BAKER
NEWMAN
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Finance Authority of Maine

Basic Financial Statements and Management's Discussion and Analysis

Year Ended June 30, 2016

Baker Newman & Noyes, LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
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FINANCE AUTHORITY OF MAINE

FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Finance Authority of Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Finance Authority of Maine (the Authority), a component unit of the State of Maine, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of NextGen College Investing Plan, which represent 99.5 percent, 100 percent, and 99.5 percent, respectively, of the assets, fund balance/net position, and additions/revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for NextGen College Investing Plan, is based solely on the report of the other auditors. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the Aggregate Remaining Fund information of the Authority, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Combining Schedule of Net Position – Agency Funds, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, the Combining Schedule of Net Position – Agency Funds is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Board of Directors
Finance Authority of Maine

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Baker Newman & Noyes LLC

Portland, Maine
October 20, 2016

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

As Management of the Finance Authority of Maine (FAME or the Authority), 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, 2016. As required, the Authority's financial statements are presented in the manner prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34), as amended. Under GASB 34, the Authority's funds are identified as Proprietary, or Business-type funds, Governmental funds, and Fiduciary funds. The Authority's funds are generally created by federal or state statute.

Four of the Authority's funds are combined as Proprietary or Business-type: the Mortgage Insurance Program Fund, the NextGen Administration Fund, the Maine Loan Program Fund, and the Educational Loan Fund in the basic financial statements. The remaining funds, with the exception of the Fiduciary funds, are classified as Governmental Funds, which combine the Authority's governmental business finance-related funds with its education finance-related funds. In addition, the Authority manages funds, the Fiduciary funds, for other boards or entities either pursuant to statute or contract. Additionally, the Authority serves as administrator for the NextGen College Investing Plan. These are included in the Statement of Net Position-Fiduciary Funds.

Significant Highlights for the Year Ended June 30, 2016

- In Fiscal 2015, the Maine State Legislature enacted LD 1443 *An Act to Merge the Maine Education Loan Authority (MELA) with the Finance Authority of Maine*, which became effective October 15, 2015; for financial accounting purposes, the assets, deferred outflow of resources, liabilities and net position of MELA were merged with FAME effective July 1, 2015. The Maine Education Loan Authority is now referred to as the Maine Loan Program Fund within the FAME financials. The Maine Loan Program uses bond financing to provide unsecured educational loans to Maine residents for the purpose of higher education. As of June 30, 2016, the outstanding loan portfolio totaled $91,070,000 with $106,903,000 in bonds payable outstanding. The addition of the Maine Loan Program Fund within the FAME financials results in a significant increase to both the assets & liabilities of the Authority due to the large loan portfolio and associated bond financing.

- In challenging economic periods, the demand for the Authority's commercial loan insurance increases as financial institutions seek to mitigate risk by requiring the Authority's insurance protection. As a result, the Authority typically experiences a decrease in the insured commercial loan portfolio in an improving economy. However, the Authority has been able to negate this cyclical contraction because of the popularity of the On-Line Answer (OLA) program.

  The insured commercial loan portfolio remained stable year over year, increasing 0.5% from $111,445,000, at June 30, 2015, to $111,983,000 at June 30, 2016. The allowance for insured commercial loan losses totaled $17,053,000 and $16,106,000, and represented 15% and 14% of insured commercial loans at June 30, 2015 and June 30, 2016, respectively. The allowance for insured commercial loan losses and associated provision reflect: the net growth in the insured loan portfolio; the economic conditions present; the inherent credit quality of the underlying insured loan portfolio; probable losses on insured loans; and the amount of claims paid, net of recoveries. During the year-ended June 30, 2015, the Authority recorded provisions for losses on insured loans of $1,588,000. During the year-ended June 30, 2016, the Authority recorded a net recovery for losses on insured loans of $268,000, which represents its current assessment based upon the improved credit quality and risks in the portfolio. During fiscal year 2015, the Authority paid claims, net of recoveries, totaling $687,000, compared to net claims paid totaling $678,000 in fiscal year 2016.

- The Authority administers the NextGen College Investing Plan, a Qualified Tuition Program under Section 529 of the Internal Revenue Code. Due to market fluctuations during the year, the value of Program investments showed no growth compared to prior year, with a market value of $8.5 billion at year-end. These investments are owned by or credited to accountholders who have opened a college investing account. The NextGen College Investing Plan balance reflects accountholder contributions, in excess of withdrawals, as well as market value movements and earned income on account balances.

  The assets of the Program are included in the Authority's financial statements. They are identified as a Private-Purpose Trust fund, a fiduciary fund. The Authority contracts with Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch) to provide management services to the NextGen College Investing Plan.

  The Authority earns fees for its administration services based on the daily net asset values of the Program investments, and administration revenues and expenses are accounted for in the NextGen Administration Fund. NextGen administration fees, included in fee and other income on the statement of revenues, expenses and changes in net position, totaled $8,606,000 in fiscal year 2015, compared to $8,621,000 in fiscal year 2016.

- Federal legislation in 2009 eliminated new student loan originations in the Federal Family Education Loan Program (FFELP) as of July 1, 2010, effectively creating a phase-out period of the Program as existing loans in the Program's portfolio amortize over their repayment periods. The Authority serves as the guarantor of these loans in Maine, which were originated by financial institutions participating in the Program, and manages the FFELP for the U. S. Department of Education (DE). At fiscal year-end 2016, the Authority guaranteed approximately $440.9 million of student loans in the Program.

  In December 2013, the Bipartisan Budget Agreement was enacted. Provisions of the Act decrease the share guaranty agencies, such as the Authority, are permitted to retain when they rehabilitate a defaulted loan, increase the share returned to the Federal government and reduce the maximum fee that a guarantor can charge the borrower for the rehabilitation of the loan. As a result of the passage of this Act and the continued repayment of guaranteed student loans, the Authority expects to realize a significantly declining revenue stream from the existing guaranteed portfolio as the loans amortize. Administrative revenues, net of loan serving costs, associated with the FFELP totaled $707,000 for the fiscal year 2016, compared to $1,059,000 during fiscal 2015. Administrative fees earned by serving as Maine's guarantor have historically provided a source of funding for Authority activities such as outreach, financial education, default prevention services, and assistance to financial aid officers at college.

- During fiscal year 2013, the Authority received legislative approval to create a program to insure student loans issued by private lenders, with the program insuring its first loans under the Student Loan Insurance product during fiscal year 2014. During fiscal year 2016 the Authority developed an additional loan product within the program targeted specifically for the refinancing of student loan debt. During 2016, the Authority's Board of Directors approved the transfer of $1,800,000 from the Federal Guaranty Agency Operating Fund to capitalize the program; the Authority expects to insure its first loans under this new product during fiscal year 2017.

- The Authority's net position increased by $4,092,000 or 10.2%, to $44,294,000 for the year ended June 30, 2016. This increase reflects the $3,146,000 of net position transferred to FAME as a result of the merger of MELA into FAME, as well as the receipt of a $1,000,000 reserve fund transfer from the State of Maine, partially offset by operating costs, scholarships and grants in excess of revenues.

Overview of the Authority

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

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

Overview of Financial Statements

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

Authority-Wide Financial Statements

The Authority-wide financial statements are designed to provide readers with a broad overview of the Authority's finances. The Statement of Net Position 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 Net Position-Fiduciary Funds. 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 four funds as Proprietary. They include the Mortgage Insurance Program Fund, the NextGen Administration Fund, the Maine Loan Program Fund, and the Educational Loan Fund in the basic financial statements. 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.

Fiduciary Funds – The Authority maintains two different types of fiduciary funds. The Private-Purpose Trust fund is used to report resources held for participants in the NextGen College Investing Plan, a Qualified Tuition Program under Section 529 of the Internal Revenue Code, administered by the Authority. The Agency fund reports resources held by the Authority in a custodial capacity for other governmental organizations. 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 Position
(In thousands of dollars)

	Proprietary Activities		Governmental Activities		Total		Total Percent Change
	2016	2015	2016	2015	2016	2015	
Assets							
Cash and investments	$ 70,437	$49,549	$34,892	$41,512	$105,329	$ 91,061	15.7%
Notes and educational loans receivable, net	91,333	282	23,285	23,122	114,618	23,404	389.7
Capital assets, net	1,491	1,460	–	–	1,491	1,460	2.1
Other assets	2,812	481	658	885	3,470	1,366	154.0
Total assets	$166,073	$51,772	$58,835	$65,519	$224,908	$117,291	91.8%
Deferred Outflows of Resources							
Deferred loss on refinancing	$ 829	$ –	$ –	$ –	$ 829	$ –	100.0%
Liabilities							
Accounts payable and accrued liabilities	$ 5,817	$ 3,555	$ 443	$ 383	$ 6,260	$ 3,938	59.0%
Unearned fee income	660	690	511	474	1,171	1,164	0.6
Unearned grant and scholarship funds	–	–	9,071	14,268	9,071	14,268	(36.4)
Allowance for losses on insured loans	16,189	17,096	–	–	16,189	17,096	(5.3)
Long-term liabilities:							
Notes and bonds payable:							
Due within one year	6,537	–	408	808	6,945	808	759.5
Due in more than one year	100,366	–	477	535	100,843	535	NM
Program funds:							
Amounts held under state revolving loan programs	–	–	40,963	39,278	40,963	39,278	4.3
Total liabilities	$129,569	$21,341	$51,873	$55,746	$181,442	$ 77,087	135.4%
Net Position							
Unrestricted net assets	$ 24,422	$20,653	$ 449	$ 449	$ 24,871	$ 21,102	17.9
Restricted net assets	11,419	8,318	6,513	9,323	17,932	17,641	1.6
Invested in capital assets	1,492	1,460	–	–	1,492	1,460	2.2
Total net position	$ 37,333	$30,431	$ 6,962	$ 9,772	$ 44,295	$ 40,203	10.2%

The Authority's balance sheet as of June 30, 2016 showed significant changes due to the merger of MELA into FAME. The merger resulted in additional cash and investments totaling $19,075,000, net notes and educational loans receivable of $91,070,000, and net bonds payable of $106,903,000 at June 30, 2016. For information regarding the merger of MELA into FAME please see Note 16.

Some of the changes in the individual line items that were not solely the result of the merger of MELA into FAME are described below:

Cash and Investments

Cash and investments increased by $14,268,000, or 15.7%, during the year, due to the addition of the Maine Loan Program Fund to the FAME financials, partially offset by continued distribution of funds through the State Small Business Credit Initiative (SSBCI) program as well as distribution of grants within the NextGen Administration Fund.

Unearned Grant and Scholarship Funds

Undisbursed grant and scholarship funds decreased by $5,197,000, or 36.4%, due to the continued disbursement of SSBCI & Regional Economic Development Revolving Loan Program (REDRLP) funds.

Allowance for Insured Loan Losses

The allowance for insured loan losses decreased $907,000, or 5.3%, primarily due to improvement in the credit quality of the portfolio, including decreases in delinquencies.

Long-Term Liabilities – Program Funds

The Authority receives State appropriations and funds from the issuance of State of Maine bonds to provide loans under revolving loan programs. The amounts held 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 $1,685,000, or 4.3%, during the fiscal year.

