

MAINE STATE LEGISLATURE

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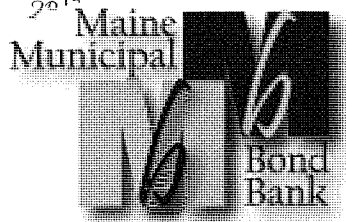


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December 14th, 2012

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

Dear Governor LePage:

On behalf of the Commissioners and staff of the Maine Municipal Bond Bank, I am pleased to provide you with our 2012 year-end Annual Report.

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

Within the 2012 fiscal year, the Bond Bank sold \$29,605,000 under its General Bond Resolution Program. Those sales provided towns, cities, school systems, and utility districts with lower cost capital funding to meet their municipal needs. The Bond Bank also sold three refunding issues in the amount of \$87,205,000 providing \$4,983,401 in savings credits to underlying borrowers.

The Bank and the Department of Education have successfully committed \$9,807,059 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 \$63,127,369 to finance forty-six projects in fiscal year 2012.

The Transportation Grant Anticipation Fund did not issue GARVEE bonds in fiscal year 2012.

The Transportation Infrastructure Fund issued \$55,000,000 in TRANSCAP Revenue bonds in fiscal year 2012.

The Qualified School Construction Bonds Program sold QSCB's in the amount of \$9,836,142 to finance five projects in fiscal year 2012.

We are proud of our accomplishments within fiscal year 2012 and look forward to continuing our commitment of providing a service that benefits the growing needs of the State of Maine.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen R. Crockett". The signature is written in a cursive, flowing style.

Stephen R. Crockett
Chairman

Maine Municipal Bond Bank

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

Year Ended June 30, 2012
With Independent Auditors' Report

MAINE MUNICIPAL BOND BANK

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

For the Year Ended June 30, 2012

TABLE OF CONTENTS

Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 10
Basic Financial Statements:	
Balance Sheet	11 – 14
Statement of Revenues, Expenses and Changes in Net Assets	15 – 16
Statement of Cash Flows	17 – 20
Notes to Financial Statements	21 – 47
Additional Information	
Schedule 1 – Schedule of Activities	48

BAKER NEWMAN NOYES

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, Qualified School Construction Fund Group, Clean 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, as of and for the year ended June 30, 2012, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Maine Municipal Bond Bank's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2012, 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, 2012 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

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

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



Limited Liability Company

Portland, Maine
September 10, 2012

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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, 2012. 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 \$2,429,386 for fiscal year 2012, an increase of \$151,151 or 6.6% from fiscal year 2011. This was primarily attributed to an increase of \$147,127 of pass-through grant revenue from the State of Maine to fund the Riverfront Community Development and Municipal Investment Trust Fund programs.
- Net assets in the Bond Bank's General Operating Account increased \$1,057,518 in fiscal year 2012. This increase is the net result of Operating Revenues totaling \$2,429,386, Operating Transfers totaling \$1,642,032 and Operating Expenses totaling \$3,013,900. Operating Transfers from the General Tax-Exempt Fund Group are mandated by the Bond Bank's annual operating budget. At June 30, 2012, the Bond Bank's General Operating Account had net assets of \$27,395,008.
- The Bond Bank's gross principal amount of bonds outstanding at June 30, 2012 of \$1,539,976,555 represents a net decrease of \$29,202,207 over the balance at June 30, 2011. This decrease was the net result of the General Tax Exempt Resolution issuing Series 2011EF and 2012ABC bonds; the Transportation Infrastructure Fund Group issuing Series 2011A bonds; the Clean Water Revolving Loan Fund Group issuing Series 2012A bonds; and the Qualified School Construction Fund Group issuing Series 2011G and 2012D bonds, less the scheduled debt service principal payments of \$122,048,350 and in-substance defeased bonds totaling \$106,175,000. Refer to note 4 to the financial statements for a detail of bonds payable activity in 2012, and refer to note 9 for refunding activity in 2012.
- The Bond Bank committed loans to local governmental units during fiscal year 2012 totaling \$216,616,068, which was a 46.42% decrease from the loans committed in fiscal year 2011. The Bond Bank also advanced \$55,000,000 to the State of Maine for qualified transportation projects within its Transportation Infrastructure Fund Group. The Bond Bank also provided borrowers participating in the Drinking Water Revolving Loan Fund Program, the Clean Water Revolving Loan Fund Program, and the School Facilities Revolving Loan Fund Program \$11,854,030 in potential loan forgiveness in fiscal year 2012, which was a 30.7% increase from fiscal year 2011.

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.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

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 within its General Operating Account. The Bond Bank periodically receives allocations of the State's tax-exempt bond cap and is a member of the State's Tax Cap Allocation Committee.

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

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

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

The Bond Bank administers the Federal Clean Water Act and Drinking Water Act Revolving Loan Funds. Each of the Revolving Loan Funds periodically receives capitalization grants from the Environmental Protection Agency and matching funds from the State of Maine. Additionally, both of the revolving loan funds received *American Recovery and Reinvestment Act of 2009* (ARRA) grant awards in 2009 (see note 6 to the accompanying financial statements) and continued to disburse ARRA funds to local borrowers during 2012. 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 Clean Water and Drinking Water Revolving Loan Program, a portion of each federal capitalization grant may be provided to borrowers as loan forgiveness. 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. Beginning with the fiscal year 2010 federal grants, the programs had to provide a minimum of 30% of the federal grants awarded as additional subsidies, which includes loan forgiveness, to eligible borrowers.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

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

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 internal calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability. In fiscal 2012, the Bond Bank has contracted with an arbitrage consultant to prepare all rebate calculations that will be filed with the Internal Revenue Service.

Overview of the Financial Statements

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

Basic Financial Statements

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

The balance sheet presents 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 statement of revenues, expenses and changes in net assets presents 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 \$619,324,055 at June 30, 2012. This represents an increase of \$30,864,165 or 5.2% over the previous fiscal year. Most of this increase is due to revenues exceeding expenses in the Sewer and Water Fund Groups as federal and state matching grants are received to fund revolving loans to eligible borrowers, and the net increase in the fair value of investments within the General Tax Exempt Fund Group. Restricted net assets are \$539,552,184 and unrestricted net assets are \$79,771,871 at June 30, 2012. 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, 2012

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

MAINE MUNICIPAL BOND BANK

Balance Sheets

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Percentage Change</u>
Current assets:			
Cash	\$ 64,423	\$ 128,908	(50.0)%
Investments held by trustee	205,171,624	201,115,649	2.0
Operating investments	19,102,511	21,038,748	(9.2)
Loans receivable from governmental units	132,304,155	123,249,108	7.3
Advances to State of Maine	24,086,140	21,276,377	13.2
Accrued investment income receivable	876,892	1,187,291	(26.1)
Accrued interest and fees receivable on loans to governmental units and advances to the State of Maine	10,152,874	10,966,570	(7.4)
Undisbursed federal letter of credit payments	29,315,028	28,870,502	1.5
Refunding benefits rebated to governmental units, net of amortization	715,100	966,190	(26.0)
Due from other funds	6,421,707	6,017,080	6.7
Other assets	<u>153,065</u>	<u>163,117</u>	<u>(6.2)</u>
Total current assets	428,363,519	414,979,540	3.2
Noncurrent assets:			
Investments held by trustee	157,221,965	147,678,953	6.5
Loans receivable from governmental units	1,416,602,096	1,446,449,708	(2.1)
Advances to State of Maine	304,045,265	269,642,500	12.8
Land and building, net of depreciation	666,655	742,636	(10.2)
Refunding benefits rebated to governmental units, net of amortization	<u>1,494,905</u>	<u>2,209,125</u>	<u>(32.3)</u>
Total noncurrent assets	<u>1,880,030,886</u>	<u>1,866,722,922</u>	<u>0.7</u>
Total assets	<u>\$ 2,308,394,405</u>	<u>\$ 2,281,702,462</u>	<u>1.2%</u>

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

	<u>2012</u>	<u>2011</u>	<u>Percentage Change</u>
Current liabilities:			
Accounts payable and accrued liabilities	\$ 516,032	\$ 468,148	10.2%
Due to other funds	6,421,707	6,017,080	6.7
Accrued interest payable	13,393,190	13,668,147	(2.0)
Deferred revenue	81,927	2,590,989	(96.8)
Pass-through grants payable	204,353	1,971,558	(89.6)
Undisbursed loans	48,423,275	30,207,728	60.3
Accrued interest rebate payable to U.S. Government	2,627,400	483,859	443.0
Due to State of Maine	45,547,379	40,467,376	12.6
Bonds payable	<u>134,608,789</u>	<u>125,176,004</u>	<u>7.5</u>
Total current liabilities	251,824,052	221,050,889	13.9
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	838,424	2,881,007	(70.9)
Bonds payable	<u>1,436,407,874</u>	<u>1,469,310,676</u>	<u>(2.2)</u>
Total noncurrent liabilities	<u>1,437,246,298</u>	<u>1,472,191,683</u>	<u>(2.4)</u>
Total liabilities	1,689,070,350	1,693,242,572	(0.2)
Net assets:			
Restricted	539,552,184	523,111,344	3.1
Unrestricted	<u>79,771,871</u>	<u>65,348,546</u>	<u>22.1</u>
Total net assets	<u>619,324,055</u>	<u>588,459,890</u>	<u>5.2</u>
Total liabilities and net assets	\$ <u>2,308,394,405</u>	\$ <u>2,281,702,462</u>	<u>1.2%</u>

