

# FINANCE AUTHORITY OF MAINE

## FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

### TABLE OF CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	2 – 11
Basic Financial Statements:	
Authority – Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13 – 14
Fund Financial Statements:	
Statement of Net Assets – Proprietary Funds	15
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds	17 – 18
Balance Sheet – Governmental Funds	19 – 20
Statement of Revenues, Expenses, and Changes in Fund Balances – Governmental Funds	21 – 22
Statement of Fiduciary Net Assets – Agency Funds	23
Notes to Financial Statements	24 – 45
Independent Auditors' Report on the Supplementary Information	46
Supplementary Information – Schedule 1:	
Combining Schedule of Fiduciary Net Assets	47 – 48

**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, 2008, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, 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 14, 2008 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 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepting 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 14, 2008

  
Limited Liability Company

# FINANCE AUTHORITY OF MAINE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

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, 2008. 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 and Governmental 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 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 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, 2008**

- The downturn in the national and state economies provided a challenging year for the Authority's commercial loan loss reserves. The total reserve increased \$3,706,000, or 67.4%, to \$9,208,000 as the Authority increased individual reserves for existing insured commercial loans and recorded significant reserves for new insured loans closed during the current year. In periods of economic trouble, the demand for the Authority's commercial loan insurance increases as financial institutions seek to mitigate their level of risk on high risk loans by requiring the Authority's insurance protection. As a result, the Authority typically experiences a larger commercial loan loss reserve during challenging economic times.
- In September 2007 the Congress passed, and President Bush signed, the College Cost Reduction and Access Act. The Act significantly reduced federal funding for the Federal Family Education Loan Program ("FFELP"). As a result, the Authority realized reduced revenues in the current year in its federal student loan guaranty program and its secondary market for federal student loans.
- New student loan guaranty volume for the fiscal year in the Authority's FFEL Program was \$163.6 million, reflecting the continued emphasis on federally guaranteed student loans to finance higher education. At year-end, the Authority guaranteed approximately \$967.4 million of these student loans. Banks and other financial institutions provide the federal loans to students; the Authority is the guarantor of the loans and manages the FFELP in Maine for the United States Department of Education.
- The Authority serves as the State's secondary market for federally guaranteed student loans in Maine. The goal of the secondary market is to reduce the cost of borrowing to finance higher education. As part of the secondary market, the Authority's Higher Education Loan Purchase Program ("HELPP") purchases federal student loans that were originated by financial institutions. The Authority has issued auction rate tax-exempt bonds to finance the purchases of student loans, and at June 30, 2008 had \$304,000,000 of these bonds outstanding. As of June 30, 2008, the Authority had used approximately \$245.5 million of the total bond proceeds to purchase federal student loans from financial institutions. The difference between what the Authority earns in interest income from the student loans and the interest that must be paid to bondholders is used to cover bond-related and administrative costs of the Program and to provide "borrower benefits". Borrower benefits may include principal and interest rate reductions, and payment of federally imposed loan origination and default fees on behalf of borrowers. During the fiscal year, the Authority paid \$797,000 in loan origination and default fees for borrowers, and reduced interest charges by \$241,000 through offering reduced interest rates.

- As a result of subprime mortgage and liquidity concerns in the investor community, the auction rate bonds issued by the Authority to finance the HELPP faced significant market challenges throughout the fiscal year. Many of the Authority's auctions failed, as did the auctions of other issuers of auction rate bonds. Upon failure of an auction, a predetermined interest rate as prescribed by the bond indenture becomes effective. The prescribed rates for the Authority's bonds were higher than rates the Authority had been realizing through its successful auctions. This was one cause for interest expense being higher than prior year by \$6,485,000, or 89.4%. Additionally, the \$140 million bond issued in the prior fiscal year was issued near the end of the year, in May 2007, and thus a little over a month of interest expense was recognized for the issue in the prior year, whereas the current year recognizes a full year of interest expense for the issue.
- The Maine College Savings Program, d/b/a The NextGen College Investing Plan, was able to realize a small level of growth during the fiscal year, despite the generally poor performance of the securities markets caused by subprime mortgage and liquidity problems. The market value of Program investments grew to \$5.315 billion at year-end, an increase over prior year of \$97 million, or 1.9%. 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.
- Total Assets, as reflected in the Statement of Net Assets, decreased by \$45,000, or less than 1.0%, to \$424,016,000 at June 30, 2008. Cash and Investments decreased by \$62,560,000 as the Authority used cash from bond issues to purchase federally guaranteed student loans in the HELPP. Notes Receivable increased by \$58,332,000 due to these loan purchases. Other Assets increased by \$3,924,000 due primarily to increased accrued interest receivables for the higher student loan balances owned in the HELPP.
- The Authority's net assets decreased by \$2,656,000, or 6.7%, to \$36,965,000 for the year ended June 30, 2008. Total Revenues increased by \$6,144,000, or 14.7%, to \$47,924,000 for the fiscal year. Income from user fees increased by \$1,383,000, or 16.9%, primarily from increased administrative fees earned in the Maine College Savings Program due to increased average net asset values of the Program's portfolios. Interest income on notes receivable increased by \$2,999,000, or 45.0%, reflecting higher interest earnings in the HELPP due to increased student loan volumes. Investment income increased by \$762,000, or 10.4%, reflecting the effect of having more cash available during the year, primarily from the \$140,000,000 bond issued in the HELPP at the end of the prior fiscal year. Total Expenses increased by \$13,552,000, or 36.6%, to \$50,579,000 for the year, due primarily to increased interest expense on the HELPP bonds and to increased scholarship awards provided by the Maine College Savings Program. Additionally, increased provisions for loan losses in the Mortgage Insurance Program Fund caused total expenses to increase from prior year.

## **Overview of the Authority**

The Finance Authority of Maine was created in 1983 by an Act of the Maine Legislature, 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 and grant disbursements to education customers.

## **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 Propriety, 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.

## 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)						Total Percent Change
	Business-Type Activities		Governmental Activities		Total		
	2008	2007	2008	2007	2008	2007	
Cash and investments	\$ 150,203	\$ 211,364	\$ 26,783	\$ 28,182	\$ 176,986	\$ 239,546	(26.1)%
Notes receivable, net	196,962	141,111	26,880	24,399	223,842	165,510	35.2
Capital assets, net	2,060	1,801	—	—	2,060	1,801	14.4
Other assets	<u>11,258</u>	<u>8,298</u>	<u>9,870</u>	<u>8,906</u>	<u>21,128</u>	<u>17,204</u>	<u>22.8</u>
Total assets	<u>\$ 360,483</u>	<u>\$ 362,574</u>	<u>\$ 63,533</u>	<u>\$ 61,487</u>	<u>\$ 424,016</u>	<u>\$ 424,061</u>	<u>0.0%</u>
Accounts payable and accrued liabilities	\$ 948	\$ 997	\$ 374	\$ 450	\$ 1,322	\$ 1,447	(8.6)%
Unearned fee income	297	293	1,472	1,417	1,769	1,710	3.5
Undisbursed grant and scholarship funds	—	—	10,919	10,321	10,919	10,321	5.8
Allowance for losses on insured commercial loans	9,208	5,502	—	—	9,208	5,502	67.4
Other liabilities	14,464	11,942	42	48	14,506	11,990	21.0
Long-term liabilities:							
Notes and bonds payable:							
Due within one year	—	—	54	53	54	53	1.9
Due in more than one year	302,956	308,374	927	981	303,883	309,355	(1.8)
Program funds:							
Due in more than one year	<u>—</u>	<u>—</u>	<u>45,390</u>	<u>44,062</u>	<u>45,390</u>	<u>44,062</u>	<u>3.0</u>
Total liabilities	327,873	327,108	59,178	57,332	387,051	384,440	0.7
Net assets:							
Unrestricted net assets	23,100	24,656	4,355	4,155	27,455	28,811	(4.7)
Restricted assets	7,450	9,009	—	—	7,450	9,009	(17.3)
Invested in capital assets	<u>2,060</u>	<u>1,801</u>	<u>—</u>	<u>—</u>	<u>2,060</u>	<u>1,801</u>	<u>14.4</u>
Total net asset	<u>32,610</u>	<u>35,466</u>	<u>4,355</u>	<u>4,155</u>	<u>36,965</u>	<u>39,621</u>	<u>(6.7)</u>
Total liabilities & net asset	<u>\$ 360,483</u>	<u>\$ 362,574</u>	<u>\$ 63,533</u>	<u>\$ 61,487</u>	<u>\$ 424,016</u>	<u>\$ 424,061</u>	<u>0.0%</u>

The Authority's total assets decreased by \$45,000, or less than 1.0%, to \$424,016,000 from the beginning to the end of the fiscal year. Some of the changes in the individual line items are described below:

## **Cash and Investments**

Cash and investments decreased by \$62,560,000, or 26.1%, during the year due primarily to the use of cash to purchase federally guaranteed student loans in the HELPP. Additionally, \$5,500,000 of bond proceeds was used during the year to refund subordinate bonds issued in 2005.

