Finance Authority of Maine

Basic Financial Statements,
Management's Discussion and Analysis
and Supplementary Information

Year Ended June 30, 2020

FINANCE AUTHORITY OF MAINE

FINANCIAL STATEMENTS

For the Year Ended June 30, 2020

TABLE OF CONTENTS

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnncpa.com

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Finance Authority of Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Finance Authority of Maine (the Authority), a component unit of the State of Maine, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of NextGen 529, which represents 99.6 percent, 100 percent and 99.9 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 has been furnished to us, and our opinion, insofar as it relates to the amounts included for NextGen 529, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

The Board of Directors
Finance Authority of Maine

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

Opinions

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Combining Schedule of Net Position – Agency Funds, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 15, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Baker Newman & Noyes LLC

Portland, Maine
October 15, 2020

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

As Management of the Finance Authority of Maine (FAME or the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2020. As required, the Authority's financial statements are presented in the manner prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34), as amended. Under GASB 34, the Authority's funds are identified as Proprietary, or Business-type funds, Governmental funds, and Fiduciary funds. The Authority's funds are generally created by federal or state statute.

Four of the Authority's funds are combined as Proprietary or Business-type: the Mortgage Insurance Program Fund, the NextGen Administration Fund, the Maine Loan Program Fund, and the Other Educational Funds in the basic financial statements. The remaining funds are classified as either Governmental Funds or Fiduciary Funds. Governmental Funds combine the Authority's governmental business finance-related funds with its education finance-related funds. The Authority manages the Fiduciary Funds, for other boards or entities either pursuant to statute or contract. The Authority serves as administrator for the Maine Education Savings Program, also known as NextGen 529, which is included in the Statement of Net Position – Fiduciary Funds.

Significant Highlights for the Year Ended June 30, 2020

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

  The insured commercial loan portfolio showed modest growth year over year, increasing 5.0% from \$120.5 million at June 30, 2019, to \$126.5 million at June 30, 2020. The allowance for insured commercial loan losses totaled \$14.6 million and \$17.2 million, and represented 12% and 14% of insured commercial loans at June 30, 2019 and June 30, 2020, respectively. The allowance for insured commercial loan losses and associated provision reflect: the net growth in the insured loan portfolio; the economic conditions present; the inherent credit quality of the underlying insured loan portfolio; probable losses on insured loans; and the amount of claims paid, net of recoveries. The Authority recorded a net provision on insured loans of \$2.3 million and \$3.0 million during the year ended June 30, 2019 and June 30, 2020, respectively, which represents the Authority's current assessment based upon the credit quality and risks in the portfolio, including provisions for increased risk resulting from the COVID-19 pandemic. During fiscal year 2019, the Authority paid claims, net of recoveries, totaling \$2.2 million, compared to net claims paid totaling \$0.4 million in fiscal year 2020.

  Due to the COVID-19 pandemic, the Authority and participating lenders made special terms available to Maine-based businesses that experienced interruption or hardship. Various benefits include: direct loans up to \$50,000 offered at reduced interest rates; interest-only payments; payment deferrals; up to 75% pro-rata loan insurance on loans up to \$250,000; and an increase in the Authority's pro-rata insurance coverage for refinancing existing debt from 40% to 50%. These loans provide economic support to small businesses to help overcome the temporary loss of revenue they are experiencing.

  The Authority's Board of Directors allocated up to \$10 million in insured exposure for the loan insurance program and up to \$5 million for the direct loan program. As of June 30, 2020, insured loan exposure of \$1.1 million and direct loans totaling \$2.8 million under these programs had been approved or funded.

Due to the lingering economic effects of the pandemic, as well as continued federal, state and regulatory economic stimulus programs, lender partner feedback and FAME's belief that credit impacts on borrowers are likely to manifest themselves in the coming months, the Authority's Board of Directors extended these COVID-19 relief programs through March 31, 2021.

- The Authority administers NextGen 529, a Qualified Tuition Program under Section 529 of the Internal Revenue Code. The volatility of uncertain market conditions has been prevalent throughout fiscal 2020 and financial markets have been further affected by the impact of the ongoing COVID-19 pandemic. Significant unrealized market value losses at the onset of the pandemic were recovered during the final quarter of the fiscal year, contributing to a June 30, 2020 NextGen portfolio increase of $0.4 billion, or 3.6%, when compared to prior year. These investments are owned by or credited to accountholders who have opened an education investing account. The NextGen 529 balance reflects accountholder contributions, in excess of withdrawals, as well as market value movements and earned income on account balances.

  The assets of the Program are included in the Authority's financial statements. They are identified as a Private-Purpose Trust Fund, a fiduciary fund. The Authority contracts with Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch) to provide management services to NextGen 529.

  The Authority earns fees for its administration services based on the daily net asset values of the Program investments; program 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 $8.3 million for fiscal 2020, compared to $8.1 million in the prior year. These improvements are the result of continued growth in the Select Series portfolio, as market value appreciation has exceeded net accountholder distributions.

- 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. Through November 30, 2019, the Authority served as the guarantor of these loans in Maine, which were originated by financial institutions participating in the Program, and managed the FFELP for the U. S. Department of Education (DE).

  Over the last several years, the Authority recognized a future decline in the FFELP administrative revenue stream as a result of continued repayment of guaranteed student loans. On December 1, 2019, the Authority transferred its guaranty authority under the FFELP to the Educational Credit Management Corporation (ECMC).

  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. Under a separate agreement, ECMC pledged financial support to continue FAME's educational outreach activities for the next five years. Refer to footnote 1 of the financial statements for further details.

- The Authority's net position decreased by $0.5 million or 1.1%, to $47.5 million for the year ended June 30, 2020. This decrease consists of a proprietary fund deficit of $1.2 million, attributable to an unfavorable change in net position of $1.4 million associated with higher Commercial Mortgage Insurance and Maine Loan loss provisions; a decrease of $0.7 million from larger than anticipated arbitrage expenses within the Maine Loan program; and a decline of $0.4 million in Other Educational Funds, partially offset by net NextGen improvement of $1.0 million. The net position of governmental funds improved by $0.7 million, attributable to FFELP favorable results.

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, deferred outflow of resources, liabilities, and net position, except for those funds that are classified as Fiduciary funds. The Fiduciary funds are presented in the Statement of Net Position – Fiduciary Funds. The Statement of Activities presents information showing functional areas of the Authority and their respective revenues and expenses. The statements are presented on an accrual basis.

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

Fund Financial Statements

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

Proprietary Funds – The Authority identifies four funds as Proprietary. They include the Mortgage Insurance Program Fund, the NextGen Administration Fund, the Maine Loan Program Fund, and the Other Educational Funds in the basic financial statements. These funds rely on customer fees to cover a significant portion of the operational expenses of the funds.

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

Fiduciary Funds – The Authority maintains two different types of fiduciary funds. The Private-Purpose Trust Fund is used to report resources held for participants in the Maine Education Savings Program, a Qualified Tuition Program under Section 529 of the Internal Revenue Code, administered by the Authority, as well as Agency Fund resources held by the Authority in a custodial capacity for other governmental organizations. The resources in these agency 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.

All of these funds are listed in Note 1 to the financial statements.

Overview of the Authority-Wide Financial Position and Operations

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

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

	Proprietary Activities		Governmental Activities		Total		Total Percent
	2020	2019	2020	2019	2020	2019	Change
Assets							
Cash and investments	$ 76,582	$ 78,065	$ 31,563	$ 39,619	$ 108,145	$ 117,684	(8.1)%
Notes and educational loans receivable, net	71,851	71,344	22,889	21,572	94,740	92,916	2.0
Capital assets, net	1,331	1,364	–	–	1,331	1,364	(2.4)
Other assets	3,175	3,448	284	343	3,459	3,791	(8.8)
Total assets	$ 152,939	$ 154,222	$ 54,736	$ 61,534	$ 207,675	$ 215,756	(3.7)%
Deferred Outflows of Resources							
Deferred loss on refunding	$ 1,584	$ 1,757	$ –	$ –	$ 1,584	$ 1,757	(9.8)%
Liabilities							
Accounts payable and accrued liabilities	$ 4,373	$ 5,392	$ 193	$ 659	$ 4,566	$ 6,051	(24.5)%
Unearned fee income	928	883	153	438	1,081	1,321	(18.2)
Unearned grant and scholarship funds	–	–	2,565	2,824	2,565	2,824	(9.2)
Allowance for losses on insured loans	17,591	14,871	–	–	17,591	14,871	18.3
Long-term liabilities:							
Due in more than one year – arbitrage rebate payable	3,904	2,756	–	–	3,904	2,756	41.7
Notes and bonds payable:							
Due within one year	4,900	3,060	–	–	4,900	3,060	60.1
Due in more than one year	83,676	88,625	–	–	83,676	88,625	(5.6)
Program funds:							
Amounts held under state revolving loan programs	–	–	43,472	49,994	43,472	49,994	(13.0)
Total liabilities	$ 115,372	$ 115,587	$ 46,383	$ 53,915	$ 161,755	$ 169,502	(4.6)%
Net Position							
Unrestricted net assets	$ 25,085	$ 26,587	$ 449	$ 449	$ 25,534	$ 27,036	(5.6)%
Restricted net assets	12,735	12,440	7,904	7,170	20,639	19,611	5.2
Invested in capital assets	1,331	1,364	–	–	1,331	1,364	(2.4)
Total net position	$ 39,151	$ 40,392	$ 8,353	$ 7,619	$ 47,504	$ 48,011	(1.1)%

The Authority's total assets decreased $8.1 million, or 3.7%, while total liabilities decreased by $7.7 million, or 4.6%; the total change in net position during the year was a decrease of $0.5 million, or 1.1%, from the beginning to the end of the fiscal year. Some of the changes in the individual line items are described below:

Cash and Investments

Cash and investments decreased by $9.5 million, or 8.1%, during the year. This decrease predominantly reflects the distribution of fiscal 2019 bond proceeds to borrowers in the Maine Loan program.

