BAKER NEWMAN NOYES

Finance Authority of Maine

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

Year Ended June 30, 2022

Baker Newman & Noyes LLC
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FINANCE AUTHORITY OF MAINE

FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

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Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

We did not audit the financial statements of NextGen 529, which represents 99.7 percent, 99.7 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.

In our opinion, based upon our audit and the report of the other auditors, the accompanying 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, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

The Board of Directors
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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

The Board of Directors
Finance Authority of Maine

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Combining Schedule of Net Position – Custodial Funds and Combining Schedule of Changes in Net Position – Custodial Funds, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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. In our opinion, the Combining Schedule of Net Position – Custodial Funds and Combining Schedule of Changes in Net Position – Custodial Funds are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2022 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 20, 2022

FINANCE AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2022

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, 2022. 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, 2022

- 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 insured commercial loan portfolio increased $9.1 million year over year to $126.5 million at June 30, 2022, a 7.8% increase from $117.4 million at June 30, 2021. The allowance for insured commercial loan losses totaled $16.0 million and $16.8 million at June 30, 2021 and June 30, 2022, respectively. The allowance for insured commercial loan losses and associated provision reflect: the net change in the insured loan portfolio balance; 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 recovery of provision on insured loans of $1.2 million during the year ended June 30, 2021, and a provision on insured loans of $1.1 million during the year ended June 30, 2022. During fiscal year 2021, the Authority paid claims, net of recoveries, totaling $12,000, compared to net claims paid totaling $0.2 million in fiscal year 2022.

- The Authority administers NextGen 529, a Qualified Tuition Program under Section 529 of the Internal Revenue Code. Due primarily to significant market value losses during the fiscal year, the NextGen portfolio decreased $1.6 billion, or 11.9%, to $12.0 billion as of June 30, 2022. Investments within the portfolio 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 fiduciary component unit. The Authority contracted with Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch) to provide management services to NextGen 529 through September 12, 2021 at which time the agreement with Merrill Lynch was terminated. A new agreement with Sumday Administration, The Bank of New York Mellon, BlackRock Advisors and BlackRock Investments for Program Manager, Program Custodian, Investment Manager and Program Distributor services, respectively, commenced on September 13, 2021. Sumday Administration was subsequently acquired by Vestwell Holdings (VH) on February 1, 2022. VH has assumed the Program Manager role. A one-time contract termination fee of $6.5 million was paid by Merrill Lynch to the Authority during fiscal year 2022.

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 $9.9 million for fiscal year 2022, compared to $9.3 million in the prior year. This improvement is the result of continued growth in the Select Series portfolio during the first half of the fiscal year, as well as additional administration fees on the Direct Series portfolio that was implemented on April 1, 2022.

- In February 2020, the Authority implemented a new investment strategy for cash reserves. This entailed investing in passive mutual funds instead of single securities. This led to a change in how investment changes impacted the year-end results. Because of poor performance in the investment markets, net unrealized losses were $8.6 million in fiscal year 2022 compared to an $8.1 million gain in fiscal year 2021.

- The Authority's net position decreased by $0.6 million to $55.6 million for the year ended June 30, 2022. This decrease consists of a proprietary fund increase of $0.4 million and a governmental fund decrease of $1.0 million.

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 Fiduciary Component Unit 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 Custodial Fund resources held by the Authority in a custodial capacity for other governmental organizations. The resources in these custodial funds cannot be used to support the Authority's operations. These funds are combined in the Statement of Net Position – Fiduciary Funds and Statement of Changes in Net Position – Fiduciary Funds and presented as Custodial Funds.

All of these funds are described 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
	2022	2021	2022	2021	2022	2021	Change
Assets							
Cash and investments	$ 77,155	$ 99,464	$ 33,318	$ 32,787	$ 110,473	$ 132,251	(16.5)%
Notes and educational loans receivable, net	66,033	66,776	19,366	22,187	85,399	88,963	(4.0)
Capital assets, net	1,106	1,299	–	–	1,106	1,299	(14.8)
Other assets	3,293	3,488	356	305	3,649	3,793	(3.7)
Total assets	$ 147,587	$ 171,027	$ 53,040	$ 55,279	$ 200,627	$ 226,306	(11.3)%
Deferred Outflows of Resources							
Deferred loss on refunding	$ 1,224	$ 1,432	$ –	$ –	$ 1,224	$ 1,432	(14.5)%
Liabilities							
Accounts payable and accrued liabilities	$ 5,467	$ 5,303	$ 232	$ 201	$ 5,699	$ 5,504	3.5%
Unearned fee income	897	900	143	155	1,040	1,055	(1.4)
Unearned grant and scholarship funds	–	–	2,505	2,995	2,505	2,995	(16.4)
Allowance for losses on insured loans	17,188	16,389	–	–	17,188	16,389	4.8
Long-term liabilities:							
Due in more than one year – arbitrage rebate payable	3,982	4,762	–	–	3,982	4,762	(16.4)
Notes and bonds payable:							
Due within one year	6,394	4,847	–	–	6,394	4,847	31.9
Due in more than one year	67,725	93,525	–	–	67,725	93,525	(27.5)
Program funds:							
Amounts held under state revolving loan programs	–	–	41,675	42,420	41,675	42,420	(1.7)
Total liabilities	$ 101,653	$ 125,726	$ 44,555	$ 45,771	$ 146,208	$ 171,497	(14.7)%
Net Position							
Unrestricted net assets	$ 24,809	$ 31,534	$ 449	$ 449	$ 25,258	$ 31,983	(21.0)%
Restricted net assets	21,242	13,900	8,037	9,059	29,279	22,959	27.5
Invested in capital assets	1,106	1,299	–	–	1,106	1,299	(14.8)
Total net position	$ 47,158	$ 46,733	$ 8,485	$ 9,508	$ 55,643	$ 56,241	(1.1)%

The Authority's total assets decreased $25.7 million, or 11.3%, while total liabilities decreased by $25.3 million, or 14.7%; the total change in net position during the year was a decrease of $0.6 million, or 1.1%. Significant changes in the individual line items are described below:

Cash and Investments

Cash and investments decreased by $21.8 million, or 16.5%, during the year. This decrease predominantly reflects bond redemptions and the disbursement of bond proceeds in the current year from a bond issuance in May 2021 in the Maine Loan Program as well as market value losses due to market fluctuations.

Notes and Education Loans Receivable, Net

Notes and education loans receivable, net decreased by $3.6 million, or 4.0%, during the year, attributable in part to a decrease of $2.3 million in the outstanding loan portfolio for the Economic Recovery Loan program during the year.

Unearned Grant and Scholarship Funds

Unearned grant and scholarship funds decreased $0.5 million, or 16.4%, as a result of increased disbursements within the Maine State Grant Program during the fiscal year.

