



# **Finance Authority of Maine**

Basic Financial Statements and  
Management's Discussion and Analysis

*Year Ended June 30, 2015*

Baker Newman & Noyes, LLC

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# FINANCE AUTHORITY OF MAINE

## FINANCIAL STATEMENTS

For the Year Ended June 30, 2015

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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, 2015, 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 99.5 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.

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

***Opinions***

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the Aggregate Remaining Fund information of the Finance Authority of Maine, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

***Supplementary Information***

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

The Board of Directors  
Finance Authority of Maine

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015 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.

Portland, Maine  
October 29, 2015

  
Limited Liability Company

# FINANCE AUTHORITY OF MAINE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

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, 2015. 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.

Three of the Authority's funds are combined 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 either pursuant to statute or contract. Additionally, the Authority serves as administrator for the NextGen College Investing Plan. These are included in the Statement of Net Position-Fiduciary Funds.

### Significant Highlights for the Year Ended June 30, 2015

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

The insured commercial loan portfolio continued to grow during the year, increasing 10.0% from \$101,300,000, at June 30, 2014, to \$111,445,000 at June 30, 2015. The allowance for insured commercial loan losses totaled \$16,153,000 and \$17,053,000, and represented 16% and 15% of insured commercial loans at June 30, 2014 and June 30, 2015, respectively. The allowance for insured commercial loan losses and associated provision reflect: the net growth in the insured loan portfolio; the economic conditions present; the inherent credit quality of the underlying insured loan portfolio; projected losses on insured loans; and the amount of claims paid, net of recoveries. During the year-ended June 30, 2014, the Authority recorded a net recovery for losses on insured loans of \$226,000, based upon the Authority's assessment of current economic conditions and the likelihood of current and future claims paid on insured loans, as well as a review of the risk rating methodology used to determine the appropriate level of reserves. During the year-ended June 30, 2015, the Authority recorded provisions for losses on insured loans of \$1,588,000, which represents its current assessment based upon the continued growth and inherent losses in the portfolio. During fiscal year 2014, the Authority paid claims, net of recoveries, totaling \$148,000, compared to net claims paid totaling \$687,000 in fiscal year 2015.

- The Authority administers the NextGen College Investing Plan, a Qualified Tuition Program under Section 529 of the Internal Revenue Code. The market value of Program investments was \$8.5 billion at year-end, an increase from prior year balance of \$8.1 billion, or 4.9%. These investments are owned by or credited to accountholders who have opened a college investing account. The growth in account balances reflects the continued growth in accountholder contributions, in excess of withdrawals, as well as market value movements and earned income on account balances.

## FINANCE AUTHORITY OF MAINE

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

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

The Authority earns fees for its administration services based on the daily net asset values of the Program investments, and administration revenues and expenses are accounted for in the NextGen Administration Fund. NextGen administration fees, included in fee and other income on the statement of revenues, expenses and changes in net position, totaled \$8,066,000 in fiscal year 2014, compared to \$8,606,000 in fiscal year 2015. This \$540,000 increase reflects the growth in the NextGen College Investing Plan, discussed above.

- During fiscal year 2014, the Authority entered into a new program management agreement with Merrill Lynch which included receipt of funding to support marketing, promotion, outreach and financial education over the term of the contract. As a result of this agreement, \$1.7 million was received from Merrill Lynch during fiscal 2015.
- Federal legislation in 2009 eliminated new student loan originations in the Federal Family Education Loan Program (FFELP) as of July 1, 2010, effectively creating a phase-out period of the Program as existing loans in the Program's portfolio amortize over their repayment periods. The Authority serves as the guarantor of these loans in Maine, which were originated by financial institutions participating in the Program, and manages the FFELP for the U. S. Department of Education (DE). At fiscal year-end 2015, the Authority guaranteed approximately \$499 million of student loans in the Program.

In December 2013, the Bipartisan Budget Agreement was enacted. Provisions of the Act decrease the share guaranty agencies, such as the Authority, are permitted to retain when they rehabilitate a defaulted loan, increases the share returned to the Federal government and reduces the maximum fee that a guarantor can charge the borrower for the rehabilitation of the loan. As a result of the passage of this act and the continued repayment of guaranteed student loans, the Authority expects to realize a significantly declining revenue stream from the existing guaranteed portfolio as the loans amortize. Administrative revenues, net of loan serving costs, associated with the FFELP totaled \$1,059,000 for the fiscal year 2015, compared to \$1,877,000 during fiscal 2014. Administrative fees earned by serving as Maine's guarantor have historically provided a source of funding for Authority activities such as outreach, financial education, default prevention services, and assistance to financial aid officers at college.

- During fiscal year 2013, the Authority received legislative approval to create a program to insure student loans issued by private lenders. 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 began insuring loans during fiscal year 2014, and as of June 30, 2014 the insured portfolio totaled \$248,000; as of June 30, 2015 the insured portfolio totaled \$1.8 million. The Authority recorded provisions for losses on insured student loans of \$4,900 and \$38,000 for the years ended June 30, 2014 and June 30, 2015 respectively.

## FINANCE AUTHORITY OF MAINE

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

- During June of fiscal year 2015, the Authority received \$4,000,000 as a result of the passage of the Maine Small Business Bond Issue by the voters of the State of Maine. This funding was received for the purpose of providing additional support for reserves within the commercial loan insurance program, which in turn allows the Authority to further aid in stimulating growth within the Maine economy.
- The Authority's net position increased by \$4,398,000 or 12.3%, to \$40,203,000 for the year ended June 30, 2015. This increase reflects the \$4,000,000 received via the Maine Small Business Bond Issue, as well as the receipt of a \$1,000,000 reserve fund transfer from the State of Maine, partially offset by operating costs, scholarships and grants in excess of revenues.

#### **Overview of the Authority**

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

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

#### **Overview of Financial Statements**

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

#### **Authority-Wide Financial Statements**

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



## FINANCE AUTHORITY OF MAINE

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

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 NextGen College Investing Plan, a Qualified Tuition Program under Section 529 of the Internal Revenue Code, administered by the Authority. The Agency fund reports resources held by the Authority in a custodial capacity for other governmental organizations. All of these funds are listed in Note 1 to the financial statements.

**FINANCE AUTHORITY OF MAINE**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

**Overview of the Authority-Wide Financial Position and Operations**

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

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

	Proprietary Activities		Governmental Activities		Total		Total Percent Change
	2015	2014	2015	2014	2015	2014	
<b>Assets</b>							
Cash and investments	\$49,549	\$ 43,178	\$41,512	\$32,617	\$ 91,061	\$ 75,795	20.1%
Notes receivable, net	282	301	23,122	22,284	23,404	22,585	3.6
Capital assets, net	1,460	1,473	-	-	1,460	1,473	(1.0)
Other assets	481	1,735	885	1,541	1,366	3,276	(58.3)
<b>Total assets</b>	<b><u>\$51,772</u></b>	<b><u>\$ 46,687</u></b>	<b><u>\$65,519</u></b>	<b><u>\$56,442</u></b>	<b><u>\$117,291</u></b>	<b><u>\$103,129</u></b>	<b><u>13.7%</u></b>
<b>Liabilities</b>							
Accounts payable and accrued liabilities	\$ 3,555	\$ 3,535	\$ 383	\$ 454	\$ 3,938	\$ 3,989	(1.3)%
Unearned fee income	690	523	474	607	1,164	1,130	3.0
Unearned grant and scholarship funds	-	-	14,268	4,876	14,268	4,876	192.6
Allowance for losses on insured loans	17,096	16,158	-	-	17,096	16,158	5.8
<b>Long-term liabilities:</b>							
Notes and bonds payable:							
Due within one year	-	-	808	807	808	807	0.1
Due in more than one year	-	-	535	593	535	593	(9.8)
Program funds:							
Amounts held under state revolving loan programs	-	-	39,278	39,771	39,278	39,771	(1.2)
<b>Total liabilities</b>	<b><u>\$21,341</u></b>	<b><u>\$ 20,216</u></b>	<b><u>\$55,746</u></b>	<b><u>\$47,108</u></b>	<b><u>\$ 77,087</u></b>	<b><u>\$ 67,324</u></b>	<b><u>14.5%</u></b>
<b>Net Position</b>							
Unrestricted net assets	\$20,653	\$ 16,830	\$ 449	\$ 448	\$ 21,102	\$ 17,278	22.1
Restricted assets	8,318	8,168	9,323	8,886	17,641	17,054	3.4
Invested in capital assets	1,460	1,473	-	-	1,460	1,473	(0.9)
<b>Total net position</b>	<b><u>\$30,431</u></b>	<b><u>\$ 26,471</u></b>	<b><u>\$ 9,772</u></b>	<b><u>\$ 9,334</u></b>	<b><u>\$ 40,203</u></b>	<b><u>\$ 35,805</u></b>	<b><u>12.3%</u></b>

