MAINE EDUCATIONAL LOAN AUTHORITY

Annual Report

2014

MELA[SM]

MAINE EDUCATIONAL LOAN AUTHORITY

131 Presumpscot Street, Portland, ME 04103 ♦ 207-791-3600 ♦ 1-800-922-6352 ♦ fax 207-791-3616 ♦ www.mela.net

April 29, 2015

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, 2014 through December 31, 2014.

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; financial counseling and literacy; 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. In 2014, MELA's supplemental student loan program consisted of The Maine Loan®, The Maine Medical Loan℠ and MELA Private Consolidation 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. The MELA Private Consolidation Loan, which allowed borrowers with qualifying alternative or private education loans to consolidate these loans, was offered through June 30, 2014.

Students attending Maine's public and private institutions of higher education continue to be the greatest beneficiaries of MELA loans. MELA's loan volume in 2014 was $7,151,316 in originations, which is an increase of approximately 10% when compared with the $6,474,442 originated in fiscal year 2013. It is expected that there will be a continuing demand for supplemental student loans for a number of reasons, including the impact of the prolonged difficult economic conditions on state funding for higher education, employment opportunities, and individual wealth. In addition, the high cost of attendance at higher education institutions requires increased borrowing by students and their families to cover the gap between the full cost of a college education and traditional financial aid resources.

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On July 15, 2014, MELA issued $10,466,098 (including original issue premium) in tax-exempt student loan revenue bonds. MELA's 2014 bond issue enabled the Authority to offer three fixed interest rates depending on the repayment option selected by the borrower. Two of MELA's fixed interest rates were lower than the William D. Ford Federal Direct PLUS Loan rate of 7.21% for the 2014-2015 academic year. MELA's repayment options and the percentage of borrowers utilizing each option included: immediate repayment of principal and interest (12%); interest only payments (53%); and deferment of principal and interest payments (35%).

Baker Newman and Noyes LLC, an independent certified public accounting firm, recently completed MELA's financial audit for the 2014 fiscal year. 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 cost effective 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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Authority Members

John C. Atkinson, *Chair*
Retired

Anthony M. Payne, *Vice Chair*
Director of Business Development ~ Clark Insurance

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

Daniel J. O'Halloran
President ~ The O'Halloran Group

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

Betsy H. Libby
Dean of Academic Affairs ~ Central Maine Community College

Terry Hayes
Treasurer ~ State of Maine, Ex-Officio

Mela Staff

Shirley M. Erickson, Ph.D.
Executive Director

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2014 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.

In 2014, MELA's alternative student loan program consisted of The Maine Loan®, The Maine Medical Loan℠ and MELA Private Consolidation Loan℠. The MELA Private Consolidation Loan, which allowed borrowers with qualifying alternative or private education loans to consolidate these loans, was offered through June 30, 2014.

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). Key features of MELA's loan programs include: three fixed interest rates offered depending on the repayment option selected; all approved borrowers receive the same fixed interest rate for the repayment option selected, regardless of credit history or if there are co-borrowers; a range of repayment options of immediate repayment, interest only payments, and full deferment; a low guarantee fee; no annual or aggregate borrowing limits; a 0.25% interest rate reduction with automatic debit payments; easy online application with fast credit decisions; a financial literacy program to address specific borrower needs, including an online smart borrowing tutorial as part of the pre-application process; 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

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2014 Program Highlights

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 bonds 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 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. 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.

On June 14, 2012, MELA issued $12,685,000 in tax-exempt student loan revenue bonds. MELA's 2012 bond issue enabled the Authority to offer a lower fixed interest rate and to provide the continuity of funding to continue offering its student loan program. MELA offered the only fixed rate alternative loan program in Maine, where all approved borrowers receive the same interest rate. Most variable rate products have tiered rates based on credit scores, presence of a co-signer, and which repayment option is selected.

MELA did not issue any tax-exempt bonds in 2013. In lieu of a 2013 bond issue, MELA received approval from its bond insurer to use recycling payments received on loans funded with the 2009, 2010, and 2012 bond proceeds to fund new loans for the 2013-2014 academic year. This recycling option enabled MELA to continue to offer the same fixed interest rate and loan terms for the 2013-2014 academic year that were available in 2012-2013.

On July 15, 2014, MELA issued $10,466,098 (including original issue premium) in tax-exempt student loan revenue bonds. MELA's 2014 bond issue enabled the Authority to offer three fixed interest rates depending on the repayment option selected by the borrower. Two of MELA's fixed interest rates were lower than the William D. Ford Federal Direct PLUS Loan rate of 7.21% for the 2014-2015 academic year. MELA's repayment options and the percentage of borrowers utilizing each option included: immediate repayment of principal and interest (12%); interest only payments (53%); and deferment of principal and interest payments (35%).

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MELA has disbursed alternative student loans totaling over $295 million (Table 1) since the Authority was established in 1988. As of December 31, 2014, MELA had 11,739 outstanding loans totaling $112,120,077 (Table 2).

II. PROGRAM ADMINISTRATION: LOAN ORIGINATION AND SERVICING

The Maine Educational Loan Authority (MELA) currently has two 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. In addition, MELA contracts with Firstmark Services, LLC/Nelnet Servicing, LLC, for servicing of all MELA loans since 1996. Firstmark/Nelnet Servicing specializes in the servicing of alternative loans and has 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 assistance and support in connection with the management of existing tax-exempt bonds and the issuance of new bonds. General financial 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 annual default rate of .953% 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 website at www.mela.net.

III. APPLICATION VOLUME AND DISTRIBUTION

MELA processed 1,360 loan applications for the 2014 calendar year (Table 3). 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%-54% for applications received (Table 3), with an average approval rate of 51% for the most recent five year period. For 2014 the approval rate was 51%, a decrease from the 54% approval rate in 2013.

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2014 Program Highlights

IV. LOAN VOLUME

MELA's loan volume increased from the previous year with disbursements of approximately $7.1 million for 2014 compared with $6.4 million for 2013 (Table 4). During 2014, MELA made 962 loan disbursements resulting in an average disbursement size of $7,434.

Students attending Maine's public and private colleges and universities continue to be the greatest beneficiaries of MELA loans with fifty-two percent (52%) of all MELA funds disbursed in 2014 (Table 4).

Sixty-three percent (63%) of MELA funds disbursed for this calendar year went to private schools (Table 5) compared to 60% in 2013. The average percentage of funds disbursed to private schools for the most recent five year period is 61%.

Table 6 reflects the cumulative percentage of funds disbursed between all public and private schools from 1988 to 2014. 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.

V. BORROWER DISTRIBUTION

In the 2014 calendar year, as in the past, the majority of MELA disbursements (52%) have been made to Maine schools (Table 7). This calendar year shows MELA is serving more public than private schools inside Maine (Table 8). For out-of-state schools (Table 9), the percentage of disbursements to private and public schools has remained relatively consistent for the past five years.

VI. FINANCIAL COUNSELING AND LITERACY

MELA recognizes that with the increasing cost of higher education and challenging economic environment, many Maine families are faced with difficult financial challenges. With more reliance on student loans to pay for tuition and other educational costs, the need for students to understand the costs, risks, and benefits of the loans they use is critical for their future financial success.

MELA's dedicated certified financial counselors understand the daily challenges many customers face as they add student loan payments to their daily expenses. The Authority understands that default is avoidable and as such works hard to help borrowers avoid delinquency and default on their student loans.

In an effort to assist students in understanding the consequences of overborrowing, MELA has incorporated the Student Loan Game Plan℠ as a required part of all online student loan applications. This proactive step was taken to help students avoid situations where delinquency and default are more likely.

This interactive tool works to reduce student indebtedness by educating applicants and cosigners about responsible borrowing decisions and uses several methods to help borrowers avoid the dangers of the "borrow now and worry about it later" type of mentality. Utilizing customized estimated salary information based on the borrower's major and sample monthly budget numbers based on the borrower's anticipated starting salary and national-average expenses, the program allows students to review potential loan debt-to-income ratios.

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2014 Program Highlights

The Student Loan Game Plan highlights everyday challenges often caused by overborrowing and provides solutions to real risks. The program allows potential borrowers to reduce their requested loan amount before proceeding with the application and offers the ability to create and print a targeted action plan to reduce overall borrowing.

By educating students on how to borrow only what they can afford to repay, MELA encourages responsible borrowing during college, which is key to a sound financial future after graduation.

VII. SUMMARY

For the past 26 years, the Maine Educational Loan Authority (MELA) has provided over $295 million dollars in student loan disbursements primarily through The Maine Loan and The Maine Medical Loan programs.

By offering a high-quality 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 educational financing 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.