Allowance for Losses on Insured Loans

The allowance for losses on insured loans increased by $0.8 million or 4.8%, due in large part to an increase in the Mortgage Insurance Program Fund insured portfolio of $9.1 million during the fiscal year.

Long-Term Liabilities – Notes and Bonds Payable

Bonds payable decreased by $24.3 million as a result of redemption activity. There were no bonds issued during the fiscal year.

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 $0.7 million, or 1.7%, during the fiscal year.

Net Position

The Authority's mission is to provide access to innovative financial solutions to help Maine citizens pursue business and higher education opportunities. When the economy is performing well the Authority usually builds its balance sheet. In difficult economic climates, the Authority may continue to provide student and business funding even when net position may decline. A strong balance sheet allows the Authority to continue to serve its customers particularly when they need help the most. Alternatively, the Authority could reduce student grants and be more selective in financing 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 year 2022, the Authority's net position decreased by $0.6 million, compared to a prior year 2021 increase of $8.7 million. Revenues increased by $0.9 million, or 1.8%, when compared to prior year and include an increase of $10.4 million in grants and scholarship revenues and a $6.5 million one-time contract termination fee from Merrill Lynch, offset by losses associated with the organization's investment portfolio during the year. Fiscal year 2022 operating expenses of $47.8 million are more than 2021 expenses by $10.2 million, or 27.1%, primarily as a result of a $10.4 million increase in grant and scholarship expenses.

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)

	2022	2021	Increase/ (Decrease) Amount	%
Revenues:				
State appropriations	$ 600	$ 600	$ –	0.0%
Income from user fees	18,852	11,886	6,966	58.6
Investment (loss) income	(7,389)	8,960	(16,349)	(182.5)
Interest income on notes and educational loans receivable	4,188	4,631	(443)	(9.6)
Other income	2,881	2,578	303	11.8
Grant and scholarship revenue	28,107	17,732	10,375	58.5
Total revenues	47,239	46,387	852	1.8
Expenses:				
Salaries and benefits	5,603	5,472	131	2.4
Loan servicing expenses	188	212	(24)	(11.3)
Financing expenses	2,851	3,350	(499)	(14.9)
Provision (recovery) for losses on insured loans and educational loans	208	(1,399)	1,607	(114.9)
Grant and scholarship expenses	28,107	17,732	10,375	58.5
Customer benefit expenses	7,290	7,445	(155)	(2.1)
Other operating expenses/other	3,589	4,838	(1,248)	(25.8)
Total expenses	47,836	37,650	10,186	27.1
Change in net position	$ (597)	$ 8,737	$ (9,334)	(106.8)%

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

Results of Operations – Proprietary Funds

The net assets of the Authority's proprietary funds increased by $0.4 million or 0.9%, during fiscal year 2022 compared to a $7.6 million increase 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, 2022 and 2021:

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

			Increase/ (Decrease)	
	2022	2021	Amount	%
Operating revenues:				
Income from user fees	$ 18,852	$ 11,886	$ 6,966	58.6%
Interest income on notes and educational loans receivable	4,188	4,631	(443)	(9.6)
Other income	2,122	1,732	390	22.5
Total operating revenue	25,162	18,249	6,913	37.9
Operating expenses:				
Salaries and benefits	4,583	4,387	196	4.5
External loan servicing costs	188	212	(24)	(11.3)
Financing expenses	2,851	3,350	(499)	(14.9)
Provision (recovery) for losses on insured loans and educational loans	208	(1,399)	1,607	(114.9)
Customer benefit expenses	7,290	7,445	(155)	(2.1)
Other operating expenses/other	3,091	4,360	(1,269)	(29.1)
Total operating expenses	18,211	18,355	(144)	(0.8)
Operating income (loss)	6,951	(106)	7,057	(6,657.5)
Nonoperating (expenses) revenues:				
Investment (loss) income	(6,525)	7,688	(14,213)	(184.9)
Total nonoperating (expenses) revenues	(6,525)	7,688	(14,213)	(184.9)
Change in net position	425	7,582	(7,157)	(94.4)
Net position at beginning of year	46,733	39,151	7,582	19.4
Net position at end of year	$ 47,158	$ 46,733	$ 425	0.9%

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 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 $25.2 million, an increase of $6.9 million or 37.9%, when compared to prior year, primarily attributed to an increase of $7.0 million in user fees within the NextGen Administration Fund. This increase includes a one-time fee of $6.5 million, paid by Merrill Lynch because of the contract termination with NextGen.

Operating expenses decreased by $0.1 million, or 0.8%, from the prior year. Provisions for insured loan and educational loan losses were higher by $1.6 million over prior year because of growth within the Mortgage Insurance Fund. During fiscal year 2022, insured commercial loans increased 7.8%, from $117.4 million to $126.5 million, with the reserve ratio declining 0.3% resulting in a provisions expense for the year of $1.1 million. The Maine Loan program recognized a recovery of provisions during the fiscal year of $0.9 million, based upon a year-end review of the program reserve ratio. During fiscal 2021 these two programs recognized a combined recovery of provisions totaling $1.4 million; the activity discussed previously resulted in a combined provision of $0.2 million, a $1.6 million increase compared to prior year. This $1.6 million expense increase was offset by an expense reduction of $1.3 million from expenses such as arbitrage and bond administration costs within the Maine Loan Program.

The change in non-operating revenues is a decline of $14.2 million, or 184.9%. During fiscal 2021, net investment income totaled $7.7 million, compared to a net investment loss of $6.5 million during fiscal 2022. This variance to prior year is the result of market fluctuations and the impact on the Authority's investment portfolio.

Overall, the net position of the proprietary funds increased by $0.4 million or 0.9%, from $46.7 million to $47.2 million during the fiscal year.

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 non-operating revenue.

The Fund Balance of the Authority's governmental funds decreased by $1.0 million, or 10.8%, from the prior year. The following table summarizes the Statement of Revenues, Expenditures and Changes in Fund Balance for the governmental funds for the years ended June 30, 2022 and 2021:

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

			Increase/(Decrease)	
	2022	2021	Amount	%
Revenues:				
State appropriations	$ 600	$ 600	$ –	0.0%
Investment (loss) income	(864)	1,272	(2,136)	(167.9)
Other income	759	846	(87)	(10.3)
Grant and scholarship revenue	28,107	17,732	10,375	58.5
Total revenues	28,602	20,450	8,152	39.9
Expenditures:				
Salaries and benefits	1,020	1,085	(65)	(6.0)
Grant and scholarship expenses	28,107	17,732	10,375	58.5
Other operating expenses/other	498	478	20	4.2
Total expenditures	29,625	19,295	10,330	53.5
Changes in fund balance	(1,023)	1,155	(2,178)	(188.6)
Fund balance at beginning of year	9,508	8,353	1,155	13.8
Fund balance at end of year	$ 8,485	$ 9,508	$ (1,023)	(10.8)%

The governmental funds include certain business direct revolving loan programs, including programs such as the Business Direct Loan 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 $28.6 million, an increase from prior year of $8.2 million, or 39.9%. This increase is primarily the result of higher grant and scholarship revenues during the fiscal year, partially offset by a $2.1 million decline in investment income.