Total short and long-term investments held by trustee at June 30, 2012 increased \$13,598,987 or 3.9% from June 30, 2011. The increase was the net result of additional reserve fund investments purchased of approximately \$3,805,771 in conjunction with 2012 bond issuances, the net receipt of approximately \$23,000,000 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 2012. Additionally, investments had a net increase in fair value of \$10,565,685 in 2012. The Bond Bank's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises securities (i.e. FNMA, FLMC), 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 decreased \$20,792,565 in fiscal year 2012. The Bond Bank's total new loan commitment in 2012 of \$216,616,068 was a 46.4% decrease over the 2011 commitments of \$404,410,251. Net bonds payable decreased \$23,470,017.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

Advances to the State of Maine increased \$37,212,528 or 12.8% from June 30, 2011. This increase is primarily the net result of issuing Transportation Infrastructure Series 2011A bonds totaling \$55,000,000, less the scheduled debt service payments within the Transportation Fund Groups of \$20,140,000.

Refunding benefits rebated to governmental units decreased \$965,310 in 2012, which is a 30.4% decrease compared to fiscal 2011. The decrease is entirely attributed to fiscal 2012 amortization. The Bond Bank issued \$104,580,000 (par) of refunding bonds in 2012 and will pass on savings of approximately \$6.4 million to borrowers by adjusting their remaining interest debt service schedules.

Undisbursed loans increased \$18,215,547 in 2012 which is a 60.3% increase over fiscal 2011. This increase is primarily a timing issue between when grants are awarded, loans are committed and related funds are disbursed.

Deferred revenue decreased \$2,509,062 or 96.8% in fiscal year 2012 from fiscal year 2011. The decrease is primarily the result of using most of the deferred State of Maine Grant revenue for the Clean Water and Drinking Water Programs in fiscal 2012.

Pass-through grants payable decreased \$1,767,205 or 89.6% in fiscal year 2012 from fiscal year 2011. The decrease is primarily the result of recognizing grant revenue from the Department of Economic Development that was received in previous years as grant monies have been disbursed to eligible recipients.

Fund availability in the Transportation Infrastructure Fund Group consists of the net between motor fuel taxes and other program fees collected less allowable disbursements to the State of Maine for capital projects, less annual debt service on bonds outstanding and administrative fees paid to the Bond Bank resulting in funds available for the various purposes of the program. The net difference results in the Due to the State of Maine increasing \$5,080,003 or 12.6% in fiscal year 2012 over fiscal year 2011.

The Bond Bank's financial position improved as net assets increased 5.2% in fiscal year 2012. The Bond Bank continued to maintain a positive spread of income from investments, interest on loans to governmental units, fee revenue from State of Maine and grants over bond interest and operating expenses.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

MAINE MUNICIPAL BOND BANK Statement of Revenues, Expenses and Changes in Net Assets For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Percentage Change</u>
Interest on loans receivable from governmental units	\$ 53,233,703	\$ 48,525,230	9.7%
Program revenue from State of Maine	12,135,887	10,507,095	15.5
Interest income from investments	7,405,566	8,136,970	(9.0)
Net increase (decrease) in the fair value of investments	10,565,685	(4,239,928)	349.2
Grant revenue from Environmental Protection Agency	20,849,000	29,346,000	(29.0)
Grant revenue from State of Maine	6,544,340	8,083,040	(19.0)
Other income	<u>1,179,130</u>	<u>1,466,585</u>	<u>(19.6)</u>
Total operating revenue	111,913,311	101,824,992	9.9
Interest expense	63,227,853	58,842,840	7.5
Operating expenses (direct and shared)	5,443,584	6,345,942	(14.2)
Pass-through grant expense	1,773,609	1,626,482	9.0
Loan forgiveness	9,170,973	3,262,424	181.1
Amortization of deferred financing costs and refunding benefits rebated to governmental units	<u>1,433,127</u>	<u>1,793,756</u>	<u>(20.1)</u>
Total operating expenses	<u>81,049,146</u>	<u>71,871,444</u>	<u>12.8</u>
Operating income	30,864,165	29,953,548	3.0
Net assets, beginning of year	<u>588,459,890</u>	<u>558,506,342</u>	<u>5.4</u>
Net assets, end of year	<u>\$ 619,324,055</u>	<u>\$ 588,459,890</u>	<u>5.2%</u>

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

Grant revenues from the Environmental Protection Agency and the State of Maine are contingent on continued funding by the U.S. Congress and the State of Maine Legislature. The Bond Bank recorded grant revenues from the Environmental Protection Agency totaling \$20,849,000 in fiscal year 2012, which was a 29% decrease from 2011. The Bond Bank recorded grant revenue from the State of Maine totaling \$6,544,340 in 2012, which decreased \$1,538,700 or 19% from 2011 grants. The fiscal year 2012 State grants consist of State of Maine matching funds for the Sewer and Water Funds Groups totaling \$3,929,062, grants to the General Operating Account totaling \$1,773,609 (from the Maine Department of Economic and Community Development), and grants to the School Facilities Fund Group totaling \$841,669.

Other income consists primarily of fees from borrowers within the Sewer and Water Fund Groups and other income within the General Operating Account Fund Group. The decrease of \$287,455 or 19.6% in fiscal year 2012 compared to fiscal year 2011 is attributed primarily to the decrease in loans being serviced.

Operating expenses (direct and shared) decreased \$902,358 or 14.2% in fiscal 2012 over fiscal 2011. This is primarily due to the drawdown of administrative expenses used by our co-administrators at the State of Maine. These include the Department of Environmental Protection, the Department of Health and Human Services and the Department of Education.

Loan forgiveness expense (see notes 6 and 7 in the accompanying financial statements) increased \$5,908,549 or 181.1 % in fiscal year 2012 from 2011. Portions of the loans made to eligible borrowers under the Drinking Water and Clean Water Revolving Loan Fund Programs may be forgiven if certain continuing criteria are met as the borrowers repay the loans. The total amount forgiven under these programs in 2012 was \$1,884,314 and \$1,796,513 within the Drinking Water and Clean Water Revolving Loan Fund Program, respectively. Also, portions of the loans made to school administrative units under the School Facilities Fund Group are forgiven at the time the loans are disbursed to the units. The amount forgiven within the School Facilities Fund Group in 2012 was \$5,490,146. 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, 2012

	General Operating Account	General Tax-Exempt Fund Group	Transportation Fund Groups Grant Anticipation Fund Group	Transportation Infrastructure Fund Group
<u>ASSETS</u>				
Current assets:				
Cash	\$ 64,423	\$ —	\$ —	\$ —
Investments held by trustee (notes 3 and 5)	—	44,549,388	966	48,379,007
Operating investments (notes 3 and 10)	19,102,511	—	—	—
Loans receivable from governmental units (note 4)	334,560	92,819,583	—	—
Advances to State of Maine (note 4)	—	—	12,291,886	11,794,254
Accrued investment income receivable	37,908	404,555	—	76,039
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	18,762	7,106,275	1,520,037	—
Undisbursed federal letter of credit payments	—	—	—	—
Refunding benefits rebated to governmental units, net of amortization	—	427,102	—	—
Due from other funds	5,944,991	—	—	—
Other assets	<u>149,232</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total current assets	25,652,387	145,306,903	13,812,889	60,249,300
Noncurrent assets:				
Investments held by trustee (notes 3 and 5)	—	137,962,906	—	10,204,652
Loans receivable from governmental units (note 4)	1,771,135	943,171,544	—	—
Advances to State of Maine (note 4)	—	—	95,959,919	208,085,346
Land and building, net of depreciation of \$1,161,053	666,655	—	—	—
Refunding benefits rebated to governmental units, net of amortization	<u>—</u>	<u>925,951</u>	<u>—</u>	<u>—</u>
Total noncurrent assets	<u>2,437,790</u>	<u>1,082,060,401</u>	<u>95,959,919</u>	<u>218,289,998</u>
Total assets	<u>\$28,090,177</u>	<u>\$ 1,227,367,304</u>	<u>\$ 109,772,808</u>	<u>\$ 278,539,298</u>

