

# MAINE STATE LEGISLATURE

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Annual Report  
Maine Municipal Bond Bank

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December 2<sup>nd</sup>, 2006

The Honorable John E. Baldacci  
Governor of the State of Maine  
State House Station #1  
Augusta, ME 04333

Dear Governor Baldacci:

On behalf of the Commissioners and staff of the Maine Municipal Bond Bank, I am pleased to provide you with our 2006 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 \$3 billion for funding to meet the needs of Maine's municipalities. During its thirty year history the Bond Bank has never experienced a default by a local unit.

Within the 2006 fiscal year the Bond Bank sold \$74,435,000 under its General Bond Resolution Program. Those sales provided sixteen towns, three cities, six school systems, five utilities, an airport authority, and a hospital district with lower cost capital funding to meet their municipal needs.

Also in 2006, the Bank and the Department of Education have successfully committed \$17,923,748 from the State Revolving Loan Fund for school renovation projects. The Maine Municipal Lease Program funded \$4,669,020 in lease transactions.

The Maine Clean Water Revolving Loan Fund and the Maine Drinking Water Revolving Fund provided loans totaling \$40,904,091 to finance projects in fiscal year 2006.

We are proud of our accomplishments within fiscal year 2006 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, reading "Stephen R. Crockett".

Stephen R. Crockett  
Chairman



# MAINE MUNICIPAL BOND BANK

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## Commissioners 2006



Stephen R. Crockett  
*Chairman*



Cathryn Robinson  
*Vice Chairman*



Lloyd LaFountain III  
*Superintendent of the Bureau  
of Financial Institutions*



Geneva Punch



David Lemoine  
*Treasurer of State*

# **Maine Municipal Bond Bank**

## **Basic Financial Statements and Management's Discussion and Analysis**

*Year Ended June 30, 2006*

*With Independent Auditors' Report*

**MAINE MUNICIPAL BOND BANK**

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

For the Year Ended June 30, 2006

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**INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Maine Municipal Bond Bank

We have audited the accompanying basic financial statements which include the General Operating Account, General Tax-Exempt Fund Group, Special Obligation Taxable Fund Group, Grant Anticipation Fund Group, Waste Water and Drinking Water Revolving Loan Fund Groups and Operating Fund Group and the School Facilities Fund Group of Maine Municipal Bond Bank, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine for accounting purposes only, as of and for the year ended June 30, 2006, as listed in the accompanying table of contents. These financial statements are the responsibility of the Bond Bank's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Bond Bank, including the individual fund groups referred to above, as of June 30, 2006, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2006 on our consideration of Maine Municipal Bond Bank's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Commissioners  
Maine Municipal Bond Bank

The Management's Discussion and Analysis on pages 3 – 8 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Portland, Maine  
September 5, 2006

  
Limited Liability Company



# MAINE MUNICIPAL BOND BANK

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

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, 2006. 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. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

### Financial Highlights

- Revenues for the Bond Bank's General Operating Account were \$4,452,285 for fiscal year 2006, an increase of \$1,558,803 or 53.9% over fiscal year 2005. The receipt of a pass-through grant, from the State of Maine, Department of Economic and Community Development, caused the majority of this increase (see note 10). Without including the pass-through grant, revenues increased \$122,111 or 17.8%. This was attributed mostly to increased average investment balances and increases in short-term interest rates in fiscal 2006 over 2005, which caused a corresponding increase in income from investments for the year.
- Fund equity in the Bond Bank's General Operating Account increased \$4,697,057 in fiscal year 2006 primarily as a result of several transfers between the General Operating Account and the General Tax-Exempt Fund Group of \$4,768,621 (net). These transfers included transfers mandated by the Bond Bank's annual operating budget totaling \$1,046,117. Also, the Bond Bank transferred \$3,400,000 under the terms of Article VI, paragraph 603, section 5 of the Bond Bank's General Bond Resolution, adopted July 11, 1973, which provides for the Bond Bank to determine that it has excess funds in the General Account of the General Tax-Exempt Fund Group. At June 30, 2006, the Bond Bank's General Operating Account had fund equity of \$23,607,223, an increase of 24.8% over the prior year.
- The Bond Bank's gross principal amount of bonds outstanding at June 30, 2006 of \$1,085,337,223 represents a net decrease of \$28,141,498 over the balance at June 30, 2005. This decrease was the result of issuing Series 2005D&E and 2006A bonds in the General Tax Exempt Resolution, less the scheduled November 1, 2005 debt service principal payment of \$102,576,498.
- The Bond Bank committed loans to local governmental units during fiscal year 2006 totaling \$136,612,643, which was a 20.8% decrease from the loans provided in fiscal year 2005. The Bond Bank also provided borrowers participating in the Drinking Water Revolving Loan Fund Program and the School Facilities Revolving Loan Fund Program \$10,092,043 in potential loan forgiveness in fiscal year 2006, which was a 18.0% decrease from fiscal year 2005.

### Overview of the Bond Bank

The Bond Bank was created in 1973 by an 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.

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. The Bond Bank also administers a pass-through grant for the Maine Rural Water Association and received pass-through grants from the State of Maine, Department of Economic and Community Development.

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 Loan Fund under which the Bond Bank issues bonds or notes for the purpose of making loans 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 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 state matching funds from the State of Maine. 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 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 Drinking Water Revolving Loan Fund, borrowers are eligible to receive a maximum 75% loan forgiveness.

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 20% and a maximum of 70% loan forgiveness.

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's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

## **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 five 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 balance sheets present information on all of the Bond Bank's assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in fund equity may serve as a useful indicator of whether the financial position of the Bond Bank is improving or deteriorating. Fund equity increases when revenues exceed expenses. An increase to assets without a corresponding increase in liabilities results in increased fund equity, which may indicate an improved financial position.

The statements of revenues, expenses and changes in fund equity present information showing how the Bond Bank's fund equity changed during the fiscal year. All changes in fund equity 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

Fund equity may serve, over time, as a useful indicator of a government's financial position. In the case of the Bond Bank, assets exceeded liabilities by \$444,792,214 at June 30, 2006. This represents an increase of \$21,150,887 (5%) over the previous fiscal year. Most of this increase is attributable to additional grants being received in the Revolving Loan Funds. The restricted fund equity was \$391,665,234 compared to unrestricted fund equity of \$53,126,980. By far, with the exception of the School Facilities Fund Group, the largest portion of the Bond Bank's fund equity is its investment in loans to governmental units plus bond proceeds remaining in trust investments, less any related debt used to acquire those assets.

