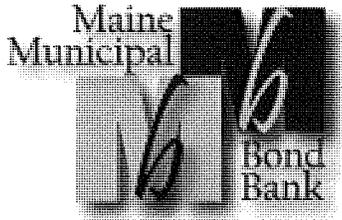


MAINE STATE LEGISLATURE

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November 29, 2013

The Honorable Paul R. LePage
Governor of the State of Maine
State House Station #1
Augusta, ME 04333

Dear Governor LePage:

On behalf of the Commissioners and staff of the Maine Municipal Bond Bank, I am pleased to provide you with our 2013 year-end Annual Report.

The Maine Municipal Bond Bank was established by the legislature in 1972. Since its inception the Bond Bank has issued in excess of \$4 billion for funding to meet the needs of Maine's municipalities. During its forty year history the Bond Bank has never experienced a default.

Within the 2013 fiscal year, the Bond Bank sold \$44,495,000 under its General Bond Resolution Program. Those sales provided towns, cities, school systems, and utility districts with lower cost capital funding to meet their municipal needs. The Bond Bank also sold one refunding issue in the amount of \$41,975,000 providing \$2,371,925.97 in savings credits to underlying borrowers.

The Bank and the Department of Education have successfully committed \$10,920,706 from the State Revolving Loan Fund for school renovation projects.

The Maine Clean Water Revolving Loan Fund and the Maine Drinking Water Revolving Fund provided loans totaling \$57,456,870 to finance 36 projects in fiscal year 2013.

The Transportation Grant Anticipation Fund did not issue GARVEE bonds in fiscal year 2013.

The Transportation Infrastructure Fund did not issue TRANSCAP Revenue bonds in fiscal year 2013.

The Qualified School Construction Bonds Program did not sell QSCB's in fiscal year 2013.

We are proud of our accomplishments within fiscal year 2013 and look forward to continuing our commitment of providing a service that benefits the growing needs of the State of Maine.

Sincerely,

A handwritten signature in black ink that reads "Stephen R. Crockett". The signature is written in a cursive style with a large, prominent initial 'S'.

Stephen R. Crockett
Chairman

Maine Municipal Bond Bank

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

Year Ended June 30, 2013
With Independent Auditors' Report

MAINE MUNICIPAL BOND BANK

**BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND ADDITIONAL INFORMATION**

For the Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Municipal Bond Bank

Report on the Financial Statements

We have audited the accompanying financial statements, consisting of the General Operating Account, General Tax-Exempt Fund Group, Grant Anticipation Fund Group, Transportation Infrastructure Fund Group, Qualified School Construction Fund Group, Clean Water and Drinking Water Revolving Loan Fund Groups and Operating Fund Group and the School Facilities Fund Group of Maine Municipal Bond Bank (the Bond Bank), which comprise the statements of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements. The Bond Bank is a component unit of the State of Maine.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bond Bank, as well as the individual fund groups referred to above, as of June 30, 2013, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Bond Bank's basic financial statements. The additional information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2013 on our consideration of the Bond Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Maine Municipal Bond Bank's internal control over financial reporting and compliance.



Limited Liability Company

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

As financial management of the Maine Municipal Bond Bank (the Bond Bank), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Bond Bank for the fiscal year ended June 30, 2013. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Bond Bank and to identify any significant changes in financial position. Readers should consider the information presented here only in conjunction with the basic financial statements as a whole.

Financial Highlights

- Revenues for the Bond Bank's General Operating Account were \$1,115,915 for fiscal year 2013, a decrease of \$1,313,471 or 54.1% from fiscal year 2012. This was primarily attributed to a decrease of \$1,569,561 of pass-through grant revenue from the State of Maine to fund the Riverfront Community Development and Municipal Investment Trust Fund programs, a \$52,295 decrease in interest income from investments and a decrease in other income of approximately \$10,000. This decrease in revenue is offset by a \$300,000 grant from the Maine Emergency Management Agency (MEMA) for the purpose of providing revolving loans to municipalities to fund dam repairs, construction and related costs.
- Net position in the Bond Bank's General Operating Account increased \$593,137 in fiscal year 2013. This increase is the net result of Operating Revenues totaling \$1,115,915, Operating Transfers totaling \$1,044,161 and Operating Expenses totaling \$1,566,939. Operating Transfers from the General Tax-Exempt Fund Group are mandated by the Bond Bank's annual operating budget. At June 30, 2013, the Bond Bank's General Operating Account had a net position of \$27,988,145.
- The Bond Bank's gross principal amount of bonds outstanding at June 30, 2013 of \$1,453,225,488 represents a net decrease of \$86,751,067 over the balance at June 30, 2012. This decrease was the net result of the General Tax Exempt Resolution issuing Series 2012E, 2012FG and 2013A bonds, totaling \$86,470,000, less the scheduled debt service principal payments of \$130,516,067 and in-substance defeased bonds totaling \$42,705,000. Refer to note 4 to the financial statements for a detail of bonds payable activity in 2013, and refer to note 9 for refunding activity in 2013.
- The Bond Bank committed loans to local governmental units during fiscal year 2013 totaling \$149,654,034, which was a 30.9% decrease from the loans committed in fiscal year 2012. The Bond Bank also provided borrowers participating in the Drinking Water Revolving Loan Fund Program, the Clean Water Revolving Loan Fund Program, and the School Facilities Revolving Loan Fund Program \$2,488,864 in potential loan forgiveness in fiscal year 2013, which was a 79.0% decrease from fiscal year 2012.

Overview of the Bond Bank

The Bond Bank was created in 1972 by a 1971 Act of the Maine Legislature, as a public body corporate and politic and is constituted as an instrumentality, exercising public and essential governmental functions of the State. The Bond Bank was established to issue bonds for the purpose, among other things, of providing funds to enable it to lend money to counties, cities, towns, school administrative districts, community school districts or other quasi-municipal corporations (the governmental units) within the State of Maine. The provision of funds is accomplished by the direct purchase from such governmental units of their bonds, notes or evidence of debt payable from taxes, charges for services or assessments.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

For financial statement reporting purposes, the Bond Bank is considered a component unit of the State of Maine. However, the Bond Bank does not receive any State appropriations for its operations. The Bond Bank does receive grant monies from the State to fund the revolving loan funds for clean water, drinking water and school renovations. Within its General Operating Account, the Bond Bank also administers pass-through grants for the Maine Rural Water Association and the Maine Department of Economic and Community Development and effective in 2013, administers revolving loans through grants received from Maine Emergency Management Agency. The Bond Bank periodically receives allocations of the State's tax-exempt bond cap and is a member of the State's Tax Cap Allocation Committee.

The Bond Bank administers the Grant Anticipation Fund Group under which the Bond Bank issues bonds or notes for the purpose of making advances to finance qualified transportation projects approved by the State of Maine Department of Transportation. These bonds or notes are repaid from future federal highway grant monies received by the State of Maine.

The Bond Bank administers the Transportation Infrastructure Fund Group under which the Bond Bank issues bonds or notes for the purpose of making advances to finance qualified transportation projects approved by the State of Maine Department of Transportation. These bonds or notes are repaid from a portion of allocated fees and taxes (i.e., motor fuel taxes, title fees, registration fees, fuel excise tax, vanity license plate fees, etc.) collected by the State of Maine.

The Bond Bank administers the Qualified School Construction Fund Group Resolution under which the Bond Bank issues bonds which are exempt from State of Maine income taxes (but not federal income taxes) and makes loans to qualified governmental units for the construction, rehabilitation, or repair of a public school facility, or for the acquisition of land on which such a facility is to be constructed. The bonds issued in this fund group are tax credit bonds in that they receive a federal interest subsidy payment on each debt service payment date.

The Bond Bank administers the Federal Clean Water Act and Drinking Water Act Revolving Loan Funds. Each of the Revolving Loan Funds periodically receives capitalization grants from the Environmental Protection Agency and matching funds from the State of Maine. Additionally, both of the revolving loan funds received *American Recovery and Reinvestment Act of 2009* (ARRA) grant awards in 2009 (see note 6 to the accompanying financial statements). The State of Maine Department of Environmental Protection approves low interest revolving loans to eligible borrowers, under the Clean Water Act Fund, that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. The Drinking Water Revolving Loan Fund operates similar to the Clean Water Revolving Loan Fund whereby the Maine Department of Health and Human Services (Office of Drinking Water) approves low interest revolving loans, under the Drinking Water Act, to eligible borrowers that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. Under the base Clean Water and Drinking Water Revolving Loan Program, a portion of each federal capitalization grant may be provided to borrowers as loan forgiveness. Beginning with the fiscal year 2010 federal grants, the programs have been required to provide a minimum of 30% of the federal grants awarded as additional subsidies, which includes loan forgiveness, to eligible borrowers.

The Bond Bank administers the School Facilities Revolving Loan Fund, which is capitalized by monies received from the State of Maine. The Department of Education approves qualified projects that are eligible for interest-free revolving loans, subject to the Bond Bank's approval, to school administrative units for renovation and maintenance of school facilities. Borrowers are eligible to receive a minimum of 30% and a maximum of 70% loan forgiveness.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

In fiscal year 2014, the Bond Bank will administer the Liquor Operation Revenue Bonds under which the Bond Bank will issue bonds or notes for use by the State of Maine to fund the State's share of Medicaid payments to the health care providers for services provided prior to December 1, 2012. The Bond Bank is authorized to issue liquor operation revenue bonds up to \$183,500,000, plus a reserve fund, capitalized interest and financing costs. These bonds or notes are repaid from future net liquor sales and operations received by the State of Maine. Expected closing date of this bond issue is September 5, 2013.

As the result of the Bond Bank issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Bond Bank contracts with an arbitrage consultant to maintain and prepare all rebate calculations that will be filed with the Internal Revenue Service.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Bond Bank's financial statements, which is comprised of the basic financial statements and the notes to the financial statements. Since the Bond Bank operates under six separate resolutions, the financial statements reflect individual fund activity.

Basic Financial Statements

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

The statement of net position presents information on all of the Bond Bank's assets, deferred outflow of resources, liabilities, deferred inflows of resources and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Bond Bank is improving or deteriorating. Net position increases when revenues exceed expenses.

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

Notes to the Financial Statements

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

Financial Analysis

Net position may serve, over time, as a useful indicator of a government's financial position. In the case of the Bond Bank, net position totaled \$632,812,684 at June 30, 2013. This represents an increase of \$13,488,629 or 2.2% over the previous fiscal year. Most of this increase is due to revenues exceeding expenses in the Sewer and Water Fund Groups as federal and state matching grants are received to fund revolving loans to eligible borrowers. Restricted net position totals \$559,093,487 and unrestricted net position totals \$73,719,197 at June 30, 2013. The largest portion of the Bond Bank's net position is its investment in loans to governmental units and investments held by trustee included in the Sewer and Water and School Facilities Fund Groups (provided by grants).