Qualified School Construction Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Clean Water	Drinking Water			
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 64,423
12,572	80,597,940	10,640,448	5,866,007	15,125,296	205,171,624
—	—	—	—	—	19,102,511
1,775,682	26,975,359	5,765,778	—	4,633,193	132,304,155
—	—	—	—	—	24,086,140
1,559	346,869	1,477	926	7,559	876,892
290,308	1,007,147	210,345	—	—	10,152,874
—	16,064,007	13,251,021	—	—	29,315,028
—	250,524	37,474	—	—	715,100
—	476,716	—	—	—	6,421,707
—	<u>2,583</u>	<u>1,250</u>	—	—	<u>153,065</u>
2,080,121	125,721,145	29,907,793	5,866,933	19,766,048	428,363,519
511,100	7,839,563	703,744	—	—	157,221,965
29,395,238	299,254,939	129,241,329	—	13,767,911	1,416,602,096
—	—	—	—	—	304,045,265
—	—	—	—	—	666,655
—	<u>477,633</u>	<u>91,321</u>	—	—	<u>1,494,905</u>
<u>29,906,338</u>	<u>307,572,135</u>	<u>130,036,394</u>	—	<u>13,767,911</u>	<u>1,880,030,886</u>
<u>\$31,986,459</u>	<u>\$ 433,293,280</u>	<u>\$ 159,944,187</u>	<u>\$5,866,933</u>	<u>\$33,533,959</u>	<u>\$ 2,308,394,405</u>

MAINE MUNICIPAL BOND BANK

BALANCE SHEET (CONTINUED)

June 30, 2012

	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>
<u>LIABILITIES AND NET ASSETS</u>				
Current liabilities:				
Accounts payable and accrued liabilities (note 8)	\$ 490,816	\$ —	\$ 966	\$ —
Due to other funds	—	4,492,626	—	27,989
Accrued interest payable	—	8,065,029	1,520,037	3,282,431
Deferred revenue	—	—	—	—
Pass-through grants payable (note 10)	204,353	—	—	—
Undisbursed loans	—	—	—	—
Accrued interest rebate payable to U.S. Government	—	2,374,579	—	—
Due to State of Maine	—	—	—	45,547,379
Bonds payable (note 4)	<u>—</u>	<u>103,933,192</u>	<u>12,291,886</u>	<u>11,794,254</u>
Total current liabilities	695,169	118,865,426	13,812,889	60,652,053
Noncurrent liabilities:				
Accrued interest rebate payable to U.S. Government	—	819,440	—	—
Bonds payable (note 4)	<u>—</u>	<u>1,058,583,102</u>	<u>95,959,919</u>	<u>217,887,245</u>
Total noncurrent liabilities	<u>—</u>	<u>1,059,402,542</u>	<u>95,959,919</u>	<u>217,887,245</u>
Total liabilities	695,169	1,178,267,968	109,772,808	278,539,298
Net assets:				
Restricted (notes 5, 6 and 7)	—	4,670,829	—	—
Unrestricted (notes 6 and 7)	<u>27,395,008</u>	<u>44,428,507</u>	<u>—</u>	<u>—</u>
Total net assets	27,395,008	49,099,336	—	—
Total liabilities and net assets	<u>\$28,090,177</u>	<u>\$ 1,227,367,304</u>	<u>\$ 109,772,808</u>	<u>\$ 278,539,298</u>

See accompanying notes.

Qualified School Construction Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Clean Water	Drinking Water			
\$ —	\$ 15,000	\$ 5,250	\$ —	\$ 4,000	\$ 516,032
—	1,062,066	737,131	64,537	37,358	6,421,707
290,317	207,084	28,292	—	—	13,393,190
—	73,097	8,830	—	—	81,927
—	—	—	—	—	204,353
—	41,974,510	4,713,711	—	1,735,054	48,423,275
—	252,821	—	—	—	2,627,400
—	—	—	—	—	45,547,379
<u>—</u>	<u>6,156,544</u>	<u>432,913</u>	<u>—</u>	<u>—</u>	<u>134,608,789</u>
290,317	49,741,122	5,926,127	64,537	1,776,412	251,824,052
—	18,984	—	—	—	838,424
<u>31,696,142</u>	<u>28,058,894</u>	<u>4,222,572</u>	<u>—</u>	<u>—</u>	<u>1,436,407,874</u>
<u>31,696,142</u>	<u>28,077,878</u>	<u>4,222,572</u>	<u>—</u>	<u>—</u>	<u>1,437,246,298</u>
31,986,459	77,819,000	10,148,699	64,537	1,776,412	1,689,070,350
—	355,242,764	149,162,707	—	30,475,884	539,552,184
<u>—</u>	<u>231,516</u>	<u>632,781</u>	<u>5,802,396</u>	<u>1,281,663</u>	<u>79,771,871</u>
—	355,474,280	149,795,488	5,802,396	31,757,547	619,324,055
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>\$31,986,459</u>	<u>\$ 433,293,280</u>	<u>\$ 159,944,187</u>	<u>\$5,866,933</u>	<u>\$33,533,959</u>	<u>\$ 2,308,394,405</u>

MAINE MUNICIPAL BOND BANK

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2012

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Fund Groups Grant Anticipation Fund Group</u>	<u>Transportation Infrastructure Fund Group</u>
Operating revenues:				
Interest on loans receivable from governmental units	\$ 64,316	\$46,727,888	\$ —	\$ —
Program revenue from State of Maine	—	—	4,444,975	7,690,912
Interest income from investments	231,100	5,365,473	—	573,873
Net increase (decrease) in the fair value of investments	(165,297)	11,851,793	—	(412,678)
Grant revenue from Environmental Protection Agency (note 6)	—	—	—	—
Grant revenue from State of Maine (notes 6, 7 and 10)	1,773,609	—	—	—
Other income (note 10)	<u>525,658</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total operating revenue	2,429,386	63,945,154	4,444,975	7,852,107
Operating expenses:				
Interest expense	—	48,175,929	4,296,580	7,756,522
Operating expenses (direct and shared) (note 8)	1,240,291	30,840	148,395	95,585
Pass-through grant expense (note 10)	1,773,609	—	—	—
Loan forgiveness (notes 6 and 7)	—	—	—	—
Amortization of deferred financing costs and refunding benefits rebated to governmental units	<u>—</u>	<u>1,002,168</u>	<u>—</u>	<u>—</u>
Total operating expenses	<u>3,013,900</u>	<u>49,208,937</u>	<u>4,444,975</u>	<u>7,852,107</u>
Operating income (loss) before operating transfers	(584,514)	14,736,217	—	—
Operating transfers	<u>1,642,032</u>	<u>(1,642,032)</u>	<u>—</u>	<u>—</u>
Operating income (loss)	1,057,518	13,094,185	—	—
Net assets, beginning of year	<u>26,337,490</u>	<u>36,005,151</u>	<u>—</u>	<u>—</u>
Net assets, end of year	<u>\$27,395,008</u>	<u>\$49,099,336</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes.

Qualified School Construction Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Clean Water	Drinking Water			
\$1,499,102	\$ 4,064,947	\$ 877,450	\$ —	\$ —	\$ 53,233,703
—	—	—	—	—	12,135,887
8,126	1,059,201	22,573	1,795	143,425	7,405,566
23,361	(671,147)	29,127	(290)	(89,184)	10,565,685
—	11,431,000	9,418,000	—	—	20,849,000
—	2,286,200	1,642,862	—	841,669	6,544,340
<u>—</u>	<u>—</u>	<u>—</u>	<u>653,472</u>	<u>—</u>	<u>1,179,130</u>
1,530,589	18,170,201	11,990,012	654,977	895,910	111,913,311
1,530,589	1,308,162	160,071	—	—	63,227,853
—	686,763	2,246,562	227,553	767,595	5,443,584
—	—	—	—	—	1,773,609
—	1,884,314	1,796,513	—	5,490,146	9,170,973
<u>—</u>	<u>382,394</u>	<u>48,565</u>	<u>—</u>	<u>—</u>	<u>1,433,127</u>
<u>1,530,589</u>	<u>4,261,633</u>	<u>4,251,711</u>	<u>227,553</u>	<u>6,257,741</u>	<u>81,049,146</u>
—	13,908,568	7,738,301	427,424	(5,361,831)	30,864,165
<u>—</u>	<u>58,017</u>	<u>(31,168)</u>	<u>(26,849)</u>	<u>—</u>	<u>—</u>
—	13,966,585	7,707,133	400,575	(5,361,831)	30,864,165
<u>—</u>	<u>341,507,695</u>	<u>142,088,355</u>	<u>5,401,821</u>	<u>37,119,378</u>	<u>588,459,890</u>
<u>\$ —</u>	<u>\$ 355,474,280</u>	<u>\$ 149,795,488</u>	<u>\$5,802,396</u>	<u>\$31,757,547</u>	<u>\$ 619,324,055</u>