Net Position

The Authority's mission is to provide access to innovative financial solutions to help Maine citizens pursue business and higher education opportunities. When the economy is performing well the Authority usually builds its balance sheet. In difficult economic climates, the Authority may continue to provide student and business funding even when net position may decline. A strong balance sheet allows the Authority to continue to serve its customers particularly when they need help the most. Alternatively, the Authority could reduce student grants and be more selective in financing Maine businesses to prevent a reduction in net position. The Authority tries to maintain its balance sheet to permit funding customers at the highest level possible.

For the year, the Authority's net position increased by $4,092,000 or 10.2%. This increase reflects the $3,146,000 of net position transferred as a result of the merger of MELA into FAME, as well as the receipt of a $1,000,000 reserve fund transfer from the State of Maine, partially offset by operating costs, scholarships and grants in excess of revenues. Further details are discussed below as part of the Statements of Revenues, Expenses/Expenditures and Changes in Net Position/Fund Balance 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 Position
(In thousands of dollars)

			Increase/(Decrease)	
	2016	2015	Amount	%
Revenues:				
State funding	$ 600	$ 566	$ 34	6.0%
Income from user fees	13,715	13,462	253	1.9
Investment income	1,017	484	533	110.1
Administrative revenues	2,150	2,920	(770)	(26.4)
Interest income on notes and educational loans receivable	7,871	18	7,853	NM
Other income	2,672	2,832	(160)	(5.6)
Grant and scholarship revenue	20,213	13,623	6,590	48.4
Total revenues	48,238	33,905	14,333	42.3
Expenses:				
Salaries and benefits	4,903	4,351	552	12.7
Loan servicing expenses	4,601	4,120	481	11.7
Interest expense	11	14	(3)	(21.4)
Financing expenses	5,763	–	5,763	100.0
Provision for losses on loans	311	1,626	(1,315)	(80.9)
Grant and scholarship expenses	28,699	21,128	7,571	35.8
Other operating expenses/other	4,004	3,268	736	22.5
Total expenses	48,292	34,507	13,785	39.9
Other Activity:				
Merger of MELA into FAME	3,146	–	3,146	100.0
Reserve fund and other transfers from State	1,000	5,000	(4,000)	(80.0)
Change in net position	$ 4,092	$ 4,398	$ (306)	(7.0)%

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

Results of Operations - Proprietary Funds

The net assets of the Authority's proprietary funds increased by $6,902,000 or 22.7%, from the prior year. The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets for the proprietary funds for the years ended June 30, 2016 and 2015:

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

	2016	2015	Increase/(Decrease) Amount	Increase/(Decrease) %
Operating revenues:				
Income from user fees	$13,715	$13,462	$ 253	1.9%
Interest income on notes and educational loans receivable	7,871	18	7,853	NM
Other income	1,690	1,747	(57)	(3.3)
Total revenue	23,276	15,227	8,049	52.9
Operating expenses:				
Salaries and benefits	3,022	2,754	268	9.7
External loan servicing costs	2,986	2,048	938	45.8
Financing expenses	5,763	–	5,763	100.0
Provision for losses on loans	311	1,626	(1,315)	(80.9)
Customer benefit expenses	8,486	7,505	981	13.1
Other operating expenses/other	3,512	2,669	843	31.6
Total operating expenses	24,080	16,602	7,478	45.0
Operating loss	(804)	(1,375)	571	41.5
Nonoperating revenues (expenses):				
Investment income	765	335	430	128.4
Reserve fund transfer from State	1,000	5,000	(4,000)	(80.0)
Total nonoperating revenue	1,765	5,335	(3,570)	(66.9)
Change in net position, before net position transfer	961	3,960	(2,999)	(75.7)
Transfers in from Government Type Funds	2,795	–	2,795	100.0
Merger of MELA into FAME	3,146	–	3,146	100.0
Change in net position	6,902	3,960	2,942	74.3
Net position at beginning of year	30,431	26,471	3,960	15.0
Net position at end of year	$37,333	$30,431	$ 6,902	22.7%

The proprietary funds include the Mortgage Insurance Program Fund, the NextGen Administration Fund, the Maine Loan Program Fund, and the Educational Loan Fund in the basic financial statements. Because these programs are classified as business-type funds, non-Program investment income and state appropriations are categorized as non-operating revenue as required by GASB 34. In the governmental funds, these items are listed as revenues. The Mortgage Insurance Program relies on fee revenue and investment income to provide most of its funding for operations. The NextGen Administration Fund and Educational Loan Fund rely on fee revenue to cover operating expenses. The Maine Loan Program Fund relies on interest income from outstanding student loans to fund operating expenses. Net Position in the Mortgage Insurance Program Fund is used by the Authority to provide additional support for commercial loan insurance claims, in excess of the allowance for insured commercial loan losses. Net Position in the NextGen Administration Fund is used to fund student benefit programs, such as grants, scholarships, matching contributions and fee rebates for those who qualify for the programs. Effective October 9, 2013 the net position in the NextGen Administration Fund may also be used to fund financial education activities. Net Position in the Educational Loan Fund is used to fund higher education financing initiatives and outreach activities. Net Position in the Maine Loan Program Fund is used to provide new educational loans to students as well as support debt service on outstanding bonds payable.

Operating revenue totaled $23,276,000, an increase of 52.9% over prior year. The $253,000 increase in income from user fees, as well as the $7,853,000 increase to interest income on notes and educational loans receivable is due primarily to the addition of the Maine Loan Program Fund within the FAME financials; the Maine Loan Program Fund generated $351,000 in income from user fees and $7,855,000 in interest income during fiscal 2016. The $57,000 or 3.3% decrease within other income stems primarily from a reduction in application fee revenue within the Mortgage Insurance Program Fund as a result of lower than expected conduit bond origination volume, partially offset by increased insurance premiums on new loans insured.

Operating expenses increased by $7,478,000, or 45.0%, from the prior year due primarily to the inclusion of the Maine Loan Program Fund within the FAME financials, which accounted for $8,225,000 of total expenses. Provisions for losses on loans decreased $1,315,000 from prior year, due to an improved credit quality of the commercial loan portfolio, partially offset by provisions associated with the Maine Loan Program Fund of $540,000. Customer benefit expenses increased $981,000 or 13.1% due to growth in the number of NextGen accountholders and the associated NextStep Matching Grants for contributions during the year.

Nonoperating revenues reflect the receipt of $1.0 million in support of commercial insurance reserves from the State. The fund balance transfer represents $1,800,000 transferred from the FFELP to establish a reserve in the Educational Loan Fund for the newly developed student loan consolidation product, as well as $995,000 transferred from the FFELP to the NextGen Administration Fund to reimburse for funds used to cover outreach admin costs in prior years.

Overall, the net position of the proprietary funds increased by $6,902,000 or 22.7% to $37,333,000.

Results of Operations - Governmental Funds

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

The Fund Balance of the Authority's governmental funds decreased by $2,810,000, or 28.8%, from the prior year. The following table summarizes the Statement of Revenues, Expenditures and Changes in Fund Balance for the governmental funds for the years ended June 30, 2016 and 2015:

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

			Increase/(Decrease)	
	2016	2015	Amount	%
Revenue:				
State appropriations	$ 600	$ 566	$ 34	6.0%
Investment income	252	149	103	69.1
Administrative revenues	2,150	2,920	(770)	(26.4)
Other income	982	1,085	(103)	(9.5)
Grant and scholarship revenue	20,213	13,623	6,590	48.4
Total revenue	24,197	18,343	5,854	31.9
Expenses:				
Salaries and benefits	1,881	1,597	284	17.8
External loan servicing expenses	1,615	2,072	(457)	(22.1)
Grant and scholarship expenses	20,213	13,623	6,590	48.4
Interest expense	11	14	(3)	(21.4)
Other operating expenses/other	492	599	(107)	(17.9)
Total expenses	24,212	17,905	6,307	35.2
Fund Balance Transfers to Business Type Funds	(2,795)	–	(2,795)	100.0
Changes in fund balance	(2,810)	438	(3,248)	(741.6)
Fund balance at beginning of year	9,772	9,334	438	4.7
Fund balance at end of year	$ 6,962	$ 9,772	$ (2,810)	(28.8)%

The governmental funds include all of the Authority's business lending programs except for the Mortgage Insurance Program, which contains the commercial loan insurance programs. Most of these programs are direct revolving loan programs, including programs such as the Economic Recovery Loan Program and Oil Storage Facility and Tank Replacement Program. Also, the governmental funds include all of the education-related programs, except for the NextGen Administration Fund, the Maine Loan Program Fund, and the Educational Loan Fund. This group includes the Federal Family Education Loan Program (FFELP) Operating Fund and programs such as the Educators for Maine Loan Program, the Maine State Grant Program, and the Maine Health Professions Loan Program. These programs 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 $24,197,000, an increase from prior year of $5,854,000, or 31.9%. This increase came primarily from a $6,590,000, or 48.4% increase in grant and scholarship revenues, offset by a $770,000, or 26.4%, reduction in administrative revenues associated with the FFELP. The increase in grant and scholarship revenues was the result of an additional $5,000,000 in funding received via State Appropriations for the purpose of increasing the Maine State Grant Program, as well as continued disbursement of funds associated with the REDRLP and SSBCI programs.

Expenses for the year were $24,212,000, which were $6,307,000, or 35.2% higher than prior year. The increase came primarily from a $6,590,000, or 48.4% increase in grant & scholarship revenues associated with the programs mentioned previously, offset by a $457,000, or 22.1% reduction in costs associated with loan servicing within the FFELP.

Overall, the fund balance of the governmental funds decreased by $2,810,000, or 28.8%, to $6,962,000, primarily due to a fund transfer from the FFELP of $2,795,000. The fund balance transfers were to establish a $1,800,000 reserve for the student loan consolidation product, as well as reimburse the NextGen Administration Fund $995,000 as previously mentioned.

Debt Structure

The Authority's operating expenses are funded primarily through fees for services, investment earnings, interest income on notes and educational loans receivable, and appropriations or other governmental contributions.

As part of the merger of MELA into FAME, the Authority is authorized to issue student loan revenue bonds to originate alternative educational loans to Maine residents for the purpose of higher education. As of June 30, 2016, the Authority had $106,903,000 in net bonds payable outstanding. The Authority retired $8,225,000 of the Series 2009, 2010, and 2012 bonds upon schedule maturity and mandatory redemptions during fiscal 2016.

The Authority negotiated a funding agreement with the United States Department of Agriculture's Department of Rural Development (USDA) in a prior year whereby the Authority borrowed funds at a rate of interest of 1.0% per annum and can relend the money at a higher interest rate to qualified business borrowers. The proceeds from business borrowers are used to repay the USDA note and cover related operating expenses. The outstanding balance for the USDA note was approximately $535,000 as of June 30, 2016.

The Authority also has a funding agreement from a prior year with the Maine Health Access Foundation, whereby the Authority borrowed funds at a rate of interest of 1.0% per annum and can relend the money at a higher interest rate to eligible medical offices for converting their medical records to an electronic format. The proceeds from borrowers are used to repay the Foundation note and cover related operating expenses. The outstanding balance for the Foundation note was $350,000 as of June 30, 2016.

Requests for Information

Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Chief Executive Officer, Finance Authority of Maine, P.O. Box 949, Augusta, ME 04332-0949.

