

MAINE STATE LEGISLATURE

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Finance Authority of Maine

Procedures Pursuant to 10 MRSA Sec. 363

For the Year Ended December 31, 2007

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES**

The Board of Directors of the
Finance Authority of Maine
Governor of the State of Maine
The Joint Standing Committee for
Business, Research and Economic Development

We have performed the procedures in Appendix A, which were agreed to by the Finance Authority of Maine, and the Joint Standing Committee for Business, Research and Economic Development (the Committee), solely to assist you with respect to the requirements of the State of Maine 10 MRSA Sec. 363, subsection 11. The Finance Authority of Maine is responsible for the preparation of the Analysis of Savings From and the Benefits of Tax Exempt Financing Schedules (the Schedules), as presented in Appendix B and Appendix C. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are summarized in Appendix A.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the Schedules. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Finance Authority of Maine, the Committee and the Governor of the State of Maine, and is not intended to be and should not be used by anyone other than those specified parties.

Portland, Maine
March 11, 2008


Limited Liability Company

FINANCE AUTHORITY OF MAINE
PROCEDURES PURSUANT TO 10 MRSA Sec. 363

We obtained the Analysis of Savings From and the Benefits of Tax-Exempt Financing Schedules (Appendix B and Appendix C) prepared by the Finance Authority of Maine (the Authority) which details the commercial bonds issued in 2007 and the use of such proceeds, and the education bonds issued in 2003, 2005 and 2007 and the use of such tax-exempt debt in 2007 and performed the following:

1. Compared the amount of bonds issued and term of issuance for all issues, as stated in Appendix B and Appendix C, to documents supplied to the Authority by third-parties and found them to be in agreement. We compared the tax-exempt bond yield, as stated in Appendix B and Appendix C, to documents supplied to the Authority by third-parties and found them to be in agreement.
2. For all issues we compared the percentages of the cost of issuance including fees, insurance and professional services, as stated in Appendix B and Appendix C, to an analysis prepared by the Authority illustrating the various costs of the issues and found them to be in agreement. We did not compare the various costs to third-party documentation. We recalculated the percentages and found them to be in agreement with the percentages appearing on Appendix B and Appendix C.
3. Recalculated the total tax-exempt bond yield for all issues in Appendix B and Appendix C.
4. Compared the purpose and use of proceeds as stated in Appendix B and Appendix C to the information set forth in documents supplied to the Authority by third-parties and found them to be in agreement.
5. For all issues in Appendix B, we compared the comparative market interest rate available to borrowers, as stated in Appendix B notes (2) and (3) to information provided by the Authority, which indicates the conventional interest rates available to borrowers for loans of a similar nature for the respective time periods, and found them to be in agreement. We verified those rates stated in Appendix B to the published Prime rate on the date of issuance of the loans. We did not compare the market interest rates as provided by the Authority to third-party documentation.
6. For all issues in Appendix B, we recalculated the interest rate saved by utilizing the bond cap.
7. For the issues in Appendix C, we compared the comparative taxable debt yield to information provided to the Authority by a third-party and found it to be in agreement. We recalculated the excess of comparative taxable debt yield over tax-exempt bond yield.
8. For the issues in Appendix C, we compared the dollar amount of interest earnings forgone by offering student loan borrowers a reduced interest rate, to a monthly analysis prepared by the Authority illustrating the savings from the interest rate reduction and found them to be in agreement. We did not compare the savings to third-party documentation.
9. For the issues in Appendix C, we compared the dollar amounts of student loan origination fees paid or the total amount committed to be paid on behalf of borrowers, to reports provided by the Authority illustrating the amounts that the Authority has paid or committed to pay for origination fees and found them to be in agreement. We did not compare the amounts to third-party documentation.
10. For the issues in Appendix C, we recalculated the dollar amount of benefits actually received by borrowers and the total savings to borrowers.

