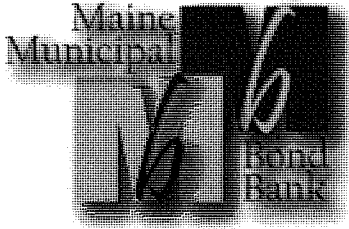


MAINE STATE LEGISLATURE

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Robert O. Lenna, *Executive Director*
Tel 207-622-9386
Fax 207-623-5359

December 4th, 2010

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 2010 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-seven year history the Bond Bank has never experienced a default.

Within the 2010 fiscal year, the Bond Bank sold \$148,705,000.00 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.

Also in 2010, the Bank and the Department of Education have successfully committed \$1,267,851.96 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 \$65,711,891 to finance fifty-six projects in fiscal year 2010.

We are proud of our accomplishments within fiscal year 2010 and look forward to continuing our commitment of providing a service that benefits the growing needs of the State of Maine.

Sincerely,

Stephen R. Crockett
Chairman

JUL 2 2012

Maine Municipal Bond Bank

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

Year Ended June 30, 2010
With Independent Auditors' Report

MAINE MUNICIPAL BOND BANK

BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2010

TABLE OF CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	3 – 10
Basic Financial Statements:	
Balance Sheet	11
Statement of Revenues, Expenses and Changes in Net Assets	15
Statement of Cash Flows	17
Notes to Financial Statements	21

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Municipal Bond Bank

We have audited the accompanying financial statements which include the General Operating Account, General Tax-Exempt Fund Group, Grant Anticipation Fund Group, Transportation Infrastructure Fund Group, Special Obligation Taxable Fund Group, Waste Water and Drinking Water Revolving Loan Fund Groups and Operating Fund Group and the School Facilities Fund Group, which collectively comprise the basic financial statements 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, 2010, 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 opinions 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Bond Bank, as well as the individual fund groups referred to above, as of June 30, 2010, 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 10, 2010 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

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 the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Portland, Maine
September 10, 2010

Limited Liability Company

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

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, 2010. 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 \$3,534,518 for fiscal year 2010, an increase of \$1,952,383 or 123.4% over fiscal year 2009. This was primarily attributed to \$2,510,883 of grant revenue from the State of Maine to fund the Riverfront Community Development and Municipal Investment Trust Fund programs (pass-through grant expense of \$2,510,833 is included in operating expenses). This increase in revenue is offset by a decrease in interest income from investments of approximately \$203,000, a net decrease in the fair value of investments of approximately \$234,900 in 2010 as compared to a net increase of \$101,498 in 2009, and a decrease in other income of approximately \$64,000.
- Net assets in the Bond Bank's General Operating Account had an increase of \$728,748 in fiscal year 2010. This increase is the net result of Operating Revenues totaling \$3,534,518, Operating Transfers totaling \$988,621 and Operating Expenses totaling \$3,794,391. Operating Transfers from the General Tax-Exempt Fund Group are mandated by the Bond Bank's annual operating budget. At June 30, 2010, the Bond Bank's General Operating Account had net assets of \$26,350,749.
- The Bond Bank's gross principal amount of bonds outstanding at June 30, 2010 of \$1,381,459,230 represents a net increase of \$146,528,959 over the balance at June 30, 2009. This increase was the result of the General Tax Exempt Resolution issuing Series 2009C, 2009DEF, 2009G, 2009H and 2010A&B bonds; the Transportation Infrastructure Fund Group issuing Series 2009A and 2009B bonds; and the Sewer and Water Fund Group issuing 2009ABC bonds, less the scheduled debt service principal payments of \$111,061,040 and in-substance defeased bonds totaling \$45,675,000. Refer to note 4 to the basic financial statements for a detail of bonds payable activity in 2010.
- The Bond Bank committed loans to local governmental units during fiscal year 2010 totaling \$244,712,620, which was a 1.6% increase from the loans committed in fiscal year 2009. The Bond Bank also advanced \$135,000,000 to the State of Maine for qualified transportation projects within its Transportation Fund Groups. The Bond Bank also provided borrowers participating in the Drinking Water Revolving Loan Fund Program, the Waste Water Revolving Loan Fund Program, and the School Facilities Revolving Loan Fund Program \$16,729,247 in potential loan forgiveness in fiscal year 2010, which was a 25% decrease from fiscal year 2009.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

Overview of the Bond Bank

The Bond Bank was created in 1972 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 pass-through grants for the Maine Rural Water Association and the 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 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, excise taxes, etc.) collected 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 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) and continued to commit and disburse grants to local borrowers during 2010. 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 base Drinking Water Revolving Loan Program, up to 30% of each federal capitalization grant may be provided to borrowers as loan forgiveness. Eligible borrowers typically receive up to a maximum of 75% loan forgiveness. The base Clean Water Revolving Loan Program does not provide any loan forgiveness at this time. Starting in fiscal 2009, both the Clean Water and the Drinking Water Revolving Funds received ARRA funding, 50% of which was required to be provided as subsidies including grants, loan forgiveness or negative interest rates. Each of the programs opted to meet the 50% subsidy requirement by providing up to a maximum of 100% loan forgiveness on ARRA funded loans.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

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

The statements of revenues, expenses and changes in net assets present information showing how the Bond Bank's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will 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 assets 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 \$558,506,342 at June 30, 2010. This represents an increase of \$21,817,240 (4.1%) over the previous fiscal year. Most of this increase is due to revenue 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 assets are \$491,573,325 and unrestricted net assets are \$66,933,017 at June 30, 2010. The largest portion of the Bond Bank's net assets 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, 2010

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Current assets:			
Cash	\$ 305,228	\$ 248,246	23.0%
Investments held by trustee	170,462,629	153,297,806	11.2
Board designated cash and investments	21,939,812	24,284,872	(9.7)
Loans receivable from governmental units	124,571,892	120,856,058	3.1
Advances to State of Maine	18,062,143	9,694,705	86.3
Accrued investment income receivable	1,117,552	1,159,787	(3.6)
Accrued interest and fees receivable on loans to governmental units and advances to the State of Maine	9,602,363	9,441,896	1.7
Undisbursed federal letter of credit payments	23,611,762	74,588,820	(68.3)
Refunding benefits rebated to governmental units, net of amortization	1,272,172	909,239	39.9
Due from other funds	6,482,569	4,010,423	61.6
Other assets	<u>122,466</u>	<u>216,485</u>	<u>(43.4)</u>
Total current assets	377,550,588	398,708,337	(5.3)
Noncurrent assets:			
Investments held by trustee	139,451,502	131,197,335	6.3
Loans receivable from governmental units	1,268,206,673	1,230,445,180	3.1
Advances to State of Maine	239,559,828	121,407,623	97.3
Land and building, net of depreciation	740,982	769,256	(3.7)
Refunding benefits rebated to governmental units, net of amortization	<u>3,174,097</u>	<u>2,626,769</u>	<u>20.8</u>
Total noncurrent assets	<u>1,651,133,082</u>	<u>1,486,446,163</u>	<u>11.1</u>
Total assets	<u>\$ 2,028,683,670</u>	<u>\$ 1,885,154,500</u>	<u>7.6%</u>

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Current liabilities:			
Accounts payable and accrued liabilities	\$ 369,328	\$ 550,954	(33.0)%
Due to other funds	6,482,569	4,010,423	61.6
Accrued interest payable	11,980,228	10,132,536	18.2
Deferred revenue	2,060,189	24,208,614	(91.5)
Pass-through grants payable	3,596,564	3,654,819	(1.6)
Undisbursed loans	24,627,826	61,646,254	(60.0)
Accrued interest rebate payable to U.S. Government	709,468	792,312	(10.5)
Due to State of Maine	19,344,253	1,253,573	1,443.1
Bonds payable	<u>123,376,588</u>	<u>111,161,789</u>	<u>11.0</u>
Total current liabilities	192,547,013	217,411,274	(11.4)
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	2,680,833	3,692,314	(27.4)
Bonds payable	<u>1,274,949,482</u>	<u>1,127,361,810</u>	<u>13.1</u>
Total noncurrent liabilities	<u>1,277,630,315</u>	<u>1,131,054,124</u>	<u>13.0</u>
Total liabilities	1,470,177,328	1,348,465,398	9.0
Net assets:			
Restricted	491,573,325	473,396,076	3.8
Unrestricted	<u>66,933,017</u>	<u>63,293,026</u>	<u>5.8</u>
Total net assets	<u>558,506,342</u>	<u>536,689,102</u>	<u>4.1</u>
Total liabilities and net assets	<u>\$ 2,028,683,670</u>	<u>\$ 1,885,154,500</u>	<u>7.6%</u>

Total short and long-term investments held by trustee at June 30, 2010 increased \$25,418,990 or 8.9% from June 30, 2009. The increase was the net result of an increase in the fair value of investments, additional reserve fund investments purchased in conjunction with 2010 bond issuances of approximately \$17,969,000, the receipt of approximately \$32,374,600 from the State of Maine for the Transportation Infrastructure Fund Group and also the net impact of drawdowns of investments for equity loans to borrowers and the repayment on equity loans from borrowers in 2010. The Bond Bank also received additional pass-through grants from the Maine Department of Economic and Community Development, of which \$3,596,564 has been deferred at June 30, 2010. 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 assets.

