Finance Authority of Maine

Basic Financial Statements and Management's Discussion and Analysis

Year Ended June 30, 2013

FINANCE AUTHORITY OF MAINE

FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

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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, a component unit of the State of Maine, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Finance Authority of Maine's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Finance Authority of Maine'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 99.3 percent, 100 percent, and 99.8 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.

The Board of Directors
Finance Authority of Maine

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

Basis for Qualified Opinion on the Aggregate Remaining Fund Information

As described in note 13 to the financial statements, errors were made in recording participant investment allocation elections in the underlying portfolios of the NextGen College Investing Plan. Management has disclosed that they believe there is no material effect on the financial statements. The other auditors however, were unable to obtain sufficient appropriate audit evidence about the financial statement effects, if any, resulting from such errors in recording participant investment allocation elections.

Qualified Opinion

In our opinion, based on our audit and the report of the other auditors, except for the possible effects of the matter described in the Basis for Qualified Opinion on the Aggregate Remaining Fund Information, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Aggregate Remaining Fund Information as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the Finance Authority of Maine, as of June 30, 2013, 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.

The Board of Directors
Finance Authority of Maine

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Finance Authority of Maine'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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 on our consideration of the Finance Authority of Maine'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 Finance Authority of Maine's internal control over financial reporting and compliance.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
December 20, 2013

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

As Management of the Finance Authority of Maine, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2013. As required, the Authority's financial statements are presented in the manner prescribed by Governmental Accounting Standards Board Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34), as amended. Under GASB 34, the Authority's funds are identified as Proprietary, or Business-type, funds, Governmental funds, and Fiduciary funds. The Authority's funds are generally created by federal or state statute.

GASB 34 combines three of the Authority's funds as Proprietary or Business-type: the Mortgage Insurance Program Fund, the NextGen Administration 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 or individuals pursuant to statute or contract. Additionally, the Authority serves as administrator for the Maine College Savings Program, also known as the NextGen College Investing Plan. These are included in the Statement of Net Position-Fiduciary Funds.

Significant Highlights for the Year Ended June 30, 2013

- The 15.5% growth in the insured commercial loan portfolio, from $83,400,000 to $96,300,000, this past year required the Authority to continue to maintain a significant commercial loan loss reserve. Allowance for Losses on Insured Loans increased $4,292,000, or 35.1%, to $16,527,000. 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 an increase in the insured commercial loan portfolio and a higher Allowance for Losses on Insured Loans. This, combined with the continued increased use of the Authority's popular On-Line Answer program, has resulted in significant growth in the portfolio in the past few fiscal years. The Authority may, over time, pay claims on loans for which there are reserves. When a claim is paid, the associated reserve is reversed.

- During the fiscal year, the Authority signed an agreement with the Maine Rural Development Authority (MRDA) to provide loan underwriting and servicing, accounting and finance, and legal services to the MRDA. The Authority receives administrative fees from the MRDA for these services.

- 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 year-end the Authority guaranteed approximately $615 million of student loans in the Program. Administrative fees earned by serving as Maine's guarantor have historically provided a source of funding for Authority activities such as outreach, financial education, default prevention services, and assistance to financial aid officers at colleges. For the next several years, the Authority expects to realize a declining revenue stream from the existing guaranteed portfolio as the loans amortize.

- The Authority administers the Maine College Savings Program, also known as the NextGen College Investing Plan, a Qualified Tuition Program under Section 529 of the Internal Revenue Code. Program investments experienced a large increase in net asset values during the fiscal year. The market value of Program investments was $6.9 billion at year-end, an increase from prior year of $863.8 million, or 14.4%. These investments are owned by or credited to account holders who have opened a college savings account. 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. Beginning with the fiscal year commencing on July 1, 2012, 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. Previously the assets of the Program were held by the State Treasurer and included in the State of Maine Consolidated Financial Statements. The Authority contracts with Merrill Lynch, Pierce, Fenner & Smith Incorporated to provide management services to the Maine College Savings Program.

- During the fiscal year, the Authority received legislative approval to create a program to insure student loans issued by private lenders. Under this program, the Authority insures private student loans from approved lenders in the Maine Private Education Loan Network. The Authority charges an up-front and annual insurance fee to lenders of these loans, and reimburses lenders for the defaults of insured loans in the program. The program will begin insuring loans in the following fiscal year.

- The Authority's net position decreased by $4,549,000, or 12.5%, to $31,813,000 for the year ended June 30, 2013. This was due primarily to recording $4,828,000 of Provision for Loan Losses expense for insured commercial loans, reflecting the significant increase in the insured commercial loan portfolio during the fiscal year. Additionally, an increase in program benefit expenses in the NextGen Administration Fund, which are shown as customer benefit expenses in the Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position, and a decrease in administration fees in that Fund, shown as income from user fees, also contributed to the decrease in net position.

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 three funds as Proprietary. They include the Mortgage Insurance Program Fund, the NextGen Administration 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 Maine College Savings Program, 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)

	Business-Type Activities		Governmental Activities		Total		Total Percent
	2013	2012	2013	2012	2013	2012	Change
Assets							
Cash and investments	$39,640	$ 41,564	$35,142	$38,877	$ 74,782	$ 80,441	(7.0)%
Notes receivable, net	305	316	23,350	24,810	23,655	25,126	(5.9)
Capital assets, net	1,526	1,798	–	–	1,526	1,798	(15.1)
Other assets	1,213	942	1,981	1,934	3,194	2,876	11.1
Total assets	$42,684	$ 44,620	$60,473	$65,621	$103,157	$110,241	(6.4)%
Liabilities							
Accounts payable and accrued liabilities	$ 3,201	$ 3,837	$ 534	$ 474	$ 3,735	$ 4,311	(13.4)%
Unearned fee income	559	555	666	756	1,225	1,311	(6.6)
Undisbursed grant and scholarship funds	–	–	7,316	10,489	7,316	10,489	(30.3)
Allowance for losses on insured commercial loans	16,527	12,235	–	–	16,527	12,235	35.1
Other liabilities	3	3	–	–	3	3	–
Long-term liabilities:							
Notes and bonds payable:							
Due within one year	–	–	807	806	807	806	0.1
Due in more than one year	–	–	650	707	650	707	(8.1)
Program funds:							
Due in more than one year	–	–	41,081	44,017	41,081	44,017	(6.7)
Total liabilities	$20,290	$ 16,630	$51,054	$57,249	$ 71,344	$ 73,879	(3.4)%
Net Position							
Unrestricted	$14,550	$ 17,537	$ 450	$ 450	$ 15,000	$ 17,987	(16.6)
Restricted	6,318	8,655	8,969	7,922	15,287	16,577	(7.8)
Invested in capital assets	1,526	1,798	–	–	1,526	1,798	(15.1)
Total net position	$22,394	$ 27,990	$ 9,419	$ 8,372	$ 31,813	$ 36,362	(12.5)%

The Authority's total assets decreased by $7,084,000, or 6.4%, to $103,157,000 from the beginning to the end of the fiscal year due primarily to the use of cash to return $3,000,000 of commercial insurance reserves to the State of Maine pursuant to Maine law, and for providing grant disbursements to customers. Some of the changes in the individual line items are described below:

Cash and Investments

Cash and investments decreased by $5,659,000, or 7.0%, during the year due primarily to the use of cash to return $3,000,000 of commercial insurance reserves to the State of Maine and for providing grant and loan disbursements to customers.

Undisbursed Grant and Scholarship Funds

Undisbursed grant and scholarship funds decreased by $3,173,000, or 30.3%, reflecting grant disbursements to customers during the year.

Allowance for Losses on Insured Commercial Loans

Allowance for losses on insured commercial loans increased by $4,292,000, or 35.1%, reflecting additional reserves recorded during the year due to the 15.5% growth of the insured commercial loan portfolio, from $83,400,000 to $96,300,000.