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

### MAINE MUNICIPAL BOND BANK

#### Balance Sheet

June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Percentage Change</u>
Current assets:			
Cash and cash equivalents	\$ 288,296	\$ 321,594	(10.4)%
Investments held by trustee, at market value	144,481,188	135,632,581	6.5
Board designated cash and investments, at market value	18,670,918	13,611,012	37.2
Grant receivable from State of Maine	—	532,740	(100.0)
Loans receivable from governmental units	113,782,746	133,621,434	(14.8)
Accrued investment income receivable	1,557,854	996,689	56.3
Accrued interest receivable from governmental units	8,119,261	8,305,208	(2.2)
Undisbursed federal letter of credit payments	26,026,054	27,849,439	(6.5)
Refunding benefits rebated to governmental units, net of amortization	1,658,155	1,907,009	(13.0)
Due from other funds	8,853,017	9,753,606	(9.2)
Other assets	<u>111,150</u>	<u>220,186</u>	<u>(49.5)</u>
Total current assets	323,548,639	332,751,498	(2.8)
Noncurrent assets:			
Investments held by trustee, at market value	118,740,298	138,601,870	(14.3)
Loans receivable from governmental units	1,132,289,358	1,112,700,996	1.8
Land and building, net of depreciation	847,109	836,151	1.3
Refunding benefits rebated to governmental units, net of amortization	<u>6,066,514</u>	<u>7,724,669</u>	<u>(21.5)</u>
Total noncurrent assets	<u>1,257,943,279</u>	<u>1,259,863,686</u>	<u>(0.2)</u>
Total assets	\$ <u>1,581,491,918</u>	\$ <u>1,592,615,184</u>	<u>(0.7)%</u>

	<u>2006</u>	<u>2005</u>	<u>Percentage Change</u>
Current liabilities:			
Accounts payable and accrued liabilities	\$ 374,501	\$ 456,820	(18.0)%
Refundings payable to government units	—	1,411,021	(100.0)
Payable to State of Maine	—	5,900,000	(100.0)
Due to other funds	8,853,017	9,753,606	(9.2)
Accrued interest payable	8,437,451	8,821,289	(4.4)
Deferred revenue	4,288,149	4,984,919	(14.0)
Undisbursed loans from revolving loan fund	30,154,640	29,143,492	3.5
Accrued interest rebate payable to U.S. Government	468,016	687,405	(31.9)
Bonds payable	<u>97,592,795</u>	<u>100,803,593</u>	<u>(3.2)</u>
Total current liabilities	150,168,569	161,962,145	(7.3)
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	3,163,101	2,077,655	52.2
Bonds payable (note 4)	<u>983,368,034</u>	<u>1,004,934,057</u>	<u>(2.1)</u>
Total noncurrent liabilities	<u>986,531,135</u>	<u>1,007,011,712</u>	<u>(2.0)</u>
Total liabilities	1,136,699,704	1,168,973,857	(2.8)
Fund equity:			
Restricted	391,665,234	363,585,741	7.7
Unrestricted	<u>53,126,980</u>	<u>60,055,586</u>	<u>(11.5)</u>
Total fund equity	<u>444,792,214</u>	<u>423,641,327</u>	<u>5.0</u>
Total liabilities and fund equity	\$ <u>1,581,491,918</u>	\$ <u>1,592,615,184</u>	<u>(0.7)%</u>

Total short and long-term investments held by trustee at June 30, 2006 decreased \$11,012,965 or (4.0)% from June 30, 2005. The decrease was primarily the result of the decrease in fair value of investments of \$9,739,701 and the drawdown of investments for equity loans to borrowers in 2006. 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 strips and bank investment contracts. 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 fund equity.

The Bond Bank's net loans (bond and equity) to governmental units decreased \$250,326 in fiscal year 2006. The Bond Bank's total new loan commitments in 2006 of \$136,612,643 were 20.8% less than the 2005 commitments of \$172,430,718. Net bonds payable decreased \$24,776,821.

The balance of the due to/from other funds at June 30, 2006, represents amounts that were disbursed from one fund and are anticipated to be reimbursed by another fund in subsequent fiscal years. The majority of this balance represents the refunding savings from the General Tax Exempt Fund Group, series 2003A. The refunding savings were disbursed to the borrowers, in prior fiscal years, from available funds in the General Operating Account. The General Operating Account will be reimbursed by the General Tax Exempt Fund Group for this expenditure as the savings from the refundings are realized from future debt service repayment (primarily in fiscal years 2007 and 2008).

Refundings payable to governmental units decreased 100% from fiscal 2005 as the result of the payments having been made to the governmental units during the 2006 fiscal year. This payable at June 30, 2005 represented the refunding savings from the 2005 Series A Refunding Bonds that the Bond Bank's Board of Commissioners voted to pay, a one time payment, to the local governmental units whose bonds were refunded.

Payable to the State of Maine decreased 100% from fiscal 2005 as the result of the payment having been made to the State during the 2006 fiscal year. This payable at June 30, 2005 represented previously granted state funds in the School Facilities Revolving Loan Fund that the Legislature voted, during fiscal year 2005, to require the Bond Bank to pay back to the State of Maine's General Fund.

Accrued interest rebate payable to US Government increased \$866,057 or 31.3% in fiscal year 2006 over fiscal year 2005. As a result of the Bond Bank issuing tax-exempt debt and investing some of the proceeds in US Government securities, it earns arbitrage that is required to be rebated to the US Treasury every 5 years. The Bond Bank maintains rebate calculations for each tax-exempt bond issue and updates the calculations every 6 months for financial statement purposes.

The Bond Bank's financial position improved as fund equity increased 5% in fiscal year 2006. The Bond Bank continued to maintain a positive spread of income from investments and loans to governmental units over bond interest and operating expenses.

#### MAINE MUNICIPAL BOND BANK

Statement of Revenues, Expenses and Changes in Fund Equity  
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Percentage Change</u>
Interest on loans receivable from governmental units	\$ 50,369,545	\$ 52,608,019	(4.3)%
Interest income from investments	11,446,562	9,278,863	23.4
Net (decrease) increase in the fair value of investments	(9,739,701)	4,634,486	(310.2)
Grant revenue from Environmental Protection Agency	16,654,500	10,823,014	53.9
Grant revenue from State of Maine	20,538,093	11,010,464	86.5
Other income	<u>924,150</u>	<u>1,721,951</u>	<u>(46.3)</u>
Total operating revenue	90,193,149	90,076,797	0.1
Interest expense	50,022,393	49,334,486	1.4
Operating expenses	3,899,931	5,144,832	(24.2)
Paid to Department of Environmental Protection Agency	—	1,000,000	(100.0)
Paid to State of Maine	—	5,900,000	(100.0)
Pass-through grant expense	3,642,847	2,206,155	65.1
Loan forgiveness	8,891,087	8,462,277	5.1
Amortization of deferred financing costs and refunding benefit	<u>2,586,004</u>	<u>2,704,549</u>	<u>(4.4)</u>
Total operating expenses	<u>69,042,262</u>	<u>74,752,299</u>	<u>(7.6)</u>
Operating income	21,150,887	15,324,498	38.0
Fund equity, beginning of year	<u>423,641,327</u>	<u>408,316,829</u>	<u>3.8</u>
Fund equity, end of year	<u>\$ 444,792,214</u>	<u>\$ 423,641,327</u>	<u>5.0%</u>

Operating revenues are generated principally from interest earned on investments. The General Tax-Exempt Fund Group reimburses the Operating Fund for the annual budget approved by the Board of Commissioners.

Interest income from investments in 2006 increased 23.4% from 2005. This increase was primarily the result of an improving short-term interest rate environment in 2006.

The fair value of investments decreased by \$9,739,701 in fiscal year 2006 compared to increasing \$4,634,486 in fiscal year 2005. The Bond Bank purchases deeply discounted US Government obligations and Treasury strips to fund its debt service reserve funds (see note 3). In an improving interest rate environment, the market value of these investments tends to decrease to compensate for the higher interest rate. The Bond Bank's policy is to hold these investments to maturity.