FINANCE AUTHORITY OF MAINE

STATEMENT OF NET POSITION

June 30, 2016

ASSETS	Business-Type Activities	Governmental Activities	Total
Cash and cash equivalents (notes 2, 9 and 10)	$ 37,256,122	$ 14,031,455	$ 51,287,577
Investments (note 2)	33,180,316	20,860,801	54,041,117
Accounts receivable	763,797	240,264	1,004,061
Accrued interest receivable	1,439,222	–	1,439,222
Notes and educational loans receivable, net (notes 3, 6, 9 and 10)	91,332,802	23,284,715	114,617,517
Prepaid expenses and other assets	609,088	417,831	1,026,919
Capital assets, net (note 11)	1,491,316	–	1,491,316
Total assets	$ 166,072,663	$ 58,835,066	$ 224,907,729
DEFERRED OUTFLOW OF RESOURCES			
Deferred loss on refinancing (note 9)	$ 828,784	$ –	$ 828,784
LIABILITIES			
Accounts payable and accrued liabilities (note 7)	$ 3,372,104	$ 443,465	$ 3,815,569
Unearned fee income	660,256	511,142	1,171,398
Accrued interest payable	461,767	–	461,767
Arbitrage rebatable (note 10)	1,983,039	–	1,983,039
Unearned grant and scholarship funds	–	9,070,618	9,070,618
Allowance for losses on insured loans (notes 4 and 6)	16,188,448	–	16,188,448
Long-term liabilities:			
Due within one year – note payable (note 8)	–	408,323	408,323
Due in more than one year – note payable (note 8)	–	476,877	476,877
Due within one year – bonds payable (notes 9 and 10)	6,537,055	–	6,537,055
Due in more than one year – bonds payable (notes 9 and 10)	100,366,184	–	100,366,184
Due in more than one year – program funds	–	40,962,781	40,962,781
Total liabilities	$ 129,568,853	$ 51,873,206	$ 181,442,059
Commitments and contingent liabilities (notes 6, 7 and 13)			
NET POSITION			
Invested in capital assets	$ 1,491,316	$ –	$ 1,491,316
Restricted for education activities	8,683,470	6,343,108	15,026,578
Restricted for business programs	–	169,806	169,806
Restricted for education bond programs	2,735,612	–	2,735,612
Unrestricted	24,422,196	448,946	24,871,142
Total net position	$ 37,332,594	$ 6,961,860	$ 44,294,454

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

	Expenses	Charges for Services
Functions/Programs:		
Governmental activities:		
Federal Student Loan Guarantee Program	$ 2,456,022	$ 2,150,220
Educational Grant Programs	14,590,363	–
Revolving Loan Programs	3,335,864	629,632
Other Governmental Grant Programs	3,829,862	170,123
Total governmental activities	24,212,111	2,949,975
Business-type activities:		
Commercial Mortgage Insurance Program	1,972,483	2,171,715
College Savings Program	11,198,566	10,430,883
Maine Loan Program	8,225,282	8,205,487
Educational Loan Programs	2,684,092	2,468,278
Total business-type activities	24,080,423	23,276,363
Total Authority	$48,292,534	$26,226,338

Other activity:
Investment income
Reserve fund transfer from State (note 12)

Total other activity

Change in net position, before net position transfers and merger of MELA into FAME

Merger of MELA into FAME (note 16)

Net position transfers (note 1)

Net position at beginning of year

Net position at end of year

See accompanying notes to the financial statements.

Program Revenues		Net Revenue (Expense) and Changes in Net Position		
Program Investment Income	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
$117,833	$ 181,817	$ (6,152)	$ –	$ (6,152)
–	14,590,363	–	–	–
6,733	2,690,153	(9,346)	–	(9,346)
127,596	3,532,141	(2)	–	(2)
252,162	20,994,474	(15,500)	–	(15,500)
–	–	–	199,232	199,232
–	–	–	(767,683)	(767,683)
–	–	–	(19,795)	(19,795)
–	–	–	(215,814)	(215,814)
–	–	–	(804,060)	(804,060)
$252,162	$20,994,474	(15,500)	(804,060)	(819,560)
		–	764,964	764,964
		–	1,000,000	1,000,000
		–	1,764,964	1,764,964
		(15,500)	960,904	945,404
		–	3,145,900	3,145,900
		(2,795,178)	2,795,178	–
		9,772,538	30,430,612	40,203,150
		$ 6,961,860	$37,332,594	$44,294,454

FINANCE AUTHORITY OF MAINE

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2016

ASSETS	Mortgage Insurance Program Fund	NextGen Administration Fund	Maine Loan Program Fund
Current assets:			
Cash and cash equivalents (notes 2, 9 and 10)	$ 12,024,622	$ 4,469,104	$ 19,048,532
Investments (note 2)	12,615,896	4,678	–
Accounts receivable	36,554	707,321	–
Accrued interest receivable	241,333	–	696,447
Notes and educational loans receivable, net (notes 3, 6, 9 and 10)	25,716	–	15,439,400
Prepaid expenses and other assets	163,180	5,000	23,202
Total current assets	25,107,301	5,186,103	35,207,581
Noncurrent assets:			
Investments (note 2)	10,723,213	6,206,724	26,011
Notes and educational loans receivable, net (notes 3, 6, 9 and 10)	236,660	–	75,631,026
Accrued interest receivable	–	–	501,442
Other assets	–	–	417,706
Capital assets, net (note 11)	1,491,316	–	–
Total noncurrent assets	12,451,189	6,206,724	76,576,185
Total assets	$ 37,558,490	$ 11,392,827	$ 111,783,766
DEFERRED OUTFLOW OF RESOURCES			
Deferred loss on refinancing (note 9)	$ –	$ –	$ 828,784
LIABILITIES			
Current:			
Accounts payable and accrued liabilities (note 7)	$ 516,960	$ 2,709,357	$ 109,462
Unearned fee income	660,256	–	–
Accrued interest payable	–	–	461,767
Bonds payable, net (notes 9 and 10)	–	–	6,537,055
Allowance for losses on insured loans (notes 4 and 6)	16,106,088	–	–
Total current liabilities	17,283,304	2,709,357	7,108,284
Noncurrent liabilities:			
Arbitrage rebatable (note 10)	–	–	1,983,039
Bonds payable, net (notes 9 and 10)	–	–	100,366,184
Total noncurrent liabilities	–	–	102,349,223
Total liabilities	$ 17,283,304	$ 2,709,357	$ 109,457,507
Commitments and contingent liabilities (notes 6, 7 and 13)			
NET POSITION			
Net investment in capital assets	$ 1,491,316	$ –	$ –
Restricted for education activities	–	8,683,470	–
Restricted for education bond programs	–	–	2,735,612
Unrestricted	18,783,870	–	419,431
Total net position	$ 20,275,186	$ 8,683,470	$ 3,155,043

See accompanying notes to the financial statements.

Educational Loan Fund	Total
$ 1,713,864	$ 37,256,122
–	12,620,574
19,922	763,797
–	937,780
–	15,465,116
–	191,382
1,733,786	67,234,771
3,603,794	20,559,742
–	75,867,686
–	501,442
–	417,706
–	1,491,316
3,603,794	98,837,892
$ 5,337,580	$ 166,072,663
$ –	$ 828,784
$ 36,325	$ 3,372,104
–	660,256
–	461,767
–	6,537,055
82,360	16,188,448
118,685	27,219,630
–	1,983,039
–	100,366,184
–	102,349,223
$ 118,685	$ 129,568,853
$ –	$ 1,491,316
–	8,683,470
–	2,735,612
5,218,895	24,422,196
$ 5,218,895	$ 37,332,594

FINANCE AUTHORITY OF MAINE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

For the Year Ended June 30, 2016

	Mortgage Insurance Program Fund	NextGen Administration Fund	Maine Loan Program Fund
Operating revenues:			
Insurance premiums	$ 1,297,553	$ –	$ –
Application and commitment fees	327,035	–	–
Interest income on notes and educational loans receivable	16,115	–	7,854,898
Fee and other income	531,012	10,430,883	350,589
Total operating revenues	2,171,715	10,430,883	8,205,487
Operating expenses:			
Salaries and related benefits	1,650,491	961,500	199,696
Financing expenses	–	–	5,763,258
Bond administration expenses	–	–	333,929
Arbitrage expense	–	–	449,590
Other operating expenses	590,381	1,750,708	165,168
Loan servicing costs (note 6)	–	–	773,641
Provision (recovery) for losses on insured commercial loans, insured education loans and educational loans (notes 3 and 4)	(268,389)	–	540,000
Scholarship expenses	–	3,728,304	–
Matching contributions and rebates	–	4,758,054	–
Total operating expenses	1,972,483	11,198,566	8,225,282
Operating income (loss)	199,232	(767,683)	(19,795)
Nonoperating revenues:			
Investment income	531,192	138,067	28,938
Reserve fund transfer from State (note 12)	1,000,000	–	–
Total nonoperating revenues	1,531,192	138,067	28,938
Change in net position, before net position transfers and merger of MELA into FAME	1,730,424	(629,616)	9,143
Merger of MELA into FAME (note 16)	–	–	3,145,900
Net position transfers (note 1)	–	995,178	–
Change in net position	1,730,424	365,562	3,155,043
Net position at beginning of year	18,544,762	8,317,908	–
Net position at end of year	$20,275,186	$ 8,683,470	$ 3,155,043

See accompanying notes to the financial statements.

Educational Loan Fund	Total
$ 65,312	$ 1,362,865
–	327,035
–	7,871,013
2,402,966	13,715,450
2,468,278	23,276,363
210,659	3,022,346
–	5,763,258
–	333,929
–	449,590
221,682	2,727,939
2,212,440	2,986,081
39,311	310,922
–	3,728,304
–	4,758,054
2,684,092	24,080,423
(215,814)	(804,060)
66,767	764,964
–	1,000,000
66,767	1,764,964
(149,047)	960,904
–	3,145,900
1,800,000	2,795,178
1,650,953	6,901,982
3,567,942	30,430,612
$ 5,218,895	$37,332,594

FINANCE AUTHORITY OF MAINE

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2016

	Mortgage Insurance Program Fund	NextGen Administration Fund	Maine Loan Program
Cash flows from operating activities:			
Fees received from customers	$ 2,108,572	$ 9,723,562	$ –
Principal payments received on educational loans	–	–	19,820,891
Educational loans originated	–	–	(7,590,746)
Interest receipts on notes and educational loans receivable	16,115	–	7,266,228
Payments for operating expenses	(510,071)	(1,948,818)	(1,244,081)
Payments to employees	(1,685,507)	(1,001,134)	(188,541)
Repayments on notes receivable	19,965	–	–
Payments for scholarships, matching contributions and rebates	–	(8,486,358)	–
Default payments made on commercial loan guarantees	(779,493)	–	–
Recoveries received from prior commercial loan guarantees	101,104	–	–
Other	62,314	6,963	–
Net cash provided (used) by operating activities	(667,001)	(1,705,785)	18,063,751
Cash flows from noncapital and related financing activities:			
Interest payments on bonds	–	–	(5,683,100)
Redemption of bonds	–	–	(8,225,000)
Interfund transactions	2,206,084	–	–
Funds received from other governments	1,000,000	–	–
Transfer from federal guaranty agency operating fund (note 1)	–	995,178	–
Cash transferred from merger of MELA into FAME (note 16)	–	–	14,390,214
Net cash provided by noncapital and related financing activities	3,206,084	995,178	482,114
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(310,788)	–	–
Cash flows from investing activities:			
Maturities and calls on investments	22,459,775	–	499,740
Purchases of investments	(29,486,814)	(1,242,157)	(26,011)
Interest received on investments	311,915	89,347	28,938
Net cash (used) provided by investing activities	(6,715,124)	(1,152,810)	502,667
Net increase (decrease) in cash and cash equivalents	(4,486,829)	(1,863,417)	19,048,532
Cash and cash equivalents at beginning of year	16,511,451	6,332,521	–
Cash and cash equivalents at end of year	$ 12,024,622	$ 4,469,104	$19,048,532