## **Notes Receivable**

Notes receivable increased by \$58,332,000, or 35.2%, over the prior year due primarily to purchases of federally guaranteed student loans in the HELPP.

## **Other Assets**

Other assets increased by \$3,924,000, or 22.8%, due primarily to an increase in the interfund receivable (Due from other funds) recorded by the Maine College Savings Program Fund, the Federal Guaranty Agency Operating Fund and the Economic Recovery Loan Program Fund for their share of an investment pool recorded in the Mortgage Insurance Program Fund. See note 1 of the notes to the financial statements for a further discussion regarding this investment pool.

## **Allowance for Losses on Insured Loans**

Allowance for losses on insured loans increased by \$3,706,000, or 67.4%, due to increased reserves for existing insured loans at the end of the prior year, and significant reserves established for new insured loans closed during the current year.

## **Other Liabilities**

Other liabilities increased by \$2,516,000, or 21.0%, due primarily to an increase in the interfund payable (Due to other funds) recorded in the Mortgage Insurance Program Fund for an investment pool partially owned by other funds, reflecting an increase by year's end in the portion of the pool owned by the other funds. See Note 1 of the notes to the financial statements for a further discussion regarding this investment pool.

## **Long-Term Liabilities – Notes and Bonds Payable**

Notes and bonds payable due in more than one year decreased by \$5,472,000, or 1.8%, reflecting a refunding during the year of \$5,500,000 of subordinate bonds issued in 2005 in the HELPP.

## **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 \$1,328,000, or 3.0%, during the fiscal year.

## Net Assets

The Authority's financial position declined slightly with a \$2,656,000, or 6.7%, decrease in net assets for the fiscal year. The decline resulted primarily from increased interest expense in the HELPP, increased grant and scholarship awards in the Maine College Savings Program Fund, and increased provisions for loan losses in the Mortgage Insurance Program Fund. Provision for loan losses is largely tied to the state of the economy. In the prior two fiscal years, the Authority reduced its provision for loan losses and realized net recoveries in each year. During the current year, as the economy faltered, the Authority increased its provision. 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  
**Authority-wide Changes in Net Assets**  
*(In thousands of dollars)*

	<u>2008</u>	<u>2007</u>	<u>Increase/(decrease)</u>	
			<u>Amount</u>	<u>%</u>
State appropriations	\$ 1,352	\$ 1,535	\$ (183)	(11.9)%
Income from user fees	9,569	8,186	1,383	16.9
Investment income	8,092	7,330	762	10.4
Administrative revenues	4,803	4,822	(19)	(0.4)
Interest income on notes receivable	9,663	6,664	2,999	45.0
Other income	478	447	31	6.9
Grant and scholarship revenue	<u>13,967</u>	<u>12,796</u>	<u>1,171</u>	<u>9.2</u>
 Total revenue	 47,924	 41,780	 6,144	 14.7
Salaries and benefits	3,321	3,506	(185)	(5.3)
External loan servicing expenses	3,411	3,604	(193)	(5.4)
Interest Expense	13,746	7,262	6,484	89.3
Bond related expenses	(113)	1,709	(1,822)	(106.6)
Provision for losses on loans	4,087	(732)	4,819	658.3
Grant and scholarship expenses	22,272	17,976	4,296	23.9
Other operating expenses/other	<u>3,855</u>	<u>3,702</u>	<u>153</u>	<u>4.1</u>
 Total expenses	 <u>50,579</u>	 <u>37,027</u>	 <u>13,552</u>	 <u>36.6</u>
 Increase in net assets	 <u>\$ (2,655)</u>	 <u>\$ 4,753</u>	 <u>\$ (7,408)</u>	 <u>(155.9)%</u>

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

## Results of Operations

### Proprietary Funds Results

The net assets of the Authority's proprietary funds decreased by \$2,856,000, or 8.1%, 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, 2008:

	Finance Authority of Maine <b>Proprietary Funds</b> Statement of Revenues, Expenses and Changes in Net Assets <i>(In thousands of dollars)</i>			
	<u>2008</u>	<u>2007</u>	<u>Increase/(decrease)</u>	
			<u>Amount</u>	<u>%</u>
Operating revenue:				
Income from user fees	\$ 9,569	\$ 8,186	\$ 1,383	16.9%
Investment income, HELPP	5,831	4,714	1,117	23.7
Interest income on notes receivable	<u>9,257</u>	<u>6,472</u>	<u>2,785</u>	<u>43.0</u>
Total revenue	24,657	19,372	5,285	27.3
Operating expenses:				
Salaries and benefits	2,193	2,343	(150)	(6.4)
Provision for losses on loans	4,087	(732)	4,819	658.3
Interest expense	13,736	7,251	6,485	89.4
Student benefit expenses	7,645	5,180	2,465	47.6
Bond related expenses	(113)	1,709	(1,822)	(106.6)
Other operating expenses/other	<u>2,737</u>	<u>2,214</u>	<u>523</u>	<u>23.6</u>
Total operating expenses	<u>30,285</u>	<u>17,965</u>	<u>12,320</u>	<u>68.6</u>
Operating (loss) income	(5,628)	1,407	(7,035)	(500.0)
Nonoperating revenues (expenses):				
Investment income	1,772	1,984	(212)	(10.7)
State appropriations	<u>1,000</u>	<u>1,183</u>	<u>(183)</u>	<u>(15.5)</u>
Total nonoperating revenue	<u>2,772</u>	<u>3,167</u>	<u>(395)</u>	<u>(12.5)</u>
Increase in net assets	(2,856)	4,574	(7,430)	(162.4)
Net assets at beginning of year	<u>35,466</u>	<u>30,892</u>	<u>4,574</u>	<u>14.8</u>
Net assets at end of year	<u>\$32,610</u>	<u>\$35,466</u>	<u>\$ (2,856)</u>	<u>(8.1)%</u>

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, 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 will allow the Authority to build its cash reserves for paying banks or bondholders on defaulted insured loans or bonds. Net Assets in the Maine College Savings Program will be used to fund benefit programs, such as grants and scholarships for those who qualify for the benefit programs. Net Assets in the Higher Education Loan Purchase Program will be used to offer borrower benefits to borrowers of federal student loans, which could include reduced interest rates and the payment of origination and default fees on behalf of borrowers.

Operating revenue totaled \$24,657,000, an increase of 27.3% over prior year. Customer fee revenue accounted for 38.8% of operating revenue, and increased \$1,383,000 over prior year due primarily to increased fees earned in the Maine College Savings Program, which experienced a \$97,000,000, or 1.9%, increase in net asset value over the prior year. There were periods during the fiscal year where the net asset value of the Program was significantly larger than it was at June 30, 2007, but by the end of the year the net asset value ended with only a \$97,000,000 million increase over prior year due to stock market volatility in the latter half of the year. The total net asset value of the investment funds in the Program was \$5.315 billion on June 30, 2008. The assets are owned by the account holders or their beneficiaries and are not assets of the Authority. The Authority earns an administration fee on the net assets for managing the Program. The assets of the Program are identified in the State of Maine's financial statements. Investment income in the HELPP accounted for 23.7% of operating revenue, an increase over prior year of \$1,117,000, as a result of having more bond cash available for investment during the year due to the \$140,000,000 bond issued toward the end of the prior fiscal year. Interest income on notes receivable accounted for 37.5% of operating revenue, an increase over prior year of \$2,785,000, as a result of the Authority's purchase of federally guaranteed student loans in the HELPP throughout the year.

