Maine Educational Loan Authority (MELA)

2011
Annual Report

MAINE EDUCATIONAL LOAN AUTHORITY

MELA℠
MAINE EDUCATIONAL LOAN AUTHORITY

April 25, 2012

Governor Paul R. LePage
State of Maine
Office of the Governor
1 State House Station
Augusta, ME 04333-0001

Dear Governor LePage:

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, 2011 through December 31, 2011. 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. MELA's supplemental student loan programs currently consist of The Maine Loan® and The Maine Medical Loan℠. 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 education loan programs. The Maine Medical Loan was created in 1998 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 program in 2002 to include other degrees such as dentistry, chiropractic, and veterinary medicine. This loan program is available to eligible medical students to borrow funds up to the full cost of a medical degree less other financial aid.

Maine's public and private institutions of higher education continue to be the greatest beneficiaries of MELA loans. MELA's loan volume in 2011 was approximately $10,481,000 in originations, which is a decrease of 19% when compared with the approximate $12,983,000 originated in fiscal year 2010. Several factors have contributed to the decrease in loan volume for MELA and many other lenders with supplemental education loan programs. The most significant factors for MELA include: 1) Federal legislation regarding the use of preferred lender lists by schools; 2) the requirement for interest only payments during in-school periods for MELA loans; 3) increased utilization of all Federal loans (including the Parent and Grad PLUS loans to supplement financial aid packages); and 4) low variable rate products available to students who have co-signers with exceptional credit, compared to MELA's fixed rate available to all approved borrowers. It is expected that there will be a continuing demand for supplemental student loans for a number of reasons, including the impact of the current economic conditions on state funding

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for higher education, college and university endowments, home values and home equity, and individual wealth. In addition, the rising cost of attendance at higher education institutions requires increased borrowing by students and their families.

MELA did not issue any tax-exempt bonds in 2011. In lieu of a 2011 bond issue, MELA received approval from its bond insurer to use recycling payments received on loans funded with the 2009 and 2010 bond proceeds to fund new loans for the 2011-2012 academic year. MELA found that the pricing for a new bond issue would have been significantly higher than in 2010 due primarily to weaker bond markets and the expiration of the Alternative Minimum Tax holiday for tax-exempt Private Activity Bonds. The increased financing costs would have translated into a higher interest rate on MELA's loans for Maine students and families. This recycling option allowed MELA to continue to offer the same interest rate and loan terms for the 2011-2012 academic year that were available in 2010-2011.

Baker Newman and Noyes LLC, an independent certified public accounting firm, recently completed MELA's financial audit for the 2011 fiscal year. The financial statements reflect an improved financial position from the Authority's 2010 fiscal year, where MELA experienced a loss due primarily to the increased financing expense, coupled with a decline in loan volume and historically low reinvestment rates. Although reinvestment rates continue to remain very low, MELA's 2011 financials reflect excess revenue over expenses with a continuing positive trend forecasted for the future. In reviewing the financial statements, it is clear that the funds MELA has acquired with proceeds from tax-exempt bonds or obligations are being solely utilized for its alternative student loan program.

In summary, MELA looks forward to continuing to fulfill its mission of providing affordable supplemental education financing to assist Maine students and families in achieving their higher education goals. MELA considers it to be a privilege to continue to 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

cc: 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

Christopher Bell, Chair
Director of Financial Aid
University of Maine at Presque Isle

John C. Atkinson, Vice Chair
Retired

Barbara Campbell Harvey, Secretary/Treasurer
Circulation/Technical Services Assistant
Bowdoin College

Daniel J. O'Halloran
Consultant
Blue Point Financial

Betsy H. Libby
Dean of Student Services
Central Maine Community College

Anthony M. Payne
Director of Business Development
Clark Insurance

Bruce Poliquin
Treasurer
State of Maine
Ex-Officio

STAFF

Shirley M. Erickson, Ph.D.
Executive Director, MELA

MELA 2011 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 programs currently consist 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 approved medical schools in Maine.

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 fixed interest rate (currently 7.75% for The Maine Loan and The Maine Medical Loan), a low guarantee fee, no annual or aggregate borrowing limits, flexible repayment terms up to fifteen years, the ability to apply online, and personalized customer service based in Maine.

All MELA loans have historically been funded with the proceeds of tax-exempt bonds or obligations, 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 and an additional $50 million was issued in 2007. The wide spread turbulence in the capital markets adversely impacted MELA's ability to issue a bond in 2008. MELA had historically funded the origination of its student loans through debt issuances in the capital markets in the form of Auction Rate Securities (ARS). The ARS markets have closed down due to the volatility of the capital markets and movement of investors to safer investments.

In order to fund 2008-2009 academic year disbursements, MELA secured interim financing in the form of a $20 million tax-exempt line of credit with TD Bank, N.A. This interim financing required changes to the terms of MELA's loan programs, with the most significant change being the elimination of full principal and interest deferment for The Maine Loan borrowers. Principal payments continue to be deferred while the student is enrolled at least half-time, but interest payments are now required while the student is in school. This change was a nationwide shift in the student loan industry and is in the best interest of the student to reduce the overall cost of repaying their loans.

MELA issued $210 million in tax-exempt fixed-rate bonds in May 2009. The proceeds from the 2009 bond issue were used to refund $136,500,000 of ARS and $15,750,000 outstanding on the tax-exempt line of credit, as well as provide additional funds for new loan disbursements and reserves. MELA's 2009 bond issue was the first tax-exempt bond issue secured solely by alternative loans since the fall of 2008.

On July 29, 2010, MELA issued $15,460,000 in tax-exempt student loan revenue bonds. MELA's 2010 bond issue provided the Authority with the continuity of funding to continue its student loan program and to begin offering fixed interest rate student loans. Unlike the variable rate loan products offered by some national student loan providers, MELA's fixed rate loans offer borrowers more stability regarding their interest rate and payment amount during uncertain economic times.

MELA did not issue any tax-exempt bonds in 2011. In lieu of a 2011 bond issue, MELA received approval from its bond insurer to use recycling payments received on loans funded with the 2009 and 2010 bond proceeds to fund new loans for the 2011-2012 academic year. MELA found that the pricing for a new bond issue would have been significantly higher than in 2010 due primarily to weaker bond markets and the expiration of the Alternative Minimum Tax holiday for tax-exempt Private Activity Bonds. The increased financing costs would have translated into a higher interest rate on MELA's loans for Maine students and families. This recycling option allowed MELA to continue to offer the same interest rate and loan terms for the 2011-2012 academic year that were available in 2010-2011.

MELA has disbursed alternative student loans totaling over $273 million (Table 1) since the Authority was established in 1988.

II. PROGRAM ADMINISTRATION: LOAN ORIGINATION AND SERVICING

The Maine Educational Loan Authority (MELA) currently has three 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 Firstmark Services, LLC for servicing of all MELA loans since 1996. Firstmark Services, LLC, assumed loan servicing responsibilities from Nelnet, Inc. (Nelnet) under a subcontract arrangement in 2005 and entered into a new servicing contract with MELA effective in May 2012. Firstmark, a wholly-owned subsidiary of Nelnet, specializes in the servicing of alternative loans with offices in Woodbury, Minnesota and Lincoln, Nebraska.

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 has a very low cumulative default rate of 2.38%, as a percentage of loans in repayment. The MELA default rate has been historically low.

Customers continue to have access to their 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 1,724 loan applications for the 2011 calendar year (Table 2). The application information and 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. The majority of borrowers are utilizing the online application process. MELA's loan approval rate has ranged between 47%-65% for applications received (Table 2), with an average approval rate of 55% for the most recent five year period. For 2011 the approval rate was 53%, an increase from the 47% approval rate in 2010.

IV. LOAN VOLUME

MELA's loan volume decreased from the previous year with disbursements of $10.4 million for 2011 compared with $12.9 million for 2010 (Table 3). During 2011, MELA made 1,735 loan disbursements resulting in an average disbursement size of $6,041.

Maine schools continue to be the biggest beneficiary of MELA loans with sixty percent (60%) of all MELA funds disbursed in 2011 (Table 3).

Sixty percent (60%) of MELA funds disbursed for this calendar year went to private schools (Table 4) compared to 64% in 2010. The average percentage of funds disbursed to private schools for the most recent five year period is 62%.

Table 5 reflects the cumulative percentage of funds disbursed between all public and private schools from 1988 to 2011. This breakdown, showing 38% of funds being used for public schools and 62% of funds for private schools is largely a reflection of the cost of attendance being higher for private institutions as compared to public institutions.