## FINANCE AUTHORITY OF MAINE

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

The Authority's total assets increased by \$14,162,000, or 13.7% while total liabilities increased by \$9,763,000, or 14.5%; the total net change in position during the year was an increase of \$4,398,000, or 12.3%, from the beginning to the end of the fiscal year. Some of the changes in the individual line items are described below:

#### **Cash and Investments**

Cash and investments increased by \$15,266,000, or 20.1%, during the year, due to the \$4,398,000 improvement in the Authority's net position, as well as the increased funding received for the State Small Business Credit Initiative (SSBCI) program and the Regional Economic Development Revolving Loan Program (REDRLP). During December of fiscal 2015 the Authority received the 2<sup>nd</sup> tranche of funding for the SSBCI program in the amount of \$4,300,000, of which a portion was disbursed by fiscal year-end. In addition, the Authority also received \$8,000,000 in additional funding for the REDRLP as a result of the passage of the Maine Small Business Bond Issue.

#### **Other Assets**

Other assets decreased \$1,911,000, or 58.3%, due to a \$650,000 decline in other investments associated with the Venture Capital Revolving Investment Program (VRIP), as well as a \$950,000 decline in accounts receivable within the NextGen College Investing Plan associated with administration fees that had been earned during June of fiscal 2014, but not received until July of fiscal 2015.

#### **Unearned Grant and Scholarship Funds**

Undisbursed grant and scholarship funds increased by \$9,392,000, or 192.6%, due to the receipt of additional funding for the SSBCI & REDRLP programs discussed above.

#### **Long-Term Liabilities – Program Funds**

The Authority receives State appropriations and funds from the issuance of State of Maine bonds to provide loans under revolving loan programs. The amounts held could be returned to the State of Maine if the State required the return of that funding as a result of program termination or modification. The obligation to return the funds is identified on the balance sheet as a long-term liability, as the return of funds is not anticipated within the next year. These program funds decreased by \$493,000, or 1.2%, during the fiscal year.

#### **Net Position**

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

## FINANCE AUTHORITY OF MAINE

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

For the year, the Authority's net position increased by \$4,398,000 or 12.3%. This increase reflects the \$4,000,000 received via the Maine Small Business Bond Issue, as well as the receipt of a \$1,000,000 reserve fund transfer from the State of Maine, partially offset by operating costs, scholarships and grants in excess of revenues. Further details are discussed below as part of the Statements of Revenues, Expenses/Expenditures and Changes in Net Position Fund Balance for the Authority's proprietary and governmental funds. The results of operations for both the Authority's proprietary and governmental funds are presented below:

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

	<u>2015</u>	<u>2014</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>%</u>
<b>Revenues:</b>				
State funding	\$ 566	\$ 566	\$ -	0.0%
Income from user fees	13,462	12,944	518	4.0
Investment income	484	654	(170)	(26.0)
Administrative revenues	2,920	4,780	(1,860)	(38.9)
Interest income on notes receivable	18	17	1	5.9
Other income	2,832	1,188	1,644	138.4
Grant and scholarship revenue	<u>13,623</u>	<u>16,546</u>	<u>(2,923)</u>	<u>(17.7)</u>
Total revenues	33,905	36,695	(2,790)	(7.6)
<b>Expenses:</b>				
Salaries and benefits	4,351	3,832	519	13.5
External loan servicing expenses	4,120	5,173	(1,053)	(20.4)
Interest expense	14	14	-	0.0
Provision for (recovery of) losses on loans	1,626	(221)	1,847	835.7
Grant and scholarship expenses	21,128	21,546	(418)	(1.9)
Other operating expenses/other	<u>3,268</u>	<u>2,359</u>	<u>909</u>	<u>38.5</u>
Total expenses	34,507	32,703	1,804	5.5
<b>Other Activity:</b>				
Reserve fund and other transfers from State	5,000	1,000	4,000	400.0
Return of loan loss reserves to State	<u>-</u>	<u>(1,000)</u>	<u>1,000</u>	<u>(100.0)</u>
Change in net position	<u>\$ 4,398</u>	<u>\$ 3,992</u>	<u>\$ 406</u>	<u>10.2%</u>

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

**FINANCE AUTHORITY OF MAINE**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

**Results of Operations**

**Proprietary Funds Results**

The net assets of the Authority's proprietary funds increased by \$3,960,000 or 15%, from the prior year. The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets for the proprietary funds for the years ended June 30, 2015 and 2014:

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

	2015	2014	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Operating revenues:				
Income from user fees	\$ 13,462	\$ 12,944	\$ 518	4.0%
Interest income on notes receivable	18	17	1	5.9
Grant revenue	-	2,279	(2,279)	(100.0)
Other income	<u>1,747</u>	<u>227</u>	<u>1,520</u>	<u>669.6</u>
Total revenue	15,227	15,467	(240)	(1.6)
Operating expenses:				
Salaries and benefits	2,754	2,428	326	13.4
External loan servicing costs	2,048	2,147	(99)	(4.6)
Provision (recovery) for losses on loans	1,626	(221)	1,847	835.7
Customer benefit expenses	7,505	7,279	226	3.1
Other operating expenses/other	<u>2,669</u>	<u>1,791</u>	<u>878</u>	<u>49.0</u>
Total operating expenses	<u>16,602</u>	<u>13,424</u>	<u>3,178</u>	<u>23.7</u>
Operating (loss) income	(1,375)	2,043	(3,418)	(167.3)
Nonoperating revenues (expenses):				
Investment income	335	458	(123)	(26.9)
Reserve fund transfer from State	5,000	1,000	4,000	400.0
Reserve fund transfer to State	<u>-</u>	<u>(1,000)</u>	<u>1,000</u>	<u>(100.0)</u>
Total nonoperating revenue	<u>5,335</u>	<u>458</u>	<u>4,877</u>	<u>1064.8</u>
Change in net position, before net position transfer	3,960	2,501	1,459	58.3
Transfer in from Government Type Funds	<u>-</u>	<u>1,576</u>	<u>(1,576)</u>	<u>(100.0)</u>
Change in net position	3,960	4,077	(117)	(2.9)
Net position at beginning of year	<u>26,471</u>	<u>22,394</u>	<u>4,077</u>	<u>18.2</u>
Net position at end of year	<u>\$30,431</u>	<u>\$26,471</u>	<u>\$ 3,960</u>	<u>15.0%</u>

## FINANCE AUTHORITY OF MAINE

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

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 provide additional support for commercial loan insurance claims, in excess of the allowance for insured commercial loan losses. Net Position in the NextGen Administration Fund is used to fund student benefit programs, such as grants, scholarships, matching contributions and fee rebates for those who qualify for the programs. Effective October 9, 2013 the net position in the NextGen Administration Fund may also be used to fund financial education activities. Net Position in the Educational Loan Fund is used to fund higher education financing initiatives and outreach activities.

Operating revenue totaled \$15,227,000, a decrease of 1.6% over prior year. Customer fee revenue increased \$518,000 over prior year due primarily to higher administrative fees earned in the NextGen Administration Fund. The total net asset value of the investment funds in the NextGen College Investing Plan increased by \$0.4 billion or 4.9% during the fiscal year 2015 and totaled \$8.5 billion on June 30, 2015. The assets are owned by or awarded to accountholders for the benefit of their beneficiaries, and the Authority earns an administration fee (generally attained from non-Maine residents) up to 11 basis points on certain advisor-sold portfolios for managing the Program. In fiscal year 2014, grant revenue accounted for 15% of operating revenue and was the result of accountholders opening accounts in the NextGen College Investing Plan (to receive the Harold Alfond College Challenge Grants); each account received a one-time \$500 grant from the Alfond Scholarship Foundation (ASF). In fiscal 2014, the ASF announced that all babies born as Maine residents will be awarded a \$500 Alfond Grant for college, without requiring the establishment of a NextGen College Investing Plan account. As a result, beginning in fiscal year 2015, the Authority no longer received grant revenue nor incurred the associated customer benefit expenses for the administration of Harold Alfond College Challenge Grants. The \$1,520,000 or 669.6% increase within other income stems primarily from the receipt of funding from Merrill Lynch as part of the new program management agreement.