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

	General Operating Account	General Tax-Exempt Fund Group	Transportation Fund Groups Grant Anticipation Fund Group	Transportation Infrastructure Fund Group
OPERATING ACTIVITIES:				
Cash received from governmental units and State of Maine	\$ 158,957	\$ 134,297,032	\$ 15,662,717	\$ 38,189,705
Cash payments to governmental units	(2,907,801)	(27,999,556)	—	—
Cash advances to State of Maine	—	—	—	(58,725,931)
Cash payments to State of Maine	—	—	—	(15,000,000)
Cash received from other income	525,658	—	—	—
Cash payments for operating expenses	(1,106,342)	(30,840)	(148,395)	(95,585)
Cash (paid to) received from other funds	1,237,405	(895,476)	—	(2,676)
Cash received for other assets and liabilities	<u>10,052</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash provided (used) by operating activities	(2,082,071)	105,371,160	15,514,322	(35,634,487)
NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds payable	—	129,704,833	—	59,987,698
Principal paid on bonds payable	—	(95,843,350)	(10,770,000)	(9,370,000)
Interest paid on bonds payable	—	(50,962,364)	(4,743,356)	(8,097,058)
Amount deposited to refunding escrow (note 9)	—	(97,236,533)	—	—
Issuance costs paid for refunding bonds (note 9)	—	(531,951)	—	—
Grant receipts from Environmental Protection Agency and State of Maine	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash (used) provided by noncapital financing activities	—	(114,869,365)	(15,513,356)	42,520,640
INVESTING ACTIVITIES:				
Purchase of investment securities	(23,218,177)	(223,533,847)	(966)	(117,876,487)
Proceeds from sale and maturities of investment securities	24,989,117	227,357,275	—	110,291,221
Income received from investments	257,996	6,879,552	—	699,113
Interest rebate paid to U.S. Government	—	(1,204,775)	—	—
Additions to land and building	<u>(11,350)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash provided (used) by investing activities	<u>2,017,586</u>	<u>9,498,205</u>	<u>(966)</u>	<u>(6,886,153)</u>
Decrease in cash	(64,485)	—	—	—
Cash, beginning of year	<u>128,908</u>	<u>—</u>	<u>—</u>	<u>—</u>
Cash, end of year	\$ <u>64,423</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>

Qualified School Construction Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Clean Water	Drinking Water			
\$ 1,931,266 (9,836,142)	\$ 29,550,150 (31,778,562)	\$ 6,525,809 (14,098,909)	\$ — —	\$ 6,136,462 (10,543,345)	\$ 232,452,098 (97,164,315)
—	—	—	—	—	(58,725,931)
—	—	—	—	—	(15,000,000)
—	—	—	653,472	—	1,179,130
—	(685,663)	(2,247,362)	(227,553)	(767,595)	(5,309,335)
—	(273,927)	(48,543)	(15,753)	(1,030)	—
—	—	—	—	—	10,052
(7,904,876)	(3,188,002)	(9,869,005)	410,166	(5,175,508)	57,441,699
9,836,142	19,362,841	—	—	—	218,891,514
—	(5,645,000)	(420,000)	—	—	(122,048,350)
(1,437,522)	(1,182,534)	(176,246)	—	—	(66,599,080)
—	(19,184,092)	—	—	—	(116,420,625)
—	(178,747)	—	—	—	(710,698)
—	11,373,773	10,450,701	—	841,669	22,666,143
8,398,620	4,546,241	9,854,455	—	841,669	(64,221,096)
(2,601,700)	(115,840,738)	(19,718,708)	(3,747,519)	(1,002,109)	(507,540,251)
2,101,389	113,170,449	19,696,142	3,336,467	5,141,616	506,083,676
6,567	1,312,050	37,116	886	194,332	9,387,612
—	—	—	—	—	(1,204,775)
—	—	—	—	—	(11,350)
(493,744)	(1,358,239)	14,550	(410,166)	4,333,839	6,714,912
—	—	—	—	—	(64,485)
—	—	—	—	—	128,908
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 64,423

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2012

	General Operating Account	General Tax-Exempt Fund Group	<u>Transportation Fund Groups</u>	
			Grant Anticipation Fund Group	Transportation Infrastructure Fund Group
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 1,057,518	\$ 13,094,185	\$ —	\$ —
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Interest income from investments	(231,100)	(5,365,473)	—	(573,873)
Net decrease (increase) in the fair value of investments	165,297	(11,851,793)	—	412,678
Loan forgiveness	—	—	—	—
Depreciation	87,331	—	—	—
Amortization of deferred financing costs and refunding benefits rebated to units	—	1,002,168	—	—
Interest expense on bonds payable	—	48,175,929	4,296,580	7,756,522
Federal and State grants	(1,773,609)	—	—	—
Change in assets and liabilities:				
Loans receivable from governmental units and advances to to State of Maine	(1,032,197)	58,761,391	11,094,613	(48,307,141)
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	(7,354)	808,197	122,163	—
Due to/from other funds	(404,627)	746,556	—	(2,676)
Other assets	10,052	—	—	—
Accounts payable and accrued liabilities	46,618	—	966	—
Due to State of Maine	—	—	—	5,080,003
Net cash provided (used) by operating activities	<u>\$ (2,082,071)</u>	<u>\$ 105,371,160</u>	<u>\$ 15,514,322</u>	<u>\$ (35,634,487)</u>

See accompanying notes.

Qualified School Construction Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Clean Water	Drinking Water			
\$ —	\$ 13,966,585	\$ 7,707,133	\$400,575	\$(5,361,831)	\$ 30,864,165
(8,126)	(1,059,201)	(22,573)	(1,795)	(143,425)	(7,405,566)
(23,361)	671,147	(29,127)	290	89,184	(10,565,685)
—	1,884,314	1,796,513	—	5,490,146	9,170,973
—	—	—	—	—	87,331
—	382,394	48,565	—	—	1,433,127
1,530,589	1,308,162	160,071	—	—	63,227,853
—	(13,717,200)	(11,060,862)	—	(841,669)	(27,393,340)
(9,310,920)	(6,297,497)	(8,430,160)	—	(4,406,883)	(7,928,794)
(93,058)	4,138	(20,390)	—	—	813,696
—	(331,944)	(17,375)	11,096	(1,030)	—
—	—	—	—	—	10,052
—	1,100	(800)	—	—	47,884
—	—	—	—	—	5,080,003
<u>\$ (7,904,876)</u>	<u>\$ (3,188,002)</u>	<u>\$ (9,869,005)</u>	<u>\$410,166</u>	<u>\$(5,175,508)</u>	<u>\$ 57,441,699</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

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

The General Operating Account also administers various loan and grant programs in conjunction with the State of Maine. Additionally, the General Operating Account from time-to-time will provide loans to municipalities (governmental units) experiencing financial difficulties. During 2010, the General Operating Account provided a loan of approximately \$1.2 million to a municipality, which is to be repaid in quarterly installments of \$39,740, including interest at 5.5%, through October 2019. The balance outstanding on this loan as of June 30, 2012 is \$971,503. During 2012, the General Operating Account provided a loan of approximately \$1.1 million to a municipality, which is to be repaid in quarterly installments ranging from \$66,943 to \$56,975, including interest at 1.875%, through April 2017. The balance outstanding on this loan as of June 30, 2012 is \$1,134,192.

General Tax-Exempt Fund Group: This fund group consists of funds and accounts established under the Bond Bank’s General Bond Resolution adopted July 11, 1973, as amended and supplemented by the First Supplemental Resolution adopted September 20, 1977, the Second Supplemental Resolution adopted July 18, 1984, the Third Supplemental Resolution adopted May 7, 1993, the Fourth Supplemental Resolution adopted June 25, 1993 and the Fifth Supplemental Resolution adopted September 18, 2003. Under these resolutions, the Bond Bank issues bonds on which the interest is exempt from State of Maine income taxes and either exempt or non-exempt from federal income taxes. The proceeds on the bonds are used to make loans to local governmental units. In addition, the Bond Bank issues taxable bonds that receive a federal interest subsidy payment on each debt service payment date. The total federal interest subsidy received in 2012 was approximately \$1,052,000, and is included in interest on loans receivable from governmental units in the statement of revenues, expenses and changes in net assets.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. Organization (Continued)

Transportation Fund Groups: These fund groups consist of funds and accounts established under the Bond Bank's Grant Anticipation General Bond Resolution adopted December 10, 2004 and the Bond Bank's Transportation Infrastructure General Bond Resolution adopted September 24, 2008. Under these resolutions, the Bond Bank issues bonds or notes exempt from Federal and State of Maine income taxes for the purpose of making advances to the State of Maine Department of Transportation to finance qualified transportation projects. The Grant Anticipation bonds or notes are to be repaid from future federal highway grant monies received by the State of Maine and the Transportation Infrastructure bonds or notes are to be repaid from a portion of future fees and taxes collected by the State of Maine. In addition, the Bond Bank issues taxable bonds that receive a federal interest subsidy payment on each debt service payment date. The total federal interest subsidy received in 2012 was approximately \$414,000 and is included in program revenue from State of Maine in the statement of revenues, expenses and changes in net assets.

Qualified School Construction Fund Group: This fund group consists of funds and accounts established under the Bond Bank's General Bond Resolution adopted November 18, 2010. Under this resolution, the Bond Bank issues bonds which are exempt from State of Maine income taxes (but not federal income taxes) and makes loans to qualified governmental units. The bonds issued in this fund group receive a federal interest subsidy payment on each debt service payment date. The total federal interest subsidy received in 2012 was approximately \$1,313,000 and is included in interest on loans receivable from governmental units in the statement of revenues, expenses and changes in net assets.

