Maine Educational Loan Authority (MELA)

2005
Annual Report

MELA℠
MAINE EDUCATIONAL LOAN AUTHORITY

MAINE EDUCATIONAL LOAN AUTHORITY

April 26, 2006

Governor John E. Baldacci
State of Maine
Office of the Governor
1 State House Station
Augusta, ME 04333-0001

Dear Governor Baldacci:

Pursuant to 20-A M.R.S.A., Chapter 417-A, Section 11427, enclosed is a copy of the Maine Educational Loan Authority's (MELA) annual report for the fiscal year January 1, 2005 through December 31, 2005. MELA's annual report includes the following sections: introduction and background information; program administration (loan origination and servicing); application volume and distribution; loan volume; borrower distribution; summary; charts and graphs to illustrate the narrative contained within the report; and basic financial statements with management discussion and analysis.

MELA was established in 1988 to assist Maine students and their families in achieving their higher education goals by providing a supplemental or alternative student loan program. The Maine Loan®, MELA's primary student loan product, exists to bridge the gap between the full cost of undergraduate and graduate higher education and other traditional financial aid resources such as scholarships, grants, and the Federal Family Education Loan Programs. The other student loan product offered by MELA is The Maine Medical Loan℠. Introduced in 1998, The Maine Medical Loan was created to assist Maine students pursuing a Doctor of Medicine (MD) or Doctor of Osteopathic Medicine (DO) degree. MELA expanded the scope of its medical loan in 2002 to include other degrees in addition to the MD and DO such as dentistry, chiropractic, and veterinary medicine.

Maine's public and private institutions of higher education continue to be the greatest beneficiaries of MELA loans. MELA's loan volume in 2005 reached an all-time high of approximately $17,930,000 in originations, which is a significant increase when compared with the approximate $12,500,000 originated in fiscal year 2004. Given the escalating costs of higher education coupled with the declining purchasing power of federal and state grants, students have increasingly relied on supplemental or alternative loans in order to finance their college education. With this in mind, MELA anticipates serving a growing number of Maine students and families with their educational financing needs in the years ahead.

Governor John E. Baldacci
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A new program direction for MELA is the Spring 2006 introduction of the MELA Private Consolidation Loan. This loan product is designed to enable borrowers to consolidate qualified alternative loans at a lower interest rate than students are either already paying or can obtain by consolidating with another lender, thereby lowering the costs of borrowing in repayment.

Last May, MELA issued $30,000,000 in tax-exempt student loan revenue bonds. The new money provided MELA with the opportunity to continue offering its alternative student loan program as an important safety net for many Maine students and their families in meeting the full cost of higher education.

Baker Newman and Noyes LLC, an independent certified public accounting firm, recently completed MELA's financial audit for the 2005 fiscal year. In reviewing the financial statements, it is clear that MELA is in a sound financial position and that the funds MELA has acquired with proceeds from tax-exempt bonds are being solely utilized for its alternative student loan programs.

To summarize, MELA looks forward to continuing to provide financial assistance to Maine students and their families as they work hard to achieve their higher education goals. By providing the overall lowest cost alternative educational loan programs available in Maine, MELA is a key partner with the State of Maine in making a college education more accessible and affordable for its residents.

Your continued interest in and support of MELA is greatly appreciated.

Sincerely,

Shirley M. Erickson, Ph.D.
Executive Director

pc: President of the Senate
Speaker of the House
Members of the Joint Standing Committee on Education and Cultural Affairs
Members of the Maine Educational Loan Authority

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Maine Educational Loan Authority (MELA) Authority Members

Edward J. Kane, Esq., Chair
South Portland, Maine

Anne Connors
Director of Financial Aid
Kennebec Valley Community College

Bruce N. Schatz, CPA, Secretary/Treasurer
Consultant

John D. Murphy
Vice President for Administration
University of Maine at Fort Kent

David Lemoine
Treasurer
State of Maine
Ex-Officio

STAFF

Shirley M. Erickson, Ph.D.
Executive Director

MELA 2005 Program Highlights

I. INTRODUCTION AND BACKGROUND INFORMATION

The Maine Educational Loan Authority (MELA) is a quasi-governmental agency that was created and established by Maine legislation in April of 1988 (20-A M.R.S.A., Section 11414). MELA functions as an administratively independent authority within the current organizational structure of State government, and receives no appropriation from the Legislature for its operation. MELA is governed by a seven-member board appointed by the Governor and confirmed by the Legislature, except for the State Treasurer who serves as an ex-officio member.

MELA was established to assist students and their families in achieving their higher education goals by providing a supplemental or alternative student loan program. Alternative student loans exist to bridge the gap between the full cost of a higher education and traditional financial aid resources. MELA's alternative student loan program consists of The Maine Loan® and The Maine Medical Loan℠. The Maine Loan allows borrowers to borrow up to the full cost of an undergraduate or graduate education less other financial aid. This loan is available to Maine residents attending approved schools in the United States and Canada, and out-of-state students attending approved schools in Maine. In 1998 MELA introduced The Maine Medical Loan, designed to assist Maine students pursuing a Doctor of Medicine or Doctor of Osteopathic Medicine Degree. On June 1, 2002 MELA expanded its medical loan program to include these additional degrees: Doctor of Chiropractic (DC), Doctor of Dental Medicine (DMD), Doctor of Optometry (OD), Doctor of Podiatric Medicine (DPM), Doctor of Veterinary Medicine (DVM) and Doctor of Dental Surgery or Doctor of Dental Science (DDS). The Maine Medical Loan allows borrowers to borrow up to the full cost of a medical program of study less other financial aid. This loan is available to Maine residents attending approved medical schools in the United States and Canada, and out-of-state students attending the University of New England's College of Osteopathic Medicine, Maine's only medical school.

The Maine Loan and The Maine Medical Loan are available to students and their parents based on the credit-worthiness of the applicant(s). MELA's loan programs have many attractive features including a low variable interest rate that is adjusted annually (currently 5.96% for The Maine Loan and 5.0% while in school or deferment and 5.25% while in repayment for The Maine Medical Loan), the option to defer both principal and interest while in school, a low guarantee fee, no aggregate borrowing limit, a wide range of flexible repayment terms up to twenty-five years, and the ability to apply online.

All MELA loans are funded with the proceeds of tax-exempt bonds, and no State monies are allocated to fund the program. MELA secured its initial funds through a $35 million tax-exempt bond issue in July of 1988. In May of 1992, MELA refunded its initial offering and issued $60 million worth of tax-exempt bonds. An additional $12.5 million, $10 million, $14 million, and $10 million of tax-exempt bonds were issued in June of 1996, July of 1997, January of 1999, and September 2000, respectively. In November of 2002 MELA issued $26.9 million worth of tax-exempt bonds, including $16.9 million in refunding debt and $10 million in new money. MELA issued an additional $30 million worth of tax-exempt bonds in 2005. Since its creation, MELA has disbursed student loans totaling over $138.1 million (Table 1).

II. PROGRAM ADMINISTRATION: LOAN ORIGINATION AND SERVICING

The Maine Educational Loan Authority (MELA) currently has four primary contractual relationships for the administration of its programs and services. MELA contracts with Maine Education Services (MES) for personnel, administrative and marketing services. MES, an independent, private non-profit corporation located in Portland, Maine, provides opportunities and resources for people to achieve higher education. MELA also contracts with the Pennsylvania Higher Education Assistance Agency (PHEAA) for the servicing of loans derived prior to 1996. PHEAA, an agency of the Commonwealth of Pennsylvania, located in Harrisburg, manages state grant, guaranty, servicing, and financial aid processing systems. In addition, MELA contracts with Nelnet Loan Services, Inc., a wholly-owned subsidiary of Nelnet, Inc. (Nelnet) for servicing of all MELA loans since 1996. Nelnet, a publicly traded corporation based in Lincoln, Nebraska with an office in Portland, Maine, is an integrated educational finance organization offering services in student loan generation and servicing, secondary market services, and guarantor servicing support. Firstmark Services, LLC, assumed certain loan servicing responsibilities from Nelnet under a subcontract arrangement in 2005. Firstmark, a wholly-owned subsidiary of Nelnet, is located in Woodbury, Minnesota and specializes in the servicing of alternative loans.

MES performs customer service and all responsibilities associated with the loan origination process including inquiry, application, approval or denial, and disbursement stages. In addition, MES manages all aspects of the existing loan servicing contracts including compliance with due diligence strategies, fulfillment of monetary contractual obligations, and monitoring the quality of customer service. MES provides administrative oversight to or directly performs the duties required of MELA in connection with the existing tax-exempt bonds and the issuance of new bonds. General financial advisory and support services are also provided to MELA by MES.

MELA recognizes that its borrowers are its most valuable asset. MELA's goal is to provide the best supplemental loan program in the country, and quality customer service is one of the most important components of any loan program. Monitoring the level of customer service provided to its borrowers has been of the utmost importance to MELA.

MELA proudly boasts a very low cumulative default rate of 1.35%. The MELA default rate has been historically low.

In 1996, MES began originating and MELA began self-insuring The Maine Loan. Customers continue to have access to all loan information by calling the toll free number 1-800-922-6352 or via MELA's web site at www.mela.net.

III. APPLICATION VOLUME AND DISTRIBUTION

MELA processed 3,668 loan applications for the 2005 calendar year (Table 2). The application materials are mailed to current and prospective borrowers each spring. It is important that students and their families are provided with application materials as early as possible so that they can have maximum latitude in determining their funding resources. Since 1996, borrowers have been able to apply for loans directly online via the Internet. An increasing number of borrowers are utilizing the online application process. MELA's loan approval rate has ranged between 60%-68% for applications received (Table 2), with an average approval rate of 62% for the most recent five year period. For 2005 the approval rate was 63%.

IV. LOAN VOLUME

MELA redesigned its loan programs in 2004 to offer a faster online application process and generous borrower benefits. These enhancements coupled with MELA's low variable interest rates and other attractive program attributes, contributed to a significant increase in MELA's 2005 loan volume from the previous year. Disbursements were $17.9 million and $12.5 million for 2005 and 2004 respectively (Table 3). During 2005 MELA made 3,340 loan disbursements resulting in an average disbursement size of $5,368.