Operating expenses increased by \$3,178,000, or 23.7%, from the prior year. Provisions for losses on loans increased \$1,847,000 from prior year, reflecting net growth in the insured loan portfolio; the economic conditions present; the inherent credit quality of the underlying insured loan portfolio; projected losses on insured loans; and the amount of claims paid, net of recoveries as discussed previously. The \$878,000 or 49% increase in other operating expenses reflects increased marketing and promotional efforts through usage of the funding received from Merrill Lynch.

Nonoperating revenues reflect the receipt of \$4.0 million via the passage of the Maine Small Business Bond Issue during fiscal 2015, as well as the receipt of \$1.0 million in support of commercial insurance reserves from the State. The fund balance transfer to establish a reserve in the Educational Loan Fund that occurred during fiscal 2014 was a one-time event; no additional funds were transferred during fiscal 2015.

Overall, the net position of the proprietary funds increased by \$3,960,000 or 15.0% to \$30,431,000.

**FINANCE AUTHORITY OF MAINE**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

**Governmental Fund Results**

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

The Fund Balance of the Authority's governmental funds increased by \$438,000, or 4.7%, from the prior year. The following table summarizes the Statement of Revenues, Expenditures and Changes in Fund Balance for the governmental funds for the years ended June 30, 2015 and 2014:

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

	<u>2015</u>	<u>2014</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Revenue:				
State appropriations	\$ 566	\$ 566	\$ -	0.0%
Investment income	149	196	(47)	(24.0)
Administrative revenues	2,920	4,780	(1,860)	(38.9)
Other income	1,085	961	124	12.9
Grant and scholarship revenue	<u>13,623</u>	<u>14,267</u>	<u>(644)</u>	<u>(4.5)</u>
Total revenue	18,343	20,770	(2,427)	(11.7)
Expenses:				
Salaries and benefits	1,597	1,404	193	13.7
External loan servicing expenses	2,072	3,026	(954)	(31.5)
Grant and scholarship expenses	13,623	14,267	(644)	(4.5)
Interest expense	14	15	(1)	(6.7)
Other operating expenses/other	<u>599</u>	<u>567</u>	<u>32</u>	<u>5.6</u>
Total expenses	17,905	19,279	(1,374)	(7.1)
Fund Balance Transfer to Business Type Funds	<u>-</u>	<u>(1,576)</u>	<u>1,576</u>	<u>100.0</u>
Changes in fund balance	438	(85)	523	615.3
Fund balance at beginning of year	<u>9,334</u>	<u>9,419</u>	<u>(85)</u>	<u>(0.9)</u>
Fund balance at end of year	<u>\$ 9,772</u>	<u>\$ 9,334</u>	<u>\$ 438</u>	<u>4.7%</u>

## FINANCE AUTHORITY OF MAINE

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

The governmental funds include all of the Authority's business lending programs except for the Mortgage Insurance Program, which contains the commercial loan insurance programs. Most of these programs are direct revolving loan programs, including programs such as the Economic Recovery Loan Program and Oil Storage Facility and Tank Replacement Program. Also, the governmental funds include all of the education-related programs, except for the NextGen Administration Fund 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 \$18,343,000, a decrease from prior year of \$2,427,000, or 11.7%. This decrease came primarily from a \$1,860,000, or 38.9% reduction in administrative revenues associated with the FFELP, as well as a \$644,000, or 4.5%, reduction in grant resources.

Expenses for the year were \$17,905,000, which were lower than prior year by \$1,374,000, or 7.1%. The decrease came primarily from a \$954,000, or 31.5% reduction in costs associated with loan servicing within the FFELP, as well as fewer disbursements of grants, which decreased by \$644,000, or 4.5%.

Overall, the fund balance of the governmental funds increased by \$438,000, or 4.7%, to \$9,772,000.

#### **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 \$593,000 as of June 30, 2015.

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, 2015.

#### **Requests for Information**

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



**FINANCE AUTHORITY OF MAINE**

**STATEMENT OF NET POSITION**

June 30, 2015

<u>ASSETS</u>	<u>Business-Type Activities</u>	<u>Governmental Activities</u>	<u>Total</u>
Cash and cash equivalents (note 2)	\$24,492,380	\$20,359,571	\$ 44,851,951
Investments (note 2)	25,056,711	21,152,504	46,209,215
Accounts receivable	38,216	83,451	121,667
Accrued interest receivable	204,836	—	204,836
Notes receivable, net (notes 3 and 7)	282,341	23,121,957	23,404,298
Other assets	237,457	801,217	1,038,674
Capital assets, net (note 8)	<u>1,459,562</u>	<u>—</u>	<u>1,459,562</u>
 Total assets	 <u>\$51,771,503</u>	 <u>\$65,518,700</u>	 <u>\$ 117,290,203</u>
 <u>LIABILITIES</u>			
Accounts payable and accrued liabilities (note 6)	\$ 3,555,277	\$ 382,578	\$ 3,937,855
Unearned fee income	689,699	474,120	1,163,819
Unearned grant and scholarship funds	—	14,267,978	14,267,978
Allowance for losses on insured loans (notes 4 and 5)	17,095,915	—	17,095,915
Long-term liabilities:			
Due within one year – note payable (note 7)	—	807,746	807,746
Due in more than one year – note payable (note 7)	—	535,200	535,200
Due in more than one year – program funds	<u>—</u>	<u>39,278,540</u>	<u>39,278,540</u>
 Total liabilities	 <u>21,340,891</u>	 <u>55,746,162</u>	 <u>77,087,053</u>
 Commitments and contingent liabilities (notes 5, 6, 10, 12 and 14)			
 <u>NET POSITION</u>			
Invested in capital assets	1,459,562	—	1,459,562
Restricted for education activities	8,317,908	9,144,438	17,462,346
Restricted for business programs	—	179,152	179,152
Unrestricted	<u>20,653,142</u>	<u>448,948</u>	<u>21,102,090</u>
 Total net position	 <u>\$30,430,612</u>	 <u>\$ 9,772,538</u>	 <u>\$ 40,203,150</u>

See accompanying notes to the financial statements.

**FINANCE AUTHORITY OF MAINE**

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

	<u>Expenses</u>	<u>Charges for Services</u>
Functions/Programs:		
Governmental activities:		
Federal Student Loan Guarantee Program	\$ 2,843,244	\$ 2,919,773
Educational Grant Programs	9,599,689	-
Revolving Loan Programs	1,002,040	-
State Small Business Credit Initiative Program	1,795,057	56,311
Other Governmental Grant Programs	<u>2,665,333</u>	<u>166,738</u>
Total governmental activities	17,905,363	3,142,822
Business-type activities:		
Commercial Mortgage Insurance Program	3,566,122	2,283,421
College Savings Program	10,557,358	10,641,187
Educational Loan Programs	<u>2,478,628</u>	<u>2,301,652</u>
Total business-type activities	<u>16,602,108</u>	<u>15,226,260</u>
Total Authority	<u>\$34,507,471</u>	<u>\$18,369,082</u>

Other activity:  
     Investment income  
     Reserve fund and other transfers from State (note 9)

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.