V. BORROWER DISTRIBUTION

In the 2011 calendar year, as in the past, the majority of MELA disbursements (60%) have been made to Maine schools (Table 6). This calendar year shows MELA is serving more public than private schools inside Maine (Table 7). For out-of-state schools (Table 8), the percentage of disbursements to private and public schools has remained relatively consistent from the prior year.

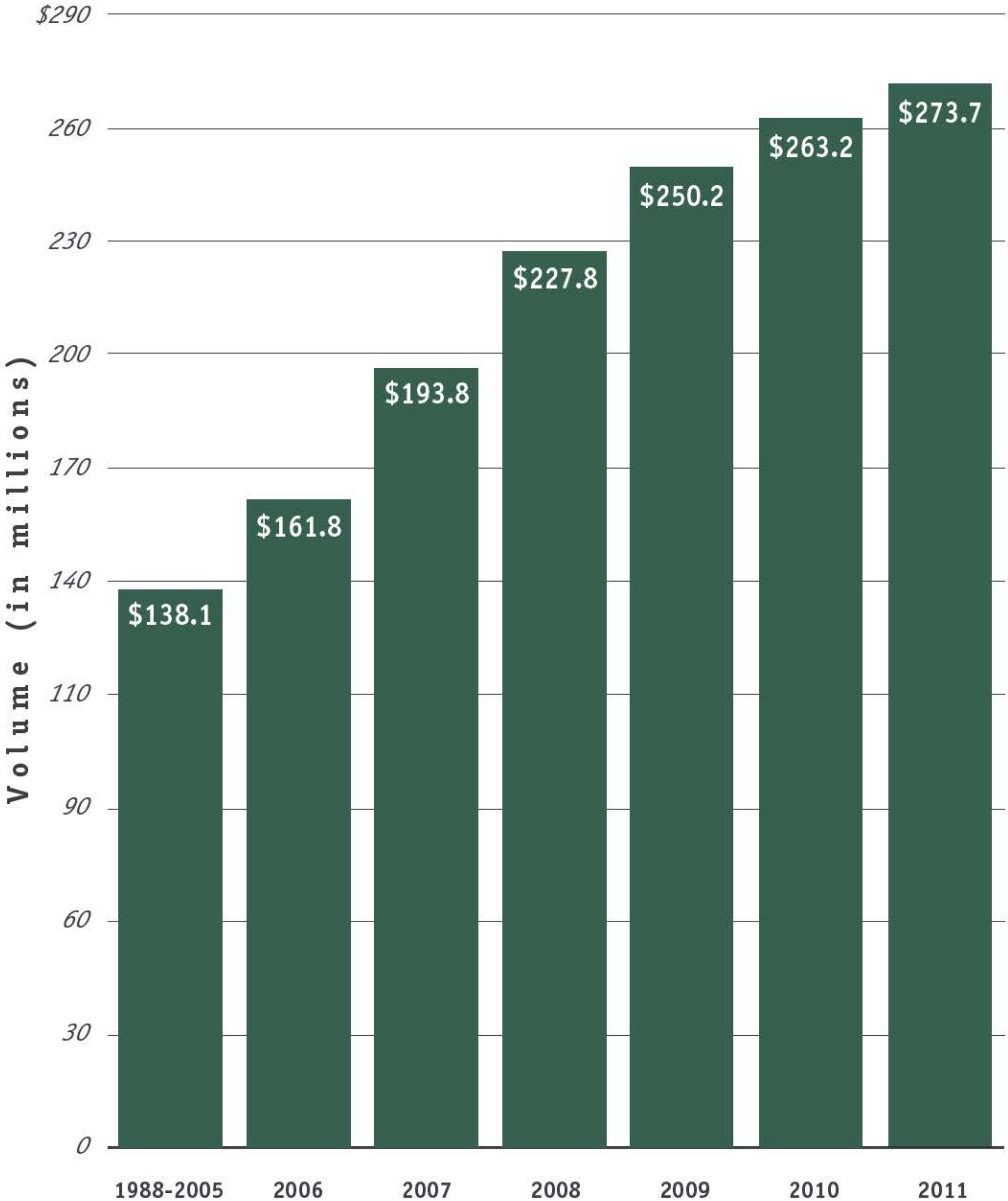
VI. SUMMARY

For the past 23 years, the Maine Educational Loan Authority (MELA) has provided over $273 million dollars in student loan disbursements primarily through The Maine Loan and The Maine Medical Loan programs. By offering a low-cost alternative education loan program, 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

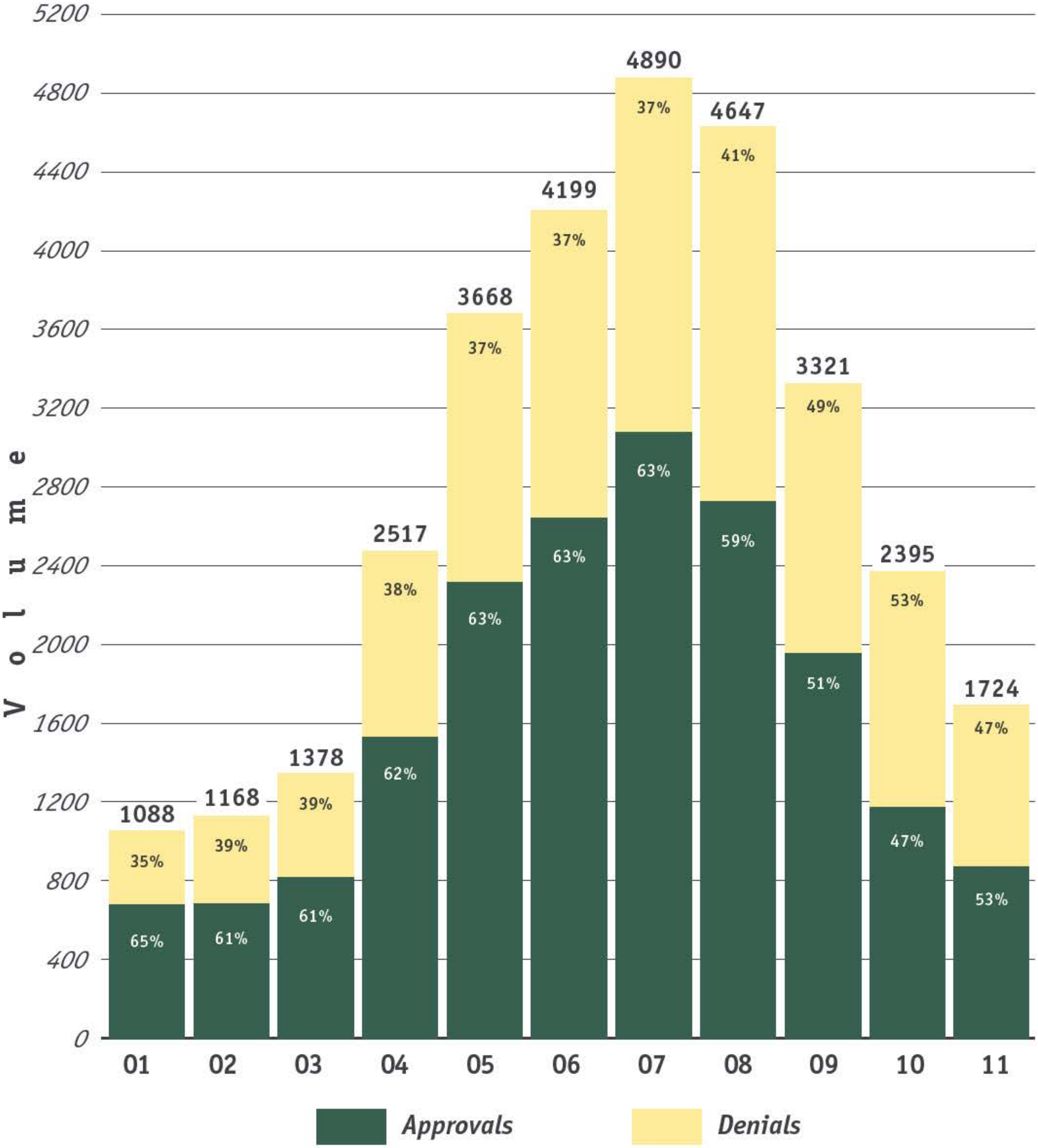
MELA Total Loan Volume (1988-2011)