Notes & Education Loans Receivable, Net

Notes & education loans receivable increased by $1.8 million, or 2.0%, during the year, attributable in part to an increase of $0.5 million in the outstanding loan portfolio for the Maine Loan program during the year. The Authority disbursed $14.5 million in new loans for the program, offset by $14.0 million in loan repayments.

In addition, net notes receivable increased by $1.4 million when compared to prior year, primarily due to increased disbursements from the Business Direct Loan Program associated with the COVID-19 pandemic.

Allowance for Insured Loan Losses

The allowance for insured loan losses increased by $2.7 million or 18.3%, primarily due to growth in the Mortgage Insurance Program Fund insured portfolio, as well as provisions for losses recorded on certain troubled exposures during the fiscal year, including provisions related to the economic uncertainty caused by the COVID-19 pandemic.

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 governmental program funds decreased by $6.5 million, or 13%, during the fiscal year with the redemption of outstanding Waste Motor Oil revenue bonds on October 1, 2019.

Net Position

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

For fiscal 2020, the Authority's net position decreased by $0.5 million, compared to a prior year 2019 increase of $1.2 million. Revenues decreased by $7.1 million, or 15.2%, when compared to prior year and include decreases of $2.8 million in income from user fees, primarily reflecting the cessation of the servicing of Federal Direct Loan Program (FDLP); $1.9 million in grants and scholarship revenues reflecting the completion of the State Small Business Credit Initiative (SSBCI) program; $1.0 million in FFELP administrative revenues; and a $0.6 million decrease in Maine Loan interest income.

Fiscal 2020 operating expenses of $41.1 million are less than 2019 expenses by $5.4 million, or 11.6%. The majority of this decline is due to a $3.5 million decrease in loan servicing expenses attributable to the cessation of the proprietary FDLP program and a fiscal 2020 decline in Grants & Scholarship activity of $1.9 million, reflecting a $1.7 million decrease in SSBCI grants due to the completion of the program, partially offset by the provision for losses on insured loans and educational loans increase of $1.4 million when compared to prior year. Fiscal 2020 Financing Expenses decreased by $0.7 million and are primarily attributable to lower bond interest expenses in the Maine Loan program.

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)

	2020	2019	Increase/ (Decrease) Amount	%
Revenues:				
State funding	$ 600	$ 600	$ –	0.0%
Income from user fees	11,876	14,703	(2,827)	(19.2)
Investment income	2,311	2,568	(257)	(10.0)
Administrative revenues	581	1,607	(1,026)	(63.8)
Interest income on notes and educational loans receivable	4,933	5,564	(631)	(11.3)
Other income	2,913	3,351	(438)	(13.1)
Grant and scholarship revenue	16,340	18,227	(1,887)	(10.4)
Total revenues	39,554	46,620	(7,066)	(15.2)
Expenses:				
Salaries and benefits	5,866	5,682	184	3.2
Loan servicing expenses	1,268	4,796	(3,528)	(73.6)
Financing expenses	3,496	4,241	(745)	(17.6)
Provision for losses on insured loans and educational loans	3,415	1,968	1,447	73.5
Grant and scholarship expenses	16,340	18,227	(1,887)	(10.4)
Customer benefit expenses	6,327	6,909	(582)	(8.4)
Other operating expenses/other	4,348	4,633	(285)	(6.2)
Total expenses	41,060	46,455	(5,395)	(11.6)
Other Activity:				
Reserve fund and other transfers from State	1,000	1,000	–	0.0
Change in net position	$ (506)	$ 1,165	$ (1,671)	(143.4)%

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

Results of Operations – Proprietary Funds

The net assets of the Authority's proprietary funds decreased by $1.2 million or 3.1%, during fiscal 2020 compared to a $0.6 million improvement in prior year. The following table summarizes the Statement of Revenues, Expenses and Changes in Net Position for the proprietary funds for the years ended June 30, 2020 and 2019:

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

	2020	2019	Increase/ (Decrease) Amount	%
Operating revenues:				
Income from user fees	$ 11,876	$ 14,703	$ (2,827)	(19.2)%
Interest income on notes and educational loans receivable	4,932	5,564	(632)	(11.4)
Other income	1,868	2,168	(300)	(13.8)
Total revenue	18,676	22,436	(3,760)	(16.8)
Operating expenses:				
Salaries and benefits	4,434	4,430	4	0.1
External loan servicing costs	1,142	3,683	(2,541)	(69.0)
Financing expenses	3,497	4,241	(744)	(17.5)
Provision for losses on insured loans and educational loans	3,415	1,968	1,447	73.5
Customer benefit expenses	6,327	6,909	(582)	(8.4)
Other operating expenses/other	3,938	3,791	147	3.9
Total operating expenses	22,753	25,022	(2,269)	(9.1)
Operating loss	(4,077)	(2,586)	(1,491)	57.7
Nonoperating revenues:				
Investment income	1,836	2,196	(360)	(16.4)
Reserve fund transfer from State	1,000	1,000	–	0.0
Total nonoperating revenues	2,836	3,196	(360)	(11.3)
Change in net position	(1,241)	609	(1,850)	(303.8)
Net position at beginning of year	40,392	39,782	610	1.5
Net position at end of year	$ 39,151	$ 40,392	$ (1,241)	(3.1)%

The proprietary funds include the Mortgage Insurance Program Fund, the NextGen Administration Fund, the Maine Loan Program Fund, and the Other Educational Funds 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 Other Educational Funds rely on fee revenue to cover operating expenses. The Maine Loan Program Fund relies on interest income from outstanding student loans to fund operating expenses. Net Position in the Mortgage Insurance Program Fund is used by the Authority to provide additional support for commercial loan insurance claims, in excess of the allowance for insured commercial loan losses. Net Position in the NextGen Administration Fund is used to fund student benefit programs, such as grants, scholarships, matching contributions and fee rebates for those who qualify for the programs. Effective October 9, 2013 the net position in the NextGen Administration Fund may also be used to fund financial education activities. Net Position in the Maine Loan Program Fund is used to provide new educational loans to students as well as support debt service on outstanding bonds payable. Net Position in the Other Educational Funds is used to fund higher education financing initiatives and outreach activities.

Operating revenue totaled $18.7 million, a decrease of $3.8 million or 16.8%, when compared to prior year, reflecting a decrease of $2.8 million in Income from User Fees primarily attributable to a $2.6 million reduction in revenue due to the FDLP program ending on September 30, 2019, and a modest decrease in Maine Loan interest income.

Operating expenses decreased by $2.3 million, or 9.1%, from the prior year. Provisions for insured loan and educational loan losses were higher by $1.4 million over prior year with increases of $0.7 million in each of the Mortgage Insurance and Maine Loan programs. During fiscal 2020, insured commercial loans grew 5.0%, from $120.5 million to $126.5 million, and the reserve ratio increased from 12.1% to 13.6%, both contributing factors to the provision increase. Maine Loan provisions were augmented by $0.3 million in June 2020 to reflect uncertainty related to the current economic conditions and potential downturn caused by the COVID-19 pandemic. FDLP servicing expenses decreased by $2.6 million due to the termination of the program. Maine Loan arbitrage expense increased by $1.0 million over fiscal year 2019 due to a greater spread in the underlying bond rate and the net student loan yield. NextGen program benefit expenses of $6.3 million reflect a decrease of $0.6 million compared to fiscal year 2019. During fiscal 2020, FAME implemented changes to its matching Next Steps grant program. The match was decreased from 50% to 30%, while annual contributions eligible for match were increased from $600 to $1,000. As a result, the total maximum annual match amount of $300 remained unchanged. FAME also believes Maine families may have reduced or stopped NextGen contributions, as well as not opened new accounts, due to economic uncertainty created by the COVID-19 pandemic.

The change in non-operating income is a decrease of $0.4 million in investment income due primarily to unrealized market value changes are not as high as in 2019.

Overall, the net position of the proprietary funds decreased by $1.2 million or 3.1%, from $40.4 million to $39.2 million.