<u>Program Revenues</u>		<u>Net Revenue (Expense) and Changes in Net Position</u>		
<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ 70,828	\$ 278,365	\$ 425,722	\$ -	\$ 425,722
-	9,599,689	-	-	-
5,761	1,008,649	12,370	-	12,370
-	1,738,746	-	-	-
<u>72,339</u>	<u>2,426,236</u>	<u>(20)</u>	<u>-</u>	<u>(20)</u>
148,928	15,051,685	438,072	-	438,072
-	-	-	(1,282,701)	(1,282,701)
-	-	-	83,829	83,829
<u>-</u>	<u>-</u>	<u>-</u>	<u>(176,976)</u>	<u>(176,976)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,375,848)</u>	<u>(1,375,848)</u>
<u>\$148,928</u>	<u>\$15,051,685</u>	438,072	(1,375,848)	(937,776)
		-	335,313	335,313
		<u>-</u>	<u>5,000,000</u>	<u>5,000,000</u>
		<u>-</u>	<u>5,335,313</u>	<u>5,335,313</u>
		438,072	3,959,465	4,397,537
		<u>9,334,466</u>	<u>26,471,147</u>	<u>35,805,613</u>
		<u>\$ 9,772,538</u>	<u>\$30,430,612</u>	<u>\$40,203,150</u>

**FINANCE AUTHORITY OF MAINE**

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2015

<u>ASSETS</u>	<u>Mortgage Insurance Program Fund</u>	<u>NextGen Admin- istration Fund</u>	<u>Educa- tional Loan Fund</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents (note 2)	\$16,511,451	\$ 6,332,521	\$1,648,408	\$24,492,380
Investments (note 2)	2,014,520	4,585	-	2,019,105
Accounts receivable	18,969	-	19,247	38,216
Accrued interest receivable	204,836	-	-	204,836
Notes receivable, net (note 3)	23,561	-	-	23,561
Other assets	<u>225,494</u>	<u>11,963</u>	<u>-</u>	<u>237,457</u>
Total current assets	18,998,831	6,349,069	1,667,655	27,015,555
Noncurrent assets:				
Investments (note 2)	16,144,718	4,915,940	1,976,948	23,037,606
Notes receivable, net (note 3)	258,780	-	-	258,780
Capital assets, net (note 8)	<u>1,459,562</u>	<u>-</u>	<u>-</u>	<u>1,459,562</u>
Total noncurrent assets	<u>17,863,060</u>	<u>4,915,940</u>	<u>1,976,948</u>	<u>24,755,948</u>
Total assets	<u>\$36,861,891</u>	<u>\$11,265,009</u>	<u>\$3,644,603</u>	<u>\$51,771,503</u>
<u>LIABILITIES</u>				
Current:				
Accounts payable and accrued liabilities (note 6)	\$ 574,564	\$ 2,947,101	\$ 33,612	\$ 3,555,277
Unearned fee income	689,699	-	-	689,699
Allowance for losses on insured loans (notes 4 and 5)	<u>17,052,866</u>	<u>-</u>	<u>43,049</u>	<u>17,095,915</u>
Total liabilities	<u>18,317,129</u>	<u>2,947,101</u>	<u>76,661</u>	<u>21,340,891</u>
Commitments and contingent liabilities (notes 5, 6, 10 and 14)				
<u>NET POSITION</u>				
Net investment in capital assets	1,459,562	-	-	1,459,562
Restricted for education activities	-	8,317,908	-	8,317,908
Unrestricted	<u>17,085,200</u>	<u>-</u>	<u>3,567,942</u>	<u>20,653,142</u>
Total net position	<u>\$18,544,762</u>	<u>\$ 8,317,908</u>	<u>\$3,567,942</u>	<u>\$30,430,612</u>

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, 2015

	Mortgage Insurance Program <u>Fund</u>	NextGen Admin- istration <u>Fund</u>	Educa- tional Loan <u>Fund</u>	<u>Total</u>
Operating revenues:				
Insurance premiums	\$ 1,164,016	\$ —	\$ 63,506	\$ 1,227,522
Application and commitment fees	595,098	—	—	595,098
Interest income on notes receivable	18,358	—	—	18,358
Fee and other income	<u>505,949</u>	<u>10,641,187</u>	<u>2,238,146</u>	<u>13,385,282</u>
Total operating revenues	2,283,421	10,641,187	2,301,652	15,226,260
Operating expenses:				
Salaries and related benefits	1,445,382	1,060,789	247,532	2,753,703
Other operating expenses	533,060	1,991,032	144,733	2,668,825
External loan servicing costs	—	—	2,048,260	2,048,260
Provision for losses on insured commercial loans and insured education loans (note 4)	1,587,680	—	38,103	1,625,783
Scholarship expenses	—	4,408,886	—	4,408,886
Matching contributions and rebates	<u>—</u>	<u>3,096,651</u>	<u>—</u>	<u>3,096,651</u>
Total operating expenses	<u>3,566,122</u>	<u>10,557,358</u>	<u>2,478,628</u>	<u>16,602,108</u>
Operating income (loss)	(1,282,701)	83,829	(176,976)	(1,375,848)
Nonoperating revenues:				
Investment income	242,797	65,716	26,800	335,313
Reserve fund and other transfers from State (note 9)	<u>5,000,000</u>	<u>—</u>	<u>—</u>	<u>5,000,000</u>
Total nonoperating revenues	<u>5,242,797</u>	<u>65,716</u>	<u>26,800</u>	<u>5,335,313</u>
Change in net position	3,960,096	149,545	(150,176)	3,959,465
Net position at beginning of year	<u>14,584,666</u>	<u>8,168,363</u>	<u>3,718,118</u>	<u>26,471,147</u>
Net position at end of year	<u>\$18,544,762</u>	<u>\$ 8,317,908</u>	<u>\$3,567,942</u>	<u>\$30,430,612</u>

See accompanying notes to the financial statements.

**FINANCE AUTHORITY OF MAINE**

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2015

	Mortgage Insurance Program <u>Fund</u>	NextGen Admin- istration <u>Fund</u>	Educa- tional Loan <u>Fund</u>	<u>Total</u>
Cash flows from operating activities:				
Fees received from customers	\$ 2,664,299	\$ 11,607,397	\$ 2,300,151	\$ 16,571,847
Interest receipts on notes receivable	18,358	-	-	18,358
Payments for operating expenses	(414,247)	(978,210)	(2,186,495)	(3,578,952)
Payments to employees	(1,499,013)	(1,034,396)	(238,007)	(2,771,416)
Repayments on notes receivable	18,262	-	-	18,262
Payments for scholarships, matching contributions and rebates	-	(7,505,537)	-	(7,505,537)
Default payments made on commercial loan guarantees	(726,575)	-	-	(726,575)
Recoveries received from prior commercial loan guarantees	39,150	-	-	39,150
Other	<u>(103,118)</u>	<u>106,784</u>	<u>-</u>	<u>3,666</u>
Net cash provided (used) by operating activities	(2,884)	2,196,038	(124,351)	2,068,803
Cash flows from noncapital and related financing activities:				
Interfund transactions	3,061,444	-	-	3,061,444
Funds received from other governments	5,000,000	-	-	5,000,000
Funds paid to other governments	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>	<u>(1,000,000)</u>
Net cash provided by noncapital and related financing activities	7,061,444	-	-	7,061,444
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(232,339)	-	-	(232,339)
Cash flows from investing activities:				
Maturities and calls on investments	31,937,951	-	193,633	32,131,584
Purchases of investments	(31,161,355)	(829,173)	-	(31,990,528)
Interest received on investments	<u>429,919</u>	<u>86,632</u>	<u>39,559</u>	<u>556,110</u>
Net cash provided (used) by investing activities	<u>1,206,515</u>	<u>(742,541)</u>	<u>233,192</u>	<u>697,166</u>
Net increase in cash and cash equivalents	8,032,736	1,453,497	108,841	9,595,074
Cash and cash equivalents at beginning of year	<u>8,478,715</u>	<u>4,879,024</u>	<u>1,539,567</u>	<u>14,897,306</u>
Cash and cash equivalents at end of year	\$ <u>16,511,451</u>	\$ <u>6,332,521</u>	\$ <u>1,648,408</u>	\$ <u>24,492,380</u>

**FINANCE AUTHORITY OF MAINE**

STATEMENT OF CASH FLOWS (CONTINUED)

PROPRIETARY FUNDS

For the Year Ended June 30, 2015

	Mortgage Insurance Program <u>Fund</u>	NextGen Admin- istration <u>Fund</u>	Educa- tional Loan <u>Fund</u>	<u>Total</u>
Reconciliation of operating (loss) income to net cash provided (used) by operating activities:				
Operating (loss) income	\$ (1,282,701)	\$ 83,829	\$ (176,976)	\$ (1,375,848)
Adjustments to reconcile operating (loss) income to net cash provided (used) by operating activities:				
Depreciation	235,810	-	-	235,810
Loss on disposal of capital assets	10,212	-	-	10,212
Provision for losses on insured loans	1,587,680	-	38,103	1,625,783
Default payments made on commercial loan guarantees	(726,575)	-	-	(726,575)
Recoveries received from prior commercial loan guarantees	39,150	-	-	39,150
Changes in operating assets and liabilities:				
Accounts receivable	233,016	966,210	(1,501)	1,197,725
Notes receivable	18,262	-	-	18,262
Other assets	(103,118)	106,784	-	3,666
Accounts payable and accrued liabilities	(35,004)	1,039,215	16,023	1,020,234
Unearned fee income and other	<u>20,384</u>	<u>-</u>	<u>-</u>	<u>20,384</u>
Net cash provided (used) by operating activities	\$ <u>(2,884)</u>	\$ <u>2,196,038</u>	\$ <u>(124,351)</u>	\$ <u>2,068,803</u>

See accompanying notes to the financial statements.