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

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

2. Significant Accounting Policies

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

2. Significant Accounting Policies (Continued)

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).

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 \$4,366,000 have been recorded as interest income from investments in 2012. Reserve fund investments that are not expected to be utilized to fund bond principal and interest payments until after June 30, 2013 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.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

2. Significant Accounting Policies (Continued)

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

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

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

Construction Funds: The Sewer and Water General Bond Resolution requires bond proceeds to be deposited into construction funds. Upon deposit into the construction funds, a loan receivable from the governmental unit is recorded and the construction funds are excluded from Sewer and Water Fund Groups. The Bond Bank maintains control over disbursement of these funds until the project is complete. There are no bond proceeds held in Clean Water or Drinking Water Construction funds as of June 30, 2012.

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.

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

2. Significant Accounting Policies (Continued)

New Accounting Pronouncements

In June 2011 GASB issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2011. The Bond Bank is currently evaluating the impact, if any, this guidance will have on its financial statements.

In December 2010 GASB issued Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for years beginning after December 15, 2011. The Bond Bank is currently evaluating the impact, if any, this guidance will have on its financial statements.

In November 2010 GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

2. Significant Accounting Policies (Continued)

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for years beginning after June 15, 2012. The Bond Bank is currently evaluating the impact, if any, this guidance will have on its financial statements.

3. Investments Held By Trustee and Operating Investments

The Bond Bank is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises, state and local government agencies, guaranteed investment contracts and collateralized repurchase agreements. At June 30, 2012, investments are categorized as follows:

	<u>Fair Value</u>
<u>General Operating Account</u>	
Operating investments:	
U.S. Government-sponsored enterprises	\$ 16,630,800
Cash and cash equivalents	<u>2,471,711</u>
	\$ <u>19,102,511</u>

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

	<u>Fair Value</u>
<u>General Tax-Exempt Fund Group</u>	
Investments held by trustee:	
Guaranteed investment contracts	\$ 9,110,159
U.S. Government obligations	21,126,131
U.S. Government-sponsored enterprises	27,242,739
U.S. Treasury strips	54,592,100
U.S. Government-sponsored enterprise strips	50,051,064
Cash and cash equivalents	<u>20,390,101</u>
	<u>\$ 182,512,294</u>
<u>Grant Anticipation Fund Group</u>	
Investments held by trustee:	
Cash and cash equivalents	\$ <u>966</u>
<u>Transportation Infrastructure Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 29,168,138
U.S. Treasury strips	9,220,289
U.S. Government-sponsored enterprise strips	902,169
Cash and cash equivalents	<u>19,293,063</u>
	<u>\$ 58,583,659</u>
<u>Qualified School Construction Fund</u>	
Investments held by trustee:	
U.S. Government obligations	\$ 511,100
Cash and cash equivalents	<u>12,572</u>
	<u>\$ 523,672</u>
<u>Sewer and Water Fund Groups</u>	
Investments held by trustee:	
Revolving Loan Fund Group – Clean Water:	
Guaranteed investment contracts	\$ 3,302,304
U.S. Government obligations	210,682
U.S. Government-sponsored enterprises	56,253,522
U.S. Government-sponsored enterprise strips	3,425,065
Certificates of deposit	6,162,271
Cash and cash equivalents	<u>19,083,659</u>
	<u>\$ 88,437,503</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

	<u>Fair Value</u>
Revolving Loan Fund Group – Drinking Water:	
U.S. Government-sponsored enterprises	\$ 426,721
U.S. Government-sponsored enterprise strips	429,656
Cash and cash equivalents	<u>10,487,815</u>
	<u>\$ 11,344,192</u>
Operating Fund Group:	
U.S. Government-sponsored enterprises	\$ 1,000,050
Cash and cash equivalents	<u>4,865,957</u>
	<u>\$ 5,866,007</u>
<u>School Facilities Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 9,506,495
Cash and cash equivalents	<u>5,618,801</u>
	<u>\$ 15,125,296</u>

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Bond Bank's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, guaranteed investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Bond Bank to terminate individual contracts at par. The Bond Bank's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Bond Bank's investments in guaranteed investment contracts, U.S. Government obligations, U.S. Government-sponsored enterprises, U.S. Treasury Strips, U.S. Government-sponsored enterprise strips and certificates of deposit as of June 30, 2012:

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>General Operating Account</u>					
U.S. Government-sponsored enterprises	\$ <u>16,630,800</u>	\$ <u>8,534,180</u>	\$ <u>8,096,620</u>	\$ <u>—</u>	\$ <u>—</u>
<u>General Tax Exempt Fund Group</u>					
Guaranteed investment contracts	\$ 9,110,159	\$ —	\$ —	\$ —	\$ 9,110,159
U.S. Government obligations	21,126,131	13,534,499	1,801,368	5,541,592	248,672
U.S. Government-sponsored enterprises	27,242,739	1,972,600	7,174,732	6,940,431	11,154,976
U.S. Treasury strips	54,592,100	7,198,271	20,516,852	21,174,335	5,702,642
U.S. Government-sponsored enterprise strips	<u>50,051,064</u>	<u>1,453,917</u>	<u>9,332,249</u>	<u>12,927,993</u>	<u>26,336,905</u>
	<u>\$ 162,122,193</u>	<u>\$24,159,287</u>	<u>\$38,825,201</u>	<u>\$46,584,351</u>	<u>\$52,553,354</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>Transportation Infra- structure Fund Group</u>					
U.S. Government- sponsored enterprises	\$ 29,168,138	\$15,105,618	\$14,062,520	\$ —	\$ —
U.S. Treasury strips	9,220,289	—	—	—	9,220,289
U.S. Government spon- sored enterprise strips	<u>902,169</u>	<u>902,169</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 39,290,596</u>	<u>\$16,007,787</u>	<u>\$14,062,520</u>	<u>\$ —</u>	<u>\$ 9,220,289</u>
<u>Qualified School Con- struction Fund Group</u>					
U.S. Government obligations	<u>\$ 511,100</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 511,100</u>	<u>\$ —</u>
<u>Revolving Loan Fund Group – Clean Water</u>					
Guaranteed investment contracts	\$ 3,302,304	\$ —	\$ 1,937,638	\$ —	\$ 1,364,666
U.S. Government obligations	210,682	—	210,682	—	—
U.S. Government- sponsored enterprises	56,253,522	38,839,754	17,413,768	—	—
U.S. Government-spon- sored enterprise strips	3,425,065	760,874	1,636,960	1,027,231	—
Certificates of deposit	<u>6,162,271</u>	<u>552,552</u>	<u>5,609,719</u>	<u>—</u>	<u>—</u>
	<u>\$ 69,353,844</u>	<u>\$40,153,180</u>	<u>\$26,808,767</u>	<u>\$ 1,027,231</u>	<u>\$ 1,364,666</u>
<u>Revolving Loan Fund Group–Drinking Water</u>					
U.S. Government- sponsored enterprises	\$ 426,721	\$ 250,005	\$ —	\$ —	\$ 176,716
U.S. Government-spon- sored enterprise strips	<u>429,656</u>	<u>67,900</u>	<u>292,185</u>	<u>69,571</u>	<u>—</u>
	<u>\$ 856,377</u>	<u>\$ 317,905</u>	<u>\$ 292,185</u>	<u>\$ 69,571</u>	<u>\$ 176,716</u>
<u>Sewer and Water Fund Groups – Operating Fund Group</u>					
U.S. Government- sponsored enterprises	<u>\$ 1,000,050</u>	<u>\$ 1,000,050</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<u>School Facilities Fund Group</u>					
U.S. Government- sponsored enterprises	<u>\$ 9,506,495</u>	<u>\$ 7,506,105</u>	<u>\$ 2,000,390</u>	<u>\$ —</u>	<u>\$ —</u>

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

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, 2012.

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, 2012, the rating for investments in U.S. Treasury Obligations and U.S. Government-sponsored enterprise securities (includes FHLMC, FHLB, FFCB, FNMA) was AA+. At June 30, 2012, 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 \$118,620,000 at June 30, 2012.