APPENDIX B

**Finance Authority of Maine (FAME)
Analysis of Savings From and the Benefits of Tax-Exempt Financing – Commercial
2007**

	<u>FAME Issue Company A</u>	<u>Municipal Issue Company B</u>	<u>FAME Issue Company C</u>	<u>Municipal Issue Company D</u>	<u>FAME Issue Company E</u>
Purpose and use of proceeds	Acquisition of Machinery	Retrofit	Construction	Construction	Construction
Amount of bonds	\$2,400,000	\$2,695,000	\$7,050,000	\$1,626,000	\$5,480,000
Term (years) of issuance	6.75	15.75	Various ⁽⁴⁾	15.00	12.00
Variable or fixed interest rate	Variable	Variable	Variable	Fixed	Variable
Tax-exempt bond yield ⁽¹⁾	3.75%	5.43%	5.33%	5.75%	4.00%
Cost of issuance including fees, insurance and professional services	0.86	0.12	0.14	0.17	0.41
Annual letter of credit fee	<u>1.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1.75</u>
Total tax-exempt bond yield	5.61	5.55	5.47	5.92	6.16
Comparative market interest rate available to borrowers	<u>8.25</u> ⁽²⁾	<u>8.25</u> ⁽²⁾	<u>7.07</u> ⁽³⁾	<u>7.25</u> ⁽²⁾	<u>7.75</u> ⁽²⁾
Interest rate saved by utilizing bond cap	<u>2.64%</u>	<u>2.70%</u>	<u>1.60%</u>	<u>1.33%</u>	<u>1.59%</u>

⁽¹⁾ Based on initial interest rate for variable interest rate bonds for variable rate bonds and prime plus 50 basis points for fixed rate bonds.

⁽²⁾ Comparative market rates estimated by the Authority to be the Prime rate at the date of issuance.

⁽³⁾ Comparative market rate based on information provided by bond counsel.

⁽⁴⁾ Series A – 7 years; Series B – 7 years; Series C – 20 years; Series D – 6 years.

APPENDIX C

**Finance Authority of Maine
Analysis of Savings From and the Benefits of Tax-Exempt Financing – Education
2007**

Issue:	2003 Series	2005 Series	2007 Series
Date:	December 11, 2003	June 23, 2005	May 23, 2007
Tax-exempt bonds issued – variable rate:	\$ 75,000,000	\$ 100,000,000	\$ 140,000,000
Redemptions	<u>5,500,000</u>	<u>5,500,000</u>	<u>—</u>
Outstanding, December 31, 2007	<u>\$ 69,500,000</u>	<u>\$ 94,500,000</u>	<u>\$ 140,000,000</u>
Term:	30 years	30 years	30 years

Purpose and use of proceeds – Acquisitions of student loans.

Source of Tax-Exempt Debt

	<u>Series 2003</u>	<u>Series 2005</u>	<u>Series 2007</u>
Tax-exempt bond yield (a)	4.15%	4.19%	4.54%
Cost of issuance	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>
Total tax-exempt bond yield	4.16	4.20	4.55
Comparative taxable debt yield (b)	<u>5.50</u>	<u>5.46</u>	<u>5.62</u>
Excess of comparative taxable debt yield over tax-exempt bond yield	<u>1.34%</u>	<u>1.26%</u>	<u>1.07%</u>

Use of Tax-Exempt Debt

	<u>Series 2003</u>	<u>Series 2005</u>	<u>Series 2007</u>	<u>Total</u>
Dollar amount of interest forgone by offering student loan borrowers a reduced interest rate (c)	\$ 65,267	\$ 56,927	\$ 27,468	\$ 149,662
Dollar amount of student loan upfront fees paid on behalf of borrowers (d)	<u>539</u>	<u>999,902</u>	<u>85,869</u>	<u>1,086,310</u>
Dollar amount of borrower benefits actually received by borrowers	65,806	1,056,829	113,337	1,235,972
Estimated amount of student loan upfront fees committed to be paid on behalf of borrowers (e)	<u>—</u>	<u>—</u>	<u>721,423</u>	<u>721,423</u>
Total savings to borrowers	<u>\$ 65,806</u>	<u>\$ 1,056,829</u>	<u>\$ 834,760</u>	<u>\$ 1,957,395</u>

- (a) Based upon the weighted average bond coupon rate incurred in 2007.
- (b) Based upon the average coupon rate for similar taxable bonds during 2007.
- (c) Amount of interest income forgone by FAME in 2007 as a result of lowering interest rates on Federally guaranteed student loans.
- (d) Amount of actual student loan up-front fees paid in 2007 by FAME on behalf of borrowers.
- (e) Amount not yet paid, but committed to be paid by FAME. These up-front fees are payable for Program loans that were originated by participating lenders by December 31, 2007, but have not yet been purchased by FAME.