Nonoperating revenue provided an additional \$2,772,000 to cover operating expenses. The Authority uses investment earnings and two small State appropriations for its business programs to cover operating expenses. These sources of funds allow the Authority to minimize customer fees. The Authority did not receive appropriations totaling \$183,000 for the business programs during the current year and will no longer receive those appropriations going forward. Investment income in the Mortgage Insurance Program Fund and Maine College Savings Program Fund decreased by \$212,000 over the prior year, primarily due to lower interest rates during the latter half of the fiscal year.

Operating expenses increased by \$12,320,000, or 68.6%, from the prior year. Interest expense increased \$6,485,000, or 89.4%, due to higher interest rates on the auction rate bonds that finance the HELPP. Provision for loan loss expense increased by \$4,819,000 due to increased reserves for existing insured commercial loans at the end of the prior year, and significant reserves established for new insured loans closed during the current year. Student benefit expenses increased by \$2,465,000, or 47.6%, as the Maine College Savings Program Fund increased its use of administrative fees earned in the Program to assist students with need-based financial assistance, and as the HELPP continued to offer borrower benefits on federally guaranteed student loans to more borrowers. Bond-related expenses decreased \$1,822,000, or 106.6%, due primarily to the reversal during the current year of past year's accrued arbitrage liabilities in the HELPP. Declining investment income yields and increased borrower benefit costs in the Program reduced the Authority's previously recorded arbitrage liabilities.

Overall, net assets of the proprietary funds decreased by \$2,856,000, or 8.1%, to \$32,610,000.

## 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.

The Fund Balance of the Authority's governmental funds increased by \$201,000, or 4.8%, 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, 2008:

Finance Authority of Maine				
<b>Governmental Funds</b>				
Statement of Revenues, Expenses and Changes in Fund Balance				
<i>(In thousands of dollars)</i>				
	<u>2008</u>	<u>2007</u>	<u>Increase/(decrease)</u>	
			<u>Amount</u>	<u>%</u>
Revenue:				
State appropriations	\$ 352	\$ 352	\$ -	0.0%
Investment income	489	632	(143)	(22.6)
Administrative revenues	4,803	4,822	(19)	(0.4)
Interest income on notes receivable	406	192	214	111.5
Other income	478	447	31	6.9
Grant and scholarship revenue	<u>13,967</u>	<u>12,796</u>	<u>1,171</u>	<u>9.2</u>
Total revenue	20,495	19,241	1,254	6.5
Expenses:				
Salaries and benefits	1,128	1,163	(35)	(3.0)
External loan servicing expenses	3,411	3,604	(193)	(5.4)
Grant and scholarship expenses	14,627	12,796	1,831	14.3
Other operating expenses/other	<u>1,128</u>	<u>1,499</u>	<u>(371)</u>	<u>(24.7)</u>
Total expenses	20,294	19,062	1,232	6.5
Changes in fund balance	201	179	22	12.3
Fund balance at beginning of year	<u>4,155</u>	<u>3,976</u>	<u>179</u>	<u>4.5</u>
Fund balance at end of year	<u>\$ 4,356</u>	<u>\$ 4,155</u>	<u>\$ 201</u>	<u>4.8%</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 \$20,495,000, an increase over prior year of \$1,254,000, or 6.5%. The increase came primarily from grant and scholarship revenues used to provide financial assistance to students of higher education. Grant and scholarship revenues increased \$1,171,000, or 9.2%, over prior year. Interest income increased \$214,000, or 111.5%, as the Authority allocated more interest income from notes receivable in the Educators for Maine Loan Program Fund and Maine Health Professions Loan Program Fund to cover operating expenses. Investment income was lower than prior year by \$143,000, or 22.6%, due primarily to lower interest rates during the latter half of the fiscal year.

Expenses for the year were \$20,294,000, which were higher than prior year by \$1,232,000, or 6.5%. The increase came primarily from increased disbursements of grants and scholarships. Other operating expenses decreased by \$371,000, or 24.7%, primarily due to lower marketing and professional fees incurred in the FFELP.

Overall, the fund balance of the governmental funds increased by \$201,000, or 4.8%, to \$4,356,000.

### **Debt Structure**

The Authority's operating expenses are funded primarily through fees for services, investment earnings, and appropriations or other governmental contributions. In addition, the Authority issues tax-exempt bonds in the HELPP to finance purchases of federally guaranteed student loans, in an effort to pass on savings to student borrowers and families. At June 30, 2008, the Authority had \$304,000,000 in bonds outstanding to fund this Program. Student loan repayments and investment income are used to pay the semiannual bond interest payments and bond principal. \$69,500,000 of principal matures on December 1, 2033, \$94,500,000 matures on June 1, 2035, and \$140,000,000 matures on June 1, 2037.

Also, the Authority negotiated a funding agreement with the United States Department of Agriculture's Department of Rural Development (USDA) 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 loan balance for the USDA note was \$981,368 as of June 30, 2008.

**FINANCE AUTHORITY OF MAINE**

**STATEMENT OF NET ASSETS**

June 30, 2008

<u>ASSETS</u>	<u>Business-Type Activities</u>	<u>Governmental Activities</u>	<u>Total</u>
Cash and cash equivalents (note 2)	\$ 5,852,635	\$ 26,782,521	\$ 32,635,156
Investments (notes 2 and 7)	144,350,932	–	144,350,932
Accounts receivable	312,414	173,867	486,281
Accrued interest receivable	5,657,512	175	5,657,687
Notes receivable, net (notes 3 and 7)	196,961,539	26,879,652	223,841,191
Other assets	307,258	1,763,299	2,070,557
Capital assets, net (note 8)	2,059,713	–	2,059,713
Due from other funds (note 1)	4,366,500	7,933,500	12,300,000
Deferred bond issuance costs	<u>614,517</u>	<u>–</u>	<u>614,517</u>
 Total assets	 <u>\$ 360,483,020</u>	 <u>\$ 63,533,014</u>	 <u>\$ 424,016,034</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Accounts payable and accrued liabilities (note 6)	\$ 948,159	\$ 373,758	\$ 1,321,917
Unearned fee income	296,672	1,471,643	1,768,315
Undisbursed grant and scholarship funds (note 9)	–	10,918,988	10,918,988
Allowance for losses on insured loans (notes 4 and 5)	9,208,439	–	9,208,439
Accrued interest payable	839,046	–	839,046
Accrued arbitrage liability (note 13)	1,321,938	–	1,321,938
Due to other funds (note 1)	12,300,000	–	12,300,000
Other liabilities	2,956	41,616	44,572
Long-term liabilities:			
Due within one year – note payable (note 7)	–	53,860	53,860
Due in more than one year – note payable (note 7)	–	927,508	927,508
Due in more than one year – bonds payable (note 7)	302,956,115	–	302,956,115
Due in more than one year – program funds	<u>–</u>	<u>45,390,587</u>	<u>45,390,587</u>
 Total liabilities	 327,873,325	 59,177,960	 387,051,285
Commitments and contingent liabilities (notes 5, 6, 10, 12 and 14)			
Net assets:			
Invested in capital assets	2,059,713	–	2,059,713
Restricted net assets	7,449,842	–	7,449,842
Unrestricted net assets (note 2)	<u>23,100,140</u>	<u>4,355,054</u>	<u>27,455,194</u>
 Total net assets	 <u>32,609,695</u>	 <u>4,355,054</u>	 <u>36,964,749</u>
 Total liabilities and net assets	 <u>\$ 360,483,020</u>	 <u>\$ 63,533,014</u>	 <u>\$ 424,016,034</u>

See accompanying notes to the financial statements.