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 Environmental Protection Agency awarded the Bond Bank grants totaling \$16,654,500 in fiscal year 2006, which was a 53.9% increase over 2005. The State of Maine awarded the Bond Bank various grants, which increased \$9,527,629 or 86.5% over 2005 grants. The fiscal year 2006 grants were made up of matching funds for the Sewer and Water Funds Groups totaling \$3,318,808, Department of Education grants totaling \$13,576,438 to the School Facilities Fund Group and Department of Economic and Community Development grants totaling \$3,642,847 to the General Operating Account.

The State grant revenue from the Department of Economic and Community Development totaling \$3,642,847 is a pass-through grant that is administered by the Bond Bank within the General Operating Account Fund Group. The grant revenue fluctuates from year to year in conjunction with the pass-through grant expense, which represents grants awarded to approved municipalities.

Other income consists primarily of fees from borrowers within the Sewer and Water Fund Groups and other income within the General Operating Account Fund Group. The decrease of \$797,801 or 46.3% in fiscal year 2006 compared to fiscal year 2005 is attributed primarily to a vote by the Board of Commissioners to reduce the fees charged to the governmental units within the Sewer and Water Fund Groups from 3.0% to 1.5% effective February 4, 2005.

During fiscal year 2005, the Bond Bank Board of Commissioners voted to set aside \$1,000,000 from the Sewer and Water Operating Fund Group to be drawn down by the Department of Environmental Protection in future years to reimburse this agency for administrative costs incurred to operate the program. This was a one time set aside and was not reauthorized in fiscal year 2006.

The State of Maine expense of \$5,900,000 in fiscal 2005 represented previously granted state funds in the School Facilities Revolving Loan Fund that the Legislature voted to require the Bond Bank to pay back to the State of Maine's General Fund. This was a one time requirement and does not effect the expenses for fiscal year 2006.

Loan forgiveness expense (see notes 6 and 7) increased 5.1% in fiscal year 2006 over 2005. Portions of the loans made to governmental units under the Drinking Water Revolving Loan Fund Programs may be forgiven if certain continuing criteria are met as the borrowers repay the loans. The amount forgiven within the Drinking Water Revolving Loan Fund Program in 2006 was \$591,047. 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 2006 was \$8,300,040. Forgiveness expense will vary from year to year depending upon repayment and drawdown activity with 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

## BALANCE SHEET

June 30, 2006

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Special Obli- gation Taxable Fund Group</u>
<b><u>ASSETS</u></b>			
Current assets:			
Cash and cash equivalents	\$ 288,296	\$ -	\$ -
Investments held by trustee, at market value (notes 3 and 5)	-	33,955,114	7,029
Board designated cash and investments, at market value (notes 3 and 10)	18,670,918	-	-
Loans receivable from governmental units (note 4)	-	82,466,224	140,000
Accrued investment income receivable	142,913	387,875	2,535
Accrued interest receivable from governmental units	-	6,399,053	11,028
Undisbursed federal letter of credit payments	-	-	-
Refunding benefits rebated to governmental units, net of amortization	-	1,464,670	-
Due from other funds	7,659,608	-	-
Other assets	<u>103,502</u>	<u>107</u>	<u>-</u>
Total current assets	26,865,237	124,673,043	160,592
Noncurrent assets:			
Investments held by trustee, at market value (notes 3 and 5)	-	109,312,509	200,572
Loans receivable from governmental units (note 4)	-	762,766,246	510,000
Land and building, net of depreciation of \$736,507	847,109	-	-
Refunding benefits rebated to governmental units, net of amortization	<u>-</u>	<u>5,429,494</u>	<u>-</u>
Total noncurrent assets	<u>847,109</u>	<u>877,508,249</u>	<u>710,572</u>
Total assets	<u>\$ 27,712,346</u>	<u>\$ 1,002,181,292</u>	<u>\$ 871,164</u>

Grant Anticipation Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 288,296
—	58,513,040	10,844,018	3,496,797	37,665,190	144,481,188
—	—	—	—	—	18,670,918
4,067,515	19,428,642	2,404,570	—	5,275,795	113,782,746
—	621,539	85,343	14,568	303,081	1,557,854
554,819	958,004	196,357	—	—	8,119,261
—	13,664,206	12,361,848	—	—	26,026,054
—	193,485	—	—	—	1,658,155
—	19,254	—	1,174,155	—	8,853,017
<u>—</u>	<u>5,458</u>	<u>2,083</u>	<u>—</u>	<u>—</u>	<u>111,150</u>
4,622,334	93,403,628	25,894,219	4,685,520	43,244,066	323,548,639
—	9,071,279	155,938	—	—	118,740,298
41,944,871	237,285,245	62,032,555	—	27,750,441	1,132,289,358
—	—	—	—	—	847,109
<u>—</u>	<u>637,020</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,066,514</u>
<u>41,944,871</u>	<u>246,993,544</u>	<u>62,188,493</u>	<u>—</u>	<u>27,750,441</u>	<u>1,257,943,279</u>
<u>\$ 46,567,205</u>	<u>\$ 340,397,172</u>	<u>\$ 88,082,712</u>	<u>\$ 4,685,520</u>	<u>\$ 70,994,507</u>	<u>\$ 1,581,491,918</u>

# MAINE MUNICIPAL BOND BANK

## BALANCE SHEET (CONTINUED)

June 30, 2006

	General Operating <u>Account</u>	General Tax-Exempt <u>Fund Group</u>	Special Obli- gation Taxable <u>Fund Group</u>
<b><u>LIABILITIES AND FUND EQUITY (DEFICIT)</u></b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 118,743	\$ 24,302	\$ 211,634
Due to other funds	—	7,095,001	4,062
Accrued interest payable	—	7,312,168	11,104
Deferred revenue (note 10)	3,986,380	—	—
Undisbursed loans from revolving loan fund	—	—	—
Accrued interest rebate payable to U.S. Government	—	468,016	—
Bonds payable (note 4)	<u>—</u>	<u>87,177,934</u>	<u>140,000</u>
Total current liabilities	4,105,123	102,077,421	366,800
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	—	3,041,294	—
Bonds payable (note 4)	<u>—</u>	<u>869,125,833</u>	<u>510,000</u>
Total noncurrent liabilities	<u>—</u>	<u>872,167,127</u>	<u>510,000</u>
Total liabilities	4,105,123	974,244,548	876,800
Fund equity (deficit):			
Restricted (notes 5, 6 and 7)	—	4,670,829	—
Unrestricted	<u>23,607,223</u>	<u>23,265,915</u>	<u>(5,636)</u>
Total fund equity (deficit)	<u>23,607,223</u>	<u>27,936,744</u>	<u>(5,636)</u>
Total liabilities and fund equity	<u>\$ 27,712,346</u>	<u>\$ 1,002,181,292</u>	<u>\$ 871,164</u>

See accompanying notes.