Maine schools continue to be the biggest beneficiary of MELA loans with sixty-four percent (64%) of all MELA funds disbursed in 2005 (Table 3). This percentage has been gradually increasing over the past several years.

Sixty-nine percent (69%) of MELA funds disbursed for this calendar year went to private schools (Table 4). This trend has remained in the 70% range for the last ten years for educational financing in the private school sector.

Table 5 reflects the cumulative percentage of funds disbursed between all public and private schools from 1988 to 2005. This breakdown, showing 39% of funds being used for public schools and 61% of funds for private schools is largely a reflection of the cost of attendance being higher for private institutions as compared to public institutions.

The Maine Medical Loan disbursements were $1,457,797, $849,136, $364,700 and $477,500 for 2005, 2004, 2003 and 2002, respectively. The reason for the increase in 2002 relates mainly to the timing of when the University of New England requests their second disbursements. The University of New England is the primary school beneficiary of this program.

V. BORROWER DISTRIBUTION

In the 2005 calendar year, as in the past, the majority of MELA disbursements (64%) have been made to Maine schools (Table 6). This calendar year shows that disbursements to private schools both inside Maine (Table 7) and outside Maine (Table 8) have increased from the prior year.

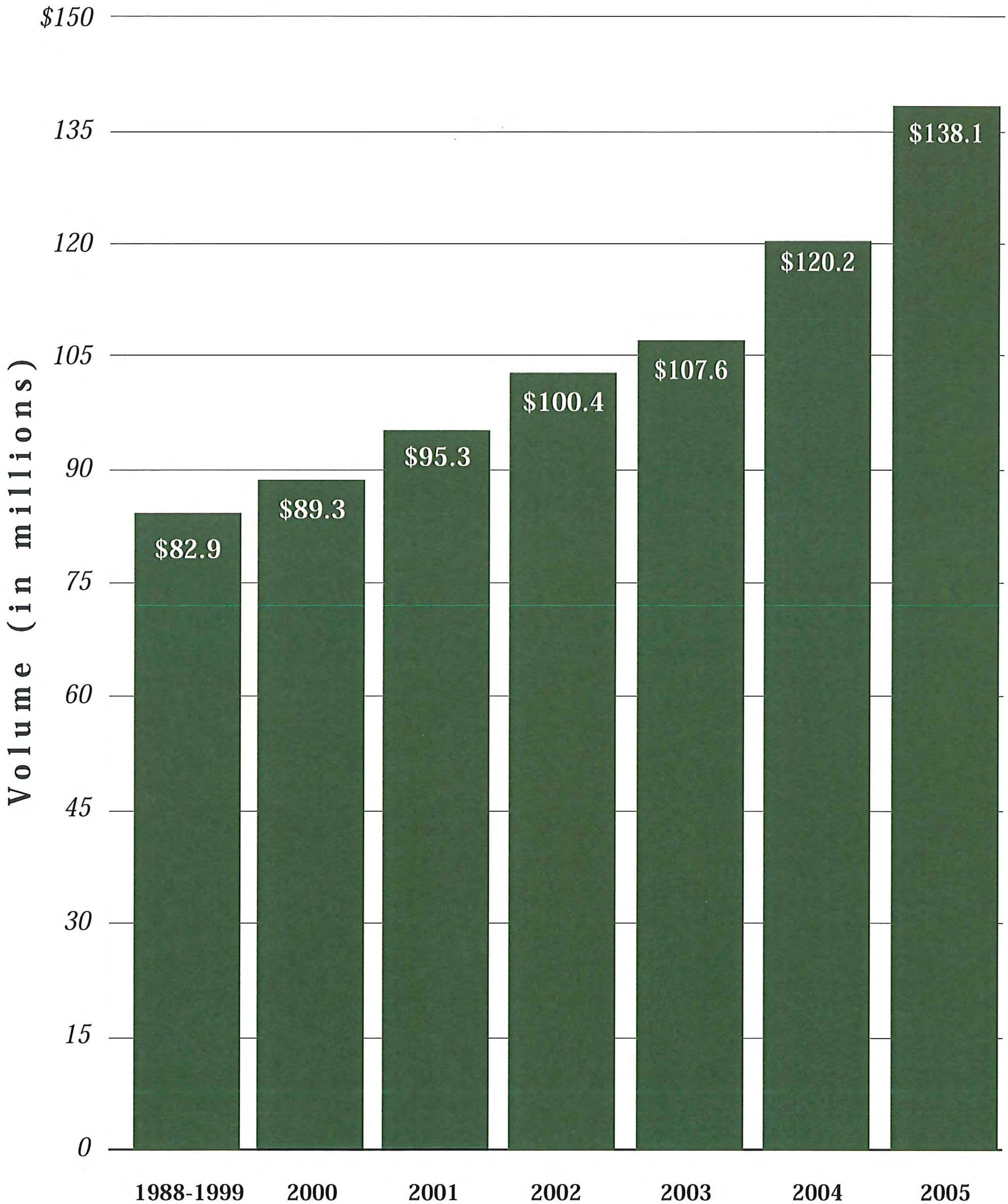
VI. SUMMARY

For the past seventeen years, the Maine Educational Loan Authority (MELA) has provided over $138.1 million dollars in student loan disbursements through The Maine Loan, and more recently, The Maine Medical Loan programs. By offering the overall lowest cost alternative educational loan program available, MELA has assisted thousands of Maine students to achieve their goal of a higher education. As the State of Maine continues to work to increase the percentage of its residents possessing college degrees, MELA's student loan program will remain an important financial aid resource for Maine students and their families. MELA looks forward to continuing to partner with the State of Maine and the higher education community to ensure that a college education is both accessible and affordable for Maine residents.

MELA Charts and Graphs

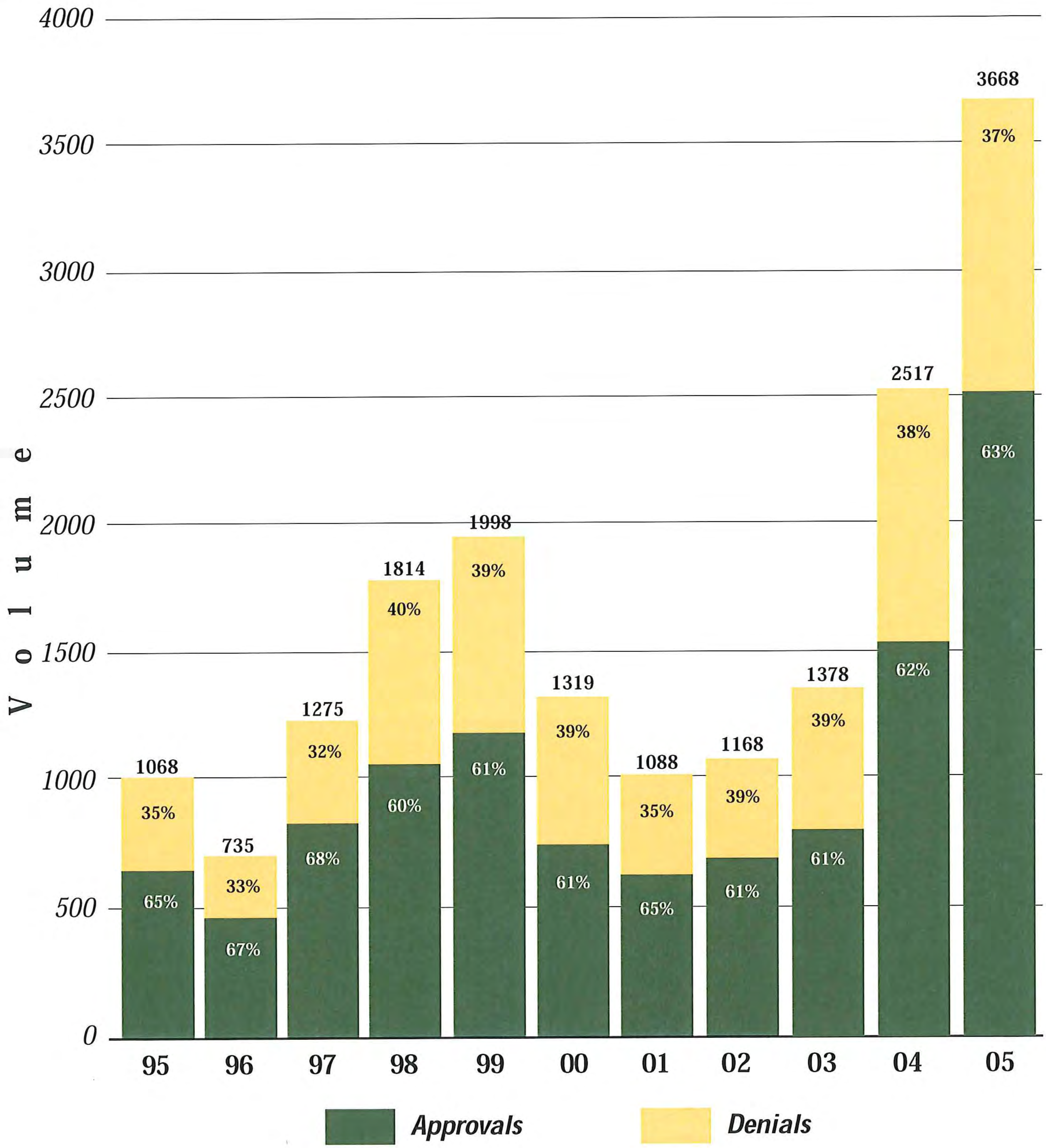
MELA Total Loan Volume (1988-2005)