The Bond Bank's net loans (bond and equity) to governmental units increased \$41,477,327 in fiscal year 2010. The Bond Bank's total new loan commitments in 2010 of \$244,712,620 were a 1.6% increase over the 2009 commitments of \$240,933,969. Net bonds payable increased \$159,802,471.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

Advances to the State of Maine increased \$126,519,643 or 96.5% from June 30, 2009. This increase is primarily the net result of issuing Series 2009A and 2009B bonds totaling \$135,000,000.

Undisbursed federal letter of credit payments decreased \$50,977,058 in 2010 which is a 68.3% decrease from fiscal 2009. This decrease is primarily the result of the disbursement of \$40,852,343 in federal ARRA grants awarded to the Bond Bank in 2009 and the disbursement of \$15,345,515 of other federal grants, offset by federal grants awarded totaling \$5,220,800.

Refunding benefits rebated to governmental units, net of approximately \$1,400,000 of amortization, had a net increase of \$910,261 in 2010, which is a 25.7% increase over fiscal 2009. The Bond Bank issued \$43,360,000 of refunding bonds in 2010 and passed on savings to the borrowers in one-time lump sum payments totaling \$2,313,915.

The balance of the due to/from other funds, which increased \$2,472,146 or 61.6% in 2010, represents amounts that were disbursed from one fund and are to be reimbursed by another fund in subsequent years. This increase is primarily due to the General Operating Account paying \$1,769,623 to governmental units for the refunding savings from Series 2009ABC Refunding Bonds in the Sewer and Water Fund Groups. The Sewer and Water Fund Groups will reimburse the General Operating Account for this payment in future years.

Accrued interest payable increased \$1,847,692 or 18.2% in fiscal 2010 over fiscal 2009. This was due to the issuance of \$303,265,000 in new bond series in 2010.

Undisbursed loans decreased \$37,018,428 in 2010 which is a 60.0% decrease over fiscal 2009. This decrease is primarily a timing issue between when grants are awarded, loans are committed and related funds are disbursed.

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 Government 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. Accrued interest rebate payable to US Government decreased \$1,094,325 or 24.4% in fiscal year 2010 over fiscal year 2009 as a result of refunding of outstanding bonds and subsequent call of remaining defeased bonds, which resulted in final calculations and payments not otherwise anticipated.

Deferred revenue decreased \$22,148,425 or 91.5% in fiscal year 2010 over fiscal year 2009. The decrease is primarily the result of committing \$22,804,265 of ARRA grants in fiscal year 2010 that were deferred when received in fiscal year 2009.

Fund availability in the Transportation Infrastructure Fund Group consists of the net between motor fuel taxes and other program fees collected less annual debt service on bonds outstanding and administrative fees paid to the Bond Bank. The net difference results in the Due to the State of Maine increasing \$18,090,680 or 1,443.1% in fiscal year 2010 over fiscal year 2009 as the net result of the Bond Bank issuing a total of \$135,000,000 in Series 2009A and 2009B Bonds, collecting motor fuel taxes and other program fees from the State and disbursing funds to the State for various purposes of the program and paying administrative fees and scheduled debt service payments.

The Bond Bank's financial position improved as net assets increased 4.1% in fiscal year 2010. The Bond Bank continued to maintain a positive spread of income from investments, interest on loans to governmental units and fee revenue from State of Maine over bond interest and operating expenses.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

MAINE MUNICIPAL BOND BANK
Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Interest on loans receivable from governmental units	\$ 48,232,263	\$ 47,904,277	0.7%
Program revenue from State of Maine	9,779,281	4,143,214	136.0
Interest income from investments	7,192,210	8,145,538	(11.7)
Net increase in the fair value of investments	3,336,083	1,787,693	86.6
Grant revenue from Environmental Protection Agency	28,025,065	48,545,335	(42.3)
Grant revenue from State of Maine	3,555,043	4,879,156	(27.1)
Other income	<u>1,490,262</u>	<u>1,510,643</u>	<u>(1.3)</u>
 Total operating revenue	 101,610,207	 116,915,856	 (13.1)
 Interest expense	 57,647,184	 52,169,653	 10.5
Operating expenses (direct and shared)	6,328,692	4,433,785	42.7
Pass-through grant expense	2,510,883	-	-
Loan forgiveness	11,348,146	4,046,530	180.4
Amortization of deferred financing costs and refunding benefits rebated to governmental units	<u>1,958,062</u>	<u>1,650,207</u>	<u>18.7</u>
 Total operating expenses	 <u>79,792,967</u>	 <u>62,300,175</u>	 <u>28.1</u>
 Operating income	 21,817,240	 54,615,681	 (60.1)
 Net assets, beginning of year	 <u>536,689,102</u>	 <u>482,073,421</u>	 <u>11.3</u>
 Net assets, end of year	 <u>\$558,506,342</u>	 <u>\$536,689,102</u>	 <u>4.1%</u>

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 2010 decreased 11.7% from 2009. This decrease was primarily the result of a declining short-term interest rate environment in 2010 that resulted in less interest earned on cash and cash equivalents, and an increase in arbitrage rebate expense over fiscal 2009 (due to final calculations on bonds refunded and subsequently called in 2010).

Program revenue from the State of Maine increased 136% in fiscal year 2010 over 2009. This revenue represents recognized motor fuel taxes and other program fees that are used to make annual debt service payments on the bonds issued in the Transportation Infrastructure Fund Group and any administrative fees paid to the Bank. The increase is the result of additional bonds being issued during fiscal year 2010 and the related increase in interest expense.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

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 \$28,025,065 in fiscal year 2010, which was a 42.3% decrease from 2009. The net decrease is primarily the result of the timing of loan commitments for federal ARRA grants. The Bond Bank recorded \$22,804,265 as AARA grant revenues in 2010 and \$27,032,535 in 2009, a decrease of \$4,228,270. Other federal grants in the Sewer and Water Fund Groups were down by \$16,292,000 in 2010 from 2009. The Bond Bank recorded grant revenue from the State of Maine totaling \$3,555,043 in 2010, which decreased \$1,324,113 or 27.1% from 2009 grants. The fiscal year 2010 State grants were made up of State of Maine matching funds for the Sewer and Water Funds Groups totaling \$1,044,160 and grants to the General Operating Fund Group totaling \$2,510,883 from the Maine Department of Economic and Community Development.

Operating expenses (direct and shared) increased \$1,894,907 or 42.7% in fiscal 2010 over fiscal 2009. This is a direct result of the draw down of administrative expenses used by our co-administrators at the State of Maine. These include the Department of Education, the Department of Environmental Protection and the Department of Health and Human Services.

Pass through grant expense increased \$2,510,833 in fiscal 2010. This is due to the Bond Bank jointly administering the Riverfront Community Development and Municipal Investment Trust Fund programs with the Maine Department of Economic Development (DECD). All grant revenue recognized in 2010 was passed-through to municipalities designated for such grants by the DECD (see note 10).