Educational Loan Fund	Total
$ 2,467,603	$ 14,299,737
–	19,820,891
–	(7,590,746)
–	7,282,343
(2,423,726)	(6,126,696)
(218,342)	(3,093,524)
–	19,965
–	(8,486,358)
–	(779,493)
–	101,104
–	69,277
(174,465)	15,516,500
–	(5,683,100)
–	(8,225,000)
–	2,206,084
–	1,000,000
1,800,000	2,795,178
–	14,390,214
1,800,000	6,483,376
–	(310,788)
–	22,959,515
(1,596,076)	(32,351,058)
35,997	466,197
(1,560,079)	(8,925,346)
65,456	12,763,742
1,648,408	24,492,380
$ 1,713,864	$ 37,256,122

FINANCE AUTHORITY OF MAINE

STATEMENT OF CASH FLOWS (CONTINUED)

PROPRIETARY FUNDS

For the Year Ended June 30, 2016

	Mortgage Insurance Program Fund	NextGen Administration Fund	Maine Loan Program
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	$ 199,232	$ (767,683)	$ (19,795)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	278,540	–	–
Loss on disposal of capital assets	494	–	–
Provision (recovery) for losses on insured loans and educational loans	(268,389)	–	540,000
Interest on bonds payable	–	–	5,763,258
Default payments made on commercial loan guarantees	(779,493)	–	–
Recoveries received from prior commercial loan guarantees	101,104	–	–
Changes in operating assets and liabilities:			
Accounts receivable	(17,585)	(707,321)	–
Notes and educational loans receivable	19,965	–	11,932,847
Interest receivable on educational loans	–	–	(588,451)
Arbitrage rebatable	–	–	449,590
Prepaid expenses and other assets	62,314	6,963	26,601
Accounts payable and accrued liabilities	(57,604)	(237,744)	(40,299)
Unearned fee income and other	(205,579)	–	–
Net cash provided (used) by operating activities	$ (667,001)	$ (1,705,785)	$ 18,063,751

Noncash activities – Maine Loan Program

See note 16 for noncash activity related to merger of MELA into FAME.

The Authority capitalized interest on educational loans in the amount of $741,845 during the year ended June 30, 2016.

The Authority capitalized guarantee fees on loans originated of approximately $19,300 during the year ended June 30, 2016.

See accompanying notes to the financial statements.

Educational Loan Fund	Total
$ (215,814)	$ (804,060)
–	278,540
–	494
39,311	310,922
–	5,763,258
–	(779,493)
–	101,104
(675)	(725,581)
–	11,952,812
–	(588,451)
–	449,590
–	95,878
2,713	(332,934)
–	(205,579)
$ (174,465)	$15,516,500

FINANCE AUTHORITY OF MAINE

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2016

ASSETS	Federal Guaranty Agency Operating Fund	Educational Grant Fund	Revolving Fund
Cash and cash equivalents (note 2)	$2,668,766	$ 15,473	$ 8,709,105
Investments (note 2)	4,099,528	32,225	15,847,146
Accounts receivable	240,264	–	–
Notes receivable, net (note 3)	–	–	23,284,715
Other assets	29,550	–	388,281
Total assets	$7,038,108	$ 47,698	$48,229,247
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	$ 338,921	$ –	$ 39,831
Unearned fee income	356,079	–	155,063
Unearned grant and scholarship funds	–	47,280	5,704,776
Note payable (note 8)	–	–	885,200
Amounts held under state revolving loan programs (note 12)	–	–	40,875,196
Total liabilities	695,000	47,280	47,660,066
Fund balances:			
Assigned – loan programs	–	418	399,375
Restricted – education programs	6,343,108	–	–
Restricted – business programs	–	–	169,806
Total fund balances	6,343,108	418	569,181
Total liabilities and fund balances	$7,038,108	$ 47,698	$48,229,247

See accompanying notes to the financial statements.

Other Governmental Funds	Total Governmental Funds
$2,638,111	$14,031,455
881,902	20,860,801
–	240,264
–	23,284,715
–	417,831
$3,520,013	$58,835,066
$ 64,713	$ 443,465
–	511,142
3,318,562	9,070,618
–	885,200
87,585	40,962,781
3,470,860	51,873,206
49,153	448,946
–	6,343,108
–	169,806
49,153	6,961,860
$3,520,013	$58,835,066

FINANCE AUTHORITY OF MAINE

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	Federal Guarantee Agency Operating Fund	Educational Grant Fund	Revolving Fund
Revenues:			
State appropriations (note 12)	$ –	$ –	$ –
Investment income	117,833	–	6,733
Administrative revenues	2,150,220	–	–
Other income	181,817	–	629,632
Grant and scholarship revenue	–	14,590,363	2,690,153
Total revenues	2,449,870	14,590,363	3,326,518
Expenditures:			
Operating expenditures:			
Salaries and related benefits	813,007	–	423,984
Other operating expenses	27,579	–	210,432
External loan servicing expenses	1,615,436	–	–
Interest expense	–	–	11,295
Grant and scholarship expense	–	14,590,363	2,690,153
Total expenditures	2,456,022	14,590,363	3,335,864
Excess of revenue over (under) expenditures, before fund balance transfer	(6,152)	–	(9,346)
Other financing use:			
Fund balance transfers (note 1)	(2,795,178)	–	–
Net change in fund balances	(2,801,330)	–	(9,346)
Fund balances at beginning of year	9,144,438	418	578,527
Fund balances at end of year	$ 6,343,108	$ 418	$ 569,181

See accompanying notes to the financial statements.

Other Governmental Funds	Total Governmental Funds
$ 600,000	$ 600,000
127,596	252,162
–	2,150,220
170,123	981,572
2,932,141	20,212,657
3,829,860	24,196,611
643,777	1,880,768
253,944	491,955
–	1,615,436
–	11,295
2,932,141	20,212,657
3,829,862	24,212,111
(2)	(15,500)
–	(2,795,178)
(2)	(2,810,678)
49,155	9,772,538
$ 49,153	$ 6,961,860

FINANCE AUTHORITY OF MAINE

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

June 30, 2016

	NextGen College Investing Plan	Agency Funds
ASSETS HELD FOR OTHERS		
Cash and cash equivalents (note 2)	$ 5,922,894	$13,298,587
Investments (notes 2 and 17)	8,491,051,232	14,757,682
Accounts receivable	–	528,984
Receivable for securities sold	4,154,059	–
Accrued interest receivable	29,888	199,200
Notes receivable, net (note 3)	–	11,788,594
Total assets	8,501,158,073	40,573,047
LIABILITIES		
Accounts payable and other liabilities	–	215,534
Payable for securities purchased	2,868,063	–
Withdrawals payable	7,208,888	–
Payable for accrued fees and expenses	4,238,201	–
Due to the U.S. Department of Education (note 15)	–	2,645,188
Amounts held for State of Maine under revolving loan programs	–	37,712,325
Total liabilities	14,315,152	40,573,047
NET POSITION		
Net position held in trust for education benefits	$ 8,486,842,921	$ –

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

STATEMENT OF CHANGES IN NET POSITION

FIDUCIARY FUNDS

For the Year Ended June 30, 2016

	NextGen College Investing Plan
ADDITIONS	
Contributions	$ 902,057,057
Investment income:	
Dividends and interest	385,478,073
Net depreciation in value of investments	(473,367,318)
Net investment loss	(87,889,245)
Total additions	814,167,812
DEDUCTIONS	
Withdrawals	781,786,825
Fees and expenses:	
Management fees	42,666,022
Maine administration fees	8,604,555
Total fees and expenses	51,270,577
Total deductions	833,057,402
Net decrease	(18,889,590)
Net position at beginning of year	8,505,732,511
Net position at end of year	$ 8,486,842,921

See accompanying notes to the financial statements.

1. Organization and Significant Accounting Policies

Authorizing Legislation

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

In June 2015, the State of Maine Legislature passed, and the Governor approved, S.P. 544-L.D. 1443, *An Act to Merge the Maine Educational Loan Authority with the Finance Authority of Maine* (the Act). The Act provided that FAME become successor to the Maine Educational Loan Authority (MELA). By law, FAME succeeded MELA under all existing contracts and other agreements, and thus gained the rights and benefits of, and assumed the obligations of MELA under all such agreements. The effective date of the Act was October 15, 2015. Pursuant to Governmental Accounting Standards Board (GASB) 69, *Government Combinations and Disposals of Government Operations*, FAME has recognized MELA's assets, deferred outflows of resources, liabilities and net position as of July 1, 2015, and all of the revenues, expenses and changes in net position since that time are reflected in these financial statements within a newly established proprietary fund, the Maine Loan Program Fund. Refer to note 16 for a summary of assets, liabilities, deferred outflow of resources and net position transferred as of July 1, 2015.

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 Presentation – Government-Wide Financial Statements

Separate government-wide and fund financial statements, which are prepared using the economic resources measurement focus and the accrual basis of accounting, are presented, as they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the Authority's proprietary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

1. Organization and Significant Accounting Policies (Continued)

Basis of Accounting

The financial statements are prepared in accordance with statements promulgated by the GASB.

The Authority follows the economic resources measurement focus and the accrual basis of accounting for the proprietary funds and, accordingly, recognizes revenue as earned and expenses as incurred. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis and revenues are recorded when they become available and measurable and expenses when incurred. Revenues from grants and programs are generally considered "available" if received within three months of the balance sheet date. There are no significant differences between the modified accrual basis and the accrual basis for the governmental funds. The private-purpose trust fund and agency funds are reported using the accrual basis of accounting

Separate fund financial statements are provided for proprietary and governmental funds. The fund financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental entities, which provides that accounting systems be organized by funds to account for specific activities consistent with legal and operating requirements. Major individual governmental funds and proprietary funds and fund groups are reported as separate columns in the fund financial statements.

Fund Structure

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

Mortgage Insurance Program Fund
This fund consists of activities primarily relating to providing capital to a broad range of commercial borrowers that may be denied commercial credit without the provision of the Authority's loan insurance to financial institutions. The Authority receives loan insurance fees from the financial institutions (which may pass the cost to the ultimate borrower).

NextGen Administration Fund
This fund accounts for activities related to the administration of the Maine College Savings Program, also known as the NextGen College Investing Plan or NextGen, a qualified tuition program pursuant to Section 529 of the Internal Revenue Code to encourage families to invest for the qualified higher education expenses of a designated beneficiary. The Authority is the administrator of the Program. Included in the fund are the administrative fees received by the Authority from some participants based on the net asset value of accounts (Maine Administration Fee).

1. Organization and Significant Accounting Policies (Continued)

Maine College Savings Program Fund

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

The Authority has entered into a management agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated (Program Manager) to manage the Program and invest the Fund. As the primary consideration for its administrative duties, the Authority receives a monthly fee at an annual rate up to 0.11% of the average daily net asset value of certain Program assets. The administrative fees earned were approximately $8,620,900 in fiscal year 2016, and are recorded as fee and other income in the NextGen Administration Fund.