Table 1



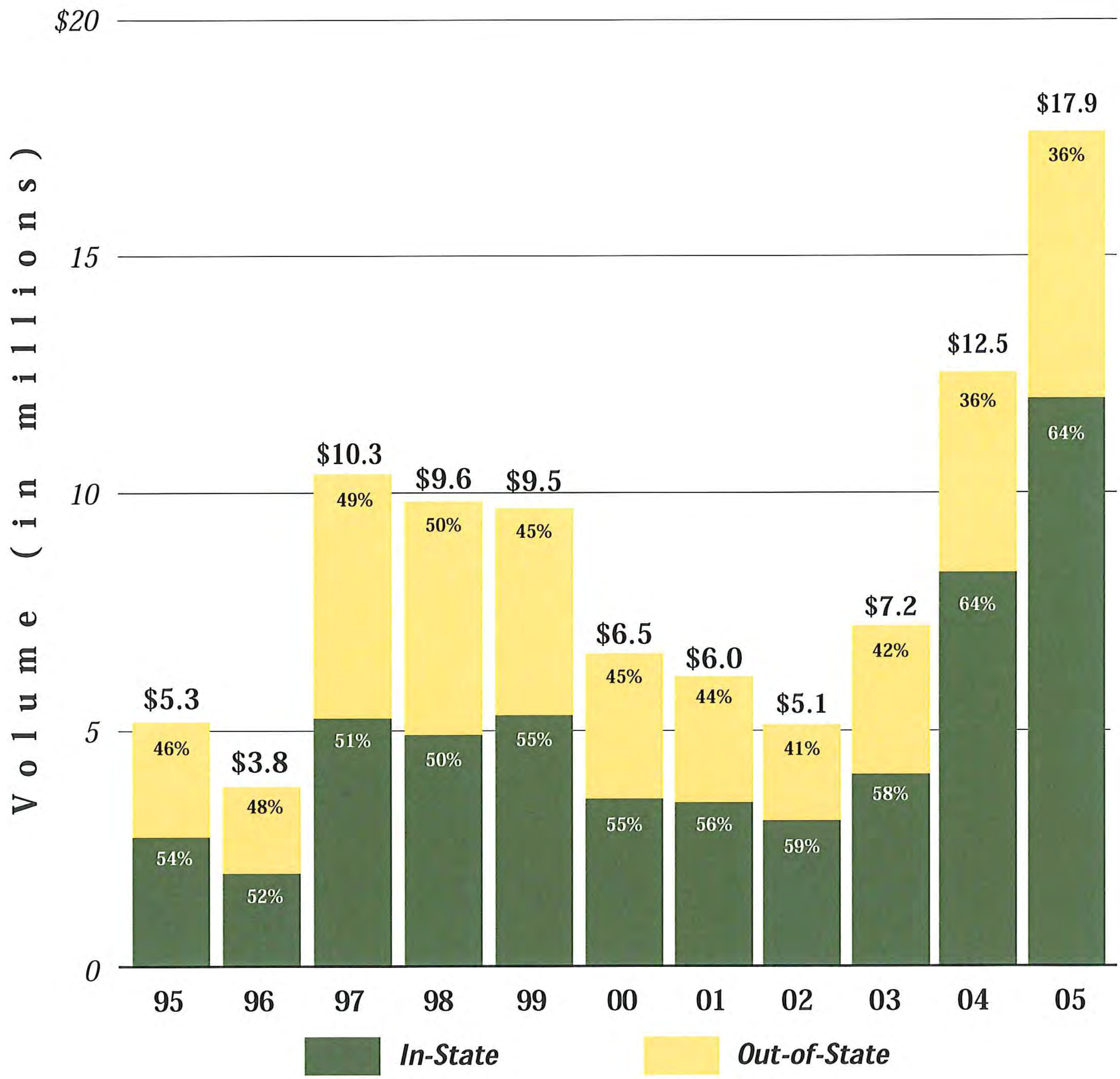
MELA Application Volume By Loan Period (1995-2005)

Table 2



Percentage of MELA Funds Disbursed To In-State/Out-of-State Schools (1995-2005)

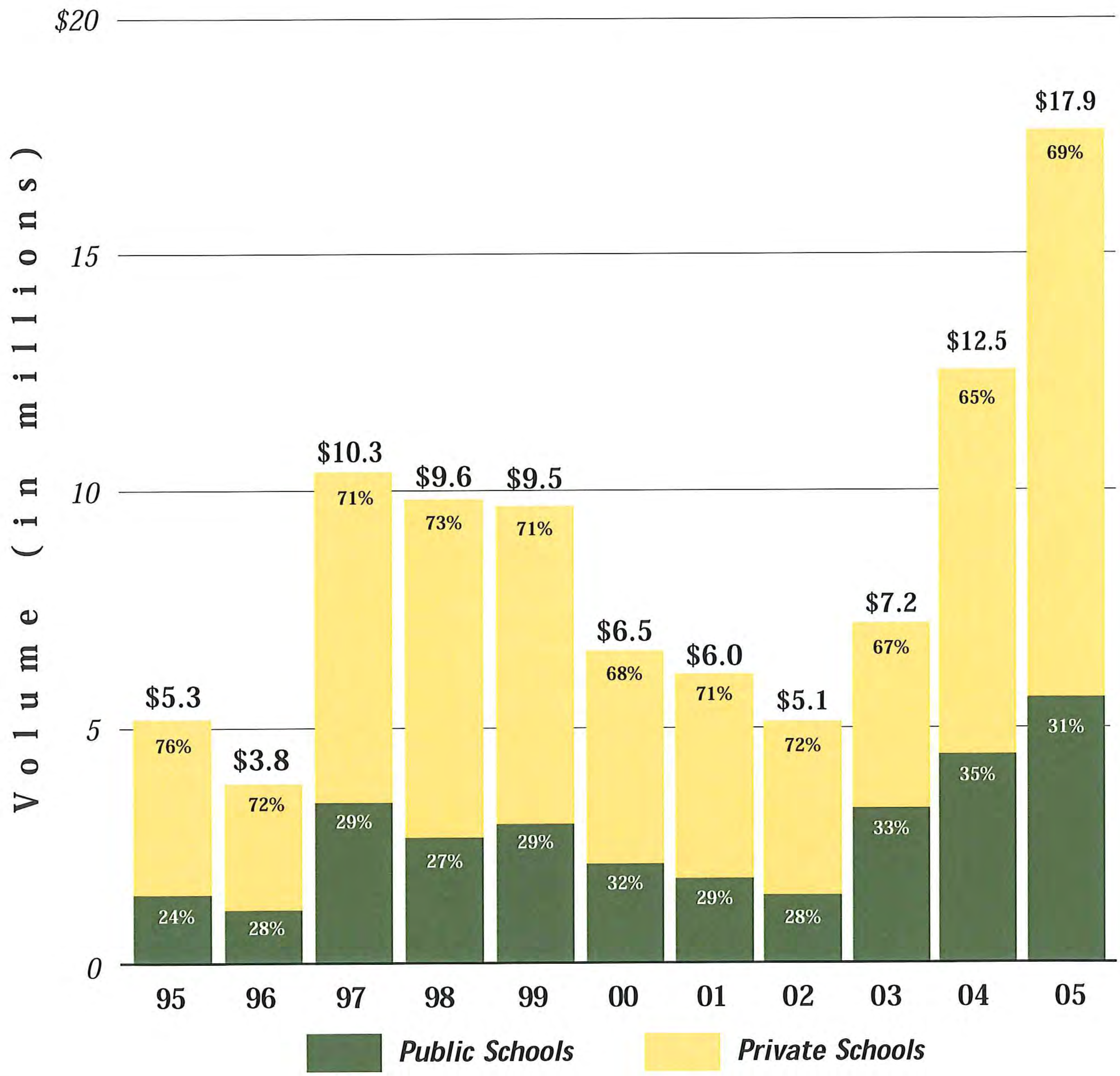
Table 3



Note: The decreased volume in 2002 is attributed to The Maine Loan being disbursed in two disbursements beginning June 1, 2002, with many second disbursements occurring in January 2003. Total loan origination volume for 2002 was $7.0 million.

Percentage of MELA Funds Disbursed To Public/Private Schools (1995-2005)