Results of Operations – Governmental Funds

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

The Fund Balance of the Authority's governmental funds increased by $0.7 million, or 9.6%, 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, 2020 and 2019:

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

			Increase/(Decrease)	
	2020	2019	Amount	%
Revenues:				
State appropriations	$ 600	$ 600	$ –	0.0%
Investment income	476	372	104	28.0
Administrative revenues	580	1,607	(1,027)	(63.9)
Other income	1,046	1,182	(136)	(11.5)
Grant and scholarship revenue	16,340	18,227	(1,887)	(10.4)
Total revenues	19,042	21,988	(2,946)	(13.4)
Expenditures:				
Salaries and benefits	1,432	1,251	181	14.5
External loan servicing expenses	126	1,113	(987)	(88.7)
Grant and scholarship expenses	16,340	18,227	(1,887)	(10.4)
Other operating expenses/other	410	842	(432)	(51.3)
Total expenditures	18,308	21,433	(3,125)	(14.6)
Changes in fund balance	734	555	179	32.3
Fund balance at beginning of year	7,619	7,064	555	7.9
Fund balance at end of year	$ 8,353	$ 7,619	$ 734	9.6%

The governmental funds include certain business direct revolving loan programs, including programs such as the Business Direct Loan Program and Waste Oil Storage Facility and Tank Replacement Program. The governmental funds also include the Federal Family Education Loan Program (FFELP) Operating Fund and other education-related 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 $19.0 million, a decrease from prior year of $2.9 million, or 13.4%. This decrease includes a $1.9 million or 10.4% decrease when compared to prior year from lower grant and scholarship revenues and a decrease of $1.0 in FFELP administrative revenues, which reflect the previously discussed completion of the SSBCI program and the transfer of the FFELP portfolio, respectively.

Governmental fund expenditures for the year were $18.3 million, which were $3.1 million, or 14.6%, less than prior year. The decrease came primarily from a $1.9 million, or 10.4%, decrease in grant and scholarship expenses, correlating with the decrease in grant and scholarship revenues cited above. The $1.0 million decrease from prior year in FFELP loan servicing expenses is attributable to the lower costs incurred as a result of the December 1, 2019 program transfer to ECMC.

Overall, the fund balance of the governmental funds increased by $0.7 million to $8.4 million in fiscal 2020. This reflects an increase of $0.1 million when compared to the prior year fund balance increase of $0.6 million.

Debt Structure

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

The Authority is authorized to issue student loan revenue bonds to originate alternative educational loans to Maine residents for the purpose of higher education. As of June 30, 2020, the Authority had $88.6 million in net bonds payable outstanding, including $3.3 million in net bond premiums. The Authority retired $2.7 million of the Series 2010, 2012, 2014, 2017 and 2018 bonds upon scheduled maturity and mandatory redemptions; the $42.4 million principal originated from the 2019 bond issue will begin principal repayments at the end of calendar year 2020. No new bonds in support of the Maine Loan program were issued during fiscal 2020.

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, 2020

ASSETS	Business-Type Activities	Governmental Activities	Total
Cash and cash equivalents	$ 61,422,435	$ 25,361,749	$ 86,784,184
Investments	15,159,819	6,201,441	21,361,260
Accounts receivable	756,974	–	756,974
Accrued interest receivable	2,041,603	–	2,041,603
Notes and educational loans receivable, net	71,850,554	22,888,580	94,739,134
Prepaid expenses and other assets	376,405	284,026	660,431
Capital assets, net	1,330,955	–	1,330,955
Total assets	$ 152,938,745	$ 54,735,796	$ 207,674,541
DEFERRED OUTFLOW OF RESOURCES			
Deferred loss on refunding	$ 1,583,838	$ –	$ 1,583,838
LIABILITIES			
Accounts payable and accrued liabilities	$ 4,068,914	$ 193,362	$ 4,262,276
Unearned fee income	927,855	152,531	1,080,386
Accrued interest payable	303,921	–	303,921
Accrued arbitrage liability	3,904,371	–	3,904,371
Unearned grant and scholarship funds	–	2,564,720	2,564,720
Allowance for losses on insured loans	17,591,328	–	17,591,328
Long-term liabilities:			
Due within one year – bonds payable	4,899,582	–	4,899,582
Due in more than one year – bonds payable	83,675,626	–	83,675,626
Due in more than one year – program funds	–	43,472,096	43,472,096
Total liabilities	$ 115,371,597	$ 46,382,709	$ 161,754,306
Commitments and contingent liabilities (notes 6, 7 and 12)			
NET POSITION			
Invested in capital assets	$ 1,330,955	$ –	$ 1,330,955
Restricted for education activities	9,971,017	7,904,141	17,875,158
Restricted for education bond programs	2,764,087	–	2,764,087
Unrestricted	25,084,927	448,946	25,533,873
Total net position	$ 39,150,986	$ 8,353,087	$ 47,504,073

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2020

	Expenses	Charges for Services
Functions/Programs:		
Governmental activities:		
Federal Student Loan Guarantee Program	$ 403,097	$ 580,709
Educational Grant Programs	15,355,294	–
Revolving Loan Programs	904,306	719,554
Other Governmental Grant Programs	1,645,702	1,251
Total governmental activities	18,308,399	1,301,514
Business-type activities:		
Mortgage Insurance Program	5,315,643	2,196,213
College Savings Program	9,452,633	10,145,545
Maine Loan Program	5,995,269	4,947,844
Other Educational Programs	1,989,483	1,386,894
Total business-type activities	22,753,028	18,676,496
Total Authority	$41,061,427	$19,978,010

Other activity:
Investment income
Reserve fund transfer from State

Total other activity

Change in net position

Net position at beginning of year

Net position at end of year

See accompanying notes to the financial statements.

Program Revenues		Net Revenue (Expense) and Changes in Net Position		
Program Investment Income	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
$231,407	$ 324,984	$ 734,003	$ –	$ 734,003
–	15,355,294	–	–	–
–	184,752	–	–	–
244,451	1,400,000	–	–	–
475,858	17,265,030	734,003	–	734,003
–	–	–	(3,119,430)	(3,119,430)
–	–	–	692,912	692,912
–	–	–	(1,047,425)	(1,047,425)
–	–	–	(602,589)	(602,589)
–	–	–	(4,076,532)	(4,076,532)
$475,858	$17,265,030	734,003	(4,076,532)	(3,342,529)
		–	1,835,624	1,835,624
		–	1,000,000	1,000,000
		–	2,835,624	2,835,624
		734,003	(1,240,908)	(506,905)
		7,619,084	40,391,894	48,010,978
		$ 8,353,087	$39,150,986	$47,504,073

FINANCE AUTHORITY OF MAINE

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2020

ASSETS	Mortgage Insurance Program Fund	NextGen Administration Fund	Maine Loan Program Fund
Current assets:			
Cash and cash equivalents	$ 28,260,542	$ 9,333,467	$ 20,683,859
Investments	10,437,284	3,150,055	–
Accounts receivable	5,384	709,429	–
Accrued interest receivable	66,581	–	460,764
Notes and educational loans receivable, net	31,264	–	13,204,582
Prepaid expenses and other assets	167,752	11,000	9,987
Total current assets	38,968,807	13,203,951	34,359,192
Noncurrent assets:			
Notes and educational loans receivable, net	135,392	–	58,479,316
Accrued interest receivable	–	–	1,514,258
Other assets	–	–	175,245
Capital assets, net	1,330,955	–	–
Total noncurrent assets	1,466,347	–	60,168,819
Total assets	$ 40,435,154	$ 13,203,951	$ 94,528,011
DEFERRED OUTFLOW OF RESOURCES			
Deferred loss on refunding	$ –	$ –	$ 1,583,838
LIABILITIES			
Current:			
Accounts payable and accrued liabilities	$ 680,414	$ 3,232,934	$ 100,126
Unearned fee income	905,297	–	–
Accrued interest payable	–	–	303,921
Bonds payable, net	–	–	4,899,582
Allowance for losses on insured loans	17,225,046	–	–
Total current liabilities	18,810,757	3,232,934	5,303,629
Noncurrent liabilities:			
Arbitrage rebatable	–	–	3,904,371
Bonds payable, net	–	–	83,675,626
Total noncurrent liabilities	–	–	87,579,997
Total liabilities	$ 18,810,757	$ 3,232,934	$ 92,883,626
Commitments and contingent liabilities (notes 6, 7 and 12)			
NET POSITION			
Net investment in capital assets	$ 1,330,955	$ –	$ –
Restricted for education activities	–	9,971,017	–
Restricted for education bond programs	–	–	2,764,087
Unrestricted	20,293,442	–	464,136
Total net position	$ 21,624,397	$ 9,971,017	$ 3,228,223

See accompanying notes to the financial statements.

Other Educational Funds	Total
$ 3,144,567	$ 61,422,435
1,572,480	15,159,819
42,161	756,974
–	527,345
–	13,235,846
12,421	201,160
4,771,629	91,303,579
–	58,614,708
–	1,514,258
–	175,245
–	1,330,955
–	61,635,166
$ 4,771,629	$ 152,938,745
$ –	$ 1,583,838
$ 55,440	$ 4,068,914
22,558	927,855
–	303,921
–	4,899,582
366,282	17,591,328
444,280	27,791,600
–	3,904,371
–	83,675,626
–	87,579,997
$ 444,280	$ 115,371,597
$ –	$ 1,330,955
–	9,971,017
–	2,764,087
4,327,349	25,084,927
$ 4,327,349	$ 39,150,986

FINANCE AUTHORITY OF MAINE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

For the Year Ended June 30, 2020

	Mortgage Insurance Program Fund	NextGen Administration Fund	Maine Loan Program Fund
Operating revenues:			
Insurance premiums	$ 1,437,054	$ –	$ –
Application and commitment fees	326,467	–	–
Interest income on notes and educational loans receivable	10,235	–	4,922,421
Fee and other income	422,457	10,145,545	25,423
Total operating revenues	2,196,213	10,145,545	4,947,844
Operating expenses:			
Salaries and related benefits	1,693,713	1,770,568	444,535
Financing expenses	–	–	3,496,431
Bond administration expenses	–	–	127,388
Arbitrage expense	–	–	1,147,900
Other operating expenses	593,295	1,354,870	227,886
Loan servicing costs	–	–	227,129
Provision for losses on insured loans and educational loans	3,028,635	–	324,000
Matching contributions and rebates	–	6,327,195	–
Total operating expenses	5,315,643	9,452,633	5,995,269
Operating (loss) income	(3,119,430)	692,912	(1,047,425)
Nonoperating revenues:			
Investment income	1,029,175	341,591	316,209
Reserve fund transfer from State	1,000,000	–	–
Total nonoperating revenues	2,029,175	341,591	316,209
Change in net position	(1,090,255)	1,034,503	(731,216)
Net position at beginning of year	22,714,652	8,936,514	3,959,439
Net position at end of year	$21,624,397	$ 9,971,017	$ 3,228,223

See accompanying notes to the financial statements.