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CHARTS AND GRAPHS

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Table 1 Total Loan Volume (1988-2014)

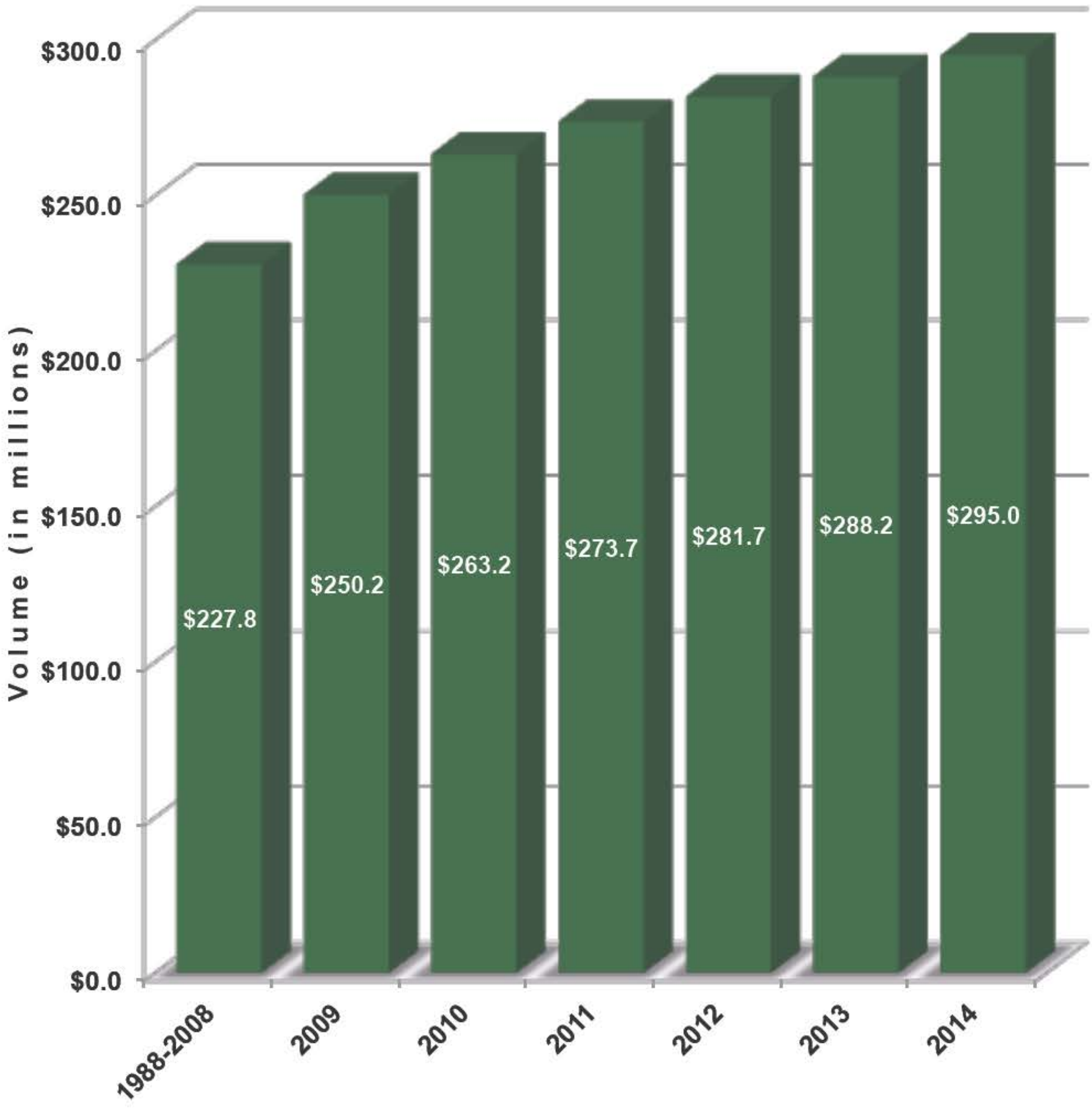

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Table 2 Total Outstanding Portfolio Balance (2004-2014)

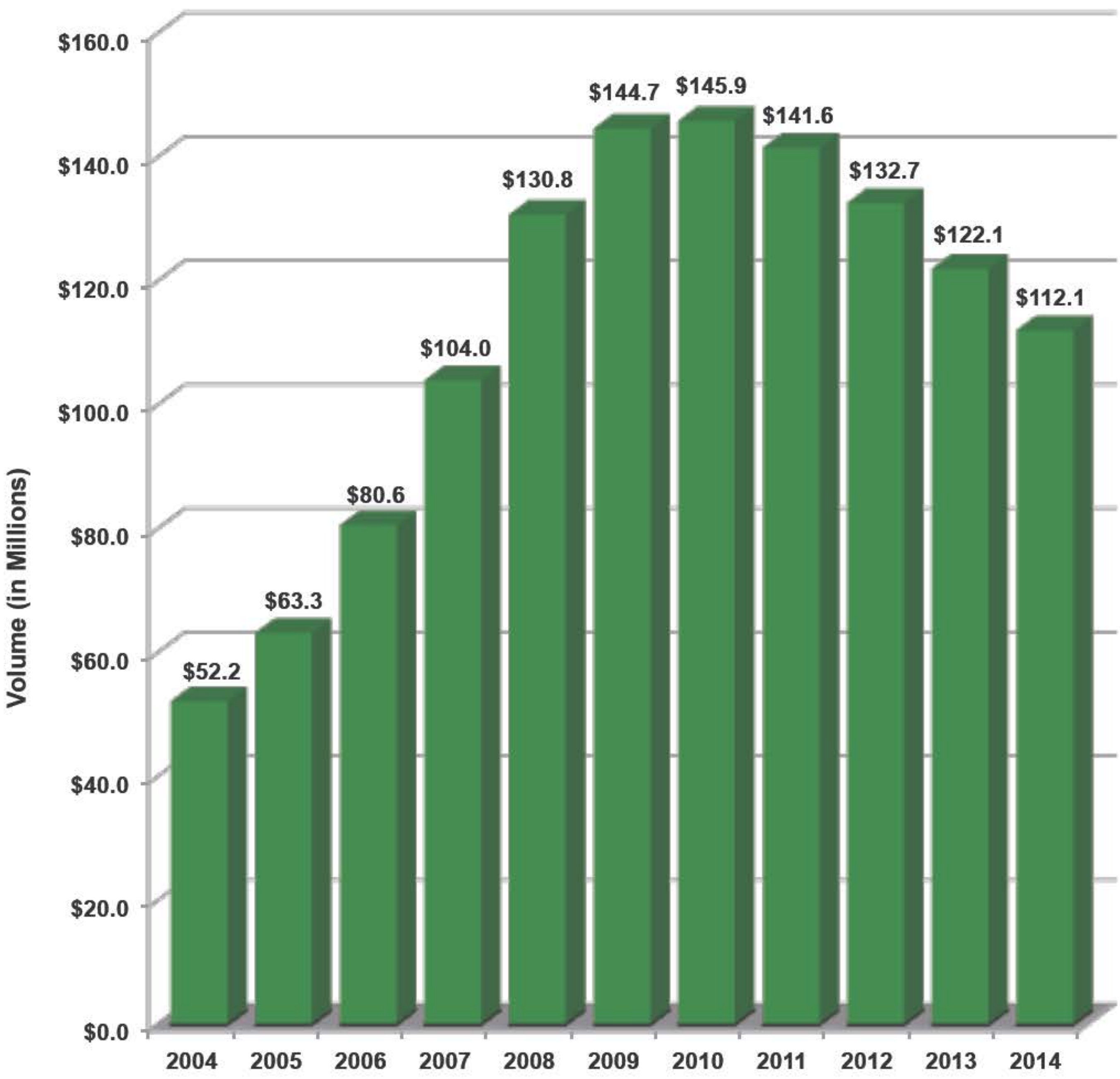

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Table 3 Application Volume By Loan Period (2004-2014)