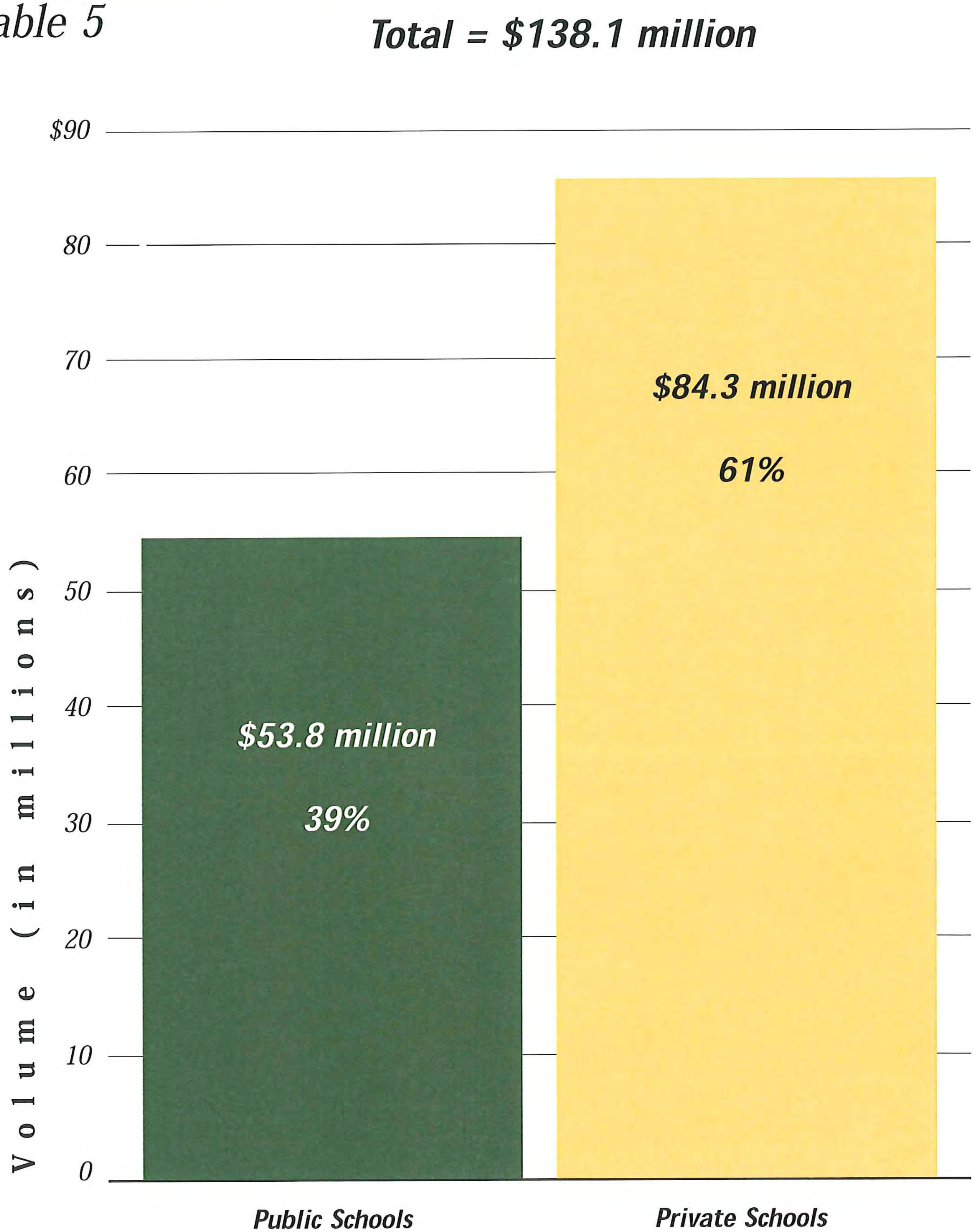
Table 4



Note: The decreased volume in 2002 is attributed to The Maine Loan being disbursed in two disbursements beginning June 1, 2002, with many second disbursements occurring in January 2003. Total loan origination volume for 2002 was $7.0 million.

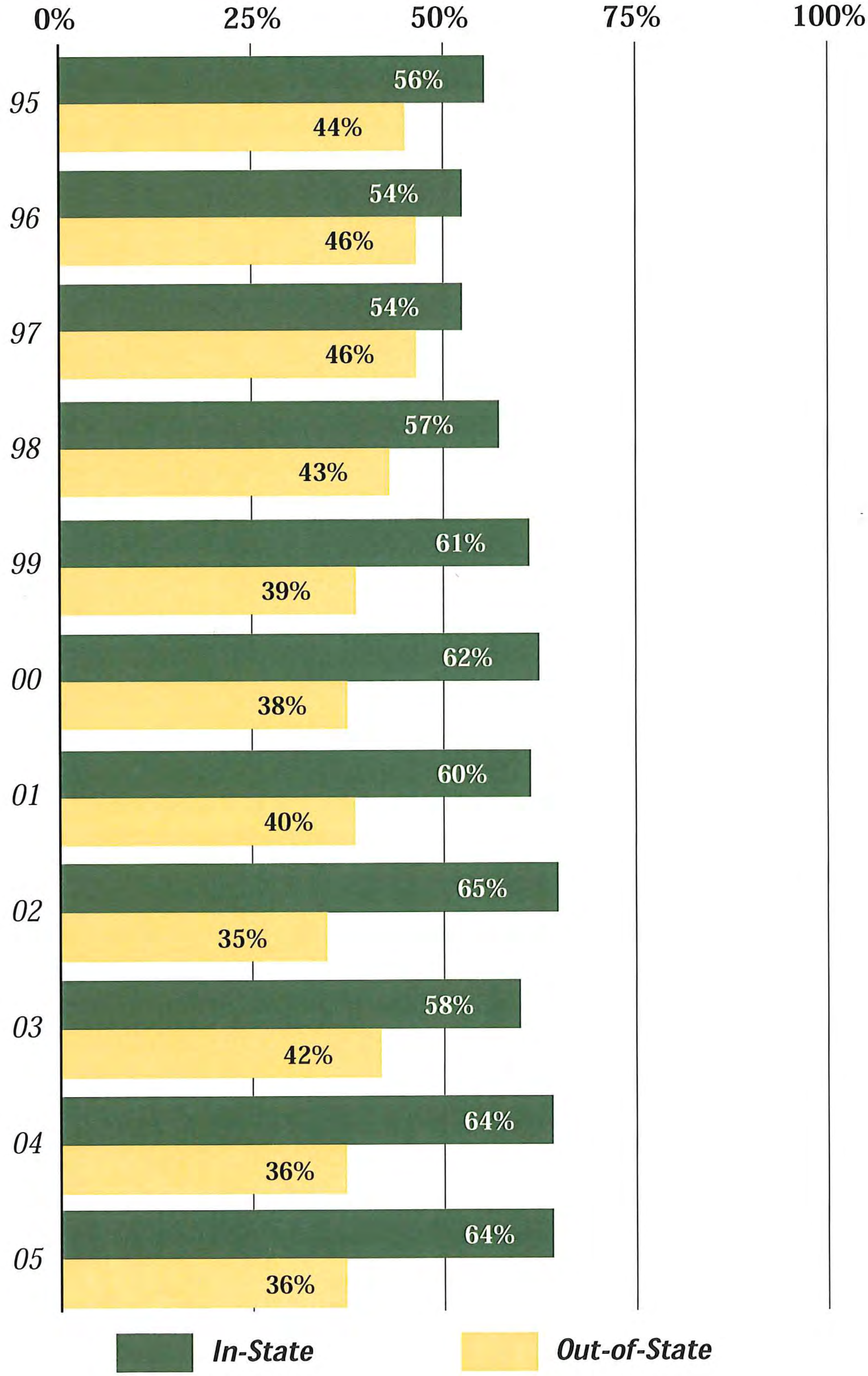
Cumulative Percentage of MELA Funds Public/Private Schools (1988-2005)

Table 5



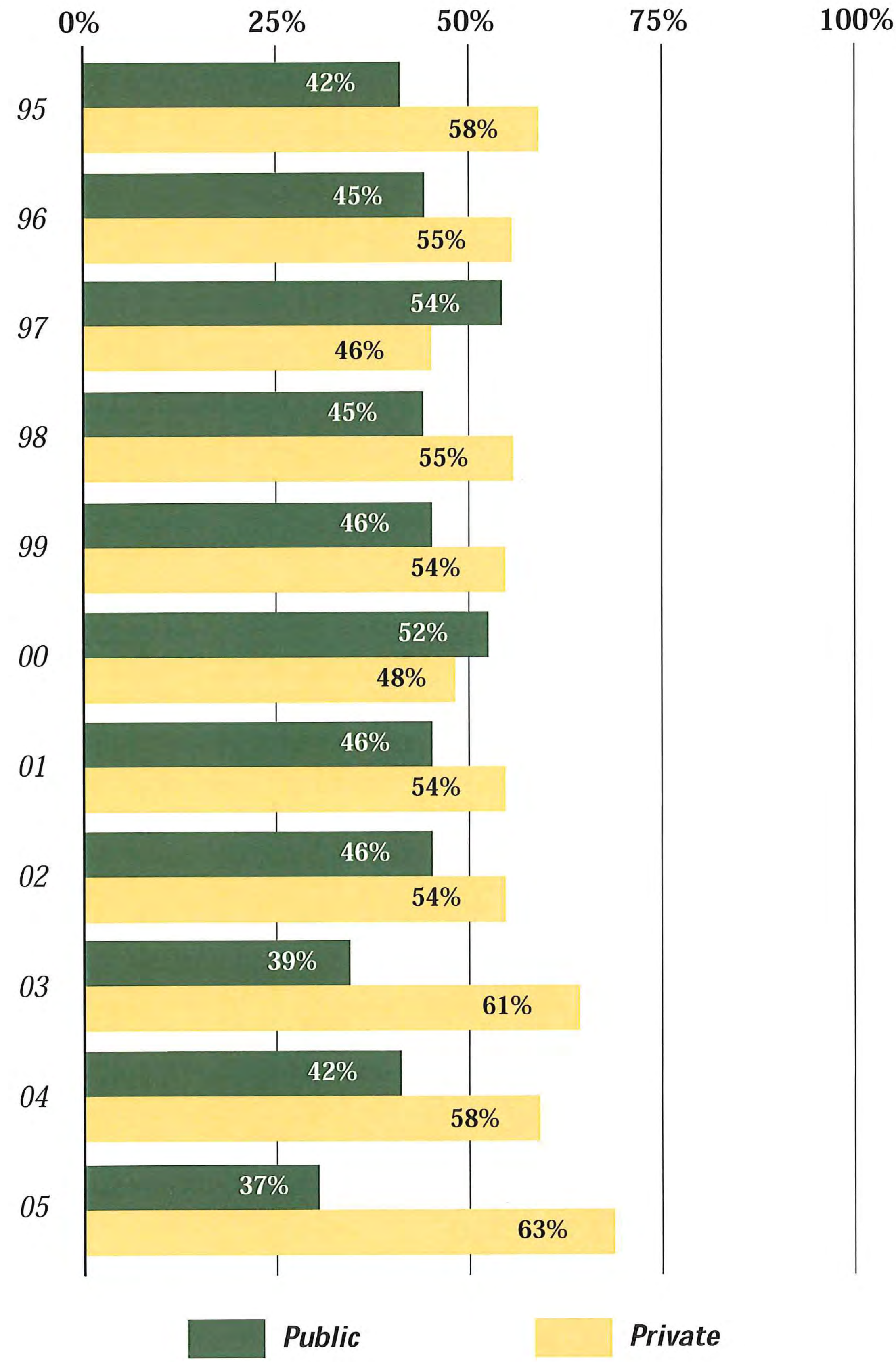
Percentage of MELA Disbursements to In-State/Out-of-State Schools (1995-2005)