Other Educational Funds	Total
$ 104,129	$ 1,541,183
–	326,467
–	4,932,656
1,282,765	11,876,190
1,386,894	18,676,496
525,540	4,434,356
–	3,496,431
–	127,388
–	1,147,900
486,244	2,662,295
915,222	1,142,351
62,477	3,415,112
–	6,327,195
1,989,483	22,753,028
(602,589)	(4,076,532)
148,649	1,835,624
–	1,000,000
148,649	2,835,624
(453,940)	(1,240,908)
4,781,289	40,391,894
$ 4,327,349	$39,150,986

FINANCE AUTHORITY OF MAINE

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2020

	Mortgage Insurance Program Fund	NextGen Administration Fund	Maine Loan Program Fund
Cash flows from operating activities:			
Fees received from customers	$ 2,264,521	$10,146,860	$ –
Principal payments received on educational loans	–	–	13,963,676
Educational loans originated	–	–	(14,472,470)
Interest receipts on notes and educational loans receivable	10,235	–	4,079,796
Payments for operating expenses	(591,806)	(2,233,392)	(573,615)
Payments to employees	(1,687,365)	(1,749,668)	(455,423)
Repayments on notes receivable	19,344	–	–
Payments for scholarships, matching contributions and rebates	–	(6,327,195)	–
Default payments made on loan guarantees	(465,590)	–	–
Recoveries received from prior loan guarantees and educational loans	94,727	–	365,068
Other	(19,120)	(6,000)	–
Net cash (used) provided by operating activities	(375,054)	(169,395)	2,907,032
Cash flows from noncapital and related financing activities:			
Interest payments on bonds	–	–	(3,702,603)
Redemption of bonds	–	–	(2,740,000)
Interfund transactions	(35,017,695)	–	–
Funds received from other governments	1,000,000	–	–
Net cash used by noncapital and related financing activities	(34,017,695)	–	(6,442,603)
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(233,879)	–	–
Cash flows from investing activities:			
Sales, maturities and calls of investments	89,931,594	4,470,810	243,015
Purchases of investments	(37,946,234)	–	–
Interest received on investments and cash and cash equivalents	1,151,557	250,248	316,209
Net cash provided by investing activities	53,136,917	4,721,058	559,224
Net increase (decrease) in cash and cash equivalents	18,510,289	4,551,663	(2,976,347)
Cash and cash equivalents at beginning of year	9,750,253	4,781,804	23,660,206
Cash and cash equivalents at end of year	$ 28,260,542	$ 9,333,467	$ 20,683,859

Other Educational Funds	Total
$ 1,409,413	$ 13,820,794
–	13,963,676
–	(14,472,470)
–	4,090,031
(1,424,278)	(4,823,091)
(526,977)	(4,419,433)
–	19,344
–	(6,327,195)
–	(465,590)
68	459,863
(12,421)	(37,541)
(554,195)	1,808,388
–	(3,702,603)
–	(2,740,000)
–	(35,017,695)
–	1,000,000
–	(40,460,298)
–	(233,879)
2,320,354	96,965,773
–	(37,946,234)
103,101	1,821,115
2,423,455	60,840,654
1,869,260	21,954,865
1,275,307	39,467,570
$ 3,144,567	$ 61,422,435

FINANCE AUTHORITY OF MAINE

STATEMENT OF CASH FLOWS (CONTINUED)

PROPRIETARY FUNDS

For the Year Ended June 30, 2020

	Mortgage Insurance Program Fund	NextGen Administration Fund	Maine Loan Program Fund
Reconciliation of operating (loss) income to net cash (used) provided by operating activities:			
Operating (loss) income	$ (3,119,430)	$ 692,912	$ (1,047,425)
Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities:			
Depreciation	266,978	–	–
Provision for losses on insured loans and educational loans	3,028,635	–	324,000
Interest on bonds payable	–	–	3,496,431
Default payments made on loan guarantees	(465,590)	–	–
Recoveries received from prior loan guarantees and educational loans	94,727	–	365,068
Changes in operating assets and liabilities:			
Accounts receivable	17,872	1,315	–
Notes and educational loans receivable	19,344	–	(511,301)
Interest receivable	–	–	(842,625)
Arbitrage rebatable	–	–	1,147,900
Prepaid expenses and other assets	(19,120)	(6,000)	9,773
Accounts payable and accrued liabilities	(92,867)	(857,622)	(34,789)
Unearned fee income and other	(105,603)	–	–
Net cash (used) provided by operating activities	$ (375,054)	$ (169,395)	$ 2,907,032

Noncash activities – Maine Loan Program Fund

The Authority capitalized interest on educational loans in the amount of $703,371 during the year ended June 30, 2020.

See accompanying notes to the financial statements.

Other Educational Funds	Total
$ (602,589)	$ (4,076,532)
–	266,978
62,477	3,415,112
–	3,496,431
–	(465,590)
68	459,863
37,794	56,981
–	(491,957)
–	(842,625)
–	1,147,900
(12,421)	(27,768)
(24,249)	(1,009,527)
(15,275)	(120,878)
$ (554,195)	$ 1,808,388

FINANCE AUTHORITY OF MAINE

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2020

ASSETS	Federal Guaranty Agency Operating Fund	Educational Grant Fund	Revolving Fund
Cash and cash equivalents	$ 5,625,096	$ 90,517	$18,706,524
Investments	2,358,720	–	3,787,964
Notes receivable, net	–	–	22,888,580
Other assets	19,149	–	264,877
Total assets	$ 8,002,965	$ 90,517	$45,647,945
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	$ 98,824	$ –	$ 447
Unearned fee income	–	–	152,531
Unearned grant and scholarship funds	–	90,099	1,639,151
Amounts held under state revolving loan programs	–	–	43,456,441
Total liabilities	98,824	90,099	45,248,570
Fund balances:			
Assigned – loan programs	–	418	399,375
Restricted – education programs	7,904,141	–	–
Total fund balances	7,904,141	418	399,375
Total liabilities and fund balances	$ 8,002,965	$ 90,517	$45,647,945

See accompanying notes to the financial statements.

Other Governmental Funds	Total Governmental Funds
$ 939,612	$25,361,749
54,757	6,201,441
–	22,888,580
–	284,026
$ 994,369	$54,735,796
$ 94,091	$ 193,362
–	152,531
835,470	2,564,720
15,655	43,472,096
945,216	46,382,709
49,153	448,946
–	7,904,141
49,153	8,353,087
$ 994,369	$54,735,796

FINANCE AUTHORITY OF MAINE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2020

	Federal Guarantee Agency Operating Fund	Educational Grant Fund	Revolving Fund
Revenues:			
State appropriations	$ –	$ –	$ –
Investment income	231,407	–	–
Administrative revenues	580,709	–	–
Other income	324,984	–	719,554
Grant and scholarship revenue	–	15,355,294	184,752
Total revenues	1,137,100	15,355,294	904,306
Expenditures:			
Operating expenditures:			
Salaries and related benefits	175,026	–	511,611
Other operating expenses	102,046	–	207,943
External loan servicing expenses	126,025	–	–
Grant and scholarship expense	–	15,355,294	184,752
Total expenditures	403,097	15,355,294	904,306
Net change in fund balances	734,003	–	–
Fund balances at beginning of year	7,170,138	418	399,375
Fund balances at end of year	$7,904,141	$ 418	$ 399,375

See accompanying notes to the financial statements.

Other Governmental Funds	Total Governmental Funds
$ 600,000	$ 600,000
244,451	475,858
–	580,709
1,251	1,045,789
800,000	16,340,046
1,645,702	19,042,402
745,530	1,432,167
100,172	410,161
–	126,025
800,000	16,340,046
1,645,702	18,308,399
–	734,003
49,153	7,619,084
$ 49,153	$ 8,353,087

FINANCE AUTHORITY OF MAINE

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

June 30, 2020

	Maine Education Savings Program	Agency Funds
ASSETS HELD FOR OTHERS		
Cash and cash equivalents	$ 13,507,561	$31,234,607
Investments	11,096,023,104	5,503,680
Receivable for securities sold	5,979,213	–
Accrued interest receivable	18,039	104,920
Notes receivable, net	–	8,818,135
Total assets	11,115,527,917	45,661,342
LIABILITIES		
Accounts payable and other liabilities	–	28,743
Payable for securities purchased	5,955,586	–
Withdrawals payable	13,531,184	–
Payable for accrued fees and expenses	2,506,127	–
Due to the U.S. Department of Education	–	3,549,140
Amounts held for State of Maine under revolving loan programs	–	42,083,459
Total liabilities	21,992,897	45,661,342
NET POSITION		
Net position held in trust for education benefits	$ 11,093,535,020	$ –

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, 2020

	Maine Education Savings Program
ADDITIONS	
Contributions	$ 1,141,296,249
Investment income:	
Dividends and interest	363,608,798
Net appreciation in fair value of investments	38,710,813
Net investment income	402,319,611
Total additions	1,543,615,860
DEDUCTIONS	
Withdrawals	1,129,518,996
Fees and expenses:	
Management fees	21,680,093
Maine administration fees	8,326,844
Total fees and expenses	30,006,937
Total deductions	1,159,525,933
Net increase	384,089,927
Net position at beginning of year	10,709,445,093
Net position at end of year	$ 11,093,535,020

See accompanying notes to the financial statements.