**FINANCE AUTHORITY OF MAINE**

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2015

<u>ASSETS</u>	Federal Guaranty Agency Operating Fund	Educational Grant Fund	Revolving Fund
Cash and cash equivalents (note 2)	\$4,513,840	\$ 93,081	\$10,691,814
Investments (note 2)	5,088,798	117,224	14,989,829
Accounts receivable	76,500	-	-
Notes receivable, net (notes 3 and 7)	-	-	23,121,957
Other assets	<u>50,684</u>	<u>-</u>	<u>750,533</u>
Total assets	<u>\$9,729,822</u>	<u>\$210,305</u>	<u>\$49,554,133</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 254,016	\$ 11,888	\$ 37,966
Unearned fee income	331,368	-	142,752
Unearned grant and scholarship funds	-	197,999	8,222,938
Note payable (note 7)	-	-	1,342,946
Amounts held under state revolving loan programs (note 9)	<u>-</u>	<u>-</u>	<u>39,229,004</u>
Total liabilities	585,384	209,887	48,975,606
Fund balances:			
Assigned – loan programs	-	418	399,375
Restricted – education programs	9,144,438	-	-
Restricted – business programs	<u>-</u>	<u>-</u>	<u>179,152</u>
Total fund balances	<u>9,144,438</u>	<u>418</u>	<u>578,527</u>
Total liabilities and fund balances	<u>\$9,729,822</u>	<u>\$210,305</u>	<u>\$49,554,133</u>

See accompanying notes to the financial statements.



State Small Business Credit Initiative Fund	Other Governmental Funds	Total Governmental Funds
\$3,793,504	\$1,267,332	\$20,359,571
-	956,653	21,152,504
6,951	-	83,451
-	-	23,121,957
<u>-</u>	<u>-</u>	<u>801,217</u>
<u>\$3,800,455</u>	<u>\$2,223,985</u>	<u>\$65,518,700</u>
\$ 1,547	\$ 77,161	\$ 382,578
-	-	474,120
3,769,592	2,077,449	14,267,978
-	-	1,342,946
<u>29,316</u>	<u>20,220</u>	<u>39,278,540</u>
3,800,455	2,174,830	55,746,162
-	49,155	448,948
-	-	9,144,438
<u>-</u>	<u>-</u>	<u>179,152</u>
<u>-</u>	<u>49,155</u>	<u>9,772,538</u>
<u>\$3,800,455</u>	<u>\$2,223,985</u>	<u>\$65,518,700</u>

**FINANCE AUTHORITY OF MAINE**

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

**GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2015

	Federal Guarantee Agency Operating Fund	Educational Grant Fund	Revolving Fund
Revenues:			
State appropriations (note 9)	\$ -	\$ -	\$ -
Investment income	70,828	-	5,761
Administrative revenues	2,919,773	-	-
Other income	278,365	-	584,008
Grant and scholarship revenue	<u>-</u>	<u>9,599,689</u>	<u>424,641</u>
Total revenues	3,268,966	9,599,689	1,014,410
Expenditures:			
Operating expenditures:			
Salaries and related benefits	611,135	-	384,274
Other operating expenses	160,411	-	179,291
External loan servicing expenses	2,071,698	-	-
Interest expense	-	-	13,834
Grant and scholarship expense	<u>-</u>	<u>9,599,689</u>	<u>424,641</u>
Total expenditures	<u>2,843,244</u>	<u>9,599,689</u>	<u>1,002,040</u>
Net change in fund balances	425,722	-	12,370
Fund balances at beginning of year	<u>8,718,716</u>	<u>418</u>	<u>566,157</u>
Fund balances at end of year	<u>\$ 9,144,438</u>	<u>\$ 418</u>	<u>\$ 578,527</u>

See accompanying notes to the financial statements.

State Small Business Credit Initiative Fund	Other Governmental Funds	Total Governmental Funds
\$ —	\$ 566,028	\$ 566,028
—	72,339	148,928
—	—	2,919,773
56,311	166,738	1,085,422
<u>1,738,746</u>	<u>1,860,208</u>	<u>13,623,284</u>
1,795,057	2,665,313	18,343,435
7,609	593,931	1,596,949
48,702	211,194	599,598
—	—	2,071,698
—	—	13,834
<u>1,738,746</u>	<u>1,860,208</u>	<u>13,623,284</u>
<u>1,795,057</u>	<u>2,665,333</u>	<u>17,905,363</u>
—	(20)	438,072
—	49,175	9,334,466
<u>\$ —</u>	<u>\$ 49,155</u>	<u>\$ 9,772,538</u>

**FINANCE AUTHORITY OF MAINE**

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

June 30, 2015

	<u>NextGen College Investing Plan</u>	<u>Agency Funds</u>
<u>ASSETS HELD FOR OTHERS</u>		
Cash and cash equivalents (note 2)	\$ 6,597,833	\$14,940,781
Investments (note 2)	8,510,018,297	12,033,484
Accounts receivable	-	25,793
Receivable for securities sold	3,991,317	-
Accrued interest receivable	145,257	152,820
Notes receivable, net (note 3)	<u>-</u>	<u>14,401,583</u>
Total assets	8,520,752,704	41,554,461
 <u>LIABILITIES</u>		
Accounts payable and other liabilities	-	27,460
Payable for securities purchased	3,471,228	-
Withdrawals payable	7,117,922	-
Payable for accrued fees and expenses	4,431,043	-
Due to the U.S. Department of Education (note 12)	-	2,523,163
Amounts held for State of Maine under revolving loan programs	<u>-</u>	<u>39,003,838</u>
Total liabilities	<u>15,020,193</u>	<u>41,554,461</u>
 <u>NET POSITION</u>		
Net position held in trust for education benefits	\$ <u>8,505,732,511</u>	\$ <u>-</u>

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, 2015

	<u>NextGen College Investing Plan</u>
<b><u>ADDITIONS</u></b>	
Contributions	\$ 990,178,876
Investment income:	
Dividends and interest	453,216,922
Net depreciation in value of investments	<u>(242,312,438)</u>
Net investment income	<u>210,904,484</u>
Total additions	1,201,083,360
<b><u>DEDUCTIONS</u></b>	
Withdrawals	759,159,708
Fees and expenses:	
Management fees	42,885,518
Maine administration fees	<u>8,622,825</u>
Total fees and expenses	<u>51,508,343</u>
Total deductions	<u>810,668,051</u>
Net increase	390,415,309
Net position at beginning of year	<u>8,115,317,202</u>
Net position at end of year	<u>\$ 8,505,732,511</u>

See accompanying notes to the financial statements.

# FINANCE AUTHORITY OF MAINE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015

### 1. Organization and Significant Accounting Policies

#### Authorizing Legislation

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

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

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

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

#### Basis of Presentation – Government-Wide Financial Statements

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

#### Basis of Accounting

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

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

# FINANCE AUTHORITY OF MAINE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

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

#### Fund Structure

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

#### **Mortgage Insurance Program Fund**

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

#### **NextGen Administration Fund**

This fund accounts for activities related to the administration of the Maine College Savings Program (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).