**FINANCE AUTHORITY OF MAINE**

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

	<u>Expenses</u>	<u>Charges for Services</u>
Functions/Programs:		
Governmental activities:		
Federal Guarantee Agency Program	\$ 4,249,684	\$ -
Educational Grant Programs	12,071,995	-
Revolving Loan Programs	1,418,409	-
Other Governmental Programs	<u>2,553,741</u>	<u>405,958</u>
Total governmental activities	20,293,829	405,958
Business-type activities:		
Mortgage Insurance Programs	5,357,943	1,627,316
Maine College Savings Program	8,584,648	7,943,615
Higher Education Loan Purchase Program	<u>16,342,411</u>	<u>9,255,582</u>
Total business-type activities	<u>30,285,002</u>	<u>18,826,513</u>
Total Authority	<u>\$ 50,578,831</u>	<u>\$ 19,232,471</u>
		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>
\$ 197,088	\$ 4,887,153	\$ 834,557	\$ -	\$ 834,557
-	12,071,995	-	-	-
42,491	742,142	(633,776)	-	(633,776)
<u>249,107</u>	<u>1,898,416</u>	<u>(260)</u>	<u>-</u>	<u>(260)</u>
488,686	19,599,706	200,521	-	200,521
1,433,624	1,000,000	-	(1,297,003)	(1,297,003)
338,160	-	-	(302,873)	(302,873)
<u>5,830,768</u>	<u>-</u>	<u>-</u>	<u>(1,256,061)</u>	<u>(1,256,061)</u>
<u>7,602,552</u>	<u>1,000,000</u>	<u>-</u>	<u>(2,855,937)</u>	<u>(2,855,937)</u>
<u>\$8,091,238</u>	<u>\$ 20,599,706</u>	<u>200,521</u>	<u>(2,855,937)</u>	<u>(2,655,416)</u>
		200,521	(2,855,937)	(2,655,416)
		<u>4,154,533</u>	<u>35,465,632</u>	<u>39,620,165</u>
		<u>\$4,355,054</u>	<u>\$ 32,609,695</u>	<u>\$ 36,964,749</u>

**FINANCE AUTHORITY OF MAINE**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUNDS**

June 30, 2008

<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>
<b>Current assets:</b>				
Cash and cash equivalents (note 2)	\$ 1,816,178	\$ 3,540,357	\$ 496,100	\$ 5,852,635
Investments (notes 2 and 7)	3,666,708	4,065	-	3,670,773
Accounts receivable	48,824	92,730	170,860	312,414
Accrued interest receivable	977,300	-	4,680,212	5,657,512
Notes receivable, net (notes 3 and 7)	302,799	-	14,600,000	14,902,799
Due from other funds (note 1)	-	4,366,500	-	4,366,500
Other assets	<u>31,354</u>	<u>2,575</u>	<u>273,329</u>	<u>307,258</u>
Total current assets	6,843,163	8,006,227	20,220,501	35,069,891
<b>Noncurrent assets:</b>				
Investments (notes 2 and 7)	38,545,984	-	102,134,175	140,680,159
Notes receivable, net (notes 3 and 7)	-	-	182,058,740	182,058,740
Capital assets, net (note 8)	2,059,713	-	-	2,059,713
Deferred bond issuance costs	-	-	614,517	614,517
Total noncurrent assets	<u>40,605,697</u>	<u>-</u>	<u>284,807,432</u>	<u>325,413,129</u>
Total assets	<u>\$ 47,448,860</u>	<u>\$ 8,006,227</u>	<u>\$ 305,027,933</u>	<u>\$ 360,483,020</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>				
<b>Current liabilities:</b>				
Accounts payable and accrued liabilities (note 6)	\$ 480,940	\$ 234,192	\$ 233,027	\$ 948,159
Unearned fee income	296,672	-	-	296,672
Allowance for losses on insured loans (notes 4 and 5)	9,208,439	-	-	9,208,439
Accrued interest payable	-	-	839,046	839,046
Due to other funds (note 1)	12,300,000	-	-	12,300,000
Other liabilities	<u>2,956</u>	<u>-</u>	<u>-</u>	<u>2,956</u>
Total current liabilities	22,289,007	234,192	1,072,073	23,595,272
<b>Long-term liabilities:</b>				
Bonds payable (note 7)	-	-	302,956,115	302,956,115
Accrued arbitrage liability (note 13)	<u>-</u>	<u>-</u>	<u>1,321,938</u>	<u>1,321,938</u>
Total liabilities	22,289,007	234,192	305,350,126	327,873,325
<b>Commitments and contingent liabilities (notes 5, 6 and 10)</b>				
<b>Net assets:</b>				
Invested in capital assets	2,059,713	-	-	2,059,713
Restricted net assets	-	7,772,035	(322,193)	7,449,842
Unrestricted net assets (note 2)	<u>23,100,140</u>	<u>-</u>	<u>-</u>	<u>23,100,140</u>
Total net assets	<u>25,159,853</u>	<u>7,772,035</u>	<u>(322,193)</u>	<u>32,609,695</u>
Total liabilities and net assets	<u>\$ 47,448,860</u>	<u>\$ 8,006,227</u>	<u>\$ 305,027,933</u>	<u>\$ 360,483,020</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, 2008

	Mortgage Insurance Program <u>Fund</u>	Maine College Savings Program <u>Fund</u>	Higher Education Loan Purchase Program <u>Fund</u>	<u>Total</u>
Operating revenues:				
Insurance premiums	\$ 673,467	\$ –	\$ –	\$ 673,467
Investment income (note 2)	–	–	5,830,768	5,830,768
Application and commitment fees	532,444	–	–	532,444
Interest income on notes receivable	17,854	–	9,239,062	9,256,916
Fee and other income (note 9)	<u>403,551</u>	<u>7,943,615</u>	<u>16,520</u>	<u>8,363,686</u>
Total operating revenues	1,627,316	7,943,615	15,086,350	24,657,281
Operating expenses:				
Salaries and related benefits (note 11)	1,197,658	585,241	409,656	2,192,555
Other operating expenses	572,511	1,223,510	2,218,952	4,014,973
Allocated operating expenses	(408,195)	–	–	(408,195)
Interest expense	–	–	13,735,657	13,735,657
Bond related expenses	–	–	1,008,334	1,008,334
Excess arbitrage (note 13)	–	–	(1,121,360)	(1,121,360)
Provision for losses on insured loans (note 4)	3,995,969	–	–	3,995,969
Provision for losses on notes receivable	–	–	91,172	91,172
Scholarship expenses	–	6,210,132	–	6,210,132
Matching contributions and rebates	<u>–</u>	<u>565,765</u>	<u>–</u>	<u>565,765</u>
Total operating expenses	<u>5,357,943</u>	<u>8,584,648</u>	<u>16,342,411</u>	<u>30,285,002</u>
Operating income/(loss)	(3,730,627)	(641,033)	(1,256,061)	(5,627,721)
Nonoperating revenues:				
Investment income (note 2)	1,433,624	338,160	–	1,771,784
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	<u>2,433,624</u>	<u>338,160</u>	<u>–</u>	<u>2,771,784</u>
Change in net assets	(1,297,003)	(302,873)	(1,256,061)	(2,855,937)
Net assets at beginning of year	<u>26,456,856</u>	<u>8,074,908</u>	<u>933,868</u>	<u>35,465,632</u>
Net assets at end of year	\$ <u>25,159,853</u>	\$ <u>7,772,035</u>	\$ <u>(322,193)</u>	\$ <u>32,609,695</u>

See accompanying notes to the financial statements.