Loan forgiveness expense (see notes 6 and 7 in the accompanying financial statements) increased 180.4 % in fiscal year 2010 over 2009. Portions of the loans made to eligible borrowers under the Drinking Water and Waste Water (under ARRA grants) 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 2010 was \$1,190,886 and \$7,038,704 within the Drinking Water and Waste 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 2010 was \$3,118,556. 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

BALANCE SHEET

June 30, 2010

	<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>ASSETS</u>				
Current assets:				
Cash	\$ 305,228	\$ -	\$ -	\$ -
Investments held by trustee (notes 3 and 5)	-	42,803,888	-	21,828,345
Board designated cash and investments (notes 3 and 10)	21,939,812	-	-	-
Loans receivable from governmental units (note 4)	96,573	86,535,169	-	-
Advances to State of Maine (note 4)	-	-	8,037,796	10,024,347
Accrued investment income receivable	66,808	413,482	-	60,164
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	12,156	7,147,720	968,814	-
Undisbursed federal letter of credit payments	-	-	-	-
Refunding benefits rebated to governmental units, net of amortization	-	807,611	-	-
Due from other funds	5,937,851	-	-	-
Other assets	<u>118,633</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	28,477,061	137,707,870	9,006,610	31,912,856
Noncurrent assets:				
Investments held by trustee (notes 3 and 5)	-	122,281,062	-	8,667,651
Loans receivable from governmental units (note 4)	1,073,498	871,616,906	-	-
Advances to State of Maine (note 4)	-	-	67,769,202	171,790,626
Land and building, net of depreciation of \$1,037,017	740,982	-	-	-
Refunding benefits rebated to governmental units, net of amortization	<u>-</u>	<u>1,941,173</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>1,814,480</u>	<u>995,839,141</u>	<u>67,769,202</u>	<u>180,458,277</u>
Total assets	<u>\$30,291,541</u>	<u>\$1,133,547,011</u>	<u>\$76,775,812</u>	<u>\$212,371,133</u>

Special Obligation Taxable Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 305,228
-	70,477,866	14,636,762	5,038,668	15,677,100	170,462,629
-	-	-	-	-	21,939,812
-	27,939,346	4,512,865	-	5,487,939	124,571,892
-	-	-	-	-	18,062,143
-	424,650	83,155	6,237	63,056	1,117,552
-	1,273,643	200,030	-	-	9,602,363
-	15,659,119	7,952,643	-	-	23,611,762
-	414,211	50,350	-	-	1,272,172
-	476,716	-	68,002	-	6,482,569
-	<u>2,583</u>	<u>1,250</u>	<u>-</u>	<u>-</u>	<u>122,466</u>
-	116,668,134	27,437,055	5,112,907	21,228,095	377,550,588
-	7,874,480	628,309	-	-	139,451,502
-	262,574,707	115,613,226	-	17,328,336	1,268,206,673
-	-	-	-	-	239,559,828
-	-	-	-	-	740,982
-	<u>1,060,207</u>	<u>172,717</u>	<u>-</u>	<u>-</u>	<u>3,174,097</u>
-	<u>271,509,394</u>	<u>116,414,252</u>	<u>-</u>	<u>17,328,336</u>	<u>1,651,133,082</u>
<u>\$ -</u>	<u>\$388,177,528</u>	<u>\$143,851,307</u>	<u>\$5,112,907</u>	<u>\$38,556,431</u>	<u>\$2,028,683,670</u>

MAINE MUNICIPAL BOND BANK

BALANCE SHEET (CONTINUED)

June 30, 2010

	<u>General</u>	<u>General</u>	<u>Transportation</u>	<u>Fund Groups</u>
	<u>Operating</u>	<u>Tax-Exempt</u>	<u>Grant</u>	<u>Transportation</u>
	<u>Account</u>	<u>Fund Group</u>	<u>Anticipation</u>	<u>Infrastructure</u>
			<u>Fund Group</u>	<u>Fund Group</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current liabilities:				
Accounts payable and accrued liabilities (note 8)	\$ 344,228	\$ -	\$ -	\$ -
Due to other funds	-	3,762,040	-	18,739
Accrued interest payable	-	8,117,059	968,814	2,653,035
Deferred revenue (note 6)	-	-	-	-
Pass-through grants payable (note 10)	3,596,564	-	-	-
Undisbursed loans	-	-	-	-
Accrued interest rebate payable to U.S. Government	-	709,468	-	-
Due to State of Maine	-	-	-	19,344,253
Bonds payable (note 4)	<u>-</u>	<u>98,770,092</u>	<u>8,037,796</u>	<u>10,024,347</u>
Total current liabilities	3,940,792	111,358,659	9,006,610	32,040,374
Noncurrent liabilities:				
Accrued interest rebate payable to U.S. Government	-	2,577,838	-	-
Bonds payable (note 4)	<u>-</u>	<u>981,862,152</u>	<u>67,769,202</u>	<u>180,330,759</u>
Total noncurrent liabilities	<u>-</u>	<u>984,439,990</u>	<u>67,769,202</u>	<u>180,330,759</u>
Total liabilities	3,940,792	1,095,798,649	76,775,812	212,371,133
Net assets:				
Restricted (notes 5, 6 and 7)	-	4,670,829	-	-
Unrestricted (notes 6 and 7)	<u>26,350,749</u>	<u>33,077,533</u>	<u>-</u>	<u>-</u>
Total net assets	<u>26,350,749</u>	<u>37,748,362</u>	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u>\$30,291,541</u>	<u>\$ 1,133,547,011</u>	<u>\$76,775,812</u>	<u>\$212,371,133</u>

See accompanying notes.

Special Obligation Taxable Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ -	\$ 15,129	\$ 6,146	\$ -	\$ 3,825	\$ 369,328
-	1,814,216	768,395	45,340	73,839	6,482,569
-	208,801	32,519	-	-	11,980,228
-	1,663,897	396,292	-	-	2,060,189
-	-	-	-	-	3,596,564
-	15,805,103	8,070,256	-	752,467	24,627,826
-	-	-	-	-	709,468
-	-	-	-	-	19,344,253
-	<u>6,123,531</u>	<u>420,822</u>	<u>-</u>	<u>-</u>	<u>123,376,588</u>
-	25,630,677	9,694,430	45,340	830,131	192,547,013
-	102,995	-	-	-	2,680,833
-	<u>39,902,516</u>	<u>5,084,853</u>	<u>-</u>	<u>-</u>	<u>1,274,949,482</u>
-	<u>40,005,511</u>	<u>5,084,853</u>	<u>-</u>	<u>-</u>	<u>1,277,630,315</u>
-	65,636,188	14,779,283	45,340	830,131	1,470,177,328
-	322,087,253	128,341,156	-	36,474,087	491,573,325
-	<u>454,087</u>	<u>730,868</u>	<u>5,067,567</u>	<u>1,252,213</u>	<u>66,933,017</u>
-	<u>322,541,340</u>	<u>129,072,024</u>	<u>5,067,567</u>	<u>37,726,300</u>	<u>558,506,342</u>
\$ -	<u>\$388,177,528</u>	<u>\$ 143,851,307</u>	<u>\$5,112,907</u>	<u>\$38,556,431</u>	<u>\$2,028,683,670</u>

MAINE MUNICIPAL BOND BANK

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2010

	<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 revenues:				
Interest on loans receivable from governmental units	\$ 45,291	\$43,241,407	\$ -	\$ -
Program revenue from State of Maine	-	-	2,939,614	6,839,667
Interest income from investments	452,498	4,456,569	-	144,762
Net (decrease) increase in the fair value of investments	(234,900)	4,390,944	-	42,854
Grant revenue from Environmental Protection Agency (note 6)	-	-	-	-
Grant revenue from State of Maine (notes 6, 7 and 10)	2,510,883	-	-	-
Other income (note 10)	<u>760,746</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenue	3,534,518	52,088,920	2,939,614	7,027,283
Operating expenses:				
Interest expense	-	45,792,198	2,841,266	6,935,703
Operating expenses (direct and shared) (note 8)	1,283,508	25,440	98,348	91,580
Pass-through grant expense (note 10)	2,510,883	-	-	-
Loan forgiveness (notes 6 and 7)	-	-	-	-
Amortization of deferred financing costs and refunding benefits rebated to governmental units	<u>-</u>	<u>1,470,377</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>3,794,391</u>	<u>47,288,015</u>	<u>2,939,614</u>	<u>7,027,283</u>
Operating income (loss) before operating transfers	(259,873)	4,800,905	-	-
Operating transfers	<u>988,621</u>	<u>(988,621)</u>	<u>-</u>	<u>-</u>
Operating income (loss)	728,748	3,812,284	-	-
Net assets (deficit), beginning of year	<u>25,622,001</u>	<u>33,936,078</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$26,350,749</u>	<u>\$37,748,362</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes.