#### Maine College Savings Program Fund

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

The Authority has entered into a management agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated (Program Manager) to manage the Program and invest the Fund. As the primary consideration for its administrative duties, the Authority receives a monthly fee at an annual rate up to 0.11% of the average daily net asset value of certain Program assets. The administrative fees earned were \$8,606,498 in fiscal year 2015, and are recorded as revenue in the NextGen Administration Fund.

# FINANCE AUTHORITY OF MAINE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

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 \$7,505,037 in fiscal year 2015. 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.

#### **Educational Loan Fund**

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

##### *Not-for-Profit Loan Servicing Program*

This fund consists of activities related to servicing federal student loans in the Federal Direct Loan Program. In an agreement with the U.S. Department of Education (DE), the Authority was allocated 100,000 federal student loans on which to provide loan servicing activities. The Authority has contracted EdFinancial to perform the actual servicing activities while the Authority provides oversight. The Authority receives servicing fees from the DE.

##### *Student Loan Insurance Program*

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

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

#### **Federal Guarantee Agency Operating Fund**

This fund accounts for the activities under the Federal Family Education Loan Program (FFELP). The Authority, in conjunction with the 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 2015 from the U.S. Department of Education for managing the Maine FFELP portfolio.

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



# FINANCE AUTHORITY OF MAINE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

#### **Educational Grant Fund**

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

#### **Revolving Fund**

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

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

#### **State Small Business Credit Initiative Fund**

The program was funded by the U.S. Department of the Treasury and initially awarded to the Department of Economic and Community Development (DECD) of the State of Maine. In addition, the Authority administers the program for the DECD.

#### **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 College Access Challenge Grant is funded by the U.S. Department of Education. 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.

**FINANCE AUTHORITY OF MAINE**  
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

This fund group consists of the following:

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

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

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

**Private Purpose Trust Fund**

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

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

Accounting policies of the Private Purpose Trust Fund are further described in note 13.

**Agency Funds**

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

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

**Restriction on Net Position**

The restricted net position of the Authority is restricted to a specific use by contract, 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.

## FINANCE AUTHORITY OF MAINE

### NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

##### Fund Balances

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

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

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

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

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

##### Management Estimates

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

**FINANCE AUTHORITY OF MAINE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

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

*Cash and Cash Equivalents*

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

*Investments*

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 statements.

*Notes Receivable*

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

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

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. The estimated useful lives of capital assets are as follows:

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

# FINANCE AUTHORITY OF MAINE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

#### Allowance for Losses on Insured Loans

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

#### Revolving Loan Programs

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

#### Grants and Scholarships

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

#### Mortgage Insurance Premiums

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

#### Application and Commitment Fees

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

#### 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 as the services are performed. An estimate of default aversion fees that will need to be repaid to DE is recorded as unearned fee income.

# FINANCE AUTHORITY OF MAINE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

#### Administrative Expenses

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

#### Operating Revenue and Expenses

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

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

#### Compensated Absences

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

#### New Accounting Pronouncements

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 Authority adopted the provisions of this statement for the year ended June 30, 2015. There was no impact on the financial statements.

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

**FINANCE AUTHORITY OF MAINE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

**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, 2015 are presented below:

Cash held in demand deposit accounts and on hand	\$ 2,207,931
Money market accounts and repurchase agreements	<u>2,904,707</u>
Total carrying amount of deposits	5,112,638
Amounts held in State of Maine Treasurer's Cash Pool (consisting of cash and cash equivalents, repurchase agreements, Certificates of Deposit, U.S. investments and corporate bonds)	<u>39,739,313</u>
	<u>\$44,851,951</u>

Of the total carrying amount of deposits of \$5,112,638 at June 30, 2015, the corresponding bank balances were \$4,895,344. The difference between the carrying amounts of deposits and bank balances consists primarily of checks issued but not cashed and deposits in transit. The amount of bank balances covered by Federal depository insurance was \$751,238 at June 30, 2015, leaving \$4,144,106 uninsured, of which \$1,954,324 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 \$13,985,777 held in the Authority's name in the State of Maine Treasurer's Cash Pool and \$955,004 held at other banks, all of which was either collateralized by a repurchase agreement issued by Bangor Savings Bank in the Authority's name or covered by Federal depository insurance.

At June 30, 2015, the Authority's management had reserved \$533,155 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 \$533,155 of the Mortgage Insurance Program unrestricted net position as a reserve for these matters.

**FINANCE AUTHORITY OF MAINE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

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

A summary of the fair values of investment securities, based on quoted market prices, as of June 30, 2015 is as follows:

Cash management funds	\$ 3,289,250
U.S. Treasury obligations	14,243,441
U.S. Government-sponsored enterprise bonds	13,888,086
State and municipal bonds	5,853,727
Corporate bonds	<u>20,968,195</u>
	58,242,699
Less: investments recorded in Statement of Net Position- Fiduciary Funds-Agency Funds	<u>12,033,484</u>
Investments recorded in Statement of Net Position	<u>\$46,209,215</u>

The maturities or repricings of debt securities at June 30, 2015 are as follows:

	<u>2016</u>	<u>2017 – 2020</u>	<u>2021 – 2025</u>	<u>Total</u>
U.S. Treasury obligations	\$ –	\$14,243,441	\$ –	\$14,243,441
U.S. Government-sponsored enterprises (FHLB, FNMA, etc.)	–	11,433,016	2,455,070	13,888,086
State and municipal bonds	2,014,520	3,839,207	–	5,853,727
Corporate bonds	<u>–</u>	<u>20,968,195</u>	<u>–</u>	<u>20,968,195</u>
	<u>\$ 2,014,520</u>	<u>\$50,483,859</u>	<u>\$ 2,455,070</u>	<u>\$54,953,449</u>

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

The scheduled maturities or repricings of debt securities which are callable at June 30, 2015 are as follows:

	<u>2017– 2020</u>	<u>2021 – 2025</u>	<u>Total</u>
U.S. Government-sponsored enterprises (FHLB, FNMA, etc.)	\$ 5,981,775	\$2,455,070	\$ 8,436,845
Corporate bonds	<u>1,403,965</u>	<u>–</u>	<u>1,403,965</u>
	<u>\$ 7,385,740</u>	<u>\$2,455,070</u>	<u>\$ 9,840,810</u>

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



**FINANCE AUTHORITY OF MAINE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

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

Included in investment income for the year ended June 30, 2015, is \$172,102 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.

At June 30, 2015, the ratings for investments in debt securities are summarized as follows. These ratings were as of June 30, 2015 and are not necessarily the ratings that existed at the time of purchase.

<u>Issuer</u>	<u>Rating</u>	<u>Fair Value</u>
U.S. Treasury obligations	AA+	\$14,243,441
U.S. government-sponsored enterprises <sup>(1)</sup>	AA+	13,888,086
Corporate bonds	AAA	4,544,109
Corporate bonds	AA+	3,444,817
Corporate bonds	AA	3,602,050
Corporate bonds	A+	3,606,086
Corporate bonds	AA-	5,771,133
State and municipal bonds	AAA	3,847,827
State and municipal bonds	AA+	1,003,400
State and municipal bonds	AA	<u>1,002,500</u>
		<u>\$54,953,449</u>

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

# FINANCE AUTHORITY OF MAINE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015

### 2. Cash and Investments (Continued)

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

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

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

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

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

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

**FINANCE AUTHORITY OF MAINE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

**3. Notes Receivable**

The following is a summary of notes receivable at June 30, 2015:

Mortgage Insurance Program:	
6.0% note, due fiscal 2022	\$ 278,926
Various notes receivable	<u>3,415</u>
	282,341
Notes receivable in the Revolving Fund:	
Underground Oil Storage Replacement Program	837,343
Economic Recovery Program, net	9,973,756
Educators for Maine Program	2,851,442
Health Professions Loan Program	9,311,832
Regional Economic Development Revolving Loan Program	98,905
Maine Health Access Foundation Loan Program	<u>48,679</u>
	<u>23,121,957</u>
Total notes receivable, net	<u>\$23,404,298</u>

An allowance for losses on notes receivable has been established for the Economic Recovery Program Fund, to consider potential losses. The allowance is netted against the notes receivable balances for the program. As of June 30, 2015, the allowance had a balance of \$5,496,779. Because the Economic Recovery Program Fund is a state revolving loan program administered by the Authority, there is no effect on the Statement of Revenues, Expenditures and Changes in Fund Balances for the change in the allowance for losses for this Fund. The allowance account is offset against amounts held under revolving loan program accounts.