Administrative fees are used to provide benefits as set forth in the Act and the Program rule. Program benefits to Maine accounts (accounts owned by Maine residents or naming designated beneficiaries who are Maine residents) include fee rebates and matching grants. Program benefits also include scholarships to Maine students. Program benefit expenses recorded in the NextGen Administration Fund were approximately $8,486,400 in fiscal year 2016. After matching grants are awarded, they are deposited in the Maine College Savings Program Fund. Matching grants, including earnings thereon, are not the property of account participants or designated beneficiaries unless and until withdrawn for qualified higher education expenses of designated beneficiaries.

Maine Loan Program Fund
This fund accounts for the activities formerly administered by MELA. Under this fund, the Authority provides education loans primarily using funds acquired through the issuance of long-term debt. The Authority earns interest on the loans at variable and fixed rates.

Educational Loan Fund
The following proprietary activities of the Authority are included in the Educational Loan fund:

Not-for-Profit Loan Servicing Program
This fund consists of activities related to servicing federal student loans in the Federal Direct Loan Program. In an agreement with the U.S. Department of Education (DE), the Authority was allocated 100,000 federal student loans on which to provide loan servicing activities. The Authority has contracted EdFinancial to perform the actual servicing activities while the Authority provides oversight. The Authority receives servicing fees from the DE.

1. Organization and Significant Accounting Policies (Continued)

Student Loan Insurance Program
This program, which began operations in 2014, provides loan insurance on direct educational loans made by participating financial institutions in the Maine Private Education Loan Network. Qualifying loans fall into three credit tiers with varying guarantee fees. These fees may be absorbed by the lending partners or passed through to the student borrowers. In addition to the upfront guarantee fees, an annual servicing fee is charged to the lending institutions based on outstanding loan balances.

During 2016, the Authority's Board of Directors approved the transfer of $1,800,000 from the Federal Guaranty Agency Operating fund to be added to a $3,200,000 reserve previously capitalized for the Student Loan Insurance (SLI) Program from the Federal Guaranty Agency Operating fund and program loan guaranty fees. The additional funds will establish a total $5,000,000 reserve for both SLI and the Refinance Student Loan Insurance Program (RSLI), which will be launched in fiscal 2017.

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 Federal Family Education Loan Program (FFELP). The Authority, in conjunction with the DE, made educational related federal loan guarantees to eligible Maine students and their families to attend post-secondary schools. The Authority received revenue in fiscal year 2016 from the U.S. Department of Education for managing the Maine FFELP portfolio.

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

During 2016, the Authority transferred approximately $955,000 from the Federal Guaranty Agency Operating Fund to the NextGen Administration Fund to reimburse for funds used to cover outreach administrative costs in prior years.

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

Revolving Fund
This fund primarily consists of the funds relating to the Authority's administration of State of Maine revolving loan programs. These are State programs administered by the Authority, which provide either educational or commercial loans on a revolving basis. This fund records the aggregate activity of these programs. The program funding levels are derived from the State of Maine, except as follows: the Intermediary Relending Loan Program is a Federal program; a portion of the funds in the Dental Loan and Loan Repayment Fund are derived from a grant from Delta Dental; the Maine Health Access Foundation Loan program funds are derived from a loan from the Maine Health Access Foundation. 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

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

Educators for Maine Program
Health Professionals Loan Program
Regional Economic Development Revolving Loan Program
Intermediary Relending Program
Waste Motor Oil Disposal Site Remediation Program
Maine Health Access Foundation Loan Program
Dental Loan and Loan Repayment Fund

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. Doctors for Maine's Future was initially funded in fiscal years 2010 and 2011. The U.S. Department of Justice's Bureau of Justice Assistance funded the John R. Justice Program. The College Access Challenge Grant is funded by the DE. The State Small Business Credit Initiative Program was funded by the U.S. Department of the Treasury and initially awarded to the Department of Economic and Community Development (DECD) of the State of Maine. In addition, the Authority administers the program for DECD. The Gaining Early Awareness for Undergraduates Programs is funded by the U.S. Department of Education to the Maine Department of Education as grantee. FAME administers the scholarship in accordance with a memorandum of agreement with the Maine Department of Education. The funds are granted to qualifying students for attendance at college.

This fund group consists of the following:

Higher Education Fund
FAME Opportunities, Inc.
Doctors for Maine's Future
John R. Justice Grant Program
College Access Challenge Grant
State Small Business Credit Initiative
Gaining Early Awareness for Undergraduate Programs

There are no legally adopted budgets for any of the Authority's funds.

The following fiduciary activities of the Authority are classified as Fiduciary Funds:

Private Purpose Trust Fund
NextGen College Investing Plan is the Maine College Savings Program. The program was established under Chapter 417-E of Title 20-A, to encourage the investment of funds to be used for Qualified Higher Education Expenses at institutions of higher education. The Plan consists of the investments made by participants in the State's Qualified State Tuition Program under Section 529 of the Internal Revenue Code.

The Authority Acts as administrator for this fund. The resources in this fund cannot be used to support the Authority's operations. The fund is reflected in the Statement of Net Position-Fiduciary Funds and the Statement of Changes in Net Position-Fiduciary Funds as the NextGen College Investing Plan.

Accounting policies of the Private Purpose Trust Fund are further described in note 17.

1. Organization and Significant Accounting Policies (Continued)

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 Nutrient Management Fund, the Payroll Processing Insurance Fund, the Northern Maine Transmission Corporation, the Department of Agriculture for the Agricultural Marketing Loan Fund and the Potato Marketing Improvement Fund, the Small Enterprise Growth Board and the Maine Rural Development Authority. The Authority also holds and administers the State of Maine's portion of the U.S. Department of Education's Federal Student Loan Reserve Fund, which is the property of the Federal government.

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

Restriction on Net Position

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

Fund Balances

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

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

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

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

1. Organization and Significant Accounting Policies (Continued)

Fund balances classified as assigned may be assigned by the CEO who has statutory power to supervise the Authority's administrative and technical affairs. To the extent such assignments are utilized in the budgeting process, they are approved by the Board of Directors. The appropriation that funds these programs generally gives guidance as to what the principal of the appropriation must be used for, but is generally silent as to the treatment of any earnings on such funds. It has been the Authority's policy to use these earnings for the programs funded by the principal of the appropriation, including administrative costs. The Authority first utilizes restricted or committed or assigned fund balances, if any, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available.

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 and student loans and the allowance for loan losses on educational loans.

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. Cash equivalents include funds held in institutional money market funds.

Investments

Investments are carried at fair value; see note 5. 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 statements.

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.

1. Organization and Significant Accounting Policies (Continued)

Losses on notes receivable in the agency funds are recognized by charging the amount held for State of Maine under revolving loan programs when the notes are forgiven or charged off.

Educational Loans

Educational loans within the Maine Loan Program Fund are stated at their unpaid principal balance. Educational loans consist primarily of student loans, which are made to postsecondary students attending eligible educational institutions, and parental loans made to parents of dependent undergraduate students, graduate and professional students and independent undergraduate students attending eligible educational institutions.

The Authority assesses a guarantee fee of 4% of the loan amount added to the principal balance at the time of disbursement. The Authority recognized approximately $297,300 in guaranty fee income in fiscal 2016.

Fees and costs related to the origination of student loans, including the guarantee fees, are recognized as revenue or expense when the loans are disbursed.

Interest on educational loans is recognized as revenue in the period earned and servicing costs are charged directly to expense as incurred.

Allowance for Loan Losses on Educational Loans

Management of the Authority has established an allowance for loan losses to provide for probable losses on educational loans. The amount of the allowance, which is established through a provision for losses on educational loans charged to expense, is based on management's estimation of the probable losses within the portfolio. In estimating the adequacy of the allowance for loan losses, management considers such factors as the nature and volume of the portfolio, delinquency trends, specific problem loans and current economic conditions that may affect the borrowers' ability to repay. Actual results could differ from those estimates. Past due loans greater than 180 days are automatically charged off.

Capital Assets

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

Building and improvements	3 – 30 years
Computer and office equipment	3 – 15 years
Software	5 years

1. Organization and Significant Accounting Policies (Continued)

Allowance for Losses on Insured Loans

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

Discount, Premium and Issuance Costs on Bonds

Bond discount and premium are reflected as a component of bonds payable and are amortized by the effective interest method over the life of the bonds. Bond issuance costs are charged directly to expense when incurred. Amortization of bond discount and premium is accelerated for early repayment of bonds. Gains and losses on bond refundings are deferred and amortized as a component of interest expense over the life of the original or refunded bonds, whichever is shorter, and reflected as deferred outflow of resources.

Revolving Loan Programs

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

Grants and Scholarships

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

Mortgage Insurance Premiums

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

Application and Commitment Fees

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

1. Organization and Significant Accounting Policies (Continued)

FFELP Support

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

Administrative Expenses

Administrative expenses are charged 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 as that is the fund that is most closely related to such programs.

Operating Revenue and Expenses

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues in the Mortgage Insurance Fund include fees received from providing services, insurance premiums and interest income on notes receivable. Operating revenues in the NextGen Administration Fund and the Educational Loan Fund include fees received from providing services and related grants. Operating revenues in the Maine Loan Program include interest income on educational loans receivable and guarantee fee and other miscellaneous fee income.

Operating expenses in the Mortgage Insurance Fund and the NextGen Administration Fund include, as applicable, salaries and related benefits, other operating expenses, provision for losses on insured loans, scholarships, matching contributions and rebates. Operating expenses in the Maine Loan Program Fund are primarily for financing expenses, external loan servicing costs, provision for losses on educational loans, and also salaries and related benefits and other operating expenses. Operating expenses in the Educational Loan Fund are primarily for loan processing services and also salaries and related benefits and operating expenses. Operating expenses for all proprietary funds are the costs of providing the services and operating all programs. All revenues and expenses not categorized above are reported as nonoperating revenues and expenses.

Compensated Absences

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

1. Organization and Significant Accounting Policies (Continued)

New Accounting Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The Authority adopted the provisions of this statement for the year-ended June 30, 2016. See note 5.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the hierarchy of generally accepted accounting principles (GAAP) for state and local government entities. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015, and is applied retroactively. The Authority adopted the provisions of this statement for the year-ended June 30, 2016. The adoption of this statement had no impact on the Authority's 2016 financial statements.

2. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

The carrying amounts, which represent both fair value and cost, of cash and cash equivalents for the Authority at June 30, 2016 are presented below:

Cash held in demand deposit accounts and on hand	$ 723,476
Money market accounts and repurchase agreements	3,153,937
Total carrying amount of deposits	3,877,413
Amounts restricted for bond obligations in Maine Loan Program Fund – money market funds	18,553,476
Amounts held in State of Maine Treasurer's Cash Pool (consisting of cash and cash equivalents, repurchase agreements, Certificates of Deposit, U.S. investments and corporate bonds)	28,856,688
	$51,287,577

2. Cash, Cash Equivalents and Investments (Continued)

Of the total carrying amount of deposits of $3,877,413 at June 30, 2016, the corresponding bank balances were $4,473,784. The difference between the carrying amounts of deposits and bank balances consists primarily of checks issued but not cashed and deposits in transit. The amount of bank balances covered by Federal depository insurance was $1,003,517 at June 30, 2016, leaving $3,470,267 uninsured, of which $763,597 was collateralized by Repurchase Agreements issued by Bangor Savings Bank in the Authority's name.