Long-Term Liabilities – Program Funds

The Authority receives State appropriations and funds from the issuance of State of Maine bonds to provide loans. In most cases these funds are classified as undisbursed loans or, once a loan has been closed, as disbursed loans. The undisbursed cash and the notes receivable could be returned to the State of Maine if the State required the return of that funding as a result of program termination or modification. The obligation to return the funds is identified on the balance sheet as a long-term liability, as the return of funds is not anticipated within the next year. These program funds decreased by $2,936,000, or 6.7%, 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 troubled 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 decreased by $4,549,000, or 12.5%. The decrease resulted primarily from recording a $4,828,000 provision for loan losses expense on insured commercial loans, as discussed previously. Additionally, an increase in program benefit expenses in the NextGen Administration Fund, which are shown as customer benefit expenses in the Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position, and a decrease in administration fees in that Fund, shown as income from user fees, also contributed to the decrease in net position. Further details are discussed below as part of the Statements of Revenues, Expenses and Changes in Net Position 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)	
	2013	2012	Amount	%
Revenues:				
State funding	$ 566	$ 643	$ (77)	(12.0)%
Income from user fees	11,976	12,272	(296)	(2.4)
Investment (loss) income	(44)	826	(870)	(105.3)
Administrative revenues	5,025	4,807	218	4.5
Interest income on notes receivable	18	16	2	12.5
Other income	1,004	1,006	(2)	(0.2)
Grant and scholarship revenue	17,656	19,987	(2,331)	(11.7)
Total revenues	36,201	39,557	(3,356)	(8.5)
Expenses:				
Salaries and benefits	3,745	3,630	115	3.2
External loan servicing expenses	5,721	4,414	1,307	29.6
Interest Expense	15	16	(1)	(6.3)
Provision for losses on loans	4,828	1,582	3,246	205.2
Grant and scholarship expenses	25,383	25,879	(496)	(1.9)
Other operating expenses/other	2,058	2,055	3	0.1
Total expenses	41,750	37,576	4,174	11.1
Other Activity:				
Reserve fund transfer from State	1,000	1,000	–	–
Return of loan loss reserves to State	–	(5,000)	5,000	–
Change in net position	$ (4,549)	$ (2,019)	$ (2,530)	125.3%

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

Results of Operations

Proprietary Funds Results

The net assets of the Authority's proprietary funds decreased by $5,596,000, or 20.0%, from the prior year. The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets for the proprietary funds for the year ended June 30, 2013:

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

	2013	2012	Increase/(Decrease) Amount	Increase/(Decrease) %
Operating revenue:				
Income from user fees	$11,976	$12,272	$ (296)	(2.4)%
Interest income on notes receivable	18	16	2	12.5
Grant revenue	2,683	2,622	61	2.3
Total revenue	14,677	14,910	(233)	(1.6)
Operating expenses:				
Salaries and benefits	2,238	2,158	80	3.7
External loan servicing costs	2,441	1,165	1,276	109.5
Provision for losses on loans	4,828	1,582	3,246	205.2
Customer benefit expenses	10,410	8,514	1,896	22.3
Other operating expenses/other	1,309	1,330	(21)	(1.6)
Total operating expenses	21,226	14,749	6,477	43.9
Operating (loss) income	(6,549)	161	(6,710)	(4,167.7)
Nonoperating revenues (expenses):				
Investment (loss) income	(67)	518	(585)	(112.9)
Reserve fund transfer from State	1,000	1,000	–	–
Return of loan loss reserves to State	–	(5,000)	5,000	–
Other income	20	42	(22)	(52.4)
Total nonoperating revenue	953	(3,440)	4,393	127.7
Change in net position	(5,596)	(3,279)	(2,317)	70.7
Net position at beginning of year	27,990	31,269	(3,279)	(10.5)
Net position at end of year	$22,394	$27,990	$ (5,596)	(20.0)%

The proprietary funds include the Mortgage Insurance Program Fund, the NextGen Administration 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. Net Position in the Mortgage Insurance Program Fund is used by the Authority to support additional insurance reserves for commercial loans. Net Position in the NextGen Administration Fund is used to fund student benefit programs, such as grants and scholarships, 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.

Operating revenue totaled $14,677,000, a decrease of 1.6% over prior year. Customer fee revenue accounted for 81.6% of operating revenue, and decreased $296,000 over prior year due primarily to lower administrative fees earned in the NextGen Administration Fund, somewhat offset by higher fees earned in the Mortgage Insurance Program Fund and the Not-for-Profit Loan Servicing Program within the Educational Loan Fund. The Maine College Savings Program experienced an $863.8 million, or 14.4%, increase in net asset value over the prior year, but earned $1,608,000 less in administration fees over the prior year due to an administration fee reduction from 15 basis points of net assets to 11 basis points on certain advisor-sold portfolios, which became effective just prior to the start of the fiscal year. The total net asset value of the investment funds in the Maine College Savings Program was $6.9 billion on June 30, 2013. The assets are owned by or awarded to account holders or for the benefit of their beneficiaries, and the Authority earns an administration fee on a portion of the net assets for managing the Program. Not-for-Profit Loan Servicing Program revenues increased $953,000, or 55.06%, over prior year due to an increase in the number of student loan accounts serviced in the Program. Grant revenue accounted for 18.3% of operating revenue and increased from the prior year by $61,000 as a result of opening more Harold Alfond College Challenge Grant accounts in the Maine College Savings Program than in the prior year; each such account received a one-time $500 grant from the Alfond Scholarship Foundation.

Operating expenses increased by $6,477,000, or 43.9%, from the prior year. External loan servicing costs increased by $1,276,000, or 109.5%, due to an increase in the number of student loan accounts serviced in the Not-for-Profit Loan Servicing Program. Provisions for losses on loans increased $3,246,000, or 205.2%, from prior year due to larger provision expense required to maintain an adequate allowance for the growth in the insured commercial loan portfolio during the year, from $83,400,000 to $96,300,000. Maine College Savings Program benefit expenses increased $1,896,000, or 22.3%, due to increased disbursements of benefits. The prior year reflects a nonoperating expense of $5,000,000 for commercial loan loss reserves the Authority was required to return to the State of Maine; no additional return of funds was required in the current year.

Nonoperating revenues include a $585,000 reduction in investment income due to unrealized market losses on the Authority's bond investment portfolio, to record the securities at fair value as required by the Governmental Accounting Standards Board. Bonds are expected to be held until maturity or call, and the market losses are not expected to be realized.

Overall, net position of the proprietary funds decreased by $5,596,000 or 20.0%, to $22,394,000.

Governmental Fund Results

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

The Fund Balance of the Authority's governmental funds increased by $1,047,000 or 12.5%, from the prior year. The following table summarizes the Statement of Revenues, Expenses and Changes in Fund Balance for the governmental funds for the year ended June 30, 2013:

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

	2013	2012	Increase/(Decrease) Amount	Increase/(Decrease) %
Revenue:				
State appropriations	$ 566	$ 643	$ (77)	(12.0)%
Investment income	23	308	(285)	(92.5)
Administrative revenues	5,025	4,807	218	4.5
Other income	984	964	20	2.1
Grant and scholarship revenue	14,973	17,365	(2,392)	(13.8)
Total revenue	21,571	24,087	(2,516)	(10.4)
Expenses:				
Salaries and benefits	1,507	1,472	35	2.4
External loan servicing expenses	3,280	3,249	31	1.0
Grant and scholarship expenses	14,973	17,365	(2,392)	(13.8)
Interest expense	15	16	(1)	(6.3)
Other operating expenses/other	749	725	24	3.3
Total expenses	20,524	22,827	(2,303)	(10.1)
Changes in fund balance	1,047	1,260	(213)	(16.9)
Fund balance at beginning of year	8,372	7,112	1,260	17.7
Fund balance at end of year	$ 9,419	$ 8,372	$ 1,047	12.5%

The governmental funds include all of the Authority's business lending programs except for the Mortgage Insurance Program, which contains the loan insurance programs. Most of these 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 and the Not-for-Profit Loan Servicing Program. 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 $21,571,000, a decrease from prior year of $2,516,000, or 10.4%. This decrease came primarily from a $2,392,000, or 13.8%, reduction in grant resources. Investment income was lower than prior year by $285,000, or 92.5%, due to unrealized market losses on the Authority's bond investment portfolio, as discussed above.

Expenses for the year were $20,524,000, which were lower than prior year by $2,303,000, or 10.1%. The decrease came primarily from fewer disbursements of grants, which decreased by $2,392,000, or 13.8%.

Overall, the fund balance of the governmental funds increased by $1,047,000, or 12.5%, to $9,419,000.

Debt Structure

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

The Authority negotiated a funding agreement with the United States Department of Agriculture's Department of Rural Development (USDA) in a prior year whereby the Authority borrowed funds at 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 $707,000 as of June 30, 2013.