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

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

MAINE MUNICIPAL BOND BANK
 Statements of Net Position
 June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Percentage Change</u>
Current assets:			
Cash	\$ 311,842	\$ 64,423	384.1%
Investments held by trustee	195,615,751	205,171,624	(4.7)
Operating investments	19,475,076	19,102,511	2.0
Loans receivable from governmental units	126,018,560	132,304,155	(4.8)
Advances to State of Maine	24,884,599	24,086,140	3.3
Grants receivable from State of Maine	3,901,073	-	-
Accrued investment income receivable	863,517	876,892	(1.5)
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	9,406,948	10,152,874	(7.3)
Undisbursed federal letter of credit payments	33,022,048	29,315,028	12.6
Refunding benefits rebated to governmental units, net of amortization	507,811	715,100	(29.0)
Due from other funds	6,669,933	6,421,707	3.9
Other assets	<u>149,652</u>	<u>153,065</u>	<u>(2.2)</u>
 Total current assets	 420,826,810	 428,363,519	 (1.8)
Noncurrent assets:			
Investments held by trustee	145,690,015	157,221,965	(7.3)
Loans receivable from governmental units	1,370,860,607	1,416,602,096	(3.2)
Advances to State of Maine	279,160,667	304,045,265	(8.2)
Land and building, net of depreciation	606,529	666,655	(9.0)
Refunding benefits rebated to governmental units, net of amortization	<u>990,707</u>	<u>1,494,905</u>	<u>(33.7)</u>
 Total noncurrent assets	 <u>1,797,308,525</u>	 <u>1,880,030,886</u>	 <u>(4.4)</u>
 Total assets	 <u>2,218,135,335</u>	 <u>2,308,394,405</u>	 <u>(3.9)%</u>

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

	<u>2013</u>	<u>2012</u>	<u>Percentage Change</u>
Current liabilities:			
Accounts payable and accrued liabilities	\$ 568,496	\$ 516,032	10.2%
Due to other funds	6,669,933	6,421,707	3.9
Accrued interest payable	12,544,612	13,393,190	(6.3)
Deferred revenue	-	81,927	(100.0)
Pass-through grants payable	-	204,353	(100.0)
Undisbursed loans	35,684,618	48,423,275	(26.3)
Accrued interest rebate payable to U.S. Government	180,236	2,627,400	(93.1)
Due to State of Maine	45,732,580	45,547,379	0.4
Bonds payable, net	<u>128,866,371</u>	<u>134,608,789</u>	<u>(4.3)</u>
Total current liabilities	230,246,846	251,824,052	(8.6)
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	1,178,091	838,424	40.5
Bonds payable, net	<u>1,353,897,714</u>	<u>1,436,407,874</u>	<u>(5.7)</u>
Total noncurrent liabilities	<u>1,355,075,805</u>	<u>1,437,246,298</u>	<u>(5.7)</u>
Total liabilities	1,585,322,651	1,689,070,350	(6.1)
Net position:			
Restricted	559,093,487	539,552,184	3.6
Unrestricted	<u>73,719,197</u>	<u>79,771,871</u>	<u>(7.6)</u>
Total net position	<u>\$ 632,812,684</u>	<u>\$ 619,324,055</u>	<u>2.2%</u>

Total short and long-term investments held by trustee at June 30, 2013 decreased \$21,087,823 or 5.8% from June 30, 2012. The decrease was the net result of additional reserve fund investments purchased of approximately \$3,397,695, in conjunction with the fiscal year 2013 bond issuances, and the net impact of drawdowns of investments for equity loans to borrowers and the repayment on equity loans from borrowers in 2013. Additionally, investments had a net decrease in fair value of \$10,457,478 in 2013 as compared to a net increase of \$10,565,685 in 2012. The Bond Bank's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises securities (i.e. FNMA, FMLMC), U.S. Treasury and U.S. Government-sponsored enterprise strips, guaranteed investment contracts and certificates of deposit. The Bond Bank's investments are carried at fair value. Unrealized gains and losses (primarily due to fluctuations in market interest rates) are recognized in the statement of revenues, expenses and changes in net position. The Bond Bank's investments are scheduled to mature to meet operating or debt service requirements and are normally held until maturity.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

The Bond Bank's net loans (bond and equity) to governmental units decreased \$52,027,084 in fiscal year 2013. The Bond Bank's total new loan commitments in 2013 of \$149,654,034 was a 30.9% decrease over the 2012 commitments of \$216,616,068. Net bonds payable decreased \$88,252,578.

Grants receivable from State of Maine totaling \$3,901,073 at June 30, 2013 represents State match of the federal awards in the Clean Water and Drinking Water revolving loan funds. Historically, State match money is received in advance of the federal award; however, in 2013, the State match was not approved until late June 2013 and not received until fiscal 2014.

Refunding benefits rebated to governmental units decreased \$711,487 in 2013, which is a 32.2% decrease compared to fiscal 2012. The decrease is entirely attributed to fiscal 2013 amortization. The Bond Bank issued \$41,975,000 (par) of refunding bonds in 2013 and will pass on savings of approximately \$2.4 million to borrowers by adjusting their remaining interest debt service schedules, rather than through an up-front payment as has been done with certain past refundings.

Undisbursed loans at June 30, 2013 decreased \$12,738,657 or 26.3% over fiscal 2012. This decrease is primarily a timing issue between when grants are awarded, loans are committed and related funds are disbursed.

Accrued interest rebate payable to U.S. Government decreased \$2,107,497 from fiscal 2012 primarily as a result of significant payments due and paid in 2013 totaling approximately \$3.7 million.

Deferred revenue decreased \$81,927 or 100.0% in fiscal year 2013 from fiscal year 2012. The decrease is primarily the result of using all of the deferred State of Maine Grant revenue for the Clean Water and Drinking Water Programs in fiscal 2013.

Pass-through grants payable decreased \$204,353 or 100.0% in fiscal year 2013 from fiscal year 2012. The decrease is the result of recognizing grant revenue from the Department of Economic Development that was received in previous years as grant monies that have been completely disbursed to eligible recipients.

The Bond Bank's financial position improved as net position increased 2.2% in fiscal year 2013. The Bond Bank continued to maintain a positive spread of income from investments, interest on loans to governmental units, fee revenue from State of Maine and grants over bond interest and operating expenses.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

MAINE MUNICIPAL BOND BANK
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Percentage Change</u>
Interest on loans receivable from governmental units	\$ 48,580,154	\$ 53,233,703	(8.7)%
Program revenue from State of Maine	12,848,697	12,135,887	5.9
Interest income from investments	6,077,100	7,405,566	(17.9)
Net (decrease) increase in the fair value of investments	(10,457,478)	10,565,685	(199.0)
Grant revenue from Environmental Protection Agency	19,915,000	20,849,000	(4.5)
Grant revenue from State of Maine	4,772,919	6,544,340	(27.1)
Other income	<u>1,263,928</u>	<u>1,179,130</u>	<u>7.2</u>
 Total operating revenue	 83,000,320	 111,913,311	 (25.8)
 Interest expense	 58,118,466	 63,227,853	 (8.1)
Operating expenses (direct and shared)	5,286,107	5,443,584	(2.9)
Pass-through grant expense	204,048	1,773,609	(88.5)
Loan forgiveness	4,711,175	9,170,973	(48.6)
Amortization of deferred financing costs and refunding benefits rebated to governmental units	<u>1,191,895</u>	<u>1,433,127</u>	<u>(16.8)</u>
 Total operating expenses	 <u>69,511,691</u>	 <u>81,049,146</u>	 <u>(14.2)</u>
 Operating income	 13,488,629	 30,864,165	 (56.3)
 Net position, beginning of year	 <u>619,324,055</u>	 <u>588,459,890</u>	 <u>5.2</u>
 Net position, end of year	 <u>\$ 632,812,684</u>	 <u>\$ 619,324,055</u>	 <u>2.2%</u>

The General Tax-Exempt Fund Group reimburses the Operating Fund for the annual budget approved by the Board of Commissioners.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

Interest income from investments in 2013 decreased 17.9% from 2012. This decrease was primarily the result of a declining short-term interest rate environment for several years that resulted in the purchase of lower yield investments that has resulted in less interest earned, a decrease in average investment balances, and an increase in arbitrage rebate expense over fiscal 2012.

Grant revenues from the Environmental Protection Agency and the State of Maine are contingent on continued funding by the U.S. Congress and the State of Maine Legislature. The Bond Bank recorded grant revenues from the Environmental Protection Agency totaling \$19,915,000 in fiscal year 2013, which was a 4.5% decrease from 2012. The Bond Bank recorded grant revenue from the State of Maine totaling \$4,772,919 in 2013, which decreased \$1,771,421 or 27.1% from 2012 grants. The fiscal year 2013 State grants consist of State of Maine matching funds for the Clean Water and Drinking Water Funds Groups totaling \$3,983,000, grants to the General Operating Account totaling \$504,048 (\$204,048 from the Maine Department of Economic and Community Development and \$300,000 from the Maine Emergency Management Agency), and grants to the School Facilities Fund Group totaling \$285,871.

Pass through grant expense decreased \$1,569,561 in fiscal 2013. The Bond Bank jointly administers the Riverfront Community Development and Municipal Investment Trust Fund programs with the Maine Department of Economic Development (DECD) and all remaining funds under this program were disbursed in 2013. See note 10 for additional information.

Loan forgiveness expense (see notes 6 and 7 in the accompanying financial statements) decreased \$4,459,798 or 48.6 % in fiscal year 2013 from 2012. Portions of the loans made to eligible borrowers under the Drinking Water and Clean Water Revolving Loan Fund Programs may be forgiven if certain continuing criteria are met as the borrowers repay the loans. The total amount forgiven under these programs in 2013 was \$2,017,278 and \$2,446,084 within the Drinking Water and Clean Water Revolving Loan Fund Program, respectively. Also, portions of the loans made to school administrative units under the School Facilities Fund Group are forgiven at the time the loans are disbursed to the units. The amount forgiven within the School Facilities Fund Group in 2013 was \$247,813. Forgiveness expense will vary from year to year depending upon repayment and drawdown activity within the respective programs.

Requests for Information

This financial report is designed to provide a general overview of the Bond Bank's financial statements 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 Municipal Bond Bank, P.O. Box 2268, Augusta, Maine 04338-2268.

MAINE MUNICIPAL BOND BANK

STATEMENTS OF NET POSITION

June 30, 2013

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Fund Groups</u>	
			<u>Grant Anticipation Fund Group</u>	<u>Transportation Infrastructure Fund Group</u>
<u>ASSETS</u>				
Current assets:				
Cash	\$ 311,842	\$ —	\$ —	\$ —
Investments held by trustee (notes 3 and 5)	—	41,044,416	3,049	48,908,530
Operating investments (notes 3 and 10)	19,475,076	—	—	—
Loans receivable from governmental units (note 4)	340,608	89,395,974	—	—
Advances to State of Maine (note 4)	—	—	12,712,599	12,172,000
Grants receivable from State of Maine	—	—	—	—
Accrued investment income receivable	38,148	383,308	—	49,513
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	11,960	6,574,276	1,366,060	—
Undisbursed federal letter of credit payments	—	—	—	—
Refunding benefits rebated to governmental units, net of amortization	—	313,409	—	—
Due from other funds	6,193,217	—	—	—
Other assets	<u>145,685</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total current assets	26,516,536	137,711,383	14,081,708	61,130,043
Noncurrent assets:				
Investments held by trustee (notes 3 and 5)	—	125,368,934	—	9,756,672
Loans receivable from governmental units (note 4)	1,430,527	896,830,590	—	—
Advances to State of Maine (note 4)	—	—	83,247,320	195,913,347
Land and building, net of depreciation of \$1,246,628	606,529	—	—	—
Refunding benefits rebated to governmental units, net of amortization	<u>—</u>	<u>616,155</u>	<u>—</u>	<u>—</u>
Total noncurrent assets	<u>2,037,056</u>	<u>1,022,815,679</u>	<u>83,247,320</u>	<u>205,670,019</u>
Total assets	<u>28,553,592</u>	<u>1,160,527,062</u>	<u>97,329,028</u>	<u>266,800,062</u>