<u>Special Obligation Taxable Fund Group</u>	<u>Sewer and Water Fund Groups</u>			<u>School Facilities Fund Group</u>	<u>Total</u>
	<u>Revolving Loan Fund Groups</u>		<u>Operating Fund Group</u>		
	<u>Waste Water</u>	<u>Drinking Water</u>			
\$ 6,321	\$ 4,120,589	\$ 818,655	\$ -	\$ -	\$ 48,232,263
-	-	-	-	-	9,779,281
-	1,721,186	190,950	11,828	214,417	7,192,210
-	(695,273)	(87,242)	(8,830)	(71,470)	3,336,083
-	19,485,667	8,539,398	-	-	28,025,065
-	1,044,160	-	-	-	3,555,043
<u>10,611</u>	<u>-</u>	<u>-</u>	<u>718,905</u>	<u>-</u>	<u>1,490,262</u>
16,932	25,676,329	9,461,761	721,903	142,947	101,610,207
6,321	1,866,074	205,622	-	-	57,647,184
-	1,059,251	2,490,679	196,453	1,083,433	6,328,692
-	-	-	-	-	2,510,883
-	7,038,704	1,190,886	-	3,118,556	11,348,146
<u>-</u>	<u>446,461</u>	<u>41,224</u>	<u>-</u>	<u>-</u>	<u>1,958,062</u>
<u>6,321</u>	<u>10,410,490</u>	<u>3,928,411</u>	<u>196,453</u>	<u>4,201,989</u>	<u>79,792,967</u>
10,611	15,265,839	5,533,350	525,450	(4,059,042)	21,817,240
<u>-</u>	<u>125,712</u>	<u>(11,842)</u>	<u>(113,870)</u>	<u>-</u>	<u>-</u>
10,611	15,391,551	5,521,508	411,580	(4,059,042)	21,817,240
<u>(10,611)</u>	<u>307,149,789</u>	<u>123,550,516</u>	<u>4,655,987</u>	<u>41,785,342</u>	<u>536,689,102</u>
<u>\$ -</u>	<u>\$322,541,340</u>	<u>\$129,072,024</u>	<u>\$5,067,567</u>	<u>\$37,726,300</u>	<u>\$558,506,342</u>

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2010

	General Operating <u>Account</u>	General Tax-Exempt <u>Fund Group</u>	<u>Transportation Fund Groups</u> Grant Anticipation <u>Fund Group</u>	Transportation Infrastructure <u>Fund Group</u>
OPERATING ACTIVITIES:				
Cash received from governmental units and State of Maine	\$ 79,479	\$ 129,636,888	\$ 10,748,374	\$ 32,374,652
Cash payments to governmental units	(3,727,298)	(121,023,264)	-	-
Cash advances to State of Maine	-	-	-	(141,785,233)
Cash received from other income	760,746	-	-	-
Cash payments for operating expenses	(1,123,002)	(25,440)	(98,395)	-
Cash (paid to) received from other funds	(1,028,855)	(754,794)	-	18,739
Cash received for other assets and liabilities	<u>90,311</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash (used) provided by operating activities	(4,948,619)	7,833,390	10,649,979	(109,391,842)
NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds payable	-	155,192,686	-	142,856,871
Principal paid on bonds payable	-	(94,861,040)	(7,625,000)	(1,965,000)
Interest paid on bonds payable	-	(46,093,170)	(3,025,026)	(5,601,554)
Amount deposited to refunding escrow (note 9)	-	(24,859,179)	-	-
Issuance costs paid for refunding bonds (note 9)	-	(258,894)	-	-
Grant receipts from Environmental Protection Agency and State of Maine	<u>2,450,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	2,450,000	(10,879,597)	(10,650,026)	135,290,317
INVESTING ACTIVITIES:				
Purchase of investment securities	(36,217,592)	(217,933,855)	-	(52,851,510)
Proceeds from sale and maturities of investment securities	38,327,752	215,675,660	47	26,842,454
Income received from investments	503,295	8,640,678	-	110,581
Interest rebate paid to U.S. Government	-	(3,336,276)	-	-
Additions to land and building	<u>(57,854)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash (used) provided by investing activities	<u>2,555,601</u>	<u>3,046,207</u>	<u>47</u>	<u>(25,898,475)</u>
Increase in cash	56,982	-	-	-
Cash, beginning of year	<u>248,246</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash, end of year	\$ <u><u>305,228</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

Special Obligation Taxable Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ 194,343	\$ 27,889,318	\$ 5,285,766	\$ -	\$ 4,686,018	\$ 210,894,838
(237,577)	(51,366,956)	(33,844,873)	-	(4,485,379)	(214,685,347)
-	-	-	-	-	(141,785,233)
10,611	-	-	718,905	-	1,490,262
-	(1,066,707)	(2,495,926)	(196,453)	(1,089,110)	(6,095,033)
-	1,099,068	731,423	(95,234)	29,653	-
-	2,875	833	-	-	94,019
(32,623)	(23,442,402)	(30,322,777)	427,218	(858,818)	(150,086,494)
-	18,103,406	2,472,657	-	-	318,625,620
(185,000)	(6,050,000)	(375,000)	-	-	(111,061,040)
(9,481)	(2,096,078)	(228,176)	-	-	(57,053,485)
-	(19,228,305)	(2,465,871)	-	-	(46,553,355)
-	(221,776)	(28,500)	-	-	(509,170)
-	29,491,573	28,406,285	-	-	60,347,858
(194,481)	19,998,820	27,781,395	-	-	163,796,428
-	(151,211,296)	(28,177,690)	(1,676,962)	(22,989,497)	(511,058,402)
227,104	152,804,417	30,593,081	1,243,404	23,654,805	489,368,724
-	1,928,847	125,991	6,340	193,510	11,509,242
-	(78,386)	-	-	-	(3,414,662)
-	-	-	-	-	(57,854)
227,104	3,443,582	2,541,382	(427,218)	858,818	(13,652,952)
-	-	-	-	-	56,982
-	-	-	-	-	248,246
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 305,228

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2010

	<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>
Reconciliation of operating income (loss) to net cash (used) provided by operating activities:				
Operating income (loss)	\$ 728,748	\$ 3,812,284	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:				
Interest income from investments	(452,498)	(4,456,569)	-	(144,762)
Net (increase) decrease in the fair value of investments	234,900	(4,390,944)	-	(42,854)
Loan forgiveness	-	-	-	-
Depreciation	86,128	-	-	-
Amortization of deferred financing costs and refunding benefits rebated to units	-	1,470,377	-	-
Interest expense on bonds payable	-	45,792,198	2,841,266	6,935,703
Federal and State grants	(2,510,883)	-	-	-
Change in assets and liabilities:				
Loans receivable from governmental units and advances to to State of Maine	(1,170,071)	(33,849,226)	7,729,705	(134,249,348)
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	(12,156)	(234,217)	79,055	-
Due to/from other funds	(2,017,476)	233,827	-	18,739
Other assets	90,311	-	-	-
Accounts payable and accrued liabilities	74,378	-	(47)	-
Due to State of Maine	-	-	-	18,090,680
Refunding benefits rebated to governmental units	<u>-</u>	<u>(544,340)</u>	<u>-</u>	<u>-</u>
Net cash (used) provided by operating activities	<u>\$ (4,948,619)</u>	<u>\$ 7,833,390</u>	<u>\$10,649,979</u>	<u>\$(109,391,842)</u>

See accompanying notes.