Table 1



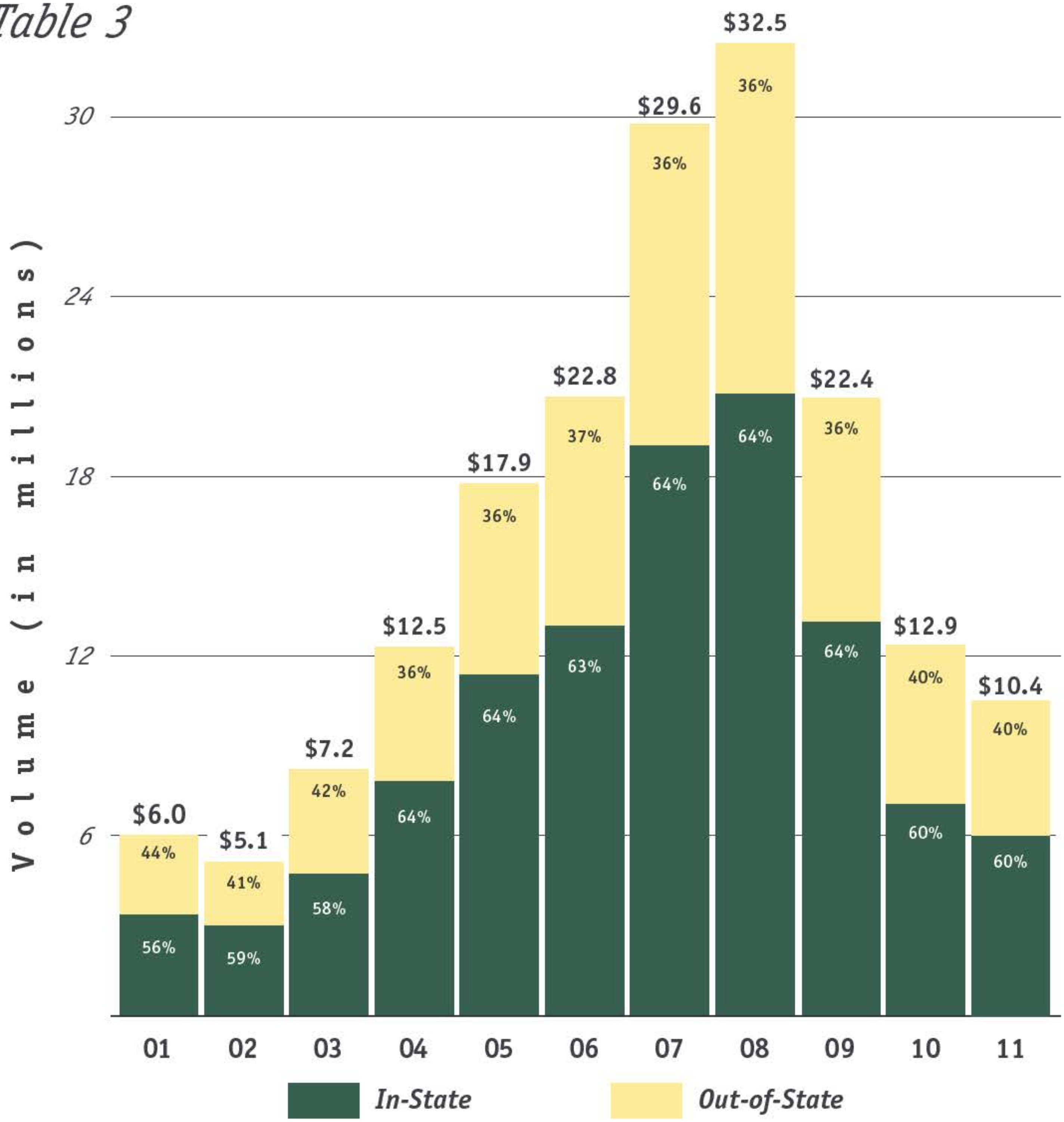
MELA Application Volume By Loan Period (2001-2011)

Table 2



Percentage of MELA Funds Disbursed To In-State/Out-of-State Schools (2001-2011)

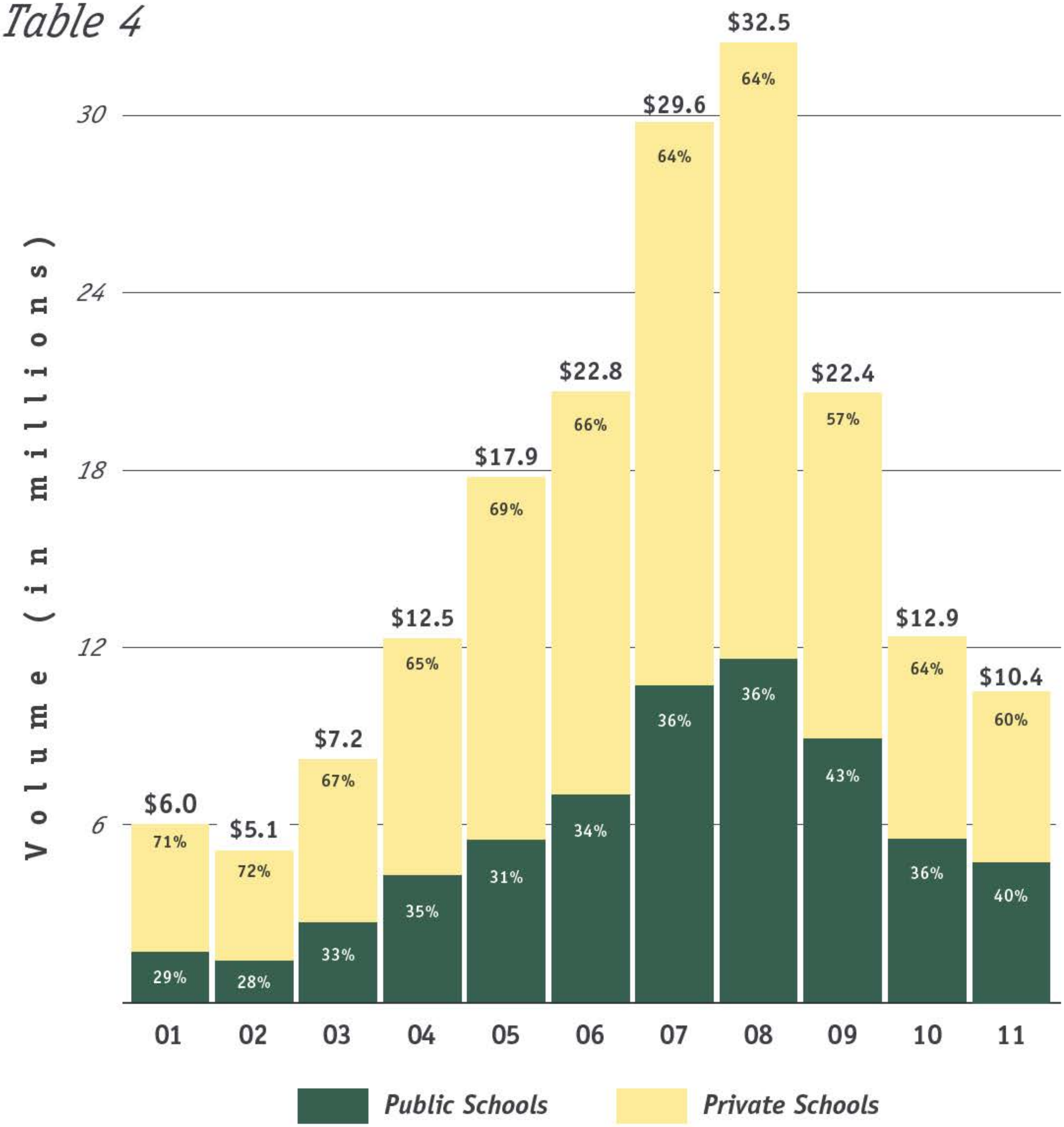
Table 3



Note: MELA Private Consolidation volume of $928,047 in 2006, $2,356,830 in 2007, and $1,537,963 in 2008 is excluded.