**FINANCE AUTHORITY OF MAINE**

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2008

	Mortgage Insurance Program <u>Fund</u>	Maine College Savings Program <u>Fund</u>	Higher Education Loan Purchase Program Fund	<u>Total</u>
Cash flows from operating activities:				
Interest receipts on notes receivable	\$ 17,854	\$ –	\$ 7,160,793	\$ 7,178,647
Fees received from customers	1,660,603	7,909,612	–	9,570,215
Payments for operating expenses	40,752	(1,208,303)	(3,234,496)	(4,402,047)
Payments to employees	(1,180,497)	(595,441)	(413,193)	(2,189,131)
Investment in notes receivable	(2,395)	–	(78,339,651)	(78,342,046)
Principal receipts on notes receivable	–	–	23,754,102	23,754,102
Payments for scholarships, matching contributions and rebates	–	(6,775,897)	–	(6,775,897)
Default payments made on commercial loan guarantees	(461,792)	–	–	(461,792)
Recoveries received from prior commercial loan guarantees	172,150	–	–	172,150
Other (payments) receipts	<u>(1,781)</u>	<u>617</u>	<u>16,520</u>	<u>15,356</u>
Net cash provided (used) by operating activities	<u>244,894</u>	<u>(669,412)</u>	<u>(51,055,925)</u>	<u>(51,480,443)</u>
Cash flows from noncapital and related financing activities:				
Bond issuance costs	–	–	(8,469)	(8,469)
Refunding of bonds payable	–	–	(5,500,000)	(5,500,000)
Interfund transactions	2,131,189	(2,581,500)	–	(450,311)
Interest payments on bonds	–	–	(13,810,390)	(13,810,390)
Funds received from other governments	<u>1,408,195</u>	<u>–</u>	<u>–</u>	<u>1,408,195</u>
Net cash provided (used) by noncapital and related financing activities	<u>3,539,384</u>	<u>(2,581,500)</u>	<u>(19,318,859)</u>	<u>(18,360,975)</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	<u>(483,470)</u>	<u>–</u>	<u>–</u>	<u>(483,470)</u>
Cash flows from investing activities:				
Maturities and calls on investments	11,761,367	–	–	11,761,367
Sales of investments	–	18,154	105,020,171	105,038,325
Purchases of investments	(15,360,746)	–	(40,996,799)	(56,357,545)
Interest received on investments	<u>1,098,301</u>	<u>329,505</u>	<u>6,432,258</u>	<u>7,860,064</u>
Net cash (used) provided by investing activities	<u>(2,501,078)</u>	<u>347,659</u>	<u>70,455,630</u>	<u>68,302,211</u>
Net increase (decrease) in cash and cash equivalents	799,730	(2,903,253)	80,846	(2,022,677)
Cash and cash equivalents at beginning of year	<u>1,016,448</u>	<u>6,443,610</u>	<u>415,254</u>	<u>7,875,312</u>
Cash and cash equivalents at end of year	<u>\$ 1,816,178</u>	<u>\$ 3,540,357</u>	<u>\$ 496,100</u>	<u>\$ 5,852,635</u>

**FINANCE AUTHORITY OF MAINE**

STATEMENT OF CASH FLOWS (CONTINUED)

PROPRIETARY FUNDS

For the Year Ended June 30, 2008

	<u>Mortgage Insurance Program Fund</u>	<u>Maine College Savings Program Fund</u>	<u>Higher Education Loan Purchase Program Fund</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:				
Operating loss	\$ (3,730,627)	\$ (641,033)	\$ (1,256,061)	\$ (5,627,721)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation	224,891	-	-	224,891
Amortization	-	-	130,251	130,251
Interest income on investments	-	-	(5,830,768)	(5,830,768)
Interest expense on bonds	-	-	13,653,047	13,653,047
Provision for losses on insured loans	3,995,969	-	-	3,995,969
Changes in operating assets and liabilities:				
Notes receivable	(2,395)	-	(55,848,026)	(55,850,421)
Accounts receivable	47,772	(34,003)	422,837	436,606
Accrued interest receivable	-	-	(1,147,457)	(1,147,457)
Other assets	(1,781)	617	(7,519)	(8,683)
Accounts payable and accrued liabilities	(2,662)	5,007	(50,869)	(48,524)
Accrued arbitrage liability	-	-	(1,121,360)	(1,121,360)
Unearned fee income and other liabilities	3,369	-	-	3,369
Default payments made on commercial loan guarantees	(461,792)	-	-	(461,792)
Recoveries received from prior commercial loan guarantees	<u>172,150</u>	<u>-</u>	<u>-</u>	<u>172,150</u>
Net cash provided (used) by operating activities	<u>\$ 244,894</u>	<u>\$ (669,412)</u>	<u>\$ (51,055,925)</u>	<u>\$ (51,480,443)</u>

See accompanying notes to the financial statements.

**FINANCE AUTHORITY OF MAINE**

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2008

<u>ASSETS</u>	Federal Guarantee Agency Operating Fund	Educational Grant Fund	Revolving Loan Fund
Cash and cash equivalents (note 2)	\$ 2,308,817	\$ 84,054	\$ 14,058,541
Accounts receivable	173,867	-	-
Accrued interest receivable	-	-	-
Notes receivable, net (note 3)	-	-	26,865,625
Due from other funds (note 1)	2,742,900	-	5,190,600
Other assets	<u>28,266</u>	<u>-</u>	<u>1,735,033</u>
 Total assets	 <u>\$ 5,253,850</u>	 <u>\$ 84,054</u>	 <u>\$ 47,849,799</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 268,562	\$ -	\$ 21,116
Unearned fee income	1,403,261	-	68,382
Undisbursed grant and scholarship funds (note 9)	-	83,636	2,173,264
Other liabilities	-	-	-
Note payable (note 7)	-	-	981,368
Amounts held under state revolving loan programs (note 9):			
State revolving loan funds disbursed	-	-	28,600,657
State revolving loan funds undisbursed	-	-	14,347,920
Unearned income on undisbursed revolving loan funds	<u>-</u>	<u>-</u>	<u>909,836</u>
	<u>-</u>	<u>-</u>	<u>43,858,413</u>
 Total liabilities	 1,671,823	 83,636	 47,102,543
 Fund balances:			
Unreserved fund balances	<u>3,582,027</u>	<u>418</u>	<u>747,256</u>
 Total liabilities and fund balances	 <u>\$ 5,253,850</u>	 <u>\$ 84,054</u>	 <u>\$ 47,849,799</u>

See accompanying notes to the financial statements.

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 10,331,109	\$ 26,782,521
–	173,867
175	175
14,027	26,879,652
–	7,933,500
<u>–</u>	<u>1,763,299</u>
<u>\$ 10,345,311</u>	<u>\$ 63,533,014</u>

\$ 84,080	\$ 373,758
–	1,471,643
8,662,088	10,918,988
41,616	41,616
–	981,368
–	28,600,657
–	14,347,920
<u>1,532,174</u>	<u>2,442,010</u>
<u>1,532,174</u>	<u>45,390,587</u>
10,319,958	59,177,960
<u>25,353</u>	<u>4,355,054</u>
<u>\$ 10,345,311</u>	<u>\$ 63,533,014</u>

**FINANCE AUTHORITY OF MAINE**

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

**GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2008

	Federal Guarantee Agency Operating Fund	Educational Grant Fund	Revolving Loan Fund
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>
<b>Revenues:</b>			
State appropriations (note 9)	\$ —	\$ —	\$ —
Investment income (note 2)	197,088	—	42,491
Administrative revenues	4,803,115	—	—
Interest income on notes receivable	—	—	—
Other income	84,038	—	392,142
Grant and scholarship revenues	<u>—</u>	<u>12,071,995</u>	<u>350,000</u>
 Total revenues	 5,084,241	 12,071,995	 784,633
<b>Expenses:</b>			
Operating expenses:			
Salaries and related benefits (note 11)	516,341	—	—
Other operating expenses	322,617	—	(10,051)
Allocated operating expenses	—	—	408,195
External loan servicing expenses	3,410,726	—	—
Interest expense	—	—	9,899
Grant and scholarship expenses	<u>—</u>	<u>12,071,995</u>	<u>1,010,366</u>
 Total expenses	 <u>4,249,684</u>	 <u>12,071,995</u>	 <u>1,418,409</u>
 Excess of revenues over expenses	 <u>834,557</u>	 <u>—</u>	 <u>(633,776)</u>
 Change in fund balances	 834,557	 —	 (633,776)
 Fund balances at beginning of year	 <u>2,747,470</u>	 <u>418</u>	 <u>1,381,032</u>
 Fund balances at end of year	 <u>\$ 3,582,027</u>	 <u>\$ 418</u>	 <u>\$ 747,256</u>

See accompanying notes to the financial statements.

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 352,277	\$ 352,277
249,107	488,686
–	4,803,115
405,958	405,958
1,632	477,812
<u>1,544,507</u>	<u>13,966,502</u>
2,553,481	20,494,350
611,537	1,127,878
397,697	710,263
–	408,195
–	3,410,726
–	9,899
<u>1,544,507</u>	<u>14,626,868</u>
<u>2,553,741</u>	<u>20,293,829</u>
<u>(260)</u>	<u>200,521</u>
(260)	200,521
<u>25,613</u>	<u>4,154,533</u>
<u>\$ 25,353</u>	<u>\$ 4,355,054</u>

**FINANCE AUTHORITY OF MAINE**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**

June 30, 2008

ASSETS HELD FOR OTHERS

Cash and cash equivalents (note 2)	\$ 18,287,126
Accounts receivable from Department of Education	1,162,653
Accrued interest receivable	227,201
Notes receivable, net	<u>15,929,771</u>
 Total assets	 <u>\$ 35,606,751</u>

LIABILITIES

Liabilities:	
Accounts payable and other liabilities	\$ 54,431
Due to the U.S. Department of Education (note 12)	2,862,634
Amounts held for State of Maine under revolving loan programs	<u>32,689,686</u>
 Total liabilities	 <u>\$ 35,606,751</u>

See accompanying notes to the financial statements.

