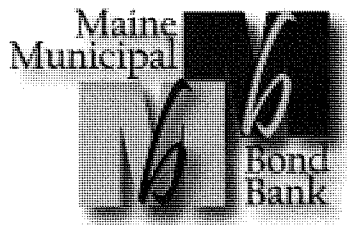


MAINE STATE LEGISLATURE

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Michael R. Goodwin, *Executive Director*
Tel 207-622-9386
Fax 207-623-5359

November 14, 2014

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 2014 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-three year history the Bond Bank has never experienced a default.

Within the 2014 fiscal year, the Bond Bank sold \$32,775,000 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 Bank and the Department of Education have successfully committed \$9,331,229 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 \$34,612,723 to finance 24 projects in fiscal year 2014.

The Transportation Grant Anticipation Fund did not issue GARVEE bonds in fiscal year 2014.

The Transportation Infrastructure Fund did not issue TRANSCAP Revenue bonds in fiscal year 2014.

The Qualified School Construction Bonds Program did not sell QSCB's in fiscal year 2014.

We are proud of our accomplishments within fiscal year 2014 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".

Stephen R. Crockett
Chairman

Maine Municipal Bond Bank

Basic Financial Statements and
Management's Discussion and Analysis

Year Ended June 30, 2014
With Independent Auditors' Report

MAINE MUNICIPAL BOND BANK

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

For the Year Ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Municipal Bond Bank

We have audited the accompanying financial statements, consisting of the General Operating Account, General Tax-Exempt Fund Group, Grant Anticipation Fund Group, Transportation Infrastructure Fund Group, Qualified School Construction Fund Group, Liquor Operation Revenue Fund Group, Clean Water and Drinking Water Revolving Loan Fund Groups and Operating Fund Group and the School Facilities Fund Group of Maine Municipal Bond Bank (the Bond Bank), which comprise the statements of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements. The Bond Bank is a component unit of the State of Maine.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bond Bank, as well as the individual fund groups referred to above, as of June 30, 2014, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in notes 2 and 10, the Bond Bank adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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



Limited Liability Company

Portland, Maine
September 16, 2014

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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, 2014. 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 \$727,823 for fiscal year 2014, a decrease of \$388,092 or 34.8% from fiscal year 2013. This was primarily attributed to a decrease of \$504,048 of pass-through grant revenue from the State of Maine to fund the Riverfront Community Development and Municipal Investment Trust Fund programs. There was also an increase in other income of approximately \$89,300, which relates primarily to origination fees received in conjunction with the issuance of bonds within the Liquor Operation Revenue Fund Group.
- Net position in the Bond Bank's General Operating Account increased \$201,606 in fiscal year 2014. This increase is the net result of Operating Revenues totaling \$727,823, Operating Transfers totaling \$577,801 and Operating Expenses totaling \$1,104,018. Operating Transfers from the General Tax-Exempt Fund Group are mandated by the Bond Bank's annual operating budget. At June 30, 2014, the Bond Bank's General Operating Account had a net position of \$28,189,751.
- The Bond Bank's gross principal amount of bonds outstanding at June 30, 2014 of \$1,582,782,119 represents a net increase of \$129,556,631 over the balance at June 30, 2013. This increase was the net result of the General Tax Exempt Resolution issuing Series 2013B and 2014A bonds, totaling \$32,775,000, the Liquor Operation Revenue Resolution issuing 2013A bonds totaling \$220,660,000, and the Qualified School Construction Resolution issuing 2013 Series C bonds totaling \$1,150,238, less the scheduled debt service principal payments of \$125,028,607. Refer to note 4 to the financial statements for a detail of bonds payable activity in 2014.
- The Bond Bank committed loans to local governmental units during fiscal year 2014 totaling \$72,688,342, which was a 51.4% decrease from the loans committed in fiscal year 2013. 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 \$5,993,975 in potential loan forgiveness in fiscal year 2014, which was a 140.8% increase from fiscal year 2013.
- The provisions of Governmental Accounting Standards Board Statement No. 65 were adopted as of July 1, 2013. This resulted in a decrease of \$6,510,744 to the combined net position, beginning of year. Refer to footnote 10 of the accompanying financial statements.

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, 2014

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 resolutions. The Bond Bank may also administer pass-through grants from time-to-time for various state agencies 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 fuel taxes, vanity license plate fees, etc.) collected by the State of Maine.

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

The Bond Bank administers the Liquor Operation Revenue Fund Group under which the Bond Bank issues bonds which are exempt from State of Maine income taxes (but not federal income taxes) for the purpose of making advances to the State of Maine to make payments to health care providers for services provided prior to December 1, 2012 under the MaineCare program. The bonds are repaid from a portion of future liquor revenues collected by the State Bureau of Alcoholic Beverages and Lottery Operations.

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. 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. Beginning with fiscal year 2010 federal grants, the programs have provided 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, 2014

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 contracts with an arbitrage consultant to maintain and prepare all rebate calculations that will be filed with the Internal Revenue Service.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

Net position may serve, over time, as a useful indicator of a government's financial position. In the case of the Bond Bank, net position totaled \$648,141,347 at June 30, 2014. This represents an increase of \$21,839,407 or 3.5% over the previous fiscal year. Most of this increase is due to revenues exceeding expenses in the Sewer and Water Fund Groups as federal and state matching grants are received to fund revolving loans to eligible borrowers. Restricted net position totals \$577,446,830, unrestricted net position totals \$70,146,122 and net investment in capital assets totals \$548,395 at June 30, 2014. The largest portion of the Bond Bank's net position is its investment in loans to governmental units and investments held by trustee included in the Sewer and Water and School Facilities Fund Groups (provided by grants).

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2014

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

MAINE MUNICIPAL BOND BANK

Statements of Net Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u> (As Restated)	<u>Percentage Change</u>
Current assets:			
Cash	\$ 246,263	\$ 311,842	(21.0)%
Investments held by trustee	208,768,222	195,615,751	6.7
Operating investments	21,249,199	19,475,076	9.1
Loans receivable from governmental units	126,907,926	126,018,560	0.7
Advances to State of Maine	45,334,223	24,884,599	82.2
Grant receivable from the State of Maine	—	3,901,073	(100.0)
Accrued investment income receivable	1,020,426	863,517	18.2
Accrued interest and fees receivable on loans to governmental units and advances to the State of Maine	8,721,709	9,406,948	(7.3)
Undisbursed federal letter of credit payments	40,319,894	33,022,048	22.1
Due from other funds	5,695,394	6,669,933	(14.6)
Other assets	<u>191,469</u>	<u>149,652</u>	<u>27.9</u>
Total current assets	458,454,725	420,318,999	9.1
Noncurrent assets:			
Investments held by trustee	167,073,967	145,690,015	14.7
Loans receivable from governmental units	1,308,308,974	1,370,860,607	(4.6)
Advances to State of Maine	427,642,929	279,160,667	53.2
Land and building, net of depreciation	<u>548,395</u>	<u>606,529</u>	<u>(9.6)</u>
Total noncurrent assets	<u>1,903,574,265</u>	<u>1,796,317,818</u>	<u>6.0</u>
Total assets	<u>2,362,028,990</u>	<u>2,216,636,817</u>	<u>6.6</u>
Deferred outflows of resources:			
Unamortized refunding benefits rebated to governmental units	996,543	1,498,518	(33.5)
Unamortized deferred loss on refundings	<u>21,558,857</u>	<u>26,275,583</u>	<u>(18.0)</u>
Total deferred outflows of resources	\$ 22,555,400	\$ 27,774,101	(18.8)%