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 $750,000 as of June 30, 2013.

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, Maine 04332-0949.

FINANCE AUTHORITY OF MAINE

STATEMENT OF NET POSITION

June 30, 2013

ASSETS	Business-Type Activities	Governmental Activities	Total
Cash and cash equivalents (note 2)	$14,480,578	$14,767,613	$ 29,248,191
Investments (note 2)	25,159,764	20,373,981	45,533,745
Accounts receivable	810,582	92,241	902,823
Accrued interest receivable	317,378	–	317,378
Notes receivable, net (notes 3 and 7)	305,249	23,350,495	23,655,744
Other assets	84,562	1,888,612	1,973,174
Capital assets, net (note 8)	1,526,187	–	1,526,187
Total assets	42,684,300	60,472,942	103,157,242
LIABILITIES			
Accounts payable and accrued liabilities (note 6)	3,201,292	534,280	3,735,572
Unearned fee income	558,788	666,110	1,224,898
Undisbursed grant and scholarship funds (note 9)	–	7,315,461	7,315,461
Allowance for losses on insured loans (notes 4 and 5)	16,526,578	–	16,526,578
Other liabilities	3,506	–	3,506
Long-term liabilities:			
Due within one year – note payable (note 7)	–	806,608	806,608
Due in more than one year – note payable (note 7)	–	650,119	650,119
Due in more than one year – program funds	–	41,081,244	41,081,244
Total liabilities	20,290,164	51,053,822	71,343,986
Commitments and contingent liabilities (notes 5, 6, 10 and 12)			
NET POSITION			
Invested in capital assets	1,526,187	–	1,526,187
Restricted	6,317,994	8,969,158	15,287,152
Unrestricted (note 2)	14,549,955	449,962	14,999,917
Total net position	$22,394,136	$ 9,419,120	$ 31,813,256

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

	Expenses	Charges for Services
Functions/Programs:		
Governmental activities:		
Federal Student Loan Guarantee Program	$ 4,052,932	$ 5,024,978
Educational Grant Programs	9,554,926	–
Revolving Loan Programs	1,119,756	–
Other Governmental Grant Programs	5,796,543	336,456
Total governmental activities	20,524,157	5,361,434
Business-type activities:		
Commercial Mortgage Insurance Program	6,467,010	2,025,319
College Savings Program	12,315,826	7,285,088
Educational Loan Programs	2,442,677	2,684,183
Total business-type activities	21,225,513	11,994,590
Total Authority	$41,749,670	$17,356,024

Other activity:
- Investment loss
- Other income
- Reserve fund transfer from State

Total other activity

Change in net position

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
$ (3,090)	$ 86,643	$1,055,599	$ –	$ 1,055,599
–	9,554,926	–	–	–
(219)	1,111,615	(8,360)	–	(8,360)
26,705	5,433,382	–	–	–
23,396	16,186,566	1,047,239	–	1,047,239
–	–	–	(4,441,691)	(4,441,691)
–	2,683,028	–	(2,347,710)	(2,347,710)
–	–	–	241,506	241,506
–	2,683,028	–	(6,547,895)	(6,547,895)
$ 23,396	$18,869,594	1,047,239	(6,547,895)	(5,500,656)
		–	(67,132)	(67,132)
		–	19,389	19,389
		–	1,000,000	1,000,000
		–	952,257	952,257
		1,047,239	(5,595,638)	(4,548,399)
		8,371,881	27,989,774	36,361,655
		$9,419,120	$22,394,136	$31,813,256

FINANCE AUTHORITY OF MAINE

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2013

ASSETS	Mortgage Insurance Program Fund	NextGen Administration Fund	Educational Loan Fund	Total
Current assets:				
Cash and cash equivalents (note 2)	$ 9,809,636	$3,944,251	$ 726,691	$14,480,578
Investments (note 2)	12,919,803	4,531	–	12,924,334
Accounts receivable	173,681	617,468	19,433	810,582
Accrued interest receivable	317,378	–	–	317,378
Notes receivable, net (notes 3 and 7)	34,829	–	–	34,829
Other assets	77,770	6,792	–	84,562
Total current assets	23,333,097	4,573,042	746,124	28,652,263
Noncurrent assets:				
Investments (note 2)	6,308,879	4,428,765	1,497,786	12,235,430
Notes receivable, net (notes 3 and 7)	270,420	–	–	270,420
Capital assets, net (note 8)	1,526,187	–	–	1,526,187
Total noncurrent assets	8,105,486	4,428,765	1,497,786	14,032,037
Total assets	$31,438,583	$9,001,807	$2,243,910	$42,684,300
LIABILITIES				
Current:				
Accounts payable and accrued liabilities (note 6)	$ 518,029	$2,683,263	$ –	$ 3,201,292
Unearned fee income	558,788	–	–	558,788
Allowance for losses on insured loans (notes 4 and 5)	16,526,578	–	–	16,526,578
Other liabilities	2,956	550	–	3,506
Total liabilities	17,606,351	2,683,813	–	20,290,164
Commitments and contingent liabilities (notes 5, 6 and 10)				
NET POSITION				
Net investment in capital assets	1,526,187	–	–	1,526,187
Restricted for education activities	–	6,317,994	–	6,317,994
Unrestricted (note 2)	12,306,045	–	2,243,910	14,549,955
Total net position	$13,832,232	$6,317,994	$2,243,910	$22,394,136

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

For the Year Ended June 30, 2013

	Mortgage Insurance Program Fund	NextGen Admin-istration Fund	Educa-tional Loan Fund	Total
Operating revenues:				
Insurance premiums	$ 1,026,878	$ –	$ –	$ 1,026,878
Application and commitment fees	511,212	–	–	511,212
Interest income on notes receivable	18,316	–	–	18,316
Grant revenue (note 9)	–	2,683,028	–	2,683,028
Fee and other income (note 9)	468,913	7,285,088	2,684,183	10,438,184
Total operating revenues	2,025,319	9,968,116	2,684,183	14,677,618
Operating expenses:				
Salaries and related benefits	1,309,109	928,500	–	2,237,609
Other operating expenses	330,326	977,637	1,126	1,309,089
External loan servicing costs	–	–	2,441,551	2,441,551
Provision for losses on insured commercial loans (note 4)	4,827,575	–	–	4,827,575
Scholarship expenses (note 9)	–	6,846,799	–	6,846,799
Grant expenses	–	2,683,028	–	2,683,028
Matching contributions and rebates (note 9)	–	879,862	–	879,862
Total operating expenses	6,467,010	12,315,826	2,442,677	21,225,513
Operating (loss) income	(4,441,691)	(2,347,710)	241,506	(6,547,895)
Nonoperating revenues (expenses):				
Investment income (loss) (note 2)	(71,335)	(8,220)	12,423	(67,132)
Other income	–	19,389	–	19,389
Reserve fund transfer from State (note 9)	1,000,000	–	–	1,000,000
Total nonoperating revenues	928,665	11,169	12,423	952,257
Change in net position	(3,513,026)	(2,336,541)	253,929	(5,595,638)
Net position at beginning of year	17,345,258	8,654,535	1,989,981	27,989,774
Net position at end of year	$13,832,232	$ 6,317,994	$ 2,243,910	$22,394,136

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2013

	Mortgage Insurance Program Fund	NextGen Administration Fund	Educational Loan Fund	Total
Cash flows from operating activities:				
Fees received from customers	$ 1,868,437	$ 6,884,441	$ 2,836,204	$ 11,589,082
Interest receipts on notes receivable	18,316	–	–	18,316
Grant revenue	–	2,683,028	–	2,683,028
Payments for operating expenses	(226,186)	(1,157,704)	(2,442,677)	(3,826,567)
Payments to employees	(1,245,525)	(926,842)	–	(2,172,367)
Investment in notes receivable	11,293	–	–	11,293
Payments for scholarships, grants, matching contributions and rebates	–	(10,409,689)	–	(10,409,689)
Default payments made on commercial loan guarantees	(545,512)	–	–	(545,512)
Recoveries received from prior commercial loan guarantees	9,236	–	–	9,236
Other (payments) receipts	(5,479)	3,684	–	(1,795)
Net cash (used) provided by operating activities	(115,420)	(2,923,082)	393,527	(2,644,975)
Cash flows from noncapital and related financing activities:				
Settlement funds received	–	2,463,444	–	2,463,444
Interfund transactions	1,071,154	(61,084)	–	1,010,070
Other nonoperating revenue	–	19,389	12,423	31,812
Funds paid to other governments	(3,000,000)	–	–	(3,000,000)
Funds received from other governments	1,000,000	–	–	1,000,000
Net cash (used) provided by noncapital and related financing activities	(928,846)	2,421,749	12,423	1,505,326
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(174,896)	–	–	(174,896)
Cash flows from investing activities:				
Maturities and calls on investments	23,751,456	4,471,377	–	28,222,833
Purchases of investments	(23,662,408)	(4,550,030)	(228,717)	(28,441,155)
Interest received on investments	440,192	70,383	–	510,575
Net cash provided (used) by investing activities	529,240	(8,270)	(228,717)	292,253
Net (decrease) increase in cash and cash equivalents	(689,922)	(509,603)	177,233	(1,022,292)
Cash and cash equivalents at beginning of year	10,499,558	4,453,854	549,458	15,502,870
Cash and cash equivalents at end of year	$ 9,809,636	$ 3,944,251	$ 726,691	$ 14,480,578