<u>Special Obligation Taxable Fund Group</u>	<u>Sewer and Water Fund Groups</u>			<u>School Facilities Fund Group</u>	<u>Total</u>
	<u>Revolving Loan Fund Groups</u>		<u>Operating Fund Group</u>		
	<u>Waste Water</u>	<u>Drinking Water</u>			
\$ 10,611	\$ 15,391,551	\$ 5,521,508	\$411,580	\$(4,059,042)	\$ 21,817,240
–	(1,721,186)	(190,950)	(11,828)	(214,417)	(7,192,210)
–	695,273	87,242	8,830	71,470	(3,336,083)
–	7,038,704	1,190,886	–	3,118,556	11,348,146
–	–	–	–	–	86,128
–	446,461	41,224	–	–	1,958,062
6,321	1,866,074	205,622	–	–	57,647,184
–	(20,529,827)	(8,539,398)	–	–	(31,580,108)
185,000	(26,038,850)	(29,171,393)	–	200,639	(216,363,544)
3,022	(50,303)	54,132	–	–	(160,467)
–	973,356	743,265	18,636	29,653	–
–	2,875	833	–	–	94,019
(237,577)	(7,456)	(5,247)	–	(5,677)	(181,626)
–	–	–	–	–	18,090,680
–	<u>(1,509,074)</u>	<u>(260,501)</u>	–	–	<u>(2,313,915)</u>
<u>\$ (32,623)</u>	<u>\$(23,442,402)</u>	<u>\$(30,322,777)</u>	<u>\$427,218</u>	<u>\$(858,818)</u>	<u>\$(150,086,494)</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

1. Organization

The Maine Municipal Bond Bank (the Bond Bank) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component 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 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 a management agreement 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 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.

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. In addition, the Bond Bank issues taxable bonds that receive a federal interest subsidy payment on each debt service payment date.

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.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

1. Organization (Continued)

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. All loans to government units and related bonds were paid in full during 2010.

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. 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.

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 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 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).

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

2. Significant Accounting Policies (Continued)

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 net assets. Interest earnings on principal-only strips within the general tax-exempt fund group of approximately \$4,259,000 have been recorded as interest income from investments in 2010. Reserve fund investments that are not expected to be utilized to fund bond principal and interest payments until after June 30, 2011 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.

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.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

2. Significant Accounting Policies (Continued)

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 \$128,000 in investments are held in the construction funds at June 30, 2010.

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.

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, guaranteed investment contracts and collateralized repurchase agreements. At June 30, 2010, investments are categorized as follows:

	<u>Fair Value</u>
<u>General Operating Account</u>	
Board-designated investments:	
U.S. Government-sponsored enterprises	\$ 9,982,398
Cash and cash equivalents	<u>11,957,414</u>
	<u>\$21,939,812</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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:	
Guaranteed investment contracts	\$ 9,744,314
U.S. Government obligations	21,716,668
U.S. Government-sponsored enterprises	25,093,461
U.S. Treasury strips	65,902,885
U.S. Government-sponsored enterprise strips	26,914,369
Cash and cash equivalents	<u>15,713,253</u>
	<u>\$165,084,950</u>
<u>Transportation Infrastructure Fund Group</u>	
Investments held by trustee:	
Guaranteed investment contracts	16,153
U.S. Government-sponsored enterprises	6,295,057
U.S. Government-sponsored enterprise strips	2,356,441
Cash and cash equivalents	<u>21,828,345</u>
	<u>\$ 30,495,996</u>
<u>Sewer and Water Fund Groups</u>	
Investments held by trustee:	
Revolving Loan Fund Group – Waste Water:	
Guaranteed investment contracts	\$ 3,302,304
U.S. Government obligations	215,801
U.S. Government-sponsored enterprises	37,027,198
U.S. Government-sponsored enterprise strips	3,220,054
Certificates of deposit	6,504,699
Cash and cash equivalents	<u>28,082,290</u>
	<u>\$ 78,352,346</u>
Revolving Loan Fund Group – Drinking Water:	
U.S. Government-sponsored enterprises	\$ 8,074,924
U.S. Government-sponsored enterprise strips	371,625
Cash and cash equivalents	<u>6,818,522</u>
	<u>\$ 15,265,071</u>
Operating Fund Group:	
U.S. Government-sponsored enterprises	\$ 504,453
Cash and cash equivalents	<u>4,534,215</u>
	<u>\$ 5,038,668</u>
<u>School Facilities Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 7,832,463
Cash and cash equivalents	<u>7,844,637</u>
	<u>\$ 15,677,100</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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, 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 and U.S. Government-sponsored enterprise strips as of June 30, 2010:

	<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>9,982,398</u>	\$ <u>3,807,078</u>	\$ <u>6,175,320</u>	\$ <u>—</u>	\$ <u>—</u>
<u>General Tax Exempt Fund Group</u>					
Guaranteed investment contracts	\$ 9,744,314	\$ —	\$ —	\$ —	\$ 9,744,314
U.S. Government obligations	21,716,668	13,741,003	1,080,399	1,829,542	5,065,724
U.S. Government-sponsored enterprises	25,093,461	1,598,455	6,880,445	8,476,832	8,137,729
U.S. Treasury strips	65,902,885	9,759,527	26,345,614	17,732,712	12,065,032
U.S. Government-sponsored enterprise strips	<u>26,914,369</u>	<u>1,991,648</u>	<u>6,085,923</u>	<u>4,638,754</u>	<u>14,198,044</u>
	\$ <u>149,371,697</u>	\$ <u>27,090,633</u>	\$ <u>40,392,381</u>	\$ <u>32,677,840</u>	\$ <u>49,210,843</u>
<u>Transportation Infra- structure Fund Group</u>					
Guaranteed investment contracts	\$ 16,153	\$ —	\$ 16,153	\$ —	\$ —
U.S. Government-sponsored enterprises	6,295,057	485,410	5,809,647	—	—
U.S. Government sponsored enterprise strips	<u>2,356,441</u>	<u>19,998</u>	<u>2,336,443</u>	<u>—</u>	<u>—</u>
	\$ <u>8,667,651</u>	\$ <u>505,408</u>	\$ <u>8,162,243</u>	\$ <u>—</u>	\$ <u>—</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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</u>					
<u>Group – Waste Water</u>					
Guaranteed investment contracts	\$ 3,302,304	\$ –	\$ –	\$ 1,937,638	\$ 1,364,666
U.S. Government obligations	215,801	–	–	215,801	–
U.S. Government-sponsored enterprises	37,027,198	19,381,621	17,622,340	23,237	–
U.S. Government-sponsored enterprise strips	3,220,054	93,847	1,945,244	1,180,963	–
Certificates of deposit	<u>6,504,699</u>	<u>316,597</u>	<u>6,188,102</u>	<u>–</u>	<u>–</u>
	<u>\$ 50,270,056</u>	<u>\$ 19,792,065</u>	<u>\$ 25,755,686</u>	<u>\$ 3,357,639</u>	<u>\$ 1,364,666</u>
<u>Revolving Loan Fund</u>					
<u>Group–Drinking Water</u>					
U.S. Government-sponsored enterprises	\$ 8,074,924	\$ 4,843,942	\$ 3,048,866	\$ 26,573	\$ 155,543
U.S. Government-sponsored enterprise strips	<u>371,625</u>	<u>–</u>	<u>313,273</u>	<u>58,352</u>	<u>–</u>
	<u>\$ 8,446,549</u>	<u>\$ 4,843,942</u>	<u>\$ 3,362,139</u>	<u>\$ 84,925</u>	<u>\$ 155,543</u>
<u>Sewer and Water Fund</u>					
<u>Groups–Operating Fund</u>					
<u>Group</u>					
U.S. Government-sponsored enterprises	<u>\$ 504,453</u>	<u>\$ 253,515</u>	<u>\$ 250,938</u>	<u>\$ –</u>	<u>\$ –</u>
<u>School Facilities Fund</u>					
<u>Group</u>					
U.S. Government-sponsored enterprises	<u>\$ 7,832,463</u>	<u>\$ 5,076,258</u>	<u>\$ 2,756,205</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, 2010.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

3. Investments Held By Trustee and Board Designated 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, 2010, the Bond Bank's guaranteed 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. 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 balance sheet. The fair value of these investments is approximately \$98,765,000 at June 30, 2010.