Security on the Mortgage Insurance Program notes generally includes a mortgage on the underlying property or other tangible business assets. Notes receivable under the Underground Oil Storage Replacement, Economic Recovery Loan and Regional Economic Development Revolving Loan are secured by various property and equipment and in some cases, are unsecured. The other notes for educational purposes are unsecured. Notes receivable, other than those in the Mortgage Insurance Program, bear interest from 0% to 10.25%, and are due on various dates up to 2031.

Note receivable in the Agency Funds at June 30, 2015 are as follows:

Potato Marketing Improvement Fund, net	\$ 4,293,674
Agricultural Marketing Loan Fund	4,215,117
Nutrient Management Fund	279,636
Kim Wallace Adaptive Equipment Loan Program Fund, net	2,289,285
Maine Rural Development Authority, net	<u>3,323,871</u>
	<u>\$14,401,583</u>

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**3. Notes Receivable (Continued)**

An allowance for losses on notes receivable has been established for the Potato Marketing Improvement Fund (PMIF), Kim Wallace Adaptive Equipment Loan Program Fund (KWAELPF), and the Maine Rural Development Authority (MRDA) to consider potential losses. The allowance is netted against the notes receivable balances for the program. As of June 30, 2015, the allowance for the PMIF, KWAELPF, and MRDA was \$300,079, \$318,163, and \$1,157,939, respectively.

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

The Authority has established an allowance account to absorb probable losses on the loans it insures (see note 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 loans during the year ended June 30, 2015:

	<u>Mortgage Insurance Program Fund</u>	<u>Education Loan Fund</u>
Beginning balance	\$16,152,611	\$ 4,946
Default payments	(726,575)	-
Provision for losses	1,587,680	38,103
Recoveries on prior default payments	<u>39,150</u>	<u>-</u>
Ending balance	<u>\$17,052,866</u>	<u>\$43,049</u>

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

The Authority is insuring loans made by financial institutions to qualifying businesses under its various insurance programs. The Authority is contingently liable for the insured portion of payments due on these loans. At June 30, 2015, the Authority had insurance outstanding for commercial loans under the Loan Insurance Program totaling approximately \$111,445,000.

At June 30, 2015, the Authority was insuring commercial loans with an aggregate outstanding principal balance approximating \$4,309,000 which were ninety or more days delinquent. The aggregate insured balance of these loans was approximately \$1,976,000 at June 30, 2015.

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

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

In addition, the Authority has entered into commitments to insure commercial loans at some future date. At June 30, 2015, these commitments under the Loan Insurance Program were approximately \$11,919,000.

Substantially all of the Authority's loan customers and commercial loan insurance participants are located in the State of Maine. The only significant concentrations of credit risk in the Authority's loan portfolio at June 30, 2015, are for the forest products industry and for geographical concentration.

The Authority provides loan insurance on direct educational loans made by participating financial institutions in the Maine Private Education Loan Network. At June 30, 2015, approximately \$1,811,000 of loans were insured under this program.

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, 2015. The State has not paid, nor does the Authority expect it to pay, any amounts as a result of this authorization as of June 30, 2015. Such insurance obligations are detailed below:

	<u>Authorized</u>	<u>Outstanding</u>
Full Faith and Credit of the State of Maine:		
Commercial Insurance Authority	\$ 90,000,000	\$ 86,520,679
Veterans Mortgage Insurance Authority	4,000,000	447,416
Higher Education Bonds	4,000,000	-
Moral Obligation of the State of Maine:		
Commercial Loan Insurance	150,000,000	24,446,561
Major Business Expansion Projects	120,000,000	7,000,000
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	10,990,000
Natural Gas Pipeline and Energy Distribution Projects *	<u>180,000,000</u>	<u>-</u>
Total Moral Obligation	<u>742,000,000</u>	<u>42,436,561</u>
Total authorized and outstanding	<u>\$ 840,000,000</u>	<u>\$ 129,404,656</u>

\* 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 2015.

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

**FINANCE AUTHORITY OF MAINE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**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 cleanup costs on the site and has undertaken ongoing site maintenance responsibilities. The EPA has formally de-listed the site so that it is no longer considered an active *Comprehensive Environmental Response, Clean-up and Liability Act* (CERCLA) site, but the site remains under the oversight of the Maine Department of Environmental Protection (MEDEP).

Included in accounts payable and accrued liabilities at June 30, 2015, is \$133,000 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 consists of the following at June 30, 2015:

Note payable <sup>(1)</sup> , 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.	\$ 592,946
Note payable <sup>(2)</sup> , 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
	1,342,946
Less: current portion of notes payable	807,746
Noncurrent portion of notes payable	\$ 535,200

The proceeds from the note payable<sup>(1)</sup> 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<sup>(2)</sup> 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.

**FINANCE AUTHORITY OF MAINE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

**7. Notes Payable (Continued)**

The debt service requirements for notes payable through 2020 and in five-year increments thereafter to maturity for the Authority, are as follows:

<u>Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 807,746	\$ 9,679	\$ 817,425
2017	58,323	5,352	63,675
2018	58,906	4,769	63,675
2019	59,495	4,180	63,675
2020	60,090	3,585	63,675
2021 – 2025	<u>298,386</u>	<u>8,789</u>	<u>307,175</u>
	<u>\$1,342,946</u>	<u>\$36,354</u>	<u>\$1,379,300</u>

The above debt schedule assumes repayment of the \$750,000 note in 2016.

The following summarizes the debt activity for the Authority for the year ended June 30, 2015:

	<u>Notes Payable</u>
Balance at beginning of year	\$1,400,120
Principal reductions	<u>57,174</u>
Balance at end of year	<u>\$1,342,946</u>

**8. Capital Assets**

Capital assets activity for the year ended June 30, 2015, was as follows:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2015</u>
Building and improvements	\$ 2,043,465	\$ 35,730	\$ –	\$ 2,079,195
Computer and office equipment	1,334,110	196,609	(82,104)	1,448,615
Software development	<u>1,143,363</u>	<u>–</u>	<u>–</u>	<u>1,143,363</u>
	4,520,938	232,339	(82,104)	4,671,173
Less accumulated depreciation for:				
Building and improvements	(987,592)	(74,281)	–	(1,061,873)
Computer and office equipment	(936,472)	(141,795)	71,892	(1,006,375)
Software development	<u>(1,123,629)</u>	<u>(19,734)</u>	<u>–</u>	<u>(1,143,363)</u>
Total accumulated depreciation	<u>(3,047,693)</u>	<u>(235,810)</u>	<u>71,892</u>	<u>(3,211,611)</u>
	<u>\$ 1,473,245</u>	<u>\$ (3,471)</u>	<u>\$ (10,212)</u>	<u>\$ 1,459,562</u>

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**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, 2015, are summarized below:

Received for grant programs	\$ 9,814,366
Received for loan programs	8,637,740
General State of Maine appropriations	566,028
Reserve fund transfers	5,000,000
Bond repayment	2,762,431

The Authority received \$12,000,000 in bond proceeds in a voter approved referendum passed in November 2014. An act to authorize a general fund bond issue to support Maine small business and job creation resulted in \$4,000,000 used to recapitalize the Authority's commercial loan insurance reserves and \$8,000,000 provided to the Regional Economic Development Loan Program.

The Authority also 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, the Authority received \$2,762,431 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).

As part of the Authority's administration of the Maine State Grant Program, the Authority received \$9,704,366 of funds from the State of Maine.

**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.



## FINANCE AUTHORITY OF MAINE

### NOTES TO FINANCIAL STATEMENTS

June 30, 2015

#### 10. Revenue Bonds (Continued)

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, 2015, Waste Motor Oil Revenue Bonds outstanding totaled \$10,990,000.

#### 11. Deferred Compensation and Pension Plans

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits the employees to defer a portion of their salary until future years. The Authority does not match any deferred compensation under this plan. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency. The Authority has established a trust for the exclusive benefit of the participants and their beneficiaries. As a result, the plan assets and corresponding liability are not presented in the Authority's Statement of Net Position at June 30, 2015.