FINANCE AUTHORITY OF MAINE

STATEMENT OF CASH FLOWS (CONTINUED)

PROPRIETARY FUNDS

For the Year Ended June 30, 2013

	Mortgage Insurance Program Fund	NextGen Administration Fund	Educational Loan Funds	Total
Reconciliation of operating (loss) income to net cash (used) provided by operating activities:				
Operating (loss) income	$ (4,441,691)	$ (2,347,710)	$ 241,506	$ (6,547,895)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation	88,074	–	–	88,074
Provision for losses on loans	4,827,575	–	–	4,827,575
Default payments made on commercial loan guarantees	(545,512)	–	–	(545,512)
Recoveries received from prior commercial loan guarantees	9,236	–	–	9,236
Changes in operating assets and liabilities:				
Accounts receivable	(141,948)	(400,647)	152,021	(390,574)
Notes receivable	11,293	–	–	11,293
Other assets	(5,479)	3,684	–	(1,795)
Accounts payable and accrued liabilities	79,650	(178,409)	–	(98,759)
Unearned fee income and other liabilities	3,382	–	–	3,382
Net cash (used) provided by operating activities	$ (115,420)	$ (2,923,082)	$ 393,527	$ (2,644,975)

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2013

ASSETS	Federal Guaranty Agency Operating Fund	Educational Grant Fund	Revolving Fund
Cash and cash equivalents (note 2)	$3,120,083	$ 12,904	$ 6,372,749
Investments (note 2)	6,501,104	26,509	12,140,258
Accounts receivable	92,241	–	–
Notes receivable, net (notes 3 and 7)	–	–	23,350,495
Other assets	13,938	–	1,874,674
Total assets	$9,727,366	$ 39,413	$43,738,176
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	$ 396,627	$ –	$ 31,610
Unearned fee income	534,617	–	131,493
Undisbursed grant and scholarship funds (note 9)	–	38,995	505,598
Note payable (note 7)	–	–	1,456,727
Amounts held under state revolving loan programs (note 9):			
State revolving loan funds disbursed	–	–	24,977,622
State revolving loan funds undisbursed	–	–	15,689,210
Unearned income on undisbursed revolving loan funds	–	–	373,505
Total liabilities	931,244	38,995	43,165,765
Fund balances:			
Assigned	–	418	399,375
Restricted	8,796,122	–	173,036
Total fund balances	8,796,122	418	572,411
Total liabilities and fund balances	$9,727,366	$ 39,413	$43,738,176

See accompanying notes to the financial statements.

Other Governmental Funds	Total Governmental Funds
$ 5,261,877	$14,767,613
1,706,110	20,373,981
–	92,241
–	23,350,495
–	1,888,612
$ 6,967,987	$60,472,942
$ 106,043	$ 534,280
–	666,110
6,770,868	7,315,461
–	1,456,727
–	24,977,622
40,907	15,730,117
–	373,505
6,917,818	51,053,822
50,169	449,962
–	8,969,158
50,169	9,419,120
$ 6,967,987	$60,472,942

FINANCE AUTHORITY OF MAINE

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2013

	Federal Guarantee Agency Operating Fund	Educational Grant Fund	Revolving Fund
Revenues:			
State appropriations (note 9)	$ –	$ –	$ –
Investment (loss) income (note 2)	(3,090)	–	(219)
Administrative revenues	5,024,978	–	–
Other income	86,643	–	561,115
Grant revenue	–	9,554,926	550,500
Total revenues	5,108,531	9,554,926	1,111,396
Expenses:			
Operating expenses:			
Salaries and related benefits	386,455	–	339,109
Other operating expenses	386,256	–	215,243
External loan servicing expenses	3,280,221	–	–
Interest expense	–	–	14,904
Grant expense	–	9,554,926	550,500
Total expenses	4,052,932	9,554,926	1,119,756
Excess of revenues over (under) expenses and change in fund balance	1,055,599	–	(8,360)
Fund balances at beginning of year	7,740,523	418	580,771
Fund balances at end of year	$ 8,796,122	$ 418	$ 572,411

See accompanying notes to the financial statements.

Other Governmental Funds	Total Governmental Funds
$ 566,028	$ 566,028
26,705	23,396
–	5,024,978
336,456	984,214
4,867,354	14,972,780
5,796,543	21,571,396
781,845	1,507,409
147,344	748,843
–	3,280,221
–	14,904
4,867,354	14,972,780
5,796,543	20,524,157
–	1,047,239
50,169	8,371,881
$ 50,169	$ 9,419,120

FINANCE AUTHORITY OF MAINE

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

June 30, 2013

	NextGen College Investing Plan	Agency Funds
ASSETS HELD FOR OTHERS		
Cash and cash equivalents (note 2)	$ –	$13,297,778
Investments (note 2)	6,875,843,325	13,851,041
Receivable for securities sold	3,225,516	–
Receivable for units sold	10,742,896	–
Receivable for accrued income	5,420,556	–
Accrued interest receivable	–	272,510
Notes receivable, net (note 3)	–	16,788,950
Total assets	6,895,232,293	44,210,279
LIABILITIES		
Liabilities:		
Accounts payable and other liabilities	–	293,617
Payable for securities purchased	4,789,124	–
Payable for units redeemed	9,179,287	–
Payable for accrued expenses	3,789,898	–
Due to the U.S. Department of Education (note 12)	–	2,882,567
Amounts held for State of Maine under revolving loan programs	–	41,034,095
Total liabilities	17,758,309	44,210,279
NET POSITION		
Net position held in trust for education benefits	$ 6,877,473,984	$ –

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, 2013

	NextGen College Investing Plan
ADDITIONS	
Contributions – units sold	$ 1,983,237,576
Results from investment operations:	
Dividend income	114,975,057
Interest income	3,467,925
Net realized gain on underlying fund shares sold	116,074,447
Capital gain distributions from underlying fund shares	81,279,361
Net change in appreciation in value of investments	370,937,934
Total increase from investment operations	686,734,724
Total additions	2,669,972,300
DEDUCTIONS	
Withdrawals – units redeemed	1,762,928,611
Expenses:	
Management fees	33,696,184
Portfolio servicing fees	2,579,532
Maine administration fees	6,963,741
Total expenses	43,239,457
Total deductions	1,806,168,068
Net increase	863,804,232
Net position at beginning of year	6,013,669,752
Net position at end of year	$ 6,877,473,984

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, effective July 1, 2012, the Authority's financial statements reflect the assets of the NextGen College Investing Plan as a private purpose trust fund (see note 9).

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 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 enterprise 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.

Basis of Accounting

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

The financial statements are prepared in accordance with statements promulgated by the Governmental Accounting Standards Board.

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

1. Organization and Significant Accounting Policies (Continued)

Fund Structure

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

Mortgage Insurance Program Fund
This fund consists of activities primarily relating to providing capital to a broad range of commercial borrowers that may be denied commercial credit 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 State of Maine's Maine College Savings Program (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).

Also recognized in the fund are funds provided by the Alfond Scholarship Foundation and granted to participants in the Harold Alfond College Challenge (HACC). The HACC provides a grant to NextGen accounts for eligible designated beneficiaries. HACC grants may only be withdrawn for qualified higher education expenses defined under Section 529 of the Internal Revenue Code.