Trustee held cash and cash equivalents at June 30, 2010 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, 2010 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 consist of the following at June 30, 2010:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2010</u>
Series 1993 B and C, 5% – 5.85%, dated May 1, 1993	1994 – 2020	\$ 40,070,000	\$ 5,130,000
Series 1998 A, 3.70% – 5.50%, dated February 1, 1998	1999 – 2012	60,950,000	20,575,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2010</u>
Series 1998 D and E, 3.75% – 4.80%, dated October 1, 1998	1999 – 2018	\$ 13,890,000	\$ 975,000
Series 2000 A and B, 4.5% – 5.875%, dated May 1, 2000	2000 – 2020	70,125,000	10,085,000
Series 2000 C and D, 4.625% – 5.70%, dated October 1, 2000	2001 – 2021	39,560,000	5,990,000
Series 2001 A and B, 4.125% – 5.25%, dated May 1, 2001	2002 – 2021	34,635,000	7,005,000
Series 2001 C and D, 3.00% – 5.125%, dated October 1, 2001	2002 – 2022	68,835,000	16,255,000
Series 2002 A, 3.00% – 5.375%, dated March 1, 2002	2002 – 2021	36,520,000	8,690,000
Series 2002 B and C, 2.50% – 5.25%, dated May 1, 2002	2002 – 2032	77,575,000	51,675,000
Series 2002 D, 2.00% – 5.00%, dated July 1, 2002	2003 – 2015	49,315,000	16,815,000
Series 2002 E and F, 2.00% – 5.00%, dated October 1, 2002	2003 – 2023	32,720,000	11,750,000
Series 2003 A, 3.00% – 5.25%, dated March 1, 2003	2003 – 2020	186,050,000	55,214,230
Series 2003 B and C, 2.00% – 5.00%, dated May 1, 2003	2003 – 2024	17,290,000	10,950,000
Series 2003 D and E, 2.00% – 5.00%, dated October 1, 2003	2004 – 2033	18,460,000	11,890,000
Series 2004 A and B, 2.00% – 5.00%, dated May 27, 2004	2004 – 2025	94,565,000	69,310,000
Series 2004 C, 2.00% – 5.00%, dated September 23, 2004	2004 – 2020	58,675,000	52,895,000
Series 2004 D and E, 2.25% – 5.00%, dated October 28, 2004	2005 – 2034	46,850,000	32,275,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2005 – 2021	91,250,000	88,865,000
Series 2005 B and C, 3.00% – 5.00%, dated May 26, 2005	2006 – 2031	22,050,000	17,185,000
Series 2005 D and E, 3.00% – 5.00%, dated October 27, 2005	2006 – 2034	60,395,000	47,285,000
Series 2006 A, 3.48% – 4.77%, dated May 25, 2006	2006 – 2036	14,040,000	11,505,000
Series 2006 B and C, 3.55% – 5.00%, dated October 26, 2006	2007 – 2027	24,065,000	18,565,000
Series 2007 A, 3.75% – 5.00%, dated April 5, 2007	2007 – 2022	51,335,000	50,630,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2010</u>
Series 2007 B and C, 4.00% – 5.00%, dated May 24, 2007	2007 – 2029	\$ 69,380,000	\$ 61,765,000
Series 2007 D and E, 4.00% – 5.00%, dated October 25, 2007	2008 – 2037	53,560,000	47,495,000
Series 2008 A and B, 3.00% – 5.00%, dated May 15, 2008	2008 – 2038	49,060,000	45,850,000
Series 2008 C, 4.00% – 5.50%, dated October 30, 2008	2009 – 2038	100,010,000	94,795,000
Series 2009 A, 2.00% – 5.00%, dated March 17, 2009	2009 – 2020	10,060,000	9,450,000
Series 2009 B, 3.00% – 5.00%, dated May 28, 2009	2009 – 2034	42,845,000	42,810,000
Series 2009 C, 1.10% – 4.25%, dated August 27, 2009	2010 – 2029	21,620,000	21,620,000
Series 2009 D, 3.00% – 5.00%, dated August 27, 2009	2010 – 2029	34,930,000	34,930,000
Series 2009 E, 1.25% – 3.00%, dated August 27, 2009	2009 – 2014	4,685,000	3,930,000
Series 2009 F, 3.00% – 5.00%, dated August 27, 2009	2010 – 2012	19,115,000	19,115,000
Series 2009 G, 3.00% – 5.00%, dated October 29, 2009	2010 – 2039	9,590,000	9,590,000
Series 2009 H, 3.00% – 5.00%, dated January 14, 2010	2010 – 2030	38,710,000	38,710,000
Series 2010 A, 2.00% – 4.25%, dated May 27, 2010	2010 – 2040	8,320,000	8,320,000
Series 2010 B, 3.28% – 5.67%, dated May 27, 2010	2010 – 2034	<u>11,735,000</u>	<u>11,735,000</u>
		<u>\$1,682,840,000</u>	<u>\$1,071,629,230</u>

Total General Tax-Exempt Fund Group Bonds payable is presented on the balance sheet at June 30, 2010 as follows:

Total principal outstanding	\$1,071,629,230
Deferred amount on refunding	(15,173,697)
Unamortized original issue discount	(72,512)
Unamortized original issue premium	<u>24,249,223</u>
Total General Tax-Exempt Fund Group Bonds payable	1,080,632,244
Current portion	<u>(98,770,092)</u>
Noncurrent portion	<u>\$ 981,862,152</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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>
2010	\$ 97,930,468	\$ 24,321,128	\$ 122,251,596
2011	91,348,349	43,886,068	135,234,417
2012	85,986,067	40,099,837	126,085,904
2013	78,213,607	36,360,665	114,574,272
2014	77,425,406	33,003,237	110,428,643
2015 – 2019	317,610,333	119,475,063	437,085,396
2020 – 2024	207,405,000	56,367,979	263,772,979
2025 – 2029	106,000,000	17,001,165	123,001,165
2030 – 2034	8,645,000	1,432,037	10,077,037
2035 – 2039	1,055,000	142,569	1,197,569
2040	<u>10,000</u>	<u>425</u>	<u>10,425</u>
	<u>\$1,071,629,230</u>	<u>\$372,090,173</u>	<u>\$1,443,719,403</u>

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

Municipal loan obligations – principal and interest	\$1,268,512,753
Reserve Funds – principal and interest	<u>175,206,650</u>
	<u>\$1,443,719,403</u>

Total Grant Anticipation Fund Group Bonds payable consist of the following at June 30, 2010:

	<u>Original</u> <u>Maturity</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2010</u>
Series 2004 A, 2.50% – 5.00%, dated December 16, 2004	2005 – 2015	\$48,395,000	\$28,915,000
Series 2008 A, 3.25% – 4.00%, dated September 10, 2008	2009 – 2020	<u>50,000,000</u>	<u>46,635,000</u>
		<u>\$98,395,000</u>	<u>\$75,550,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

Total Grant Anticipation Fund Group Bonds payable is presented on the balance sheet at June 30, 2010 as follows:

Total principal outstanding	\$75,550,000
Unamortized original issue premium	<u>256,998</u>
 Total Grant Anticipation Fund Group Bonds payable	 75,806,998
Less current portion	<u>8,037,796</u>
 Noncurrent portion	 <u>\$67,769,202</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>
2010	\$ 7,950,000	\$ 1,453,222	\$ 9,403,222
2011	8,195,000	2,659,044	10,854,044
2012	8,510,000	2,344,056	10,854,056
2013	8,795,000	2,056,875	10,851,875
2014	9,130,000	1,721,637	10,851,637
2015 – 2019	27,905,000	4,029,325	31,934,325
2020	<u>5,065,000</u>	<u>202,600</u>	<u>5,267,600</u>
	<u>\$75,550,000</u>	<u>\$14,466,759</u>	<u>\$90,016,759</u>

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

Repayment of advances to State of Maine – principal and interest	<u>\$90,016,759</u>
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Total Transportation Infrastructure Fund Group Bonds payable consist of the following at June 30, 2010:

	<u>Original</u> <u>Maturity</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2010</u>
Series 2008 A, 3.00% – 5.50%, dated November 20, 2008	2009 – 2023	\$ 50,000,000	\$ 48,035,000
Series 2009 A, 2.50% – 5.00%, dated July 22, 2009	2010 – 2023	105,000,000	105,000,000
Series 2009 B, 2.00% – 5.00%, dated September 10, 2009	2010 – 2024	<u>30,000,000</u>	<u>30,000,000</u>
		<u>\$185,000,000</u>	<u>\$183,035,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