Governmental fund expenditures for the year were $29.6 million, which were $10.3 million, or 53.5%, more than the prior year. The increase came primarily from a $10.4 million, or 58.5%, increase in grant and scholarship expenses, correlating with the increase in grant and scholarship revenues cited above.

Overall, the fund balance of the governmental funds decreased by $1.0 million to $8.5 million in fiscal year 2022. This reflects a decrease of $2.2 million when compared to the prior year fund balance increase of $1.2 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, 2022, the Authority had $74.1 million in net bonds payable outstanding. The Authority retired $23.6 million of the Series 2012, 2014, 2017, 2018 and 2019 bonds upon scheduled maturity and mandatory redemptions; the 2021 bond issue will begin principal repayments at the end of calendar year 2022.

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, 2022

	Business-Type Activities	Governmental Activities	Total
ASSETS			
Cash and cash equivalents	$ 32,746,782	$ 15,195,245	$ 47,942,027
Investments	44,407,888	18,123,188	62,531,076
Accounts receivable	1,122,497	–	1,122,497
Accrued interest receivable	1,729,206	–	1,729,206
Notes and educational loans receivable, net	66,033,136	19,366,475	85,399,611
Prepaid expenses and other assets	441,042	355,771	796,813
Capital assets, net	1,106,244	–	1,106,244
Total assets	$ 147,586,795	$ 53,040,679	$ 200,627,474
DEFERRED OUTFLOW OF RESOURCES			
Deferred loss on refunding	$ 1,224,109	$ –	$ 1,224,109
LIABILITIES			
Accounts payable and accrued liabilities	$ 5,215,315	$ 232,389	$ 5,447,704
Unearned fee income	897,027	142,818	1,039,845
Accrued interest payable	251,204	–	251,204
Accrued arbitrage liability	3,982,181	–	3,982,181
Unearned grant and scholarship funds	–	2,505,389	2,505,389
Allowance for losses on insured loans	17,188,487	–	17,188,487
Long-term liabilities:			
Due within one year – bonds payable	6,393,998	–	6,393,998
Due in more than one year – bonds payable	67,724,761	–	67,724,761
Due in more than one year – program funds	–	41,674,656	41,674,656
Total liabilities	$ 101,652,973	$ 44,555,252	$ 146,208,225
Commitments and contingent liabilities (notes 6, 7 and 12)			
NET POSITION			
Invested in capital assets	$ 1,106,244	$ –	$ 1,106,244
Restricted for education activities	17,141,188	8,036,526	25,177,714
Restricted for education bond programs	4,101,133	–	4,101,133
Unrestricted	24,809,366	448,901	25,258,267
Total net position	$ 47,157,931	$ 8,485,427	$ 55,643,358

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2022

	Expenses	Charges for Services
Functions/Programs:		
Governmental activities:		
Federal Student Loan Guarantee Program	$ 258,261	$ –
Educational Grant Programs	26,475,939	–
Revolving Loan Programs	833,825	573,825
Other Governmental Grant Programs	2,057,052	467
Total governmental activities	29,625,077	574,292
Business-type activities:		
Mortgage Insurance Program	3,471,734	2,457,303
College Savings Program	11,607,530	18,260,402
Maine Loan Program	2,221,660	4,197,585
Other Educational Programs	910,191	246,455
Total business-type activities	18,211,115	25,161,745
Total Authority	$47,836,192	$25,736,037

Other activity:
Investment loss
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 (Loss) Income	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
$ (949,657)	$ 185,000	$ (1,022,918)	$ –	$ (1,022,918)
–	26,475,939	–	–	–
–	260,000	–	–	–
85,652	1,970,888	(45)	–	(45)
(864,005)	28,891,827	(1,022,963)	–	(1,022,963)
–	–	–	(1,014,431)	(1,014,431)
–	–	–	6,652,872	6,652,872
–	–	–	1,975,925	1,975,925
–	–	–	(663,736)	(663,736)
–	–	–	6,950,630	6,950,630
$ (864,005)	$ 28,891,827	(1,022,963)	6,950,630	5,927,667
		–	(6,525,297)	(6,525,297)
		–	(6,525,297)	(6,525,297)
		(1,022,963)	425,333	(597,630)
		9,508,390	46,732,598	56,240,988
		$ 8,485,427	$ 47,157,931	$ 55,643,358

FINANCE AUTHORITY OF MAINE

STATEMENTS OF NET POSITION

PROPRIETARY FUNDS

June 30, 2022

	Mortgage Insurance Program Fund	NextGen Administration Fund	Maine Loan Program Fund
ASSETS			
Current assets:			
Cash and cash equivalents	$ 7,279,161	$ 11,193,385	$ 13,977,767
Investments	31,767,497	9,372,030	–
Accounts receivable	85,088	973,091	–
Accrued interest receivable	32,815	–	431,894
Notes and educational loans receivable, net	33,357	–	9,155,680
Prepaid expenses and other assets	217,826	16,318	10,423
Total current assets	39,415,744	21,554,824	23,575,764
Noncurrent assets:			
Notes and educational loans receivable, net	85,089	–	56,759,010
Accrued interest receivable	–	–	1,264,497
Other assets	–	–	195,780
Capital assets, net	1,106,244	–	–
Total noncurrent assets	1,191,333	–	58,219,287
Total assets	$ 40,607,077	$ 21,554,824	$ 81,795,051
DEFERRED OUTFLOW OF RESOURCES			
Deferred loss on refunding	$ –	$ –	$ 1,224,109
LIABILITIES			
Current:			
Accounts payable and accrued liabilities	$ 620,093	$ 4,413,636	$ 93,735
Unearned fee income	887,427	–	–
Accrued interest payable	–	–	251,204
Bonds payable, net	–	–	6,393,998
Allowance for losses on insured loans	16,829,759	–	–
Total current liabilities	18,337,279	4,413,636	6,738,937
Noncurrent liabilities:			
Arbitrage rebatable	–	–	3,982,181
Bonds payable, net	–	–	67,724,761
Total noncurrent liabilities	–	–	71,706,942
Total liabilities	$ 18,337,279	$ 4,413,636	$ 78,445,879
Commitments and contingent liabilities (notes 6, 7 and 12)			
NET POSITION			
Net investment in capital assets	$ 1,106,244	$ –	$ –
Restricted for education activities	–	17,141,188	–
Restricted for education bond programs	–	–	4,101,133
Unrestricted	21,163,554	–	472,148
Total net position	$ 22,269,798	$ 17,141,188	$ 4,573,281

See accompanying notes to the financial statements.