Qualified School Construction Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Clean Water	Drinking Water			
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 311,842
-	70,835,932	10,561,619	6,270,893	17,991,312	195,615,751
-	-	-	-	-	19,475,076
1,863,758	24,725,365	6,238,751	-	3,454,104	126,018,560
-	-	-	-	-	24,884,599
-	2,114,903	1,786,170	-	-	3,901,073
29,653	235,732	28,008	15,228	83,927	863,517
291,753	973,647	189,252	-	-	9,406,948
-	20,658,944	12,363,104	-	-	33,022,048
-	163,436	30,966	-	-	507,811
-	476,716	-	-	-	6,669,933
-	3,967	-	-	-	149,652
2,185,164	120,188,642	31,197,870	6,286,121	21,529,343	420,826,810
2,168,788	7,702,237	693,384	-	-	145,690,015
27,633,953	301,231,223	133,277,007	-	10,457,307	1,370,860,607
-	-	-	-	-	279,160,667
-	-	-	-	-	606,529
-	314,197	60,355	-	-	990,707
<u>29,802,741</u>	<u>309,247,657</u>	<u>134,030,746</u>	<u>-</u>	<u>10,457,307</u>	<u>1,797,308,525</u>
<u>31,987,905</u>	<u>429,436,299</u>	<u>165,228,616</u>	<u>6,286,121</u>	<u>31,986,650</u>	<u>2,218,135,335</u>

MAINE MUNICIPAL BOND BANK

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2013

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Fund Groups Grant Anticipation Fund Group</u>	<u>Transportation Infrastructure Fund Group</u>
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued liabilities (note 8)	\$ 565,447	\$ -	\$ 3,049	\$ -
Due to other funds	-	4,881,397	-	37,288
Accrued interest payable	-	7,542,883	1,366,060	3,142,948
Undisbursed loans	-	-	-	-
Accrued interest rebate payable to U.S. Government	-	152,165	-	-
Due to State of Maine	-	-	-	45,732,580
Bonds payable, net (note 4)	<u>-</u>	<u>97,004,735</u>	<u>12,712,599</u>	<u>12,172,000</u>
Total current liabilities	565,447	109,581,180	14,081,708	61,084,816
Noncurrent liabilities:				
Accrued interest rebate payable to U.S. Government	-	1,160,947	-	-
Bonds payable, net (note 4)	<u>-</u>	<u>1,007,934,578</u>	<u>83,247,320</u>	<u>205,715,246</u>
Total noncurrent liabilities	<u>-</u>	<u>1,009,095,525</u>	<u>83,247,320</u>	<u>205,715,246</u>
Total liabilities	<u>565,447</u>	<u>1,118,676,705</u>	<u>97,329,028</u>	<u>266,800,062</u>
<u>NET POSITION</u>				
Restricted (notes 5, 6 and 7)	-	4,670,829	-	-
Unrestricted (notes 6 and 7)	<u>27,988,145</u>	<u>37,179,528</u>	<u>-</u>	<u>-</u>
Total net position	<u>\$27,988,145</u>	<u>\$ 41,850,357</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes.

Qualified School Construction Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Clean Water	Drinking Water			
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 568,496
-	932,802	727,384	54,319	36,743	6,669,933
291,763	174,898	26,060	-	-	12,544,612
-	31,570,047	3,337,574	-	776,997	35,684,618
-	28,071	-	-	-	180,236
-	-	-	-	-	45,732,580
-	6,535,591	441,446	-	-	128,866,371
291,763	39,241,409	4,532,464	54,319	813,740	230,246,846
-	17,144	-	-	-	1,178,091
31,696,142	21,523,303	3,781,125	-	-	1,353,897,714
31,696,142	21,540,447	3,781,125	-	-	1,355,075,805
31,987,905	60,781,856	8,313,589	54,319	813,740	1,585,322,651
-	368,216,843	156,286,467	-	29,919,348	559,093,487
-	437,600	628,560	6,231,802	1,253,562	73,719,197
\$ -	\$ 368,654,443	\$ 156,915,027	\$ 6,231,802	\$ 31,172,910	\$ 632,812,684

MAINE MUNICIPAL BOND BANK

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30, 2013

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Fund Groups Grant Anticipation Fund Group</u>	<u>Transportation Infrastructure Fund Group</u>
Operating revenues:				
Interest on loans receivable from governmental units	\$ 69,022	\$42,070,200	\$ —	\$ —
Program revenue from State of Maine	—	—	4,036,676	8,812,021
Interest income from investments	178,805	4,226,237	—	432,426
Net decrease in the fair value of investments	(151,746)	(8,535,123)	—	(792,822)
Grant revenue from Environmental Protection Agency (note 6)	—	—	—	—
Grant revenue from State of Maine (notes 6, 7 and 10)	504,048	—	—	—
Other income (note 10)	<u>515,786</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total operating revenue	1,115,915	37,761,314	4,036,676	8,451,625
Operating expenses:				
Interest expense	—	43,060,354	3,888,281	8,334,330
Operating expenses (direct and shared) (note 8)	1,362,891	64,197	148,395	117,295
Pass-through grant expense (note 10)	204,048	—	—	—
Loan forgiveness (notes 6 and 7)	—	—	—	—
Amortization of deferred financing costs and refunding benefits rebated to governmental units	<u>—</u>	<u>841,581</u>	<u>—</u>	<u>—</u>
Total operating expenses	<u>1,566,939</u>	<u>43,966,132</u>	<u>4,036,676</u>	<u>8,451,625</u>
Operating income (loss) before operating transfers	(451,024)	(6,204,818)	—	—
Operating transfers	<u>1,044,161</u>	<u>(1,044,161)</u>	<u>—</u>	<u>—</u>
Operating income (loss)	593,137	(7,248,979)	—	—
Net position, beginning of year	<u>27,395,008</u>	<u>49,099,336</u>	<u>—</u>	<u>—</u>
Net position, end of year	<u>\$27,988,145</u>	<u>\$41,850,357</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes.

Qualified School Construction Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Clean Water	Drinking Water			
\$1,850,153	\$ 3,716,298	\$ 874,481	\$ -	\$ -	\$ 48,580,154
-	-	-	-	-	12,848,697
61,889	992,029	18,717	28,850	138,147	6,077,100
(164,354)	(643,172)	(24,408)	(25,977)	(119,876)	(10,457,478)
-	10,940,000	8,975,000	-	-	19,915,000
-	2,188,000	1,795,000	-	285,871	4,772,919
-	-	-	748,142	-	1,263,928
1,747,688	17,193,155	11,638,790	751,015	304,142	83,000,320
1,747,688	938,910	148,903	-	-	58,118,466
-	449,901	2,280,712	221,750	640,966	5,286,107
-	-	-	-	-	204,048
-	2,446,084	2,017,278	-	247,813	4,711,175
-	308,830	41,484	-	-	1,191,895
1,747,688	4,143,725	4,488,377	221,750	888,779	69,511,691
-	13,049,430	7,150,413	529,265	(584,637)	13,488,629
-	130,733	(30,874)	(99,859)	-	-
-	13,180,163	7,119,539	429,406	(584,637)	13,488,629
-	355,474,280	149,795,488	5,802,396	31,757,547	619,324,055
\$ -	\$ 368,654,443	\$ 156,915,027	\$ 6,231,802	\$ 31,172,910	\$ 632,812,684

MAINE MUNICIPAL BOND BANK

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2013

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Fund Groups</u>	
			<u>Grant Anticipation Fund Group</u>	<u>Transportation Infrastructure Fund Group</u>
OPERATING ACTIVITIES:				
Cash received from governmental units and State of Maine	\$ 410,384	\$ 135,252,838	\$ 16,482,539	\$ 39,991,475
Cash payments to governmental units	(204,048)	(42,886,076)	-	-
Cash payments to State of Maine	-	-	-	(19,200,000)
Cash received from other income	515,786	-	-	-
Cash payments for operating expenses	(1,202,685)	(64,197)	(148,395)	(117,295)
Cash received from (paid to) other funds	795,935	(655,390)	-	9,299
Cash received (paid) for other assets and liabilities	<u>3,547</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by operating activities	318,919	91,647,175	16,334,144	20,683,479
NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds payable	-	95,430,046	-	-
Principal paid on bonds payable	-	(101,416,067)	(12,005,000)	(10,630,000)
Interest paid on bonds payable	-	(46,452,754)	(4,329,144)	(9,638,066)
Amount deposited to refunding escrow (note 9)	-	(48,882,751)	-	-
Issuance costs paid for refunding bonds (note 9)	-	(256,048)	-	-
Grant receipts from Environmental Protection Agency and State of Maine	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash (used) provided by noncapital financing activities	300,000	(101,577,574)	(16,334,144)	(20,268,066)
INVESTING ACTIVITIES:				
Purchase of investment securities	(29,024,653)	(221,513,524)	-	(106,599,801)
Proceeds from sale and maturities of investment securities	28,500,342	227,749,696	-	105,725,436
Income received from investments	178,260	7,381,909	-	458,952
Interest rebate paid to U.S. Government	-	(3,687,682)	-	-
Additions to land and building	<u>(25,449)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(371,500)</u>	<u>9,930,399</u>	<u>-</u>	<u>(415,413)</u>
Increase in cash	247,419	-	-	-
Cash, beginning of year	<u>64,423</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash, end of year	<u>\$ 311,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Qualified School Construction Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Clean Water	Drinking Water			
\$ 3,521,917	\$ 32,381,441	\$ 6,992,020	\$ -	\$ 3,830,317	\$ 238,862,931
-	(41,208,480)	(13,998,512)	-	(546,494)	(98,843,610)
-	-	-	-	-	(19,200,000)
-	-	-	748,142	-	1,263,928
-	(464,901)	(2,285,962)	(221,750)	(644,966)	(5,150,151)
-	1,469	(40,621)	(110,077)	(615)	-
<u>-</u>	<u>(1,384)</u>	<u>1,250</u>	<u>-</u>	<u>-</u>	<u>3,413</u>
3,521,917	(9,291,855)	(9,331,825)	416,315	2,638,242	116,936,511
-	-	-	-	-	95,430,046
-	(6,040,000)	(425,000)	-	-	(130,516,067)
(1,746,242)	(1,145,946)	(163,059)	-	-	(63,475,211)
-	-	-	-	-	(48,882,751)
-	-	-	-	-	(256,048)
<u>-</u>	<u>6,345,063</u>	<u>9,862,917</u>	<u>-</u>	<u>285,871</u>	<u>16,793,851</u>
(1,746,242)	(840,883)	9,274,858	-	285,871	(130,906,180)
(12,404,530)	(148,276,577)	(25,768,682)	(4,881,811)	(4,640,691)	(553,110,269)
10,595,060	157,532,739	25,813,078	4,450,948	1,654,799	562,022,098
33,795	1,084,709	12,571	14,548	61,779	9,226,523
-	(208,133)	-	-	-	(3,895,815)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,449)</u>
<u>(1,775,675)</u>	<u>10,132,738</u>	<u>56,967</u>	<u>(416,315)</u>	<u>(2,924,113)</u>	<u>14,217,088</u>
-	-	-	-	-	247,419
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,423</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 311,842</u>

MAINE MUNICIPAL BOND BANK

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2013

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Fund Groups</u>	
			<u>Grant Anticipation Fund Group</u>	<u>Transportation Infrastructure Fund Group</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 593,137	\$ (7,248,979)	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Interest income from investments	(178,805)	(4,226,237)	-	(432,426)
Net decrease in the fair value of investments	151,746	8,535,123	-	792,822
Loan forgiveness	-	-	-	-
Depreciation	85,575	-	-	-
Amortization of deferred financing costs and refunding benefits rebated to units	-	841,581	-	-
Interest expense on bonds payable	-	43,060,354	3,888,281	8,334,330
Federal and State grants	(504,048)	-	-	-
Change in assets and liabilities:				
Loans receivable from governmental units and advances to State of Maine	334,560	49,764,563	12,291,886	11,794,253
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	6,802	531,999	153,977	-
Due to/from other funds	(248,226)	388,771	-	9,299
Other assets	3,547	-	-	-
Accounts payable and accrued liabilities	74,631	-	-	-
Due to State of Maine	-	-	-	185,201
Net cash provided (used) by operating activities	<u>\$ 318,919</u>	<u>\$ 91,647,175</u>	<u>\$ 16,334,144</u>	<u>\$ 20,683,479</u>

See accompanying notes.