# FINANCE AUTHORITY OF MAINE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

### 1. Organization and Significant Accounting Policies

#### Authorizing Legislation

The Finance Authority of Maine 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-F, 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, 2008

### 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 through loan insurance to a broad range of commercial borrowers that may be denied commercial credit, but for the Authority's loan insurance. The Authority receives loan insurance fees from the borrowers.

#### **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 the participants based on the net asset value of the account.

#### **Higher Education Loan Purchase Program Fund**

This fund consists of activities primarily relating to the purchase 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 an \$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 currently expects to use all bond proceeds from 2007 Series bonds to finance, by June 1, 2010, FFELP student loans made pursuant to applicable federal requirements, including the requirements of the FFELP and to act as guarantor with respect to such student loans.

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, makes educational related federal loan guarantees to eligible Maine students and their families to attend post-secondary schools. The Authority receives revenue from the U.S. Department of Education for originating and managing the Maine 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.

# FINANCE AUTHORITY OF MAINE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

#### **Revolving Loan 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
- Regional Economic Development Revolving Loan Program
- Plymouth Waste Oil Loan Program
- Clean Fuel Vehicle Program
- Intermediary Relending Program

#### **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. Gear-Up relies on Federal funding through a grant primarily administered by the Maine Department of Education. The Paul Douglas Loan Fund was previously funded by the Federal government. This fund group consists of the following:

- Higher Education Fund
- Gear-Up Scholarship Fund
- Paul Douglas Loan Fund
- FAME Opportunities, Inc.

#### **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.

# FINANCE AUTHORITY OF MAINE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

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 by bond indenture and state statutes. Financial activities and resulting account balances that are not restricted by bond resolution, state statutes, various Federal regulations and program agreements are presented in the Statement of Net Assets as unrestricted net assets. The Authority's restricted net assets are restricted for the acquisition of student loans, payment of debt service on the bonds payable and payment of operating expenses. The Authority's unrestricted net assets are generally reserved for program related activities.

#### 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 the collectibility of notes receivable in the Higher Education Loan Purchase Program.

#### 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.

# FINANCE AUTHORITY OF MAINE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

#### 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.

#### 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.

#### 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".

**FINANCE AUTHORITY OF MAINE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

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

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% 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 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.

FFELP Support

The Authority receives an origination fee, 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 are recorded as unearned fee income.

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

Operating revenues in the Mortgage Insurance Fund include fees received from providing services 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.

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

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 and 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.

*Interfund Receivables/Payables*

The Mortgage Insurance Fund holds the assets of an investment pool for all funds administered by the Authority, subject to the Authority's investment policy as approved by the Board of Directors. These assets are included in investments on the balance sheet of the Mortgage Insurance Fund. An interfund payable (due to other funds) exists in the Mortgage Insurance Fund to recognize that a portion of this investment pool is owed to other funds. Interfund receivables (due from other funds) exists in those funds which own a portion of the investment pool. The Mortgage Insurance Fund has the ability and resources to repay these funds on demand.

**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.

*Cash and Cash Equivalents*

The carrying amounts, which represents fair value and cost, of cash and cash equivalents for the Authority at June 30, 2008 is presented below:

	<u>Cost</u>	<u>Fair Value</u>
Cash held in demand deposit accounts and on hand	\$ 3,896,667	\$ 3,896,667
Money market accounts and repurchase agreements	<u>3,007,817</u>	<u>3,007,817</u>
Total carrying amount of deposits	6,904,484	6,904,484
Amounts held in State of Maine Treasurer's Cash Pool (consisting of Commercial Paper, U.S. Treasury Securities and Certificates of Deposits)	<u>26,678,966</u>	<u>25,730,672</u>
	<u>\$ 33,583,450</u>	<u>\$ 32,635,156</u>

## FINANCE AUTHORITY OF MAINE

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008

#### 2. Cash and Investments (Continued)

Of the total carrying amount of deposits of \$6,904,484 at June 30, 2008, the corresponding bank balances were \$6,964,553. The difference between the carrying amounts of deposits and bank balances consists primarily of checks issued but not cashed. The amount of bank balances covered by Federal depository insurance was \$105,695 at June 30, 2008, leaving \$6,858,858, which was collateralized by an Irrevocable Stand-by Letter of Credit issued by the Federal Home Loan Bank of Boston 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. However, the balance at June 30, 2008 has been reduced by approximately \$948,000 to reflect losses in certain underlying securities of the cash pool. On August 28, 2008, the State Treasurer announced that Maine had reached agreement with the seller of the securities to recover such losses.

Included in cash and cash equivalents on the Statement of Fiduciary Net Assets is \$17,259,384 held in the Authority's name in the State of Maine Treasurer's Cash Pool.

At June 30, 2008, the Authority's management had reserved \$559,467 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 \$559,467 of the Mortgage Insurance Program fund balance as a reserve for these matters.

A summary of the fair values of investment securities as of June 30, 2008 is as follows:

Cash management funds	\$ 642,922
Commercial paper	3,753,129
Guaranteed investment contracts	74,744,945
U.S. Government-sponsored enterprises bonds	58,433,303
Merrill Lynch principal plus portfolio	4,065
Corporate bonds	<u>6,772,568</u>
	<u>\$ 144,350,932</u>

The guaranteed investment contracts are invested as follows at June 30, 2008:

Trinity Funding Company, LLC, in the name of The Bank of New York as Trustee for the Authority under an Indenture of Trust relative to the 2005 Series bond issue. The investments carry a variable interest rate based on the one month Libor rate less 0.035% (2.365% at June 30, 2008). The investment agreement expires in June 2035.

\$ 19,077,450

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**2. Cash and Investments (Continued)**

Trinity Funding Company, LLC, in the name of The Bank of New York as Trustee for the Authority under an Indenture of Trust relative to the 2007 Series bond issue. The investments carry a variable interest rate based on the one month Libor rate less 0.094% (2.424% at June 30, 2008).

The investment agreement expires between May 2010 and May 2014. \$ 55,667,495

Total guaranteed investment contracts \$ 74,744,945

The cost of the guaranteed investment contracts approximates fair value as the Authority can withdraw funds at par during the contract period according to the related bond indenture. The guaranteed investment contracts, whose provider is rated AAA, are restricted for the acquisition and origination of FFELP student loans, repayment of bond obligations, and to satisfy certain reserve requirements specified by the bond indentures. Obligations of Trinity Funding Company, LLC are guaranteed by General Electric Capital Corporation.

The maturities or repricings of debt securities at June 30, 2008 are as follows:

	<u>2009</u>	<u>2010 – 2013</u>	<u>2014 – 2018</u>	<u>Total</u>
Commercial paper	\$ 3,753,129	\$ –	\$ –	\$ 3,753,129
U.S. Government-sponsored enterprises (FHLB, FNMA, etc.)	25,049,252	13,753,843	19,630,208	58,433,303
Corporate bonds	<u>1,694,303</u>	<u>5,078,265</u>	<u>–</u>	<u>6,772,568</u>
	<u>\$ 30,496,684</u>	<u>\$ 18,832,108</u>	<u>\$ 19,630,208</u>	<u>\$ 68,959,000</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, 2008 are as follows:

	<u>2009</u>	<u>2010 – 2013</u>	<u>2014 – 2017</u>	<u>Total</u>
U.S. Government-sponsored enterprises (FHLB, FNMA, etc.)	\$ 1,002,500	\$ 2,531,660	\$ 7,508,741	\$ 11,042,901
Corporate bonds	<u>449,406</u>	<u>–</u>	<u>–</u>	<u>449,406</u>
	<u>\$ 1,451,906</u>	<u>\$ 2,531,660</u>	<u>\$ 7,508,741</u>	<u>\$ 11,492,307</u>

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**2. Cash and Investments (Continued)**

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, 2008, is \$891,758 of net unrealized gains 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 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 or in the guaranteed investment contracts related to its student loan activities, which are tied to a variable rate. The U.S. Treasury obligations and 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-), or guaranteed investment contracts backed by high credit quality insurance companies or letters of credit.