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2014

	<u>2014</u>	<u>2013</u> (As Restated)	<u>Percentage Change</u>
Current liabilities:			
Accounts payable and accrued liabilities	\$ 730,714	\$ 568,496	28.5%
Due to other funds	5,695,394	6,669,933	(14.6)
Accrued interest payable	12,385,211	12,544,612	(1.3)
Unearned grant revenue	272,727	—	—
Undisbursed loans	34,212,981	35,684,618	(4.1)
Accrued interest rebate payable to U.S. Government	723,879	180,236	301.6
Due to State of Maine	44,457,062	45,732,580	(2.8)
Bonds payable, net	<u>151,070,374</u>	<u>133,815,411</u>	<u>12.9</u>
Total current liabilities	<u>249,548,342</u>	<u>235,195,886</u>	<u>6.1</u>
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	1,004,730	1,178,091	(14.7)
Bonds payable, net	<u>1,485,889,971</u>	<u>1,381,735,001</u>	<u>7.5</u>
Total noncurrent liabilities	<u>1,486,894,701</u>	<u>1,382,913,092</u>	<u>7.5</u>
Total liabilities	<u>1,736,443,043</u>	<u>1,618,108,978</u>	<u>7.3</u>
Net position:			
Net investment in capital assets	548,395	606,529	(9.6)
Restricted	577,446,830	552,582,743	4.5
Unrestricted	<u>70,146,122</u>	<u>73,112,668</u>	<u>(4.1)</u>
Total net position	<u>648,141,347</u>	<u>626,301,940</u>	<u>3.5</u>

Total short and long-term investments held by trustee at June 30, 2014 increased \$34,536,423 or 10.1% from June 30, 2013. The increase was the net result of additional reserve fund investments purchased of approximately \$31,074,100 and investments purchased for a capitalized interest fund of approximately \$3,596,900 in conjunction with the fiscal year 2014 bond issuances, and the net impact of drawdowns of investments for equity loans to borrowers and the repayment on equity loans from borrowers in 2014. Additionally, investments had a net decrease in fair value of \$772,045 in 2014, as compared to a net decrease of \$10,457,478 in 2013. 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 position. The Bond Bank's investments are scheduled to mature to meet operating or debt service requirements and are normally held until maturity.

The Bond Bank's net loans (bond and equity) to governmental units decreased \$61,662,267 in fiscal year 2014. The Bond Bank's total new loan commitments in 2014 of \$72,688,342 was a 51.4% decrease from the 2013 commitments of \$149,654,034. Net bonds payable increased \$121,409,933 primarily as a result of the issuance of the 2013 Series A Liquor Operation Revenue Bonds totaling \$220,660,000.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2014

The Advances to State of Maine increased \$168,931,886 or 55.6% primarily as a result of advances made to the State of Maine in conjunction with the issuance of the 2013 Series A Liquor Operation Revenue Bonds totaling \$220,600,000.

Grants receivable from State of Maine decreased \$3,901,073 from June 30, 2013. The State match of federal awards in the Clean Water and Drinking Water revolving loan funds for fiscal 2013 was not received until fiscal 2014 and, therefore, a receivable of \$3,901,073 was recorded at June 30, 2013. In fiscal 2014, the State match for the 2014 federal award was received in the current year. Additionally, the Bond Bank received \$272,727 of state match monies related to fiscal 2015 federal awards. This amount has been recorded as unearned grant revenue at June 30, 2014.

Unamortized refunding benefits rebated to governmental units and unamortized deferred loss on refundings have decreased \$501,975 and \$4,716,726 from 2013, respectively. The decreases are due to current year amortization.

Undisbursed loans at June 30, 2014, decreased \$1,471,637 or 4.1% from fiscal 2013. This decrease is primarily a timing issue between when grants are awarded, loans are committed and related funds are disbursed.

Accrued interest rebate payable to the U.S. Government increased \$370,282 from fiscal 2013 primarily as a result of an increase in the investment return within the restricted reserve funds.

The Bond Bank's financial position improved as net position increased 3.5% in fiscal year 2014. 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, 2014

MAINE MUNICIPAL BOND BANK

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u> <u>(As Restated)</u>	<u>Percentage</u> <u>Change</u>
Interest on loans receivable from governmental units	\$ 45,124,051	\$ 48,580,154	(7.1)%
Program revenue from State of Maine	15,394,217	12,848,697	19.8
Interest income from investments	8,392,575	6,077,100	38.1
Net decrease in the fair value of investments	(772,045)	(10,457,478)	92.6
Grant revenue from Environmental Protection Agency	18,756,000	19,915,000	(5.8)
Grant revenue from State of Maine	3,770,024	4,772,919	(21.0)
Other income	<u>2,735,143</u>	<u>1,263,928</u>	<u>116.4</u>
Total operating revenue	93,399,965	83,000,320	12.5
Interest expense	59,673,387	57,493,160	3.8
Operating expenses (direct and shared)	5,253,769	5,286,107	(0.6)
Cost of issuance expense	1,608,904	705,438	128.1
Pass-through grant expense	—	204,048	(100.0)
Loan forgiveness	4,522,523	4,711,175	(4.0)
Amortization of refunding benefits rebated to governmental units	<u>501,975</u>	<u>711,488</u>	<u>(29.4)</u>
Total operating expenses	<u>71,560,558</u>	<u>69,111,416</u>	<u>3.5</u>
Operating income	21,839,407	13,888,904	57.2
Net position, beginning of year	632,812,684	619,324,055	2.2
Effect of change in accounting principle on beginning of year net position	<u>(6,510,744)</u>	<u>(6,911,019)</u>	<u>(5.8)</u>
Net position, beginning of year, as restated	<u>626,301,940</u>	<u>612,413,036</u>	<u>2.3</u>
Net position, end of year	<u>\$ 648,141,347</u>	<u>\$ 626,301,940</u>	<u>3.5%</u>

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

Interest income from investments in 2014 increased 38.1% from 2013. This increase was primarily the result of an improving short-term interest rate environment, an increase in long-term interest rates, the addition of funds invested within the Liquor Operation Revenue Fund Group and higher overall average investment balances. Also included in interest income in 2014 is \$688,333 received from the IRS representing a refund for arbitrage overpaid in prior years within the General Bond Resolution.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2014

Program revenue from the State of Maine increased \$2,545,520 in fiscal year 2014 over fiscal year 2013 or 19.8% as a result of the addition of the Liquor Operation Revenue Fund Group.