Qualified School Construction Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Clean Water	Drinking Water			
\$ -	\$ 13,180,163	\$ 7,119,539	\$429,406	\$ (584,637)	\$ 13,488,629
(61,889)	(992,029)	(18,717)	(28,850)	(138,147)	(6,077,100)
164,354	643,172	24,408	25,977	119,876	10,457,478
-	2,446,084	2,017,278	-	247,813	4,711,175
-	-	-	-	-	85,575
-	308,830	41,484	-	-	1,191,895
1,747,688	938,910	148,903	-	-	58,118,466
-	(13,128,000)	(10,770,000)	-	(285,871)	(24,687,919)
1,673,209	(12,576,837)	(7,902,066)	-	3,283,823	58,663,391
(1,445)	33,500	21,093	-	-	745,926
-	(129,264)	(9,747)	(10,218)	(615)	-
-	(1,384)	1,250	-	-	3,413
-	(15,000)	(5,250)	-	(4,000)	50,381
-	-	-	-	-	185,201
<u>\$ 3,521,917</u>	<u>\$ (9,291,855)</u>	<u>\$ (9,331,825)</u>	<u>\$416,315</u>	<u>\$ 2,638,242</u>	<u>\$ 116,936,511</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. Organization

The Maine Municipal Bond Bank (the Bond Bank) is constituted as an instrumentality and a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Article 30-A, Title 5901 (the Act), as amended.

Under the Act, the Bond Bank is authorized to issue bonds for the purpose, among other things, of providing funds to enable it to lend money to counties, cities, towns, school administrative districts, community school districts, other quasi-municipal corporations or other eligible borrowers as designated by the Legislature (the “governmental units”) within the State of Maine. The provision of funds is accomplished by the direct purchase from such governmental units of their bonds, notes or evidence of debt payable from taxes, charges for services, grants or assessments. The Bond Bank is also authorized by the Legislature to issue bonds on behalf of the State of Maine to finance qualified transportation projects, to be repaid by taxes, fees and grant revenues.

The Bond Bank has an arrangement with related parties, Maine Health and Higher Educational Facilities Authority and Maine Governmental Facilities Authority, whereby the Bond Bank allocates payroll and general overhead expenses from its operations to each Authority. The arrangement is approved annually by the Board of Commissioners through the budgetary approval process.

The General Operating Account consists of the operating revenues and expenses incurred by the Bond Bank in administering the six resolutions under which it is operating. The funds and accounts of these resolutions have been grouped within each of the resolutions and fund groups as described below.

The General Operating Account also administers various loan and grant programs in conjunction with the State of Maine. Additionally, the General Operating Account from time-to-time will provide loans to municipalities (governmental units) experiencing financial difficulties. During 2010, the General Operating Account provided a loan of approximately \$1.2 million to a municipality, which is to be repaid in quarterly installments of \$39,740, including interest at 5.5%, through October 2019. The balance outstanding on this loan as of June 30, 2013 is \$863,781. During 2012, the General Operating Account provided a loan of approximately \$1.1 million to a municipality, which is to be repaid in quarterly installments ranging from \$66,943 to \$56,975, including interest at 1.875%, through April 2017. The balance outstanding on this loan as of June 30, 2013 is \$907,354.

General Tax-Exempt Fund Group: This fund group consists of funds and accounts established under the Bond Bank’s General Bond Resolution adopted July 11, 1973, as amended and supplemented by the First Supplemental Resolution adopted September 20, 1977, the Second Supplemental Resolution adopted July 18, 1984, the Third Supplemental Resolution adopted May 7, 1993, the Fourth Supplemental Resolution adopted June 25, 1993 and the Fifth Supplemental Resolution adopted September 18, 2003. Under these resolutions, the Bond Bank issues bonds on which the interest is exempt from State of Maine income taxes and either exempt or non-exempt from federal income taxes. The proceeds on the bonds are used to make loans to local governmental units. In addition, the Bond Bank issues taxable bonds that receive a federal interest subsidy payment on each debt service payment date. The total federal interest subsidy received in 2013 was approximately \$1,049,000, and is included in interest on loans receivable from governmental units in the statement of revenues, expenses and changes in net position.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. Organization (Continued)

Transportation Fund Groups: These fund groups consist of funds and accounts established under the Bond Bank's Grant Anticipation General Bond Resolution adopted December 10, 2004 and the Bond Bank's Transportation Infrastructure General Bond Resolution adopted September 24, 2008. Under these resolutions, the Bond Bank issues bonds or notes exempt from Federal and State of Maine income taxes for the purpose of making advances to the State of Maine Department of Transportation to finance qualified transportation projects. The Grant Anticipation bonds or notes are to be repaid from future federal highway grant monies received by the State of Maine and the Transportation Infrastructure bonds or notes are to be repaid from a portion of future fees and taxes collected by the State of Maine. In addition, the Bond Bank issues taxable bonds that receive a federal interest subsidy payment on each debt service payment date. The total federal interest subsidy received in 2013 was approximately \$414,000 and is included in program revenue from State of Maine in the statement of revenues, expenses and changes in net position.

Qualified School Construction Fund Group: This fund group consists of funds and accounts established under the Bond Bank's General Bond Resolution adopted November 18, 2010. Under this resolution, the Bond Bank issues bonds which are exempt from State of Maine income taxes (but not federal income taxes) and makes loans to qualified governmental units. The bonds issued in this fund group receive a federal interest subsidy payment on each debt service payment date. The total federal interest subsidy received in 2013 was approximately \$1,604,000 and is included in interest on loans receivable from governmental units in the statement of revenues, expenses and changes in net position.

Sewer and Water Fund Groups: These fund groups consist of funds and accounts established under the Bond Bank's Sewer and Water General Bond Resolution adopted February 7, 1990, as amended and supplemented by the First Supplemental Resolution adopted March 6, 1991, by the Second Supplemental Resolution adopted August 21, 1998, and by the Third Supplemental Resolution adopted March 14, 2003. Under this resolution, the Bond Bank issues bonds exempt from federal and State of Maine income taxes for the purpose of making revolving loans to governmental units to finance wastewater collection, treatment system or water supply system projects. Under the Drinking Water Fund Group, eligible borrowers consist of public water systems, which include municipalities, districts, private for-profit and non-profit water systems. Some of these projects may be partially financed by grants from the Environmental Protection Agency and the State of Maine under the State Revolving Fund Program and the Drinking Water State Revolving Loan Fund Program. The Operating Fund Group collects fees paid by eligible borrowers of the Sewer and Water Fund Groups and pays administrative expenses to the Bond Bank and other expenses permitted within the resolution that are not covered under the Sewer and Water Revolving Fund Groups. The fees earned are recorded in other income on the statement of revenues, expenses and changes in net position.

School Facilities Fund Group: This fund group consists of funds and accounts established under the Maine School Facilities Finance Program. Under this program, the Bond Bank receives appropriations from the State for the purpose of making loans to school administrative units for school repair and renovation. This fund group is not a part of any bond resolution.

2. Significant Accounting Policies

Proprietary Fund Accounting: As the Bond Bank's operations are financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the costs of providing goods or services is financed through user charges, it meets the criteria for an enterprise fund and, therefore, is accounted for under the accrual basis of accounting.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

2. Significant Accounting Policies (Continued)

As discussed below, the Bond Bank complies with Governmental Accounting Standards Board (GASB) statements codified under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidelines Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62).

The financial statements are prepared in accordance with GASB No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34*, and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Accounting Method: As stated above, the Bond Bank uses the accrual basis of accounting and, accordingly, recognizes revenues as earned and expenses as incurred.

Federal Income Taxes

It is the opinion of management that the Bond Bank is exempt from federal income taxes under Internal Revenue Code (IRC) Section 115, and that the Bond Bank has maintained its tax-exempt status and has no uncertain tax positions that require adjustment or disclosure in these financial statements. However, because the Bond Bank issues tax-exempt bonds, it is subject to the arbitrage rebate requirements of Section 148 of the IRC. Section 148 requires that any arbitrage profit earned on the proceeds of tax-exempt bonds issued after 1985 must be rebated to the federal government at least once every five years, with the balance rebated no later than 60 days after the retirement of the bonds.

Arbitrage rebate expense, which is presented as a reduction in the amount of interest income from investments, for the year ended June 30, 2013 was approximately \$1,788,000 in total for the General Tax-Exempt and Clean Water Revolving Loan Fund Groups.

Cash and Cash Equivalents: The Bond Bank considers all checking and savings deposits and highly liquid investments with maturities of three months or less to be cash equivalents.

Investments: Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net position. Interest earnings on principal-only strips within the general tax-exempt fund group and transportation infrastructure fund group of approximately \$4,046,000 and \$217,000, respectively, have been recorded as interest income from investments in 2013. Reserve fund investments that are not expected to be utilized to fund bond principal and interest payments until after June 30, 2014 have been classified as long-term.

Undisbursed Federal Letter of Credit Payment: The Bond Bank has received federal capitalization grants under the Sewer and Water Bond Resolution’s State Revolving Fund Program. The grants have been made available in the form of letters of credit which can only be drawn upon when needed for administrative and actual construction related costs.

Building: The building is recorded at cost less accumulated depreciation. The provision for depreciation has been computed using the straight-line method.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

2. Significant Accounting Policies (Continued)

Refunding Benefits Rebated to Governmental Units: The refunding benefits rebated to governmental units recognizes amounts paid to governmental units resulting from debt service savings on advance refunding of bonds outstanding. The rebated amounts are deferred and are being amortized over the life of the refunded bonds (which is equivalent to the life of the loans receivable) using a method which approximates the effective interest method.

Bond Issuance Costs and Deferred Financing Costs: Bond issuance and financing costs resulting from advance refunding of bonds outstanding have been deferred as part of deferred amounts on refunding and are being amortized over the life of the refunding bonds using the bonds outstanding method. Other bond issuance and finance costs paid by the Bond Bank are expensed as incurred.

Deferred Amounts on Refunding: The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as a deferred amount on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter, as a component of interest expense using the bonds outstanding method.

Original Issue Discounts: Original issue discounts, which are deducted from bond proceeds loaned to governmental units, are effectively paid by the governmental units and are not expenses of the Bond Bank. Original issue discounts resulting from the advance refunding of bonds outstanding have been deferred and are being accreted over the life of the refunding bonds using a method which approximates the effective interest method.

Original Issue Premiums: Original issue premiums are generally added to bond proceeds loaned to governmental units (and thus are deferred and amortized over the life of the bonds using a method which approximates the effective interest method) or used to pay costs of the bond issuance (and thus netted against issuance costs). Original issue premiums resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunding bonds using a method which approximates the effective interest method.