Grant Anticipation Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ —	\$ 8,549	\$ 2,750	\$ 73	\$ 8,450	\$ 374,501
—	1,574,488	76,334	63,586	39,546	8,853,017
554,819	509,097	50,263	—	—	8,437,451
—	255,417	46,352	—	—	4,288,149
—	16,046,108	3,019,465	—	11,089,067	30,154,640
—	—	—	—	—	468,016
<u>4,067,515</u>	<u>5,857,346</u>	<u>350,000</u>	<u>—</u>	<u>—</u>	<u>97,592,795</u>
4,622,334	24,251,005	3,545,164	63,659	11,137,063	150,168,569
—	121,807	—	—	—	3,163,101
<u>41,944,871</u>	<u>65,147,330</u>	<u>6,640,000</u>	<u>—</u>	<u>—</u>	<u>983,368,034</u>
<u>41,944,871</u>	<u>65,269,137</u>	<u>6,640,000</u>	<u>—</u>	<u>—</u>	<u>986,531,135</u>
46,567,205	89,520,142	10,185,164	63,659	11,137,063	1,136,699,704
—	250,808,357	77,498,274	—	58,687,774	391,665,234
<u>—</u>	<u>68,673</u>	<u>399,274</u>	<u>4,621,861</u>	<u>1,169,670</u>	<u>53,126,980</u>
<u>—</u>	<u>250,877,030</u>	<u>77,897,548</u>	<u>4,621,861</u>	<u>59,857,444</u>	<u>444,792,214</u>
<u>\$ 46,567,205</u>	<u>\$ 340,397,172</u>	<u>\$ 88,082,712</u>	<u>\$ 4,685,520</u>	<u>\$ 70,994,507</u>	<u>\$ 1,581,491,918</u>

# MAINE MUNICIPAL BOND BANK

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY (DEFICIT)

For the Year Ended June 30, 2006

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Special Obli- gation Taxable Fund Group</u>
Operating revenues:			
Interest on loans receivable from governmental units	\$ —	\$ 43,071,209	\$ 70,820
Interest income from investments	414,614	6,557,194	7,129
Net (decrease) increase in the fair value of investments	(11,358)	(9,801,407)	(2,770)
Grant revenue from Environmental Protection Agency (note 6)	—	—	—
Grant revenue from State of Maine (notes 6, 7 and 10)	3,642,847	—	—
Other income (note 10)	<u>406,182</u>	<u>—</u>	<u>—</u>
Total operating revenue	4,452,285	39,826,996	75,179
Operating expenses:			
Interest expense	—	44,818,822	70,896
Operating expenses	881,002	17,000	2,472
Pass-through grant expense (note 10)	3,642,847	—	—
Loan forgiveness (notes 6 and 7)	—	—	—
Amortization of deferred financing costs and refunding benefit	<u>—</u>	<u>2,307,064</u>	<u>—</u>
Total operating expenses	<u>4,523,849</u>	<u>47,142,886</u>	<u>73,368</u>
Operating income (loss) before operating transfers	(71,564)	(7,315,890)	1,811
Operating transfers	<u>4,768,621</u>	<u>(4,768,621)</u>	<u>—</u>
Operating income (loss)	4,697,057	(12,084,511)	1,811
Fund equity (deficit), beginning of year	<u>18,910,166</u>	<u>40,021,255</u>	<u>(7,447)</u>
Fund equity (deficit), end of year	\$ <u>23,607,223</u>	\$ <u>27,936,744</u>	\$ <u>(5,636)</u>

See accompanying notes.

Grant Anticipation Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$1,424,374	\$ 5,084,481	\$ 718,661	\$ —	\$ —	\$ 50,369,545
—	2,609,638	347,169	127,222	1,383,596	11,446,562
—	(32,309)	67,727	—	40,416	(9,739,701)
—	8,369,000	8,285,500	—	—	16,654,500
—	1,665,160	1,653,648	—	13,576,438	20,538,093
—	—	—	517,500	468	924,150
1,424,374	17,695,970	11,072,705	644,722	15,000,918	90,193,149
1,512,656	3,304,761	315,258	—	—	50,022,393
—	407,905	1,567,463	250,729	773,360	3,899,931
—	—	—	—	—	3,642,847
—	—	591,047	—	8,300,040	8,891,087
—	278,940	—	—	—	2,586,004
1,512,656	3,991,606	2,473,768	250,729	9,073,400	69,042,262
(88,282)	13,704,364	8,598,937	393,993	5,927,518	21,150,887
—	(67,438)	1,421	66,017	—	—
(88,282)	13,636,926	8,600,358	460,010	5,927,518	21,150,887
88,282	237,240,104	69,297,190	4,161,851	53,929,926	423,641,327
\$ —	\$ 250,877,030	\$ 77,897,548	\$ 4,621,861	\$ 59,857,444	\$ 444,792,214



# MAINE MUNICIPAL BOND BANK

## STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006

	General Operating <u>Account</u>	General Tax-Exempt <u>Fund Group</u>	Special Obli- gation Taxable <u>Fund Group</u>
<b>OPERATING ACTIVITIES:</b>			
Cash received from governmental units	\$ —	\$ 123,972,312	\$ 198,032
Cash payments to governmental units	(3,642,847)	(71,260,104)	—
Cash received from other income	406,182	—	—
Cash payments for operating expenses	(795,271)	(16,999)	(13,099)
Paid to State of Maine	—	—	—
Cash received from (paid to) other funds	5,835,535	(5,610,265)	4,062
Cash received (paid) for other assets and liabilities	<u>111,302</u>	<u>(107)</u>	<u>—</u>
Net cash provided (used) by operating activities	1,914,901	47,084,837	188,995
<b>NONCAPITAL FINANCING ACTIVITIES:</b>			
Proceeds from bonds payable	—	76,538,463	—
Principal paid on bonds payable	—	(93,211,498)	(125,000)
Interest paid on bonds payable	—	(44,569,268)	(73,032)
Grant receipts from Environmental Protection Agency and State of Maine	<u>2,864,885</u>	<u>—</u>	<u>—</u>
Net cash provided (used) by noncapital financing activities	2,864,885	(61,242,303)	(198,032)
<b>INVESTING ACTIVITIES:</b>			
Purchase of investment securities	(83,313,015)	(169,983,561)	(194,469)
Proceeds from sale and maturities of investment securities	78,241,751	177,961,316	196,400
Income received from investments	327,437	6,726,285	7,106
Interest rebate paid to U.S. Government	—	(546,574)	—
Additions to land and building	<u>(69,257)</u>	<u>—</u>	<u>—</u>
Net cash provided (used) by investing activities	<u>(4,813,084)</u>	<u>14,157,466</u>	<u>9,037</u>
Decrease in cash and cash equivalents	(33,298)	—	—
Cash and cash equivalents, beginning of year	<u>321,594</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents, end of year	<u>\$ 288,296</u>	<u>\$ —</u>	<u>\$ —</u>

Grant Anticipation Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ 4,866,781	\$ 10,796,920	\$ 967,933	\$ —	\$ —	\$ 140,801,978
—	(6,238,608)	(10,258,605)	—	(11,529,803)	(102,929,967)
—	—	—	517,500	468	924,150
—	(436,784)	(1,584,764)	(284,514)	(792,520)	(3,923,951)
—	—	—	—	(5,900,000)	(5,900,000)
—	(279,589)	47,433	(36,722)	39,546	—
—	(866)	(1,293)	—	—	109,036
4,866,781	3,841,073	(10,829,296)	196,264	(18,182,309)	29,081,246
—	—	—	—	—	76,538,463
(3,155,000)	(5,745,000)	(340,000)	—	—	(102,576,498)
(1,711,781)	(3,147,832)	(322,099)	—	—	(49,824,012)
—	8,818,217	13,592,408	—	13,576,438	38,851,948
(4,866,781)	(74,615)	12,930,309	—	13,576,438	(37,010,099)
—	(102,675,202)	(23,127,193)	(2,104,513)	(135,573,989)	(516,971,942)
—	96,546,180	20,739,188	1,789,019	138,917,575	514,391,429
—	2,371,931	286,992	119,230	1,262,285	11,101,266
—	(9,367)	—	—	—	(555,941)
—	—	—	—	—	(69,257)
—	(3,766,458)	(2,101,013)	(196,264)	4,605,871	7,895,555
—	—	—	—	—	(33,298)
—	—	—	—	—	321,594
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 288,296