At June 30, 2016, the money market funds were invested in Invesco Liquid Assets Portfolio Short-Term Investments Trust, Federated Government Obligations Fund and BBIF Money Fund. The Invesco Liquid Assets Portfolio Short-Term Investments Trust invests primarily in short-term, high-credit-quality money market instruments. These instruments are US-dollar denominated obligations and primarily include commercial paper, certificates of deposit, master and promissory notes, municipal securities, and repurchase agreements. As of June 30, 2016, the fund was rated as Aaa-mf by Moody's Investors Service, AAAm by Standard & Poor's, and AAAmmf by Fitch Ratings. The underlying assets were not held in the name of the Authority. The Federated Government Obligations Fund invests primarily in short-term U.S. Treasury and government agency securities including repurchase agreements collateralized by U.S. Treasury and government agency securities. As of June 30, 2016, the fund was rated Aaa-mf by Moody's Investors Service, AAAm by Standard & Poor's, and AAAmmf by Fitch Ratings. The underlying assets were not held in the name of the Authority. The BBIF Money Fund invests primarily in cash, U.S. Treasury bills, notes and other obligations issued or guaranteed as to principal and interest by the U.S. Government, its agencies or instrumentalities, and repurchase agreements secured by such obligations or cash.

The Authority invests monies that are not needed for immediate use or held in the Maine Loan Program Bond Indenture 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 is able to make withdrawals from the State of Maine investment pool at par with little advance notice and without penalty. The Authority's management considers this investment vehicle a money market instrument and generally carries the amounts in the pool at cost.

Included in cash and cash equivalents on the Statement of Net Position Fiduciary Funds – Agency Funds is $12,351,828 held in the Authority's name in the State of Maine Treasurer's Cash Pool and $946,759 held at other banks, all of which was either collateralized by a repurchase agreement issued by Bangor Savings Bank in the Authority's name or covered by Federal depository insurance.

At June 30, 2016, the Authority's management had reserved $519,544 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 7). The Authority's management has also designated $519,544 of the Mortgage Insurance Program unrestricted net position as a reserve for these matters.

At June 30, 2016, the Authority held $18,553,476 of money market funds within the Maine Loan Program Fund that are restricted for the repayment of bond obligations, and to satisfy certain reserve requirements specified by the bond indentures.

2. Cash, Cash Equivalents and Investments (Continued)

A summary of the fair values of investment securities as of June 30, 2016 is as follows:

Cash management funds	$ 3,289,564
Commercial paper	4,470,365
U.S. Treasury obligations	21,335,103
U.S. Government-sponsored enterprise bonds	13,141,780
State and municipal bonds	3,842,945
Corporate bonds	22,719,042
	68,798,799
Less: investments recorded in Statement of Net Position-Fiduciary Funds-Agency Funds	14,757,682
Investments recorded in Statement of Net Position	$54,041,117

The maturities or repricings of debt securities at June 30, 2016 are as follows:

	2017	2018 – 2021	2022 – 2026	Total
Commercial Paper	$ 4,470,365	$ –	$ –	$ 4,470,365
U.S. Treasury obligations	–	21,335,103	–	21,335,103
U.S. Government-sponsored enterprises (FHLB, FNMA, etc.)	519,485	12,622,295	–	13,141,780
State and municipal bonds	1,827,745	2,015,200	–	3,842,945
Corporate bonds	5,798,301	16,789,858	130,883	22,719,042
	$12,615,896	$52,762,456	$130,883	$65,509,235

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, 2016 are as follows:

	2018– 2021
U.S. Government-sponsored enterprises (FHLB, FNMA, etc.)	$4,503,230
Corporate bonds	1,426,726
	$5,929,956

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, 2016, is $319,446 of net unrealized gains from the change in market value of investment securities.

2. Cash, Cash Equivalents and Investments (Continued)

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

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

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

At June 30, 2016, the ratings for investments in debt securities are summarized as follows. These ratings were as of June 30, 2016 and are not necessarily the ratings that existed at the time of purchase.

Issuer	Rating	Fair Value
Commercial paper	A-1	$ 4,470,365
U.S. Treasury obligations	AA+	21,335,103
U.S. government-sponsored enterprises [1]	AA+	13,141,780
Corporate bonds	AAA	12,956,191
Corporate bonds	AA+	3,447,476
Corporate bonds	AA	1,185,444
Corporate bonds	A+	1,015,344
Corporate bonds	AA-	4,114,587
State and municipal bonds	AAA	2,840,885
State and municipal bonds	AA+	1,002,060
		$65,509,235

[1] Includes FHLMC, FHLB, FFCB, FNMA

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.

2. Cash, Cash Equivalents and Investments (Continued)

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

	Maximum of the Total Portfolio
Maine State Treasurer's Cash Pool	100%
U.S. Treasury	100
Federal Agencies (GNMA only)	100
Federal Instrumentalities	85
Repurchase Agreements	85
Prime Commercial Paper	50
Money Market Mutual Funds	25
Certificates of Deposit	40
Tax Exempt Obligations	20
Corporate Bonds	40
Government Bond Funds	20
Asset-Backed Securities	40

In addition to the above, the combined total of prime commercial paper, asset-backed securities and corporate bonds may not exceed 50% of the total portfolio balance.

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 fixed income securities are held by the Authority's agent in the agent's nominee's name. The Authority's investment advisor monitors the agent's credit quality.

For a discussion of investment activity and risks related to the Private Purpose Trust Fund, refer to note 17.

3. Notes and Educational Loans Receivable

Maine Loan Program Educational Loans

Educational loans earn interest at variable and fixed rates. Most of the Authority's borrowers within the Maine Loan Program are located in the New England states, primarily the State of Maine. Educational loans are unsecured.

3. Notes and Educational Loans Receivable (Continued)

Educational loans in the Maine Loan Program are classified as being in "interim" status during the period from the date the loan is made until a student ceases to be enrolled at least on a half-time basis plus a grace period of six months, during which time no payments of principal or interest are required. Beginning in July of 2008, all new borrowers are required to make "interest only" payments during the in-school and grace period. Subsequent to this period, student loans are classified as being in "repayment" status. "Forbearance" status is a period during the life of the loan when repayment is suspended for authorized purposes.

Educational loans receivable are summarized as follows at June 30, 2016:

Status:	
Interim	$ 8,166,108
Interest only	13,041,609
Repayment	72,364,816
Forbearance	156,768
Educational loans	93,729,301
Less allowance for loan losses	(2,658,875)
Total educational loans, net	91,070,426
Current portion	15,439,400
Noncurrent portion	$75,631,026

The educational loans are pledged for the repayment of bonds.

Transactions in the allowance for loan losses on educational loans for the year ended June 30, 2016 are as follows:

Balance at July 1, 2015 – transferred from MELA (see note 16)	$2,730,355
Loans charged-off	(846,861)
Recoveries on loans	235,381
Net loans charged-off	(611,480)
Provision for losses on educational loans	540,000
Balance at June 30, 2016	$2,658,875

At June 30, 2016, loans greater than 90 days delinquent or in claims or forbearance status approximated $986,000.

3. Notes and Educational Loans Receivable (Continued)

Notes Receivable

The following is a summary of notes receivable at June 30, 2016:

Mortgage Insurance Program:	
6.0% note, due fiscal 2022	$ 256,980
Various notes receivable	5,396
	262,376
Notes receivable in the Revolving Fund:	
Underground Oil Storage Replacement Program	1,422,249
Economic Recovery Program, net	10,944,434
Educators for Maine Program	2,293,732
Health Professions Loan Program	8,350,671
Regional Economic Development Revolving Loan Program	244,820
Maine Health Access Foundation Loan Program	28,809
	23,284,715
Total notes receivable, net	$23,547,091

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, 2016, the allowance had a balance of $4,284,214. 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, Expenditures and Changes in Fund Balances for the change in the allowance for losses for this Fund. The allowance account is offset 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 and Regional Economic Development Revolving Loan 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 10.25%, and are due on various dates up to 2031.

Note receivable in the Agency Funds at June 30, 2016 are as follows:

Potato Marketing Improvement Fund, net	$ 3,422,100
Agricultural Marketing Loan Fund	3,905,492
Nutrient Management Fund	237,011
Kim Wallace Adaptive Equipment Loan Program Fund, net	1,715,375
Maine Rural Development Authority, net	2,508,616
	$11,788,594

3. Notes and Educational Loans Receivable (Continued)

An allowance for losses on notes receivable has been established for the Potato Marketing Improvement Fund (PMIF), Kim Wallace Adaptive Equipment Loan Program Fund (KWAELPF), and the Maine Rural Development Authority (MRDA) to consider potential losses. The allowance is netted against the notes receivable balances for the program. As of June 30, 2016, the allowance for the PMIF, KWAELPF, and MRDA was $269,305, $364,549, and $511,080, respectively.

4. Allowance for Losses on Insured Loans

The Authority has established an allowance account to absorb probable losses on the loans it insures (see note 6). 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 loans during the year ended June 30, 2016:

	Mortgage Insurance Program Fund	Education Loan Fund
Beginning balance	$17,052,866	$43,049
Default payments	(779,493)	–
(Recovery) provision for losses	(268,389)	39,311
Recoveries on prior default payments	101,104	–
Ending balance	$16,106,088	$82,360

5. Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

Level 2 – Inputs to the valuation method include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

5. Fair Value Measurements (Continued)

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques).

Each asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Cash management funds: Fair value approximates the relative carrying values at June 30 as these financial instruments have short maturities.

Commercial paper, U.S. Treasury obligations, U.S. Government-sponsored enterprises bonds, state and municipal bonds and corporate bonds: Fair value is determined based on quoted prices in active markets, or by using broker or dealer quotations, external pricing providers, or alternative pricing sources with reasonable levels of price transparency.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Authority believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

5. Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Authority's assets carried at fair value on a recurring basis as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Cash management funds	$3,289,564	$ –	$ –	$ 3,289,564
Commercial paper	–	4,470,365	–	4,470,365
U.S. Treasury obligations	–	21,335,103	–	21,335,103
U.S. Government-sponsored enterprise bonds	–	13,141,780	–	13,141,780
State and municipal bonds	–	3,842,945	–	3,842,945
Corporate bonds	–	22,719,042	–	22,719,042
	$3,289,564	$65,509,235	$ –	$68,798,799

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

The Authority is insuring loans made by financial institutions to qualifying businesses under its various insurance programs. The Authority is contingently liable for the insured portion of payments due on these loans. At June 30, 2016, the Authority had insurance outstanding for commercial loans under the Loan Insurance Program totaling approximately $111,983,000.

At June 30, 2016, the Authority was insuring commercial loans with an aggregate outstanding principal balance approximating $1,887,000 which were ninety or more days delinquent. The aggregate insured balance of these loans was approximately $1,181,000 at June 30, 2016.

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, and 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 commercial loans at some future date. At June 30, 2016, these commitments under the Loan Insurance Program were approximately $5,434,000.

Substantially all of the Authority's loan customers and commercial 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, 2016, are for the forest products industry and for geographical concentration.

The Authority provides loan insurance on direct educational loans made by participating financial institutions in the Maine Private Education Loan Network. At June 30, 2016, approximately $3,363,000 of loans were insured under this program. Such loans are unsecured.