1. Organization and Significant Accounting Policies

Authorizing Legislation

The Finance Authority of Maine (FAME or the Authority) was created in 1983 by the *Finance Authority of Maine Act* (the Act), Title 10, Chapter 110, of the Maine Revised Statutes, as amended, as a body corporate and politic, and a public (tax exempt) instrumentality of the State of Maine. In 1989, the Act was amended to authorize the Authority's administration of educational finance programs found in Title 20-A, Chapters 417-E through 430-B (with the exceptions of Chapters 417-A and 418, which are not administered by the Authority, and 417E – 417F which are administered by the Authority and were enacted in 1998 and 2003, respectively). In June 2015, the State of Maine Legislature passed, and the Governor approved, S.P. 544-L.D. 1443, *An Act to Merge the Maine Educational Loan Authority with the Finance Authority of Maine* (the Act). The Act provided that FAME become successor to the Maine Educational Loan Authority (MELA). 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 529 as a private purpose trust fund.

The Authority provides commercial financing and loan insurance to Maine businesses. The Authority is also authorized to carry out various programs to provide financial and other assistance to Maine residents and families 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 not significant to the financial statements.

Basis of Presentation – Government-Wide Financial Statements

Separate government-wide financial statements, which are prepared using the economic resources measurement focus and the accrual basis of accounting, are presented. 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 (GASB).

1. Organization and Significant Accounting Policies (Continued)

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 of accounting, whereby revenues are recorded when they become available and measurable and expenses when incurred. Revenues from grants and programs are generally considered "available" if received within three months of the balance sheet date. There are no significant differences between the modified accrual basis and the accrual basis for the governmental funds. The private-purpose trust fund and agency funds are reported using the accrual basis of accounting.

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

Maine Education Savings Program Fund

NextGen 529 (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* (IRC), as amended (a 529 Savings Plan). The Act authorizes the Authority to administer the Program and act as administrator of the Maine Education 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 Education Savings.

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 of up to 0.09% of the average daily net asset value of certain Program assets. The administrative fees earned were approximately $8,326,800 in fiscal year 2020, and are recorded as fee and other income in the NextGen Administration Fund.

Administrative fees are used to provide benefits as set forth in the Act and the Program rule. Program benefits to Maine accounts (accounts owned by Maine residents or designated beneficiaries who are Maine residents) include fee rebates and matching grants. Program benefit expenses recorded in the NextGen Administration Fund were approximately $6,327,200 in fiscal year 2020. After matching grants are awarded, they are deposited in the Maine Education 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.

1. Organization and Significant Accounting Policies (Continued)

Fund Structure

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

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

NextGen Administration Fund
This fund accounts for activities related to the administration of the Maine Education Savings Program, also known as NextGen 529 or NextGen, a qualified tuition program pursuant to Section 529 of the IRC 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 Loan Program Fund
Under this fund, the Authority provides education loans primarily using funds acquired through the issuance of long-term debt. The Authority earns interest on the loans at variable and fixed rates.

Other Educational Funds
The following proprietary activities of the Authority are included in the Other Educational Funds:

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. This program ended September 30, 2019.

Student Loan Insurance Program
This program provides loan insurance on direct educational loans made by participating financial institutions in the Maine Private Education Loan Network. In fiscal year 2017, the program was expanded to include consolidations of existing student loans. 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.

Claim Your Future
Claim Your Future is an interactive game that encourages exploration into education after high school, future careers, and money management. Organizations in multiple states have contracts in place to use the game which is available online or in a classroom version.

1. Organization and Significant Accounting Policies (Continued)

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

Federal Guarantee Agency Operating Fund
This fund accounts for the activities under the Federal Family Education Loan Program (FFELP). The Authority, in conjunction with the DE, made educational related federal loan guarantees to eligible Maine students and their families to attend post-secondary schools. The Authority received revenue in fiscal year 2020 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.

The Authority, with approval from DE, entered into an agreement to transfer its entire guarantee loan portfolio, including all associated guarantee obligations, to another agency with a transfer date of December 1, 2019. As part of a separate agreement, the Authority will receive $950,000 over five years, if certain annual conditions are met, to support the Authority's higher education programs. The Authority received $250,000 under this agreement in fiscal 2020, which is included on the Statement of Revenues, Expenditures and Changes in Fund Balances as Other Income. The agreement includes scheduled payments to the Authority in future years as follows: 2021 – $215,000, 2022 – $185,000, 2023 – $160,000, and 2024 – $140,000. These amounts will be recognized as revenue annually when it has been determined the Authority has fulfilled its obligations under the agreement.

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. 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:

Oil Storage Facility and Tank Replacement Program
Business Direct Loan Program (formerly known as Economic Recovery Loan Program)
Educators for Maine Program
Foreign Credentialing and Skills Recognition Revolving Loan Program
Health Professionals Loan Program
Regional Economic Development Revolving Loan Program
Waste Motor Oil Disposal Site Remediation Program

1. Organization and Significant Accounting Policies (Continued)

Other Governmental Funds

The Authority administers various other governmental and educational related programs. This fund group records the aggregate activity and reflects the combination of these programs. The State of Maine provides program funding on an annual basis for the Higher Education Fund. FAME Opportunities, Inc. relies on private individuals and corporations for contributions. The State of Maine provides funding for the Doctors for Maine's Future program. 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. The State Small Business Credit Initiative Fund 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.

This fund group consists of the following:

Higher Education Fund
FAME Opportunities, Inc.
Doctors for Maine's Future
State Small Business Credit Initiative Fund

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 529 is the Maine Education 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 qualified institutions. The Plan consists of the investments made by participants in the State's Qualified State Tuition Program under Section 529 of the IRC.

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 529.

Accounting policies of the Private Purpose Trust Fund are further described in note 15.

Agency Funds

Additionally, pursuant to a contract, the Authority provides administrative, financial services support and other services for 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 Fund, the Maine Rural Development Authority, the Dairy Improvement Loan Fund, and the Compliance Assistance Loan Program. 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.

1. Organization and Significant Accounting Policies (Continued)

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

Restriction on Net Position

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

Fund Balances

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

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

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

The fund balance of the Authority's Federal Guaranty Agency Operating Fund is restricted. Pursuant to the *Higher Education Act*, the Authority may use the Operating Fund's balance only for higher education related activities, including student financial aid-related activities for the benefit of students.

Fund balances classified as assigned may be assigned by the Chief Executive Officer 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.

1. Organization and Significant Accounting Policies (Continued)

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 loans and the allowance for loan losses on educational loans.

Federal Income Taxes

It is the opinion of management that the Authority is exempt from federal income taxes under IRC Section 115 and that the Authority has maintained its tax-exempt status and has no uncertain tax positions that require adjustment or disclosure in these financial statements. However, because the Authority issues tax-exempt bonds, it is subject to the arbitrage rebate requirements of Section 148 of the IRC. Section 148 requires that any arbitrage profit earned on the proceeds of tax-exempt bonds issued after 1985 must be rebated to the federal government at least once every five years, with the balance rebated no later than 60 days after the retirement of the bonds.

Cash and Cash Equivalents

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

Investments

Investments are carried at fair value; see note 5. Unrealized gains and losses due to changes in fair values of investments are included in investment income.

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

Notes Receivable

Notes receivable are carried at the principal amount outstanding less an allowance for losses. The allowance for losses on notes receivable is established through a provision for losses on notes receivable charged to operations. Notes receivable losses are charged against the allowance when management believes collectibility of the note 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.

1. Organization and Significant Accounting Policies (Continued)

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.

Educational Loans

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

Fees and costs related to the origination of student loans are recognized as expense when the loans are disbursed.

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

Allowance for Loan Losses on Educational Loans

Management of the Authority has established an allowance for loan losses to provide for probable losses on educational loans. The amount of the allowance, which is established through a provision for losses on educational loans charged to expense, is based on management's estimation of the probable losses within the portfolio. In estimating the adequacy of the allowance for loan losses, management considers such factors as the nature and volume of the portfolio, delinquency trends, specific problem loans and current economic conditions that may affect the borrowers' ability to repay. Actual results could differ from those estimates. Past due loans greater than 180 days are generally 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	5 – 30 years
Computer and office equipment/furniture	3 – 15 years

1. Organization and Significant Accounting Policies (Continued)

Allowance for Losses on Insured Loans

The Authority has established an allowance to absorb probable losses on commercial loans it insures. This allowance is adjusted by provisions charged to operating expense, default payments and by recoveries on prior default payments. 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. Actual results could differ from those estimates.