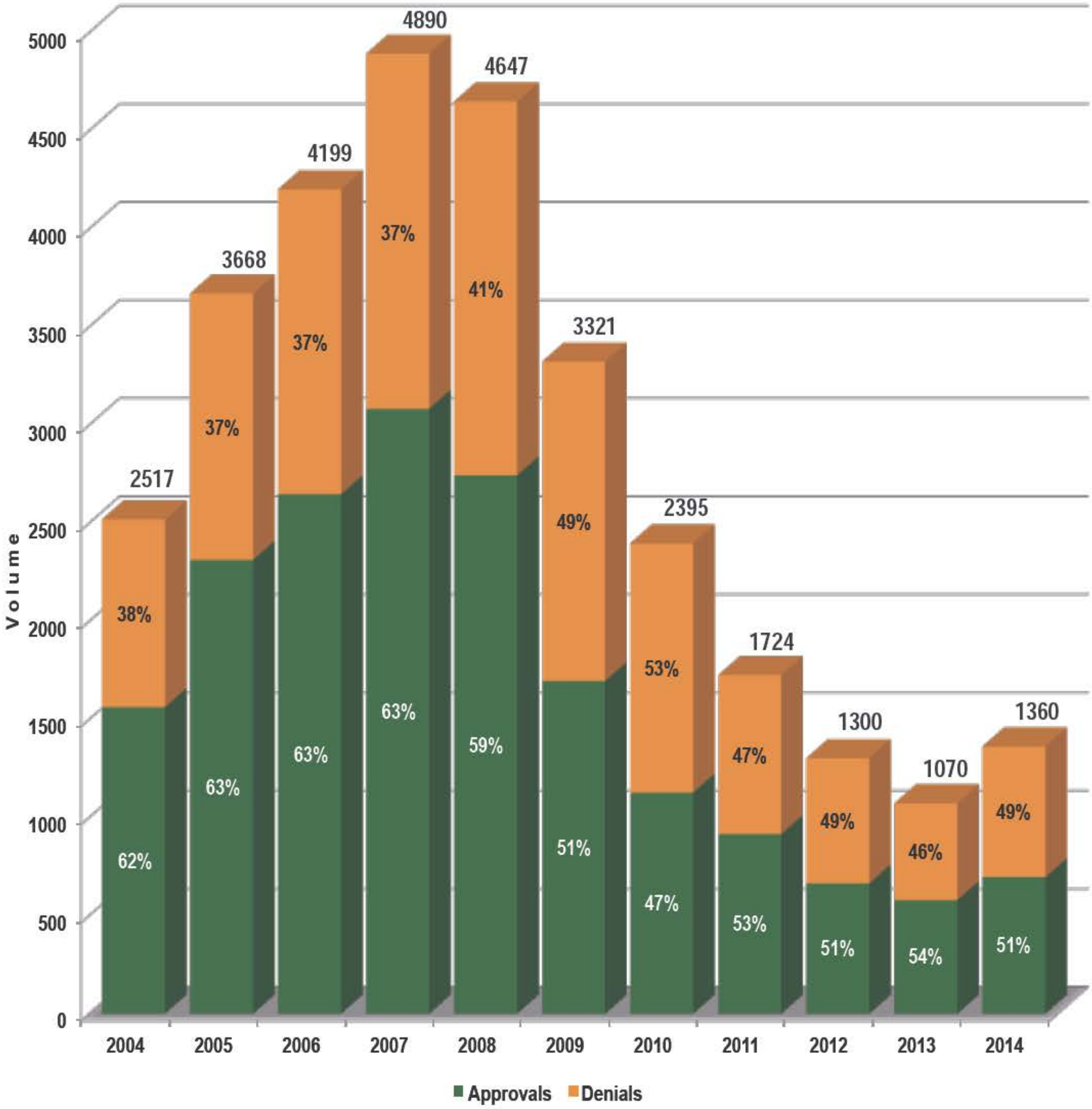

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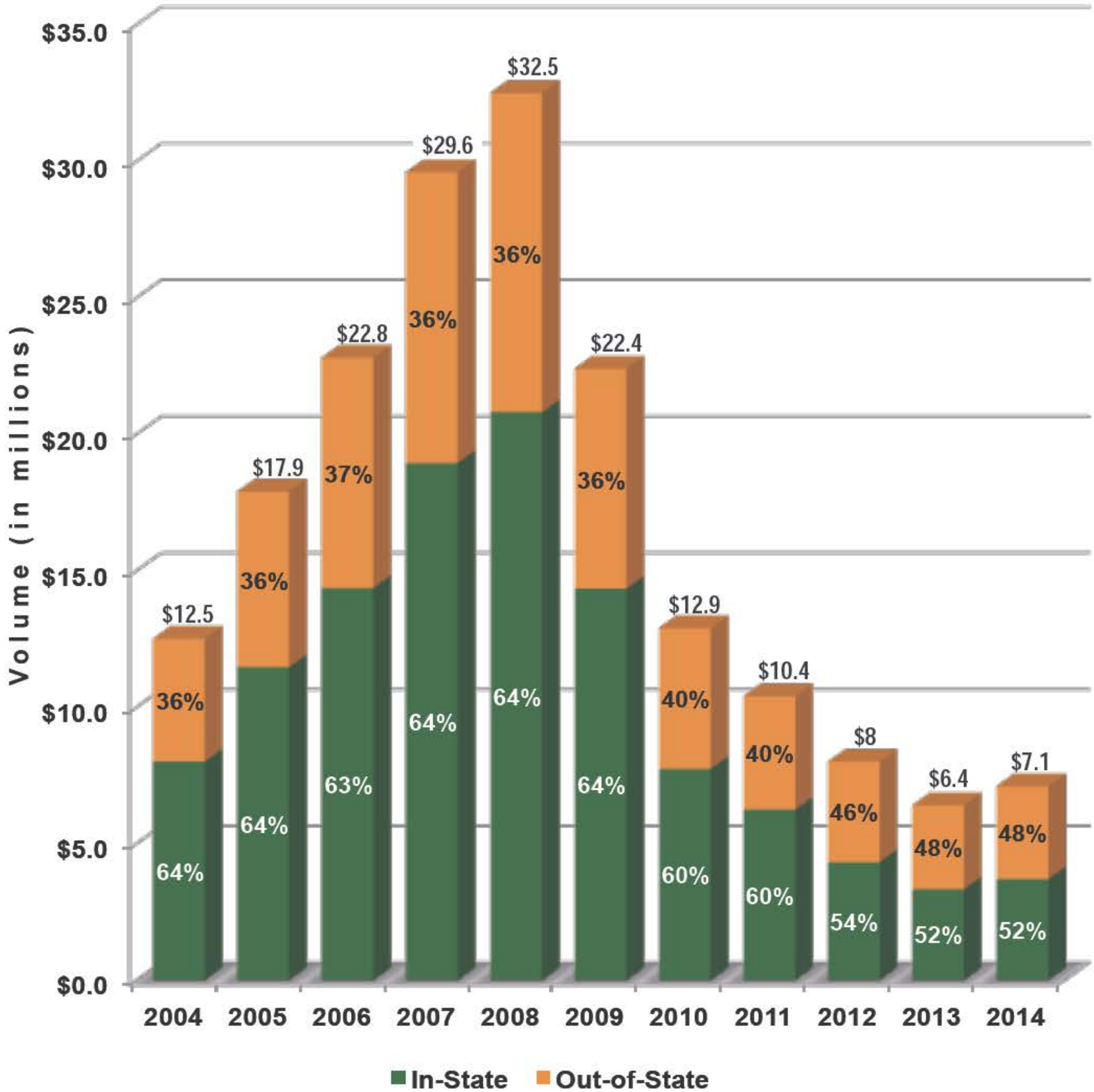
Table 4 Percentage of Funds Disbursed to In-State/Out-of-State Schools (2004-2014)



Note: MELA Private Consolidation volume of $928,047 in 2006, $2,356,830 in 2007, $1,537,963 in 2008, and $113,227 in 2014 is excluded.

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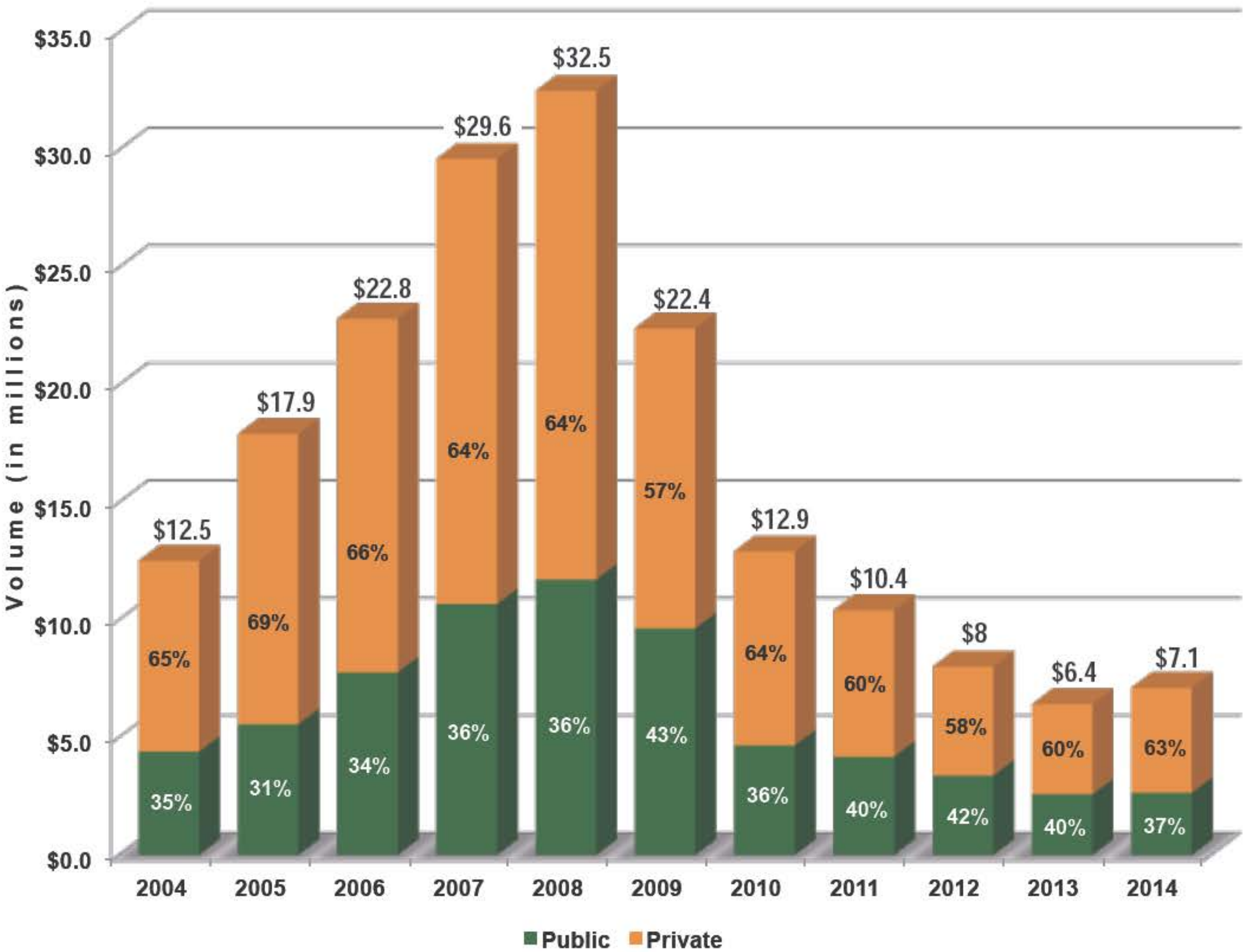
Table 5 Percentage of Funds Disbursed to Public/Private Schools (2004-2014)