At June 30, 2008, the ratings for investments in debt securities are summarized as follows:

<u>Issuer</u>	<u>Rating</u>	<u>Fair Value</u>
Commercial paper	A-1+	\$ 1,149,107
Commercial paper	a-1+	2,604,022
U.S. government-sponsored enterprises <sup>(1)</sup>	AAA	58,433,303
Guaranteed Investment Contracts	AAA	74,744,945
Corporate bonds	AAA	3,123,510
Corporate bonds	AA	1,716,547
Corporate bonds	AA-	494,185
Corporate bonds	AA+	952,211
Corporate bonds	A	486,115
Other	-	4,065
Cash equivalents	-	<u>642,922</u>
		<u>\$ 144,350,932</u>

<sup>(1)</sup> Includes FHLMC, FHLB, FFCB, FNMA

# FINANCE AUTHORITY OF MAINE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

### 2. Cash and Investments (Continued)

*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 Authority may invest up to 100% of the total investment portfolio in any of the following investment categories: U.S. Treasuries, Federal instrumentalities, Repurchase agreements, or the Maine State Treasurer's Cash Pool.

In addition, 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>
Prime Commercial Paper	50%
Federal Agency	25
Money Market Mutual Funds	25
Certificates of Deposit	20
Tax Exempt Obligations	20
Corporate Bonds	20
Government Bond Funds	20

Guaranteed Investment Contracts or other investments related to the Higher Education Loan Purchase Program will not be subjected to the conditions above, but rather governed by the terms of the indenture, which requires bond insurer and rating agency approval.

*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 agents nominee's name. The Authority's investment advisor monitors the agent's credit quality.

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**3. Notes Receivable**

The following is a summary of notes receivable at June 30, 2008:

Mortgage Insurance Program:	
6.0% note, due fiscal 2008	\$ 295,082
Various notes receivable	<u>7,717</u>
	302,799
 Higher Education Loan Purchase Program, net of allowance of \$118,276	 196,658,740
 Notes receivable in the Revolving Loan Fund:	
Underground Oil Storage Replacement Program	823,166
Economic Recovery Program, net	4,116,555
Educators for Maine Program	7,662,144
Health Professions Loan Program	10,966,718
Regional Economic Development Revolving Loan Program	67,490
Plymouth Waste Oil Loan Program	<u>3,229,552</u>
	26,865,625
 Paul Douglas Program	 <u>14,027</u>
	<u>26,879,652</u>
 Total notes receivable, net	 <u>\$ 223,841,191</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, 2008, the allowance had a balance of \$4,751,955. 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.

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 Plymouth Waste Oil Programs 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 11.5%, and are due on various dates up to 2037.

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**4. Allowance for Losses on Insured Loans**

The Authority has established an allowance account to absorb probable losses on the commercial loans it insures. 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, 2008:

Beginning balance	\$5,502,112
Default payments	(461,792)
Provision for losses	3,995,969
Recoveries on prior default payments	<u>172,150</u>
Ending balance	<u>\$9,208,439</u>

**5. Off-Balance Sheet Financial Instruments, Commitments 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, 2008, the Authority had the following insurance outstanding for commercial loans:

	<u>Approximate Principal Balance Insured</u>
Loan Insurance Program	\$ 48,132,000
SMART Program	349,000
Electric Rate Stabilization Program	<u>18,795,000</u>
	<u>\$ 67,276,000</u>

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, 2008, the capital reserve requirement had been met.

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

At June 30, 2008, the Authority was insuring loans with an aggregate outstanding principal balance approximating \$4,148,000 which were ninety or more days delinquent. The aggregate insured balance of these loans was approximately \$2,292,000 at June 30, 2008.

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, 2008, these commitments under the Loan Insurance Program were approximately \$9,187,000.

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, 2008, are the geographical concentration and the electric utility industry. The credit risk in the electric utility industry relates to the Authority insuring approximately \$18,795,000 for a project involving a Maine electric utility.

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 \$763,795,000 at June 30, 2008. Such insurance obligations are detailed below:

	<u>Authorized</u>	<u>Committed and Outstanding</u>
Full Faith and Credit of the State of Maine:		
Commercial Insurance Authority	\$ 90,000,000	\$ 40,106,374
Veterans Mortgage Insurance Authority	4,000,000	242,500
Higher Education Bonds	4,000,000	-
Moral Obligation of the State of Maine:		
Commercial Loan Insurance	150,000,000	17,491,925
Electric Rate Stabilization Bonds	18,795,000	18,795,000
Major Business Expansion Projects	120,000,000	-
Workers Compensation Residual Market Projects	57,000,000	-
Solid Waste Bonds	50,000,000	-
Paper Industry Job Retention Projects	120,000,000	-
Supplemental Student Loan Program	50,000,000	-
Transmission Facilities Projects	<u>100,000,000</u>	<u>-</u>
Total Moral Obligation	<u>665,795,000</u>	<u>36,286,925</u>
Total authorized and committed	<u>\$ 763,795,000</u>	<u>\$ 76,635,799</u>

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**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, 2008, is \$159,000 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.

**7. Note and Bonds Payable**

*Note Payable*

Note payable consists of the following at June 30, 2008:

Note payable, 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.	\$981,368
Less: current portion of note payable	<u>53,860</u>
Noncurrent portion of note payable	<u>\$927,508</u>

The proceeds from the note payable are required to be used to originate notes receivable in the Intermediary Relending Loan Program, which is a governmental type fund.

*Bonds Payable*

During 2008, the 2005 Series B bonds of \$5,500,000 were retired with the proceeds from the 2007 Series Bond issue.

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**7. Note and Bonds Payable (Continued)**

The Authority has outstanding the following bonds payable at June 30, 2008, which were issued to finance the acquisition and origination of FFELP student loans:

2003 Senior Series A, comprised of auction rate bonds maturing December 1, 2033, interest is reset every 35 days and payable semi-annually; interest rate approximately 2.93% at June 30, 2008.	\$ 69,500,000
2005 Senior Series A-1, comprised of auction rate bonds maturing June 1, 2035, interest is reset every 35 days and payable semi-annually; interest rate approximately 3.31% at June 30, 2008.	47,500,000
2005 Senior Series A-2, comprised of auction rate bonds maturing June 1, 2035, interest is reset every 35 days and payable semi-annually; interest rate approximately 3.24% at June 30, 2008.	47,000,000
2007 Senior Series A-1, comprised of auction rate bonds maturing May 23, 2037, interest is reset every 35 days and payable semi-annually; interest rate approximately 2.99% at June 30, 2008.	50,000,000
2007 Senior Series A-2, comprised of auction rate bonds maturing May 23, 2037, interest is reset every 35 days and payable semi-annually; interest rate approximately 3.12% at June 30, 2008.	50,000,000
2007 Senior Series A-3, comprised of auction rate bonds maturing May 23, 2037, interest is reset every 35 days and payable semi-annually; interest rate approximately 3.04% at June 30, 2008.	<u>40,000,000</u>
	304,000,000
Less: unaccreted discount	<u>1,043,885</u>
	<u>\$ 302,956,115</u>

The bonds payable are limited obligations of the Authority and are secured, as provided in the underlying bond indenture, by an assignment and pledge to the Trustee of all the Authority's rights, title and interest in investments and revenues derived thereon. In addition, investments (including debt service reserve accounts which may be used to replenish any deficiency in funds required to pay principal and interest due on the bonds) are held in trust to secure the bonds. Proceeds from the issuance of the bonds payable and all revenues thereon are held in trust and are restricted as follows: to repurchase bonds; finance student loans; pay interest on the bonds; maintain required reserves; and pay reasonable and necessary program expenses.

As additional security for the bonds, the Authority has established reserve funds totaling approximately \$3,040,000 at June 30, 2008, to be used to replenish any deficiency in funds required to pay principal or interest due on the bonds. The reserve funds, which are included in the Authority's investments, are invested in a guaranteed investment contract and U.S. Government-sponsored enterprise bonds at June 30, 2008.

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**7. Note and Bonds Payable (Continued)**

All bonds are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest as specified in the indenture. At June 30, 2008, all bonds authorized under the underlying bond resolutions have been issued.