# MAINE MUNICIPAL BOND BANK

## STATEMENT OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2006

	General Operating <u>Account</u>	General Tax-Exempt <u>Fund Group</u>	Special Obli- gation Taxable <u>Fund Group</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 4,697,057	\$(12,084,511)	\$ 1,811
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Interest income from investments	(414,614)	(6,557,194)	(7,129)
Net (increase) decrease in the fair value of investments	11,358	9,801,407	2,770
Loan forgiveness	-	-	-
Depreciation	58,299	-	-
Amortization of deferred financing costs and refunding benefits	-	2,307,064	-
Interest expense on bonds payable	-	44,818,822	70,896
Federal and State grants	(3,642,847)	-	-
Change in assets and liabilities:			
Loans receivable from governmental units	-	10,776,546	125,000
Accrued interest receivable from governmental units	-	275,474	2,212
Due to/from other funds	1,066,914	(841,644)	4,062
Other assets	111,302	(107)	-
Accounts payable and accrued liabilities	27,432	1	(10,627)
Refunding benefit payable to governmental units	-	(1,411,021)	-
Payable to State of Maine	-	-	-
Net cash provided (used) by operating activities	<u>\$ 1,914,901</u>	<u>\$ 47,084,837</u>	<u>\$188,995</u>

See accompanying notes.

Grant Anticipation Fund Group	Sewer and Water Fund Groups			Operating Fund Group	School Facilities Fund Group	Total
	Revolving Loan Fund Groups					
	Waste Water	Drinking Water				
\$ (88,282)	\$ 13,636,926	\$ 8,600,358	\$ 460,010	\$ 5,927,518	\$ 21,150,887	
—	(2,609,638)	(347,169)	(127,222)	(1,383,596)	(11,446,562)	
—	32,309	(67,727)	—	(40,416)	9,739,701	
—	—	591,047	—	8,300,040	8,891,087	
—	—	—	—	—	58,299	
—	278,940	—	—	—	2,586,004	
1,512,656	3,304,761	315,258	—	—	50,022,393	
—	(10,034,160)	(9,939,148)	—	(13,576,438)	(37,192,593)	
3,410,857	(493,608)	(9,918,605)	—	(11,529,803)	(7,629,613)	
31,550	(32,561)	(90,728)	—	—	185,947	
—	(212,151)	46,012	(102,739)	39,546	—	
—	(866)	(1,293)	—	—	109,036	
—	(28,879)	(17,301)	(33,785)	(19,160)	(82,319)	
—	—	—	—	—	(1,411,021)	
—	—	—	—	(5,900,000)	(5,900,000)	
<u>\$ 4,866,781</u>	<u>\$ 3,841,073</u>	<u>\$ (10,829,296)</u>	<u>\$ 196,264</u>	<u>\$ (18,182,309)</u>	<u>\$ 29,081,246</u>	

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 1. Organization

The Maine Municipal Bond Bank (the Bond Bank) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Components Units*, is considered 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 general operating account consists of the operating revenues and expenses incurred by the Bond Bank in administering the five 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 follows:

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 and the Fourth Supplemental Resolution adopted June 25, 1993. Under these resolutions, the Bond Bank issues bonds exempt from federal and State of Maine income taxes and makes loans to local governmental units.

Special Obligation Taxable Fund Group: This fund group consists of funds and accounts established under the Bond Bank's Special Obligation Bond Resolution adopted May 25, 1990. 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 governmental units.

Grant Anticipation (GARVEE) Fund Group: This fund group consists of funds and accounts established under the Bond Bank's Grant Anticipation General Bond Resolution adopted December 10, 2004. Under this resolution, the Bond Bank issues bonds or notes exempt from Federal and State of Maine income taxes for the purpose of making loans to the State of Maine Department of Transportation to finance qualified transportation projects. The bonds or notes are to be repaid from future federal highway grant monies received by the State of Maine.

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. 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. 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.

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 1. Organization (Continued)

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 and also funding from various other sources 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.

The Bond Bank complies with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. This Statement requires that the Bond Bank apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Bond Bank has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements 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.

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 fund equity. Interest earnings on principal-only strips within the general tax-exempt fund group of approximately \$4,800,000 have been recorded as interest income from investments in 2006. Reserve fund investments that are not expected to be utilized to fund bond principal and interest payments until after June 30, 2007 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.



# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 2. Significant Accounting Policies (Continued)

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

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. Approximately \$590,000 in investments are held in the construction funds at June 30, 2006.

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

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 2. Significant Accounting Policies (Continued)

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.

New Accounting Pronouncements: GASB issued Statement No. 45, *Accounting and Financial Reporting for Employers for Post-Employment Benefits Other Than Pensions*, in June 2004. This statement establishes standards for the measurement, recognition and display of other post-employment benefits (including post-employment healthcare benefits). This statement is expected to be applicable to the Bond Bank beginning in fiscal 2008.

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.

### 3. Investments Held By Trustee and Board Designated 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, bank investment contracts and collateralized repurchase agreements. At June 30, 2006, investments are categorized as follows:

	<u>Fair Value</u>
<u>General Operating Account</u>	
Board-designated investments:	
U.S. Government-sponsored enterprises	\$ 12,349,573
Cash and cash equivalents	<u>6,321,345</u>
	<u>\$ 18,670,918</u>

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 3. Investments Held By Trustee and Board Designated Investments (Continued)

	<u>Fair Value</u>
<u>General Tax-Exempt Fund Group</u>	
Investments held by trustee:	
Bank investment contracts	\$ 4,565,868
U.S. Government obligations	13,266,884
U.S. Government-sponsored enterprises	13,779,783
U.S. Treasury strips	87,439,188
Cash and cash equivalents	<u>24,215,900</u>
	<u>\$ 143,267,623</u>
<u>Special Obligation Taxable Fund Group</u>	
Investments held by trustee:	
U.S. Government obligations	\$ 200,572
Cash and cash equivalents	<u>7,029</u>
	<u>\$ 207,601</u>
<u>Sewer and Water Fund Groups</u>	
Investments held by trustee:	
Revolving Loan Fund Group –	
Waste Water:	
Bank investment contracts	\$ 8,491,465
U.S. Government obligations	194,526
U.S. Government-sponsored enterprises	44,575,476
Cash and cash equivalents	<u>14,322,852</u>
	<u>\$ 67,584,319</u>
Revolving Loan Fund Group –	
Drinking Water:	
U.S. Government obligations	\$ 19,099
U.S. Government-sponsored enterprises	6,245,342
Cash and cash equivalents	<u>4,735,515</u>
	<u>\$ 10,999,956</u>
Operating Fund Group:	
U.S. Government-sponsored enterprises	\$ 248,908
Cash and cash equivalents	<u>3,247,889</u>
	<u>\$ 3,496,797</u>
<u>School Facilities Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 27,731,866
Cash and cash equivalents	<u>9,933,324</u>
	<u>\$ 37,665,190</u>