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 \$18,756,000 in fiscal year 2014, which was a 5.8% decrease from 2013. The Bond Bank recorded grant revenue from the State of Maine totaling \$3,770,024 in 2014, which decreased \$1,002,895 or 21.0% from 2013 grants. The fiscal year 2014 State grants consist of State of Maine matching funds for the Sewer and Water Funds Groups totaling \$3,751,200 and grants to the School Facilities Fund Group totaling \$18,824.

Other income increased \$1,471,215 in fiscal year 2014 or 116.4% over fiscal year 2013 as the result of the revenues received from the 2013 Series A Liquor Operation Revenue Bond issue to pay for cost of issuance relating to the bond issue.

Cost of issuance expenses increased in fiscal year 2014 over 2013 by \$903,466 or 128.1% as a result of issuing more bonds in fiscal year 2014.

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 2014 was \$1,857,678 and \$1,083,049 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 2014 was \$1,581,796. Forgiveness expense will vary from year to year depending upon repayment and drawdown activity within the respective programs.

Requests for Information

This financial report is designed to provide a general overview of the Bond Bank's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Municipal Bond Bank, P.O. Box 2268, Augusta, Maine 04338-2268.

MAINE MUNICIPAL BOND BANK

STATEMENTS OF NET POSITION

June 30, 2014

	<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>
ASSETS				
Current assets:				
Cash	\$ 246,263	\$ —	\$ —	\$ —
Investments held by trustee (notes 3 and 5)	—	42,977,817	—	42,356,137
Operating investments (note 3)	21,249,199	—	—	—
Loans receivable from governmental units (note 4)	346,996	87,791,738	—	—
Advances to State of Maine (note 4)	—	—	13,136,734	12,537,489
Accrued investment income receivable	55,588	361,960	—	79,007
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	10,281	6,071,676	1,211,498	—
Undisbursed federal letter of credit payments	—	—	—	—
Due from other funds	5,173,625	—	—	—
Other assets	<u>184,800</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total current assets	27,266,752	137,203,191	14,348,232	54,972,633
Noncurrent assets:				
Investments held by trustee (notes 3 and 5)	—	120,065,826	—	10,085,533
Loans receivable from governmental units (note 4)	1,083,531	841,335,284	—	—
Advances to State of Maine (note 4)	—	—	70,110,586	183,375,858
Land and building, net of depreciation of \$1,333,487	<u>548,395</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total noncurrent assets	<u>1,631,926</u>	<u>961,401,110</u>	<u>70,110,586</u>	<u>193,461,391</u>
Total assets	<u>28,898,678</u>	<u>1,098,604,301</u>	<u>84,458,818</u>	<u>248,434,024</u>

DEFERRED OUTFLOWS OF RESOURCES (NOTES 2 AND 10)

Unamortized refunding benefits rebated to governmental units	—	621,991	—	—
Unamortized deferred loss on refundings	<u>—</u>	<u>20,655,403</u>	<u>—</u>	<u>—</u>
Total deferred outflows of resources	<u>—</u>	<u>21,277,394</u>	<u>—</u>	<u>—</u>

Qualified School Construction Fund Group	Liquor Operation Revenue Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
		Revolving Loan Fund Groups	Operating Fund Group			
		Clean Water	Drinking Water			
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 246,263
-	4,288,302	77,496,548	16,007,622	6,710,905	18,930,891	208,768,222
-	-	-	-	-	-	21,249,199
1,939,558	-	25,897,576	6,777,429	-	4,154,629	126,907,926
-	19,660,000	-	-	-	-	45,334,223
64,441	175,381	216,280	9,872	2,136	55,761	1,020,426
301,732	-	928,817	197,705	-	-	8,721,709
-	-	26,278,239	14,041,655	-	-	40,319,894
-	-	476,716	-	45,053	-	5,695,394
-	-	5,553	1,116	-	-	191,469
2,305,731	24,123,683	131,299,729	37,035,399	6,758,094	23,141,281	458,454,725
4,126,286	27,733,043	4,392,879	670,400	-	-	167,073,967
26,716,095	-	295,509,368	133,197,278	-	10,467,418	1,308,308,974
-	174,156,485	-	-	-	-	427,642,929
-	-	-	-	-	-	548,395
30,842,381	201,889,528	299,902,247	133,867,678	-	10,467,418	1,903,574,265
33,148,112	226,013,211	431,201,976	170,903,077	6,758,094	33,608,699	2,362,028,990
-	-	314,197	60,355	-	-	996,543
-	-	900,530	2,924	-	-	21,558,857
-	-	1,214,727	63,279	-	-	22,555,400

MAINE MUNICIPAL BOND BANK

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2014

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Fund Groups Grant Anticipation Fund Group</u>	<u>Transportation Infrastructure Fund Group</u>
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued liabilities (note 8)	\$ 708,927	\$ —	\$ —	\$ —
Due to other funds	—	4,415,487	—	23,960
Accrued interest payable	—	7,129,373	1,211,498	2,992,581
Unearned grant revenue	—	—	—	—
Undisbursed loans	—	150,000	—	—
Accrued interest rebate payable to U.S. Government	—	723,879	—	—
Due to State of Maine	—	—	—	39,702,236
Bonds payable, net (note 4)	<u>—</u>	<u>101,582,445</u>	<u>13,136,734</u>	<u>12,537,489</u>
Total current liabilities	708,927	114,001,184	14,348,232	55,256,266
Noncurrent liabilities:				
Accrued interest rebate payable to U.S. Government	—	971,687	—	—
Bonds payable, net (note 4)	<u>—</u>	<u>966,525,158</u>	<u>70,110,586</u>	<u>193,177,758</u>
Total noncurrent liabilities	<u>—</u>	<u>967,496,845</u>	<u>70,110,586</u>	<u>193,177,758</u>
Total liabilities	<u>708,927</u>	<u>1,081,498,029</u>	<u>84,458,818</u>	<u>248,434,024</u>
<u>NET POSITION</u>				
Net investment in capital assets	548,395	—	—	—
Restricted (notes 5, 6 and 7)	—	4,670,829	—	—
Unrestricted (notes 6 and 7)	<u>27,641,356</u>	<u>33,712,837</u>	<u>—</u>	<u>—</u>
Total net position	<u>\$28,189,751</u>	<u>\$ 38,383,666</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes to the financial statements.