Note: MELA Private Consolidation volume of $928,047 in 2006, $2,356,830 in 2007, $1,537,963 in 2008, and $113,227 in 2014 is excluded.

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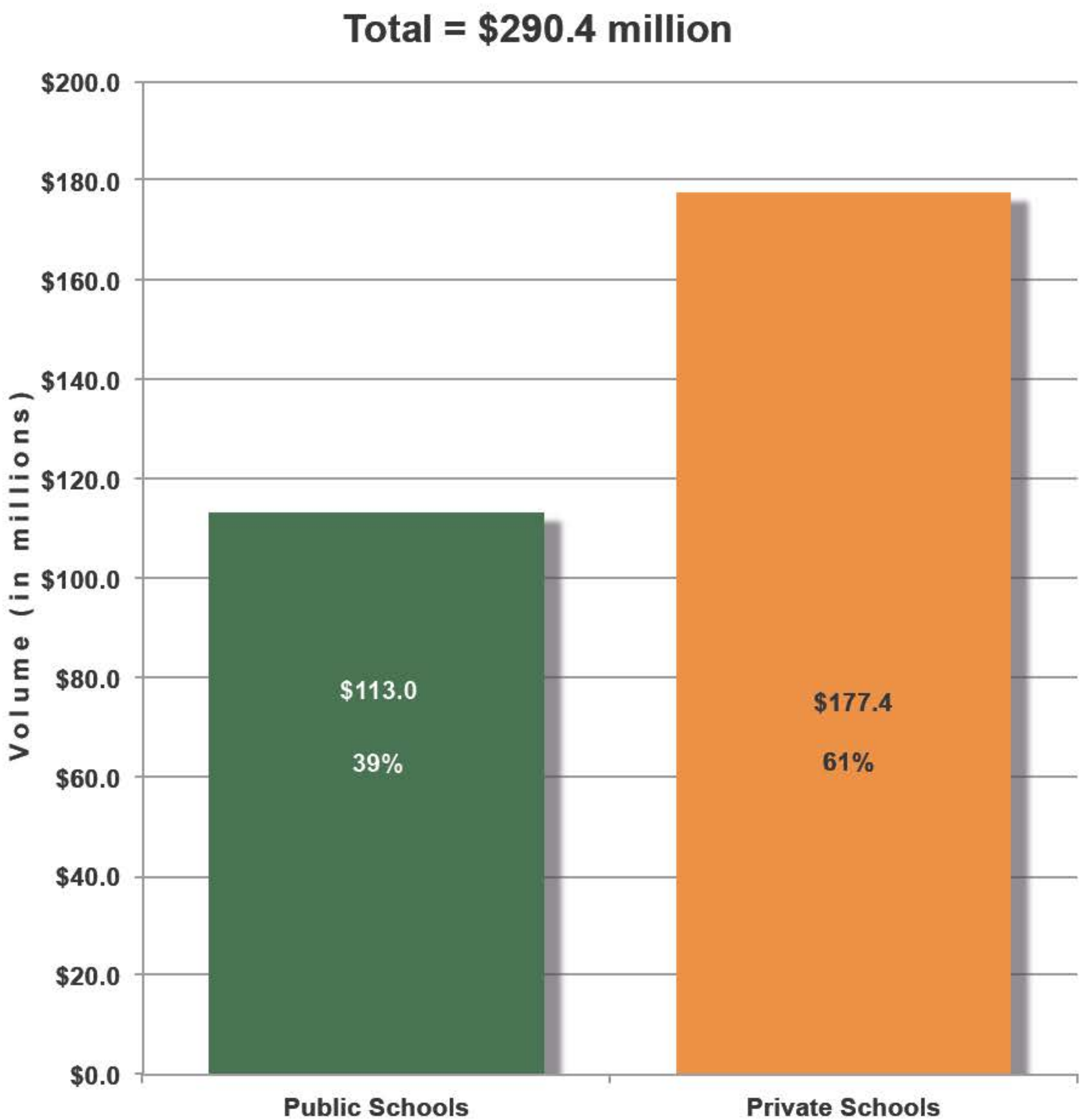
Table 6 Cumulative Percentage of Funds Disbursed to Public/Private Schools (1988-2014)



Note: MELA Private Consolidation Loan volume of $4,936,067 is excluded.

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Table 7 Percentage of Disbursements to In-State/Out-of-State Schools (2004-2014)