The debt service requirements for all bonds and the note payable, which are based on the interest rates at June 30, 2008, through 2013 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>
2009	\$ 53,860	\$ 9,411,640	\$ 9,465,500
2010	54,399	9,411,101	9,465,500
2011	54,943	9,410,557	9,465,500
2012	55,492	9,410,008	9,465,500
2013	56,047	9,409,453	9,465,500
2014 – 2018	288,757	47,038,743	47,327,500
2019 – 2023	303,487	47,024,013	47,327,500
2024 – 2028	114,383	47,010,789	47,125,172
2029 – 2033	69,500,000	45,820,038	115,320,038
2034 – 2038	<u>234,500,000</u>	<u>23,137,238</u>	<u>257,637,238</u>
	<u>\$ 304,981,368</u>	<u>\$ 257,083,580</u>	<u>\$ 562,064,948</u>

The actual maturities and interest may differ due to changes in interest rates or other factors.

The following summarizes the debt activity for the Authority for the year ended June 30, 2008:

	<u>Note Payable</u>	<u>Bonds Payable</u>
Balance at beginning of year	\$ 1,034,780	\$ 308,373,505
Principal payments	(53,412)	(5,500,000)
Accretion of discount	<u>—</u>	<u>82,610</u>
Balance at end of year	<u>\$ 981,368</u>	<u>\$ 302,956,115</u>

**FINANCE AUTHORITY OF MAINE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**8. Capital Assets**

Capital assets activity for the year ended June 30, 2008, was as follows:

	<u>June 30,</u> <u>2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30,</u> <u>2008</u>
Building and improvements	\$ 1,997,293	\$ 2,140	\$ -	\$ 1,999,433
Computer and office equipment	1,251,372	160,622	-	1,411,994
Software development	<u>2,463</u>	<u>320,708</u>	<u>-</u>	<u>323,171</u>
	3,251,128	483,470	-	3,734,598
Less accumulated depreciation for:				
Building and improvements	(494,839)	(65,132)	-	(559,971)
Computer and office equipment	(955,155)	(159,759)	-	(1,114,914)
Software development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>(1,449,994)</u>	<u>(224,891)</u>	<u>-</u>	<u>(1,674,885)</u>
	<u>\$ 1,801,134</u>	<u>\$ 258,579</u>	<u>\$ -</u>	<u>\$ 2,059,713</u>

Depreciation expense of \$224,891 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, 2008, are summarized below:

Received for grant programs	\$ 13,327,503
Received for loan programs	4,675,188
General State of Maine appropriations	352,277
Reserve fund balance transfer	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, 2008

#### 9. Transactions with the State of Maine (Continued)

##### *Maine College Savings Program Fund*

The Authority administers the Maine College Savings Program Fund for the State of Maine. The NextGen College Investing Plan is the primary program of the Maine College Savings Program 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 \$5,300,000,000 in net asset value at June 30, 2008. The program assets and liabilities are 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, Inc. to manage the program and invest the funds with oversight from the State of Maine Treasurer and the Authority. 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 plan assets. The administrative fees earned were \$7,943,615 in fiscal year 2008.

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 \$6,775,897 in fiscal year 2008.

#### 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, 2008 (See note 5).

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. As of June 30, 2008, the original balance of the outstanding SMART revenue bonds totaled \$1,350,000. The current balance of the Authority’s insurance at June 30, 2008 related to the SMART revenue bonds is \$349,000.

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, 2008, the balance of the outstanding Electric Rate Stabilization bonds and the Authority’s insurance totaled \$18,795,000.

## FINANCE AUTHORITY OF MAINE

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008

#### **10. Revenue Bonds (Continued)**

The Authority is authorized to assist, review, approve and issue Revenue Obligation Securities for Major Business Expansion Projects in Maine. The Major Business Expansion Projects specifically exclude electric rate stabilization, housing and retail sales to consumers. The Major Business Expansion Projects must have a projected cost and projected job creation or retention within certain parameters to be eligible. At June 30, 2008, no commitments were outstanding under this authority.

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.

#### **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, 2008.

Currently, the Authority offers a Simplified Employee Pension Plan to its employees. All contributions made by the Authority now go into this plan. Pension expense was \$190,293 in fiscal 2008.

#### **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.

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**12. Federal Student Loan Reserve Fund (Continued)**

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. Deposits into this fund include a processing fee paid by DE on new loans disbursed (origination fee), a portfolio maintenance fee paid by DE on all outstanding loans, a default aversion fee paid from the Federal Student Loan Reserve Fund and collections on defaulted loans after subtracting amounts to be paid to DE. The Federal Guarantee Agency Operating Fund is a governmental fund of the Authority.

Total outstanding guarantees issued under the FFELP approximated \$967,352,000 at June 30, 2008. A portion of defaults on FFELP loan guarantees are paid by DE through the Federal Student Loan Reserve Fund. At June 30, 2008, the reserve level was approximately \$2,863,000.

**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. Non-purpose arbitrage liability relates to bond proceeds not yet used for their intended purpose which have been temporarily invested. Purpose arbitrage liability relates to excess earnings on bond proceeds utilized for intended purposes such as acquiring student loans. The Authority estimated that there was an arbitrage liability at June 30, 2008 of \$1,321,938.

No payments are expected to be made within the next year.

The following is a schedule of the activity in accrued arbitrage liability during 2008:

Beginning balance	\$ 2,443,298
Decrease in accrued arbitrage	<u>(1,121,360)</u>
Ending balance	<u>\$ 1,321,938</u>

The following is a breakdown between purpose and non-purpose arbitrage at June 30, 2008:

Nonpurpose	\$ 1,321,938
Purpose	<u>—</u>
	<u>\$ 1,321,938</u>

**FINANCE AUTHORITY OF MAINE**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

**14. Subsequent Events**

*Student Loan Purchases*

In accordance with the Higher Education Loan Purchase Program, the Authority committed to lend up to \$25,000,000 to a lending partner for the purpose of originating FFELP student loans.

**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 14, 2008

  
Limited Liability Company

**FINANCE AUTHORITY OF MAINE**

COMBINING SCHEDULE OF FIDUCIARY NET ASSETS

AGENCY FUNDS

June 30, 2008

<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	\$1,699,981	\$ 5,629,275	\$2,383,269	\$3,099,326
Accounts receivable	1,162,653	-	-	-
Accrued interest receivable	-	218,099	-	-
Notes receivable, net	<u>-</u>	<u>7,143,925</u>	<u>5,009,322</u>	<u>-</u>
Total assets	<u>\$2,862,634</u>	<u>\$ 12,991,299</u>	<u>\$7,392,591</u>	<u>\$3,099,326</u>
 <u>LIABILITIES</u>				
Accounts payable and other liabilities	\$ -	\$ 6,948	\$ 21	\$ -
Due to the U.S. Department of Education	2,862,634	-	-	-
Amounts held for State of Maine under revolving loan programs	<u>-</u>	<u>12,984,351</u>	<u>7,392,570</u>	<u>3,099,326</u>
Total liabilities and net assets	<u>\$2,862,634</u>	<u>\$ 12,991,299</u>	<u>\$7,392,591</u>	<u>\$3,099,326</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>
\$ 13,440	\$413,241	\$5,015,029	\$ 15,283	\$ 10,566	\$ 7,716	\$ 18,287,126
-	-	-	-	-	-	1,162,653
-	-	9,102	-	-	-	227,201
<u>771,675</u>	<u>-</u>	<u>2,936,157</u>	<u>-</u>	<u>68,692</u>	<u>-</u>	<u>15,929,771</u>
<u>\$785,115</u>	<u>\$413,241</u>	<u>\$7,960,288</u>	<u>\$15,283</u>	<u>\$ 79,258</u>	<u>\$ 7,716</u>	<u>\$ 35,606,751</u>
\$ 13,420	\$ -	\$ 32,594	\$ -	\$ 1,448	\$ -	\$ 54,431
-	-	-	-	-	-	2,862,634
<u>771,695</u>	<u>413,241</u>	<u>7,927,694</u>	<u>15,283</u>	<u>77,810</u>	<u>7,716</u>	<u>32,689,686</u>
<u>\$785,115</u>	<u>\$413,241</u>	<u>\$7,960,288</u>	<u>\$15,283</u>	<u>\$ 79,258</u>	<u>\$ 7,716</u>	<u>\$ 35,606,751</u>