Discount, Premium and Issuance Costs on Bonds

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

Revolving Loan Programs

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

Grants and Scholarships

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

Mortgage Insurance Premiums

The Authority's fee for insuring business loans may range from 1% 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 recorded as income when they are no longer refundable or when the Authority has performed the service.

1. Organization and Significant Accounting Policies (Continued)

FFELP Support

Prior to transfer of the FFELP program to another agency, the Authority received a percentage of the amounts collected on defaulted loans, a portfolio maintenance fee and a default aversion fee from the DE as its primary support for the administration of the FFELP. These fees were recorded as administrative revenues when earned as the services were performed.

Administrative Expenses

Administrative expenses are indirect costs associated with operating the Authority. These expenses are charged to the various funds based on the estimated time spent during the period on each program.

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 Other Educational Funds include fees received from providing services and related grants. Operating revenues in the Maine Loan Program include interest income on educational loans receivable, guarantee fee and other miscellaneous fee income.

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

Compensated Absences

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

1. Organization and Significant Accounting Policies (Continued)

New Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which deferred the effective date for GASB 84 to reporting periods beginning after December 15, 2019. The Authority is currently evaluating the impact of adopting this new guidance.

COVID – 19 Pandemic

On March 11, 2020, the World Health Organization (WHO) recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary business closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy, including the industries supported and programs provided by the Authority. The uncertainty and extent of any significant or prolonged impact to the economy could adversely affect the ability of borrowers, including those for which the Authority provides loan insurance within the Mortgage Insurance Program Fund and Student Loan Insurance Program, to satisfy their obligations. Other financial effects could occur, though such potential impact is unknown at this time.

2. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

The carrying amounts, which represent both fair value and cost, of cash and cash equivalents for the Authority at June 30, 2020 are presented below:

Cash held in demand deposit accounts and on hand	$ 1,182,242
Money market accounts and repurchase agreements	2,534,450
Total carrying amount of deposits	3,716,692
Amounts restricted for bond obligations in Maine Loan Program Fund – money market funds	19,682,428
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)	63,385,064
	$86,784,184

2. Cash, Cash Equivalents and Investments (Continued)

Of the total carrying amount of deposits of $3,716,692 at June 30, 2020, the corresponding bank balances were $3,842,633. 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 $295,014 at June 30, 2020, leaving $3,547,619 uninsured, of which $1,004,742 was collateralized by Repurchase Agreements issued by Bangor Savings Bank in the Authority's name.

At June 30, 2020, the money market funds were invested in Federated Government Obligations Fund and BBIF Money Fund. The Federated Government Obligations Fund invests primarily in short-term U.S. Treasury and government agency securities including repurchase agreements collateralized by U.S. Treasury and government agency securities. As of June 30, 2020, the fund was rated Aaa-mf by Moody's Investors Service, AAAm by Standard & Poor's, and AAAmmf by Fitch Ratings. The underlying assets were not held in the name of the Authority. The BBIF Money Fund invests primarily in cash, U.S. Treasury bills, notes and other obligations issued or guaranteed as to principal and interest by the U.S. Government, its agencies or instrumentalities, and repurchase agreements secured by such obligations or cash.

The Authority invests monies that are not needed for immediate use or not held in the Maine Loan Program Bond Indenture with the State of Maine. The State of Maine sponsors an internal investment pool (the Treasurer's Cash Pool). The Authority's participation is voluntary. The State of Maine Treasurer's Cash Pool is primarily comprised of investment vehicles with short maturities and management of the Authority characterizes the investments within the pool as low risk. The State of Maine's Treasurer's Cash Pool is not rated by external rating agencies. The Authority is able to make withdrawals from the State of Maine investment pool at par with little advance notice and without penalty. The Authority's management considers this investment vehicle a money market instrument and 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 $31,234,607 held in the Authority's name in the State of Maine Treasurer's Cash Pool.

At June 30, 2020, the Authority's management had reserved $489,856 of cash to fund a moral obligation capital reserve for certain small business mortgage loans and the costs of property maintenance related to an acquired property (see note 7). The Authority's management has also designated $489,856 of the Mortgage Insurance Program unrestricted net position as a reserve for these matters.

At June 30, 2020, the Authority held $19,682,428 of money market funds within the Maine Loan Program Fund that are restricted for the repayment of bond obligations, and to satisfy certain reserve requirements specified by the bond indentures.

2. Cash, Cash Equivalents and Investments (Continued)

Investments

A summary of the fair values of investment securities as of June 30, 2020 is as follows:

Money market funds	$ 32,322
Vanguard Total International Stock Index Fund	8,032,097
Vanguard Total Bond Market Index Fund	6,548,020
Vanguard Total Stock Market Index Fund	12,252,501
	26,864,940
Less: investments recorded in Statement of Net Position – Fiduciary Funds – Agency Funds	(5,503,680)
Investments recorded in Statement of Net Position	$21,361,260

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

Included in investment income for the year ended June 30, 2020, is $516,925 of net unrealized gains from the change in fair value of investment securities.

In fiscal 2020, the Authority revised its investment policy to incorporate a new investment strategy. As part of its revised investment policy, the Authority has incorporated a strategic asset allocation, which has been implemented through the use of full discretion investment managers who invest the assets of the portfolios assigned to them subject to the specific investment guidelines as outlined in the investment policy. The strategic allocation for the Authority's asset pools are as follows:

	Target Allocation
Reserve portfolio:	
Cash and equivalents and short-term fixed income	100%
Growth (diversified) portfolio:	
Diversifying	40%
Growth	60%

The above have been implemented through the following Vanguard Index Funds:

The Vanguard Total International Stock Index Fund employs an indexing investment approach designed to track the performance of the FTSE Global All Cap ex US Index, a float-adjusted market-capitalization-weighted index designed to measure equity market performance of companies located in developed and emerging markets, excluding the United States. It invests all, or substantially all, of its assets in the common stocks included in its target index.

2. Cash, Cash Equivalents and Investments (Continued)

The Vanguard Total Bond Market Index Fund seeks to track the performance of Bloomberg Barclays U.S. Aggregate Float Adjusted Index. Bloomberg Barclays U.S. Aggregate Float Adjusted Index measures the performance of a wide spectrum of public, investment-grade, taxable and fixed income securities in the United States, including government, corporate and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year. All of its investments are selected through a sampling process and at least 80% of its assets will be invested in bonds held in the index.

The Vanguard Total Stock Market Index Fund employs an indexing investment approach designed to track the performance of the CRSP US Total Market Index, which represents approximately 100% of the investable U.S. stock market and includes large-, mid-, small-, and micro-cap stocks regularly traded on the New York Stock Exchange and Nasdaq. It invests by sampling the index, meaning that it holds a broadly diversified collection of securities that, in the aggregate, approximates the full index in terms of key characteristics.

Interest Rate Risk: The Authority manages interest rate risk according to its investment policy by generally prohibiting investments in fixed income securities maturing more than 10 years from the date of purchase. The Vanguard Total Bond Market Index Fund invests primarily in short and intermediate term bonds. The fund has an average duration of 6.6 years.

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, U.S. Government-sponsored enterprises and corporate bonds rated at least AA- or equivalent at the time of purchase by at least one nationally recognized statistical rating organization such as Moody's or Standard and Poor's (S&P), guaranteed investment contracts backed by high credit quality insurance companies or letters of credit. The Vanguard Total Bond Market Index is not rated, however, the fund generally invests in bonds that are investment grade quality, with approximately 80% of underlying investments rated A or better.

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.

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 investment advisor monitors the agent's credit quality. The Authority's investments in Vanguard Index Funds are not subject to custodial credit risk disclosure requirements.

For information on investment activity and risks related to the Private Purpose Trust Fund, refer to note 15.

3. Notes and Educational Loans Receivable

Maine Loan Program Educational Loans

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

Educational loans in the Maine Loan Program are classified as being in "interim" status during the period from the date the loan is made until a student ceases to be enrolled at least on a half-time basis plus a grace period of six months, during which time no payments of principal or interest are required. Borrowers may elect to make payments while in school. Loans in an "interest only" status are loans in which only interest payments are due. "Repayment" loan status refers to loans which require principal and interest payments. "Forbearance" status is a period during the life of the loan when repayment is suspended for authorized purposes.

Educational loans receivable are summarized as follows at June 30, 2020:

Status:	
Interim	$15,752,042
Interest only	10,891,776
Repayment	47,527,974
Forbearance	143,687
Total educational loans, gross	74,315,479
Less: allowance for loan losses	(2,631,581)
Total educational loans, net	71,683,898
Current portion	13,204,582
Noncurrent portion	$58,479,316

The educational loans are pledged for the repayment of bonds.

Transactions in the allowance for loan losses on educational loans for the year ended June 30, 2020 are as follows:

Balance at July 1, 2019	$ 1,975,765
Loans charged-off	(33,252)
Recoveries on loans	365,068
Net recoveries on loans	331,816
Provision for losses on educational loans	324,000
Balance at June 30, 2020	$ 2,631,581

3. Notes and Educational Loans Receivable (Continued)

At June 30, 2020, loans greater than 90 days delinquent or in claims or forbearance status approximated $625,000.