Qualified School Construction Fund Group	Liquor Operation Revenue Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
		Revolving Loan Fund Groups		Operating Fund Group		
		Clean Water	Drinking Water			
\$ —	\$ —	\$ 17,500	\$ 456	\$ —	\$ 3,831	\$ 730,714
—	—	464,645	751,830	—	39,472	5,695,394
301,732	598,385	127,908	23,734	—	—	12,385,211
—	—	153,097	119,630	—	—	272,727
—	—	26,842,650	2,686,340	—	4,533,991	34,212,981
—	—	—	—	—	—	723,879
—	4,754,826	—	—	—	—	44,457,062
<u>—</u>	<u>19,660,000</u>	<u>3,714,935</u>	<u>438,771</u>	<u>—</u>	<u>—</u>	<u>151,070,374</u>
301,732	25,013,211	31,320,735	4,020,761	—	4,577,294	249,548,342
—	—	33,043	—	—	—	1,004,730
<u>32,846,380</u>	<u>201,000,000</u>	<u>18,877,392</u>	<u>3,352,697</u>	<u>—</u>	<u>—</u>	<u>1,485,889,971</u>
<u>32,846,380</u>	<u>201,000,000</u>	<u>18,910,435</u>	<u>3,352,697</u>	<u>—</u>	<u>—</u>	<u>1,486,894,701</u>
<u>33,148,112</u>	<u>226,013,211</u>	<u>50,231,170</u>	<u>7,373,458</u>	<u>—</u>	<u>4,577,294</u>	<u>1,736,443,043</u>
—	—	—	—	—	—	548,395
—	—	381,863,473	163,128,759	—	27,783,769	577,446,830
<u>—</u>	<u>—</u>	<u>322,060</u>	<u>464,139</u>	<u>6,758,094</u>	<u>1,247,636</u>	<u>70,146,122</u>
\$ —	\$ —	\$ 382,185,533	\$ 163,592,898	\$ 6,758,094	\$ 29,031,405	\$ 648,141,347

MAINE MUNICIPAL BOND BANK

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30, 2014

	<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	\$ 58,927	\$38,882,130	\$ —	\$ —
Program revenue from State of Maine	—	—	3,612,572	7,618,127
Interest income from investments	191,776	5,750,985	—	396,968
Net increase (decrease) in the fair value of investments	(127,998)	(984,745)	—	15,179
Grant revenue from Environmental Protection Agency (note 6)	—	—	—	—
Grant revenue from State of Maine (notes 6 and 7)	—	—	—	—
Other income	<u>605,118</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total operating revenues	727,823	43,648,370	3,612,572	8,030,274
Operating expenses:				
Interest expense	—	39,719,081	3,464,177	7,945,926
Operating expenses (direct and shared) (note 8)	1,104,018	56,405	148,395	84,348
Cost of issuance expense	—	192,623	—	—
Loan forgiveness (notes 6 and 7)	—	—	—	—
Amortization of refunding benefits rebated to governmental units	<u>—</u>	<u>307,573</u>	<u>—</u>	<u>—</u>
Total operating expenses	<u>1,104,018</u>	<u>40,275,682</u>	<u>3,612,572</u>	<u>8,030,274</u>
Operating income (loss) before operating transfers	(376,195)	3,372,688	—	—
Operating transfers	<u>577,801</u>	<u>(557,475)</u>	<u>—</u>	<u>—</u>
Operating income (loss)	201,606	2,815,213	—	—
Net position, beginning of year as previously reported	27,988,145	41,850,357	—	—
Effect of change in accounting principle on beginning of year net position (note 10)	<u>—</u>	<u>(6,281,904)</u>	<u>—</u>	<u>—</u>
Net position, beginning of year, as restated	<u>27,988,145</u>	<u>35,568,453</u>	<u>—</u>	<u>—</u>
Net position, end of year	<u>\$28,189,751</u>	<u>\$38,383,666</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes to the financial statements.

Qualified School Construction Fund Group	Liquor Operation Revenue Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
		Revolving Loan Fund Groups		Operating Fund Group		
		Clean Water	Drinking Water			
\$ 1,663,076	\$ —	\$ 3,612,876	\$ 907,042	\$ —	\$ —	\$ 45,124,051
—	4,163,518	—	—	—	—	15,394,217
150,384	645,035	895,091	132,712	26,747	202,877	8,392,575
(21,842)	1,095,513	(516,335)	(91,235)	(24,085)	(116,497)	(772,045)
—	—	10,335,000	8,421,000	—	—	18,756,000
—	—	2,067,000	1,684,200	—	18,824	3,770,024
<u>—</u>	<u>1,416,281</u>	<u>—</u>	<u>—</u>	<u>713,744</u>	<u>—</u>	<u>2,735,143</u>
1,791,618	7,320,347	16,393,632	11,053,719	716,406	105,204	93,399,965
1,791,618	5,904,066	711,276	137,243	—	—	59,673,387
—	—	673,030	2,308,595	214,065	664,913	5,253,769
—	1,416,281	—	—	—	—	1,608,904
—	—	1,083,049	1,857,678	—	1,581,796	4,522,523
<u>—</u>	<u>—</u>	<u>163,436</u>	<u>30,966</u>	<u>—</u>	<u>—</u>	<u>501,975</u>
<u>1,791,618</u>	<u>7,320,347</u>	<u>2,630,791</u>	<u>4,334,482</u>	<u>214,065</u>	<u>2,246,709</u>	<u>71,560,558</u>
—	—	13,762,841	6,719,237	502,341	(2,141,505)	21,839,407
<u>—</u>	<u>—</u>	<u>(13,697)</u>	<u>(30,580)</u>	<u>23,951</u>	<u>—</u>	<u>—</u>
—	—	13,749,144	6,688,657	526,292	(2,141,505)	21,839,407
—	—	368,654,443	156,915,027	6,231,802	31,172,910	632,812,684
<u>—</u>	<u>—</u>	<u>(218,054)</u>	<u>(10,786)</u>	<u>—</u>	<u>—</u>	<u>(6,510,744)</u>
<u>—</u>	<u>—</u>	<u>368,436,389</u>	<u>156,904,241</u>	<u>6,231,802</u>	<u>31,172,910</u>	<u>626,301,940</u>
\$ <u>—</u>	\$ <u>—</u>	\$ 382,185,533	\$ 163,592,898	\$ 6,758,094	\$ 29,031,405	\$ 648,141,347