Currently, the Authority offers a Simplified Employee Pension Plan, a defined contribution plan, to its employees. All contributions made by the Authority go into this plan at 8% of eligible compensation. Pension expense was approximately \$246,000 in fiscal year 2015.

#### 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.

**FINANCE AUTHORITY OF MAINE**

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

The Amendments also created a Guarantee Agency Operating Fund, which is the sole property of the Authority. This fund is used to account for the activities of the FFELP that are outside the Federal Fund. The fund can be used for the administration of the programs authorized by the Act, as amended, and other related activities under the statute. 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 \$498,961,000 at June 30, 2015. A portion of defaults on FFELP loan guarantees are paid by DE through the Federal Student Loan Reserve Fund. At June 30, 2015, the reserve level was approximately \$2,523,000.

**13. Private Purpose Trust Fund**

A summary of investments by asset class is as follows:

<u>Investment Type</u>	<u>NextGen Totals</u>	
	<u>Amount</u>	<u>%</u>
Domestic Equity Funds	\$ 3,452,210,553	40.6%
International Equity Funds	956,939,081	11.2
Alternative Investment Funds	21,465,024	0.3
Investment Grade Fixed Income Funds	2,065,487,473	24.3
Non-Investment Grade Fixed Income Funds	313,127,207	3.7
Mixed Asset Funds	1,042,385,533	12.2
Cash Allocation Account	373,281,568	4.4
Guaranteed Interest Account	165,360,789	1.9
Guaranteed Investment Contract	78,682,975	0.9
Bank Deposit Account	41,078,094	0.5
 Total	 \$ 8,510,018,297	 100.0%

*Significant Accounting Policies*

*Investments*

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

## FINANCE AUTHORITY OF MAINE

### NOTES TO FINANCIAL STATEMENTS

June 30, 2015

#### 13. Private Purpose Trust Fund (Continued)

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

The Guaranteed Investment Contract (GIC), issued by Transamerica, and the Guaranteed Interest Account (GIA), issued by New York Life, are reported at contract value, which is equal to contributions, plus interest credited at a guaranteed rate (may be adjusted periodically), less any applicable premium taxes and withdrawals. The GIC and GIA are both guaranteed as to principal, accumulated interest and future interest rates.

#### *Fees and Expenses*

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

#### *Federal Income Tax*

The Program has been designed to comply with the requirements for treatment as a qualified tuition program under Section 529 of the Internal Revenue Code of 1986, as amended. Therefore, no federal income tax provision is required. The earnings portion of non-qualified withdrawals may be subject to a 10% federal tax in addition to applicable federal and state income tax. It is the participant's responsibility to determine whether or not a withdrawal is for qualified higher education expenses and to calculate and report on his or her personal income tax return the taxable amount of non-qualified withdrawals, if any.

#### *Contributions*

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

**FINANCE AUTHORITY OF MAINE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

**13. Private Purpose Trust Fund (Continued)**

*Withdrawals*

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

*Investment Risk Disclosures*

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

*Investment Policy*

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

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Portfolios' investments in mutual funds and ETFs which invest in fixed income securities, the Principal Plus Portfolio and the Cash Allocation Account may be exposed to credit risk. None of the mutual funds or ETFs in which the Portfolios invest are rated by a nationally recognized statistical rating organization (NRSRO) except for the iShares 1-3 Year Treasury Bond ETF, the iShares Core Total U.S. Bond Market ETF, the iShares iBoxx \$ High Yield Corporate Bond ETF and the iShares Short Treasury Bond ETF, which carry ratings of AAf, Af, B-f and AAf, respectively, at June 30, 2015. The GIC and GIA have not been rated.

## FINANCE AUTHORITY OF MAINE

### NOTES TO FINANCIAL STATEMENTS

June 30, 2015

#### 13. Private Purpose Trust Fund (Continued)

##### Custodial Credit Risk

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

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

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

##### Concentration of Credit Risk

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

##### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Certain Portfolios invest in mutual funds and ETFs that are exposed to interest rate risk due to underlying debt securities. In general, the value of a debt security will 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. Average maturity is a measure of sensitivity to interest rate risk. Average maturity is the average length of time until fixed income securities held by a fund reach maturity and will be repaid, taking into consideration the possibility that the issuer may call the security before its maturity date. In general, the longer the average maturity, the more a fund's value will fluctuate in response to changes in interest rates. As of June 30, 2015, the average maturities of the bond mutual funds and ETFs in which the Portfolios invest ranged from 0.42 years to 7.50 years.

**FINANCE AUTHORITY OF MAINE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

**13. Private Purpose Trust Fund (Continued)**

*Foreign Currency Risk*

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

**14. Subsequent Event**

In June 2015, the State of Maine Legislature passed, and the Governor approved, S.P. 544-L.D. 1443, *An Act to Merge the Maine Educational Loan Authority with the Finance Authority of Maine* (the Act). The Act provides that the Finance Authority of Maine (FAME) will become successor to the Maine Educational Loan Authority (MELA). The effective date of the merger is October 15, 2015.

By law, FAME will succeed to MELA under all existing contracts and other agreements, and will thus gain the rights and benefits of, and assume the obligations of MELA under all such agreements. The merger will not otherwise affect the parties' rights and obligations under existing contractual agreements.

Pursuant to GASB 69, *Government Combinations and Disposals of Government Operations*, MELA's statement of net position and its revenues, expenses and changes in net position, will be reflected in the Authority's June 30, 2016 financial statements.

**FINANCE AUTHORITY OF MAINE**  
**COMBINING SCHEDULE OF NET POSITION**

AGENCY FUNDS

June 30, 2015

	Federal Student Loan Reserve Fund	Potato Marketing Improvement Fund	Agricultural Marketing Loan Fund	Small Enterprise Growth Fund
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$2,521,682	\$ 4,469,930	\$1,519,612	\$1,319,301
Investments	-	5,645,614	1,919,301	1,666,304
Accounts receivable	1,481	-	24,312	-
Accrued interest receivable	-	98,614	36,162	-
Notes receivable, net	<u>-</u>	<u>4,293,674</u>	<u>4,215,117</u>	<u>-</u>
Total assets	<u>\$2,523,163</u>	<u>\$14,507,832</u>	<u>\$7,714,504</u>	<u>\$2,985,605</u>
<b><u>LIABILITIES</u></b>				
Accounts payable and other liabilities	\$ -	\$ 16,460	\$ 4,226	\$ -
Due to the U.S. Department of Education	2,523,163	-	-	-
Amounts held for State of Maine under revolving loan programs	<u>-</u>	<u>14,491,372</u>	<u>7,710,278</u>	<u>2,985,605</u>
Total liabilities	<u>\$2,523,163</u>	<u>\$14,507,832</u>	<u>\$7,714,504</u>	<u>\$2,985,605</u>

SCHEDULE 1

<u>Nutrient Management Fund</u>	<u>Payroll Processing Insurance Fund</u>	<u>Kim Wallace Adaptive Equipment Loan Program</u>	<u>Northern Maine Transmission Corporation</u>	<u>Maine Rural Development Authority</u>	<u>Total Agency Fund</u>
\$ 989	\$382,668	\$1,832,119	\$ 3,913	\$2,890,567	\$14,940,781
-	483,318	2,314,004	4,943	-	12,033,484
-	-	-	-	-	25,793
-	-	8,112	-	9,932	152,820
<u>279,636</u>	<u>-</u>	<u>2,289,285</u>	<u>-</u>	<u>3,323,871</u>	<u>14,401,583</u>
<u>\$280,625</u>	<u>\$865,986</u>	<u>\$6,443,520</u>	<u>\$ 8,856</u>	<u>\$6,224,370</u>	<u>\$41,554,461</u>
\$ 991	\$ -	\$ 329	\$ -	\$ 5,454	\$ 27,460
-	-	-	-	-	2,523,163
<u>279,634</u>	<u>865,986</u>	<u>6,443,191</u>	<u>8,856</u>	<u>6,218,916</u>	<u>39,003,838</u>
<u>\$280,625</u>	<u>\$865,986</u>	<u>\$6,443,520</u>	<u>\$ 8,856</u>	<u>\$6,224,370</u>	<u>\$41,554,461</u>