Percentage of MELA Funds Disbursed To Public/Private Schools (2001-2011)

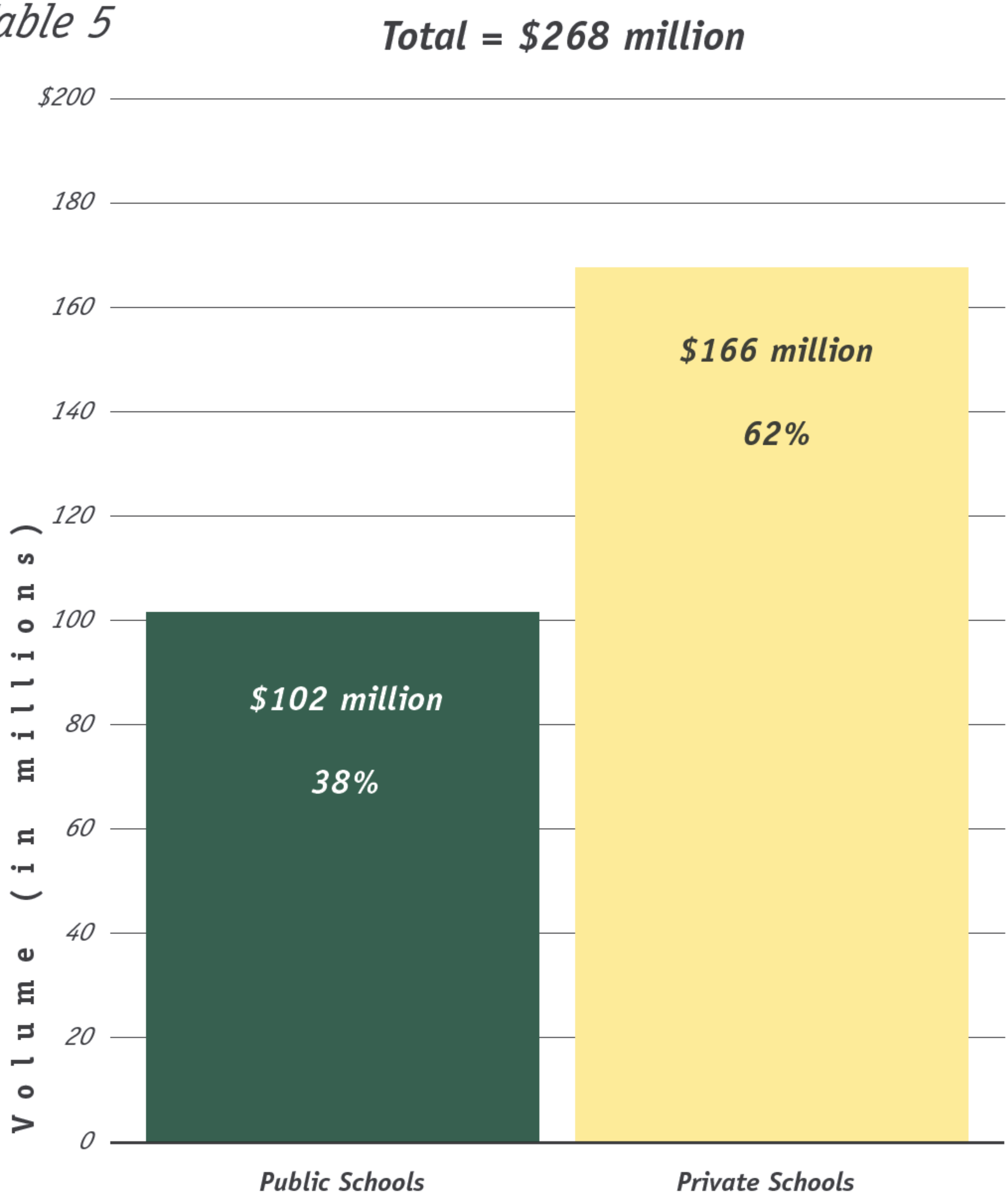
Table 4



Note: MELA Private Consolidation volume of $928,047 in 2006, $2,356,830 in 2007, and $1,537,963 in 2008 is excluded.

Cumulative Percentage of MELA Funds Disbursed to Public/Private Schools (1988-2011)

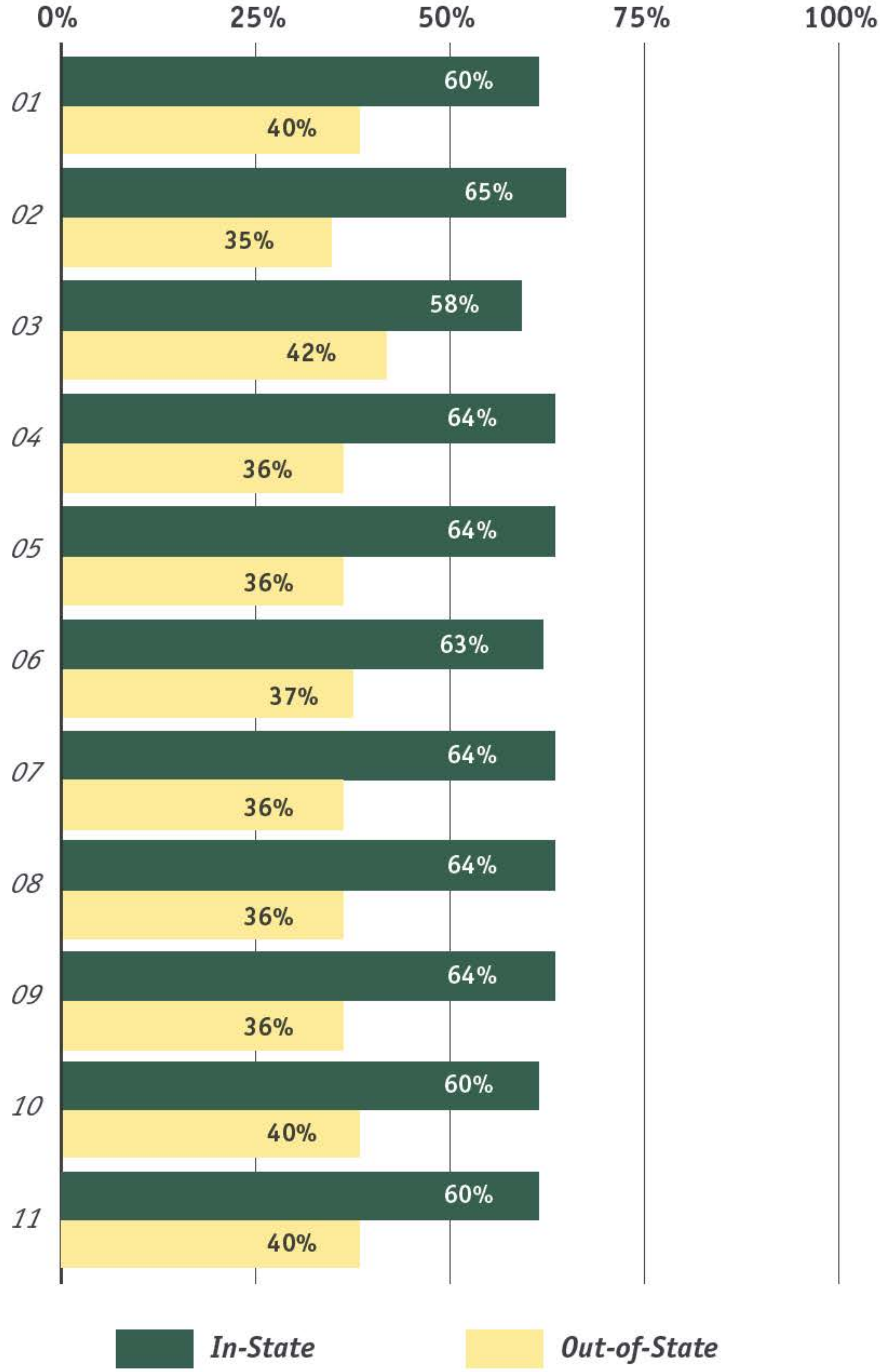
Table 5



Note: MELA Private Consolidation Loan volume of $4,822,840 is excluded.