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

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 $1,065,000,000 at June 30, 2016. The State has not paid, nor does the Authority expect it to pay, any amounts as a result of this authorization as of June 30, 2016. Such insurance obligations are detailed below:

	Authorized	Outstanding
Full Faith and Credit of the State of Maine:		
Commercial Insurance Authority	$ 90,000,000	$ 79,125,962
Veterans Mortgage Insurance Authority	4,000,000	3,386,687
Higher Education Bonds	4,000,000	–
Moral Obligation of the State of Maine:		
Commercial Loan Insurance	150,000,000	29,470,045
Major Business Expansion Projects	120,000,000	5,500,847
Educational Bonds *	225,000,000	107,815,000
Workers Compensation Residual Market Projects	57,000,000	–
Solid Waste Bonds	50,000,000	–
Supplemental Student Loan Program	50,000,000	–
Transmission Facilities Projects	100,000,000	–
Waste Motor Oil Revenue Fund	35,000,000	10,320,000
Natural Gas Pipeline and Energy Distribution Projects **	180,000,000	–
Total Moral Obligation	967,000,000	153,105,892
Total authorized and outstanding	$ 1,065,000,000	$ 235,618,541

* Bonds obtained from merger of MELA into FAME (see note 16).

** Consists of not more than $150,000,000 for loans and up to $30,000,000 for use of bond proceeds to fund capital reserve funds for revenue obligations securities.

The Authority carries insurance to cover its exposure to various risks of loss excluding losses on loan insurance. There were no significant uninsured losses during 2016.

The Authority participates in federally-funded programs. The programs are subject to financial and compliance audits and resolution of identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time.

At June 30, 2016, the Authority had commitments to extend credit for educational loans within the Maine Loan Program of approximately $76,000. Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any condition established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses. The Authority uses the same credit policies in making commitments as it does for educational loans receivable.

7. 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 Position. 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 or will pay a portion of the past and future cleanup 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, 2016, is $120,000 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.

8. Notes Payable

Notes payable consists of the following at June 30, 2016:

Note payable (1), interest fixed at 1.0%, principal and interest payments due until 2025. Assets of the Intermediary Relending Loan Program are pledged to secure the note.	$ 535,200
Note payable (2), interest only payments fixed at 1.0%, principal and interest due at the option of the lender. Assets of the Maine Health Access Foundation Loan Program are pledged to secure the note.	350,000
	885,200
Less: current portion of notes payable	408,323
Noncurrent portion of notes payable	$ 476,877

The proceeds from the note payable(1) are required to be used to originate notes receivable in the Intermediary Relending Loan Program, which is included in the Revolving Fund and is a governmental type fund. The proceeds from the note payable(2) are required to be used to originate notes receivable in the Maine Health Access Foundation Loan Program, which is included in the Revolving Fund and is a governmental type fund. Since these notes payable are directly related to the programs' lending activities, they are reflected within the respective revolving loan fund.

8. Notes Payable (Continued)

The debt service requirements for notes payable through 2021 and in five-year increments thereafter to maturity for the Authority, are as follows:

Fiscal Year(s)	Principal	Interest	Total
2017	$408,323	$ 7,102	$415,425
2018	58,906	4,769	63,675
2019	59,495	4,180	63,675
2020	60,090	3,585	63,675
2021	60,691	2,984	63,675
2022 – 2025	237,695	5,805	243,500
	$885,200	$28,425	$913,625

The above debt schedule assumes repayment of the $350,000 note in 2017.

The following summarizes the notes payable activity for the Authority for the year ended June 30, 2016:

	Notes Payable
Balance at beginning of year	$1,342,946
Principal reductions	457,746
Balance at end of year	$ 885,200

9. Bonds Payable

The following bonds within the Maine Loan Program Fund have been issued to finance the purchase and origination of educational loans:

	Amount Outstanding
Educational Loan Revenue Bonds	
2009 series due in annual installments on December 1, 2016 through 2039; interest fixed at rates ranging from 4.10% to 5.875%	$ 75,300,000
2010 series due in annual installments on December 1, 2016 through 2025; interest fixed at rates ranging from 2.75% to 4.45%	11,810,000
2012 series due in annual installments on December 1, 2016 through 2027; interest fixed at rates ranging from 2.70% to 5.05%	10,705,000
2014 series due in annual installments on December 1, 2016 through 2031; interest fixed at rates ranging from 3.00% to 5.00%	10,000,000
	107,815,000
Less:	
Unaccreted bond discount	911,761
Bonds payable, net	106,903,239
Current portion, net of discount	6,537,055
Non-current portion	$ 100,366,184
Unaccreted deferred loss on refunding	$ 828,784

The Authority accreted $74,760 for the year ended June 30, 2016 of the deferred loss on refunding.

The bonds are not a debt or liability of the State of Maine but are payable solely as provided in the bond indentures. The bonds are secured by cash, cash equivalents, investments and a first lien on the educational loans originated and acquired with the proceeds.

The bonds are subject to early redemption at par, in whole or in part, from unused bond proceeds and investment income thereon, to the extent that the funds will not be used to originate eligible loans. The bonds are subject to mandatory redemption under provisions outlined in the bond indentures.

Investments made and educational loans originated with the proceeds of the bonds, and the net revenues thereon are held in trust. As additional security for the bonds, the Authority has established cash reserve funds totaling $2,481,450 at June 30, 2016, to be used to replenish any deficiency in funds required to pay principal or interest due on the bonds. In addition to the cash reserve funds, the Authority also has a reserve fund insurance policy (surety bond) available in an amount up to the maximum annual debt service in any given year, less the cash reserve funds.

9. Bonds Payable (Continued)

On June 22, 2011, the State of Maine approved legislation extending the ability of the Authority to create or establish capital reserve funds which will benefit from a "moral obligation" from the State of Maine to June 30, 2017. The maximum amount of bonds that the Authority can have outstanding with a capital reserve fund which will benefit from a "moral obligation" of the State of Maine is $225,000,000.

The debt service requirements through June 30, 2021 and in five-year increments thereafter to maturity for the Authority, are as follows:

Fiscal Year(s)	Principal	Interest	Total
2017	$ 6,565,000	$ 5,397,126	$ 11,962,126
2018	6,820,000	5,114,389	11,934,389
2019	6,620,000	4,819,451	11,439,451
2020	6,745,000	4,514,488	11,259,488
2021	11,395,000	4,055,573	15,450,573
2022 – 2026	25,392,000	14,874,326	40,266,326
2027 – 2031	14,793,000	11,255,088	26,048,088
2032 – 2036	24,600,000	3,561,969	28,161,969
2037 – 2039	4,885,000	1,004,478	5,889,478
	$ 107,815,000	$54,596,888	$ 162,411,888

The actual maturities and interest may differ due to redemption provisions or other factors.

The following summarizes the bond activity for the Authority for the year ended June 30, 2016:

Balance at July 1, 2015 transferred from MELA (see note 16)	$ 115,092,827
Redemption of bonds	(8,225,000)
Accretion	35,412
Balance at end of year	$ 106,903,239

10. Arbitrage

The bonds issued in the Maine Loan Program are subject to Internal Revenue Service regulations which limit the amount of income which may be earned on certain cash equivalents, investments and educational loans acquired with bond proceeds. Any excess earnings are to be refunded to the Federal government. The estimated arbitrage liability related to excess earnings on educational loans was $1,983,039 at June 30, 2016. No payments were required in 2016. The Authority does not anticipate that any payments will be due through June 30, 2017.

11. Capital Assets

Capital assets activity for the year ended June 30, 2016, was as follows:

	June 30, 2015	Additions	Disposals	June 30, 2016
Building and improvements	$ 2,079,195	$ 42,044	$ (7,393)	$ 2,113,846
Computer and office equipment	1,448,615	268,744	(40,627)	1,676,732
Software	1,143,363	–	(1,143,363)	–
	4,671,173	310,788	(1,191,383)	3,790,578
Less accumulated depreciation for:				
Building and improvements	(1,061,873)	(76,017)	7,393	(1,130,497)
Computer and office equipment	(1,006,375)	(202,523)	40,133	(1,168,765)
Software	(1,143,363)	–	1,143,363	–
Total accumulated depreciation	(3,211,611)	(278,540)	1,190,889	(2,299,262)
	$ 1,459,562	$ 32,248	$ (494)	$ 1,491,316

12. 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, 2016, are summarized below:

Received for grant programs	$14,555,394
Received for loan programs	862,740
General State of Maine appropriations	600,000
Reserve fund transfers	1,000,000
Bond repayment	3,335,274

The Authority received a $1,000,000 reserve fund 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. The amounts received for bond repayment were from the State of Maine's Waste Motor Oil Revenue Fund. Such amounts were used to pay principal and interest on the Waste Motor Oil Revenue Bonds and eligible costs associated with the Waste Motor Oil Disposal Site Remediation Program (see note 13).

As part of the Authority's administration of the Maine State Grant Program, the Authority received $14,445,394 of funds from the State of Maine.

13. 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.

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 insured 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 Position.

In fiscal 2010, the Authority, on behalf of the State of Maine, issued Waste Motor Oil Revenue Bonds to provide for certain response costs related to a waste motor oil disposal site. These bonds are special limited obligations of the Authority, payable solely from revenues accumulated in the State of Maine Waste Motor Oil Revenue Fund. Amounts in the Waste Motor Oil Revenue Fund are expected to be derived principally from payments of a premium on the purchase within the State of Maine of specified motor vehicle oil. The bonds do not constitute a debt or pledge of faith and credit of the Authority or the State, and accordingly, have not been reported in the accompanying financial statements. At June 30, 2016, Waste Motor Oil Revenue Bonds outstanding totaled $10,320,000.

14. Deferred Compensation and Pension Plans

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 Position at June 30, 2016.

Currently, the Authority offers a Simplified Employee Pension Plan, a defined contribution plan, to its employees. All contributions made by the Authority go into this plan at 8% of eligible compensation. Pension expense was approximately $272,000 in fiscal year 2016.

15. Federal Student Loan Reserve Fund

The Authority holds and administers the Federal Student Loan Reserve Fund for the DE. 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 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 Net Position-Fiduciary Funds.

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

Total outstanding guarantees issued under the FFELP approximated $440,898,000 at June 30, 2016. A portion of defaults on FFELP loan guarantees are paid by DE through the Federal Student Loan Reserve Fund. At June 30, 2016, the reserve level was approximately $2,645,200.