The Program, the NextGen Administration Fund and the Maine College Savings Program Fund are further described in note 9.

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

Higher Education Loan Purchase Program
This fund holds the residual net position of the federal student loan purchase program that was terminated by the Authority in 2011. All obligations under the program have been settled. Investment loss related to fund investments of approximately $3,000 have been reflected as investment loss in other governmental funds.

Not-for-Profit Loan Servicing Program
This fund, which originated in 2012, 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 is 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)

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

Federal Guarantee Agency Operating Fund
This fund accounts for the activities under the FFELP. The Authority, in conjunction with the U.S. Department of Education, made educational related federal loan guarantees to eligible Maine students and their families to attend post-secondary schools. The Authority received revenue in fiscal year 2013 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 will no longer receive revenue for the origination of FFELP loans. Additionally, as the principal balance of outstanding FFELP loans is amortized, the portfolio will decrease as will revenue associated with maintenance of the FFELP portfolio.

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

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

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

1. Organization and Significant Accounting Policies (Continued)

Other Governmental Funds

The Authority administers various other governmental and educational related programs. This fund group records the aggregate activity and reflects the combination of these programs. The State of Maine provides program funding on an annual basis for the Higher Education Fund. FAME Opportunities, Inc. relies on private individuals and corporations for contributions. Doctors for Maine's Future was 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 State of Maine provided funding for the Food Processing Grant Program. The College Access Challenge Grant is funded by the U.S. Department of Education. The State Small Business Credit Initiative Program is funded by the U.S. Department of the Treasury and 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
Food Processing Grant Program
College Access Challenge Grant
State Small Business Credit Initiative
Gaining Early Awareness for Undergraduate Programs

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 in a trustee capacity 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 13.

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 Fund Insurance Review Board, the Nutrient Management Fund, the Payroll Processing Insurance Fund, the Northern Maine Transmission Corporation, the Department of Agriculture for the Agriculture Marketing Loan Fund and the Potato Marketing Improvement Fund, the Department of Labor for the Occupational Safety Program Fund, 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, bond indenture and/or federal or state statutes and regulations. Financial activities and resulting account balances that are not so restricted are presented in the Statement of Net 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.

1. Organization and Significant Accounting Policies (Continued)

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

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

Management Estimates

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

Cash and Cash Equivalents

For purposes of preparing the statement of cash flows for the proprietary funds, the Authority considers certain highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

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

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

1. Organization and Significant Accounting Policies (Continued)

Notes Receivable

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

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

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.

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.

Allowance for Losses on Insured Loans

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

Revolving Loan Programs

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

Grants

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

1. Organization and Significant Accounting Policies (Continued)

Mortgage Insurance Premiums

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

Application and Commitment Fees

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

FFELP Support

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

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.

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 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, grants and rebates. Operating expenses in the Educational Loan Fund are primarily for loan processing services. 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.

1. Organization and Significant Accounting Policies (Continued)

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.

New Accounting Pronouncements

In June 2011 GASB issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2011. The Authority adopted the provisions of this Statement for the year ended June 30, 2013.

In December 2010 GASB issued Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for years beginning after December 15, 2011. The Authority adopted the provisions of this Statement for the year ended June 30, 2013. There was no impact on the financial statements.

In November 2010 GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34.* The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

1. Organization and Significant Accounting Policies (Continued)

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for years beginning after June 15, 2012. The Authority currently does not report any component units and as a result the Statement had no impact on the Authority.

In March, 2012 GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Authority is currently evaluating the impact, if any, this guidance will have on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement also requires disclosures be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. The Fund is currently evaluating the impact, if any, this guidance will have on its financial statements.

1. Organization and Significant Accounting Policies (Continued)

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement also specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively. The Authority is currently evaluating the impact, if any, this guidance will have on its financial statements.

2. Cash 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, 2013 are presented below:

Cash held in demand deposit accounts and on hand	$ 1,554,933
Money market accounts and repurchase agreements	1,813,760
Total carrying amount of deposits	3,368,693
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)	25,879,498
	$29,248,191

2. Cash and Investments (Continued)

Of the total carrying amount of deposits of $3,368,693 at June 30, 2013, the corresponding bank balances were $4,299,150. The difference between the carrying amounts of deposits and bank balances consists primarily of checks issued but not cashed and a deposit in transit. The amount of bank balances covered by Federal depository insurance was $250,386 at June 30, 2013, leaving $4,048,764 uninsured, of which $2,170,958 was collateralized by Repurchase Agreements issued by Bangor Savings Bank in the Authority's name.

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

Included in cash and cash equivalents on the Statement of Net Position Fiduciary Funds-Agency Funds is $11,846,441 held in the Authority's name in the State of Maine Treasurer's Cash Pool and $1,451,337 held at other banks, all of which was collateralized by a repurchase agreement issued by Bangor Savings Bank in the Authority's name or covered by Federal depository insurance.

At June 30, 2013, the Authority's management had reserved $543,157 of cash to fund a moral obligation capital reserve for certain small business mortgage loans and the costs of property maintenance related to an acquired property (see note 6). The Authority's management has also designated $543,157 of the Mortgage Insurance Program net position as a reserve for these matters.

A summary of the fair values of investment securities as of June 30, 2013 is as follows:

Cash management funds	$ 4,415,254
U.S. Treasury obligations	3,046,920
U.S. Government-sponsored enterprise bonds	32,780,366
State and Municipal Bonds	6,130,197
Merrill Lynch Principal Plus portfolio	4,531
Corporate bonds	13,007,518
	59,384,786
Less: investments recorded in Statement of Net Position-Fiduciary Funds-Agency Funds	13,851,041
Investments recorded in Statement of Net Position	$45,533,745

2. Cash and Investments (Continued)

The maturities or repricings of debt securities at June 30, 2013 are as follows:

	2014	2015 – 2018	2019 – 2023	Total
U.S. Treasury obligations	$ 2,018,640	$ 1,028,280	$ –	$ 3,046,920
U.S. Government-sponsored enterprises (FHLB, FNMA, etc.)	5,571,478	19,978,033	7,230,855	32,780,366
State and municipal bonds	999,870	5,130,327	–	6,130,197
Corporate bonds	4,329,815	8,677,703	–	13,007,518
	$12,919,803	$34,814,343	$ 7,230,855	$54,965,001

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, 2013 are as follows:

	2014	2015– 2018	2019 – 2023	Total
U.S. Government-sponsored enterprises (FHLB, FNMA, etc.)	$ –	$6,771,247	$7,230,855	$14,002,102
Corporate bonds	–	1,377,725	–	1,377,725
	$ –	$8,148,972	$7,230,855	$15,379,827

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, 2013, is $693,003 of net unrealized losses from the change in market value of investment securities.

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

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

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

2. Cash and Investments (Continued)

At June 30, 2013, the ratings for investments in debt securities are summarized as follows. These ratings were as of June 30, 2013 and are not necessarily the ratings that existed at the time of purchase.

Issuer	Rating	Fair Value
U.S. Treasury obligations	AAA	$ 3,046,920
U.S. government-sponsored enterprises[1]	AA+	32,780,366
Corporate bonds	AAA	2,008,640
Corporate bonds	AA+	4,300,855
Corporate bonds	AA	1,040,440
Corporate bonds	AA-	5,657,583
State and municipal bonds	AAA	2,993,320
State and municipal bonds	AA+	825,908
State and municipal bonds	AA	2,310,969
		$54,965,001

[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.

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

	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	20
Government Bond Funds	20

2. Cash and Investments (Continued)

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

For a discussion of investment activity and risks related to the Private Purpose Trust Fund, refer to note 13.

3. Notes Receivable

The following is a summary of notes receivable at June 30, 2013:

Mortgage Insurance Program:	
6.0% note, due fiscal 2017	$ 301,915
Various notes receivable	3,334
	305,249
Notes receivable in the Revolving Fund:	
Underground Oil Storage Replacement Program	1,328,244
Economic Recovery Program, net	7,459,264
Educators for Maine Program	4,321,277
Health Professions Loan Program	9,864,388
Regional Economic Development Revolving Loan Program	129,774
Intermediary Relending Program, net	168,643
Maine Health Access Foundation Loan Program	78,905
	23,350,495
Total notes receivable, net	$23,655,744

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, 2013, the allowance had a balance of $5,556,144. Because the Economic Recovery Program Fund is a state revolving loan program administered by the Authority, there is no effect on the Statement of Revenues, Expenses and Changes in Fund Balances for the change in the allowance for losses for this Fund. The allowance account is off-set against amounts held under revolving loan program accounts.