Other Educational Funds	Total
$ 296,469	$ 32,746,782
3,268,361	44,407,888
64,318	1,122,497
–	464,709
–	9,189,037
695	245,262
3,629,843	88,176,175
–	56,844,099
–	1,264,497
–	195,780
–	1,106,244
–	59,410,620
$ 3,629,843	$ 147,586,795
$ –	$ 1,224,109
$ 87,851	$ 5,215,315
9,600	897,027
–	251,204
–	6,393,998
358,728	17,188,487
456,179	29,946,031
–	3,982,181
–	67,724,761
–	71,706,942
$ 456,179	$ 101,652,973
$ –	$ 1,106,244
–	17,141,188
–	4,101,133
3,173,664	24,809,366
$ 3,173,664	$ 47,157,931

FINANCE AUTHORITY OF MAINE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

For the Year Ended June 30, 2022

	Mortgage Insurance Program Fund	NextGen Administration Fund	Maine Loan Program Fund
Operating revenues:			
Insurance premiums	$ 1,547,761	$ –	$ –
Application and commitment fees	547,102	–	–
Interest income on notes and educational loans receivable	7,811	–	4,180,172
Fee and other income	354,629	18,260,402	17,413
Total operating revenues	2,457,303	18,260,402	4,197,585
Operating expenses:			
Salaries and related benefits	1,823,649	1,955,916	371,988
Financing expenses	–	–	2,851,039
Bond administration expenses	–	–	117,093
Arbitrage income	–	–	(779,270)
Other operating expenses	576,812	2,361,539	353,235
Loan servicing costs	–	–	187,575
Provision (recovery) for losses on insured loans and educational loans	1,071,273	–	(880,000)
Matching contributions and rebates	–	7,290,075	–
Total operating expenses	3,471,734	11,607,530	2,221,660
Operating income (loss)	(1,014,431)	6,652,872	1,975,925
Nonoperating (expenses) revenues:			
Investment (loss) income	(4,661,435)	(1,301,156)	16,004
Total nonoperating (expenses) revenues	(4,661,435)	(1,301,156)	16,004
Change in net position	(5,675,866)	5,351,716	1,991,929
Net position at beginning of year	27,945,664	11,789,472	2,581,352
Net position at end of year	$22,269,798	$17,141,188	$ 4,573,281

See accompanying notes to the financial statements.

Other Educational Funds	Total
$ 27,146	$ 1,574,907
–	547,102
–	4,187,983
219,309	18,851,753
246,455	25,161,745
431,138	4,582,691
–	2,851,039
–	117,093
–	(779,270)
462,766	3,754,352
–	187,575
16,287	207,560
–	7,290,075
910,191	18,211,115
(663,736)	6,950,630
(578,710)	(6,525,297)
(578,710)	(6,525,297)
(1,242,446)	425,333
4,416,110	46,732,598
$ 3,173,664	$47,157,931

FINANCE AUTHORITY OF MAINE

STATEMENTS OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2022

	Mortgage Insurance Program Fund	NextGen Administration Fund	Maine Loan Program Fund
Cash flows from operating activities:			
Fees received from customers	$ 2,437,350	$18,190,304	$ –
Principal payments received on educational loans	–	–	14,951,382
Educational loans originated	–	–	(12,669,067)
Interest receipts on notes and educational loans receivable	7,811	–	3,415,017
Payments for operating expenses	(454,746)	(2,253,551)	(628,018)
Payments to employees	(1,741,631)	(1,897,588)	(367,131)
Repayments on notes receivable	29,916	–	–
Payments for scholarships, matching contributions and rebates	–	(7,290,075)	–
Default payments made on loan guarantees	(235,894)	–	–
Recoveries received from prior loan guarantees and educational loans	19,404	–	372,932
Other	(63,899)	(2,798)	–
Net cash provided (used) by operating activities	(1,689)	6,746,292	5,075,115
Cash flows from noncapital and related financing activities:			
Interest payments on bonds	–	–	(3,351,178)
Redemption of bonds	–	–	(23,630,000)
Interfund transactions	10,579,909	–	–
Net cash (used) provided by noncapital and related financing activities	10,579,909	–	(26,981,178)
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(124,400)	–	–
Cash flows from investing activities:			
Purchases of investments	(17,643,938)	(3,366,320)	–
Interest received on investments and cash and cash equivalents	687,293	217,419	16,004
Net cash (used) provided by investing activities	(16,956,645)	(3,148,901)	16,004
Net (decrease) increase in cash and cash equivalents	(6,502,825)	3,597,391	(21,890,059)
Cash and cash equivalents at beginning of year	13,781,986	7,595,994	35,867,826
Cash and cash equivalents at end of year	$ 7,279,161	$11,193,385	$ 13,977,767

Other Educational Funds	Total
$ 268,402	$ 20,896,056
–	14,951,382
–	(12,669,067)
–	3,422,828
(476,324)	(3,812,639)
(413,107)	(4,419,457)
–	29,916
–	(7,290,075)
(72,190)	(308,084)
599	392,935
6,306	(60,391)
(686,314)	11,133,404
–	(3,351,178)
–	(23,630,000)
–	10,579,909
–	(16,401,269)
–	(124,400)
(178,675)	(21,188,933)
91,144	1,011,860
(87,531)	(20,177,073)
(773,845)	(25,569,338)
1,070,314	58,316,120
$ 296,469	$ 32,746,782

FINANCE AUTHORITY OF MAINE

STATEMENTS OF CASH FLOWS (CONTINUED)

PROPRIETARY FUNDS

For the Year Ended June 30, 2022

	Mortgage Insurance Program Fund	NextGen Administration Fund	Maine Loan Program Fund
Reconciliation of operating (loss) income to net cash provided (used) by operating activities:			
Operating (loss) income	$ (1,014,431)	$ 6,652,872	$ 1,975,925
Adjustments to reconcile operating (loss) income to net cash provided (used) by operating activities:			
Depreciation	316,674	–	–
Provision (recovery) for losses on insured loans and educational loans	1,071,273	–	(880,000)
Interest on bonds payable	–	–	2,851,039
Default payments made on loan guarantees	(235,894)	–	–
Recoveries received from prior loan guarantees and educational loans	19,404	–	372,932
Changes in operating assets and liabilities:			
Accounts receivable	(57,106)	(70,098)	–
Notes and educational loans receivable	29,916	–	2,282,315
Interest receivable	–	–	(765,155)
Arbitrage rebatable	–	–	(779,270)
Prepaid expenses and other assets	(63,899)	(2,798)	25,365
Accounts payable and accrued liabilities	84,730	166,316	(8,036)
Unearned fee income and other	(152,356)	–	–
Net cash provided (used) by operating activities	$ (1,689)	$ 6,746,292	$ 5,075,115

Noncash activities – Maine Loan Program Fund

The Authority capitalized interest on educational loans in the amount of $1,062,349 during the year ended June 30, 2022.