Total Transportation Infrastructure Fund Group Bonds payable is presented on the balance sheet at June 30, 2010 as follows:

Total principal outstanding	\$183,035,000
Unamortized original issue premium	<u>7,320,106</u>
 Total Transportation Infrastructure Fund Group Bonds payable	 190,355,106
Less current portion	<u>10,024,347</u>
 Noncurrent portion	 <u>\$180,330,759</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>
2010	\$ 9,110,000	\$ 3,979,553	\$ 13,089,553
2011	9,370,000	7,722,530	17,092,530
2012	9,710,000	7,443,143	17,153,143
2013	10,115,000	7,043,092	17,158,092
2014	10,495,000	6,629,992	17,124,992
2015 – 2019	59,240,000	26,783,955	86,023,955
2020 – 2024	<u>74,995,000</u>	<u>11,632,030</u>	<u>86,627,030</u>
	<u>\$183,035,000</u>	<u>\$71,234,295</u>	<u>\$254,269,295</u>

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

Repayment of advances to State of Maine – principal and interest	\$245,729,162
Reserve fund – principal	<u>8,540,133</u>
	<u>\$254,269,295</u>

Sewer and Water Fund Group Waste Water Bonds payable consist of the following at June 30, 2010:

	<u>Original</u> <u>Maturity</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30, 2010</u>
Series 2003 A and B, 1.05% – 5.00%, dated March 1, 2003	2003 – 2023	\$32,165,000	\$16,645,000
Series 2003 C, 1% – 4.9%, dated November 13, 2003	2004 – 2024	16,065,000	11,960,000
Series 2009 A, 3.00% – 5.00%, dated November 3, 2009	2010 – 2018	14,520,000	14,520,000
Series 2009 B, 2.50 – 3.625%, dated November 3, 2009	2010 – 2018	<u>2,660,000</u>	<u>2,660,000</u>
		<u>\$65,410,000</u>	<u>\$45,785,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

The Sewer and Water Fund Group Waste Water Bonds payable are presented on the balance sheet at June 30, 2010 as follows:

Total principal outstanding	\$45,785,000
Deferred amount on refunding	(588,397)
Unamortized original issue discount	(9,777)
Unamortized original issue premium	<u>839,221</u>
 Total Sewer and Water Fund Group Waste Water Bonds payable	 46,026,047
Less current portion	<u>6,123,531</u>
 Noncurrent portion	 <u>\$39,902,516</u>

The outstanding Sewer and Water Fund Group Waste 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>
2010	\$ 6,095,000	\$ 894,136	\$ 6,989,136
2011	5,645,000	1,604,623	7,249,623
2012	5,745,000	1,377,822	7,122,822
2013	6,450,000	1,166,213	7,616,213
2014	3,410,000	873,725	4,283,725
2015 – 2019	13,345,000	2,653,010	15,998,010
2020 – 2024	<u>5,095,000</u>	<u>692,885</u>	<u>5,787,885</u>
	<u>\$45,785,000</u>	<u>\$9,262,414</u>	<u>\$55,047,414</u>

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

Governmental unit loan obligations – principal and interest	\$48,499,216
Reserve fund – principal and interest	<u>6,548,198</u>
	<u>\$55,047,414</u>

Sewer and Water Fund Group Drinking Water Bonds payable consist of the following at June 30, 2010:

	<u>Original</u> <u>Maturity</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2010</u>
Series 2005 A, 2.25% – 4.45%, dated March 24, 2005	2005 – 2025	\$3,770,000	\$3,080,000
Series 2009 C, 3.00% – 3.00% dated November 3, 2009	2010 – 2018	<u>2,380,000</u>	<u>2,380,000</u>
		<u>\$6,150,000</u>	<u>\$5,460,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

The Sewer and Water Fund Group Drinking Water Bonds payable are presented on the balance sheet at June 30, 2010 as follows:

Total principal outstanding	\$5,460,000
Deferred amount on refunding	(8,958)
Unamortized original issue discounts and costs of issuance	(24,709)
Unamortized original issue premium	<u>79,342</u>
 Total Sewer and Water Fund Group Drinking Water Bonds payable	 5,505,675
Less current portion	<u>420,822</u>
 Noncurrent portion	 <u>\$5,084,853</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</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2010	\$ 410,000	\$ 97,558	\$ 507,558
2011	420,000	182,740	602,740
2012	425,000	169,753	594,753
2013	435,000	156,362	591,362
2014	430,000	142,405	572,405
2015 – 2019	2,015,000	489,553	2,504,553
2020 – 2024	1,175,000	193,777	1,368,777
2025 – 2028	<u>150,000</u>	<u>6,675</u>	<u>156,675</u>
	<u>\$5,460,000</u>	<u>\$1,438,823</u>	<u>\$6,898,823</u>

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

Governmental unit loan obligations – principal and interest	<u>\$6,898,823</u>
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MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

The following summarizes bond payable activity for the Bond Bank for the year ended June 30, 2010:

	General Tax Exempt Fund Group	Grant Anticipation Fund Group	Trans- portation Infra- structure Fund Group	Special Obligation Taxable Fund Group	Waste Water Fund Group	Drinking Water Fund Group
Balance, beginning of year	\$1,045,518,172	\$ 83,536,703	\$ 50,000,000	\$ 185,000	\$ 53,373,724	\$ 5,910,000
Issuances – face value	148,705,000	–	135,000,000	–	17,180,000	2,380,000
Redemptions	(94,861,040)	(7,625,000)	(1,965,000)	(185,000)	(6,050,000)	(375,000)
Refunded bonds (note 9)	(24,080,000)	–	–	–	(19,140,000)	(2,455,000)
Capitalized premiums	6,487,686	–	7,856,871	–	923,406	92,657
Deferred amounts on refunding	(611,582)	–	–	–	(304,503)	(38,690)
Accretion/amortization of discounts, premiums and deferred amounts on refunding	<u>(525,992)</u>	<u>(104,705)</u>	<u>(536,765)</u>	<u>–</u>	<u>43,420</u>	<u>(8,292)</u>
Balance, end of year	<u>\$1,080,632,244</u>	<u>\$ 75,806,998</u>	<u>\$190,355,106</u>	<u>\$ –</u>	<u>\$46,026,047</u>	<u>\$ 5,505,675</u>

Some bonds contain provisions for prepayment at the Bond Bank's option. All bonds within the General Tax-Exempt 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 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 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 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, 2010, the required debt service reserve was approximately \$121,651,000.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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 net assets 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, 2010, the fair value of the reserve fund assets totaled approximately \$151,200,000, which exceeded the required reserves by approximately \$24,878,000.

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, 2010, the required capital reserve was approximately \$8,477,000 and the fair value of the capital reserve assets totaled approximately \$8,880,000.

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, 2010, the required capital reserve was approximately \$7,650,000 and the fair value of the capital reserve assets totaled approximately \$8,787,000.

6. Sewer and Water Revolving Fund Group

Pursuant to the Sewer and Water General Bond Resolution adopted February 7, 1990, the Bond Bank receives capitalization 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.

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. The grants stipulated that the Bond Bank must have committed loans to recipients with signed construction contracts by February 17, 2010; this requirement was met in 2010. In 2010, the Bond Bank recognized ARRA grant revenues of \$14,264,867 and \$8,539,398 within the Waste Water and Drinking Water Revolving Loan Fund Groups, respectively, representing the total amount of loans committed during 2010 and allowable program administrative appropriations.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

6. Sewer and Water Revolving Fund Group (Continued)

Net assets consist of the following at June 30, 2010:

	<u>Waste Water</u>	<u>Drinking Water</u>
Reserved for revolving loans:		
Grants received from Environmental Protection Agency under existing capitalization grant program	\$211,073,659	\$108,179,900
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	\$ -
Hardship grants received from Environmental Protection Agency	643,800	-
Grants received from State of Maine	42,268,762	21,313,708
Other amounts reserved (utilized) for program loans and costs	<u>36,417,222</u>	<u>(20,652,452)</u>
	322,087,253	128,341,156
Unreserved amounts available	<u>454,087</u>	<u>730,868</u>
Net assets at June 30, 2010	<u>\$322,541,340</u>	<u>\$129,072,024</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, 2010 are \$11,003,428 (waste water) and \$4,814,502 (drinking water), with \$10,549,341 and \$4,083,634, respectively, expended to date. The remaining amount of \$454,087 in the Waste Water Revolving Loan Fund Group and \$730,868 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.