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

3. Notes Receivable (Continued)

Note receivable in the Agency Funds at June 30, 2013 are as follows:

Potato Marketing Improvement Fund – net	$ 5,557,940
Agriculture Marketing Loan Fund	4,898,293
Nutrient Management Fund	421,537
Kim Wallace Adaptive Equipment Loan Program Fund – net	2,946,566
Maine Rural Development Authority – net	1,521,831
	$15,346,167

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 net against the notes receivable balances for the program. As of June 30, 2013, the allowance for the PMIF, KWAELPF, and MRDA was $621,555, $282,954, and $2,404,584, respectively.

4. Allowance for Losses on Insured Loans

The Authority has established an allowance account to absorb probable losses on the commercial loans it insures (see note 5). The amount of the allowance and the provision for losses is determined by management's evaluation of the insured portfolio. The following is the activity in the allowance for losses on insured commercial loans during the year ended June 30, 2013:

Beginning balance	$12,235,279
Default payments	(545,512)
Provision for losses	4,827,575
Recoveries on prior default payments	9,236
Ending balance	$16,526,578

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

The Authority is insuring loans made by financial institutions to qualifying businesses under its various insurance programs. The Authority is contingently liable for the insured portion of payments due on these loans. At June 30, 2013, the Authority had insurance outstanding for commercial loans under the Loan Insurance Program totaling approximately $96,335,000.

At June 30, 2013, the Authority was insuring loans with an aggregate outstanding principal balance approximating $4,514,000 which were ninety or more days delinquent. The aggregate insured balance of these loans was approximately $2,099,000 at June 30, 2013.

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

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

In addition, the Authority has entered into commitments to insure loans at some future date. At June 30, 2013, these commitments under the Loan Insurance Program were approximately $7,599,000.

Substantially all of the Authority's loan customers and loan insurance participants are located in the State of Maine. The only significant concentrations of credit risk in the Authority's loan portfolio at June 30, 2013, are for the forest products industry and for geographical concentration.

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 $840,000,000 at June 30, 2013. Such insurance obligations are detailed below:

	Authorized	Outstanding
Full Faith and Credit of the State of Maine:		
Commercial Insurance Authority	$ 90,000,000	$ 72,508,251
Veterans Mortgage Insurance Authority	4,000,000	527,311
Higher Education Bonds	4,000,000	–
Moral Obligation of the State of Maine:		
Commercial Loan Insurance	150,000,000	23,299,542
Major Business Expansion Projects	120,000,000	–
Workers Compensation Residual Market Projects	57,000,000	–
Solid Waste Bonds	50,000,000	–
Supplemental Student Loan Program	50,000,000	–
Transmission Facilities Projects	100,000,000	–
Waste Motor Oil Revenue Fund	35,000,000	12,405,000
Natural Gas Pipeline and Energy Distribution Projects *	180,000,000	–
Total Moral Obligation	742,000,000	35,704,542
Total authorized and outstanding	$ 840,000,000	$ 108,740,104

* 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 2013 and 2012.

6. Acquired Property

The Authority holds title to land that it acquired in the course of a bankruptcy proceeding. The property is carried at no value in the Authority's Statement of Net 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 clean up costs on the site and has undertaken ongoing site maintenance responsibilities. The EPA has formally de-listed the site so that it is no longer considered an active Comprehensive Environmental Response, Clean-up and Liability Act (CERCLA) site, but the site remains under the oversight of the Maine Department of Environmental Protection (MEDEP).

Included in accounts payable and accrued liabilities at June 30, 2013, is $143,000 accrued by management of the Authority to record potential costs associated with site protection and monitoring functions for which the Authority may be held liable. The Authority may be liable for additional payments if there is an extraordinary event on the property. The Authority's legal counsel is unable to estimate an amount or range of possible liability at this time.

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

7. Notes Payable

Notes Payable

Notes payable consists of the following at June 30, 2013:

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.	$ 706,727
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.	750,000
	1,456,727
Less: current portion of notes payable	806,608
Noncurrent portion of notes payable	$ 650,119

7. Notes Payable (Continued)

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.

The debt service requirements for notes payable through 2018 and in five-year increments thereafter to maturity for the Authority, are as follows:

Year(s)	Principal	Interest	Total
2014	$ 806,608	$10,817	$ 817,425
2015	57,174	6,501	63,675
2016	57,746	5,929	63,675
2017	58,323	5,352	63,675
2018	58,906	4,769	63,675
2019 – 2023	303,486	14,889	318,375
2024 – 2027	114,484	1,664	116,148
	$1,456,727	$49,921	$1,506,648

The above debt schedule assumes repayment of the $750,000 note in 2014.

The following summarizes the debt activity for the Authority for the year ended June 30, 2013:

	Notes Payable
Balance at beginning of year	$1,512,733
Principal reductions	56,006
Balance at end of year	$1,456,727

8. Capital Assets

Capital assets activity for the year ended June 30, 2013, was as follows:

	June 30, 2012	Additions	Disposals	June 30, 2013
Building and improvements	$ 1,997,247	$ –	$ (4,797)	$ 1,992,450
Computer and office equipment	1,223,116	174,896	(180,490)	1,217,522
Software development	1,143,363	–	–	1,143,363
	4,363,726	174,896	(185,287)	4,353,335
Less accumulated depreciation for:				
Building and improvements	(856,278)	(66,685)	4,797	(918,166)
Computer and office equipment	(995,600)	(141,391)	180,490	(956,501)
Software development	(714,107)	(238,374)	–	(952,481)
Total accumulated depreciation	(2,565,985)	(446,450)	185,287	(2,827,148)
	$ 1,797,741	$(271,554)	$ –	$ 1,526,187

Depreciation expense of $446,450 was charged to various funds as part of allocated operating expenses.

9. Transactions with the State of Maine

Amounts received in governmental and business-type activities from the State of Maine for the year ended June 30, 2013, are summarized below:

Received for grant programs	$9,795,369
Received for loan programs	627,900
General State of Maine appropriations	566,028
Reserve fund transfers	1,000,000

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. In addition, in 2012, the State of Maine passed legislation which required the Authority to pay the State $5,000,000 from the Mortgage Insurance Fund. The Authority paid $2,000,000 in 2012 and the remaining $3,000,000 in 2013. In addition, the Authority received $2,970,090 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 10).

9. Transactions with the State of Maine (Continued)

Maine College Savings Program Fund

The Authority administers the State of Maine's Maine College Savings Program Fund (the Fund). The Maine College Savings Program (the Program), also known as the NextGen College Investing Plan or NextGen, is the primary program of the Fund which was established in accordance with Chapter 417-E of Title 20-A of the *Maine Revised Statutes Annotated of 1964*, as amended (the Act), to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education. The Program is designed to comply with the requirements for treatment as a qualified tuition program under Section 529 of the Internal Revenue Code of 1986, as amended. The Act authorizes the Authority to administer the Program and act as administrator of the Fund.

Until June 30, 2012, the Fund was held by the Treasurer of the State of Maine (the Treasurer). Pursuant to a change in the Act which became effective September 28, 2011, the Fund is now held by the Authority beginning July 1, 2012, and the Authority invests it under the direction of and with the advice of the seven member Advisory Committee on College Savings. Effective July 1, 2012, the Authority's financial statements reflect Program assets as held in a private purpose trust fund.

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 $6,965,088 in fiscal year 2013, and are recorded as revenue 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 $7,726,661 in fiscal year 2013. 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.

Similarly, included in the Maine College Savings Program Fund, and not reflected in the assets of the NextGen Administration Fund in these financial statements, are HACC grants awarded by the Alfond Scholarship Foundation to eligible designated beneficiaries. HACC grants, including earnings thereon, are not the property of account participants or designated beneficiaries and may only be withdrawn for qualified higher education expenses of designated beneficiaries. These grants are designated as restricted gifts to the Authority until so withdrawn. If not withdrawn within a prescribed time period the funds are forfeited and must be redistributed by the Authority for the benefit of another eligible designated beneficiary or, if so requested, returned to the grantor. HACC funds are recorded in the NextGen Administration Fund as grant revenue and, upon the conditional allocation to account participants, as grant expense.