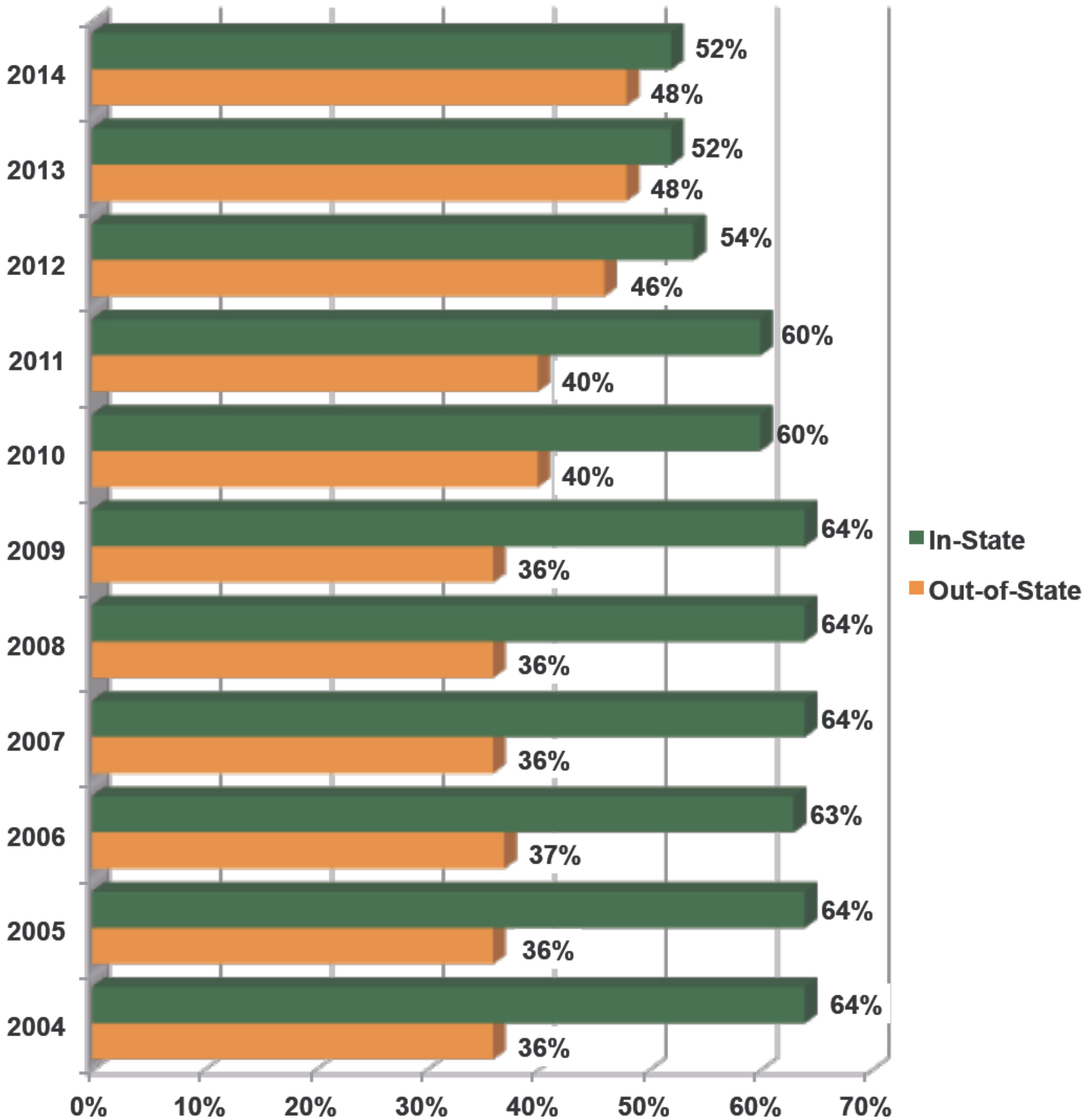

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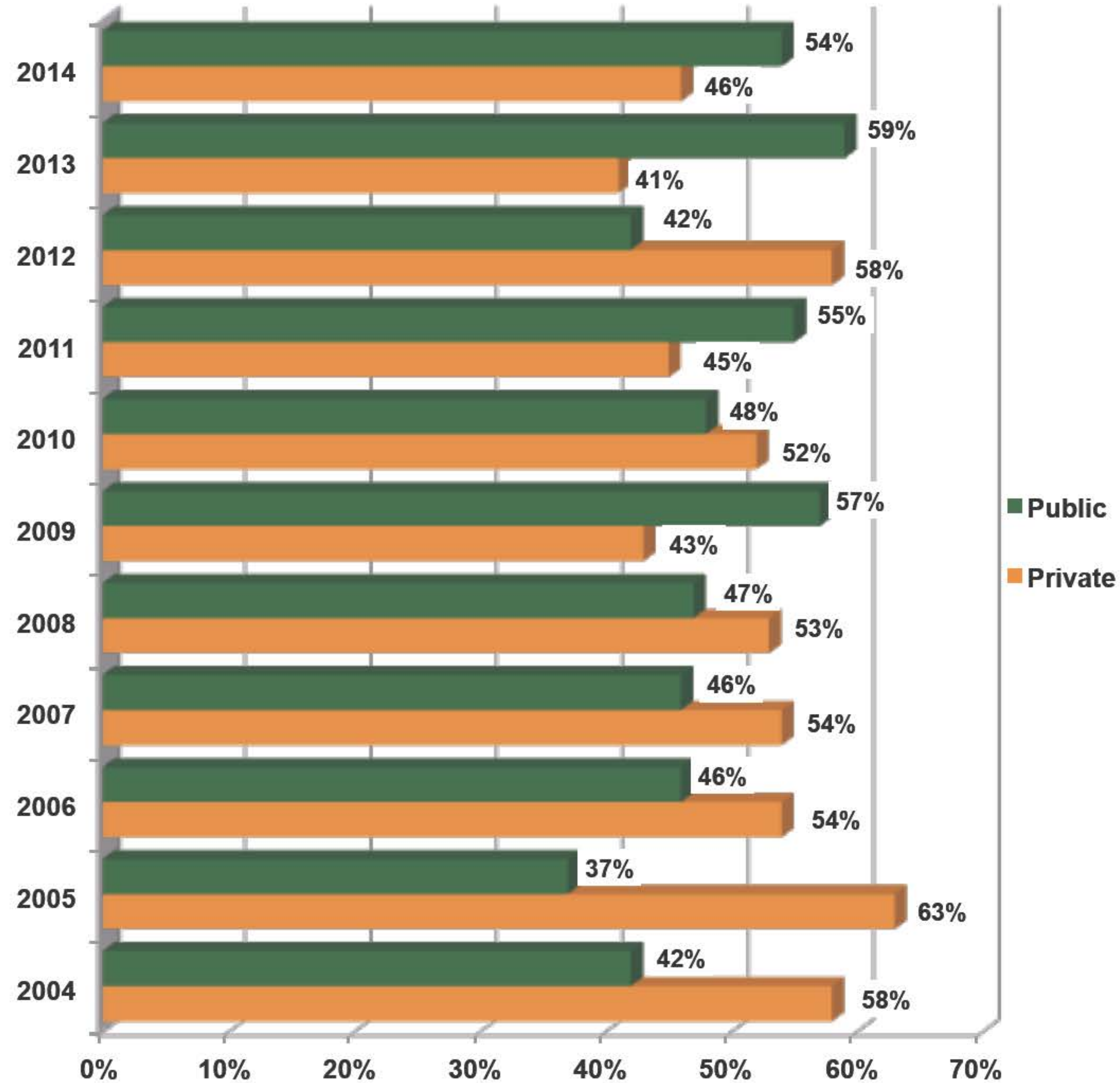
Table 8 Percentage of Disbursements to Public/Private Maine Schools (2004-2014)



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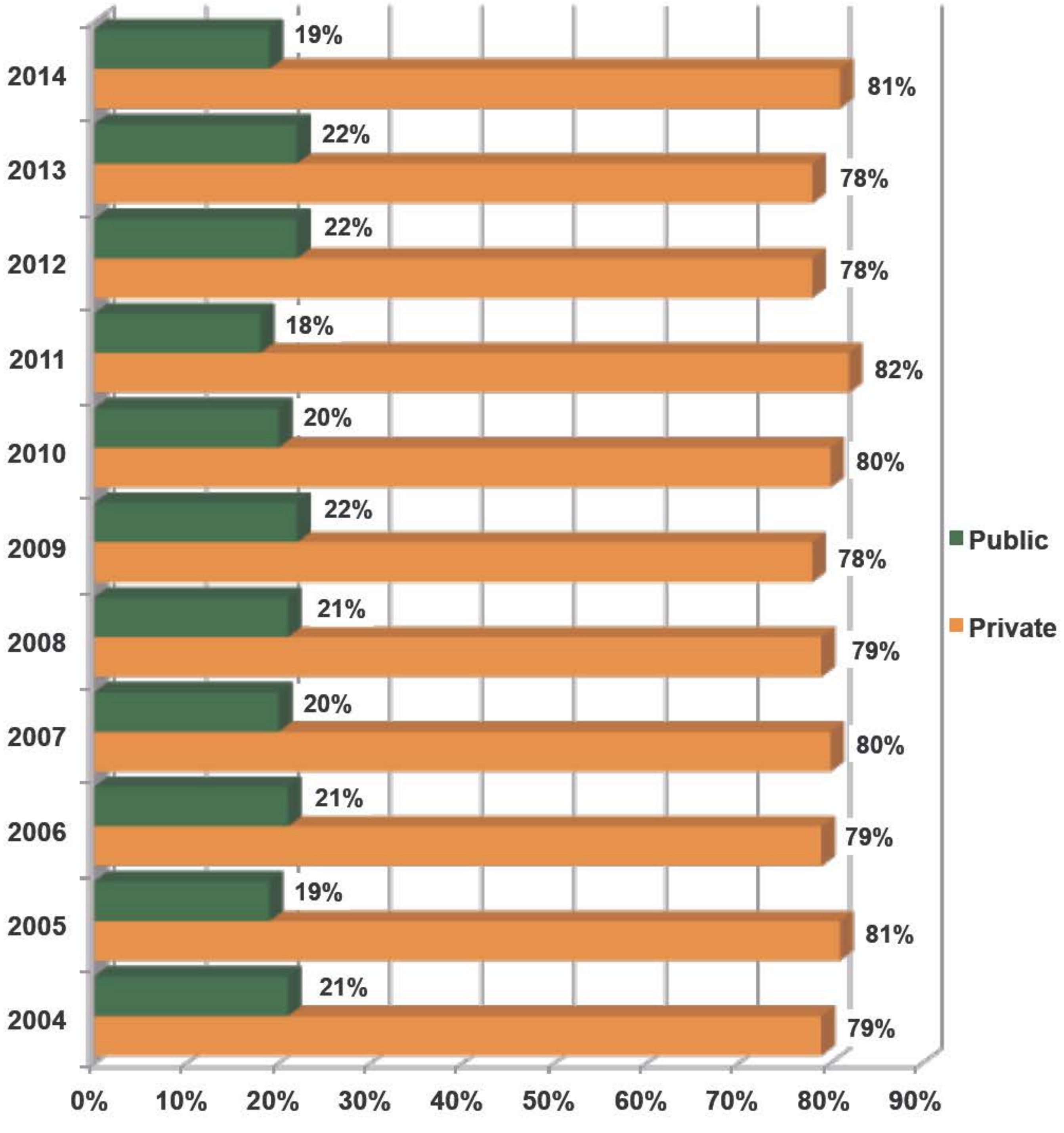
MELA Maine Educational Loan Authority

Table 9 Percentage of Disbursements to Public/Private Out-of-State Schools (2004-2014)



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FINANCIAL INFORMATION

BAKER
NEWMAN
NOYES

Maine Educational Loan Authority

(A Component Unit of the State of Maine)

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

Years Ended December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

Members of the Authority
Maine Educational Loan Authority

We have audited the accompanying financial statements of the Maine Educational Loan Authority (the Authority), a Component Unit of the State of Maine, which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Members of the Authority
Maine Educational Loan Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maine Educational Loan Authority as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information in the Schedule of Activities 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 17, 2015

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, 2014 and 2013. 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 position present information on all of the Authority's assets, deferred outflow of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, result in increased net position, which indicates an improved financial position.