Construction Funds: The Sewer and Water General Bond Resolution requires bond proceeds to be deposited into construction funds. Upon deposit into the construction funds, a loan receivable from the governmental unit is recorded and the construction funds are excluded from Sewer and Water Fund Groups. The Bond Bank maintains control over disbursement of these funds until the project is complete. There are no bond proceeds held in Clean Water or Drinking Water Construction funds as of June 30, 2013.

Grant Revenue: Grant revenue is recognized when the qualifying commitments have been made and all other grant requirements have been met.

Interfund Transactions: Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to another fund are recorded as expenses in the reimbursing fund and as reductions of expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

2. Significant Accounting Policies (Continued)

Management Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires the Bond Bank to make estimates and assumptions that affect the amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Total Columns: The “total” columns contain the totals of the similar accounts of the various funds. Since the assets of the funds are restricted, the combination of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in the separate funds.

Implementation of New Accounting Standards

The Bond Bank adopted the following new accounting standards in 2013:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). This Statement incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) and AICPA pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. This Statement improves financial reporting by contributing to the GASB’s efforts to codify all sources of generally accepted accounting principles for state and local government so that they derive from a single source. There was no impact on the Bond Bank’s financial statements as a result of the adoption of GASB 62.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). This Statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. Deferred outflows of resources and deferred inflows of resources are now required to be reported separately from assets and liabilities.

The adoption of GASB 63 resulted in a change in the presentation of the Balance Sheet to what is now referred to as the Statement of Net Position and the term “net assets” is changed to “net position” throughout the financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53* (GASB 64). This Statement clarifies the termination provisions in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, when a counterparty of an interest rate or commodity swap is replaced. There was no impact on the Bond Bank’s financial statements as a result of the adoption of GASB 64.

Other GASB standards that are under evaluation include:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It requires the reclassification of amounts previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources or to expenses or revenues.

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

2. Significant Accounting Policies (Continued)

GASB 65 is effective for the year ending June 30, 2014 and the Bond Bank has not yet adopted this standard. The implementation of GASB 65 will decrease the beginning net position resulting primarily from the change in accounting for deferred bond issuance costs. Bond issuance costs will now be expensed as incurred and prior costs deferred will be written off as of July 1, 2013. The Bond Bank has not yet determined the impact on opening net position as a result of adopting this Statement.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* and GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62* are effective for the year ending June 30, 2014, GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* are effective for the year ending June 30, 2015, and GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* is effective for the year ending June 30, 2016. The Bond Bank has not yet adopted these standards and is evaluating the impact they may have on its financial statements.

3. Investments Held By Trustee and Operating Investments

The Bond Bank is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises, state and local government agencies, guaranteed investment contracts, certificates of deposit and collateralized repurchase agreements. At June 30, 2013, investments are categorized as follows:

	<u>Fair Value</u>
<u>General Operating Account</u>	
Operating investments:	
U.S. Government-sponsored enterprises	\$ 16,343,198
Cash and cash equivalents	<u>3,131,878</u>
	<u>\$ 19,475,076</u>
 <u>General Tax-Exempt Fund Group</u>	
Investments held by trustee:	
Guaranteed investment contracts	\$ 8,897,863
U.S. Government obligations	20,637,038
U.S. Government-sponsored enterprises	24,277,789
U.S. Treasury strips	46,766,752
U.S. Government-sponsored enterprise strips	49,210,429
Cash and cash equivalents	<u>16,623,479</u>
	<u>\$ 166,413,350</u>
 <u>Grant Anticipation Fund Group</u>	
Investments held by trustee:	
Cash and cash equivalents	<u>\$ 3,049</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

3. Investments Held By Trustee and Operating Investments (Continued)

	<u>Fair Value</u>
<u>Transportation Infrastructure Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 37,542,590
U.S. Treasury strips	8,770,832
Cash and cash equivalents	<u>12,351,780</u>
	<u>\$ 58,665,202</u>
 <u>Qualified School Construction Fund</u>	
Investments held by trustee:	
U.S. Government obligations	\$ 2,110,501
Cash and cash equivalents	<u>58,287</u>
	<u>\$ 2,168,788</u>
 <u>Sewer and Water Fund Groups</u>	
Investments held by trustee:	
Revolving Loan Fund Group – Clean Water:	
Guaranteed investment contracts	\$ 3,302,304
U.S. Government obligations	199,658
U.S. Government-sponsored enterprises	55,168,297
U.S. Government-sponsored enterprise strips	2,687,469
Certificates of deposit	4,043,377
Cash and cash equivalents	<u>13,137,064</u>
	<u>\$ 78,538,169</u>
Revolving Loan Fund Group – Drinking Water:	
U.S. Government-sponsored enterprises	\$ 6,205,808
U.S. Government-sponsored enterprise strips	364,927
Cash and cash equivalents	<u>4,684,268</u>
	<u>\$ 11,255,003</u>
Operating Fund Group:	
U.S. Government-sponsored enterprises	\$ 1,270,073
Cash and cash equivalents	<u>5,000,820</u>
	<u>\$ 6,270,893</u>
 <u>School Facilities Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 14,045,898
Cash and cash equivalents	<u>3,945,414</u>
	<u>\$ 17,991,312</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

3. Investments Held By Trustee and Operating Investments (Continued)

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Bond Bank's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, guaranteed investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Bond Bank to terminate individual contracts at par. The Bond Bank's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Bond Bank's investments in guaranteed investment contracts, U.S. Government obligations, U.S. Government-sponsored enterprises, U.S. Treasury Strips, U.S. Government-sponsored enterprise strips and certificates of deposit as of June 30, 2013:

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>General Operating Account</u>					
U.S. Government-sponsored enterprises	\$ <u>16,343,198</u>	\$ <u>8,025,310</u>	\$ <u>8,317,888</u>	\$ <u>—</u>	\$ <u>—</u>
<u>General Tax Exempt Fund Group</u>					
Guaranteed investment contracts	\$ 8,897,863	\$ —	\$ —	\$ —	\$ 8,897,863
U.S. Government obligations	20,637,038	13,281,535	1,695,772	5,437,727	222,004
U.S. Government-sponsored enterprises	24,277,789	1,890,684	10,781,918	799,319	10,805,868
U.S. Treasury strips	46,766,752	5,537,957	19,959,730	19,424,119	1,844,946
U.S. Government-sponsored enterprise strips	<u>49,210,429</u>	<u>3,710,761</u>	<u>7,748,164</u>	<u>13,587,585</u>	<u>24,163,919</u>
	<u>\$ 149,789,871</u>	<u>\$ 24,420,937</u>	<u>\$ 40,185,584</u>	<u>\$ 39,248,750</u>	<u>\$ 45,934,600</u>
<u>Transportation Infrastructure Fund Group</u>					
U.S. Government-sponsored enterprises	\$ 37,542,590	\$ 34,538,480	\$ 3,004,110	\$ —	\$ —
U.S. Treasury strips	<u>8,770,832</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,770,832</u>
	<u>\$ 46,313,422</u>	<u>\$ 34,538,480</u>	<u>\$ 3,004,110</u>	<u>\$ —</u>	<u>\$ 8,770,832</u>
<u>Qualified School Construction Fund Group</u>					
U.S. Government obligations	\$ <u>2,110,501</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>484,507</u>	\$ <u>1,625,994</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

3. Investments Held By Trustee and Operating Investments (Continued)

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>Revolving Loan Fund</u>					
<u>Group – Clean Water</u>					
Guaranteed investment contracts	\$ 3,302,304	\$ –	\$ 1,937,638	\$ 641,798	\$ 722,868
U.S. Government obligations	199,658	–	199,658	–	–
U.S. Government-sponsored enterprises	55,168,297	31,365,886	23,802,411	–	–
U.S. Government-sponsored enterprise strips	2,687,469	1,262,325	399,841	1,025,303	–
Certificates of deposit	<u>4,043,377</u>	<u>331,814</u>	<u>3,711,563</u>	<u>–</u>	<u>–</u>
	<u>\$ 65,401,105</u>	<u>\$32,960,025</u>	<u>\$30,051,111</u>	<u>\$ 1,667,101</u>	<u>\$ 722,868</u>
 <u>Revolving Loan Fund</u>					
<u>Group–Drinking Water</u>					
U.S. Government-sponsored enterprises	\$ 6,205,808	\$ 3,554,490	\$ 2,492,340	\$ –	\$ 158,978
U.S. Government-sponsored enterprise strips	<u>364,927</u>	<u>263,459</u>	<u>31,213</u>	<u>70,255</u>	<u>–</u>
	<u>\$ 6,570,735</u>	<u>\$ 3,817,949</u>	<u>\$ 2,523,553</u>	<u>\$ 70,255</u>	<u>\$ 158,978</u>
 <u>Sewer and Water Fund</u>					
<u>Groups – Operating Fund</u>					
<u>Group</u>					
U.S. Government-sponsored enterprises	<u>\$ 1,270,073</u>	<u>\$ 1,270,073</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>
 <u>School Facilities Fund</u>					
<u>Group</u>					
U.S. Government-sponsored enterprises	<u>\$ 14,045,898</u>	<u>\$10,557,008</u>	<u>\$ 3,488,890</u>	<u>\$ –</u>	<u>\$ –</u>

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Bond Bank will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Bond Bank’s investments are primarily held by U.S. Bank and Bangor Savings Bank. Management of the Bond Bank is not aware of any issues with respect to custodial credit risk at either bank at June 30, 2013.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

3. Investments Held By Trustee and Operating Investments (Continued)

For an investment, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Bond Bank. Credit risk is measured by the credit quality ratings of issuers as described by nationally recognized rating organizations. The Bond Bank's investment policy limits its investments to those with high credit quality, such as U.S. Treasury Obligations and U.S. Government-sponsored enterprises securities, as rated by rating agencies such as Moody's Investor Service or Standard and Poor's, or guaranteed investment contracts backed by high credit quality banks and insurance companies. The Bond Bank requires providers of guaranteed investment contracts to have and maintain a long-term unsecured debt obligation rating or claims paying ability equal to or greater than "AA" or "Aa". If the long-term rating falls below these thresholds, the provider must either (i) pledge additional collateral to restore the rating or (ii) permit the Bond Bank to withdraw the funds at par and without penalty.

At June 30, 2013, the rating for investments in U.S. Treasury Obligations and U.S. Government-sponsored enterprise securities (includes FHLMC, FHLB, FFCB, FNMA) was AA+. At June 30, 2013, the Bond Bank's guaranteed investment contracts within the General Tax Exempt Fund Group and Revolving Loan Fund Groups are primarily with three institutions, all of which are AA rated or better.

The Bond Bank has invested some of its long-term funds in U.S. Treasury and U.S. Government-sponsored enterprise principal-only strips in order to maximize yields coincident with cash needs for operations, debt service, and arbitrage. These securities are similar to zero coupon bonds which are purchased deeply discounted, with the Bond Bank receiving its only repayment stream at maturity; therefore, they are sensitive to interest rate changes. These securities are reported at fair value in the statements of net position. The fair value of these investments is approximately \$107,800,000 at June 30, 2013.

Trustee held cash and cash equivalents at June 30, 2013 consist primarily of money market funds secured by short-term U.S. Treasury obligations.

The cash and cash equivalents of the Bond Bank's General Operating Account at June 30, 2013 consist entirely of money market funds secured by short-term U.S. Treasury obligations, held by a trust company.