Notes Receivable

The following is a summary of notes receivable at June 30, 2020:

Mortgage Insurance Program Fund:	
6.0% note, due fiscal 2022	$ 162,824
Various notes receivable	3,832
	166,656
Notes receivable in the Revolving Fund:	
Oil Storage Facility and Tank Replacement Program	790,796
Business Direct Loan Program, net	12,054,061
Educators for Maine Program	1,250,975
Health Professions Loan Program	8,395,465
Regional Economic Development Revolving Loan Program	397,283
	22,888,580
Total notes receivable, net	$23,055,236

An allowance for losses on notes receivable has been established for the Business Direct Loan Program to consider potential losses. The allowance is netted against the notes receivable balances for the program. As of June 30, 2020, the allowance had a balance of $3,387,971. Because the Business Direct Loan Program 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, Business Direct Loan and Regional Economic Development Revolving Loan programs are secured by various property and equipment and in some cases, are unsecured. The other notes for educational purposes are unsecured. Notes receivable, other than those in the Mortgage Insurance Program, bear interest from 0% to 10.25%, and are due on various dates up to 2037.

Notes receivable in the Agency Funds at June 30, 2020 are as follows:

Potato Marketing Improvement Fund, net	$ 1,654,483
Agricultural Marketing Loan Fund	2,585,496
Nutrient Management Fund	18,016
Maine Rural Development Authority, net	2,427,448
Compliance Assistance Loan Program	1,349,988
Dairy Improvement Loan Fund	782,704
	$ 8,818,135

3. Notes and Educational Loans Receivable (Continued)

An allowance for losses on notes receivable has been established for 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, 2020, the allowance for the MRDA was $166,519.

4. Allowance for Losses on Insured Loans

The Authority has established an allowance account to absorb probable losses on the loans it insures (see note 6). The amount of the allowance and the provision for losses is determined by management's evaluation of the insured portfolio. The following is the activity in the allowance for losses on insured loans during the year ended June 30, 2020:

	Mortgage Insurance Program Fund	Other Educational Funds
Beginning balance	$14,567,274	$303,737
Default payments	(465,590)	–
Provision for losses	3,028,635	62,477
Recoveries on prior default payments	94,727	68
Ending balance	$17,225,046	$366,282

5. Fair Value Measurements

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

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

Level 2 – Inputs to the valuation method include:

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

5. Fair Value Measurements (Continued)

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

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

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

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

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

For the fiscal year ended June 30, 2020, the application of valuation techniques applied to similar assets has been consistent. Following is a description of the valuation methodologies used for assets measured at fair value.

Money market funds and Vanguard index funds: Valued at the closing price reported in the active market in which the security is traded.

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

The following table sets forth by level, within the fair value hierarchy, the Authority's assets carried at fair value on a recurring basis as of June 30, 2020:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 32,322	$ –	$ –	$ 32,322
Vanguard index funds [1]	26,832,618	–	–	26,832,618
	$26,864,940	$ –	$ –	$26,864,940

[1] See breakdown of funds in footnote 2.

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

The Authority is insuring loans made by financial institutions to qualifying businesses under its various insurance programs. The Authority is contingently liable for the insured portion of payments due on these loans. At June 30, 2020, the Authority had insurance outstanding for commercial loans under the Loan Insurance Program totaling approximately $126,485,000.

At June 30, 2020, the Authority was insuring commercial loans with an aggregate outstanding principal balance approximating $2,171,000 which were ninety or more days delinquent. The aggregate insured balance of these loans was approximately $1,329,000 at June 30, 2020.

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

In addition, the Authority has entered into commitments to insure commercial loans at some future date. At June 30, 2020, these commitments under the Loan Insurance Program were approximately $13,443,000.

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 and insured loan portfolios at June 30, 2020 are for geographical concentration.

The Authority provides loan insurance on direct educational loans and consolidation loans made by participating financial institutions in the Maine Private Education Loan Network. At June 30, 2020, approximately $19,305,000 of loans were insured under this program. Such loans are unsecured. See note 4 (Other Educational Funds).

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

The Authority has legislative authority to incur Full Faith and Credit Obligations and Moral Obligations of the State of Maine in an aggregate amount not to exceed $1,065,000,000 at June 30, 2020. 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, 2020. Such insurance obligations are detailed below:

	Authorized	Outstanding
Full Faith and Credit of the State of Maine:		
Commercial Insurance Authority	$ 90,000,000	$ 86,443,567
Veterans Mortgage Insurance Authority	4,000,000	150,585
Higher Education Bonds	4,000,000	–
Moral Obligation of the State of Maine:		
Commercial Loan Insurance	150,000,000	39,890,961
Major Business Expansion Projects	120,000,000	–
Educational Bonds	225,000,000	85,240,000
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	–
Natural Gas Pipeline and Energy Distribution Projects *	180,000,000	–
Total Moral Obligation	967,000,000	125,130,961
Total authorized and outstanding	$ 1,065,000,000	$ 211,725,113

* 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 loans and loan insurance. There were no significant uninsured losses during 2020.

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

At June 30, 2020, the Authority had commitments to extend credit for educational loans within the Maine Loan Program of approximately $266,000. Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any condition established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses. The Authority uses the same credit policies in making commitments as it does for educational loans receivable.

7. Acquired Property

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

Included in accounts payable and accrued liabilities at June 30, 2020, is $90,000 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. For those additional payments, the Authority's legal counsel is unable to estimate an amount or range of possible liability at this time.

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

8. Bonds Payable

The following bonds outstanding at June 30, 2020 within the Maine Loan Program Fund have been issued to finance the purchase and origination of educational loans:

Educational Loan Revenue Bonds	Amount Outstanding
2010 series due in annual installments on December 1, 2020 through 2025; interest fixed at rates ranging from 3.75% to 4.45%	$ 7,410,000
2012 series due in annual installments on December 1, 2020 through 2027; interest fixed at rates ranging from 4.30% to 5.05%	7,485,000
2014 series due in annual installments on December 1, 2020 through 2031; interest fixed at rates ranging from 3.50% to 5.00%	8,040,000
2017 series due in annual installments on December 1, 2020 through 2034; interest fixed at rates ranging from 3.75% to 5.00%	9,945,000
2018 series due in annual installments on December 1, 2021 through 2036; interest fixed at rates ranging from 3.50% to 5.00%	9,960,000

8. Bonds Payable (Continued)

Educational Loan Revenue Bonds (Continued)	Amount Outstanding
2019 series due in annual installments on December 1, 2020 through 2039; interest fixed at rates ranging from 3.00% to 5.00%	$42,400,000
	85,240,000
Net unaccreted bond premium	3,335,208
Bonds payable, net	88,575,208
Current portion	4,899,582
Non-current portion	$83,675,626
Unaccreted deferred loss on refunding	$ 1,583,838

The Authority accreted $173,218 for the year ended June 30, 2020 of the deferred loss on refunding.

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

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

Investments made and educational loans originated with the proceeds of the bonds, and the net revenues thereon are held in trust. As additional security for the bonds, the Authority has established cash reserve funds totaling $1,005,450 at June 30, 2020, to be used to replenish any deficiency in funds required to pay principal or interest due on the bonds. In addition to the cash reserve funds, the Authority also has a reserve fund insurance policy (surety bond) available in an amount up to the maximum annual debt service in any given year, less the cash reserve funds.

On June 22, 2011, the State of Maine approved legislation extending the ability of the Authority to create or establish capital reserve funds which will benefit from a “moral obligation” from the State of Maine to June 30, 2020. The maximum amount of bonds that the Authority can have outstanding with a capital reserve fund which will benefit from a “moral obligation” of the State of Maine is $225,000,000.

8. Bonds Payable (Continued)

The debt service requirements through June 30, 2025 and in five-year increments thereafter to maturity for the Authority, are as follows:

Fiscal Year(s)	Principal	Interest	Total
2021	$ 4,535,000	$ 3,542,860	$ 8,077,860
2022	5,415,000	3,319,930	8,734,930
2023	6,335,000	3,046,515	9,381,515
2024	6,915,000	2,729,309	9,644,309
2025	7,445,000	2,387,609	9,832,609
2026 – 2030	28,905,000	7,275,111	36,180,111
2031 – 2035	17,395,000	2,949,790	20,344,790
2036 – 2040	8,295,000	588,962	8,883,962
	$85,240,000	$25,840,086	$ 111,080,086

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

The following summarizes the bond activity for the Authority for the year ended June 30, 2020:

Balance at beginning of year	$91,684,994
Redemption of bonds	(2,740,000)
Net accretion/amortization	(369,786)
Balance at end of year	$88,575,208

9. Arbitrage

The bonds issued in the Maine Loan Program are subject to Internal Revenue Service regulations which limit the amount of income which may be earned on certain cash equivalents, investments and educational loans acquired with bond proceeds. Any excess earnings are to be refunded to the Federal government. The estimated arbitrage liability related to excess earnings on educational loans was $3,904,371 at June 30, 2020. No payments were required in 2020. The Authority does not anticipate that any payments will be due through June 30, 2021.