10. Revenue Bonds

In accordance with the Act, the Authority is authorized to assist, review and approve the issuance of Revenue Obligation Securities, which enable applicants, public or private, to finance projects through the issuance of tax exempt securities by the Authority or municipalities. Occasionally, the Authority insures the repayment of a portion of the mortgage loans securing these bonds.

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, 2013, Waste Motor Oil Revenue Bonds outstanding totaled $12,405,000.

11. Deferred Compensation and Pension Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits the employees to defer a portion of their salary until future years. The Authority does not match any deferred compensation under this plan. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency. The Authority has established a trust for the exclusive benefit of the participants and their beneficiaries. As a result, the plan assets and corresponding liability are not presented in the Authority's Statement of Net Position at June 30, 2013.

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. Pension expense was $225,038 in fiscal year 2013.

12. Federal Student Loan Reserve Fund

The Authority holds and administers the Federal Student Loan Reserve Fund for the U.S. Department of Education. The *Higher Education Amendments of 1998* (the Amendments) required the creation of a Federal Student Loan Reserve Fund (the Federal Fund) and a Guarantee Agency Operating Fund (the Operating Fund). Under this legislation, substantially all existing reserve funds, securities and other liquid assets were deposited and transferred into the Federal Student Loan Reserve Fund. Ongoing deposits into the Federal Student Loan Reserve Fund include reinsurance payments, the complement of reinsurance on default collections, insurance premiums charged to borrowers and interest income. According to the Amendments, the Federal Student Loan Reserve Fund is the property of the Federal government (the U.S. Department of Education or DE) and can only be used to pay lender claims and a default aversion fee to the Operating Fund. The Federal Student Loan Reserve Fund is treated as an agency fund within the Authority's Statement of 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 $614,937,000 at June 30, 2013. A portion of defaults on FFELP loan guarantees are paid by DE through the Federal Student Loan Reserve Fund. At June 30, 2013, the reserve level was approximately $3,035,000.

13. Private Purpose Trust Fund

Significant Accounting Policies

Security Valuation – Investments in Underlying Funds are valued at the closing net position value per unit of each Underlying Fund on the day of valuation. The value of the GIC issued by Transamerica (an initial underlying investment of the Principal Plus Portfolio) is the sum of the net cash contributions to the deposit account plus interest credited minus withdrawals (the Contract Value). The value of the Bank Deposit Account (the sole underlying investment of the NextGen Savings Portfolio as well as an underlying investment of the Principal Plus Portfolio) is the sum of the net cash contributions to the deposit account plus interest credited minus withdrawals.

Security Transactions and Investment Income – Security transactions are recorded on the trade dates. Realized gains and losses on security transactions are determined on the identified cost basis. Dividend income and capital gain distributions from the Underlying Funds, if any, are recorded on the ex-dividend date.

13. Private Purpose Trust Fund (Continued)

Expenses – In addition to the direct expenses of each Portfolio, 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 expenses attributable to the 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% additional tax in addition to applicable federal and state income tax. It is the distributee's responsibility to report any taxable event on their personal tax returns.

Units – Contributions by a participant are evidenced through the issuance of Units in the particular portfolio. Contributions and withdrawals are subject to terms and limitations defined in the Participation Agreement between the participant and the program. Contributions are invested in units of the assigned portfolio on the next business day following the credit of the contribution to the participant's account. Withdrawals are based on the net position value calculated for such portfolio on the business day following the day on which the program manager accepts and processes the withdrawal request.

Each portfolio seeks to achieve its respective investment objective by investing in one or more underlying investments or accounts approved for that portfolio.

Investments

The Fund's investments are comprised of 59 different portfolios of investments (the Portfolios). Most portfolios invest in one or more mutual or exchange traded funds (the Underlying Funds) managed by a Sub-Advisor, recommended by the Program Manager and approved by FAME. Some portfolios also invest in the Cash Allocation Account. As of June 30, 2013, the Principal Plus Portfolio is invested in a guaranteed investment contract (GIC) issued by Transamerica Life Insurance Company (Transamerica) and in an interest-bearing omnibus bank deposit account (the Bank Deposit Account) with Bank of America, N.A., an affiliate of the Program Manager, in which deposits are FDIC-insured up to $250,000 per participant. The NextGen Savings Portfolio is comprised exclusively of the Bank Deposit Account. The investments of the Principal Plus Portfolio and the NextGen Savings Portfolio are also recommended by the Program Manager and approved by FAME and the State Treasurer.

Participants provide instructions for the investment of contributions to purchase units of specific portfolios.

Investments are reported at fair value and are accounted for by the Program accordingly, with changes in fair value included in investment earnings.

13. Private Purpose Trust Fund (Continued)

FAME has approved one investment, the Cash Allocation Account, for Portfolios investing in cash equivalent securities. The Cash Allocation Account is a separate account that seeks current income, preservation of capital and liquidity. The assets of the Account are invested in a diversified portfolio of money market securities and may be invested in certificates of deposits issued by Maine financial institutions (Maine CDs). BlackRock Capital Management, Inc. is responsible for the selection and management of the money market securities, other than Maine CDs.

The Treasurer selects the financial institutions from which any Maine CDs are purchased and is responsible for ensuring that any Maine CDs are insured by the Federal Deposit Insurance Corporation (FDIC) or are fully collateralized. The Treasurer also determines the percentage of assets of the Account that is invested in Maine CDs.

The Program's investments for the Principal Plus Portfolio currently consist of a GIC issued by Transamerica and the Bank Deposit Account. Transamerica guarantees principal, accumulated interest and a future interest rate of the GIC. The Principal Plus Portfolio investments are not secured by any collateral. Under the GIC, Transamerica sets the interest rate and announces every March 1, June 1, September 1 and December 1 the interest rate that will be credited during the following three-month period. The Bank Deposit Account is an interest-bearing omnibus negotiable order of withdrawal (NOW) account currently at Bank of America, N.A. The NextGen Savings Portfolio is exclusively invested in the Bank Deposit Account.

13. Private Purpose Trust Fund (Continued)

The following table represents a calculation of the net increase (decrease) in the value of investments during the year ended June 30, 2013.

Portfolio	Value at End of the Year	Less Cost of Investments Purchased During the Year	Plus Proceeds of Investments Sold During the Year
AllianzGI Age-Based Portfolios [6]	$ 62,198,034	$ (47,588,052)	$ 17,897,354
AllianzGI Capital Growth and Income Portfolio	22,671,268	(11,611,783)	5,123,698
AllianzGI Capital Income Portfolio	6,862,351	(3,838,966)	1,634,575
AllianzGI NFJ Dividend Value Portfolio	25,049,340	(9,586,536)	879,844
PIMCO Real Return Portfolio	22,298,466	(7,264,751)	2,092,408
PIMCO Total Return Portfolio	70,829,522	(23,769,572)	3,709,923
BlackRock Age-Based Portfolios [6]	1,823,123,784	(537,685,149)	373,005,365
BlackRock 75% Equity Portfolio	264,384,758	(59,524,003)	61,573,954
BlackRock 100% Equity Portfolio	355,416,780	(94,202,699)	86,117,894
BlackRock Equity Dividend Portfolio	14,439,470	(14,596,032)	98,499
BlackRock Equity Index Portfolio	5,272,419	(6,793,588)	4,029,163
BlackRock Fixed Income Portfolio	128,054,558	(14,597,591)	20,311,233
BlackRock Global Allocation Portfolio	833,306,577	(91,122,003)	14,627,696
BlackRock Large Cap Core Portfolio	38,442,885	(5,511,741)	3,404,666
BlackRock Large Cap Growth Portfolio	38,550,728	(8,536,707)	1,523,578
iShares Age-Based Portfolios [6]	17,366,210	(12,928,639)	1,372,235
iShares Diversified Equity Portfolio	4,820,069	(2,861,746)	52,805
iShares Diversified Fixed Income Portfolio	1,578,965	(875,343)	109,351
Eaton Vance Large-Cap Value Portfolio	–	(3,145,593)	10,590,682
Franklin Templeton Age-Based Portfolio [5]	1,237,741,688	(217,512,071)	174,024,777
Franklin Templeton Balanced Portfolio	133,623,775	(18,649,716)	17,033,577
Franklin Templeton Global Bond Portfolio	37,174,659	(12,623,680)	2,216,577
Franklin Templeton Growth Portfolio	182,618,120	(20,789,028)	21,897,861
Franklin Templeton Growth and Income Portfolio	211,943,303	(24,117,399)	26,133,182
Franklin Templeton Mutual Shares Portfolio	17,891,060	(3,301,792)	1,906,745
Franklin Templeton Small Cap Value Portfolio	28,374,308	(4,329,416)	1,444,501
Franklin Templeton Small-Mid Cap Growth Portfolio	20,677,351	(6,920,323)	649,297
MainStay Large Cap Growth Portfolio	20,699,726	(7,937,348)	410,462
MFS Age-Based Portfolios [6]	586,423,465	(139,647,277)	86,026,799
MFS Equity Portfolio	239,493,941	(19,477,999)	23,227,787
MFS Fixed Income Portfolio	54,044,563	(7,605,415)	5,777,612
MFS Research International Portfolio	43,652,329	(4,415,669)	3,795,982
MFS Value Portfolio	24,237,185	(6,795,922)	1,117,769
Thornburg International Value Portfolio	22,977,331	(5,569,610)	1,420,346
Principal Plus Portfolio	261,603,207	(29,596,156)	30,691,200
NextGen Savings Portfolio	18,001,130	(15,271,484)	3,038,091
	$ 6,875,843,325	$ (1,500,600,799)	$ 1,008,967,488