4. Bonds Payable

Total General Tax-Exempt Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2013:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2013</u>
Series 2001 A and B, 4.125% – 5.25%, dated May 1, 2001	2002 – 2021	\$ 34,635,000	\$ 1,305,000
Series 2002 E and F, 2.00% – 5.00%, dated October 1, 2002	2003 – 2023	32,720,000	25,000
Series 2003 A, 3.00% – 5.25%, dated March 1, 2003	2003 – 2020	186,050,000	10,784,346

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2013</u>
Series 2003 B and C, 2.00% – 5.00%, dated May 1, 2003	2003 – 2024	\$ 17,290,000	\$ 1,580,000
Series 2003 D and E, 2.00% – 5.00%, dated October 1, 2003	2004 – 2033	18,460,000	1,105,000
Series 2004 A and B, 2.00% – 5.00%, dated May 27, 2004	2004 – 2025	94,565,000	10,775,000
Series 2004 C, 2.00% – 5.00%, dated September 23, 2004	2004 – 2020	58,675,000	30,780,000
Series 2004 D and E, 2.25% – 5.00%, dated October 28, 2004	2005 – 2034	46,850,000	6,130,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2005 – 2021	91,250,000	82,705,000
Series 2005 B and C, 3.00% – 5.00%, dated May 26, 2005	2006 – 2031	22,050,000	4,445,000
Series 2005 D and E, 3.00% – 5.00%, dated October 27, 2005	2006 – 2034	60,395,000	9,530,000
Series 2006 A, 3.48% – 4.77%, dated May 25, 2006	2006 – 2036	14,040,000	3,695,000
Series 2006 B and C, 3.55% – 5.00%, dated October 26, 2006	2007 – 2027	24,065,000	9,090,000
Series 2007 A, 3.75% – 5.00%, dated April 5, 2007	2007 – 2022	51,335,000	50,110,000
Series 2007 B and C, 4.00% – 5.00%, dated May 24, 2007	2007 – 2029	69,380,000	41,675,000
Series 2007 D and E, 4.00% – 5.00%, dated October 25, 2007	2008 – 2037	53,560,000	34,180,000
Series 2008 A and B, 3.00% – 5.00%, dated May 15, 2008	2008 – 2038	49,060,000	38,150,000
Series 2008 C, 4.00% – 5.50%, dated October 30, 2008	2009 – 2038	100,010,000	79,845,000
Series 2009 A, 2.00% – 5.00%, dated March 17, 2009	2009 – 2020	10,060,000	7,400,000
Series 2009 B, 3.00% – 5.00%, dated May 28, 2009	2009 – 2034	42,845,000	36,240,000
Series 2009 C, 1.10% – 4.25%, dated August 27, 2009	2010 – 2029	21,620,000	18,570,000
Series 2009 D, 3.00% – 5.00%, dated August 27, 2009	2010 – 2029	34,930,000	29,670,000
Series 2009 E, 1.25% – 3.00%, dated August 27, 2009	2009 – 2014	4,685,000	1,515,000
Series 2009 G, 3.00% – 5.00%, dated October 29, 2009	2010 – 2039	9,590,000	8,220,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2013</u>
Series 2009 H, 3.00% – 5.00%, dated January 14, 2010	2010 – 2030	\$ 38,710,000	\$ 34,660,000
Series 2010 A, 2.00% – 4.25%, dated May 27, 2010	2010 – 2040	8,320,000	6,115,000
Series 2010 B, 3.28% – 5.67%, dated May 27, 2010	2010 – 2034	11,735,000	11,735,000
Series 2010 C, 2.00% – 5.00%, dated October 7, 2010	2012 – 2034	99,425,000	97,670,000
Series 2010 DEF, 0.71% – 5.12%, dated October 28, 2010	2011 – 2040	80,165,000	71,370,000
Series 2011 A, 2.37% – 5.00%, dated January 27, 2011	2011 – 2031	80,275,000	76,335,000
Series 2011 C, 2.00% – 5.00%, dated May 26, 2011	2012 – 2041	77,275,000	73,235,000
Series 2011 EF, 2.00% – 5.00%, dated October 27, 2011	2012 – 2033	50,375,000	44,445,000
Series 2012 ABC, 0.67% – 5.00%, dated May 24, 2012	2013 – 2038	66,435,000	66,435,000
Series 2012 E, 1.50% – 4.00%, dated October 25, 2012	2013 – 2042	28,590,000	28,590,000
Series 2012 FG, 0.50% – 5.00%, dated December 11, 2012	2013 – 2034	41,975,000	41,975,000
Series 2013 A, 2.00% – 5.00%, dated May 23, 2013	2014 – 2043	<u>15,905,000</u>	<u>15,905,000</u>
		<u>\$ 1,747,305,000</u>	<u>\$ 1,085,994,346</u>

Total General Tax-Exempt Fund Group Bonds payable is presented on the statement of net position at June 30, 2013 as follows:

Total principal outstanding	\$ 1,085,994,346
Deferred amount on refunding	(27,486,628)
Unamortized original issue discount	(31,818)
Unamortized original issue premium	<u>46,463,413</u>
Total General Tax-Exempt Fund Group Bonds payable	1,104,939,313
Current portion	<u>97,004,735</u>
Noncurrent portion	<u>\$ 1,007,934,578</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

The outstanding General Tax-Exempt Fund Group Bonds payable will mature in each of the following years with interest payable semiannually:

<u>Due Bond Year</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2013	\$ 94,628,607	\$ 22,628,649	\$ 117,257,256
2014	93,755,406	41,670,421	135,425,827
2015	86,442,358	37,917,503	124,359,861
2016	84,883,516	34,764,102	119,647,618
2017	80,324,459	31,694,502	112,018,961
2018 – 2022	330,475,000	114,629,583	445,104,583
2023 – 2027	202,300,000	53,683,694	255,983,694
2028 – 2032	101,905,000	13,568,965	115,473,965
2033 – 2037	8,740,000	1,341,400	10,081,400
2038 – 2042	2,465,000	259,060	2,724,060
2043	<u>75,000</u>	<u>2,719</u>	<u>77,719</u>
	<u>\$ 1,085,994,346</u>	<u>\$ 352,160,598</u>	<u>\$ 1,438,154,944</u>

Repayment of the debt and interest thereon is to be funded by:

Municipal loan obligations – principal and interest	\$ 1,270,012,215 ¹
Reserve Funds – principal and interest	<u>168,142,729</u>
	<u>\$ 1,438,154,944</u>

¹ Includes approximately \$12,225,000 of interest to be funded through federal interest subsidy payments.

Total Grant Anticipation Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2013:

	<u>Original</u> <u>Maturity</u>	<u>Original</u> <u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2013</u>
Series 2004 A, 2.50% – 5.00%, dated December 16, 2004	2005 – 2015	\$ 48,395,000	\$ 15,290,000
Series 2008 A, 3.25% – 4.00%, dated September 10, 2008	2009 – 2020	50,000,000	35,605,000
Series 2010 A, 2.00% – 5.00%, dated December 2, 2010	2011 – 2017	25,915,000	19,845,000
Series 2010 B, 4.52% – 5.32%, dated December 2, 2010	2018 – 2022	<u>24,085,000</u>	<u>24,085,000</u>
		<u>\$ 148,395,000</u>	<u>\$ 94,825,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

Total Grant Anticipation Fund Group Bonds payable is presented on the statement of net position at June 30, 2013 as follows:

Total principal outstanding	\$ 94,825,000
Unamortized original issue premium	<u>1,134,919</u>
 Total Grant Anticipation Fund Group Bonds payable	 95,959,919
Less current portion	<u>12,712,599</u>
 Noncurrent portion	 \$ <u>83,247,320</u>

The outstanding Grant Anticipation Fund Group Bonds payable will mature in each of the following years with interest payable semiannually:

<u>Due Bond Year</u> <u>Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2013	\$12,465,000	\$ 2,049,090	\$ 14,514,090
2014	12,930,000	3,634,493	16,564,493
2015	13,460,000	3,103,980	16,563,980
2016	8,440,000	2,541,255	10,981,255
2017	8,820,000	2,162,556	10,982,556
2018 – 2022	<u>38,710,000</u>	<u>4,896,616</u>	<u>43,606,616</u>
	<u>\$94,825,000</u>	<u>\$18,387,990</u>	<u>\$ 113,212,990</u>

Repayment of the debt and interest thereon is to be funded by:

Repayment of advances to State of Maine – principal and interest	\$ <u>113,212,990</u> ¹
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¹ Includes approximately \$3,160,000 of interest to be funded through federal interest subsidy payments.

Total Transportation Infrastructure Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2013:

	<u>Original</u> <u>Maturity</u>	<u>Original</u> <u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2013</u>
Series 2008 A, 3.00% – 5.50%, dated November 20, 2008	2009 – 2023	\$ 50,000,000	\$ 40,055,000
Series 2009 A, 2.50% – 5.00%, dated July 22, 2009	2010 – 2023	105,000,000	87,290,000
Series 2009 B, 2.00% – 5.00%, dated September 10, 2009	2010 – 2024	30,000,000	27,500,000
Series 2011A, 2.00% – 5.00%, dated December 14, 2011	2012 – 2026	<u>55,000,000</u>	<u>54,080,000</u>
		<u>\$ 240,000,000</u>	<u>\$ 208,925,000</u>

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

Total Transportation Infrastructure Fund Group Bonds payable is presented on the statement of net position at June 30, 2013 as follows:

Total principal outstanding	\$ 208,925,000
Unamortized original issue premium	<u>8,962,246</u>
 Total Transportation Infrastructure Fund Group Bonds payable	 217,887,246
Less current portion	<u>12,172,000</u>
 Noncurrent portion	 <u>\$ 205,715,246</u>

The outstanding Transportation Infrastructure Fund Group Bonds payable will mature in each of the following years with interest payable semiannually:

<u>Due Bond Year</u> <u>Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2013	\$ 11,065,000	\$ 4,714,421	\$ 15,779,421
2014	11,490,000	8,977,743	20,467,743
2015	11,910,000	8,587,417	20,497,417
2016	12,410,000	8,130,288	20,540,288
2017	12,945,000	7,586,300	20,531,300
2018 – 2022	74,650,000	28,523,330	103,173,330
2023 – 2026	<u>74,455,000</u>	<u>8,336,300</u>	<u>82,791,300</u>
	<u>\$ 208,925,000</u>	<u>\$74,855,799</u>	<u>\$ 283,780,799</u>

Repayment of the debt and interest thereon is to be funded by:

Repayment of advances to State of Maine – principal and interest	\$ 273,978,900
Reserve fund – principal	<u>9,801,899</u>
	<u>\$ 283,780,799</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

Total Qualified School Construction Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2013:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2013</u>
Series 2011 B, 6.12%, dated January 27, 2011	2026	\$ 9,210,000	\$ 9,210,000
Series 2011 D, 5.69%, dated May 26, 2011	2025	12,650,000	12,650,000
Series 2011 G, 4.45% – 4.95%, dated October 27, 2011	2025 – 2028	8,515,000	8,515,000
Series 2012 D, 5.14%, dated May 24, 2012	2027	<u>1,321,142</u>	<u>1,321,142</u>
		<u>\$31,696,142</u>	<u>\$31,696,142</u>

Total Qualified School Construction Fund Group Bonds payable is presented on the statement of net position at June 30, 2013 as follows:

Total Qualified School Construction Fund Group Bonds payable	\$31,696,142
Less current portion	<u> —</u>
Noncurrent portion	<u>\$31,696,142</u>

The outstanding Qualified School Construction Fund Group Bonds payable will mature in each of the following years with interest payable semiannually:

<u>Due Bond Year Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2013	\$ —	\$ 875,290	\$ 875,290
2014	—	1,750,580	1,750,580
2015	—	1,750,580	1,750,580
2016	—	1,750,580	1,750,580
2017	—	1,750,580	1,750,580
2018 – 2022	—	8,752,900	8,752,900
2023 – 2027	27,646,142	6,351,971	33,998,113
2028	<u>4,050,000</u>	<u>200,475</u>	<u>4,250,475</u>
	<u>\$31,696,142</u>	<u>\$23,182,956</u>	<u>\$54,879,098</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

Repayment of the debt and interest thereon is to be funded by:

Government unit loan obligations – principal and interest	\$ 52,710,321 ¹
Sinking fund – principal	<u>2,168,777</u>
	<u>\$ 54,879,098</u>

¹ Includes approximately \$21,287,000 of interest to be funded through federal interest subsidy payments.