MAINE MUNICIPAL BOND BANK

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2014

	<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 ACTIVITIES:				
Cash received from governmental units and State of Maine	\$ 401,214	\$ 128,013,955	\$ 16,479,733	\$ 38,577,154
Cash payments to governmental units	—	(31,379,683)	—	—
Cash payments to State of Maine	—	—	—	(24,817,371)
Cash received from other income	605,118	—	—	—
Cash payments for operating expenses	(873,679)	(56,405)	(148,395)	(84,348)
Cash paid for bond issuance costs	—	(192,623)	—	—
Cash received from (paid to) other funds	1,597,393	(1,023,385)	—	(13,328)
Cash paid for other assets and liabilities	<u>(39,115)</u>	<u>—</u>	<u>(3,049)</u>	<u>—</u>
Net cash provided (used) by operating activities	1,690,931	95,361,859	16,328,289	13,662,107
NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds payable	—	34,417,113	—	—
Principal paid on bonds payable	—	(94,628,607)	(12,465,000)	(11,065,000)
Interest paid on bonds payable	—	(43,690,114)	(3,866,338)	(9,203,292)
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	—	(103,901,608)	(16,331,338)	(20,268,292)
INVESTING ACTIVITIES:				
Purchase of investment securities	(26,033,930)	(214,869,964)	(38)	(173,874,628)
Proceeds from sale and maturities of investment securities	24,131,809	216,512,191	3,087	180,113,339
Income received from investments	174,336	6,372,682	—	367,474
Interest rebate paid to U.S. Government	—	(163,493)	—	—
Interest rebate refund received from U.S. Government	—	688,333	—	—
Additions to land and building	<u>(28,725)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash (used) provided by investing activities	<u>(1,756,510)</u>	<u>8,539,749</u>	<u>3,049</u>	<u>6,606,185</u>
Decrease in cash	(65,579)	—	—	—
Cash, beginning of year	<u>311,842</u>	<u>—</u>	<u>—</u>	<u>—</u>
Cash, end of year	<u>\$ 246,263</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<u>Qualified School Construction Fund Group</u>	<u>Liquor Operation Revenue Fund Group</u>	<u>Sewer and Water Fund Groups</u>		<u>Operating Fund Group</u>	<u>School Facilities Fund Group</u>	<u>Total</u>
		<u>Revolving Loan Fund Groups</u>				
		<u>Clean Water</u>	<u>Drinking Water</u>			
\$ 3,645,393	\$ —	\$ 28,978,155	\$ 7,153,999	\$ —	\$ 5,142,477	\$ 228,392,080
(1,150,238)	—	(26,581,251)	(9,223,271)	—	(3,677,915)	(72,012,358)
—	(183,481,860)	—	—	—	—	(208,299,231)
—	—	—	—	713,744	—	1,318,862
—	—	(655,530)	(2,308,139)	(214,065)	(661,082)	(5,001,643)
—	(1,416,281)	—	—	—	—	(1,608,904)
—	—	(481,854)	(6,134)	(75,421)	2,729	—
—	—	(1,586)	(1,116)	—	—	(44,866)
2,495,155	(184,898,141)	1,257,934	(4,384,661)	424,258	806,209	(57,256,060)
1,150,238	220,660,000	—	—	—	—	256,227,351
—	—	(6,435,000)	(435,000)	—	—	(125,028,607)
(1,781,649)	(5,305,681)	(908,417)	(149,382)	—	—	(64,904,873)
—	—	9,050,705	10,332,449	—	18,824	19,401,978
(631,411)	215,354,319	1,707,288	9,748,067	—	18,824	85,695,849
(19,079,786)	(41,493,561)	(187,814,809)	(50,839,492)	(6,035,903)	(34,121,582)	(754,163,693)
17,100,446	10,567,729	183,947,216	45,325,238	5,571,806	33,065,506	716,338,367
115,596	469,654	911,748	150,848	39,839	231,043	8,833,220
—	—	(9,377)	—	—	—	(172,870)
—	—	—	—	—	—	688,333
—	—	—	—	—	—	(28,725)
(1,863,744)	(30,456,178)	(2,965,222)	(5,363,406)	(424,258)	(825,033)	(28,505,368)
—	—	—	—	—	—	(65,579)
—	—	—	—	—	—	311,842
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 246,263

MAINE MUNICIPAL BOND BANK

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2014

	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>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 201,606	\$ 2,815,213	\$ —	\$ —
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Interest income from investments	(191,776)	(5,750,985)	—	(396,968)
Net (increase) decrease in the fair value of investments	127,998	984,745	—	(15,179)
Loan forgiveness	—	—	—	—
Depreciation	86,859	—	—	—
Amortization of refunding benefits rebated to governmental units	—	307,573	—	—
Interest expense on bonds payable	—	39,719,081	3,464,177	7,945,926
Federal and State grants	—	—	—	—
Change in assets and liabilities:				
Loans receivable from governmental units and advances to to State of Maine	340,608	57,249,542	12,712,599	12,172,000
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	1,679	502,600	154,562	—
Due to/from other funds	1,019,592	(465,910)	—	(13,328)
Other assets	(39,115)	—	—	—
Accounts payable and accrued liabilities	143,480	—	(3,049)	—
Due to State of Maine	—	—	—	(6,030,344)
Net cash provided (used) by operating activities	\$ <u>1,690,931</u>	\$ <u>95,361,859</u>	\$ <u>16,328,289</u>	\$ <u>13,662,107</u>

See accompanying notes to the financial statements.

Qualified School Construction Fund Group	Liquor Operation Revenue Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
		Revolving Loan Fund Groups	Operating Fund Group			
		Clean Water	Drinking Water			
\$ —	\$ —	\$ 13,749,144	\$ 6,688,657	\$526,292	\$(2,141,505)	\$ 21,839,407
(150,384)	(645,035)	(895,091)	(132,712)	(26,747)	(202,877)	(8,392,575)
21,842	(1,095,513)	516,335	91,235	24,085	116,497	772,045
—	—	1,083,049	1,857,678	—	1,581,796	4,522,523
—	—	—	—	—	—	86,859
—	—	163,436	30,966	—	—	501,975
1,791,618	5,904,066	711,276	137,243	—	—	59,673,387
—	—	(12,402,000)	(10,105,200)	—	(18,824)	(22,526,024)
842,058	(193,816,485)	(1,260,802)	(2,967,861)	—	1,464,562	(113,263,779)
(9,979)	—	44,830	(8,453)	—	—	685,239
—	—	(468,157)	24,446	(99,372)	2,729	—
—	—	(1,586)	(1,116)	—	—	(41,817)
—	—	17,500	456	—	3,831	162,218
—	4,754,826	—	—	—	—	(1,275,518)
<u>\$ 2,495,155</u>	<u>\$(184,898,141)</u>	<u>\$ 1,257,934</u>	<u>\$ (4,384,661)</u>	<u>\$424,258</u>	<u>\$ 806,209</u>	<u>\$ (57,256,060)</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. Organization

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

Under the Act, the Bond Bank is authorized to issue bonds for the purpose, among other things, of providing funds to enable it to lend money to counties, cities, towns, school administrative districts, community school districts, other quasi-municipal corporations or other eligible borrowers as designated by the Legislature (the governmental units) within the State of Maine. The provision of funds is accomplished by the direct purchase from such governmental units of their bonds, notes or evidence of debt payable from taxes, charges for services, grants or assessments. The Bond Bank is also authorized by the Legislature to issue bonds on behalf of the State of Maine to finance qualified transportation projects and payments to healthcare providers, to be repaid by taxes, fees and grant and liquor 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. At June 30, 2014, the General Operating Account has approximately \$38,000 of amounts due from these related parties, which is included in other assets in the accompanying statements of net position.

The General Operating Account consists of the operating revenues and expenses incurred by the Bond Bank in administering the seven 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, 2014 is \$750,012. 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, 2014 is \$680,515.

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 2014 was approximately \$962,000, and is included in interest on loans receivable from governmental units in the statement of revenues, expenses and changes in net position.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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 2014 was approximately \$381,000 and is included in program revenue from State of Maine in the statement of revenues, expenses and changes in net position.

Qualified School Construction Fund Group: This fund group consists of funds and accounts established under the Bond Bank's General Bond Resolution adopted November 18, 2010. Under this resolution, the Bond Bank issues bonds which are exempt from State of Maine income taxes (but not federal income taxes) and makes loans to qualified governmental units. The bonds issued in this fund group receive a federal interest subsidy payment on each debt service payment date. The total federal interest subsidy received in 2014 was approximately \$1,509,000 and is included in interest on loans receivable from governmental units in the statement of revenues, expenses and changes in net position.