Trustee held cash and cash equivalents at June 30, 2012 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, 2012 consist entirely of money market funds secured by short-term U.S. Treasury obligations, held by a trust company.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable

Total General Tax-Exempt Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2012:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2012</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	8,140,000
Series 1998 D and E, 3.75% – 4.80%, dated October 1, 1998	1999 – 2018	13,890,000	325,000
Series 2000 A and B, 4.5% – 5.875%, dated May 1, 2000	2000 – 2020	70,125,000	2,815,000
Series 2000 C and D, 4.625% – 5.70%, dated October 1, 2000	2001 – 2021	39,560,000	1,315,000
Series 2001 A and B, 4.125% – 5.25%, dated May 1, 2001	2002 – 2021	34,635,000	2,560,000
Series 2002 B and C, 2.50% – 5.25%, dated May 1, 2002	2002 – 2032	77,575,000	4,005,000
Series 2002 D, 2.00% – 5.00%, dated July 1, 2002	2003 – 2015	49,315,000	3,355,000
Series 2002 E and F, 2.00% – 5.00%, dated October 1, 2002	2003 – 2023	32,720,000	3,155,000
Series 2003 A, 3.00% – 5.25%, dated March 1, 2003	2003 – 2020	186,050,000	16,035,413
Series 2003 B and C, 2.00% – 5.00%, dated May 1, 2003	2003 – 2024	17,290,000	2,600,000
Series 2003 D and E, 2.00% – 5.00%, dated October 1, 2003	2004 – 2033	18,460,000	2,200,000
Series 2004 A and B, 2.00% – 5.00%, dated May 27, 2004	2004 – 2025	94,565,000	15,430,000
Series 2004 C, 2.00% – 5.00%, dated September 23, 2004	2004 – 2020	58,675,000	47,115,000
Series 2004 D and E, 2.25% – 5.00%, dated October 28, 2004	2005 – 2034	46,850,000	8,685,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2005 – 2021	91,250,000	86,150,000
Series 2005 B and C, 3.00% – 5.00%, dated May 26, 2005	2006 – 2031	22,050,000	6,635,000
Series 2005 D and E, 3.00% – 5.00%, dated October 27, 2005	2006 – 2034	60,395,000	15,560,000
Series 2006 A, 3.48% – 4.77%, dated May 25, 2006	2006 – 2036	14,040,000	9,795,000
Series 2006 B and C, 3.55% – 5.00%, dated October 26, 2006	2007 – 2027	24,065,000	14,635,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2012</u>
Series 2007 A, 3.75% – 5.00%, dated April 5, 2007	2007 – 2022	\$ 51,335,000	\$ 50,205,000
Series 2007 B and C, 4.00% – 5.00%, dated May 24, 2007	2007 – 2029	69,380,000	54,375,000
Series 2007 D and E, 4.00% – 5.00%, dated October 25, 2007	2008 – 2037	53,560,000	41,590,000
Series 2008 A and B, 3.00% – 5.00%, dated May 15, 2008	2008 – 2038	49,060,000	40,785,000
Series 2008 C, 4.00% – 5.50%, dated October 30, 2008	2009 – 2038	100,010,000	85,100,000
Series 2009 A, 2.00% – 5.00%, dated March 17, 2009	2009 – 2020	10,060,000	8,100,000
Series 2009 B, 3.00% – 5.00%, dated May 28, 2009	2009 – 2034	42,845,000	38,410,000
Series 2009 C, 1.10% – 4.25%, dated August 27, 2009	2010 – 2029	21,620,000	19,590,000
Series 2009 D, 3.00% – 5.00%, dated August 27, 2009	2010 – 2029	34,930,000	31,215,000
Series 2009 E, 1.25% – 3.00%, dated August 27, 2009	2009 – 2014	4,685,000	2,300,000
Series 2009 F, 3.00% – 5.00%, dated August 27, 2009	2010 – 2012	19,115,000	2,890,000
Series 2009 G, 3.00% – 5.00%, dated October 29, 2009	2010 – 2039	9,590,000	8,660,000
Series 2009 H, 3.00% – 5.00%, dated January 14, 2010	2010 – 2030	38,710,000	36,580,000
Series 2010 A, 2.00% – 4.25%, dated May 27, 2010	2010 – 2040	8,320,000	7,015,000
Series 2010 B, 3.28% – 5.67%, dated May 27, 2010	2010 – 2034	11,735,000	11,735,000
Series 2010 C, 2.00% – 5.00%, dated October 7, 2010	2012 – 2034	99,425,000	99,425,000
Series 2010 DEF, 0.71% – 5.12%, dated October 28, 2010	2011 – 2040	80,165,000	75,725,000
Series 2011 A, 2.37% – 5.00%, dated January 27, 2011	2011 – 2031	80,275,000	80,220,000
Series 2011 C, 2.00% – 5.00%, dated May 26, 2011	2012 – 2041	77,275,000	77,275,000
Series 2011 EF, 2.00% – 5.00%, dated October 27, 2011	2012 – 2033	50,375,000	50,375,000
Series 2012 ABC, 0.67% – 5.00%, dated May 24, 2012	2013 – 2038	<u>66,435,000</u>	<u>66,435,000</u>
		<u>\$ 2,031,435,000</u>	<u>\$ 1,143,645,413</u>

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

Total General Tax-Exempt Fund Group Bonds payable is presented on the balance sheet at June 30, 2012 as follows:

Total principal outstanding	\$ 1,143,645,413
Deferred amount on refunding	(26,967,663)
Unamortized original issue discount	(43,344)
Unamortized original issue premium	<u>45,881,888</u>
 Total General Tax-Exempt Fund Group Bonds payable	 1,162,516,294
Current portion	<u>103,933,192</u>
 Noncurrent portion	 <u>\$ 1,058,583,102</u>

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>
2012	\$ 101,416,067	\$ 24,171,721	\$ 125,587,788
2013	92,798,607	44,568,554	137,367,161
2014	91,285,406	40,951,128	132,236,534
2015	83,957,358	37,244,370	121,201,728
2016	82,358,516	34,138,029	116,496,545
2017 – 2021	350,404,459	125,417,836	475,822,295
2022 – 2026	206,720,000	60,840,935	267,560,935
2027 – 2031	124,770,000	18,183,763	142,953,763
2032 – 2036	7,520,000	1,387,243	8,907,243
2037 – 2041	<u>2,415,000</u>	<u>297,192</u>	<u>2,712,192</u>
	<u>\$ 1,143,645,413</u>	<u>\$ 387,200,771</u>	<u>\$ 1,530,846,184</u>

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

Municipal loan obligations – principal and interest	\$ 1,345,000,764 ¹
Reserve Funds – principal and interest	<u>185,845,420</u>
	<u>\$ 1,530,846,184</u>

¹ Includes approximately \$13,799,000 of interest to be funded through federal interest subsidy payments.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

Total Grant Anticipation Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2012:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2012</u>
Series 2004 A, 2.50% – 5.00%, dated December 16, 2004	2005 – 2015	\$ 48,395,000	\$ 20,005,000
Series 2008 A, 3.25% – 4.00%, dated September 10, 2008	2009 – 2020	50,000,000	39,400,000
Series 2010 A, 2.00% – 5.00%, dated December 2, 2010	2011 – 2017	25,915,000	23,340,000
Series 2010 B, 4.52% – 5.32%, dated December 2, 2010	2018 – 2022	<u>24,085,000</u>	<u>24,085,000</u>
		<u>\$ 148,395,000</u>	<u>\$ 106,830,000</u>

Total Grant Anticipation Fund Group Bonds payable is presented on the balance sheet at June 30, 2012 as follows:

Total principal outstanding	\$ 106,830,000
Unamortized original issue premium	<u>1,421,805</u>
Total Grant Anticipation Fund Group Bonds payable	108,251,805
Less current portion	<u>12,291,886</u>
Noncurrent portion	<u>\$ 95,959,919</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 Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2012	\$ 12,005,000	\$ 2,280,057	\$ 14,285,057
2013	12,465,000	4,098,180	16,563,180
2014	12,930,000	3,634,493	16,564,493
2015	13,460,000	3,103,980	16,563,980
2016	8,440,000	2,541,255	10,981,255
2017 – 2021	42,410,000	6,786,582	49,196,582
2022	<u>5,120,000</u>	<u>272,589</u>	<u>5,392,589</u>
	<u>\$ 106,830,000</u>	<u>\$22,717,136</u>	<u>\$ 129,547,136</u>

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

Repayment of advances to State of Maine – principal and interest	<u>\$ 129,547,136</u> ¹
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¹ Includes approximately \$3,570,000 of interest to be funded through federal interest subsidy payments.