Table 6



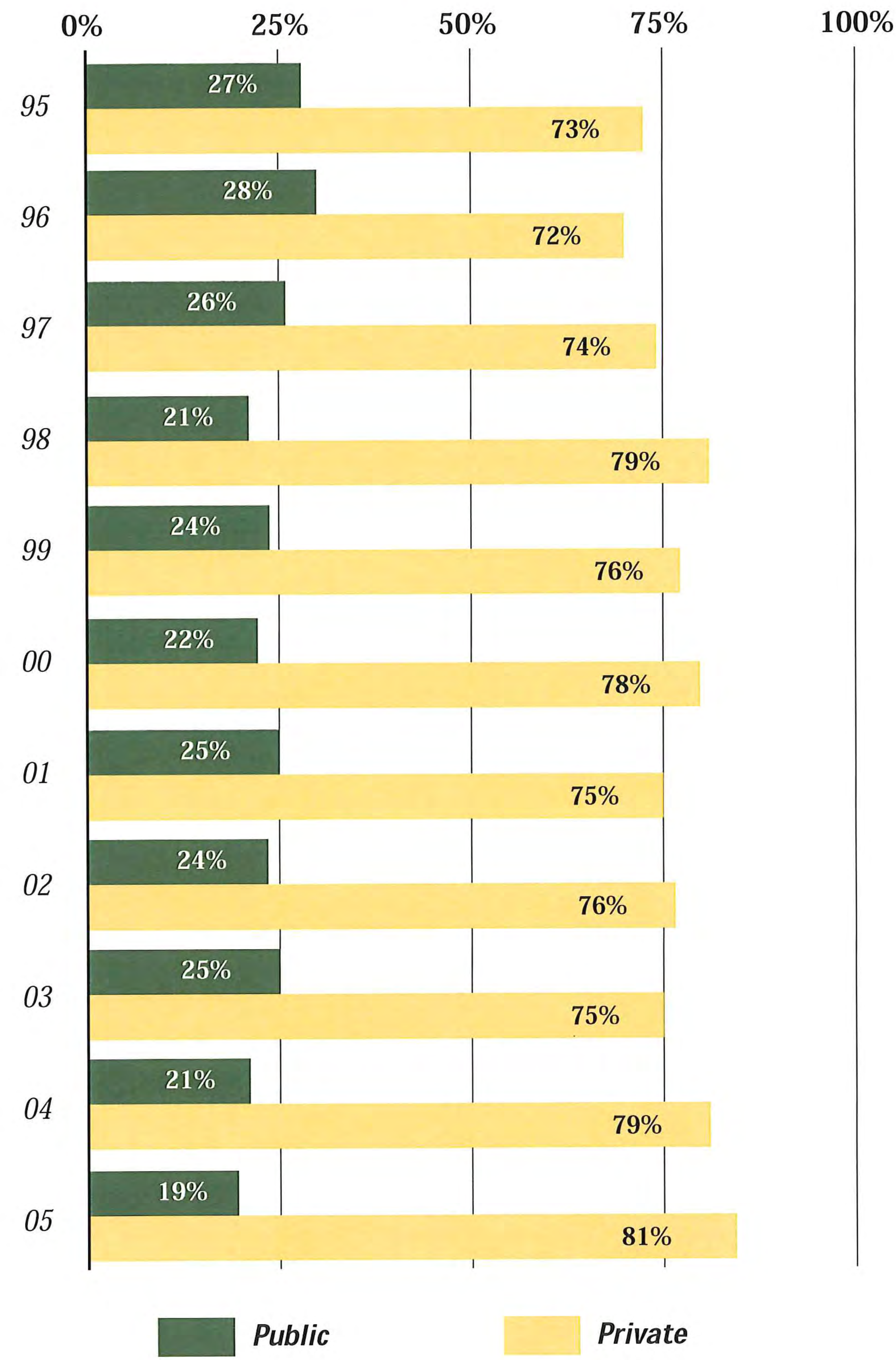
Percentage of MELA Disbursements to Public/Private Maine Schools (1995-2005)

Table 7



Percentage of MELA Disbursements to Public/Private Out-of-State Schools (1995-2005)

Table 8



MAINE EDUCATIONAL LOAN AUTHORITY

BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2005 and 2004

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INDEPENDENT AUDITORS' REPORT

Members of the Authority
Maine Educational Loan Authority

We have audited the accompanying basic financial statements of the Maine Educational Loan Authority, a component unit of the State of Maine, as of and for the years ended December 31, 2005 and 2004, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Maine Educational Loan Authority as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 – 8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. The supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
March 17, 2006

MAINE EDUCATIONAL LOAN AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005 and 2004

As financial management of the Maine Educational Loan Authority (the "Authority"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended December 31, 2005 and 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Overview of the Authority

The Authority was created in 1988 by an Act of the Maine Legislature and is a public body corporate and politic constituting a public instrumentality of the State of Maine. The Authority was established to grant educational loans primarily using funds acquired through the issuance of long-term bonds payable. For financial reporting purposes the Authority is considered a component unit of the State of Maine, however, the Authority receives no appropriations from the State legislature. The Authority periodically receives allocations of the State's tax-exempt bond cap.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to the financial statements. Since the Authority is comprised of a single enterprise fund, no fund level financial statements are shown.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statements of net assets present information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to net assets without a corresponding increase to liabilities, result in increased net assets, which indicates an improved financial position.

The statements of revenues, expenses, and changes in net assets present information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

MAINE EDUCATIONAL LOAN AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005 and 2004

Financial Highlights – 2005

- Operating income for the Authority was $318,179 for fiscal year 2005, an increase of $487,283 from the prior year, due mainly to the decrease excess arbitrage expense.
- Net assets increased in 2005 solely as a result of operating income. The term "net assets" refers to the difference between assets and liabilities. At the close of fiscal year 2005, the Authority had net assets of $3,018,810, an increase of 11.8% from the prior year.
- The Authority's debt outstanding of $98,115,000 increased $24,690,000 over the prior year, as a result of a $30,000,000 bond issuance and a $5,310,000 maturity in 2005.
- Loans originated during the year totaled approximately $17,930,000 up 42% from the $12,600,000 originated in fiscal year 2004.

Financial Analysis – 2005

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $3,018,810 at the close of the most recent fiscal year. This represents an increase of $318,179 (11.8%) from the previous year. The unrestricted net assets were $808,016 compared to restricted net assets of $2,210,794. By far, the largest portion of the Authority's net assets reflects its investment in educational loans plus bond proceeds remaining in trust investments less any related debt used to acquire those assets.

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

Net Assets	2005	2004	Percentage Change
Cash and investments	$ 37,159,758	$ 24,614,927	51.0%
Educational loans, net	62,817,321	51,462,357	22.1
Other assets	3,168,900	1,664,212	90.4
Total assets	$ 103,145,979	$ 77,741,496	32.7%
Deferred revenue	$ 1,056,178	$ 893,597	18.2%
Arbitrage earnings rebatable	1,253,019	1,178,600	6.3
Bonds payable, net	97,361,176	72,682,428	33.9
Other liabilities	456,796	286,240	59.6
Total liabilities	$ 100,127,169	$ 75,040,865	33.4%
Restricted net assets	$ 2,210,794	$ 1,775,575	24.5%
Unrestricted net assets	808,016	925,056	(12.7)
Total net assets	$ 3,018,810	$ 2,700,631	11.8%

The increase in the Authority's cash and investments at December 31, 2005 from the balance at December 31, 2004 was mainly attributed to the proceeds received from the issuance of the Series 2005 bond and the net difference between education loan disbursements and repayments. The Authority's investment portfolio at December 31, 2005 is comprised of repurchase agreements. The Authority's investments are carried at fair value and unrealized gains and losses due to fluctuations in market values, if any, are recognized in the statements of revenues, expenses and changes in net assets.

The Authority's educational loans, net, increased $11,354,964 in 2005. The Authority's total loans originated and disbursed in 2005, including origination fees, was $17,932,668 compared to the $12,606,515 originated in 2004. The receipt of educational loan principal payments totaling $6,139,932 increased from the 2004 level of $5,356,050, due to an increase in loans in repayment status. The Authority's allowance for loan losses of $1,307,000 at December 31, 2005, decreased from 2.2% to 2.0% of total loans outstanding, due primarily to the increase in outstanding loans. During 2005, the Authority provided $149,950 to the allowance for loan losses compared to $150,300 in 2004.

Bonds payable, net, increased $24,678,748 during 2005 as a result of the 2005 bond issuance totaling $29,880,000, 2002 Series bond maturities totaling $5,310,000, and accreting the bond discount and the deferred loss on refunding. For additional information refer to the Long-Term Debt Activity section of the Management's Discussion and Analysis.

The Authority's financial position improved as net assets increased 11.8% in 2005. The Authority continued to maintain a positive spread of income from investments and educational loans over bond interest and operating expenses.

Changes in Net Assets	2005	2004	Percentage Change
Interest on educational loans	$3,170,536	$2,217,821	42.9%
Interest on investments	1,214,158	614,029	97.7
Other revenue	352,591	318,891	10.6
Total operating revenues	4,737,285	3,150,741	50.4
Financing expenses – interest	2,681,262	1,447,580	85.2
Servicing expense	862,218	597,385	44.3
Bond administration expense	338,648	311,478	8.7
Excess arbitrage	74,419	561,863	(86.8)
Provision for losses on educational loans	149,950	150,300	(0.2)
Contributions and scholarships	6,100	5,000	22.0
Other operating expenses	306,509	246,239	24.5
Total operating expenses	4,419,106	3,319,845	33.1
Operating income (loss)	318,179	(169,104)	288.2
Net assets at beginning of year	2,700,631	2,869,735	(5.9)
Net assets at end of year	$3,018,810	$2,700,631	11.8%

Operating revenues are generated principally from interest earned on educational loans and interest generated from the investment of bond proceeds. In 2005, the Authority's operating revenue totaled $4,737,285. Of this amount, 66.9% was from interest on educational loans and 25.6% was from interest on investments, compared to 70.4% and 19.5%, respectively, in 2004. Interest on educational loans and interest on investments increased during 2005, mainly due to higher market interest rates prevalent during 2005 on both educational loans outstanding and investments coupled with higher balances of loans and investments outstanding during the year.