Sewer and Water Fund Group Clean Water Bonds payable, with original interest rates, consist of the following at June 30, 2013:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Outstanding June 30, 2013</u>
Series 2003 A and B, 1.05% – 5.00%, dated March 1, 2003	2003 – 2023	\$32,165,000	\$ 2,665,000
Series 2003 C, 1% – 4.9%, dated November 13, 2003	2004 – 2024	16,065,000	320,000
Series 2009 A, 3.00% – 5.00%, dated November 3, 2009	2010 – 2018	14,520,000	7,310,000
Series 2009 B, 2.50 – 3.625%, dated November 3, 2009	2010 – 2018	2,660,000	1,810,000
Series 2012 A, 2.00% – 5.00% dated March 22, 2012	2012 – 2024	<u>17,375,000</u>	<u>15,475,000</u>
		<u>\$82,785,000</u>	<u>\$27,580,000</u>

The Sewer and Water Fund Group Clean Water Bonds payable are presented on the statement of net position at June 30, 2013 as follows:

Total principal outstanding	\$27,580,000
Deferred amount on refunding	(1,357,991)
Unamortized original issue premium	<u>1,836,885</u>
Total Sewer and Water Fund Group Waste Water Bonds payable	28,058,894
Less current portion	<u>6,535,591</u>
Noncurrent portion	<u>\$21,523,303</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

The outstanding Sewer and Water Fund Group Clean Water Bonds payable will mature in each of the following years with interest payable semiannually:

<u>Due Bond Year</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2013	\$ 6,435,000	\$ 524,693	\$ 6,959,693
2014	3,380,000	767,446	4,147,446
2015	3,065,000	659,486	3,724,486
2016	2,910,000	546,724	3,456,724
2017	3,015,000	442,499	3,457,499
2018 – 2022	7,255,000	971,314	8,226,314
2023 – 2024	<u>1,520,000</u>	<u>86,405</u>	<u>1,606,405</u>
	<u>\$27,580,000</u>	<u>\$3,998,567</u>	<u>\$31,578,567</u>

Repayment of the debt and interest thereon is to be funded by:

Governmental unit loan obligations – principal and interest	\$27,274,150
Reserve fund – principal and interest	<u>4,304,417</u>
	<u>\$31,578,567</u>

Sewer and Water Fund Group Drinking Water Bonds payable, with original interest rates, consist of the following at June 30, 2013:

	<u>Original</u> <u>Maturity</u>	<u>Original</u> <u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2013</u>
Series 2005 A, 2.25% – 4.45%, dated March 24, 2005	2005 – 2025	\$3,770,000	\$2,615,000
Series 2009 C, 3.00% – 3.00% dated November 3, 2009	2010 – 2018	<u>2,380,000</u>	<u>1,590,000</u>
		<u>\$6,150,000</u>	<u>\$4,205,000</u>

The Sewer and Water Fund Group Drinking Water Bonds payable are presented on the statement of net position at June 30, 2013 as follows:

Total principal outstanding	\$4,205,000
Deferred amount on refunding	(4,124)
Unamortized original issue discounts and costs of issuance	(10,786)
Unamortized original issue premium	<u>32,481</u>
Total Sewer and Water Fund Group Drinking Water Bonds payable	4,222,571
Less current portion	<u>441,446</u>
Noncurrent portion	<u>\$3,781,125</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

The outstanding Sewer and Water Fund Group Drinking Water Bonds payable will mature in each of the following years with interest payable semiannually:

<u>Due Bond Year</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2013	\$ 435,000	\$ 78,182	\$ 513,182
2014	430,000	142,405	572,405
2015	440,000	128,315	568,315
2016	450,000	113,675	563,675
2017	455,000	98,418	553,418
2018 – 2022	1,340,000	295,753	1,635,753
2023 – 2025	<u>655,000</u>	<u>53,845</u>	<u>708,845</u>
	<u>\$4,205,000</u>	<u>\$910,593</u>	<u>\$5,115,593</u>

Repayment of the debt and interest thereon is to be funded by:

Governmental unit loan obligations – principal and interest	<u>\$5,115,593</u>
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The following summarizes bond payable activity for the Bond Bank for the year ended June 30, 2013:

	<u>General</u> <u>Tax</u> <u>Exempt</u> <u>Fund</u> <u>Group</u>	<u>Grant</u> <u>Anticipation</u> <u>Fund Group</u>	<u>Trans-</u> <u>portation</u> <u>Infra-</u> <u>structure</u> <u>Fund Group</u>	<u>Qualified</u> <u>School</u> <u>Construc-</u> <u>tion Fund</u> <u>Group</u>	<u>Clean</u> <u>Water</u> <u>Fund</u> <u>Group</u>	<u>Drinking</u> <u>Water</u> <u>Fund</u> <u>Group</u>
Balance, beginning of year	\$ 1,162,516,294	\$108,251,805	\$229,681,499	\$31,696,142	\$ 34,215,438	\$4,655,485
Issuances – face value	86,470,000	–	–	–	–	–
Redemptions	(101,416,067)	(12,005,000)	(10,630,000)	–	(6,040,000)	(425,000)
Refunded bonds (note 9)	(42,705,000)	–	–	–	–	–
Capitalized premiums, net	8,357,195	–	–	–	–	–
Deferred amounts on refunding	(5,593,964)	–	–	–	–	–
Accretion/amortization of discounts, premiums and deferred amounts on refunding	<u>(2,689,145)</u>	<u>(286,886)</u>	<u>(1,164,253)</u>	<u>–</u>	<u>(116,544)</u>	<u>(7,914)</u>
Balance, end of year	<u>\$ 1,104,939,313</u>	<u>\$ 95,959,919</u>	<u>\$217,887,246</u>	<u>\$31,696,142</u>	<u>\$ 28,058,894</u>	<u>\$4,222,571</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. **Bonds Payable (Continued)**

Some bonds contain provisions for prepayment at the Bond Bank's option. All bonds within the General Tax-Exempt Fund Group, Qualified School Construction Fund Group, and Sewer and Water Fund Groups are secured by the payment stream of loans receivable from governmental units. The monies in the reserve funds shall be held and applied solely to the payment of the interest and principal of the reserve fund bonds as they become due and payable and for the retirement of the reserve fund bonds. In the event of a deficiency in an interest and/or principal payment from the governmental units, transfers can be made from the supplemental reserve and/or general reserve funds to cover the shortfall. If this transfer creates a deficiency in the required amount of the reserve funds, the State can annually appropriate and cover such deficiency. Except for deficiencies between the Clean Water and Drinking Water Revolving Loan Fund Groups, reserve funds of one fund group cannot be used to cover deficiencies of another fund group. In order to recover any shortfall covered by the reserve, the Bond Bank has the ability to attach certain State funds due to the governmental units. Additionally, the Bond Bank is required to utilize funds available within the general operating accounts as necessary.

5. **Reserve Funds**

Each of the following resolutions requires the Bond Bank to set up reserve funds as follows:

General Tax-Exempt Fund Group: The Bond Bank is required to maintain a debt service reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all governmental unit loan obligations then outstanding as of such date of calculation. At June 30, 2013, the required debt service reserve was approximately \$122,147,000.

In addition, the Bond Bank maintains the Special Reserve Account balance of \$1,970,829 and the Supplemental Reserve Fund General Reserve Account principal balance of \$2,700,000. These reserves represent segregated net position and are pledged to the payment of the principal or interest on the outstanding bonds of the General Tax-Exempt Fund Group if a deficiency occurs. At June 30, 2013, the fair value of the reserve fund assets totaled approximately \$153,228,000, which exceeded the required reserves by approximately \$26,410,000.

Transportation Infrastructure Fund Group: The Bond Bank is required to maintain a capital reserve which is equal to 50% of the maximum amount of principal installments and interest maturing and becoming due in any succeeding fiscal year on all bonds payable within the fund group as of such date of calculation. At June 30, 2013, the required capital reserve was approximately \$10,136,000 and the fair value of the capital reserve assets totaled approximately \$10,136,000.

Sewer and Water Fund Groups: The Bond Bank is required to maintain a capital reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all government unit loan obligations within the fund groups as of such date of calculation. At June 30, 2013, the required capital reserve was approximately \$4,698,000 and the fair value of the capital reserve assets totaled approximately \$7,860,000, which exceeded the required reserves by approximately \$3,162,000.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

6. Sewer and Water Revolving Fund Group

Pursuant to the Sewer and Water General Bond Resolution adopted February 7, 1990, the Bond Bank receives capitalization grants from the Environmental Protection Agency which it is required to match with twenty percent matching funds, which primarily come from State of Maine grants. The funds are designated to be used for revolving loans to governmental units to finance wastewater collection, treatment systems, or water supply system projects. Federal law permits the state to match the federal grants with any combination of funding from state bonds, state appropriations, revenue bonds issued under the program, or from other state sources. State issued bonds and state general fund appropriations have been used to provide the majority of state matching funds for both the Clean Water and Drinking Water programs. In addition to those funds, the Drinking Water program has utilized interest earnings on previously issued state matches (which qualifies as other state funding) in 2001, 2004 and 2012 to provide additional matching for the program. The total of all interest earnings on matches that have been deposited into the Drinking Water program since inception is \$563,010.

In 2009, the Bond Bank was awarded *American Recovery and Reinvestment Act (ARRA)* grants for use in its Sewer and Water Revolving Fund Group. ARRA grants are for purposes consistent with the intent of the Sewer and Water Revolving Fund Group, including construction of wastewater treatment facilities, drinking water facilities and associated infrastructure, green infrastructure, nonpoint source projects, estuary projects and program administration. The grants do not contain any State of Maine matching provisions.