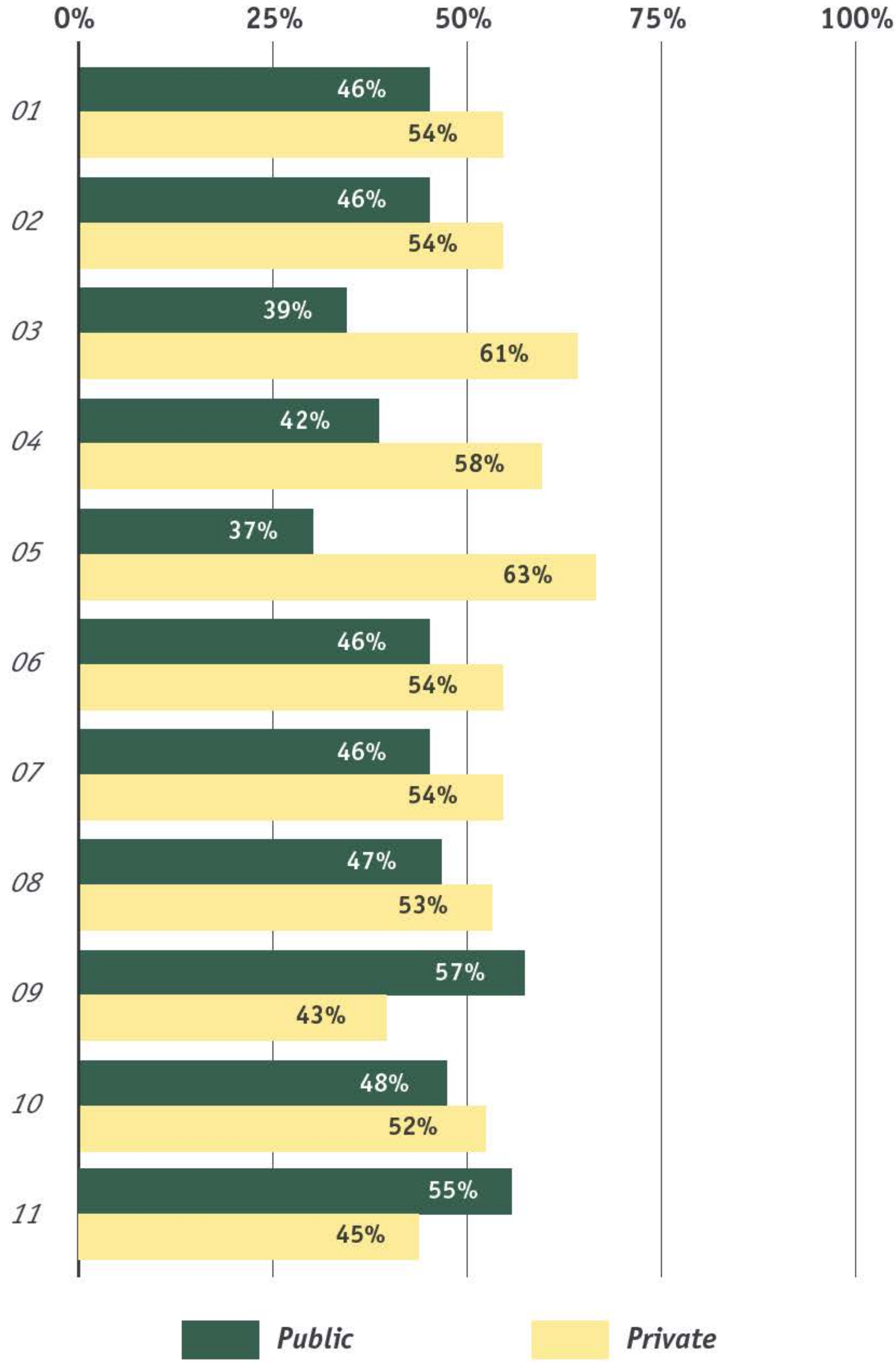
Percentage of MELA Disbursements to In-State/Out-of-State Schools (2001-2011)

Table 6



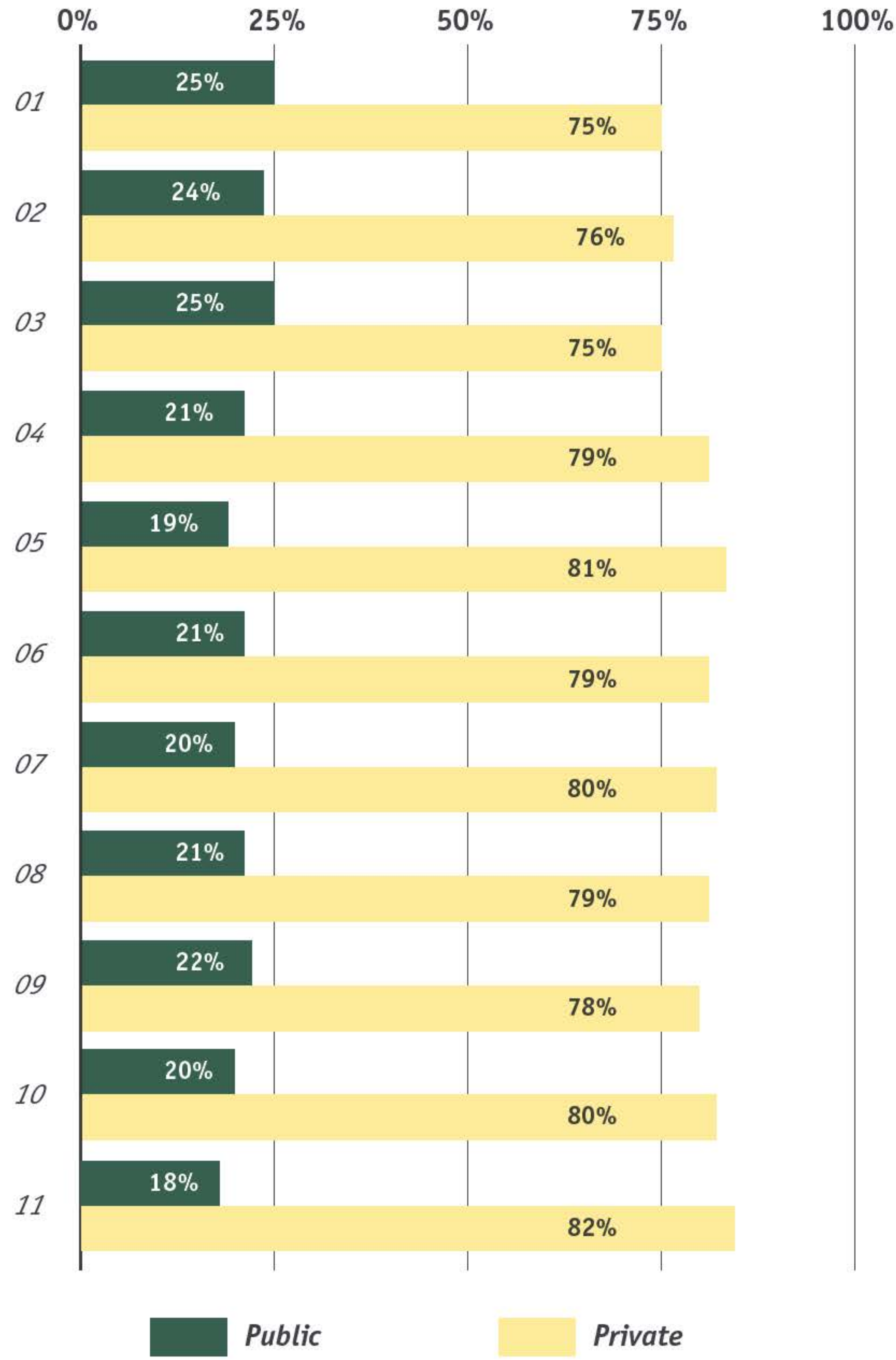
Percentage of MELA Disbursements to Public/Private Maine Schools (2001-2011)

Table 7



Percentage of MELA Disbursements to Public/Private Out-of-State Schools (2001-2011)

Table 8



Maine Educational Loan Authority

Basic Financial Statements and
Management's Discussion and Analysis
and Additional Information

Years Ended December 31, 2011 and 2010

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 (the Authority), a component unit of the State of Maine, as of and for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 3 – 9 be presented to supplement the basic financial statements. Such information, although not 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.

Members of the Authority
Maine Educational Loan Authority

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information in Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
April 10, 2012

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, 2011 and 2010. 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. This statement reports all revenues and expenses, and reconciles beginning and end of year net asset balances.

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.

Financial Highlights – 2011

- Operating income for the Authority was $218,823 for fiscal year 2011, an increase of $2,127,103 from the prior year operating loss of $1,908,280, due mainly to decreased financing expenses.
- Net assets increased in 2011 solely as a result of the operating income. The term "net assets" refers to the difference between assets and liabilities. At the close of fiscal year 2011, the Authority had net assets of $3,019,661, an increase of 7.8% from the prior year.
- The Authority's debt outstanding of $161,790,000 decreased $10,185,000 as a result of Series 2009 bond redemptions and scheduled bond maturities.
- Loans originated during the year totaled approximately $11,037,000, down 18% from the $13,506,000 originated in fiscal year 2010.

