u>\$13,743,336</u>	<u>\$7,526,220</u>	<u>\$5,490,958</u>
 <u>LIABILITIES</u>				
Accounts payable and other liabilities	\$ -	\$ 10,279	\$ 18	\$ -
Due to the U.S. Department of Education	3,779,295	-	-	-
Amounts held for State of Maine under revolving loan programs	<u>-</u>	<u>13,733,057</u>	<u>7,526,202</u>	<u>5,490,958</u>
Total liabilities	<u>\$3,779,295</u>	<u>\$13,743,336</u>	<u>\$7,526,220</u>	<u>\$5,490,958</u>

SCHEDULE 1

<u>Nutrient Management Fund</u>	<u>Payroll Processing Insurance Fund</u>	<u>Kim Wallace Adaptive Equipment Loan Program Fund</u>	<u>Fund Insurance Review Board Fund</u>	<u>Occupational Safety Program Fund</u>	<u>Northern Maine Transmission Corporation</u>	<u>Total Agency Fund</u>
\$ 4,297	\$144,138	\$1,159,607	\$ 2,292	\$ 4,081	\$ 2,706	\$ 9,336,739
-	312,745	2,516,073	4,973	-	5,872	12,528,565
-	-	-	-	-	-	225,090
-	-	13,068	-	-	-	212,684
<u>522,629</u>	<u>-</u>	<u>3,677,889</u>	<u>-</u>	<u>4,300</u>	<u>-</u>	<u>16,611,401</u>
<u>\$526,926</u>	<u>\$456,883</u>	<u>\$7,366,637</u>	<u>\$ 7,265</u>	<u>\$ 8,381</u>	<u>\$ 8,578</u>	<u>\$38,914,479</u>
\$ 4,296	\$ -	\$ 18,297	\$ 43	\$ 483	\$ -	\$ 33,416
-	-	-	-	-	-	3,779,295
<u>522,630</u>	<u>456,883</u>	<u>7,348,340</u>	<u>7,222</u>	<u>7,898</u>	<u>8,578</u>	<u>35,101,768</u>
<u>\$526,926</u>	<u>\$456,883</u>	<u>\$7,366,637</u>	<u>\$ 7,265</u>	<u>\$ 8,381</u>	<u>\$ 8,578</u>	<u>\$38,914,479</u>