Operating expenses of the Authority consist primarily of interest expense on debt incurred to fund the origination of educational loans. The total operating expense for 2005 and 2004 was $4,419,106 and $3,319,845, respectively, of which $2,681,262 (60.7%) and $1,447,580 (43.6%) was attributable to debt related financing costs. Total operating expenses increased $1,099,261 (33.1%) from 2004 to 2005 mainly as a result of the 2005 bond issuance and higher interest rates on MELA's bonds outstanding due to annual repricing in May. Additionally, operating expenses were further increased by higher servicing fees resulting from continued student loan growth.

Long-Term Debt Activity

The Authority is authorized to issue student loan revenue bonds to originate alternative educational loans. As of December 31, 2005, the Authority had $97,361,176 in bonds payable, an increase of 33.9%. The Authority issued $30,000,000 in tax-exempt student loan revenue bonds and $5,310,000 of the Authority's bonds matured during 2005.

Financial Highlights – 2004

- Operating loss for the Authority was $169,104 for fiscal year 2004, a decrease of $543,871 from the prior year, due mainly to the increase excess arbitrage expense.
- Net assets decreased in 2004 solely as a result of operating loss. The term "net assets" refers to the difference between assets and liabilities. At the close of fiscal year 2004, the Authority had net assets of $2,700,631 a decrease of 5.9% from the prior year.
- The Authority's debt outstanding of $73,425,000 remained unchanged from the prior year.
- Loans originated during the year totaled approximately $12,600,000 up 70.0% from the $7,411,000 originated in fiscal year 2003.

Financial Analysis – 2004

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $2,700,631 at the close of the most recent fiscal year. This represents a decrease of $169,104 (5.9%) from the previous year. The unrestricted net assets were $925,056 compared to restricted net assets of $1,775,575. By far, the largest portion of the Authority's net assets reflects its investment in educational loans plus bond proceeds remaining in trust investments less any related debt used to acquire those assets.

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

Net Assets	2004	2003	Percentage Change
Cash and investments	$ 24,614,927	$ 31,347,750	(21.5)%
Educational loans, net	51,462,357	44,522,515	15.6
Other assets	1,664,212	1,365,801	21.8
Total assets	$ 77,741,496	$ 77,236,066	0.7%
Deferred revenue	$ 893,597	$ 842,474	6.1%
Arbitrage earnings rebatable	1,178,600	735,937	60.1
Bonds payable, net	72,682,428	72,556,920	0.2
Other liabilities	286,240	231,000	23.9
Total liabilities	$ 75,040,865	$ 74,366,331	0.9%
Restricted net assets	$ 1,775,575	$ 1,896,369	(6.4)%
Unrestricted net assets	925,056	973,366	(5.0)
Total net assets	$ 2,700,631	$ 2,869,735	(5.9)%

The decrease in the Authority's cash and investments at December 31, 2004 from the balance at December 31, 2003 was mainly attributed to net difference between education loan disbursements and repayments. The Authority's investment portfolio at December 31, 2004 is comprised of repurchase agreements. The Authority's investments are carried at fair value and unrealized gains and losses due to fluctuations in market values, if any, are recognized in the statements of revenues, expenses and changes in net assets.

The Authority's educational loans, net, increased $6,939,842 in 2004. The Authority's total loans originated and disbursed in 2004, including origination fees, was $12,606,515 compared to the $7,411,449 originated in 2003. The receipt of educational loan principal payments totaling $5,356,050 decreased from the 2003 level of $6,783,228, due to most new loans deferring payments while in school status. The Authority's allowance for loan losses of $1,142,000 at December 31, 2004, increased from 2.1% to 2.2% of total loans outstanding, due primarily to the decreased proportion of loans outstanding that carry a third-party guarantee. During 2004, the Authority provided $150,300 to the allowance for loan losses compared to $150,284 in 2003.

Bonds payable increased $125,508 during 2004 as a result of accreting the bond discount and the deferred loss on refunding. For additional information refer to the Long-Term Debt Activity section of the Management's Discussion and Analysis.

The Authority's financial position declined as net assets decreased 5.9% in 2004. The Authority continued to maintain a positive spread of income from investments and educational loans over bond interest and operating expenses, excluding arbitrage related expenses.

Changes in Net Assets	2004	2003	Percentage Change
Interest on educational loans	$2,217,821	$2,143,485	3.5%
Interest on investments	614,029	548,815	11.9
Other revenue	318,891	301,451	5.8
Total operating revenues	3,150,741	2,993,751	5.2
Financing expenses – interest	1,447,580	1,323,021	9.4
Servicing expense	597,385	556,987	7.3
Bond administration expense	311,478	291,877	6.7
Excess arbitrage	561,863	(35,207)	1,695.9
Provision for losses on educational loans	150,300	150,284	0.0
Contributions and scholarships	5,000	100,000	(95.0)
Other operating expenses	246,239	232,022	6.1
Total operating expenses	3,319,845	2,618,984	26.8
Operating (loss) income	(169,104)	374,767	(145.1)
Net assets at beginning of year	2,869,735	2,494,968	15.0
Net assets at end of year	$2,700,631	$2,869,735	(5.9)%

Operating revenues are generated principally from interest earned on educational loans and interest generated from the investment of bond proceeds. In 2004, the Authority's operating revenue totaled $3,150,741. Of this amount, 70.4% was from interest on educational loans and 19.5% was from interest on investments, compared to 71.6% and 18.3%, respectively, in 2003. Interest on educational loans and interest on investments increased during 2004, mainly due to higher market interest rates prevalent during 2004 on both educational loans outstanding and investments.

Operating expenses of the Authority consist primarily of interest expense on debt incurred to fund the origination of educational loans. The total operating expense for 2004 and 2003 was $3,319,845 and $2,618,984, respectively, of which $1,447,580 (43.6%) and $1,323,021 (50.5%) was attributable to debt related financing costs. Operating expenses in 2003 include a $100,000 contribution to The Compact For Higher Education. The contribution will be paid in annual installments of $20,000 over five years beginning in 2003. Total operating expenses increased $700,861 (26.8%) from 2003 to 2004 mainly as a result of the higher interest rates on MELA's bonds outstanding due to annual repricing in May. Additionally, operating expenses were further increased by the net arbitrage recapture in 2003 totaling $35,207 versus the net excess arbitrage expense in 2004 totaling $561,863 also caused by the increasing yields on the investments and educational loans outstanding during 2004.

Long-Term Debt Activity

The Authority is authorized to issue student loan revenue bonds to originate alternative educational loans. As of December 31, 2004, the Authority had $72,682,428 in bonds payable, an increase of 0.2%. No new long-term debt was issued in 2004 nor was any long-term debt retired.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Educational Loan Authority, One City Center, 11th Floor, Portland, Maine 04101.

MAINE EDUCATIONAL LOAN AUTHORITY

STATEMENTS OF NET ASSETS

December 31, 2005 and 2004

ASSETS

	2005	2004
Current assets:		
Cash and cash equivalents (notes 2, 4 and 6)	$ 7,874,916	$ 4,157,378
Educational loans, net (notes 3, 4, 6 and 7)	5,645,159	4,223,639
Interest receivable	1,778,116	836,940
Prepaid expenses	149,532	120,114
Total current assets	15,447,723	9,338,071
Noncurrent assets:		
Investments (notes 2, 4 and 6)	29,284,842	20,457,549
Educational loans, net (notes 3, 4, 6 and 7)	57,172,162	47,238,718
Guarantee fee receivable	343,170	–
Unamortized bond issuance costs	640,217	439,181
Prepaid expenses	257,865	267,977
Total noncurrent assets	87,698,256	68,403,425
Total assets	$103,145,979	$ 77,741,496

LIABILITIES AND NET ASSETS

	2005	2004
Current liabilities:		
Accounts payable (note 5)	$ 166,198	$ 120,668
Accrued interest payable	270,598	125,572
Arbitrage earnings rebatable (note 6)	154,139	145,080
Deferred revenue	282,466	229,841
Bonds payable, net (notes 4 and 6)	–	5,310,000
Total current liabilities	873,401	5,931,161
Noncurrent liabilities:		
Accrued expenses	20,000	40,000
Deferred revenue	773,712	663,756
Arbitrage earnings rebatable (note 6)	1,098,880	1,033,520
Bonds payable, net (notes 4 and 6)	97,361,176	67,372,428
Total noncurrent liabilities	99,253,768	69,109,704
Total liabilities	100,127,169	75,040,865
Commitments and contingencies (notes 5 and 7)		
Net assets:		
Restricted net assets	2,210,794	1,775,575
Unrestricted net assets	808,016	925,056
Total net assets	3,018,810	2,700,631
	$103,145,979	$ 77,741,496

See accompanying notes, as they are an integral part of the financial statements.

MAINE EDUCATIONAL LOAN AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended December 31, 2005 and 2004

	2005	2004
Operating revenues:		
Interest on educational loans	$3,170,536	$2,217,821
Interest on investments	1,214,158	614,029
Guarantee fee income	341,251	303,442
Other revenue	11,340	15,449
Total operating revenues	4,737,285	3,150,741
Operating expenses:		
Financing expenses – interest	2,681,262	1,447,580
Servicing expenses (note 5)	862,218	597,385
Bond administration expenses	338,648	311,478
Provision for losses on educational loans (note 3)	149,950	150,300
Professional fees	124,474	71,140
Investment management expenses	5,697	13,943
Excess arbitrage to be remitted to the Federal government (note 6)	74,419	561,863
Salaries and related benefits	82,931	81,215
Contributions and scholarships	6,100	5,000
Other operating expenses	93,407	79,941
Total operating expenses	4,419,106	3,319,845
Operating income (loss)	318,179	(169,104)
Net assets, beginning of year	2,700,631	2,869,735
Net assets, end of year	$3,018,810	$2,700,631

See accompanying notes, as they are an integral part of the financial statements.