[ ] Indicates number of portfolios with age-based portfolio.

Less Value at Beginning of the Year	Change in Value of Investments During the Year
$ 32,278,095	$ 229,241
15,646,591	536,592
4,804,708	(146,748)
13,419,851	2,922,797
19,597,975	(2,471,852)
54,594,794	(3,824,921)
1,629,568,193	28,875,807
248,278,019	18,156,690
314,933,367	32,398,608
–	(58,063)
2,666,649	(158,655)
133,686,871	81,329
690,694,293	66,117,977
30,361,113	5,974,697
30,501,184	1,036,415
5,009,673	800,133
1,570,554	440,574
821,543	(8,570)
7,879,063	(433,974)
1,118,238,996	76,015,398
125,738,728	6,268,908
26,981,006	(213,450)
159,581,731	24,145,222
195,049,133	18,909,953
13,553,320	2,942,693
20,279,355	5,210,038
13,058,506	1,347,819
11,034,128	2,138,712
496,617,855	36,185,132
204,850,009	38,393,720
54,265,455	(2,048,695)
37,356,269	5,676,373
14,802,195	3,756,837
17,086,870	1,741,197
262,698,251	–
5,767,737	–
$ 6,013,272,080	$ 370,937,934

13. Private Purpose Trust Fund (Continued)

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires state and local governments to disclose information covering five principal areas: (a) custodial credit risk; (b) investment credit risk, including credit quality information issued by rating agencies; (c) concentration of credit risk; (d) interest rate disclosures that include investment maturity information, and (e) foreign securities risk.

(a) Custodial Credit Risk – Is the risk that, in the event of the failure of a counterparty to a transaction, the Program will not be able to recover the value of its investment of collateral securities that are in the possession of an outside party. The Program primarily invests in open-end mutual funds and also invests in exchange traded funds, which do not bear custodial credit risk; hence, the Program's exposure to custodial credit risk arising from its investments in mutual funds and exchange traded funds is considered to be insignificant.

The Program does, however, make some investments in other entities, including investments held by the Principal Plus Portfolio and the Cash Allocation Account, which are described below. The Program also makes deposits in the Bank Deposit Account.

In addition to making deposits to the Bank Deposit Account, the Principal Plus Portfolio invests in a single GIC issued by Transamerica as of June 30, 2013. This is a contractual investment rather than a security and is not deemed to be subject to custodial credit risk.

Some Portfolios invest in the Cash Allocation Account, a separate account established as part of the Program by FAME. The Cash Allocation Account is managed exclusively for the Program and its Portfolios. All the Cash Allocation Account's investments are held in either its name or its Agent's name, thereby minimizing the custodial credit risk.

(b) Investment Credit Risk – Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Program has not established an investment policy that specifically limits its exposure to credit risk and its investments in fixed income mutual funds and exchange traded funds, the NextGen Savings Portfolio, the Principal Plus Portfolio and the Cash Allocation Account may bear credit risk.

The GIC in which the Principal Plus Portfolio invests has not been rated by any of the Nationally Recognized Statistical Rating Organizations (NRSROs).

The assets of the Cash Allocation Account are invested in high-quality, short-term (not more than 762 days) money-market securities consisting primarily of direct U.S. Government obligations, U.S. Government agency securities, obligations of domestic and foreign banks, U.S. dollar denominated commercial paper, and other short-term debt securities issued by U.S. and foreign entities. In addition, the Cash Allocation Account may invest in Maine CDs in accordance with instructions from FAME and the Treasurer. All Maine CDs are FDIC insured or fully collateralized. Credit quality ratings, if any, as determined by NRSROs for the Cash Allocation Account's investments, are disclosed in the Cash Allocation Account's audited financial statements.

13. Private Purpose Trust Fund (Continued)

(c) Concentration of Credit Risk – Is the risk of loss attributed to the magnitude of the Program's investments in a single issuer. The Program has not established an investment policy that specifically limits its exposure to concentration of credit risk because, as noted above, the Program principally invests in mutual funds which have been excluded by GASB Statement No. 40 from its concentration of credit risk disclosure requirements.

(d) Interest Rate Risk – Is the risk that changes in interest rates will adversely affect the fair value of an investment. The Program has not established an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Program's investments in fixed income mutual funds and exchange traded funds, and the Cash Allocation Account are subject to the interest rate risk. Their value will generally 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.

(e) Foreign Securities Risk – Certain underlying mutual funds and exchange traded funds invest in foreign securities and the Program is subject to classification of risk under GASB Statement No. 40. 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. In addition, the liquidity of foreign securities may be more limited than that of domestic securities.

Other Matters

FAME management has been advised that during the audit period, certain investment allocations transmitted to the Program Manager by agents of certain participants, acting in their capacities as such, may have been incorrectly transcribed by such agents. As a result, the Program Manager instituted controls during the period to detect and correct any such errors in a timely manner. Management is monitoring the efforts to remediate such errors by such agents or the Program Manager, as appropriate. Management has investigated this matter and believes there is no material effect on the financial statements of the Program.

FINANCE AUTHORITY OF MAINE

COMBINING SCHEDULE OF NET POSITION

AGENCY FUNDS

June 30, 2013

ASSETS	Federal Student Loan Reserve Fund	Potato Marketing Improvement Fund	Agriculture Marketing Loan Fund	Small Enterprise Growth Fund
Cash and cash equivalents	$3,035,410	$ 2,762,523	$ 892,107	$1,576,314
Investments	–	5,727,162	1,849,483	3,267,955
Accrued interest receivable	–	160,156	83,090	–
Notes receivable, net	–	5,557,940	4,898,293	–
Total assets	$3,035,410	$14,207,781	$7,722,973	$4,844,269
LIABILITIES				
Accounts payable and other liabilities	$ 152,843	$ 21,602	$ 5,344	$ –
Due to the U.S. Department of Education	2,882,567	–	–	–
Amounts held for State of Maine under revolving loan programs	–	14,186,179	7,717,629	4,844,269
Total liabilities	$3,035,410	$14,207,781	$7,722,973	$4,844,269

Nutrient Management Fund	Payroll Processing Insurance Fund	Kim Wallace Adaptive Equipment Loan Program Fund	Fund Insurance Review Board Fund	Northern Maine Transmission Corporation	Maine Rural Development Authority	Total Agency Fund
$ 10,328	$209,435	$1,236,626	$ 1,282	$ 2,828	$3,570,925	$13,297,778
–	434,192	2,563,728	2,657	5,864	–	13,851,041
–	–	7,657	–	–	21,607	272,510
421,537	–	2,946,566	–	–	2,964,614	16,788,950
$431,865	$643,627	$6,754,577	$ 3,939	$ 8,692	$6,557,146	$44,210,279
$ 10,326	$ –	$ 22,378	$ –	$ –	$ 81,124	$ 293,617
–	–	–	–	–	–	2,882,567
421,539	643,627	6,732,199	3,939	8,692	6,476,022	41,034,095
$431,865	$643,627	$6,754,577	$ 3,939	$ 8,692	$6,557,146	$44,210,279