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 3. Investments Held By Trustee and Board Designated 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, bank 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 bank investment contracts, U.S. Government obligations and U.S. Government-sponsored enterprises as of June 30, 2006:

	<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>12,349,573</u>	\$ <u>4,459,888</u>	\$ <u>7,889,685</u>	\$ <u>—</u>	\$ <u>—</u>
<u>General Tax Exempt Fund Group</u>					
Bank investment contracts	\$ 4,565,868	\$ —	\$ 4,565,868	\$ —	\$ —
U.S. Government obligations	13,266,884	4,143,058	2,272,385	249,500	6,601,941
U.S. Government-sponsored enterprises	13,779,783	157,400	1,932,593	3,158,582	8,531,208
U.S. Treasury strips	<u>87,439,188</u>	<u>5,438,756</u>	<u>36,440,950</u>	<u>25,541,368</u>	<u>20,018,114</u>
	\$ <u>119,051,723</u>	\$ <u>9,739,214</u>	\$ <u>45,211,796</u>	\$ <u>28,949,450</u>	\$ <u>35,151,263</u>
<u>Special Obligation Taxable Fund Group</u>					
U.S. Government obligations	\$ <u>200,572</u>	\$ <u>—</u>	\$ <u>200,572</u>	\$ <u>—</u>	\$ <u>—</u>
<u>Revolving Loan Fund Group – Waste Water</u>					
Bank investment contracts	\$ 8,491,465	\$ —	\$ 1,231,500	\$ 3,960,087	\$ 3,299,878
U.S. Government obligations	194,526	—	—	194,526	—
U.S. Government-sponsored enterprises	<u>44,575,476</u>	<u>27,666,852</u>	<u>16,523,336</u>	<u>385,288</u>	<u>—</u>
	\$ <u>53,261,467</u>	\$ <u>27,666,852</u>	\$ <u>17,754,836</u>	\$ <u>4,539,901</u>	\$ <u>3,299,878</u>

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 3. Investments Held By Trustee and Board Designated 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 Group – Drinking Water</u>					
U.S. Government obligations	\$ 19,099	\$ –	\$ 19,099	\$ –	\$ –
U.S. Government-sponsored enterprises	<u>6,245,342</u>	<u>6,108,503</u>	<u>–</u>	<u>–</u>	<u>136,839</u>
	<u>\$ 6,264,441</u>	<u>\$ 6,108,503</u>	<u>\$ 19,099</u>	<u>\$ –</u>	<u>\$ 136,839</u>
<u>Revolving Loan Fund Group – Operating Fund Group</u>					
U.S. Government-sponsored categories	<u>\$ 248,908</u>	<u>\$ 248,908</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>
<u>School Facilities Fund Group</u>					
U.S. Government-sponsored enterprises	<u>\$ 27,731,866</u>	<u>\$ 22,733,477</u>	<u>\$ 4,998,389</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, 2006.

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. 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 bank investment contracts backed by high credit quality banks and insurance companies (AA rated or better).

At June 30, 2006, the Bond Bank's bank investment contracts within the General Tax Exempt Fund Group and Revolving Loan Fund Group 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. Government 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 balance sheet and are included as U.S. Government obligations above. The fair value of these investments is approximately \$87,400,000 at June 30, 2006.

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 3. Investments Held By Trustee and Board Designated Investments (Continued)

Trustee held cash and cash equivalents at June 30, 2006 consist primarily of money market funds secured by short-term U.S. Treasury obligations.

### 4. Bonds Payable

Total General Tax-Exempt Fund Group Bonds payable consist of the following at June 30, 2006:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2006</u>
Series 1993 B and C, 5% – 5.85%, dated May 1, 1993	1994 – 2020	\$ 40,070,000	\$ 5,130,000
Series 1994 D, 4% – 6.3%, dated September 1, 1994	1995 – 2014	12,365,000	6,880,000
Series 1996 A and B, 5% – 5.9%, dated May 1, 1996	1997 – 2016	29,970,000	2,720,000
Series 1996 D and E, 4.90% – 5.70%, dated October 1, 1996	1997 – 2016	35,225,000	3,280,000
Series 1997 A and B, 5.10% – 5.75%, dated May 1, 1997	1998 – 2017	31,870,000	6,255,000
Series 1997 C and D, 4.5% – 5.35%, dated October 1, 1997	1998 – 2017	50,785,000	9,950,000
Series 1998 A, 3.70% – 5.50%, dated February 1, 1998	1999 – 2012	60,950,000	44,050,000
Series 1998 B and C, 4% – 5.35%, dated May 1, 1998	1998 – 2018	73,770,000	22,285,000
Series 1998 D and E, 3.75% – 4.80%, dated October 1, 1998	1999 – 2018	13,890,000	4,705,000
Series 1999 B and C, 4% – 5.25%, dated May 1, 1999	2000 – 2028	62,860,000	22,150,000
Series 1999 D and E, 4% – 5.875%, dated October 1, 1999	2000 – 2021	46,460,000	14,620,000
Series 2000 A and B, 4.5% – 5.875%, dated May 1, 2000	2000 – 2020	70,125,000	24,350,000
Series 2000 C and D, 4.625% – 5.70%, dated October 1, 2000	2001 – 2021	39,560,000	14,925,000
Series 2001 A and B, 4.125% – 5.25%, dated May 1, 2001	2002 – 2021	34,635,000	25,725,000
Series 2001 C and D, 3.00% – 5.125%, dated October 1, 2001	2002 – 2022	68,835,000	53,670,000
Series 2002 A, 3.00% – 5.375%, dated March 1, 2002	2002 – 2021	36,520,000	29,480,000



# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2006</u>
Series 2002 B and C, 2.50% – 5.25%, dated May 1, 2002	2002 – 2032	\$ 77,575,000	\$ 66,895,000
Series 2002 D, 2.00% – 5.00%, dated July 1, 2002	2003 – 2015	49,315,000	38,570,000
Series 2002 E and F, 2.00% – 5.00%, dated October 1, 2002	2003 – 2023	32,720,000	24,930,000
Series 2003 A, 3.00% – 5.25%, dated March 1, 2003	2003 – 2020	186,050,000	131,422,223
Series 2003 B and C, 2.00% – 5.00%, dated May 1, 2003	2003 – 2024	17,290,000	14,920,000
Series 2003 D and E, 2.00% – 5.00%, dated October 1, 2003	2004 – 2033	18,460,000	16,295,000
Series 2004 A and B, 2.00% – 5.00%, dated May 27, 2004	2004 – 2025	94,565,000	88,830,000
Series 2004 C, 2.00% – 5.00%, dated September 23, 2004	2004 – 2020	58,675,000	57,195,000
Series 2004 D and E, 2.25% – 5.00%, dated October 28, 2004	2005 – 2034	46,850,000	43,975,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2005 – 2021	91,250,000	90,750,000
Series 2005 B and C, 3.00% – 5.00%, dated May 26, 2005	2006 – 2031	22,050,000	22,050,000
Series 2005 D and E, 3.00% – 5.00%, dated October 27, 2005	2006 – 2034	60,395,000	60,395,000
Series 2006 A, 3.48% – 4.77%, dated May 25, 2006	2006 – 2036	<u>14,040,000</u>	<u>14,040,000</u>
		<u>\$ 1,477,125,000</u>	<u>\$ 960,442,223</u>