MAINE EDUCATIONAL LOAN AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Interest received on educational loans	$ 2,411,493	$ 1,830,502
Principal payments received on educational loans	6,139,932	5,356,050
Educational loans originated	(17,932,668)	(12,606,515)
Fees received from borrowers	160,662	359,565
Payments for operating expenses	(1,314,352)	(892,326)
Excess arbitrage remitted to the Federal government	–	(119,200)
Net cash used by operating activities	(10,534,933)	(6,071,924)
Cash flows from non-capital financing activities:		
Interest payments on bonds	(2,405,510)	(1,264,901)
Proceeds from sale of bonds	29,880,000	–
Bond issue costs	(223,014)	–
Principal payments on bonds	(5,310,000)	–
Net cash provided (used) by non-capital financing activities	21,941,476	(1,264,901)
Cash flows from investing activities:		
Sale of investments	28,565,457	26,137,390
Purchase of investments	(37,392,750)	(17,221,000)
Interest received on investments	1,138,288	604,002
Net cash (used) provided by investing activities	(7,689,005)	9,520,392
Net increase in cash and cash equivalents	3,717,538	2,183,567
Cash and cash equivalents at beginning of year	4,157,378	1,973,811
Cash and cash equivalents at end of year	$ 7,874,916	$ 4,157,378
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating income (loss)	$ 318,179	$ (169,104)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Provision for losses on educational loans	149,950	150,300
Interest income on investments	(1,214,158)	(614,029)
Interest on bonds payable	2,681,262	1,447,580
Changes in assets and liabilities:		
Educational loans, net	(11,504,914)	(7,090,142)
Interest receivable on educational loans	(865,306)	(315,338)
Prepaid expenses	(19,306)	9,338
Accounts payable and accrued expenses	25,530	15,685
Deferred revenue	(180,589)	51,123
Arbitrage earnings rebatable	74,419	442,663
	$ (10,534,933)	$ (6,071,924)

See accompanying notes, as they are an integral part of the financial statements.

MAINE EDUCATIONAL LOAN AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

1. Summary of Significant Accounting Policies

Organization

The Maine Educational Loan Authority (MELA or the "Authority") was created by the Maine Educational Loan Authority Act, Title 20-A, Chapter 417-A, of the Maine Revised Statutes, as amended, as a public body corporate and politic constituting a public instrumentality of the State of Maine. The Authority was established to grant educational loans primarily using funds acquired through the issuance of long-term bonds payable.

For financial reporting purposes under Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, the Authority is considered a component unit of the State of Maine. As such, the financial position, results of operations and cash flows of the Authority are included in the State of Maine's basic financial statements.

Basis of Accounting

The accounts of the Authority are maintained in accordance with the principles of "fund accounting." These principles require that resources for various purposes be classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. The Authority only has one fund. The financial statements are prepared on the accrual method of accounting and accordingly recognize revenues as earned and expenses as incurred.

As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected not to comply with the Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

New Accounting Pronouncement

During fiscal year 2005, the Authority implemented the Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, (an amendment of GASB Statement No. 3)*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. The Statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

Restriction on Net Assets

The restricted net assets of the Authority are restricted by the bond indentures. Financial activities and resulting account balances that fall outside of the bond indentures are presented in the statements of net assets as unrestricted net assets. The Authority's restricted net assets are restricted for the acquisition and origination of educational loans, payment of debt service and payment of program operating expenses.

1. Summary of Significant Accounting Policies (Continued)

Educational Loans

Educational loans are stated at their unpaid principal balance plus deferred costs. 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.

Educational loans granted with the funds acquired from the educational loan revenue bonds issued prior to the 1996 series are guaranteed by The Education Resources Institute, Inc. (TERI). The loans granted with the proceeds of the 1996 and subsequent series bonds are not guaranteed, but MELA retained 5% of the principal amount as a guarantee fee for loans issued prior to June 1, 2002, and 3% of the principal amount from June 1, 2002 through May 31, 2004. From June 1, 2004 through May 31, 2005, MELA retained 0%, 3% or 7% of the principal amount based on the borrower's credit risk as determined by the borrower's credit score and debt to income ratio. Beginning June 1, 2005 the guarantee fees assessed were 0%, 3% or 6% of the principal amount based on the borrower's credit risk as determined by the borrower's credit score and debt to income ratio and will be added to the loan principal once the loan enters repayment. The guarantee fees outstanding for loans that have not entered repayment at December 31, 2005 totaled $343,170.

Fees and costs related to the origination of student loans, including the guarantee fees, are deferred. The amounts deferred are amortized and recognized into income over the average life of the loans using a method which approximates the level yield. The average life of the loans is estimated to be ten years.

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

Approximately 4% (7% in 2004) of the Authority's educational loans are guaranteed by TERI. However, there is still risk that these loans may lose their guarantee and become uncollectible due to such factors as failure to follow the guarantors' underwriting guidelines or failure to follow certain due diligence procedures prescribed by the guarantor. Additionally, the remaining portion of educational loans does not carry a guarantee from a third party. Therefore, management of MELA has established an allowance for loan losses to provide for probable losses. 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.

1. Summary of Significant Accounting Policies (Continued)

Discount and Issuance Costs on Bonds

Bond discount is amortized by the effective interest method over the life of the bonds. Bond issuance costs are being amortized by the straight-line method over the life of the bonds. Amortization of bond discount and bond issuance costs are accelerated for early repayment of bonds. Unamortized bond discount and issuance costs related to refunded bonds are deferred and amortized over the life of the original or refunded bonds, whichever is shorter.

Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include funds held in an institutional money market fund account.

Investments

Investment securities consist of repurchase agreements. Investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The cost of the repurchase agreements approximates their fair value as MELA can withdraw funds at par over the life of the repurchase agreements according to the related bond indentures.

Income Taxes

As a public entity and body politic of the State of Maine, MELA is a tax-exempt organization and, accordingly, no provision for income taxes has been made in the accompanying financial statements.

2. Cash, Cash Equivalents and Investments

In accordance with the terms of its bond indentures, MELA may invest in, subject to various restrictions, direct obligations of the United States; high grade obligations of any state, public agency, political subdivision, political agencies or authorities; deposit accounts; repurchase agreements; guaranteed investment contracts; or any other investment approved by the bond indentures. The majority of investments and cash and cash equivalents are restricted for the repayment of bond obligations, and to satisfy certain reserve requirements specified by the bond indentures.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority invests primarily in repurchase agreements whose maturity and interest rate adjustment dates are closely matched with future bond maturities and loan disbursements. Further, the repurchase agreements contain provisions that allow the Authority to withdraw funds at par over the life of the agreements.

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. This credit risk is measured by the credit quality ratings of investments as described by nationally recognized statistical rating organizations. The Authority limits its credit risk by investing in investment securities with high credit quality and repurchase agreements backed by high credit quality banks. The Authority's investments and investment agreements purchased with proceeds from the various bond indentures are approved by MELA's bond insurer. In addition, the repurchase agreements can be terminated, without penalty, if the counterparty falls below a Moody's credit rating of A3 or below an S&P credit rating of A-.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's repurchase agreements require a collateral account to be established in the name of the Authority with a third-party custodian. The Authority limits the custodial credit risk by regularly monitoring the credit quality ratings of the counterparties and the adequacy of the collateral accounts.

Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	2005		2004	
	Balance	Amount Insured or Collateralized	Balance	Amount Insured or Collateralized
Cash	$ 14,583	$ 100,000	$ 16,419	$ 83,701
Money market accounts	7,860,333	See Below	4,140,959	See Below
	$7,874,916		$4,157,378	

At December 31, 2005 and 2004, the money market accounts are invested in Federated Prime Cash Obligations Fund. The fund invests primarily in a portfolio of short-term, high quality, fixed income securities issued by banks, corporations, and the U.S. government. As of December 31, 2005, the fund was rated Aaa by Moody's Investors Service and AAAm by Standard & Poor's. The underlying assets are not held in the name of the Authority.

At December 31, 2005, cash accounts with bank balances of $236,466 were deposited at a local financial institution and insured by the FDIC for $100,000. At December 31, 2004, cash accounts with bank balances of $83,701 were deposited at a local financial institution and fully insured by the FDIC. The difference between the bank balances and the cash recorded on the financial statements is outstanding checks and deposits in transit.

2. Cash, Cash Equivalents and Investments (Continued)

Investments

Repurchase agreements are invested as follows:

	2005	2004
Bayerische Landesbank Girozentrale (Bayerische) in the name of the corporate trustee for MELA under the indenture of trust relative to the series 1996 bond issue. The repurchase agreement is further secured by U.S. Treasury notes, which are held in the name of MELA, by a third-party custodian under the terms of the Investment Repurchase Agreement dated June 27, 1996. The investment agreement carries a variable interest rate equal to the per annum interest rate borne by the 1996 series bond issue plus 140 basis points. The final repurchase date is scheduled for June 1, 2026. As of December 31, 2005, Bayerische was rated Aa2 by Moody's Investors Service and A by Standard & Poor's.	$ 3,668,444	$ 2,092,444
Bayerische Landesbank Girozentrale (Bayerische) in the name of the corporate trustee for MELA under the indenture of trust relative to the series 1997 bond issue. The repurchase agreement is further secured by U.S. Treasury and U.S. Government-sponsored entities' obligations, which are held in the name of MELA, by a third-party custodian under the terms of the Investment Repurchase Agreement dated July 17, 1997. The investment agreement carries a variable interest rate equal to the per annum interest rate borne by the 1997 series bond issue plus 100 basis points. The final repurchase date is scheduled for June 1, 2027. As of December 31, 2005, Bayerische was rated Aa2 by Moody's Investors Service and A by Standard & Poor's.	2,385,107	1,401,107
Westdeutsche Landesbank Girozentrale (Westdeutsche) in the name of the corporate trustee for MELA under the indenture of trust relative to the series 1999 bond issue. The repurchase agreement is further secured by U.S. Treasury notes, which are held in the name of MELA, by a third-party custodian under the terms of the Investment Repurchase Agreement dated January 26, 1999. The investment agreement carries a variable interest rate equal to the per annum interest rate borne by the 1999 series bond issue plus 118 basis points. The final repurchase date is scheduled for June 1, 2029. As of December 31, 2005, Westdeutsche was rated A1 by Moody's Investors Service and A- by Standard & Poor's.	3,905,396	4,576,396