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

Total Transportation Infrastructure Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2012:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2012</u>
Series 2008 A, 3.00% – 5.50%, dated November 20, 2008	2009 – 2023	\$ 50,000,000	\$ 42,800,000
Series 2009 A, 2.50% – 5.00%, dated July 22, 2009	2010 – 2023	105,000,000	93,405,000
Series 2009 B, 2.00% – 5.00%, dated September 10, 2009	2010 – 2024	30,000,000	28,350,000
Series 2011A, 2.00% – 5.00%, dated December 14, 2011	2012 – 2026	<u>55,000,000</u>	<u>55,000,000</u>
		<u>\$ 240,000,000</u>	<u>\$ 219,555,000</u>

Total Transportation Infrastructure Fund Group Bonds payable is presented on the balance sheet at June 30, 2012 as follows:

Total principal outstanding	\$ 219,555,000
Unamortized original issue premium	<u>10,126,499</u>
Total Transportation Infrastructure Fund Group Bonds payable	229,681,499
Less current portion	<u>11,794,254</u>
Noncurrent portion	<u>\$ 217,887,245</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 Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2012	\$ 10,630,000	\$ 4,923,646	\$ 15,553,646
2013	11,065,000	9,428,842	20,493,842
2014	11,490,000	8,977,743	20,467,743
2015	11,910,000	8,587,417	20,497,417
2016	12,410,000	8,130,288	20,540,288
2017 – 2021	71,165,000	31,851,340	103,016,340
2022 – 2026	<u>90,885,000</u>	<u>12,594,590</u>	<u>103,479,590</u>
	<u>\$ 219,555,000</u>	<u>\$84,493,866</u>	<u>\$ 304,048,866</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

Repayment of advances to State of Maine – principal and interest	\$ 294,246,967
Reserve fund – principal	<u>9,801,899</u>
	<u>\$ 304,048,866</u>

Total Qualified School Construction Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2012:

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

Total Qualified School Construction Fund Group Bonds payable is presented on the balance sheet at June 30, 2012 as follows:

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

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

<u>Due Bond Year Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2012	\$ —	\$ 870,952	\$ 870,952
2013	—	1,750,580	1,750,580
2014	—	1,750,580	1,750,580
2015	—	1,750,580	1,750,580
2016	—	1,750,580	1,750,580
2017 – 2021	—	8,752,900	8,752,900
2022 – 2026	26,325,000	7,834,169	34,159,169
2027 – 2028	<u>5,371,142</u>	<u>468,857</u>	<u>5,839,999</u>
	<u>\$31,696,142</u>	<u>\$24,929,198</u>	<u>\$56,625,340</u>

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

Government unit loan obligations – principal and interest	\$56,114,240 ¹
Sinking fund – principal	<u>511,100</u>
	<u>\$56,625,340</u>

¹ Includes approximately \$22,891,000 of interest to be funded through federal interest subsidy payments.

Sewer and Water Fund Group Clean Water Bonds payable, with original interest rates, consist of the following at June 30, 2012:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Outstanding June 30, 2012</u>
Series 2003 A and B, 1.05% – 5.00%, dated March 1, 2003	2003 – 2023	\$32,165,000	\$ 4,205,000
Series 2003 C, 1% – 4.9%, dated November 13, 2003	2004 – 2024	16,065,000	340,000
Series 2009 A, 3.00% – 5.00%, dated November 3, 2009	2010 – 2018	14,520,000	9,605,000
Series 2009 B, 2.50 – 3.625%, dated November 3, 2009	2010 – 2018	2,660,000	2,095,000
Series 2012 A, 2.00% – 5.00% dated March 22, 2012	2012 – 2024	<u>17,375,000</u>	<u>17,375,000</u>
		<u>\$82,785,000</u>	<u>\$33,620,000</u>

The Sewer and Water Fund Group Clean Water Bonds payable are presented on the balance sheet at June 30, 2012 as follows:

Total principal outstanding	\$33,620,000
Deferred amount on refunding	(1,712,625)
Unamortized original issue discount	(1,408)
Unamortized original issue premium	<u>2,309,471</u>
Total Sewer and Water Fund Group Waste Water Bonds payable	34,215,438
Less current portion	<u>6,156,544</u>
Noncurrent portion	<u>\$28,058,894</u>

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

<u>Due Bond Year</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2012	\$ 6,040,000	\$ 621,253	\$ 6,661,253
2013	6,435,000	1,049,386	7,484,386
2014	3,380,000	767,446	4,147,446
2015	3,065,000	659,486	3,724,486
2016	2,910,000	546,724	3,456,724
2017 – 2021	9,285,000	1,303,403	10,588,403
2022 – 2025	<u>2,505,000</u>	<u>196,815</u>	<u>2,701,815</u>
	<u>\$33,620,000</u>	<u>\$5,144,513</u>	<u>\$38,764,513</u>

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

Governmental unit loan obligations – principal and interest	\$33,591,327
Reserve fund – principal and interest	<u>5,173,186</u>
	<u>\$38,764,513</u>

Sewer and Water Fund Group Drinking Water Bonds payable, with original interest rates, consist of the following at June 30, 2012:

	<u>Original</u> <u>Maturity</u>	<u>Original</u> <u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2011</u>
Series 2005 A, 2.25% – 4.45%, dated March 24, 2005	2005 – 2025	\$3,770,000	\$2,775,000
Series 2009 C, 3.00% – 3.00% dated November 3, 2009	2010 – 2018	<u>2,380,000</u>	<u>1,855,000</u>
		<u>\$6,150,000</u>	<u>\$4,630,000</u>

The Sewer and Water Fund Group Drinking Water Bonds payable are presented on the balance sheet at June 30, 2012 as follows:

Total principal outstanding	\$4,630,000
Deferred amount on refunding	(5,531)
Unamortized original issue discounts and costs of issuance	(14,795)
Unamortized original issue premium	<u>45,811</u>
Total Sewer and Water Fund Group Drinking Water Bonds payable	4,655,485
Less current portion	<u>432,913</u>
Noncurrent portion	<u>\$4,222,572</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

<u>Due Bond Year</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2012	\$ 425,000	\$ 84,876	\$ 509,876
2013	435,000	156,363	591,363
2014	430,000	142,405	572,405
2015	440,000	128,315	568,315
2016	450,000	113,675	563,675
2017 – 2021	1,555,000	354,582	1,909,582
2022 – 2025	<u>895,000</u>	<u>93,432</u>	<u>988,432</u>
	<u>\$4,630,000</u>	<u>\$1,073,648</u>	<u>\$5,703,648</u>

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

Governmental unit loan obligations – principal and interest \$5,703,648

The following summarizes bond payable activity for the Bond Bank for the year ended June 30, 2012:

	<u>General</u> <u>Tax</u> <u>Exempt</u> <u>Fund</u> <u>Group</u>	<u>Grant</u> <u>Anticipation</u> <u>Fund Group</u>	<u>Trans-</u> <u>portation</u> <u>Infra-</u> <u>structure</u> <u>Fund Group</u>	<u>Qualified</u> <u>School</u> <u>Construc-</u> <u>tion Fund</u> <u>Group</u>	<u>Clean</u> <u>Water</u> <u>Fund</u> <u>Group</u>	<u>Drinking</u> <u>Water</u> <u>Fund</u> <u>Group</u>
Balance, beginning of year	\$ 1,228,180,303	\$119,346,418	\$180,112,591	\$21,860,000	\$ 39,902,516	\$5,084,852
Issuances – face value	116,810,000	–	55,000,000	9,836,142	17,375,000	–
Redemptions	(95,843,350)	(10,770,000)	(9,370,000)	–	(5,645,000)	(420,000)
Refunded bonds (note 9)	(88,375,000)	–	–	–	(17,800,000)	–
Capitalized premiums, net	12,081,553	–	4,987,698	–	1,987,841	–
Deferred amounts on refunding	(8,141,772)	–	–	–	(1,545,129)	–
Accretion/amortization of discounts, premiums and deferred amounts on refunding	<u>(2,195,440)</u>	<u>(324,613)</u>	<u>(1,048,790)</u>	<u>–</u>	<u>(59,790)</u>	<u>(9,367)</u>
Balance, end of year	<u>\$ 1,162,516,294</u>	<u>\$108,251,805</u>	<u>\$229,681,499</u>	<u>\$31,696,142</u>	<u>\$ 34,215,438</u>	<u>\$4,655,485</u>

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

5. Reserve Funds

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

General Tax-Exempt Fund Group: The Bond Bank is required to maintain a debt service reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all governmental unit loan obligations then outstanding as of such date of calculation. At June 30, 2012, the required debt service reserve was approximately \$125,891,000.

In addition, the Bond Bank maintains the Special Reserve Account balance of \$1,970,829 and the Supplemental Reserve Fund General Reserve Account principal balance of \$2,700,000. These reserves represent segregated net 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, 2012, the fair value of the reserve fund assets totaled approximately \$166,558,000, which exceeded the required reserves by approximately \$35,996,000.

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, 2012, the required capital reserve was approximately \$10,136,000 and the fair value of the capital reserve assets totaled approximately \$10,205,000, which exceeded the required reserves by approximately \$69,000.

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, 2012, the required capital reserve was approximately \$6,410,000 and the fair value of the capital reserve assets totaled approximately \$8,323,000, which exceeded the required reserves by approximately \$1,913,000.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

6. Sewer and Water Revolving Fund Group

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

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

Net assets consist of the following at June 30, 2012:

	<u>Clean Water</u>	<u>Drinking Water</u>
Reserved for revolving loans:		
Grants received from Environmental Protection Agency under existing capitalization grant program	\$ 238,277,659	\$ 131,170,900
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	23,813
Hardship grants received from Environmental Protection Agency	643,800	—
Grants received from State of Maine	47,709,562	25,671,170
Other amounts reserved (utilized) for program loans and costs	<u>36,927,933</u>	<u>(27,203,176)</u>
	355,242,764	149,162,707
Unreserved amounts available	<u>231,516</u>	<u>632,781</u>
Net assets at June 30, 2012	<u>\$ 355,474,280</u>	<u>\$ 149,795,488</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, 2012 are \$12,091,588 (clean water) and \$5,762,955 (drinking water), with \$11,860,072 and \$5,130,174, respectively, expended to date. The remaining amount of \$231,516 in the Clean Water Revolving Loan Fund Group and \$632,781 in the Drinking Water Revolving Loan Fund Group can be used for future administrative costs. The Bond Bank also charges annual administrative fees to borrowers that are used to administer the programs.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

6. Sewer and Water Revolving Fund Group (Continued)

Portions of the loans made to eligible borrowers under the Drinking Water Revolving Loan Fund Program may be forgiven if certain continuing criteria are met, including that the borrower continues to make debt service payments, continues to operate the project in compliance with laws and regulations, and does not dispose of or discontinue the project. The Bond Bank has loaned approximately \$36,935,000 at June 30, 2012, 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 2012 was \$1,796,513.