Total General Tax-Exempt Fund Group Bonds payable is presented on the balance sheet at June 30, 2006 as follows:

Total principal outstanding	\$ 960,442,223
Deferred amount on refunding	(27,996,650)
Unamortized original issue discount	(246,317)
Unamortized original issue premium	<u>24,104,511</u>
Total General Tax-Exempt Fund Group Bonds payable	956,303,767
Current portion	<u>87,177,934</u>
Noncurrent portion	<u>\$ 869,125,833</u>

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 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:

Due Bond Year Ending November 1	Principal	Interest	Total Debt Service
2006	\$ 88,025,314	\$ 21,894,476	\$ 109,919,790
2007	87,404,043	40,243,316	127,647,359
2008	82,252,596	36,443,362	118,695,958
2009	77,916,040	32,847,698	110,763,738
2010	75,465,468	29,431,369	104,896,837
2011 – 2015	278,205,787	102,753,013	380,958,800
2016 – 2020	186,892,975	46,766,664	233,659,639
2021 – 2025	79,160,000	10,822,414	89,982,414
2026 – 2030	2,570,000	948,301	3,518,301
2031 – 2035	2,495,000	326,425	2,821,425
2036 – 2040	<u>55,000</u>	<u>2,548</u>	<u>57,548</u>
	<u>\$ 960,442,223</u>	<u>\$ 322,479,586</u>	<u>\$ 1,282,921,809</u>

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

Municipal loan obligations – principal and interest	\$ 1,120,363,205
Reserve Funds – principal and interest	<u>162,558,604</u>
	<u>\$ 1,282,921,809</u>

Total Special Obligation Taxable Fund Group Bonds payable consist of the following at June 30, 2006:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2006
Series 1990 A, 10.25%, dated June 1, 1990	1991 – 2009	\$1,700,000	\$650,000
Current portion			<u>140,000</u>
Noncurrent portion			<u>\$510,000</u>

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 4. Bonds Payable (Continued)

The outstanding Special Obligation Taxable Fund Group Bonds payable will mature in each of the following years with interest payable semiannually:

Due Bond Year Ending November 1	Principal	Interest	Total Debt Service
2006	\$140,000	\$ 33,312	\$173,312
2007	155,000	52,275	207,275
2008	170,000	36,388	206,388
2009	<u>185,000</u>	<u>18,962</u>	<u>203,962</u>
	<u>\$650,000</u>	<u>\$140,937</u>	<u>\$790,937</u>

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

Governmental unit loan obligations – principal and interest \$790,937

Total Grant Anticipation Fund Group Bonds payable consist of the following at June 30, 2006:

	Original <u>Maturity</u>	Amount <u>Issued</u>	Amount Outstanding <u>June 30, 2006</u>
Series 2004 A, 2.50% – 5.00%, dated December 16, 2004	2005 – 2015	\$ 48,395,000	<u>\$ 45,240,000</u>

Total Grant Anticipation Fund Group Bonds payable is presented on the balance sheet at June 30, 2006 as follows:

Total principal outstanding	\$ 45,240,000
Unamortized original issue premium	<u>772,386</u>
Total Grant Anticipation Fund Group Bonds payable	46,012,386
Current portion	<u>4,067,515</u>
Noncurrent portion	<u>\$ 41,944,871</u>

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 4. Bonds Payable (Continued)

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

Due Bond Year Ending September 1	Principal	Interest	Total Debt Service
2006	\$ 3,915,000	\$ 832,228	\$ 4,747,228
2007	4,015,000	1,566,581	5,581,581
2008	4,135,000	1,446,131	5,581,131
2009	4,260,000	1,322,081	5,582,081
2010	4,390,000	1,194,281	5,584,281
2011 – 2015	<u>24,525,000</u>	<u>3,386,238</u>	<u>27,911,238</u>
	<u>\$ 45,240,000</u>	<u>\$ 9,747,540</u>	<u>\$ 54,987,540</u>

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

General unit obligations – principal and interest \$ 54,987,540

Sewer and Water Fund Group Waste Water Bonds payable consist of the following at June 30, 2006:

	Original <u>Maturity</u>	Amount <u>Issued</u>	Amount Outstanding <u>June 30, 2006</u>
Series 1993 A and B, 2.75% – 5.45%, dated October 1, 1993	1994 – 2016	\$ 27,815,000	\$ 13,410,000
Series 1996 A, 3.7% – 5.85%, dated March 1, 1996	1997 – 2017	6,795,000	3,770,000
Series 1997 A and B, 3.9% – 5.45%, dated July 15, 1997	1998 – 2018	20,835,000	13,850,000
Series 2003 A and B, 1.05% – 5.00%, dated March 1, 2003	2003 – 2023	32,165,000	26,030,000
Series 2003 C, 1% – 4.9%, dated November 13, 2003	2004 – 2024	<u>16,065,000</u>	<u>14,955,000</u>
		<u>\$ 103,675,000</u>	<u>\$ 72,015,000</u>

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 4. Bonds Payable (Continued)

The Sewer and Water Fund Group Waste Water Bonds payable are presented on the balance sheet at June 30, 2006 as follows:

Total principal outstanding	\$ 72,015,000
Deferred amount on refunding	(1,265,635)
Unamortized original issue discount	(53,680)
Unamortized original issue premium	<u>308,991</u>
Total Sewer and Water Fund Group Waste Water Bonds payable	71,004,676
Current portion	<u>5,857,346</u>
Noncurrent portion	<u>\$ 65,147,330</u>

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

Due Bond Year Ending November 1	Principal	Interest	Total Debt Service
2006	\$ 6,080,000	\$ 1,527,293	\$ 7,607,293
2007	6,065,000	2,852,326	8,917,326
2008	6,075,000	2,638,094	8,713,094
2009	6,050,000	2,410,756	8,460,756
2010	6,130,000	2,173,788	8,303,788
2011 – 2015	25,185,000	6,970,054	32,155,054
2016 – 2020	12,505,000	2,476,242	14,981,242
2021 – 2025	<u>3,925,000</u>	<u>445,872</u>	<u>4,370,872</u>
	<u>\$ 72,015,000</u>	<u>\$ 21,494,425</u>	<u>\$ 93,509,425</u>

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

Governmental unit loan obligations – principal and interest	\$ 86,913,875
Reserve fund – principal and interest	<u>6,595,550</u>
	<u>\$ 93,509,425</u>

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 4. Bonds Payable (Continued)

Sewer and Water Fund Group Drinking Water Bonds payable consist of the following at June 30, 2006:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2006</u>
Series 1998 A, 3.65%-5.2%, dated August 15, 1998	1999 – 2028	\$4,795,000	\$3,345,000
Series 2005 A, 2.25% – 4.45%, dated March 24, 2005	2005 – 2025	3,770,000	<u>3,645,000</u>
Total Sewer and Water Fund Group Drinking Water Bonds payable			6,990,000
Current portion			<u>350,000</u>
Noncurrent portion			<u>\$6,640,000</u>

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 Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ 350,000	\$ 150,788	\$ 500,788
2007	360,000	289,090	649,090
2008	370,000	275,845	645,845
2009	375,000	262,030	637,030
2010	385,000	247,360	632,360
2011 – 2015	2,070,000	984,940	3,054,940
2016 – 2020	1,840,000	497,118	2,337,118
2021 – 2025	1,190,000	167,180	1,357,180
2026 – 2030	<u>50,000</u>	<u>5,460</u>	<u>55,460</u>
	<u>\$6,990,000</u>	<u>\$2,879,811</u>	<u>\$ 9,869,811</u>