2. Cash, Cash Equivalents and Investments (Continued)

	2005	2004
Bayerische Landesbank Girozentrale (Bayerische) in the name of the corporate trustee for MELA under the indenture of trust relative to the series 2000 bond issue. The repurchase agreement is further secured by U.S. Treasury and U.S. Government-sponsored entities' obligations, which are held in the name of MELA, by a third-party custodian under the terms of the Investment Repurchase Agreement dated September 19, 2000. The investment agreement carries a variable interest rate equal to the per annum interest rate borne by the 2000 series bond issue plus 126 basis points. The final repurchase date is scheduled for June 1, 2030. As of December 31, 2005, Bayerische was rated Aa2 by Moody's Investors Service and A by Standard & Poor's.	$ 2,844,864	$ 2,084,864
Bayerische Hypo-Und Vereinsbank AG (Bayerische) in the name of the corporate trustee for MELA under the indenture of trust relative to the series 2002 bond issue. The repurchase agreement is further secured by U.S. Treasury and U.S. Government-sponsored entities' obligations, which are held in the name of MELA, by a third-party custodian under the terms of the Investment Repurchase Agreement dated November 15, 2002. The investment agreement carries a variable interest rate equal to the one year LIBOR rate, less 0.32% per annum, reset yearly two business days prior to each May 15 to be effective as of May 15. The final repurchase date is scheduled for May 15, 2032. As of December 31, 2005, Bayerische was rated A2 by Moody's Investors Service and A by Standard & Poor's.	2,409,281	10,302,738
Societe Generale (Societe) in the name of the corporate trustee for MELA under the indenture of trust relative to the series 2005 bond issue. The repurchase agreement is further secured by U.S. Treasury and U.S. Government-sponsored entities' obligations, which are held in the name of MELA, by a third-party custodian under the terms of the Investment Repurchase Agreement dated May 20, 2005. The investment agreement carries a variable interest rate equal to the one year LIBOR rate, less 0.30% per annum, reset yearly each May 15, the final repurchase date is scheduled for July 1, 2008 with respect to the Loan Fund ($12,871,750) and June 1, 2035 with respect to the Reserve Fund ($1,200,000). As of December 31, 2005, Societe was rated Aa2 by Moody's Investors Service and AA-by Standard & Poor's.	14,071,750	–
	$ 29,284,842	$ 20,457,549

3. Educational Loans

Installment repayment of student loans begins approximately 45 days following graduation or loss of qualified student status and must be repaid within twenty years once repayment begins. Educational loans earn interest at variable and set rates. Most of MELA's borrowers are located in the New England states, primarily the State of Maine. Educational loans are unsecured.

Educational loans consist of the following at December 31, 2005 and 2004:

	2005	2004
Loans subject to guarantee	$ 2,602,668	$ 3,845,115
Nonguaranteed loans	61,149,539	48,464,359
Deferred costs, net	372,114	294,883
	64,124,321	52,604,357
Less – allowance for loan losses	1,307,000	1,142,000
Educational loans, net	62,817,321	51,462,357
Current portion	5,645,159	4,223,639
Noncurrent portion	$ 57,172,162	$ 47,238,718

The educational loans are pledged to the repayment of bonds.

Transactions in the allowance for loan losses for the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
Balance at January 1	$1,142,000	$ 945,000
Loans charged off	(166,509)	(41,642)
Recoveries on loans	181,559	88,342
Net loans recovered	15,050	46,700
Provision for losses on educational loans	149,950	150,300
Balance at December 31	$1,307,000	$1,142,000

4. Bonds Payable

MELA has issued the following bonds to finance the purchase and origination of educational loans:

Educational Loan Revenue Bonds	Amount Outstanding 2005	2004
1996 series due in 2026; auction rate securities having variable interest rates, 3.20% at December 31, 2005	$ 12,500,000	$ 12,500,000
1997 series due in 2027; auction rate securities having variable interest rates, 3.20% at December 31, 2005	10,000,000	10,000,000
1999 series due in 2029; auction rate securities having variable interest rates, 3.20% at December 31, 2005	14,000,000	14,000,000
2000 series due in 2030; auction rate securities having variable interest rates, 3.20% at December 31, 2005	10,000,000	10,000,000
2002 series, fixed rates due on May 1, 2009 of 3.65%; auction rate securities having variable interest rates, 3.20% at December 31, 2005, due June 2032	21,615,000	26,925,000
2005 series due in 2039; auction rate securities having variable interest rates, 3.16% at December 31, 2005	30,000,000	–
	98,115,000	73,425,000
Less:		
Unaccreted bond discount	511,430	415,719
Unaccreted deferred loss on advance refunding	242,394	326,853
Bonds payable, net	97,361,176	72,682,428
Current portion	–	5,310,000
Noncurrent portion	$ 97,361,176	$ 67,372,428

To date, the bonds issued by MELA have been exempt from federal income taxes. MELA has been allocated $30 million of tax-exempt bond cap from the State of Maine for the year 2006, which is anticipated to be used, along with the $20 million carry forward from 2005, by the end of 2007. MELA expects to continue to receive allocations of tax-exempt bond cap in the future.

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.

4. Bonds Payable (Continued)

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, MELA has established reserve funds totaling approximately $4,137,000 and $2,937,000 at December 31, 2005 and 2004, respectively, to be used to replenish any deficiency in funds required to pay principal or interest due on the bonds. The reserve funds are invested in repurchase agreements in 2005 and 2004.

The debt service requirements, which are based on the interest rates at December 31, 2005, through 2010 and in five-year increments thereafter to maturity for the Authority are as follows:

Year(s)	Principal	Interest	Total
2006	$ –	$ 3,144,285	$ 3,144,285
2007	–	3,144,285	3,144,285
2008	–	3,144,285	3,144,285
2009	11,615,000	2,950,143	14,565,143
2010	–	2,756,000	2,756,000
2011 – 2015	–	13,780,000	13,780,000
2016 – 2020	–	13,780,000	13,780,000
2021 – 2025	–	13,780,000	13,780,000
2026 – 2030	46,500,000	10,028,000	56,528,000
2031 – 2035	10,000,000	5,220,000	15,220,000
2036 – 2039	30,000,000	3,318,000	33,318,000
	$ 98,115,000	$ 75,044,998	$ 173,159,998

The actual maturities and interest may differ due to changes in interest rates or other factors.

The following summarizes the debt activity for the Authority for the years ended December 31, 2005 and 2004:

	2005	2004
Balance at beginning of year	$ 72,682,428	$ 72,556,920
Issuance	29,880,000	–
Maturities	(5,310,000)	–
Accretion	108,748	125,508
Balance at end of year	$ 97,361,176	$ 72,682,428

5. Commitments

The Authority has entered into an agreement through September 30, 2005, whereby Maine Education Services (MES), provides administrative services for the Authority. A two-year renewal option of the administrative services agreement, as amended, was exercised on April 27, 2005, extending the contract through September 30, 2007. The fee for these services is equal to 0.74% per annum of the aggregate principal amount of loans outstanding. Effective February 1, 2005, the agreement was amended to include facilitating the development of an automated origination system and a potential loan servicing system conversion for an amount not to exceed $19,500 and $9,750, respectively. The Authority recorded expense of $447,434 and $354,909 in 2005 and 2004, respectively, under this arrangement, which is recorded as servicing expenses. MELA also pays MES a 1% origination fee on all supplemental loan disbursements, which fee amounted to $183,494 and $125,369 in 2005 and 2004, respectively. These origination fees are deferred and amortized over the approximate life of the loans, which is estimated to be 10 years. Effective October 1, 2004, this agreement was amended to include certain marketing and outreach efforts for a fixed monthly fee of $1,900. The Authority recorded expense of $22,800 and $5,700 in 2005 and 2004, respectively, under this amendment, which is recorded in other operating expenses. In addition, MELA pays to MES a management and financial advisory fee of 0.25% times the par value of each new bond issue for services required to facilitate each bond offering, and to establish the initial loan and investment portfolios and bond level financial statements, which fee amounted to $75,000 in 2005. These fees are included with bond issuance costs and amortized over the life of each respective bond issue. There was no management and financial advisory fees paid in 2004.

As a result of the various transactions described above, at December 31, 2005 and 2004, the Authority owed MES $83,492 and $34,483, respectively, which is included in accounts payable.

6. Arbitrage

The bonds issued by MELA 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. MELA has estimated that there is an arbitrage liability at December 31, 2005 and 2004 as follows:

	2005	2004
Series 1996	$ 841	$ 23,500
Series 1997	9,607	39,000
Series 1999	202,423	228,800
Series 2000	436,958	412,700
Series 2002	603,190	474,600
	1,253,019	1,178,600
Less current portion	154,139	145,080
Noncurrent portion	$1,098,880	$1,033,520

6. Arbitrage (Continued)

In June 2005, MELA submitted to the Internal Revenue Service (IRS), a request for ruling to permit MELA to calculate a joint yield on its existing bond issues and future additional bonds issued under the existing master indenture for arbitrage purposes. The IRS has not yet responded to the request. Consequently, MELA filed an extension for the arbitrage rebate payment that would have been due in November 2005 on the Series 2000 bond issue totaling $154,139. The remaining amounts are payable in accordance with the bonds' tax regulatory agreements.

7. Loan Commitments

At December 31, 2005 and 2004, MELA had commitments to extend credit for educational loans of approximately $5,665,000 and $4,019,000, respectively. 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. MELA uses the same credit policies in making commitments as it does for educational loans receivable.

ADDITIONAL INFORMATION

MAINE EDUCATIONAL LOAN AUTHORITY

STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

		Program Revenues				Net Revenue (Expenses) and Changes in Net Assets
Functions/ Programs	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Student loan programs	$(4,419,106)	$3,523,127	$1,214,158	$ –	$ –	$ 318,179
		Change in net assets				$ 318,179
		Net assets, beginning of the year				2,700,631
		Net assets, end of the year				$3,018,810