Financial Analysis – 2011

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 $3,019,661 at the close of the most recent fiscal year. This represents an increase of $218,823 (7.8%) from the previous year. The unrestricted net assets were $418,720 compared to restricted net assets of $2,600,941. 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	2011	2010	Percentage Change
Cash and investments	$ 19,812,879	$ 23,687,728	(16.4)%
Educational loans, net	138,911,176	143,438,473	(3.2)
Other assets	6,139,437	7,745,989	(20.7)
Total assets	$ 164,863,492	$ 174,872,190	(5.7)%
Deferred revenue	$ 1,917,185	$ 2,157,095	(11.1)%
Bonds payable, net	159,042,645	169,011,347	(5.9)
Other liabilities	884,001	902,910	(2.1)
Total liabilities	$ 161,843,831	$ 172,071,352	(5.9)%
Restricted net assets	$ 2,600,941	$ 2,375,433	9.5%
Unrestricted net assets	418,720	425,405	(1.6)
Total net assets	$ 3,019,661	$ 2,800,838	7.8%

The decrease in the Authority's cash and investments at December 31, 2011 from the balance at December 31, 2010 was mainly attributed to the redemptions of the Series 2009 bond issue and disbursements for the origination of educational loans in excess of loan repayments.

The Authority's educational loans, net, decreased $4,527,297 in 2011. The Authority's total loans originated and disbursed in 2011, including origination fees, was $11,036,681 compared to the $13,506,418 originated in 2010. The receipt of educational loan principal payments totaling $18,164,566 increased from the 2010 level of $15,522,108 due to an increase in loans in repayment status. The Authority's allowance for loan losses of $3,251,703 at December 31, 2011, increased from 2.2% to 2.3% of total loans outstanding, due primarily to the decrease in the total loans outstanding. During 2011, the Authority provided $875,000 to the allowance for loan losses compared to $1,350,000 in 2010.

Bonds payable, net, decreased $9,968,702 during 2011 as a result of the redemptions and scheduled maturities for the Series 2009 bond issue. For additional information refer to the Long-Term Debt Activity section of the Management's Discussion and Analysis.

The Authority's financial position grew as net assets increased 7.8% in 2011. This growth was due primarily to the decreasing financing expenses and allowance levels.

Changes in Net Assets	2011	2010	Percentage Change
Interest on educational loans	$11,283,073	$11,368,021	(0.7)%
Interest on investments	8,340	213,174	(96.1)
Other revenue	697,526	720,019	(3.1)
Total operating revenue	11,988,939	12,301,214	(2.5)
Financing expenses	8,767,542	10,589,905	(17.2)
Servicing expense	1,356,474	1,389,417	(2.4)
Bond administration expense	541,875	658,131	(17.7)
Provision for loan losses	875,000	1,350,000	(35.2)
Other operating expenses	229,225	222,041	3.2
Total operating expense	11,770,116	14,209,494	(17.2)
Change in net assets	218,823	(1,908,280)	111.5
Net assets at beginning of year	2,800,838	4,709,118	(40.5)
Net assets at end of year	$ 3,019,661	$ 2,800,838	7.8%

Operating revenues are generated principally from interest earned on educational loans and interest generated from the investment of bond proceeds. In 2011, the Authority's operating revenue totaled $11,988,939. Of this amount, 94.1% was from interest on educational loans and 0.07% was from interest on investments, compared to 92.4% and 1.7%, respectively, in 2010. Interest on educational loans decreased during 2011, mainly due to lower balances of loans outstanding during the year. The interest on investments decreased during 2011 due to the decrease in cash and investments resulting from the Series 2009 bond redemptions and the lower reinvestment rates available for the proceeds from the Series 2009 and 2010 bond issues.

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 2011 and 2010 was $11,770,116 and $14,209,494, respectively, of which $8,767,542 (74.5%) and $10,589,905 (74.5%) was attributable to debt related financing costs. Total operating expenses decreased $2,439,378 (17.2%) from 2010 to 2011 mainly as a result of the decrease in financing expenses resulting from redemptions of MELA's bonds outstanding as well as the decrease in provision for loan losses.

Long-Term Debt Activity

The Authority is authorized to issue student loan revenue bonds to originate alternative educational loans. As of December 31, 2011, the Authority had $161,790,000 in bonds payable outstanding, a decrease of 5.9% from December 31, 2010. The Authority retired $10,185,000 of the Series 2009 bonds upon scheduled maturity and mandatory redemptions. Refer to note 4 of the financial statements for further information.

Financial Highlights – 2010

- Operating loss for the Authority was $1,908,280 for fiscal year 2010, a decrease of $2,306,756 from the prior year operating income of $398,476, due mainly to the increased financing expense and the excess arbitrage recaptured in 2009.
- Net assets decreased in 2010 solely as a result of the operating loss. The term "net assets" refers to the difference between assets and liabilities. At the close of fiscal year 2010, the Authority had net assets of $2,800,838, a decrease of 40.5% from the prior year.
- The Authority's debt outstanding of $171,975,000 decreased $38,025,000 as a result of Series 2009 bond redemptions totaling $53,485,000, which was partially offset by the issuance of the Series 2010 bond issue.
- Loans originated during the year totaled approximately $13,506,000 down 41.9% from the $23,236,000 originated in fiscal year 2009.

Financial Analysis – 2010

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 $2,800,838 at the close of the most recent fiscal year. This represents a decrease of $1,908,280 (40.5%) from the previous year. The unrestricted net assets were $425,405 compared to restricted net assets of $2,375,433. 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	2010	2009	Percentage Change
Cash and investments	$ 23,687,728	$ 63,816,126	(62.9)%
Educational loans, net	143,438,473	142,606,486	0.6
Other assets	7,745,989	8,708,493	(11.1)
Total assets	$ 174,872,190	$ 215,131,105	(18.7)%
Deferred revenue	$ 2,157,095	$ 2,331,392	(7.5)%
Bonds payable, net	169,011,347	206,979,063	(18.3)
Other liabilities	902,910	1,111,532	(18.8)
Total liabilities	$ 172,071,352	$ 210,421,987	(18.2)%
Restricted net assets	$ 2,375,433	$ 4,306,316	(44.8)%
Unrestricted net assets	425,405	402,802	5.6
Total net assets	$ 2,800,838	$ 4,709,118	(40.5)%

The decrease in the Authority's cash and investments at December 31, 2010 from the balance at December 31, 2009 was mainly attributed to the proceeds from the Series 2010 bond issue less the redemptions of the Series 2009 bond issue and disbursements for the origination of educational loans in excess of loan repayments.

The Authority's educational loans, net, increased $831,987 in 2010. The Authority's total loans originated and disbursed in 2010, including origination fees, was $13,506,418 compared to the $23,235,622 originated in 2009. The receipt of educational loan principal payments totaling $15,552,108 increased from the 2009 level of $12,991,809 due to an increase in loans in repayment status. The Authority's allowance for loan losses of $3,164,380 at December 31, 2010, increased from 2.0% to 2.2% of total loans outstanding, due primarily to the increase in the provision for loan loss. During 2010, the Authority provided $1,350,000 to the allowance for loan losses compared to $1,000,000 in 2009.

Bonds payable, net, decreased $37,967,716 during 2010 as a result of the issuance of the Series 2010 bond issue less the redemptions for the Series 2009 bond issue. 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 40.5% in 2010. This decline was due primarily to the negative spread of income from investments and educational loans over bond interest and operating expenses. The negative spread was reduced during 2010 as a result of the Series 2009 bond redemptions.

Changes in Net Assets	2010	2009	Percentage Change
Interest on educational loans	$11,368,021	$10,131,276	12.2%
Interest on investments	213,174	399,062	(46.6)
Other revenue	720,019	717,846	0.3
Total operating revenue	12,301,214	11,248,184	9.4
Financing expenses	10,589,905	8,972,382	18.0
Servicing expense	1,389,417	1,453,522	(4.4)
Bond administration expense	658,131	777,826	(15.4)
Excess arbitrage	–	(1,666,345)	(100.0)
Provision for loan losses	1,350,000	1,000,000	35.0
Contributions and scholarships	–	10,000	(100.0)
Other operating expenses	222,041	302,323	(26.6)
Total operating expense	14,209,494	10,849,708	31.0
Change in net assets	(1,908,280)	398,476	(578.9)
Net assets at beginning of year	4,709,118	4,310,642	9.2
Net assets at end of year	$ 2,800,838	$ 4,709,118	40.5%

Operating revenues are generated principally from interest earned on educational loans and interest generated from the investment of bond proceeds. In 2010, the Authority's operating revenue totaled $12,301,214. Of this amount, 92.4% was from interest on educational loans and 1.7% was from interest on investments, compared to 90.1% and 3.5%, respectively, in 2009. Interest on educational loans increased during 2010, mainly due to higher balances of loans outstanding during the year. The interest on investments decreased during 2010 due to the decrease in cash and investments resulting from the Series 2009 bond redemptions and the lower reinvestment rates available for the proceeds from the Series 2009 and 2010 bond issues.