The statements of revenues, expenses, and changes in net position present information showing how the Authority's net position changed during the fiscal year. This statement reports all revenues and expenses, and reconciles beginning and end of year net position 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.

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Financial Highlights – 2014

- Operating loss for the Authority was $96,381 for fiscal year 2014, a decrease of $422,298 from the prior year operating income of $325,917, due mainly to a decrease in interest on educational loans and the additional cost of issuance expenses incurred in relation to the issuance of the Series 2014 bonds.
- Net position decreased in 2014 solely as a result of the operating loss. The term "net position" refers to the difference between assets and deferred loss on refinancing and liabilities. At the close of fiscal year 2014, the Authority had net position of $3,153,576, a decrease of 3.0% from the prior year.
- The Authority's debt outstanding of $122,845,000 decreased $9,790,000 as a result of Series 2009, 2010 and 2012 bond redemptions and scheduled bond maturities, which was partially offset by the Series 2014 bond issuance totaling $10,000,000.
- Loans originated during the year, including guarantee fees capitalized, totaled approximately $7,283,000, up 7.1% from the $6,798,000 originated in fiscal year 2013.

Financial Analysis – 2014

Net position may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets and deferred loss on refinancing exceeded liabilities by $3,153,576 at the close of the most recent fiscal year. This represents a decrease of $96,381 (3.0%) from the previous year. The unrestricted net position was $381,711 compared to restricted net position of $2,771,865. By far, the largest portion of the Authority's net position 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 Position	2014	2013	Percentage Change
Cash and investments	$ 14,605,217	$ 13,167,270	10.9%
Educational loans, net	109,522,498	119,145,838	(8.1)
Other assets	1,989,525	2,776,176	(28.3)
Total assets	$ 126,117,240	$ 135,089,284	(6.6)%
Deferred loss on refinancing	$ 941,378	$ 1,020,986	(7.8)%
Bonds payable, net	$ 121,880,106	$ 131,220,211	(7.1)%
Other liabilities	2,024,936	1,640,102	23.5
Total liabilities	$ 123,905,042	$ 132,860,313	(6.7)%
Restricted net position	$ 2,771,865	$ 2,854,692	(2.9)%
Unrestricted net position	381,711	395,265	(3.4)
Total net position	$ 3,153,576	$ 3,249,957	(3.0)%

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The increase in the Authority's cash and investments at December 31, 2014 from the balance at December 31, 2013 was mainly attributed to the net proceeds received from the issuance of the Series 2014 bonds.

The Authority's educational loans, net, decreased $9,623,340 in 2014. The Authority's total loans originated in 2014 was $7,282,718 compared to the $6,798,251 originated in 2013. The receipt of educational loan principal payments totaling $17,776,983 decreased from the 2013 level of $18,512,244 due to the continued decrease in outstanding principal. The Authority's allowance for loan losses of $2,619,567 at December 31, 2014, was 2.3% of total loans outstanding compared to 2.4% at December 31, 2013. During 2014, the Authority provided $540,005 to the allowance for loan losses compared to $425,000 in 2013.

Bonds payable, net, decreased $9,340,105 during 2014 mainly as a result of mandatory redemptions and scheduled maturities, which were partially offset by the issuance of the Series 2014 bonds. For additional information refer to the Long-Term Debt Activity section of the Management's Discussion and Analysis.

Other assets decreased $786,651 during 2014, mainly as a result of decreased interest receivable. The decline in accrued interest receivable is attributable to the decline in the total balance of educational loans outstanding and the decline in educational loans in interim status, whereby the interest that accrues during the deferment period is capitalized and added to the educational loan balance when the loan enters repayment status.

The Authority's financial position declined as net position decreased 3.0% in 2014. This decrease was due primarily to the decreasing interest on educational loans and the additional cost of issuance expenses related to the Series 2014 bonds.

Changes in Net Position	2014	2013	Percentage Change
Interest on educational loans	$ 9,299,402	$10,123,921	(8.1)%
Interest on investments	6,921	10,208	(32.2)
Other revenue	339,523	457,157	(25.7)
Total operating revenue	9,645,846	10,591,286	(8.9)
Financing expenses	6,936,093	7,484,205	(7.3)
Servicing expense	1,194,245	1,234,516	(3.3)
Bond administration expense	407,596	453,579	(10.1)
Provision for loan losses	540,005	425,000	27.1
Arbitrage expense	429,607	388,481	10.6
Other operating expenses	234,681	279,588	(16.1)
Total operating expense	9,742,227	10,265,369	(5.1)
Change in net position	(96,381)	325,917	(129.6)
Net position at beginning of year	3,249,957	2,924,040	11.1
Net position at end of year	$ 3,153,576	$ 3,249,957	(3.0)%

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Operating revenues are generated principally from interest earned on educational loans. In 2014, the Authority's operating revenue totaled $9,645,846. Of this amount, 96.4% was from interest on educational loans, compared to 95.6% in 2013. Interest on educational loans decreased 8.1% during 2014, mainly due to lower balances of loans outstanding during the year, coupled with lower interest rates on newly originated loans.

Operating expenses of the Authority consist primarily of interest expense on debt incurred to fund the origination of educational loans and servicing expense related to the administration and servicing of the Authority's loan programs. The total operating expense for 2014 and 2013 was $9,742,227 and $10,265,369, respectively, of which $6,936,093 (71.2%) and 7,484,205 (72.9%) was attributable to debt related financing costs and $1,194,245 (12.3%) and $1,234,516 (12.0%) was attributable to servicing costs. The majority of the servicing expense is related to an administrative services agreement with Maine Education Services (MES) totaling $857,943 and $886,021 in 2014 and 2013, respectively. The current contract with MES will not be extended upon its expiration in September 2015. The Authority is currently seeking alternative entities to provide administrative services. Total operating expenses decreased $523,142 (5.1%) from 2013 to 2014 mainly as a result of reduced financing expenses caused by mandatory bond redemptions and scheduled maturities.

Long-Term Debt Activity

The Authority is authorized to issue student loan revenue bonds to originate alternative educational loans. As of December 31, 2014, the Authority had $122,845,000 in bonds payable outstanding, a decrease of 7.4% from December 31, 2013. The Authority retired $19,790,000 of the Series 2009, 2010, and 2012 bonds upon scheduled maturity and mandatory redemptions. The Authority issued Series 2014 bonds totaling $10,368,760 (net of original issue premium/discount and underwriter's discount). Refer to Note 4 of the financial statements for further information.

Financial Highlights – 2013

- Operating income for the Authority was $325,917 for fiscal year 2013, an increase of $814,463 from the prior year operating loss of $488,546, due mainly to a decrease in the provision for loan losses on educational loans and the additional cost of issuance expenses incurred in relation to the issuance of the Series 2012 bonds.
- Net position increased in 2013 solely as a result of the operating income. The term "net position" refers to the difference between assets and deferred loss on refinancing and liabilities. At the close of fiscal year 2013, the Authority had net position of $3,249,957, an increase of 11.1% from the prior year.
- The Authority's debt outstanding of $132,635,000 decreased $17,300,000 as a result of Series 2009 bond redemptions and scheduled bond maturities.
- Loans originated during the year, including guarantee fees capitalized, totaled approximately $6,798,000, down 18.9% from the $8,384,000 originated in fiscal year 2012.

Financial Analysis – 2013

Net position may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets and deferred loss on refinancing exceeded liabilities by $3,249,957 at the close of 2013. This represents an increase of $325,917 (11.1%) from the previous year. The unrestricted net position was $395,265 compared to restricted net position of $2,854,692. By far, the largest portion of the Authority's net position reflects its investment in educational loans plus bond proceeds remaining in trust investments less any related debt used to acquire those assets.

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The Authority's financial position and operations for 2013 and 2012 are summarized below based on information included in the financial statements.

Net Position	2013	2012	Percentage Change
Cash and investments	$ 13,167,270	$ 18,397,298	(28.4)%
Educational loans, net	119,145,838	129,543,010	(8.0)
Other assets	2,776,176	3,616,254	(23.2)
Total assets	$ 135,089,284	$ 151,556,562	(10.9)%
Deferred loss on refinancing	$ 1,020,986	$ 1,104,471	(7.6)%
Bonds payable, net	$ 131,220,211	$ 148,392,752	(11.6)%
Other liabilities	1,640,102	1,344,241	22.0
Total liabilities	$ 132,860,313	$ 149,736,993	(11.3)%
Restricted net position	$ 2,854,692	$ 2,506,102	13.9%
Unrestricted net position	395,265	417,938	(5.4)
Total net position	$ 3,249,957	$ 2,924,040	11.1%

The decrease in the Authority's cash and investments at December 31, 2013 from the balance at December 31, 2012 was mainly attributed to the remaining proceeds from the Series 2009 bonds being used to fund loan originations.