Liquor Operation Revenue Fund Group: This fund group consists of funds and accounts established under the Bond Bank's State Liquor Operation Revenue Bonds Resolution adopted August 21, 2013. Under this resolution, the Bond Bank issues bonds which are exempt from State of Maine income taxes (but not federal income taxes) for the purpose of making advances to the State of Maine to make payments to health care providers for services provided prior to December 1, 2012 under the MaineCare program. The bonds are to be repaid from a portion of future liquor revenues collected by the State Bureau of Alcoholic Beverages and Lottery Operations and transferred to the Bond Bank monthly.

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. Organization (Continued)

School Facilities Fund Group: This fund group consists of funds and accounts established under the Maine School Facilities Finance Program. Under this program, the Bond Bank receives appropriations from the State 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.

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

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

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

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

Arbitrage rebate expense, which is presented as a reduction in the amount of interest income from investments, for the year ended June 30, 2014 was approximately \$543,000 in the General Tax-Exempt Fund Group. In addition, the General Tax-Exempt Fund Group received a refund of approximately \$688,300 for arbitrage overpaid in prior years. This amount is included in interest income from investments for the year ended June 30, 2014. Arbitrage rebate expense in the Clean Water Revolving Fund Group for the year ended June 30, 2014 was not significant.

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.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

2. Significant Accounting Policies (Continued)

Cash includes funds held in interest bearing demand deposit and savings accounts, which, at times, may exceed amounts guaranteed by the Federal Deposit Insurance Corporation. The Bond Bank has not experienced any losses in such accounts and management believes the Bond Bank is not exposed to any significant risk of loss on cash.

Investments: Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net position. Interest earnings on long-term principal-only strips within the general tax-exempt fund group, transportation infrastructure fund group and liquor operation revenue fund group of approximately \$3,801,000, \$217,000 and \$31,600, respectively, have been recorded as interest income from investments in 2014. Reserve fund investments that are not expected to be utilized to fund bond principal and interest payments until after June 30, 2015 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.

Bond Discounts, Premiums and Issuance Costs: Costs associated with issuing debt, which are generally paid by means of fees collected from governmental units, are expensed in the year incurred. Original issue discounts or premiums associated with bond issues are deferred and are being amortized to interest expense over the life of the bond using the bonds outstanding method. For each issue, bond discounts (premiums) are presented as a reduction of (increase to) the face amount of bonds payable (note 4).

Advanced Refundings: All advanced refundings completed within the Bond Bank's General Bond Resolution and Sewer and Water Fund Groups are accounted for in accordance with the provisions of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. Under GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt, or the life of the new debt, whichever is shorter, using the bonds outstanding method. The unamortized portion of the deferred amount is reported as a deferred outflow of resources. Amortization for the year ended June 30, 2014 was approximately \$4,476,000, \$239,000 and \$1,200 for the General Bond Resolution, Clean Water and Drinking Water Revolving Loan Fund Groups, respectively.

The Board of Commissioners determines what percentage, if any, of the gains, losses and economic benefits of advanced refundings gets passed on to the respective governmental units. The refunding benefits rebated to governmental units are deferred and 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.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

2. Significant Accounting Policies (Continued)

Construction Funds: The Sewer and Water General Bond Resolution requires bond proceeds to be deposited into construction funds. Upon deposit into the construction funds, a loan receivable from the governmental unit is recorded and the construction funds are excluded from Sewer and Water Fund Groups. The Bond Bank maintains control over disbursement of these funds until the project is complete. There are no bond proceeds held in Clean Water or Drinking Water Construction funds as of June 30, 2014.

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.

Recently Issued Accounting Pronouncements: In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB 65 requires that bond issuance costs be immediately expensed in the period incurred, and for certain items requires the reclassification of amounts previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources or to expenses or revenues. The impact of adoption of this statement is described in note 10.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

2. Significant Accounting Policies (Continued)

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was amended by Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements establish standards for reporting a pension asset or liability on the statement of net position for a defined benefit plan that is based on the fiduciary plan net position, rather than plan funding. The employer's annual pension expense will no longer be connected to the funding of the plan. This will result in pension expense being different from the actuarially determined annual required contributions. The provisions of these statements are effective for periods beginning after June 15, 2014. Management is currently evaluating the impact these statements will have on the Bond Bank's financial statements.

3. Investments Held By Trustee and Operating Investments

The Bond Bank is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises, state and local government agencies, guaranteed investment contracts, certificates of deposit and collateralized repurchase agreements. At June 30, 2014, investments are categorized as follows:

	<u>Fair Value</u>
<u>General Operating Account</u>	
Operating investments:	
U.S. Government-sponsored enterprises	\$ 19,289,703
Cash and cash equivalents	<u>1,959,496</u>
	\$ <u>21,249,199</u>
 <u>General Tax-Exempt Fund Group</u>	
Investments held by trustee:	
Guaranteed investment contracts	\$ 8,823,113
U.S. Government obligations	20,610,845
U.S. Government-sponsored enterprises	22,320,129
U.S. Treasury strips	41,944,715
U.S. Government-sponsored enterprise strips	50,122,200
Cash and cash equivalents	<u>19,222,641</u>
	\$ <u>163,043,643</u>
 <u>Transportation Infrastructure Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 41,759,520
U.S. Treasury strips	9,099,610
Cash and cash equivalents	<u>1,582,540</u>
	\$ <u>52,441,670</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

	<u>Fair Value</u>
<u>Qualified School Construction Fund Group</u>	
Investments held by trustee:	
U.S. Government obligations	\$ 4,023,637
Cash and cash equivalents	<u>102,649</u>
	<u>\$ 4,126,286</u>
<u>Liquor Operation Revenue Fund Group</u>	
Investments held by trustee:	
U.S. Government obligations	\$ 3,587,366
U.S. Government-sponsored enterprises	26,566,227
U.S. Treasury strips	1,166,815
Cash and cash equivalents	<u>700,937</u>
	<u>\$ 32,021,345</u>
<u>Sewer and Water Fund Groups</u>	
Investments held by trustee:	
Revolving Loan Fund Group – Clean Water:	
Guaranteed investment contracts	\$ 1,531,666
U.S. Government obligations	189,368
U.S. Government-sponsored enterprises	44,176,898
U.S. Government-sponsored enterprise strips	16,757,647
Certificates of deposit	6,002,140
Cash and cash equivalents	<u>13,231,708</u>
	<u>\$ 81,889,427</u>
Revolving Loan Fund Group – Drinking Water:	
U.S. Government-sponsored enterprises	\$ 2,174,689
U.S. Government-sponsored enterprise strips	6,203,308
Cash and cash equivalents	<u>8,300,025</u>
	<u>\$ 16,678,022</u>
Operating Fund Group:	
U.S. Government-sponsored enterprises	\$ 1,702,698
Cash and cash equivalents	<u>5,008,207</u>
	<u>\$ 6,710,905</u>
<u>School Facilities Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 11,608,715
Cash and cash equivalents	<u>7,322,176</u>
	<u>\$ 18,930,891</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Bond Bank's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, guaranteed investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Bond Bank to terminate individual contracts at par. The Bond Bank's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Bond Bank's investments in guaranteed investment contracts, U.S. Government obligations, U.S. Government-sponsored enterprises, U.S. Treasury Strips, U.S. Government-sponsored enterprise strips and certificates of deposit as of June 30, 2014:

	<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>19,289,703</u>	\$ <u>8,777,913</u>	\$ <u>10,511,790</u>	\$ <u>—</u>	\$ <u>—</u>
<u>General Tax Exempt Fund Group</u>					
Guaranteed investment contracts	\$ 8,823,113	\$ —	\$ —	\$ —	\$ 8,823,113
U.S. Government obligations	20,610,845	13,279,273	1,675,840	5,431,541	224,191
U.S. Government-sponsored enterprises	22,320,129	1,633,130	9,600,798	1,744,454	9,341,747
U.S. Treasury strips	41,944,715	6,101,988	17,594,506	17,316,423	931,798
U.S. Government-sponsored enterprise strips	<u>50,122,200</u>	<u>2,740,785</u>	<u>7,970,525</u>	<u>14,373,534</u>	<u>25,037,356</u>
	\$ <u>143,821,002</u>	\$ <u>23,755,176</u>	\$ <u>36,841,669</u>	\$ <u>38,865,952</u>	\$ <u>44,358,205</u>
<u>Transportation Infrastructure Fund Group</u>					
U.S. Government-sponsored enterprises	\$ 41,759,520	\$37,520,520	\$ 4,239,000	\$ —	\$ —
U.S. Treasury strips	<u>9,099,610</u>	<u>—</u>	<u>—</u>	<u>7,860,566</u>	<u>1,239,044</u>
	\$ <u>50,859,130</u>	\$ <u>37,520,520</u>	\$ <u>4,239,000</u>	\$ <u>7,860,566</u>	\$ <u>1,239,044</u>
<u>Qualified School Construction Fund Group</u>					
U.S. Government obligations	\$ <u>4,023,637</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>483,019</u>	\$ <u>3,540,618</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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>Liquor Operation Revenue</u>					
<u>Fund Group</u>					
U.S. Government obligations	\$ 3,587,366	\$ 3,587,366	\$ —	\$ —	\$ —
U.S. Government-sponsored enterprises	26,566,227	—	—	26,566,227	—
U.S. Treasury strips	<u>1,166,815</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,166,815</u>
	<u>\$ 31,320,408</u>	<u>\$ 3,587,366</u>	<u>\$ —</u>	<u>\$26,566,227</u>	<u>\$ 1,166,815</u>
<u>Revolving Loan Fund</u>					
<u>Group – Clean Water</u>					
Guaranteed investment contracts	\$ 1,531,666	\$ —	\$ 167,000	\$ 641,798	\$ 722,868
U.S. Government obligations	189,368	—	189,368	—	—
U.S. Government-sponsored enterprises	44,176,898	37,147,279	7,029,619	—	—
U.S. Government-sponsored enterprise strips	16,757,647	15,314,957	1,442,690	—	—
Certificates of deposit	<u>6,002,140</u>	<u>1,788,857</u>	<u>4,213,283</u>	<u>—</u>	<u>—</u>
	<u>\$ 68,657,719</u>	<u>\$54,251,093</u>	<u>\$13,041,960</u>	<u>\$ 641,798</u>	<u>\$ 722,868</u>
<u>Revolving Loan Fund</u>					
<u>Group–Drinking Water</u>					
U.S. Government-sponsored enterprises	\$ 2,174,689	\$ 2,013,095	\$ —	\$ —	\$ 161,594
U.S. Government-sponsored enterprise strips	<u>6,203,308</u>	<u>6,099,499</u>	<u>103,809</u>	<u>—</u>	<u>—</u>
	<u>\$ 8,377,997</u>	<u>\$ 8,112,594</u>	<u>\$ 103,809</u>	<u>\$ —</u>	<u>\$ 161,594</u>
<u>Sewer and Water Fund</u>					
<u>Groups – Operating Fund</u>					
<u>Group</u>					
U.S. Government-sponsored enterprises	<u>\$ 1,702,698</u>	<u>\$ 1,702,698</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<u>School Facilities Fund</u>					
<u>Group</u>					
U.S. Government-sponsored enterprises	<u>\$ 11,608,715</u>	<u>\$ 6,537,915</u>	<u>\$ 5,070,800</u>	<u>\$ —</u>	<u>\$ —</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014.

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, 2014, 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, 2014, the Bond Bank's guaranteed investment contracts within the General Tax Exempt Fund Group and Revolving Loan Fund Groups are primarily with three institutions, all of which are AA rated or better.

The Bond Bank has invested some of its long-term funds in U.S. Treasury and U.S. Government-sponsored enterprise principal-only strips in order to maximize yields coincident with cash needs for operations, debt service, and arbitrage. These securities are similar to zero coupon bonds which are purchased deeply discounted, with the Bond Bank receiving its only repayment stream at maturity; therefore, they are sensitive to interest rate changes. These securities are reported at fair value in the statements of net position. The fair value of these investments is approximately \$125,300,000 at June 30, 2014.

Trustee held cash and cash equivalents at June 30, 2014 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, 2014 consist entirely of money market funds secured by short-term U.S. Treasury obligations.

4. Bonds Payable

Total General Tax-Exempt Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2014:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2014
Series 2003 A, 3.00% – 5.25%, dated March 1, 2003	2003 – 2020	\$186,050,000	\$ 4,615,739

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2014</u>
Series 2003 B and C, 2.00% – 5.00%, dated May 1, 2003	2003 – 2024	\$ 17,290,000	\$ 735,000
Series 2003 D and E, 2.00% – 5.00%, dated October 1, 2003	2004 – 2033	18,460,000	15,000
Series 2004 A and B, 2.00% – 5.00%, dated May 27, 2004	2004 – 2025	94,565,000	5,935,000
Series 2004 C, 2.00% – 5.00%, dated September 23, 2004	2004 – 2020	58,675,000	20,485,000
Series 2004 D and E, 2.25% – 5.00%, dated October 28, 2004	2005 – 2034	46,850,000	3,625,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2005 – 2021	91,250,000	74,015,000
Series 2005 B and C, 3.00% – 5.00%, dated May 26, 2005	2006 – 2031	22,050,000	3,065,000
Series 2005 D and E, 3.00% – 5.00%, dated October 27, 2005	2006 – 2034	60,395,000	6,725,000
Series 2006 A, 3.48% – 4.77%, dated May 25, 2006	2006 – 2036	14,040,000	2,990,000
Series 2006 B and C, 3.55% – 5.00%, dated October 26, 2006	2007 – 2027	24,065,000	7,505,000
Series 2007 A, 3.75% – 5.00%, dated April 5, 2007	2007 – 2022	51,335,000	49,970,000
Series 2007 B and C, 4.00% – 5.00%, dated May 24, 2007	2007 – 2029	69,380,000	38,245,000
Series 2007 D and E, 4.00% – 5.00%, dated October 25, 2007	2008 – 2037	53,560,000	31,680,000
Series 2008 A and B, 3.00% – 5.00%, dated May 15, 2008	2008 – 2038	49,060,000	35,440,000
Series 2008 C, 4.00% – 5.50%, dated October 30, 2008	2009 – 2038	100,010,000	74,515,000
Series 2009 A, 2.00% – 5.00%, dated March 17, 2009	2009 – 2020	10,060,000	6,630,000
Series 2009 B, 3.00% – 5.00%, dated May 28, 2009	2009 – 2034	42,845,000	34,060,000
Series 2009 C, 1.10% – 4.25%, dated August 27, 2009	2010 – 2029	21,620,000	17,575,000
Series 2009 D, 3.00% – 5.00%, dated August 27, 2009	2010 – 2029	34,930,000	28,080,000
Series 2009 E, 1.25% – 3.00%, dated August 27, 2009	2009 – 2014	4,685,000	750,000
Series 2009 G, 3.00% – 5.00%, dated October 29, 2009	2010 – 2039	9,590,000	7,745,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