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 2010 and 2009 was $14,209,494 and $10,849,708, respectively, of which $10,589,905 (74.5%) and $8,972,382 (82.7%) was attributable to debt related financing costs. Total operating expenses increased $3,359,786 (31.0%) from 2009 to 2010 mainly as a result of the excess arbitrage recaptured in 2009 and the increase in financing expenses resulting from higher balances on MELA's bonds outstanding due to the issuance of the Series 2009 and 2010 bond issues, partially offset by the Series 2009 bond redemptions that occurred late in fiscal year 2010.

Long-Term Debt Activity

The Authority is authorized to issue student loan revenue bonds to originate alternative educational loans. As of December 31, 2010, the Authority had $171,975,000 in bonds payable outstanding, a decrease of 18.3% from December 31, 2009. The Authority issued $15,460,000 in tax-exempt student loan revenue bonds on July 27, 2010. The Authority retired $53,485,000 of the Series 2009 bonds upon scheduled maturity and mandatory redemptions.

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, 131 Presumpscot Street, Portland, Maine 04103.

MAINE EDUCATIONAL LOAN AUTHORITY

STATEMENTS OF NET ASSETS

December 31, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents (notes 2, 4 and 6)	$ 19,812,879	$ 23,687,728
Educational loans, net (notes 3, 4, 6 and 7)	17,504,003	12,729,323
Guarantee fees receivable	290,688	465,596
Interest receivable	1,574,938	1,427,154
Prepaid expenses	25,171	28,890
Total current assets	39,207,679	38,338,691
Noncurrent assets:		
Educational loans, net (notes 3, 4, 6 and 7)	121,407,173	130,709,150
Interest receivable	2,818,900	4,228,899
Guarantee fees receivable	227,116	342,895
Unamortized issuance costs	725,099	756,925
Prepaid expenses	476,773	494,432
Fixed assets, less accumulated depreciation of $2,299 and $1,853 in 2011 and 2010, respectively	752	1,198
Total noncurrent assets	125,655,813	136,533,499
Total assets	$ 164,863,492	$ 174,872,190
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable (note 5)	$ 192,573	$ 175,289
Accrued interest payable	691,428	727,621
Deferred revenue	519,808	567,487
Bonds payable, net (notes 4 and 6)	7,532,275	5,046,008
Total current liabilities	8,936,084	6,516,405
Noncurrent liabilities:		
Deferred revenue	1,397,377	1,589,608
Bonds payable, net (notes 4 and 6)	151,510,370	163,965,339
Total noncurrent liabilities	152,907,747	165,554,947
Total liabilities	161,843,831	172,071,352
Commitments and contingencies (notes 5, 7 and 8)		
Net assets:		
Restricted net assets	2,600,941	2,375,433
Unrestricted net assets	418,720	425,405
Total net assets	3,019,661	2,800,838
Total liabilities and net assets	$ 164,863,492	$ 174,872,190

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, 2011 and 2010

	2011	2010
Operating revenues:		
Interest on educational loans	$11,283,073	$11,368,021
Interest on investments	8,340	213,174
Guarantee fee income	640,282	668,634
Other revenue	57,244	51,385
Total operating revenues	11,988,939	12,301,214
Operating expenses:		
Financing expenses – interest	8,767,542	10,589,905
Servicing expenses (note 5)	1,356,474	1,389,417
Bond administration expenses	541,875	658,131
Provision for losses on educational loans (note 3)	875,000	1,350,000
Professional fees	64,484	40,631
Salaries and related benefits	100,933	99,840
Other operating expenses (note 5)	63,808	81,570
Total operating expenses	11,770,116	14,209,494
Operating income (loss)	218,823	(1,908,280)
Net assets, beginning of year	2,800,838	4,709,118
Net assets, end of year	$ 3,019,661	$ 2,800,838

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, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Interest received on educational loans	$ 9,356,669	$ 8,203,093
Principal payments received on educational loans	18,164,566	15,552,108
Educational loans originated	(11,036,681)	(13,506,418)
Fees received from borrowers	400,372	494,337
Payments for operating expenses	(2,031,222)	(2,204,233)
Net cash provided by operating activities	14,853,704	8,538,887
Cash flows from non-capital financing activities:		
Interest payments on bonds and line of credit	(8,555,611)	(10,540,582)
Proceeds from sale of bonds	–	15,305,400
Redemption of bonds	(10,185,000)	(53,485,000)
Issuance costs paid	–	(182,827)
Net cash used by non-capital financing activities	(18,740,611)	(48,903,009)
Cash flows from investing activities:		
Interest received on investments	12,058	235,724
Net decrease in cash and cash equivalents	(3,874,849)	(40,128,398)
Cash and cash equivalents at beginning of year	23,687,728	63,816,126
Cash and cash equivalents at end of year	$ 19,812,879	$ 23,687,728
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 218,823	$ (1,908,280)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Provision for losses on educational loans	875,000	1,350,000
Interest income on investments	(8,340)	(213,174)
Interest on bonds payable	8,767,542	10,589,905
Depreciation expense	446	445
Changes in assets and liabilities:		
Educational loans, net	7,127,885	1,798,162
Interest receivable on educational loans	(1,926,404)	(3,382,996)
Prepaid expenses	21,378	14,694
Accounts receivable	–	19,985
Accounts payable	17,284	(21,153)
Deferred revenue	(239,910)	291,299
	$ 14,853,704	$ 8,538,887

Noncash activities:

The Authority capitalized interest on educational loans in the amount of $3,387,411 and $3,980,149 during 2011 and 2010, respectively.

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

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 (GASB) 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 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.

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.

Educational Loans

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

1. Summary of Significant Accounting Policies (Continued)

For educational loans granted subsequent to June 1996, MELA retained guarantee fees in varying amounts for these loans. The guarantee fees assessed has varied between 0% and 7% of the principal amount of the loan depending on when the loan was originated and the creditworthiness of the borrowers. Beginning June 1, 2005, the guarantee fees assessed were added to the loan principal once the loan enters repayment. Beginning July 28, 2008, all new loans were assessed a guarantee fee of 4% of the loan amount added to the principal balance at the time of disbursement. The guarantee fees outstanding for loans that were originated between June 1, 2005 and July 28, 2008 and have not entered repayment at December 31, 2011 and 2010 totaled $517,804 and $808,491, respectively.

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

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. Past due loans greater than 180 days are automatically charged off.

Discount and Issuance Costs on Bonds and Line of Credit

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 is 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 institutional money market funds.

1. Summary of Significant Accounting Policies (Continued)

Depreciation

Capital assets of MELA consist of equipment and related software. Capital assets are defined by MELA as assets with an initial individual cost of one thousand dollars or more and are depreciated under the straight-line method over the respective estimated useful lives of the assets.

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 investments in debt instruments 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 Federal Deposit Insurance Corporation (FDIC) insured deposits, and highly rated money market funds.

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 FDIC insured deposits. The Authority's investments purchased with proceeds from the various bonds must meet minimum investment criteria contained in the bond indentures.

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 limits the custodial credit risk by regularly monitoring the credit quality ratings of the counterparties and the adequacy of the collateral accounts.

2. Cash, Cash Equivalents and Investments (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	2011	2010
Cash	$ 209,304	$ 196,016
Money market funds	19,603,575	23,491,712
	$19,812,879	$23,687,728

At December 31, 2011 and 2010, cash accounts with bank balances of $239,398 and $169,646, respectively, were deposited at financial institutions and fully insured by the FDIC. At December 31, 2011, the money market funds were invested in the Dreyfus Cash Management Institutional Fund. The fund normally invests in a diversified portfolio of high quality, short-term, dollar-denominated debt securities, including: securities issued or guaranteed as to principal and interest by the U.S. government or its agencies or instrumentalities; certificates of deposit, time deposits, bankers' acceptance and other short-term securities issued by domestic or foreign banks or thrifts or their subsidiaries or branches; repurchase agreements, including tri-party repurchase agreements; asset-backed securities; domestic and dollar-denominated foreign commercial paper and other short-term corporate obligations, including those with floating or variable rates of interest; and dollar-denominated obligations issued or guaranteed by one or more foreign governments or any of their political subdivisions or agencies. As of December 31, 2011, the fund was rated Aaa-mf by Moody's Investors Service, AAAm by Standard & Poor's, and AAAmmf by Fitch Ratings. The underlying assets were not held in the name of the Authority. At December 31, 2010, the money market accounts were invested in AIM Treasury Portfolio Fund. The fund invests under normal circumstances at least 80% of its net assets in direct obligations of the U.S. Treasury including bills, notes and bonds, and repurchase agreements secured by those obligations. The fund maintains a dollar-weighted average portfolio maturity of 60 days or less and a dollar-weighted average life to maturity of 120 days or less. As of December 31, 2010, the fund was rated Aaa-mf by Moody's Investors Service, AAAm by Standard & Poor's, and AAAmmf by Fitch Ratings. The underlying assets were not held in the name of the Authority.