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 \$33,388,437 at June 30, 2010, 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 2010 was \$1,190,886.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

6. Sewer and Water Revolving Fund Group (Continued)

During fiscal 2009, the Bond Bank and the State of Maine Department of Environmental Protection implemented a joint rule change in the Waste 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 Waste 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 \$11,995,978 at June 30, 2010 under the Waste 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 2010 were \$7,038,704.

Within the Waste 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, 2010, the Bond Bank has approximately \$6,505,000 of certificates of deposits outstanding at various banks of which approximately \$697,000 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 assets consist of the following:

Reserved for revolving loans:

Grants received from State of Maine	\$ 98,679,856
Loans forgiven	(73,443,571)
Other amounts reserved for program loans and costs	<u>11,237,802</u>

36,474,087

Unreserved amounts available

1,252,213

Net assets at June 30, 2010

\$ 37,726,300

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, 2010 are \$2,884,829, with \$1,632,616 expended to date. The remaining amount of \$1,252,213 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 Waste 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 2010 were \$3,118,556.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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 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 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, 2010 for employees covered by the Plan was approximately \$988,000, 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, 2010, 2009 and 2008 were \$27,676, \$27,269 and \$26,728 (employer) and \$64,247, \$63,303 and \$62,047 (employee), respectively.

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, in which case future benefit payments would be limited to those employees that retired prior to the termination date (there are two retirees as of June 30, 2010).

Funding Policy: The post employment healthcare benefits are currently being funded on a pay-as-you-go basis (the Bond Bank paid approximately \$3,184 in 2010). No assets have been segregated and restricted to provide post-employment benefits.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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

Annual OPEB Cost: For 2010, the Bond Bank's annual OPEB cost (expense) of \$68,846 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 2010 and 2009 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>
6/30/10	\$68,846	0%	\$137,692
6/30/09	68,846	0	68,846

Funded Status and Funding Progress:

For the year-end June 30, 2010, 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⁾ 1/1/2009	\$ –	\$647,132	\$647,132	0%	\$988,000	66%

⁽¹⁾ GASB 45 requires triennial actuarial valuations for employers with fewer than 200 employees. The Bond Bank will obtain an updated valuation January 1, 2012.

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.

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, 2009 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 9.6 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 a closed basis. The remaining amortization period at January 1, 2009, was twenty-nine years.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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.

On August 27, 2009, the Bond Bank issued \$4,685,000 of Series E Refunding General Tax-Exempt bonds with an average interest rate of 2.02% to in-substance defease \$4,670,000 of various outstanding maturities of the 1994 D bonds with an average interest rate of 6.30%. The net bond proceeds of approximately \$4,607,000 (includes a net original issue discount of approximately \$18,000 and after payment of approximately \$60,000 in underwriting fees, insurance and other issuance costs), plus an equity contribution of \$183,000, 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 \$23,000 in the period ending June 30, 2010, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$628,000 over the next five years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$415,000.

On August 27, 2009, the Bond Bank issued \$19,115,000 of Series F Refunding General Tax-Exempt bonds with an average interest rate of 4.00% to in-substance defease \$19,410,000 of various outstanding maturities of the 1998 C, 1999 C, and 1999 E bonds with an average interest rate of 5.20%. The net proceeds of approximately \$20,070,000, including a bond premium of approximately \$1,154,000 and after payment of approximately \$199,000 in underwriting fees, insurance and other issuance 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 \$330,000 in the period ending June 30, 2010, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$800,000 over the next three years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$778,000.

As a result of the above 2010 in-substance defeasances within the General Tax-Exempt Fund Group, the Bond Bank disbursed a one-time, lump sum payment to the borrowers of approximately \$544,000.

At June 30, 2010, the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately \$88 million.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

9. Refunding Issues (Continued)

On November 3, 2009, the Bond Bank issued \$14,520,000 of Series A Refunding Sewer and Water bonds with an average interest rate of 3.56% to in-substance defease \$16,355,000 of various outstanding maturities of the 1993 B, 1996 A and 1997 A bonds with an average interest rate of 5.30%. The net proceeds of approximately \$16,430,000, including a bond premium of approximately \$906,000 and liquidation of existing excess reserve funds of \$1,175,000, and after payment of approximately \$171,000, in underwriting fees, insurance and other issuance 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 \$75,000 in the period ending June 30, 2010, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$2,040,000 over the next nine years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1,302,000.

On November 3, 2009, the Bond Bank issued \$2,660,000 of Series B Refunding Sewer and Water bonds with an average interest rate of 3.19% to in-substance defease \$2,785,000 of various outstanding maturities of 1997 B bonds with an average interest rate of 5.44%. The net proceeds of approximately \$2,798,000, including a bond premium of approximately \$17,000 and liquidation of existing excess reserve funds of \$172,000, and after payment of approximately \$51,000 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 \$13,000 in the period ending June 30, 2010, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$374,000 over the next nine years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$179,000.

On November 3, 2009, the Bond Bank issued \$2,380,000 of Series C Refunding Sewer and Water bonds with an average interest rate of 3.00% to in-substance defease \$2,455,000 of various outstanding maturities of the 1998 A bonds with an average interest rate of 5.12%. The net proceeds of approximately \$2,466,000, including a bond premium of approximately \$93,000 and liquidation of existing excess reserve funds of \$21,500, and after payment of approximately \$28,500 in underwriting fees, insurance and other issuance 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 \$10,000 in the period ending June 30, 2010, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$325,000 over the next nine years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$266,000.

As a result of the above 2010 in-substance defeasances within the Sewer and Water Fund Groups, the Bond Bank disbursed a one-time, lump sum payment to the borrowers of approximately \$1,770,000 (approximately \$1,509,000 and \$261,000 within Waste Water and Drinking Water, respectively).

At June 30, 2010, there are no balances remaining of Sewer and Water Fund Group in-substance defeased bonds as all were called and repaid from refunding escrows prior to June 30, 2010.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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. The Bond Bank recorded \$50,000 as administrative fee revenue related to the programs in fiscal 2010, which is included in other income on the statement of revenues, expenses and changes in net assets.

Riverfront Community Development Program

Through June 30, 2010, the Bond Bank has received \$4,900,000 from DECD, of which \$2,006,957 was disbursed in 2010. At June 30, 2010, the remaining funds totaling \$2,893,043, plus \$4,868 of interest income earned on the related investment balances, is included in pass-through grants payable, representing remaining DECD funds to be passed on to qualified municipalities in future years.

Municipal Investment Trust Fund Program

Through June 30, 2010, the Bond Bank has received \$1,470,000 from DECD. Grants have been made to qualified municipalities totaling \$503,926 and \$278,474 in 2010 and 2009, respectively. At June 30, 2010, the remaining \$687,600, plus \$11,053 of interest income earned on the related investment balances is included in pass-through grants payable, representing remaining DECD funds to be passed on to qualified municipalities in future years.

MAINE MUNICIPAL BOND BANK

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2010

	Program Revenues				Capital	Net Revenue (Expense) and Changes in net assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>	<u>Grants/ Contributions</u>	<u>Total</u>
Functions/Programs:						
Maine Municipal Bond Bank	\$(79,792,967)	\$58,011,544	\$9,038,127	\$1,272,568	\$31,580,108	\$ 20,109,380
Total	\$(79,792,967)	\$58,011,544	\$9,038,127	\$1,272,568	\$31,580,108	20,109,380
General revenues:						
Unrestricted interest and investment earnings						217,598
Non program specific grants, contributions and appropriations						-
Miscellaneous income						1,490,262
Loss on assets held for sale						-
Extraordinary item						-
Total general revenues and extraordinary items						1,707,860
Changes in net assets						21,817,240
Net assets, beginning of year						<u>536,689,102</u>
Net assets, end of year						<u>\$558,506,342</u>

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