See accompanying notes to the financial statements.

Other Educational Funds	Total
$(663,736)	$ 6,950,630
–	316,674
16,287	207,560
–	2,851,039
(72,190)	(308,084)
599	392,935
69,780	(57,424)
–	2,312,231
–	(765,155)
–	(779,270)
6,306	(35,026)
4,473	247,483
(47,833)	(200,189)
$(686,314)	$11,133,404

FINANCE AUTHORITY OF MAINE

BALANCE SHEETS

GOVERNMENTAL FUNDS

June 30, 2022

	Federal Guaranty Agency Operating Fund	Educational Grant Fund	Revolving Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 1,848,542	$ 559,080	$ 12,229,683	$ 557,940	$ 15,195,245
Investments	6,319,785	–	11,711,296	92,107	18,123,188
Notes receivable, net	–	–	19,366,475	–	19,366,475
Other assets	13,190	–	342,581	–	355,771
Total assets	$ 8,181,517	$ 559,080	$ 43,650,035	$ 650,047	$ 53,040,679
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 144,991	$ –	$ 7,230	$ 80,168	$ 232,389
Unearned fee income	–	–	142,818	–	142,818
Unearned grant and scholarship funds	–	558,662	1,435,917	510,810	2,505,389
Amounts held under state revolving loan programs	–	–	41,664,695	9,961	41,674,656
Total liabilities	144,991	558,662	43,250,660	600,939	44,555,252
Fund balances:					
Assigned – loan programs	–	418	399,375	49,108	448,901
Restricted – education programs	8,036,526	–	–	–	8,036,526
Total fund balances	8,036,526	418	399,375	49,108	8,485,427
Total liabilities and fund balances	$ 8,181,517	$ 559,080	$ 43,650,035	$ 650,047	$ 53,040,679

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2022

	Federal Guarantee Agency Operating Fund	Educational Grant Fund	Revolving Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
State appropriations	$ –	$ –	$ –	$ 600,000	$ 600,000
Investment (loss) income	(949,657)	–	–	85,652	(864,005)
Other income	185,000	–	573,825	467	759,292
Grant and scholarship revenue	–	26,475,939	260,000	1,370,888	28,106,827
Total revenues	(764,657)	26,475,939	833,825	2,057,007	28,602,114
Expenditures:					
Operating expenditures:					
Salaries and related benefits	935	–	430,981	588,386	1,020,302
Other operating expenses	257,326	–	142,844	97,778	497,948
Grant and scholarship expense	–	26,475,939	260,000	1,370,888	28,106,827
Total expenditures	258,261	26,475,939	833,825	2,057,052	29,625,077
Net change in fund balances	(1,022,918)	–	–	(45)	(1,022,963)
Fund balances at beginning of year	9,059,444	418	399,375	49,153	9,508,390
Fund balances at end of year	$ 8,036,526	$ 418	$ 399,375	$ 49,108	$ 8,485,427

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

STATEMENTS OF NET POSITION

FIDUCIARY FUNDS

June 30, 2022

	Maine Education Savings Program	Custodial Funds
ASSETS HELD FOR OTHERS		
Cash and cash equivalents	$ 15,941,380	$14,691,923
Investments	12,034,608,989	15,686,512
Receivable for securities sold	5,771,076	–
Accrued interest receivable	–	121,059
Notes receivable, net	–	8,558,599
Total assets	12,056,321,445	39,058,093
LIABILITIES		
Accounts payable and other liabilities	–	43,454
Payable for securities purchased	4,640,023	–
Withdrawals payable	14,507,273	–
Payable for accrued fees and expenses	5,091,242	–
Total liabilities	24,238,538	43,454
NET POSITION		
Net position held for education benefits	$ 12,032,082,907	$ –
Net position restricted for other agencies	–	39,014,639
Total net position	$ 12,032,082,907	$39,014,639

See accompanying notes to the financial statements.

FINANCE AUTHORITY OF MAINE

STATEMENTS OF CHANGES IN NET POSITION

FIDUCIARY FUNDS

For the Year Ended June 30, 2022

	Maine Education Savings Program	Custodial Funds
ADDITIONS AND NET INVESTMENT LOSS		
Contributions	$ 1,423,212,914	$ –
Appropriations	–	983,678
Investment (loss) income:		
Dividends and interest	497,497,152	381,520
Net depreciation in fair value of investments	(2,175,937,966)	(2,411,161)
Net investment loss	(1,678,440,814)	(2,029,641)
Other receipts	–	337,542
Total additions and net investment loss	(255,227,900)	(708,421)
DEDUCTIONS		
Grants	–	108,726
Provision for losses on loans	–	96,651
Other operating expenses	–	3,778,598
Withdrawals	1,327,981,744	–
Fees and expenses:		
Management fees	8,373,830	–
Maine administration fees	9,915,973	–
Distribution and service fees	30,530,339	–
Total fees and expenses	48,820,142	–
Total deductions	1,376,801,886	3,983,975
Net decrease	(1,632,029,786)	(4,692,396)
Net position at beginning of year	13,664,112,693	43,707,035
Net position at end of year	$ 12,032,082,907	$39,014,639

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 fiduciary component unit (note 14).

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. and FAME Leaders, Inc., separate 501(c)(3) organizations formed and controlled by the Authority. The operations of FAME Opportunities, Inc. are not significant to the financial statements. The operations of FAME Leaders, Inc. consist of offsetting grant revenue and grant expense and is included within the Governmental Funds financial statements within "Other Governmental Funds."

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 fiduciary component unit and custodial 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 had a management agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated (Program Manager or Merrill) to manage the Program and invest the Fund. Effective September 13, 2021, the Authority and Merrill completed the transition of Program management to Sumday Administration, LLC (Sumday). The new Program Services Agreement includes Sumday as program manager, The Bank of New York Mellon as program custodian, BlackRock Advisers, LLC as investment manager and BlackRock Investments, LLC as program distributer. Sumday was subsequently acquired by Vestwell Holdings (VH) on February 1, 2022. VH has assumed the Program Manager role. The Authority's Program Management Agreement with Merrill terminated upon the transition of services to the new service providers, although through sub-contracts with one or more of the new service providers, Merrill will continue to provide distribution and recordkeeping services. As part of final termination and successful transition, the Authority received $6,500,000 from Merrill in September 2021, which is reflected as other income within the NextGen Administrative 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 $9,915,973 in fiscal year 2022, and are recorded as fee and other income in the NextGen Administration Fund.