3. Educational Loans

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

Educational loans 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. Beginning in July of 2008, all new borrowers are required to make "interest only" payments during the in-school and grace period. Subsequent to this period, student loans are classified as being in "repayment" status. "Forbearance" status is a period during the life of the loan when repayment is suspended for authorized purposes.

3. Educational Loans (Continued)

Educational loans at December 31, 2011 and 2010 are summarized as follows:

	2011	2010
Status:		
Interim	$ 21,825,979	$ 32,812,413
Interest only	22,249,862	23,353,880
Repayment	97,056,346	88,267,322
Forbearance	456,327	1,492,456
Educational loans	141,588,514	145,926,071
Deferred costs, net	574,365	676,782
Less allowance for loan losses	(3,251,703)	(3,164,380)
Total educational loans, net	138,911,176	143,438,473
Current portion	17,504,003	12,729,323
Noncurrent portion	$ 121,407,173	$ 130,709,150

The educational loans are pledged to the repayment of bonds.

Transactions in the allowance for loan losses for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Balance at January 1	$ 3,164,380	$ 2,934,689
Loans charged off	(1,024,563)	(1,266,440)
Recoveries on loans	236,886	146,131
Net loans charged-off	(787,677)	(1,120,309)
Provision for losses on educational loans	875,000	1,350,000
Balance at December 31	$ 3,251,703	$ 3,164,380

At December 31, 2011 and 2010, respectively, loans greater than 90 days delinquent or in claims or forbearance status approximated $1,657,000 and $3,137,000.

4. Bonds Payable and Line of Credit

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

Educational Loan Revenue Bonds	Amount Outstanding 2011	2010
2009 series due in annual installments on December 1, 2012 through 2039; interest fixed at rates ranging from 2.75% to 5.875%	$ 146,330,000	$ 156,515,000
2010 series due in annual installments on December 1, 2012 through 2025; interest fixed at rates ranging from 1.15% to 4.45%	15,460,000	15,460,000
	161,790,000	171,975,000
Less:		
Unaccreted bond discount	1,555,629	1,680,882
Unaccreted deferred loss on refunding	1,191,726	1,282,771
Bonds payable, net	159,042,645	169,011,347
Current portion	7,532,275	5,046,008
Non-current portion	$ 151,510,370	$ 163,965,339

To date, the bonds issued by MELA have been exempt from federal income taxes. MELA issued $15,460,000 in tax-exempt debt in 2010. MELA carried forward a $12,250,000 allocation of Private Activity Bond Cap from previous years, and received an allocation of $20,000,000 for 2010 resulting in $16,790,000 of Private Activity Bond Cap being available for 2011. MELA received an allocation of $30,000,000 for 2011, resulting in $46,790,000 of Private Activity Bond Cap being available for 2012. MELA expects to continue to receive allocations of Private Activity 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.

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 cash reserve funds totaling approximately $2,254,600 at both December 31, 2011 and 2010, 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 Authority paid a one-time premium of $540,049 for the surety bond on the closing date of the Series 2009 bonds.

4. Bonds Payable and Line of Credit (Continued)

On June 22, 2011, the State of Maine approved legislation extending the ability of the Authority to create or establish capital reserve funds which will benefit from a "moral obligation" from the State of Maine to June 30, 2017. 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.

The debt service requirements, which are based on the interest rates at December 31, 2011, through 2016 and in five-year increments thereafter to maturity for the Authority, are as follows:

Year(s)	Principal	Interest	Total
2012	$ 7,745,000	$ 8,297,129	$ 16,042,129
2013	7,815,000	8,040,959	15,855,959
2014	7,595,000	7,754,590	15,349,590
2015	8,010,000	7,448,733	15,458,733
2016	8,080,000	7,104,574	15,184,574
2017 – 2021	38,400,000	29,942,975	68,342,975
2022 – 2026	24,710,000	20,955,986	45,665,986
2027 – 2031	12,875,000	16,823,794	29,698,794
2032 – 2036	29,100,000	10,257,750	39,357,750
2037 – 2039	17,460,000	2,051,550	19,511,550
	$ 161,790,000	$ 118,678,040	$ 280,468,040

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 years ended December 31, 2011 and 2010:

	2011	2010
Balance at beginning of year	$ 169,011,347	$ 206,979,063
Issuance	–	15,305,400
Redemption of bonds	(10,185,000)	(53,485,000)
Accretion	216,298	211,884
Balance at end of year	$ 159,042,645	$ 169,011,347

5. Commitments

The Authority is party to an agreement whereby Maine Education Services (MES), provides administrative services for the Authority. The current contract extends from October 1, 2009 through September 30, 2014. The current fee for these services is equal to 0.65% per annum of the aggregate principal amount of loans outstanding. The fee is further reduced to 0.60%, 0.55%, and 0.50% if the outstanding loan balance exceeds $150,000,000, $175,000,000, and $200,000,000, respectively. The Authority recorded expense of $936,074 and $945,754 in 2011 and 2010, 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 $100,093 and $123,584 in 2011 and 2010, respectively. These origination fees are deferred and amortized over the approximate life of the loans, which is estimated to be 10 years. In addition, MELA pays to MES a management and financial advisory fee of 0.05% times the par value of each new bond issue for services required to facilitate each bond or line of credit offering, and to establish the initial loan and investment portfolios and bond level financial statements, which fee amounted to $7,730 in 2010. These fees are included with bond issuance costs and amortized over the life of each respective bond issue.

As a result of the various transactions described above, at December 31, 2011 and 2010, the Authority owed MES $79,257 and $81,121, respectively, which is included in accounts payable.

The Authority is party to an agreement whereby Firstmark Services provides student loan servicing for the Authority. The current agreement expires on April 30, 2012. The Authority recorded expense of $396,213 and $399,100 in 2011 and 2010, respectively, under this arrangement, which is recorded as servicing expenses. On March 16, 2012, the Authority entered into a new servicing agreement with Firstmark Services to provide student loan servicing from May 1, 2012 through April 30, 2017.

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. There is no estimated arbitrage liability at December 31, 2011 and 2010.

7. Loan Commitments

At December 31, 2011 and 2010, MELA had commitments to extend credit for educational loans of approximately $3,472,000 and $4,064,000, 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.

8. Contingencies

On April 7, 2008 The Education Resources Institute, Inc. (TERI) commenced a case under chapter 11 of Title 11 of United States Code (the Bankruptcy Code) in the United States Bankruptcy Court. The chapter 11 filing effectively terminates, on a prospective basis, the Guaranty Agreement between TERI and the Authority dated July 14, 1988. The termination of the Guaranty Agreement does not in itself relieve TERI from its obligation to honor any claims on existing guaranteed loans. As of December 31, 2011 and 2010, the Authority has TERI guaranteed student loans outstanding totaling $247,330 and $372,522, respectively (approximately 0.17% and 0.26% of the total loan portfolio). The Authority has not issued any new student loans carrying a TERI guaranty since 1996. Management of the Authority does not believe there is a material risk of loss due to the TERI bankruptcy filing due to the small balance of loans remaining with the guaranty, coupled with the fact that these are relatively seasoned loans with a very low default rate.

The Authority carries insurance to cover its exposure to various risks of loss. The Authority does not have any self-insurance programs and there were no significant uninsured losses during 2011 and 2010.

ADDITIONAL INFORMATION

MAINE EDUCATIONAL LOAN AUTHORITY

STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

		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	$(11,770,116)	$11,980,599	$ 8,340	$ –	$ –	$ 218,823
		Change in net assets				$ 218,823
		Net assets, beginning of the year				2,800,838
		Net assets, end of the year				$3,019,661