The Authority's educational loans, net, decreased $10,397,172 in 2013. The Authority's total loans originated in 2013 was $6,798,251 compared to the $8,384,059 originated in 2012. The receipt of educational loan principal payments totaling $18,512,244 decreased from the 2012 level of $19,451,217 due to the decline in the total loans outstanding. The Authority's allowance for loan losses of $2,921,765 at December 31, 2013, remained at 2.4% of total loans outstanding. During 2013, the Authority provided $425,000 to the allowance for loan losses compared to $900,000 in 2012.

Bonds payable, net, decreased $17,172,541 during 2013 mainly as a result of bond redemptions. For additional information refer to the Long-Term Debt Activity section of the Management's Discussion and Analysis.

Other assets decreased $840,078 during 2013, mainly as a result of a decrease in interest receivable on educational loans. The decline in accrued interest receivable is attributable to the decline in the total balance of educational loans outstanding and the decline in educational loans in interim status, whereby the interest that accrues during the deferment period is capitalized and added to the educational loan balance when the loan enters repayment status.

The Authority's financial position improved as net position increased 11.1% in 2013. This increase was due primarily to a decline in financing expenses and the provision for loan losses.

Changes in Net Position	2013	2012	Percentage Change
Interest on educational loans	$10,123,921	$10,966,506	(7.7)%
Interest on investments	10,208	25,260	(59.6)
Other revenue	457,157	372,024	22.9
Total operating revenue	10,591,286	11,363,790	(6.8)
Financing expenses	7,484,205	8,557,546	(12.5)
Servicing expense	1,234,516	1,355,459	(8.9)
Bond administration expense	453,579	529,834	(14.4)
Provision for loan losses	425,000	900,000	(52.8)
Arbitrage expense	388,481	307,888	26.2
Other operating expenses	279,588	201,609	38.7
Total operating expense	10,265,369	11,852,336	(13.4)
Change in net position	325,917	(488,546)	166.7
Net position at beginning of year	2,924,040	3,412,586	(14.3)
Net position at end of year	$ 3,249,957	$ 2,924,040	11.1%

Operating revenues are generated principally from interest earned on educational loans. In 2013, the Authority's operating revenue totaled $10,591,286. Of this amount, 95.6% was from interest on educational loans, compared to 96.5% in 2012. Interest on educational loans decreased 7.7% during 2013, mainly due to the decline in balance of educational loans outstanding.

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 2013 and 2012 was $10,265,369 and $11,852,336, respectively, of which $7,484,205 (72.9%) and $8,557,546 (72.2%) was attributable to debt related financing costs. Total operating expenses decreased $1,586,967 (13.4%) from 2012 to 2013 mainly as a result of reduced financing expenses caused by bond redemptions and cost of issuance expenses incurred in 2012, and a reduction in the 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, 2013, the Authority had $132,635,000 in bonds payable outstanding, a decrease of 11.5% from December 31, 2012. The Authority retired $17,300,000 of the Series 2009, 2010, and 2012 bonds upon scheduled maturity and mandatory redemptions. Refer to Note 4 of the financial statements for further information.

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.

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STATEMENTS OF NET POSITION
December 31, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents (notes 2, 4 and 6)	$ 13,606,590	$ 11,173,290
Investments (notes 2, 4 and 6)	998,627	1,993,980
Educational loans, net (notes 3, 4, 6 and 7)	15,762,324	16,749,200
Guarantee fees receivable	15,556	33,159
Interest receivable	957,049	1,297,674
Prepaid expenses	27,365	22,934
Total current assets	31,367,511	31,270,237
Noncurrent assets:		
Educational loans, net (notes 3, 4, 6 and 7)	93,760,174	102,396,638
Interest receivable	528,145	943,543
Guarantee fees receivable	13,818	33,825
Prepaid expenses and other assets	447,592	445,041
Total noncurrent assets	94,749,729	103,819,047
Total assets	$ 126,117,240	$ 135,089,284
DEFERRED OUTFLOW OF RESOURCES		
Deferred loss on refinancing (note 4)	$ 941,378	$ 1,020,986
LIABILITIES		
Current liabilities:		
Accounts payable (note 5)	$ 151,804	$ 149,546
Accrued interest payable	522,360	569,391
Bonds payable, net (notes 4 and 6)	6,610,236	6,894,615
Total current liabilities	7,284,400	7,613,552
Noncurrent liabilities:		
Arbitrage Rebatable (note 6)	1,350,772	921,165
Bonds payable, net (notes 4 and 6)	115,269,870	124,325,596
Total noncurrent liabilities	116,620,642	125,246,761
Total liabilities	$ 123,905,042	$ 132,860,313
Commitments and contingencies (notes 5, 7 and 8)		
NET POSITION		
Net position:		
Restricted for bond programs	$ 2,771,865	$ 2,854,692
Unrestricted	381,711	395,265
Total net position	$ 3,153,576	$ 3,249,957

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

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2014 and 2013

	2014	2013
Operating revenues:		
Interest on educational loans	$ 9,299,402	$10,123,921
Interest on investments	6,921	10,208
Guarantee fee income	282,160	395,861
Other revenue	57,363	61,296
Total operating revenues	9,645,846	10,591,286
Operating expenses:		
Financing expenses	6,936,093	7,484,205
Servicing expenses (note 5)	1,194,245	1,234,516
Bond administration expenses	407,596	453,579
Provision for losses on educational loans (note 3)	540,005	425,000
Professional fees	56,067	96,642
Arbitrage expense	429,607	388,481
Salaries and related benefits	100,511	100,160
Other operating expenses (note 5)	78,103	82,786
Total operating expenses	9,742,227	10,265,369
Operating (loss) income	(96,381)	325,917
Net position, beginning of year	3,249,957	2,924,040
Net position, end of year	$ 3,153,576	$ 3,249,957

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

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STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Interest received on educational loans	$ 8,682,038	$ 9,200,998
Principal payments received on educational loans	17,776,983	18,512,244
Educational loans originated	(7,000,558)	(6,402,390)
Payments for operating expenses	(1,681,792)	(1,804,518)
Payments for salaries and benefits	(100,511)	(100,160)
Net cash provided by operating activities	17,676,160	19,406,174
Cash flows from non-capital financing activities:		
Interest payments on bonds	(6,701,656)	(7,339,970)
Proceeds from sale of bonds	10,368,760	–
Redemption of bonds	(19,790,000)	(17,300,000)
Issuance costs paid	(120,725)	–
Net cash used by non-capital financing activities	(16,243,621)	(24,639,970)
Cash flows from investing activities:		
Proceeds from investment maturities	993,773	13,870,823
Purchase of investment securities	–	(7,491,302)
Interest received on investments	6,988	10,645
Net cash provided by investing activities	1,000,761	6,390,166
Net increase in cash and cash equivalents	2,433,300	1,156,370
Cash and cash equivalents at beginning of year	11,173,290	10,016,920
Cash and cash equivalents at end of year	$ 13,606,590	$ 11,173,290

STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended December 31, 2014 and 2013

	2014	2013
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	$ (96,381)	$ 325,917
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Provision for losses on educational loans	540,005	425,000
Interest income on investments	(6,921)	(10,208)
Interest on bonds payable	6,936,093	7,484,205
Depreciation expense	199	215
Unrealized loss on investments	1,580	6,877
Changes in assets and liabilities:		
Educational loans, net	10,494,265	11,713,993
Interest receivable on educational loans	(617,364)	(922,923)
Arbitrage rebatable	429,607	388,481
Prepaid expenses and other assets	(7,181)	20,528
Accounts payable	2,258	(25,911)
	$ 17,676,160	$ 19,406,174

Noncash activities:

The Authority capitalized interest on educational loans in the amount of $1,373,320 and $1,464,164 during 2014 and 2013, respectively.

The Authority capitalized guarantee fees on loans originated of approximately $40,000 and $248,000 during 2014 and 2013, respectively.

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

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NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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, 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 using the economic resources measurement focus and the accrual method of accounting and accordingly recognize revenues as earned and expenses as incurred. The Authority has no non-operating revenues or expenses.

Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management of the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Restriction on Net Position

The restricted components of net position 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 position as unrestricted. The Authority's restricted net position is 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. 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.

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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, 2014 and 2013 totaled $29,374 and $66,984, respectively.

Fees and costs related to the origination of student loans, including the guarantee fees, are recognized as revenue or expense when the loans are disbursed.

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

Allowance for Loan Losses

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, Premium and Issuance Costs on Bonds

Bond discount and premium is amortized by the effective interest method over the life of the bonds. Bond issuance costs are charged directly to expense when incurred. Amortization of bond discount and premium is accelerated for early repayment of bonds. Unamortized bond discount and premium 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.

Investments

Investment securities consist of United States Treasury obligations. Investments are carried at fair value based on quoted market prices. Unrealized gains and losses due to changes in fair values of investments are included in investment income.