1. Organization and Significant Accounting Policies (Continued)

Administrative fees are used to provide benefits as set forth in the Act and the Program rule. Program benefits to Maine accounts (accounts owned by Maine residents or designated beneficiaries who are Maine residents) include fee rebates and matching grants. Program benefit expenses recorded in the NextGen Administration Fund were $7,290,075 in fiscal year 2022. 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.

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:

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, including 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)

Not-for-Profit Loan Servicing Program
This program ended in fiscal 2020. Amounts remaining in the fund consist of cash and investments which can be used at the discretion of the Authority.

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

Federal Guarantee Agency Operating Fund
This fund accounted 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, with approval from DE, entered into an agreement to transfer its entire guarantee loan portfolio, including all associated guarantee obligations, to another agency in fiscal year 2020. As part of a separate agreement, the Authority will receive $950,000 over five years through fiscal year 2024, if certain annual conditions are met, to support the Authority's higher education programs. The Authority received $465,000 in previous fiscal years, and received $185,000 under this agreement in fiscal year 2022, 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: 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:

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
Oil Storage Facility and Tank Replacement 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 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. FAME Leaders, Inc. relies on private corporations for funding. FAME Opportunities, Inc. relies on private individuals and corporations for contributions. The State of Maine provides program funding on an annual basis for the Higher Education Fund.

This fund group consists of the following:

Doctors for Maine's Future
FAME Leaders, Inc.
FAME Opportunities, Inc.
Higher Education 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:

Fiduciary Component Unit

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 Fiduciary Component Unit are further described in note 14.

Custodial Funds

Additionally, pursuant to a contract, the Authority provides administrative, financial services support and other services for 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 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 Statements of Changes in Net Position – Fiduciary Funds and presented as Custodial Funds.

1. Organization and Significant Accounting Policies (Continued)

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.

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.

1. Organization and Significant Accounting Policies (Continued)

Risks and Uncertainties

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. Despite the many actions taken, significant risk and uncertainty remains as the economy continues to recover from years of evolving conditions related to supply chain disruptions and inflationary pressures. 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.

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, with the exception of the Revolving Loan Programs, where all investment income and losses, including unrealized gains and losses, are credited/charged to the "amounts held under state revolving loan programs" liability.

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.

1. Organization and Significant Accounting Policies (Continued)

Notes Receivable

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

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.

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.

1. Organization and Significant Accounting Policies (Continued)

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

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.

1. Organization and Significant Accounting Policies (Continued)

Mortgage Insurance Premiums

The Authority's fee for insuring business loans may range from 0.5% 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.

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.

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, 2022 are presented below:

Cash held in demand deposit accounts and on hand	$ 1,105,687
Money market accounts and repurchase agreements	502,162
Total carrying amount of deposits	1,607,849
Amounts restricted for bond obligations in Maine Loan Program Fund – money market funds	12,738,342
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)	33,595,836
	$47,942,027

Of the total carrying amount of deposits of $1,607,849 at June 30, 2022, the corresponding bank balances were $1,884,990. 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 $294,992 at June 30, 2022, leaving $1,589,998 uninsured, of which $1,062,494 was collateralized by Repurchase Agreements issued by Bangor Savings Bank in the Authority's name.

At June 30, 2022, the money market funds were invested in the Federated Government Obligations 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, 2022, the fund was rated Aaa-mf by Moody's Investors Service, AAAm by Standard & Poor's (S&P), and AAAmmf by Fitch Ratings. The underlying assets were not held in the name of the Authority.

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.

2. Cash, Cash Equivalents and Investments (Continued)

Included in cash and cash equivalents on the Statement of Net Position Fiduciary Funds – Custodial Funds is $14,691,923 held in the Authority's name in the State of Maine Treasurer's Cash Pool.

At June 30, 2022, the Authority's management had reserved $473,820 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 $473,820 of the Mortgage Insurance Program unrestricted net position as a reserve for these matters.

At June 30, 2022, the Authority held $12,738,342 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.

Investments

A summary of the fair values of investment securities as of June 30, 2022 is as follows:

Money market funds	$ 5,300
Vanguard Total International Stock Index Fund	18,588,557
Vanguard Total Bond Market Index Fund	33,684,496
Vanguard Total Stock Market Index Fund	25,939,235
	78,217,588
Less: investments recorded in Statements of Net Position – Fiduciary Funds – Custodial Funds	(15,686,512)
Investments recorded in Statement of Net Position	$ 62,531,076

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 loss for the year ended June 30, 2022 is $7,545,947 of net unrealized losses from the change in fair value of investment securities for proprietary funds and $1,094,118 for governmental funds.

2. Cash, Cash Equivalents and Investments (Continued)

The Authority's investment policy incorporates 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.

The Vanguard Total Bond Market Index Fund 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 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 6.7 years.

2. Cash, Cash Equivalents and Investments (Continued)

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 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 Fiduciary Component Unit, refer to note 14.

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.

3. Notes and Educational Loans Receivable (Continued)

Educational loans receivable are summarized as follows at June 30, 2022:

Status:	
Interim	$15,557,901
Interest only	12,031,103
Repayment	39,698,275
Forbearance	303,989
Total educational loans, gross	67,591,268
Less: allowance for loan losses	(1,676,578)
Total educational loans, net	65,914,690
Current portion	9,155,680
Noncurrent portion	$56,759,010

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, 2022 are as follows:

Balance at July 1, 2021	$2,458,962
Loans charged-off	(275,316)
Recoveries on loans	372,932
Net recoveries on loans	97,616
Recovery for losses on educational loans	(880,000)
Balance at June 30, 2022	$1,676,578

At June 30, 2022, loans greater than 90 days delinquent or in claims or forbearance status approximated $432,000.

3. Notes and Educational Loans Receivable (Continued)

Notes Receivable

The following is a summary of notes receivable at June 30, 2022:

Mortgage Insurance Program Fund:	
6.0% note, due fiscal 2024	$ 115,173
Various notes receivable	3,273
	118,446
Notes receivable in the Revolving Fund:	
Business Direct Loan Program, net	8,529,470
Educators for Maine Program	1,513,578
Health Professions Loan Program	8,844,052
Regional Economic Development Revolving Loan Program	39,027
Oil Storage Facility and Tank Replacement Program	439,653
Foreign Credentialing and Skills Recognition Revolving Loan Program	695
	19,366,475
Total notes receivable, net	$19,484,921

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, 2022, the allowance had a balance of $2,568,155. 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 Business Direct Loan, Regional Economic Development Revolving Loan, Oil Storage Facility and Tank Replacement and Foreign Credentialing and Skills Recognition 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 9.0%, and are due on various dates up to 2037.