During fiscal 2009, the Bond Bank and the State of Maine Department of Environmental Protection implemented a joint rule change in the Clean Water Revolving Loan Fund program in order to allow the program to make loans under ARRA grant provisions. The rule change allows the Bond Bank, after consultation with the State of Maine Department of Environmental Protection, to set interest rates at any level, including 0%. It also allows portions of loans made to eligible borrowers under the Clean Water Revolving Loan Fund Program to be forgiven if certain continuing criteria are met (similar to criteria in the Drinking Water Revolving Loan Fund Program). The Bond Bank has loaned approximately \$16,470,000 at June 30, 2012 under the Clean Water Revolving Loan Fund Program that, upon fulfillment of these requirements by the borrowing unit, could be forgiven at some future point. For purposes of the basic financial statements, the Bond Bank recognizes forgiveness expense within these funds as the related loans are repaid. Loans forgiven under this program in 2012 were \$1,884,314.

Within the Clean Water Revolving Loan Fund Group, the Bond Bank is participating in a linked deposit loan program with local banks to encourage environmentally sound logging practices. Under the program, the Bond Bank is subsidizing loans to loggers by investing in certificates of deposit at the respective banks at rates 2% below normal which is passed on as a subsidy to the borrower. At June 30, 2012, the Bond Bank has approximately \$6,162,000 of certificates of deposits outstanding at various banks of which approximately \$894,000 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	\$100,108,883
Loans forgiven	(79,260,973)
Other amounts reserved for program loans and costs	<u>9,627,974</u>

30,475,884

Unreserved amounts available

1,281,663

Net assets at June 30, 2012

\$ 31,757,547

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

7. School Facilities Fund Group (Continued)

Under the provisions of the grants, the Bond Bank is allowed administrative costs up to 0.5% of the highest fund balance in any fiscal year. The total administrative costs allowed through June 30, 2012 are \$3,215,766, with \$1,934,103 expended to date. The remaining amount of \$1,281,663 can be used for future administrative costs.

Portions of the loans made to school administrative units from the School Facilities Fund Group are forgiven. For purposes of the general purpose financial statements, the Bond Bank recognizes forgiveness expense within this fund at the time the loans are disbursed to the school administrative unit. This accounting treatment differs from the treatment within the Drinking Water and Clean Water Revolving Loan Funds due to the fact that there are no relevant continuing criteria that would require recognition of the forgiven amount as the related loans are repaid. The total amounts forgiven under this program in 2012 were \$5,490,146.

8. Defined Benefit Pension Plan and Other Postemployment Benefits

Pension Plan Description and Funding Policy

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

In accordance with State statute, participants are required to contribute 6.5% of their annual covered salary to the Plan. The Bond Bank's payroll for the year ended June 30, 2012 for employees covered by the Plan was approximately \$1,068,000, 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, 2012, 2011 and 2010 were \$46,976, \$35,864 and \$27,676 (employer) and \$69,397 \$66,604 and \$64,247 (employee), respectively.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

Other Postemployment Benefits (OPEB)

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

Funding Policy: The post employment healthcare benefits are currently being funded on a pay-as-you-go basis (the Bond Bank paid approximately \$3,900 in 2012). No assets have been segregated and restricted to provide post-employment benefits.

Annual OPEB Cost: For 2012, the Bond Bank's annual OPEB cost (expense) of \$43,728 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 2012, 2011 and 2010 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>
6/30/12	\$43,728	0%	\$250,266
6/30/11	68,846	0	206,538
6/30/10	68,846	0	137,692

Funded Status and Funding Progress:

For the year-end June 30, 2012, the Bond Bank's OPEB funding progress is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (ALL)</u>	<u>Unfunded ALL (UALL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UALL as a Percentage of Covered Payroll</u>
⁽¹⁾ 1/1/2011	\$ —	\$601,600	\$601,600	0%	\$1,068,000	56%

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

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

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

9. Refunding Issues

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

On October 27, 2011, the Bond Bank issued \$26,145,000 in General Tax-Exempt Series 2011 F bonds with an average interest rate of 3.90% to in-substance defease \$26,515,000 of various outstanding maturities of the 2001 D, 2002 F, 2003 C and 2003 E bonds with an average interest rate of 4.60%. The net proceeds of approximately \$28,477,000, including a bond premium of approximately \$2,493,000 and after payment of approximately \$161,000 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 \$1.4 million in the year ending June 30, 2012, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$2.1 million over the next twenty-one years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1.5 million. As a result of the in-substance defeasance, the Bond Bank will reduce future debt service requirements of borrowers by approximately \$1.4 million over a period of twenty-one years commencing in fiscal 2012.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

9. Refunding Issues (Continued)

On May 24, 2012, the Bond Bank issued \$61,060,000 in General Tax-Exempt Series 2012 B and C bonds, consisting of \$38,940,000 in tax-exempt and \$22,120,000 in taxable bonds with an average interest rate of 4.85% and 1.58%, respectively, to in-substance defease \$61,585,000 of various outstanding maturities of the 2002 D, 2003 A, 2004 A, 2004 D, 2005 C and 2005 E bonds with an average interest rate of 4.85%. The net proceeds of approximately \$68,760,000, including a bond premium of approximately \$8,202,000 and after payment of approximately \$502,000 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 \$6.7 million in the year ending June 30, 2012, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$4.3 million over the next fourteen years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$3.8 million. As a result of the in-substance defeasance, the Bond Bank will reduce future debt service requirements of borrowers by approximately \$3.5 million over a period of fourteen years commencing in fiscal 2013.

On March 22, 2012, the Bond Bank issued \$17,735,000 in Sewer and Water bonds with an average interest rate of 3.80% to in-substance defease \$17,800,000 of various outstanding maturities of the 2003 A and 2003 C bonds with an average interest rate of 4.50%. The net proceeds of approximately \$19,184,000, including a bond premium of approximately \$1,988,000 and after payment of approximately \$179,000 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 \$137 million in the year ending June 30, 2012, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$3.9 million over the next thirteen years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1.2 million. As a result of the in-substance defeasance, the Bond Bank will reduce future debt service requirements of borrowers by approximately \$1.2 million over a period of thirteen years commencing in fiscal 2012.

On January 18, 2012, a borrower funded an escrow to defease \$275,000 of various outstanding maturities of outstanding General Resolution 2003A bonds. The bonds will be repaid through escrow and have a final redemption date of November 1, 2013.

At June 30, 2012, the remaining balances of the General Tax-Exempt Fund Group and Clean Water Revolving Loan Fund in-substance defeased bonds total approximately \$177,335,000 and \$17,800,000, respectively.

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.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

10. Pass-Through State Grants (Continued)

Riverfront Community Development Program

The Bond Bank received no additional State of Maine grants as of June 30, 2012. Of the deferred monies from the previous year totaling \$1,622,686, \$1,525,334 has been passed on to qualifying municipalities. The balance of \$97,352 plus \$4,958 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

The Bond Bank received no additional State of Maine grants as of June 30, 2012. Of the deferred monies from the previous year totaling \$348,872, \$248,275 has been passed on to qualifying municipalities. The balance of \$100,597 plus \$1,446 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, 2012

	<u>Expenses</u>	<u>Program Revenues</u>				<u>Net Revenue (Expense) and Changes in net assets</u>
		<u>Charges for Services</u>	<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants/ Contributions</u>	<u>Total</u>
Functions/Programs:						
Maine Municipal Bond Bank	<u>\$(81,049,146)</u>	<u>\$65,369,590</u>	<u>\$17,411,453</u>	<u>\$493,995</u>	<u>\$27,393,340</u>	<u>\$ 29,619,232</u>
Total	<u>\$(81,049,146)</u>	<u>\$65,369,590</u>	<u>\$17,411,453</u>	<u>\$493,995</u>	<u>\$27,393,340</u>	<u>29,619,232</u>
General revenues:						
Unrestricted interest and investment earnings						65,803
Non program specific grants, contributions and appropriations						—
Miscellaneous income						1,179,130
Loss on assets held for sale						—
Extraordinary item						<u>—</u>
Total general revenues and extraordinary items						<u>1,244,933</u>
Changes in net assets						30,864,165
Net assets, beginning of year						<u>588,459,890</u>
Net assets, end of year						<u>\$ 619,324,055</u>

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