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, highly rated money market funds, and short term direct obligations of the United States.

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:

	2014	2013
Cash	$ 186,142	$ 183,808
Money market funds	13,420,448	10,989,482
	$13,606,590	$11,173,290

At December 31, 2014 and 2013, cash accounts with bank balances of $188,352 and $268,882, respectively, were deposited at financial institutions and fully insured by the FDIC. At December 31, 2014, the money market funds were invested in Invesco Liquid Assets Portfolio Short-Term Investments Trust and Federated Government Obligations Fund. At December 31, 2013, the money market funds were invested in Invesco Liquid Assets Portfolio Short-Term Investments Trust. The Invesco Liquid Assets Portfolio Short-Term Investments Trust invests primarily in short-term, high-credit-quality money market instruments. These instruments are US-dollar denominated obligations and primarily include commercial paper, certificates of deposit, master and promissory notes, municipal securities, and repurchase agreements. As of December 31, 2014 and 2013, the fund was rated Aaa-mf by Moody's Investors Service, AAAm by Standard & Poor's, and AAAmmf by Fitch Ratings. The underlying assets were not held in the name of the Authority. The Federated Government Obligations Fund invests primarily in short-term U.S. Treasury and government agency securities including repurchase agreements collateralized by U.S. Treasury and government agency securities. As of December 31, 2014, 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.

Investments

A summary of the fair values of investment securities and their maturities is as follows:

	2014	2013
U.S. Treasury obligations, maturing in less than one year (rated AA+)	$ 998,627	$ 998,965
U.S. Treasury obligations maturing in one to five years	–	995,015
	$ 998,627	$1,993,980

Investments are held by the Authority's Trustee in the Trustee's name.

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.

3. Educational Loans (Continued)

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.

Educational loans at December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Status:		
Interim	$ 7,015,774	$ 8,998,870
Interest only	15,126,580	17,667,481
Repayment	89,256,198	94,592,080
Forbearance	743,513	809,172
Educational loans	112,142,065	122,067,603
Less allowance for loan losses	(2,619,567)	(2,921,765)
Total educational loans, net	109,522,498	119,145,838
Current portion	15,762,324	16,749,200
Noncurrent portion	$ 93,760,174	$ 102,396,638

The educational loans are pledged to the repayment of bonds.

Transactions in the allowance for loan losses for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Balance at January 1	$ 2,921,765	$ 3,137,244
Loans charged off	(1,045,790)	(904,944)
Recoveries on loans	203,587	264,465
Net loans charged-off	(842,203)	(640,479)
Provision for losses on educational loans	540,005	425,000
Balance at December 31	$ 2,619,567	$ 2,921,765

At December 31, 2014 and 2013, respectively, loans greater than 90 days delinquent or in claims or forbearance status approximated $1,650,000 and $1,957,000.

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4. Bonds Payable

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

Educational Loan Revenue Bonds	Amount Outstanding 2014	2013
2009 series due in annual installments on December 1, 2015 through 2039; interest fixed at rates ranging from 3.875% to 5.875%	$ 88,655,000	$ 106,830,000
2010 series due in annual installments on December 1, 2015 through 2025; interest fixed at rates ranging from 2.35% to 4.45%	12,760,000	13,660,000
2012 series due in annual installments on December 1, 2015 through 2027; interest fixed at rates ranging from 2.40% to 5.05%	11,430,000	12,145,000
2014 series due in annual installments on December 1, 2015 through 2031; interest fixed at rates ranging from 3.00% to 5.00%	10,000,000	–
	122,845,000	132,635,000
Less:		
Unaccreted bond discount	964,894	1,414,789
Bonds payable, net	121,880,106	131,220,211
Current portion, net of discount	6,610,236	6,894,615
Non-current portion	$ 115,269,870	$ 124,325,596
Unaccreted deferred loss on refunding	$ 941,378	$ 1,020,986

The Authority accreted $79,608 and $83,485 in 2014 and 2013, respectively, of the deferred loss on refunding.

To date, the bonds issued by MELA have been exempt from federal income taxes. In 2013, MELA carried forward a $59,105,000 allocation of Private Activity Bond Cap from previous years. MELA received an allocation of $25,000,000 for 2013 and abandoned $4,105,000 in tax-exempt Private Activity Bond Cap from previous years, resulting in $80,000,000 of Private Activity Bond Cap being available for 2014. MELA received an allocation of $25,000,000 for 2014, issued $10,466,098 in tax-exempt debt in 2014, and abandoned $19,533,902 in tax-exempt Private Activity Bond Cap from previous years, resulting in $75,000,000 of Private Activity Bond Cap being available for 2015. 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.

4. Bonds Payable (Continued)

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 $2,481,450 and $2,381,500 at December 31, 2014 and 2013, respectively, 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 for the surety bond of $540,049, $4,098, and $21,283 on the closing date of the Series 2009 bonds, Series 2012 bonds, and Series 2014 bonds, respectively. The premium for the surety bond related to the Series 2010 bonds was waived by the bond insurer.

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 through 2019 and in five-year increments thereafter to maturity for the Authority, are as follows:

Year(s)	Principal	Interest	Total
2015	$ 6,645,000	$ 6,268,320	$ 12,913,320
2016	7,060,000	6,002,093	13,062,093
2017	7,315,000	5,708,195	13,023,195
2018	7,080,000	5,388,858	12,468,858
2019	7,200,000	5,070,983	12,270,983
2020 – 2024	32,710,000	20,119,568	52,829,568
2025 – 2029	12,660,000	13,495,586	26,155,586
2030 – 2034	21,680,000	9,704,731	31,384,731
2035 – 2039	20,495,000	3,611,656	24,106,656
	$ 122,845,000	$75,369,990	$ 198,214,990

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

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4. Bonds Payable (Continued)

The following summarizes the bond activity for the Authority for the years ended December 31, 2014 and 2013:

	2014	2013
Balance at beginning of year	$ 131,220,211	$ 148,392,752
Issuance	10,368,760	–
Redemption of bonds	(19,790,000)	(17,300,000)
Accretion	81,135	127,459
Balance at end of year	$ 121,880,106	$ 131,220,211

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, 2015. The current fee for these services is equal to 0.75% per annum of the aggregate principal amount of loans outstanding. The fee is further reduced to 0.65%, 0.60%, 0.55%, and 0.50% if the outstanding loan balance exceeds $130,000,000, $150,000,000, $175,000,000, and $200,000,000, respectively. MELA also pays MES a 1% origination fee on all supplemental loan disbursements. The Authority recorded expense of $857,943 and $886,021 in 2014 and 2013, respectively, under this arrangement, which is recorded as servicing expenses.

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 $5,000 in 2014. There was no management and financial advisory fee paid in 2013.

The current contract with MES will not be extended upon its expiration in September 2015. The Authority is currently seeking alternative entities to provide administrative services.

As a result of the various transactions described above, at December 31, 2014 and 2013, the Authority owed MES $71,455 and $68,494, respectively, which is included in accounts payable.

The Authority is party to an agreement whereby Nelnet Servicing LLC provides student loan servicing for the Authority. The current agreement expires on April 30, 2017. The Authority recorded expense of $314,778 and $329,570 in 2014 and 2013, respectively, under this arrangement, which is recorded as servicing expenses.

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. The estimated arbitrage liability related to excess earnings on educational loans was $1,350,772 and $921,165 at December 31, 2014 and 2013, respectively. The Authority does not anticipate that any payments will be due in 2015.

7. Loan Commitments

At December 31, 2014 and 2013, MELA had commitments to extend credit for educational loans of approximately $2,818,000 and $2,226,000, 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

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 2014 and 2013.

IRS Examination of 2009 Bonds

On March 4, 2013, the Authority received a letter, dated March 1, 2013 (the Letter), from the Internal Revenue Service (IRS) requesting information and documents for an examination of the Authority's compliance with federal tax requirements with respect to the bonds listed as 2009 Series Bonds. The 2009 Bonds were issued on May 27, 2009; certain of the 2009 Bonds have previously matured.

Portions of the Letter also requested information with respect to the Authority's $26,925,000 Student Loan Revenue & Refunding Bonds (collectively, the "2002 Bonds"), as certain of the 2009 Bonds refunded certain of the 2002 Bonds. The 2002 Bonds were issued on November 15, 2002 and are no longer outstanding.

The Authority complied with the IRS's request for documentation. Subsequently, the Authority received letters dated July 9, 2013 indicating that the IRS had completed its examinations of the 2002 and 2009 Bonds and had made a determination to close the examinations with no change to the tax-exempt status of the bonds.

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2014 Financial Information
Schedule 1

Year Ended December 31, 2014

Functions/ Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Program Investment Income	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants/ Contributions	Net Revenues (Expenses) and Changes in Net Position: Total
Student loan programs	$ (9,742,227)	$ 9,638,925	$ 6,921	$ –	$ –	$ (96,381)
		Change in net position				$ (96,381)
		Net position, beginning of the year				3,249,957
		Net position, end of the year				$3,153,576

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