Notes receivable in the Custodial Funds at June 30, 2022 are as follows:

Potato Marketing Improvement Fund	$ 1,148,326
Agricultural Marketing Loan Fund	1,580,929
Maine Rural Development Authority, net	3,265,989
Dairy Improvement Loan Fund	1,534,883
Compliance Assistance Loan Program	1,028,472
	$ 8,558,599

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, 2022, the allowance for the MRDA was $261,000.

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, 2022:

	Mortgage Insurance Program Fund	Other Educational Funds
Beginning balance	$15,974,976	$414,032
Default payments	(235,894)	(72,190)
Provision for losses	1,071,273	16,287
Recoveries on prior default payments	19,404	599
Ending balance	$16,829,759	$358,728

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

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.

5. Fair Value Measurements (Continued)

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, 2022, 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, 2022:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 5,300	$ –	$ –	$ 5,300
Vanguard index funds [1]	78,212,288	–	–	78,212,288
	$78,217,588	$ –	$ –	$78,217,588

[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, 2022, the Authority had insurance outstanding for commercial loans under the Loan Insurance Program totaling approximately $126,526,000.

At June 30, 2022, the Authority was insuring commercial loans with an aggregate outstanding principal balance approximating $752,000 which were ninety or more days delinquent. The aggregate insured balance of these loans was approximately $443,000 at June 30, 2022.

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, 2022, these commitments under the Loan Insurance Program were approximately $14,337,000.

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, 2022 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, 2022, approximately $20,409,000 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 $1,153,500,000 at June 30, 2022. 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, 2022. Such insurance obligations are detailed below:

	Authorized	Outstanding
Full Faith and Credit of the State of Maine:		
Commercial Insurance Authority	$ 90,000,000	$ 86,953,243
Veterans Mortgage Insurance Authority	4,000,000	38,178
Higher Education Bonds	4,000,000	–
Moral Obligation of the State of Maine:		
Commercial Loan Insurance *	150,000,000	39,534,385
Other Obligations **	120,000,000	–
Direct Higher Education Loans	3,500,000	–
Paper Industry Job Retention Projects	120,000,000	–
Educational Bonds	225,000,000	69,900,000
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	–
Electric Rate Stabilization, Energy Generation System and Energy Distribution System Projects	180,000,000	–
Total Moral Obligation	1,055,500,000	109,434,385
Total authorized and outstanding	$ 1,153,500,000	$ 196,425,806

* Statutory formula requires this amount be reduced by the amount of Other Obligations issued under 10 MRSA Section 1053.

** Statutory formula provides a total of $270,000,000 for "other" obligations, less the amount of Commercial Loan Insurance obligations issued under 10 MRSA Section 1032 (currently $150,000,000 allocated).

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 2022.

At June 30, 2022, the Authority had commitments to extend credit for educational loans within the Maine Loan Program of approximately $1,019,000. 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, 2022, is approximately $69,000 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, 2022 within the Maine Loan Program Fund have been issued to finance the purchase and origination of educational loans:

Educational Loan Revenue Bonds	Amount Outstanding
2012 series due in annual installments on December 1, 2022 through 2027; interest fixed at rates ranging from 4.30% to 5.05%	$ 5,765,000
2014 series due in annual installments on December 1, 2022 through 2031; interest fixed at rates ranging from 3.50% to 5.00%	3,250,000
2017 series due in annual installments on December 1, 2022 through 2034; interest fixed at rates ranging from 3.75% to 5.00%	8,815,000
2018 series due in annual installments on December 1, 2022 through 2036; interest fixed at rates ranging from 3.50% to 5.00%	6,040,000
2019 series due in annual installments on December 1, 2022 through 2039; interest fixed at rates ranging from 3.00% to 5.00%	26,885,000

8. Bonds Payable (Continued)

Educational Loan Revenue Bonds (Continued)	Amount Outstanding
2021 series due in annual installments on December 1, 2022 through 2041; interest fixed at rates ranging from 2.12% to 5.00%	$19,145,000
	69,900,000
Net unaccreted bond premium	4,218,759
Bonds payable, net	74,118,759
Current portion	6,393,998
Non-current portion	$67,724,761
Unaccreted deferred loss on refunding	$ 1,224,109

The Authority accreted $207,662 for the year ended June 30, 2022 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 $1,042,300 at June 30, 2022, 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.

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, 2022. 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, 2026 and in five-year increments thereafter to maturity for the Authority, are as follows:

Fiscal Year(s)	Principal	Interest	Total
2023	$ 5,795,000	$ 2,891,651	$ 8,686,651
2024	6,355,000	2,591,970	8,946,970
2025	6,610,000	2,272,008	8,882,008
2026	6,840,000	1,940,560	8,780,560
2027	6,905,000	1,599,969	8,504,969
2028 – 2032	21,250,000	4,183,856	25,433,856
2033 – 2037	11,190,000	1,541,244	12,731,244
2038 – 2041	4,955,000	276,491	5,231,491
	$69,900,000	$17,297,749	$ 87,197,749

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, 2022:

Balance at beginning of year	$ 98,372,474
Redemption of bonds	(23,630,000)
Net accretion/amortization	(623,715)
Balance at end of year	$ 74,118,759

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 $3,982,181 at June 30, 2022. No payments were required in fiscal 2022. The Authority does not anticipate that any payments will be due through June 30, 2023.

10. Capital Assets

Capital assets activity for the year ended June 30, 2022, was as follows:

	June 30, 2021	Additions	Disposals	June 30, 2022
Building and improvements	$ 2,232,425	$ –	$ –	$ 2,232,425
Computer and office equipment	2,088,020	124,400	–	2,212,420
	4,320,445	124,400	–	4,444,845
Less accumulated depreciation for:				
Building and improvements	(1,552,726)	(88,784)	–	(1,641,510)
Computer and office equipment	(1,469,201)	(227,890)	–	(1,697,091)
Total accumulated depreciation	(3,021,927)	(316,674)	–	(3,338,601)
	$ 1,298,518	$(192,274)	$ –	$ 1,106,244

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, 2022, are summarized below:

Received for grant programs	$26,855,393
Received for loan programs	537,740
General State of Maine appropriations	648,500

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 Authority did not receive a reserve fund transfer from the State of Maine in fiscal year 2022.

As part of the Authority's administration of the Maine State Grant Program, the Authority received $26,345,393 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.

12. Revenue Bonds (Continued)

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.

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, 2022.

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 $321,000 in fiscal year 2022.