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

Governmental unit loan obligations – principal and interest	\$ 9,563,164
Reserve fund – principal and interest	<u>306,647</u>
	<u>\$ 9,869,811</u>

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 4. Bonds Payable (Continued)

The following summarizes bond payable activity for the Bond Bank for the year ended June 30, 2006:

	General Tax-Exempt Fund Group	Special Obligation Taxable Fund Group	Grant Anticipation Fund Group	Waste Water Fund Group	Drinking Water Fund Group
Balance, beginning of year	\$ 971,795,984	\$ 775,000	\$ 49,334,961	\$ 76,501,705	\$ 7,330,000
Issuances – face value	74,435,000	–	–	–	–
Redemptions	(93,211,498)	(125,000)	(3,155,000)	(5,745,000)	(340,000)
Capitalized premiums	2,103,463	–	–	–	–
Accretion/amortization of discounts, premiums and deferred amounts on refunding	<u>1,180,818</u>	<u>–</u>	<u>(167,575)</u>	<u>247,971</u>	<u>–</u>
Balance, end of year	\$ <u>956,303,767</u>	\$ <u>650,000</u>	\$ <u>46,012,386</u>	\$ <u>71,004,676</u>	\$ <u>6,990,000</u>

Some bonds contain provisions for prepayment at the Bond Bank's option. All bonds 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 Waste 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. Additionally, the Bond Bank is required to utilize funds available within the general operating accounts as necessary.

### 5. Reserve Funds

Each of the 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, 2006, the required debt service reserve was approximately \$111,780,000.

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 5. Reserve Funds (Continued)

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 fund equity 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, 2006, the fair value of the reserve fund assets totaled approximately \$131,600,000, which exceeded the required reserves by \$15,149,171.

Special Obligation Taxable Fund Group: 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 governmental unit loan obligations then outstanding as of such date of calculation. At June 30, 2006, the required capital reserve was approximately \$207,275 and the fair value of the capital reserve assets totaled approximately \$207,600.

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 bonds payable within the fund groups as of such date of calculation. At June 30, 2006, the required capital reserve was approximately \$9,583,000 and the fair value of the capital reserve assets totaled approximately \$10,033,000.

### 6. Sewer and Water Revolving Fund Group

Pursuant to the Sewer and Water General Bond Resolution adopted February 7, 1990, the Bond Bank receives grants from the Environmental Protection Agency and twenty percent matching grants from the State of Maine which are designated to be used for revolving loans to governmental units to finance wastewater collection, treatment systems, or water supply system projects. Fund equity consists of the following:

	<u>Waste Water</u>	<u>Drinking Water</u>
Reserved for revolving loans:		
Grants received from Environmental Protection Agency	\$ 185,616,059	\$ 75,429,600
Other administrative grants received from Environmental Protection Agency	1,347,010	—
Hardship grants received from Environmental Protection Agency	643,800	—
Grants received from State of Maine	37,177,242	14,763,648
Other amounts reserved (utilized) for program loans and costs	<u>26,024,246</u>	<u>(12,694,974)</u>
	250,808,357	77,498,274
Unreserved amounts available	<u>68,673</u>	<u>399,274</u>
Fund equity at June 30, 2006	<u>\$ 250,877,030</u>	<u>\$ 77,897,548</u>



# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 6. Sewer and Water Revolving Fund Group (Continued)

Under the provisions of the grants from the Environmental Protection Agency, the Bond Bank is allowed administrative costs of up to 4% of the total grants received. In addition, the Bond Bank received other grants from the Environmental Protection Agency that are used solely for administrative purposes. The total administrative costs allowed at June 30, 2006 are \$8,771,652 (waste water) and \$2,995,490 (drinking water), with \$8,702,979 and \$2,596,216, respectively, expended to date. The remaining amounts of \$68,673 and \$399,274, respectively, can be used for future administrative costs.

Portions of the loans made to governmental units under the Waste Water and Drinking Water Revolving Loan Fund Programs may be forgiven if certain continuing criteria are met, including that the governmental unit: 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 \$14,778,000 at June 30, 2006 under the Drinking Water Revolving Loan Fund Program that, upon fulfillment of these requirements by the borrowing unit, could be forgiven at some future point. There are no loans within the Waste Water Revolving Loan Fund Program at June 30, 2006 that could be forgiven at some future date. 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 2006 was \$591,047.

### 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. Fund equity consists of the following:

Reserved for revolving loans:

Grants received from State of Maine	\$ 96,468,807
Loans forgiven	(49,553,274)
Other amounts reserved for program loans and costs	<u>11,772,241</u>

58,687,774

Unreserved amounts available

1,169,670

Fund equity at June 30, 2006

\$ 59,857,444

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, 2006 are \$2,084,726, with \$915,056 expended to date. The remaining amount of \$1,169,670 can be used for future administrative costs.

## MAINE MUNICIPAL BOND BANK

### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### 7. School Facilities Fund Group (Continued)

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 Revolving Loan Fund 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 2006 were \$8,300,040.

During 2005, the State of Maine enacted legislation that required the Bond Bank to pay \$5,900,000 of previously granted state funds back to the State of Maine's General Fund. This amount was paid during fiscal 2006. Management of the Bond Bank is not aware of any pending or proposed legislation that might require the Bond Bank to return additional program funds to the State of Maine.

#### 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), a cost-sharing multiple-employer defined benefit pension plan administered by the Maine State Retirement System (MSRS). The MSRS 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 ten 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 MSRS 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 State 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, 2006 for employees covered by the Plan was approximately \$895,000, 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, 2006, 2005 and 2004 were \$23,162, \$25,042 and \$24,466 (employer) and \$58,206, \$58,133 and \$56,797 (employee), respectively.

# MAINE MUNICIPAL BOND BANK

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

#### *Other Postemployment Benefits*

During 2004, the Bond Bank established a postemployment healthcare benefit plan. The Plan provides supplemental healthcare benefits to any full-time employee with ten or more years of employment who retires from the Bond Bank. Management of the Bond Bank expects to make necessary contributions to the Plan as benefits come due. The Bond Bank may terminate the Plan at its option, in which case future benefit payments would be limited to those employees that retired prior to the termination date. The Bond Bank recorded approximately \$1,900 of expense under this plan during fiscal 2006.

### 9. **Refunding Issues**

In periods of declining interest rates, the Bond Bank has refunded 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 were 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 were deposited with the trustees of the in-substance defeased bonds. The Bond Bank accounted for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and recorded a deferred amount on refunding.

No advance refundings took place during 2006. At June 30, 2006, the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately \$160 million.

### 10. **Pass Through State Grant**

The Bond Bank received additional State of Maine grants totaling \$2,700,000 during 2006. These monies in combination with monies received in prior years were passed-through to municipalities designated for such grants by the Department of Economic and Community Development (DECD). Pass-through grant revenue recorded during 2006 totaled \$3,642,847, which matches pass-through grant expense and represents amounts approved and disbursed to municipalities during fiscal 2006. The Bond Bank also withdrew \$96,000 for administrative costs incurred in conjunction with running the program (included in other income at June 30, 2006). Deferred revenue of \$3,986,380 at June 30, 2006 represents un-disbursed grant monies received and interest earned on related cash and cash equivalents.