Net position consists of the following at June 30, 2013:

	<u>Clean Water</u>	<u>Drinking Water</u>
Reserved for revolving loans:		
Grants received from Environmental Protection Agency under existing capitalization grant program	\$ 249,217,659	\$ 140,145,900
Grants received from Environmental Protection Agency under ARRA	30,336,800	19,500,000
Other administrative grants received from Environmental Protection Agency	1,347,010	80,763
Hardship grants received from Environmental Protection Agency	643,800	-
Grants received from State of Maine	49,897,562	27,466,170
Other amounts reserved (utilized) for program loans and costs	<u>36,774,012</u>	<u>(30,906,366)</u>
	368,216,843	156,286,467
Unreserved amounts available	<u>437,600</u>	<u>628,560</u>
Net position at June 30, 2013	<u>\$ 368,654,443</u>	<u>\$ 156,915,027</u>

Under the provisions of the grants from the Environmental Protection Agency (including ARRA grants), the Bond Bank is allowed administrative costs of up to 4% of the total grants awarded. In addition, the Bond Bank receives other grants from the Environmental Protection Agency that are used solely for administrative purposes. The total administrative costs allowed at June 30, 2013 are \$12,529,188 (clean water) and \$6,203,905 (drinking water), with \$12,091,588 and \$5,575,345, respectively, expended to date. The remaining amount of \$437,600 in the Clean Water Revolving Loan Fund Group and \$628,560 in the Drinking Water Revolving Loan Fund Group can be used for future administrative costs. The Bond Bank also charges annual administrative fees to borrowers that are used to administer the programs.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

6. Sewer and Water Revolving Fund Group (Continued)

Portions of the loans made to eligible borrowers under the Drinking Water Revolving Loan Fund Program may be forgiven if certain continuing criteria are met, including that the borrower continues to make debt service payments, continues to operate the project in compliance with laws and regulations, and does not dispose of or discontinue the project. The Bond Bank has loaned approximately \$35,694,000 at June 30, 2013, that, upon fulfillment of these requirements by the borrowing unit, could be forgiven at some future point. For purposes of the basic financial statements, the Bond Bank recognizes forgiveness expense within these funds as the related loans are repaid. The total amount forgiven under these programs in 2013 was \$2,017,278.

During fiscal 2009, the Bond Bank and the State of Maine Department of Environmental Protection implemented a joint rule change in the Clean Water Revolving Loan Fund program in order to allow the program to make loans under ARRA grant provisions. The rule change allows the Bond Bank, after consultation with the State of Maine Department of Environmental Protection, to set interest rates at any level, including 0%. It also allows portions of loans made to eligible borrowers under the Clean Water Revolving Loan Fund Program to be forgiven if certain continuing criteria are met (similar to criteria in the Drinking Water Revolving Loan Fund Program). The Bond Bank has loaned approximately \$15,924,000 at June 30, 2013 under the Clean Water Revolving Loan Fund Program that, upon fulfillment of these requirements by the borrowing unit, could be forgiven at some future point. For purposes of the basic financial statements, the Bond Bank recognizes forgiveness expense within these funds as the related loans are repaid. Loans forgiven under this program in 2013 were \$2,446,084.

Within the Clean Water Revolving Loan Fund Group, the Bond Bank is participating in a linked deposit loan program with local banks to encourage environmentally sound logging practices. Under the program, the Bond Bank is subsidizing loans to loggers by investing in certificates of deposit at the respective banks at rates 2% below normal which is passed on as a subsidy to the borrower. At June 30, 2013, the Bond Bank has approximately \$4,043,000 of certificates of deposits outstanding at various banks of which approximately \$430,000 is in excess of the limits insured by the Federal Deposit Insurance Corporation.

7. School Facilities Fund Group

Pursuant to State law, the Bond Bank receives grants from the State of Maine which are designated to be used for interest-free revolving loans to school administrative units for the renovation and maintenance of school facilities. Net position consists of the following:

Reserved for revolving loans:	
Grants received from State of Maine	\$100,394,754
Loans forgiven	(79,508,786)
Other amounts reserved for program loans and costs	<u>9,033,380</u>
	29,919,348
Unreserved amounts available	<u>1,253,562</u>
Net position at June 30, 2013	<u>\$ 31,172,910</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

7. School Facilities Fund Group (Continued)

Under the provisions of the grants, the Bond Bank is allowed administrative costs up to 0.5% of the highest fund balance in any fiscal year. The total administrative costs allowed through June 30, 2013 are \$3,337,211, with \$2,083,649 expended to date. The remaining amount of \$1,253,562 can be used for future administrative costs.

Portions of the loans made to school administrative units from the School Facilities Fund Group are forgiven. For purposes of the general purpose financial statements, the Bond Bank recognizes forgiveness expense within this fund at the time the loans are disbursed to the school administrative unit. This accounting treatment differs from the treatment within the Drinking Water and Clean Water Revolving Loan Funds due to the fact that there are no relevant continuing criteria that would require recognition of the forgiven amount as the related loans are repaid. The total amounts forgiven under this program in 2013 were \$247,813.

8. Defined Benefit Pension Plan and Other Postemployment Benefits

Pension Plan Description and Funding Policy

The Bond Bank participates in Regular Plan A of the Consolidated Plan for Participating Local Districts (the Plan), an agent multiple-employer defined benefit pension plan administered by the Maine Public Employees Retirement System (MEPERS). The MEPERS is established and administered under the Maine State Retirement System Laws, Title 5 M.R.S.A., C. 421, 423 and 425. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the Plan. Benefits vest after five years of service. Bond Bank employees who retire at or after age 60 are entitled to an annual retirement benefit in an amount equal to 2% of the average of their highest three year earnings for each year of credited service. The authority to establish and amend benefit provisions rests with the State legislature. The MEPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Maine Public Employees Retirement System, 46 State House Station, Augusta, Maine 04333-0046.

In accordance with State statute, participants are required to contribute 6.5% of their annual covered salary to the Plan. The Bond Bank's payroll for the year ended June 30, 2013 for employees covered by the Plan was approximately \$1,007,000, which was 100% of payroll. The Bond Bank is required to contribute at an actuarially determined rate that, when combined with the contributions of other reporting entities, will be adequate to fund the Plan. The contribution rate is determined using an entry age normal actuarial funding method for retirement benefits and a term cost method for ancillary benefits. The Bond Bank may be required to make contributions to fund the Plan's pooled unfunded actuarial liability, if any. The contribution requirements of the plan members and the Bond Bank are established by and may be amended by the State legislature. The contributions made for the years ended June 30, 2013, 2012 and 2011 were \$53,387, \$46,976 and \$35,864 (employer) and \$65,475 \$69,397 and \$66,604 (employee), respectively.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

8. Defined Benefit Pension Plan and Other Postemployment Benefits (Continued)

Other Postemployment Benefits (OPEB)

Plan Description: The Bond Bank sponsors a post-retirement health care benefit plan (the Plan). The Plan provides supplemental health care benefits to any full-time employee with ten or more years of employment who retires from the Bond Bank and has reached the age of 65 (Medicare eligible retirement age). The Bond Bank is a member of the Maine Municipal Association and participates in an agent multiple-employer postemployment healthcare plan administered by the Maine Municipal Employees Health Trust. The Bond Bank may terminate the Plan at its option.

Funding Policy: The post employment healthcare benefits are currently being funded on a pay-as-you-go basis (the Bond Bank paid approximately \$6,700 in 2013). No assets have been segregated and restricted to provide post-employment benefits.

Annual OPEB Cost: For 2013, the Bond Bank's annual OPEB cost (expense) of \$46,308 for the Plan was equal to the Annual Required Contribution (ARC). The Bond Bank's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013, 2012 and 2011 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/13	\$46,308	0%	\$296,574
6/30/12	43,728	0	250,266
6/30/11	68,846	0	206,538

Funded Status and Funding Progress:

For the year-end June 30, 2013, the Bond Bank's OPEB funding progress is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (ALL)</u>	<u>Unfunded ALL (UALL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UALL as a Percentage of Covered Payroll</u>
⁽¹⁾ 1/1/2011	\$ -	\$601,600	\$601,600	0%	\$1,007,000	59%

⁽¹⁾ GASB 45 requires triennial actuarial valuations for employers with fewer than 200 employees. The Bond Bank will obtain an updated valuation January 1, 2014.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

8. Defined Benefit Pension Plan and Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011 actuarial valuation, the projected united credit (PUC) cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return and an annual healthcare cost trend rate of 8.7 percent initially, reduced by decrements to an ultimate rate of 4 percent after twenty years. Both rates include a 3.0 percent inflation assumption. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open or rolling amortization period.

9. Refunding Issues

In periods of declining interest rates, the Bond Bank has refunded certain of its bond obligations, reducing aggregate debt service. Where allowed, the Bond Bank retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds are principally used to purchase U.S. Treasury obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the in-substance defeased bonds. The U.S. Treasury obligations are deposited with the trustees of the in-substance defeased bonds. The Bond Bank accounts for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and records a deferred amount on refunding.

On December 11, 2012, the Bond Bank issued \$41,975,000 in General Tax-Exempt Series 2012 FG bonds, consisting of \$30,140,000 in tax-exempt and \$11,835,000 in taxable bonds with an average interest rate of 4.65% and 1.57%, respectively, to in-substance defease \$42,705,000 of various outstanding maturities of the 1993 B, 2004 C, 2005 B, 2005 D, 2005 E, 2006 A, 2006 C, 2007 C and 2007 E bonds with an average interest rate of 5.01%. The net proceeds of approximately \$48,883,000, including a bond premium of approximately \$7,177,000 and after payment of approximately \$269,000 in underwriting fees, insurance and other costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately \$5.6 million in the year ending June 30, 2013, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$4.6 million over the next twenty-one years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$4.0 million. As a result of the in-substance defeasance, the Bond Bank will reduce future debt service requirements of borrowers by approximately \$2.4 million over a period of twenty-one years.

At June 30, 2013, the remaining balances of the General Tax-Exempt Fund Group and Clean Water Revolving Loan Fund in-substance defeased bonds total approximately \$161,560,000 and \$16,195,000, respectively.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

10. Pass-Through State Grants

The Bond Bank entered into memoranda of understanding with the Maine Department of Economic and Community Development (DECD) to jointly administer the Riverfront Community Development and Municipal Investment Trust Fund programs within its General Operating Account. Under the programs, the Bond Bank receives grants from the DECD that are passed-through to municipalities designated for such grants by the DECD. A portion of the grants received from the DECD, up to a statutorily determined limit, are used to reimburse the Bond Bank for administrative expenses incurred.

Riverfront Community Development Program

The Bond Bank received no additional State of Maine grants as of June 30, 2013. All the deferred monies from the previous year totaling \$102,310 have been passed on to qualifying municipalities. The program is complete and there are no remaining DECD funds to be passed on to qualified municipalities in future years.

Municipal Investment Trust Fund Program

The Bond Bank received no additional State of Maine grants as of June 30, 2013. All the deferred monies from the previous year totaling \$102,043 have been passed on to qualifying municipalities. The program is complete and there are no remaining DECD funds to be passed on to qualified municipalities in future years.

Dam Repair Loan Program

The Bond Bank entered into memorandum of understanding with the Department of Defense, Veterans, and Emergency Management (DVEM) to administer revolving loan programs on behalf of the State of Maine Dam Repair and Reconstruction Fund. The Bond Bank has received \$300,000 from the State in 2013 and the amount has been recorded as grant revenue from State of Maine in the accompanying statement of revenues, expenses and changes in net position.

MAINE MUNICIPAL BOND BANK

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2013

	<u>Program Revenues</u>					<u>Net Revenue (Expense) and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants/ Contributions</u>	<u>Total</u>
Functions/Programs:						
Maine Municipal Bond Bank	\$(69,511,691)	\$61,428,851	\$(4,768,874)	\$361,437	\$24,687,919	\$ 12,197,642
Total	\$(69,511,691)	\$61,428,851	\$(4,768,874)	\$361,437	\$24,687,919	12,197,642
General revenues:						
Unrestricted interest and investment earnings						27,059
Non program specific grants, contributions and appropriations						-
Miscellaneous income						1,263,928
Loss on assets held for sale						-
Extraordinary item						-
Total general revenues and extraordinary items						<u>1,290,987</u>
Changes in net position						13,488,629
Net position, beginning of year						<u>619,324,055</u>
Net position, end of year						<u>\$ 632,812,684</u>

Note 1 – Operating grants and contributions shown above consist of investment income of the Revolving Loan Fund Groups and School Facilities Fund Group.