14. Fiduciary Component Unit

A summary of investments by asset class is as follows:

	NextGen Totals	
Investment Type	Amount	%
Domestic Equity Funds	$ 3,929,975,661	32.7%
International Equity Funds	1,885,383,717	15.7
Alternative Investment Funds	353,387,276	2.9
Investment Grade Fixed Income Funds	3,323,650,166	27.6
Non-Investment Grade Fixed Income Funds	323,127,364	2.7
Mixed Asset Funds	907,725,452	7.5
Cash Allocation Account	699,281,951	5.8
Guaranteed Interest Account	422,470,866	3.5
Bank Deposit Accounts	189,606,536	1.6
Total	$ 12,034,608,989	100.0%

14. Fiduciary Component Unit (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 fair value of investments" on the Statement of Changes in Net Position – Fiduciary Funds. 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 Advisors, LLC 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. Prior to September 13, 2021, the Cash Allocation Account was managed by BlackRock Capital Management, Inc. 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 Investment Management, LLC 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 expenses 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 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.

14. Fiduciary Component Unit (Continued)

Fees and Expenses

Fees and expenses reported on the Statement of Changes in Net Position – Fiduciary Funds 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 Client Select Series Program Description and Participation Agreement), 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 – Fiduciary Funds as increases in fiduciary net position on the day they are received by the Program Manager, and are net of any applicable sales charges.

14. Fiduciary Component Unit (Continued)

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. A Participant may direct a withdrawal from an account at any time by notifying the Program Manager by mail, electronically, or in any other manner specified by the Program Manager. Following the acceptance and processing of a properly completed withdrawal request by the Program Manager, units held in the participant's account will be redeemed to fulfill the withdrawal. The redeemed units will be valued at the next net asset value(s) calculated after the withdrawal request is accepted by the Program Manager. Generally, a completed withdrawal request is deemed received by the Program Manager on the date and time it is received by the applicable financial intermediary, although the practices of a particular financial intermediary may vary, depending on each financial intermediary's arrangements with the Program regarding the withdrawal of units based on the date and time the request is received by such financial intermediary. After such units are redeemed, the Program Manager will deliver the proceeds to the payee. Withdrawals are reported on the Statement of Changes in Net Position – Fiduciary Funds as decreases in net position on the day they are communicated to the Program Manager. Withdrawals presented on the Statement of Changes in Net Position – Fiduciary Funds include any applicable sales charges.

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. U.S. GAAP requires 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 Client Direct and Client Select Series, structured for different levels of risk tolerance, time horizons and investment management preferences, while maintaining asset based fees at a competitive level. While the *Investment Policy and Monitoring Guidelines* do not specify permissible investments for the Program or address credit risk, interest rate risk, concentrations of credit risk or foreign currency risk, the assets of each Portfolio are invested according to an allocation strategy recommended by the Program's investment manager and Sub-Advisors 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 as to credit quality by a nationally recognized statistical rating organization (NRSRO). While the GIA is not rated, its respective issuer is rated AA+ by Standard and Poor's.

14. Fiduciary Component Unit (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 are not fully covered by depository insurance, nor are they covered by pledged collateral or supplemental 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, 2022, the average maturities of the bond mutual funds and ETFs in which the Portfolios invest ranged from 0.33 years to 25.76 years.

14. Fiduciary Component Unit (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

CUSTODIAL FUNDS

June 30, 2022

	Potato Marketing Improvement Fund	Agricultural Marketing Loan Fund	Small Enterprise Growth Fund	Payroll Processing Insurance Fund
ASSETS HELD FOR OTHERS				
Cash and cash equivalents	$ 1,821,501	$ 1,760,582	$ 6,471,489	$ 621,953
Investments	11,473,322	3,159,893	–	1,053,297
Accrued interest receivable	21,261	41,621	–	–
Notes receivable, net	1,148,326	1,580,929	–	–
Total assets	$ 14,464,410	$ 6,543,025	$ 6,471,489	$ 1,675,250
LIABILITIES				
Accounts payable and other liabilities	$ 27,189	$ 6,499	$ –	$ –
Total liabilities	$ 27,189	$ 6,499	$ –	$ –
NET POSITION				
Net position restricted for other agencies	$ 14,437,221	$ 6,536,526	$ 6,471,489	$ 1,675,250

Northern Maine Transmission Corporation	Maine Rural Development Authority	Dairy Improvement Loan Fund	Compliance Assistance Loan Program	Total Custodial Funds
$ 9,615	$ 2,623,546	$ 1,372,802	$ 10,435	$14,691,923
–	–	–	–	15,686,512
–	58,177	–	–	121,059
–	3,265,989	1,534,883	1,028,472	8,558,599
$ 9,615	$ 5,947,712	$ 2,907,685	$ 1,038,907	$39,058,093
$ –	$ 2,116	$ –	$ 7,650	$ 43,454
$ –	$ 2,116	$ –	$ 7,650	$ 43,454
$ 9,615	$ 5,945,596	$ 2,907,685	$ 1,031,257	$39,014,639

FINANCE AUTHORITY OF MAINE

COMBINING SCHEDULE OF CHANGES IN NET POSITION

CUSTODIAL FUNDS

June 30, 2022

	Potato Marketing Improvement Fund	Agricultural Marketing Loan Fund	Small Enterprise Growth Fund	Payroll Processing Insurance Fund
ADDITIONS				
Appropriations	$ –	$ –	$ 500,000	$ –
Investment (loss) income	(1,643,482)	(472,197)	230,986	(157,072)
Other receipts	43,999	59,040	1,261	–
Total (deductions) additions	(1,599,483)	(413,157)	732,247	(157,072)
DEDUCTIONS				
Grants	–	108,726	–	–
Provision for losses on loans	–	–	–	–
Other operating expenses	312,119	42,819	3,067,292	1,800
Total deductions	312,119	151,545	3,067,292	1,800
Net (decrease) increase	(1,911,602)	(564,702)	(2,335,045)	(158,872)
Net position at beginning of year	16,348,823	7,101,228	8,806,534	1,834,122
Net position at end of year	$14,437,221	$6,536,526	$ 6,471,489	$1,675,250

Northern Maine Transmission Corporation	Maine Rural Development Authority	Dairy Improvement Loan Fund	Compliance Assistance Loan Program	Total Custodial Funds
$ –	$ –	$ 483,678	$ –	$ 983,678
36	7,983	4,041	64	(2,029,641)
–	203,376	14,159	15,707	337,542
36	211,359	501,878	15,771	(708,421)
–	–	–	–	108,726
–	96,651	–	–	96,651
–	58,934	37,955	257,679	3,778,598
–	155,585	37,955	257,679	3,983,975
36	55,774	463,923	(241,908)	(4,692,396)
9,579	5,889,822	2,443,762	1,273,165	43,707,035
$ 9,615	$ 5,945,596	$ 2,907,685	$ 1,031,257	$ 39,014,639