10. Capital Assets

Capital assets activity for the year ended June 30, 2020, was as follows:

	June 30, 2019	Additions	Disposals	June 30, 2020
Building and improvements	$ 2,210,810	$ 20,297	$ –	$ 2,231,107
Computer and office equipment	1,883,797	213,582	(150,804)	1,946,575
	4,094,607	233,879	(150,804)	4,177,682
Less accumulated depreciation for:				
Building and improvements	(1,376,008)	(87,930)	–	(1,463,938)
Computer and office equipment	(1,354,545)	(179,048)	150,804	(1,382,789)
Total accumulated depreciation	(2,730,553)	(266,978)	150,804	(2,846,727)
	$ 1,364,054	$ (33,099)	$ –	$ 1,330,955

11. 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, 2020, are summarized below:

Received for grant programs	$15,955,393
Received for loan programs	1,766,337
General State of Maine appropriations	706,175
Reserve fund transfers	1,000,000
Bond repayment	1,458,906

The Authority received a $1,000,000 reserve fund transfer from the State of Maine. The Maine Revised Statutes provide that, if certain conditions are met, the State will transfer to the Authority funds, as available, from the State's Loan Insurance Reserves, up to $1,000,000 per fiscal year. The amounts received for bond repayment were from the State of Maine's Waste Motor Oil Revenue Fund. Such amounts were used to pay principal and interest on the Waste Motor Oil Revenue Bonds and eligible costs associated with the Waste Motor Oil Disposal Site Remediation Program (see note 12).

As part of the Authority's administration of the Maine State Grant Program, the Authority received $15,445,393 of funds reflected in the table above from the State of Maine, which is included in the Educational Grant Fund on the Statement of Revenues, Expenditures and Changes in Fund Balances.

12. Revenue Bonds

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

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

In fiscal 2010, the Authority, on behalf of the State of Maine, issued Waste Motor Oil Revenue Bonds to provide for certain response costs related to a waste motor oil disposal site. These bonds are special limited obligations of the Authority, payable solely from revenues accumulated in the State of Maine Waste Motor Oil Revenue Fund. Amounts in the Waste Motor Oil Revenue Fund are expected to be derived principally from payments of a premium on the purchase within the State of Maine of specified motor vehicle oil. The bonds do not constitute a debt or pledge of faith and credit of the Authority or the State, and accordingly, have not been reported in the accompanying financial statements. During fiscal year 2019, the Authority placed funds into an escrow account to defease the remaining balance of the bonds. The bonds were redeemed in full during fiscal year 2020.

13. Deferred Compensation and Pension Plans

The Authority offers its employees a deferred compensation plan created in accordance with IRC 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, 2020.

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 $326,000 in fiscal year 2020.

14. Federal Student Loan Reserve Fund

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

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

The Authority, with approval from DE, entered into an agreement to transfer its entire guarantee loan portfolio, including all associated guarantee obligations, to another agency with a transfer date of December 1, 2019. At June 30, 2020, the reserve level was approximately $3,549,000, which was transferred to DE in fiscal year 2021.

15. Private Purpose Trust Fund

A summary of investments by asset class is as follows:

	NextGen Totals	
Investment Type	Amount	%
Domestic Equity Funds	$ 3,622,095,191	32.6%
International Equity Funds	1,729,350,587	15.6
Alternative Investment Funds	301,966,236	2.7
Investment Grade Fixed Income Funds	2,980,630,010	26.9
Non-Investment Grade Fixed Income Funds	299,485,894	2.7
Mixed Asset Funds	940,696,843	8.5
Cash Allocation Account	628,072,219	5.7
Guaranteed Interest Account	416,191,336	3.7
Bank Deposit Accounts	177,534,788	1.6
Total	$ 11,096,023,104	100.0%

15. Private Purpose Trust Fund (Continued)

Significant Accounting Policies

Investments

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

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

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

The Guaranteed Interest Account (GIA), issued by New York Life Insurance Company is a non-participating, unallocated insurance contract and is 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 GIA is guaranteed as to principal, accumulated interest and a future interest rate for a designated time period. Such guarantees are made available to the Program, not to an individual participant.

The NextGen Savings Portfolio invests exclusively in interest-bearing omnibus negotiable order of withdrawal (NOW) accounts currently at Bank of America, N.A. (the Bank Deposit Accounts). The Bank Deposit Accounts are reported as the cumulative sum of contributions to the Bank Deposit Accounts, plus interest credited, less withdrawals.

15. Private Purpose Trust Fund (Continued)

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 balance of accounts in the Program for the same beneficiary and other terms and limitations defined in the Program Description and Participation Agreement between the participant and the Program. Participants may elect to invest 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. The unit class attributable to a contribution is automatically determined based on the participant's eligible assets (as defined in the Select Series Program Description), with certain exceptions. Although participants can select the Portfolio(s) into which their contributions are invested, they cannot direct the selection or allocation of the underlying investments composing each Portfolio. Contributions are reported on the Statement of Changes in Net Position as increases in fiduciary net position on the business day after the day they are received, and are net of any applicable sales charges.

Withdrawals

Withdrawals are based on the net asset value calculated for such Portfolios on the business day following the day on which the Program Manager accepts and processes the withdrawal request. Withdrawals are generally recorded as deductions from 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.

15. Private Purpose Trust Fund (Continued)

Investment Risk Disclosures

The Program's investments are exposed to various risks, including, but not limited to, interest rate, market and credit risk. It is at least reasonably possible that exposure to such risks could result in changes in fair values that could occur in the near term, and the 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* adopted by the Board of Directors of the Authority. Generally, the Program's objectives include providing diverse investment options through the Direct and Select Series, structured for different levels of risk tolerance, time horizons and investment management preferences, while maintaining asset based fees at a competitive level. While the *Investment Policy and Monitoring Guidelines* do not specify permissible investments for the Program or address credit risk, interest rate risk, concentrations of credit risk or foreign currency risk, the assets of each Portfolio are invested according to an allocation strategy recommended by Merrill Lynch and the Portfolio's Sub-Advisor and approved by the Authority. Any changes to the investment allocation 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 are exposed to credit risk primarily through investments in bond mutual funds and bond ETFs. The Principal Plus Portfolio and the Cash Allocation Account may also 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 iBoxx $ High Yield Corporate Bond ETF, the iShares Core U.S. Aggregate Bond ETF, iShares TIPs Bond ETF, iShares 20+ Year Treasury Bond ETF and the iShares Short Treasury Bond ETF, which carry Standard and Poor's ratings of AA+f, B+f, A+f, AA+f, AA+f and AAAf, respectively, at June 30, 2020. While the GIA is not rated, its respective issuer is rated AA+ by Standard and Poor's.

15. 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 GIA held in the Principal Plus Portfolio is considered a contractual investment, rather than an investment security, and is not exposed to custodial credit risk.

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 may not be fully covered by depository insurance.

Account balances invested in the Bank Deposit Account through the NextGen Savings Portfolio 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 included in the asset holdings of those funds. In general, the value of a debt security will increase when interest rates decline and decrease when interest rates increase. Prices of longer term securities generally change more in response to interest rate changes than the prices of shorter term securities. Average maturity is a measure of sensitivity to interest rate risk. Average maturity is the average length of time until fixed income securities held by a fund reach maturity and will be repaid, taking into consideration the possibility that the issuer may call the security before its maturity date. In general, the longer the average maturity, the more a fund's value will fluctuate in response to changes in interest rates. As of June 30, 2020, the average maturities of the bond mutual funds and ETFs in which the Portfolios invest ranged from 0.34 years to 25.93 years.

15. 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 indirectly expose the Program to foreign currency risk. There are certain additional risks involved when investing in foreign securities that are not inherent to investments in domestic securities. These risks may include foreign currency exchange rate fluctuations, adverse political and economic developments and the possible prevention of currency exchange or other foreign governmental laws or restrictions.

FINANCE AUTHORITY OF MAINE

COMBINING SCHEDULE OF NET POSITION

AGENCY FUNDS

June 30, 2020

ASSETS	Federal Student Loan Reserve Fund	Potato Marketing Improvement Fund	Agricultural Marketing Loan Fund	Small Enterprise Growth Fund
Cash and cash equivalents	$3,549,140	$ 9,086,858	$3,146,835	$8,959,489
Investments	–	3,931,200	1,179,360	–
Accrued interest receivable	–	45,783	40,189	–
Notes receivable, net	–	1,654,483	2,585,496	–
Total assets	$3,549,140	$14,718,324	$6,951,880	$8,959,489
LIABILITIES				
Accounts payable and other liabilities	$ –	$ 16,787	$ 9,076	$ –
Due to the U.S. Department of Education	3,549,140	–	–	–
Amounts held for State of Maine under revolving loan programs	–	14,701,537	6,942,804	8,959,489
Total liabilities	$3,549,140	$14,718,324	$6,951,880	$8,959,489

Nutrient Management Fund	Payroll Processing Insurance Fund	Northern Maine Transmission Corporation	Maine Rural Development Authority	Dairy Improvement Loan Fund	Compliance Assistance Loan Program	Total Agency Fund
$ 8,819	$ 1,126,822	$ 9,527	$ 3,891,197	$ 1,447,476	$ 8,444	$ 31,234,607
–	393,120	–	–	–	–	5,503,680
–	–	–	18,948	–	–	104,920
18,016	–	–	2,427,448	782,704	1,349,988	8,818,135
$ 26,835	$ 1,519,942	$ 9,527	$ 6,337,593	$ 2,230,180	$ 1,358,432	$ 45,661,342
$ –	$ –	$ –	$ 2,865	$ 15	$ –	$ 28,743
–	–	–	–	–	–	3,549,140
26,835	1,519,942	9,527	6,334,728	2,230,165	1,358,432	42,083,459
$ 26,835	$ 1,519,942	$ 9,527	$ 6,337,593	$ 2,230,180	$ 1,358,432	$ 45,661,342