16. Merger of MELA into FAME

As discussed in note 1, the Maine Legislature enacted S.P. 544-L.D. 1443 entitled *An Act to Merge the Maine Educational Loan Authority With the Finance Authority of Maine* (the Act). As a result, MELA was merged into FAME effective July 1, 2015 in accordance with GASB 69. FAME established the Maine Loan Program fund to account for the activities formerly administered by MELA. The initial opening balances of Maine Loan Program fund's assets, deferred outflow of resources, liabilities and net position, as of the beginning of the period, were determined on the basis of the carrying values reported in the separate audited financial statements of MELA as of June 30, 2015. There were no adjustments made to the initial carrying values recorded. A summary of the significant assets, deferred outflow of resources, liabilities and net position transferred is as follows:

Assets:	
Cash and cash equivalents	$ 14,390,200
Investments	499,700
Educational loans, net	102,782,100
Interest receivable	1,348,900
Prepaid expenses and other assets	489,300
Total assets	$ 119,510,200

16. Merger of MELA into FAME (Continued)

Deferred Outflow of Resources:	
Deferred loss on refinancing	$ 903,500
Liabilities:	
Accounts payable	$ 149,800
Accrued interest	491,800
Bonds payable, net	115,092,800
Arbitrage rebatable	1,533,400
Total liabilities	$ 117,267,800
Net Position:	
Restricted for bond programs	2,789,400
Unrestricted	356,500
Total net position	$ 3,145,900

17. Private Purpose Trust Fund

A summary of investments by asset class is as follows:

	NextGen Totals	
Investment Type	Amount	%
Domestic Equity Funds	$ 3,355,555,780	39.5%
International Equity Funds	891,199,597	10.5
Alternative Investment Funds	32,763,957	0.4
Investment Grade Fixed Income Funds	2,094,197,656	24.7
Non-Investment Grade Fixed Income Funds	375,493,560	4.4
Mixed Asset Funds	1,018,340,055	12.0
Cash Allocation Account	393,864,661	4.6
Guaranteed Interest Account	270,199,296	3.2
Bank Deposit Account	59,436,670	0.7
Total	$ 8,491,051,232	100.0%

Significant Accounting Policies

Investments

Investments are generally measured at fair value, except as described in the paragraphs that follow. Accounting standards categorize fair value measurements according to a hierarchy that is based on the valuation inputs that are used to measure fair value. Level 1 inputs are quoted prices for identical assets in active markets that can be accessed at the measurement date. Level 2 inputs are inputs other than quoted prices that are observable for an asset, either directly or indirectly. Level 3 inputs are unobservable.

17. Private Purpose Trust Fund (Continued)

Most of the Portfolios invest directly in mutual funds. The mutual funds are reported at fair value, determined based on the net asset value per share as of the close of the New York Stock Exchange on the reporting date (Level 1 inputs). Net realized and unrealized gains and losses are reported as "net appreciation (depreciation) in value of investments" on the Statement of Changes in Net Position. Purchases and sales are recorded on a trade date basis. Dividend and capital gain distributions are recorded on the ex-dividend date.

The Cash Allocation Account is a separate account in which certain Portfolios are invested. The underlying assets of the Cash Allocation Account include certificates of deposit, commercial paper, corporate notes, obligations of the U.S. Treasury and government sponsored entities and municipal variable rate demand notes, all with short maturities (generally one year or less at the date of purchase). BlackRock Capital Management, Inc. is responsible for management of the assets in the Cash Allocation Account, and State Street Bank and Trust Company (State Street) is custodian of all investments held in the Cash Allocation Account. Each Portfolio's investment in the Cash Allocation Account is evidenced by units of participation in the separate account and is reported at net asset value per unit, which is determined based on the net book value of the investments held in the Cash Allocation Account, plus accrued interest and any other assets, less accrued expenses and any other liabilities divided by the total number of units outstanding. Due to the short maturities of the investments held in the Cash Allocation Account, net book value approximates fair value.

The Guaranteed Interest Account (GIA), issued by New York Life is a non-participating, unallocated insurance contract and is reported at contract value, which is equal to contributions, plus interested credited at a guaranteed rate (may be adjusted periodically), less any applicable premium taxes and withdrawals. The GIA is guaranteed as to principal, accumulated interest and future interest rates.

Fees and Expenses

Fees and expenses reported on the Statement of Changes in Net Position reflect the fees and expenses of each Portfolio paid from Program Fund assets and do not include any expenses associated with the underlying investments. Each Portfolio indirectly bears its proportional share of the expenses of the underlying investments in which it invests. Accordingly, each Portfolio's investment return will be net of the expenses of the underlying investments and the fees and expenses attributable to that Portfolio.

Federal Income Tax

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 of 1986, as amended. Therefore, no federal income tax provision is required. The earnings portion of non-qualified withdrawals may be subject to a 10% federal tax in addition to applicable federal and state income tax. It is the participant's responsibility to determine whether or not a withdrawal is for qualified higher education expenses and to calculate and report on his or her personal income tax return the taxable amount of non-qualified withdrawals, if any.

17. Private Purpose Trust Fund (Continued)

Contributions

Individuals and certain types of entities may establish one or more accounts to which cash contributions may be made, subject to minimum contribution requirements, limitations on the aggregate account balance and other terms and limitations defined in the Program Description and Participation Agreement between the participant and the Program. Participants may elect to invest their contributions in one or more Portfolios offered through the Direct or Select Series. In addition, the Select Series Portfolios offer different unit classes, each having a different expense structure. Although participants can select the Portfolio(s) into which their contributions are invested, they cannot direct the selection or allocation of the underlying investments composing each Portfolio. Contributions are generally reported on the Statement of Changes in Net Position as increases in fiduciary net position on the business day they are received, and are net of any applicable sales charges. Contributions are generally invested in units of the selected Portfolio on the next business day following the credit of the contribution to the participant's account.

Withdrawals

Withdrawals are based on the net asset value calculated for such Portfolio on the business day following the day on which the Program Manager accepts and processes the withdrawal request. Withdrawals are generally recorded as deductions from fiduciary net position on the business day after the request is processed. Withdrawals presented on the Statement of Changes in Net Position include any applicable sales charges.

Investment Risk Disclosures

The Program's investments are exposed to various risks, such as interest rate, market and credit risk. It is at least reasonably possible that changes in fair values could occur in the near term, and such changes could materially affect participant balances and amounts reported in the Program's Basic Financial Statements. GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Statement No. 59, *Financial Instruments Omnibus*, require that certain disclosures be made related to the Program's investment policy and its exposure to credit risk, interest rate risk and foreign currency risk, which are included in the paragraphs that follow.

Investment Policy

The Program's investment objectives and performance monitoring requirements are set forth in the *Investment Policy and Monitoring Guidelines.* Generally, the Program's objectives include providing diverse investment options through the Direct and Select Series, structured for different levels of risk tolerance, time horizons and investment management preferences, while maintaining asset based fees at a competitive level. While the *Investment Policy and Monitoring Guidelines* do not specify permissible investments for the Program or address credit risk, interest rate risk, concentrations of credit risk or foreign currency risk, the assets of each Portfolio are invested according to an allocation strategy recommended by Merrill Lynch and the Portfolio's Sub-Advisor and approved by the Authority. Any changes to the investment strategy must be approved by the Authority.

17. Private Purpose Trust Fund (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Portfolios' investments in mutual funds and ETFs which invest in fixed income securities, the Principal Plus Portfolio and the Cash Allocation Account may be exposed to credit risk. None of the mutual funds or ETFs in which the Portfolios invest are rated by a nationally recognized statistical rating organization (NRSRO) except for the iShares 1-3 Year Treasury Bond ETF, the iShares Core U.S. Aggregate Bond ETF, the iShares iBoxx $ High Yield Corporate Bond ETF and the iShares Short Treasury Bond ETF, which carry ratings of AAf, Af, B-f and AAAf, respectively, at June 30, 2016. The GIA has not been rated.

Custodial Credit Risk

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either the counterparty or the counterparty's trust department or agent but not in the government's name. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and they are uncollateralized or collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. The Program's investments in mutual funds and ETFs are not subject to custodial credit risk disclosure requirements. In addition, the GIA is considered a contractual investment, rather than investment security, and is not exposed to custodial credit risk. While the GIA is not rated by any nationally recognized statistical rating organization, its respective issuer is rated AA+ by Standard and Poor's.

The Cash Allocation Account's investments are registered in the name of State Street as custodian and held in a separate account in the name of the Cash Allocation Account. The Cash Allocation Account may invest in bank deposit products, and these balances are not covered by depository insurance.

Account balances invested in the Bank Deposit Account are covered by depository insurance at the individual account level, to the extent applicable under FDIC regulations.

Concentration of Credit Risk

A concentration of credit risk is the risk of loss attributed to the magnitude of the Program's investments in a single issuer. Investments in mutual funds, ETFs or securities that are issued or explicitly guaranteed by the U.S. government are not subject to concentration of credit risk disclosure requirements. There are no investments in the Cash Allocation Account that represent 5% or more of the total investments of the Cash Allocation Account.

17. Private Purpose Trust Fund (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Certain Portfolios invest in mutual funds and ETFs that are exposed to interest rate risk due to underlying debt securities. In general, the value of a debt security will increase when interest rates decline and decrease when interest rates increase. Prices of longer term securities generally change more in response to interest rate changes than the prices of shorter term securities. Average maturity is a measure of sensitivity to interest rate risk. Average maturity is the average length of time until fixed income securities held by a fund reach maturity and will be repaid, taking into consideration the possibility that the issuer may call the security before its maturity date. In general, the longer the average maturity, the more a fund's value will fluctuate in response to changes in interest rates. As of June 30, 2016, the average maturities of the bond mutual funds and ETFs in which the Portfolios invest ranged from 0.44 years to 8.07 years.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Due to the nature of the Program's investments, the Program does not have any direct exposure to foreign currency risk. Certain mutual funds and ETFs in which the Portfolios invest include foreign securities in their underlying asset holdings, and these mutual funds and ETFs may indirectly expose the Program to foreign currency risk. There are certain additional risks involved when investing in foreign securities that are not inherent to investments in domestic securities. These risks may include foreign currency exchange rate fluctuations, adverse political and economic developments and the possible prevention of currency exchange or other foreign governmental laws or restrictions.

FINANCE AUTHORITY OF MAINE

COMBINING SCHEDULE OF NET POSITION

AGENCY FUNDS

June 30, 2016

ASSETS	Federal Student Loan Reserve Fund	Potato Marketing Improvement Fund	Agricultural Marketing Loan Fund	Small Enterprise Growth Fund
Cash and cash equivalents	$2,288,092	$ 3,497,156	$1,126,801	$ 598,270
Investments	–	7,357,683	2,370,682	1,258,702
Accounts receivable	528,984	–	–	–
Accrued interest receivable	–	104,629	85,001	–
Notes receivable, net	–	3,422,100	3,905,492	–
Total assets	$2,817,076	$14,381,568	$7,487,976	$1,856,972
LIABILITIES				
Accounts payable and other liabilities	$ 171,888	$ 17,543	$ 9,239	$ –
Due to the U.S. Department of Education	2,645,188	–	–	–
Amounts held for State of Maine under revolving loan programs	–	14,364,025	7,478,737	1,856,972
Total liabilities	$2,817,076	$14,381,568	$7,487,976	$1,856,972

Nutrient Management Fund	Payroll Processing Insurance Fund	Kim Wallace Adaptive Equipment Loan Program	Northern Maine Transmission Corporation	Maine Rural Development Authority	Total Agency Fund
$ 9,804	$ 356,235	$1,482,903	$ 2,897	$3,936,429	$13,298,587
–	644,634	3,119,886	6,095	–	14,757,682
–	–	–	–	–	528,984
–	–	6,188	–	3,382	199,200
237,011	–	1,715,375	–	2,508,616	11,788,594
$246,815	$1,000,869	$6,324,352	$ 8,992	$6,448,427	$40,573,047
$ 9,801	$ –	$ 4,060	$ –	$ 3,003	$ 215,534
–	–	–	–	–	2,645,188
237,014	1,000,869	6,320,292	8,992	6,445,424	37,712,325
$246,815	$1,000,869	$6,324,352	$ 8,992	$6,448,427	$40,573,047