4. Bonds Payable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2014
Series 2009 H, 3.00% – 5.00%, dated January 14, 2010	2010 – 2030	\$ 38,710,000	\$ 32,840,000
Series 2010 A, 2.00% – 4.25%, dated May 27, 2010	2010 – 2040	8,320,000	5,215,000
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	92,205,000
Series 2010 DEF, 0.71% – 5.12%, dated October 28, 2010	2011 – 2040	80,165,000	66,995,000
Series 2011 A, 2.37% – 5.00%, dated January 27, 2011	2011 – 2031	80,275,000	72,615,000
Series 2011 C, 2.00% – 5.00%, dated May 26, 2011	2012 – 2041	77,275,000	69,585,000
Series 2011 EF, 2.00% – 5.00%, dated October 27, 2011	2012 – 2033	50,375,000	38,760,000
Series 2012 ABC, 0.67% – 5.00%, dated May 24, 2012	2013 – 2038	66,435,000	62,375,000
Series 2012 E, 1.50% – 4.00%, dated October 25, 2012	2013 – 2042	28,590,000	27,030,000
Series 2012 FG, 0.50% – 5.00%, dated December 11, 2012	2013 – 2034	41,975,000	41,705,000
Series 2013 A, 2.00% – 5.00%, dated May 23, 2013	2014 – 2043	15,905,000	15,905,000
Series 2013 B, 2.00% – 4.50%, dated October 24, 2013	2014 – 2043	13,525,000	13,525,000
Series 2014 A, 2.00% – 5.00%, dated May 22, 2014	2015 – 2044	<u>19,250,000</u>	<u>19,250,000</u>
		<u>\$ 1,712,725,000</u>	<u>\$ 1,024,140,739</u>

Total General Tax-Exempt Fund Group Bonds payable is presented on the statement of net position at June 30, 2014 as follows:

Total principal outstanding	\$ 1,024,140,739
Unamortized original issue premium	<u>43,966,864</u>
Total General Tax-Exempt Fund Group Bonds payable	1,068,107,603
Current portion	<u>101,582,445</u>
Noncurrent portion	<u>\$ 966,525,158</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

4. Bonds Payable (Continued)

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

<u>Due Bond Year</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2014	\$ 94,595,406	\$ 21,388,120	\$ 115,983,526
2015	87,872,358	39,095,047	126,967,405
2016	86,523,516	35,913,046	122,436,562
2017	81,989,459	32,794,245	114,783,704
2018	80,125,000	29,802,781	109,927,781
2019 – 2023	305,225,000	104,850,873	410,075,873
2024 – 2028	196,040,000	46,740,307	242,780,307
2029 – 2033	79,510,000	10,348,178	89,858,178
2034 – 2038	8,125,000	1,740,438	9,865,438
2039 – 2043	3,575,000	485,082	4,060,082
2044	<u>560,000</u>	<u>22,400</u>	<u>582,400</u>
	<u>\$ 1,024,140,739</u>	<u>\$ 323,180,517</u>	<u>\$ 1,347,321,256</u>

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

Municipal loan obligations – principal and interest	\$ 1,183,692,267 ¹
Reserve Funds – principal and interest	<u>163,628,989</u>
	<u>\$ 1,347,321,256</u>

¹ Includes approximately \$11,180,000 of interest to be funded through federal interest subsidy payments.

Total Grant Anticipation Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2014:

	<u>Original</u> <u>Maturity</u>	<u>Original</u> <u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2014</u>
Series 2004 A, 2.50% – 5.00%, dated December 16, 2004	2005 – 2015	\$ 48,395,000	\$10,410,000
Series 2008 A, 3.25% – 4.00%, dated September 10, 2008	2009 – 2020	50,000,000	31,690,000
Series 2010 A, 2.00% – 5.00%, dated December 2, 2010	2011 – 2017	25,915,000	16,175,000
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>\$82,360,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

4. Bonds Payable (Continued)

Total Grant Anticipation Fund Group Bonds payable is presented on the statement of net position at June 30, 2014 as follows:

Total principal outstanding	\$82,360,000
Unamortized original issue premium	<u>887,320</u>
Total Grant Anticipation Fund Group Bonds payable	83,247,320
Less current portion	<u>13,136,734</u>
Noncurrent portion	<u>\$70,110,586</u>

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

<u>Due Bond Year</u> <u>Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2014	\$12,930,000	\$ 1,817,246	\$14,747,246
2015	13,460,000	3,103,980	16,563,980
2016	8,440,000	2,541,255	10,981,255
2017	8,820,000	2,162,555	10,982,555
2018	9,215,000	1,766,605	10,981,605
2019 – 2022	<u>29,495,000</u>	<u>3,130,010</u>	<u>32,625,010</u>
	<u>\$82,360,000</u>	<u>\$14,521,651</u>	<u>\$96,881,651</u>

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

Repayment of advances to State of Maine – principal and interest	<u>\$ 96,881,651</u> ¹
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¹ Includes approximately \$2,732,000 of interest to be funded through federal interest subsidy payments.

Total Transportation Infrastructure Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2014:

	<u>Original</u> <u>Maturity</u>	<u>Original</u> <u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2014</u>
Series 2008 A, 3.00% – 5.50%, dated November 20, 2008	2009 – 2023	\$ 50,000,000	\$ 37,205,000
Series 2009 A, 2.50% – 5.00%, dated July 22, 2009	2010 – 2023	105,000,000	80,890,000
Series 2009 B, 2.00% – 5.00%, dated September 10, 2009	2010 – 2024	30,000,000	26,635,000
Series 2011A, 2.00% – 5.00%, dated December 14, 2011	2012 – 2026	<u>55,000,000</u>	<u>53,130,000</u>
		<u>\$ 240,000,000</u>	<u>\$ 197,860,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

4. Bonds Payable (Continued)

Total Transportation Infrastructure Fund Group Bonds payable is presented on the statement of net position at June 30, 2014 as follows:

Total principal outstanding	\$ 197,860,000
Unamortized original issue premium	<u>7,855,247</u>
Total Transportation Infrastructure Fund Group Bonds payable	205,715,247
Less current portion	<u>12,537,489</u>
Noncurrent portion	<u>\$ 193,177,758</u>

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

<u>Due Bond Year</u> <u>Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2014	\$ 11,490,000	\$ 4,488,871	\$ 15,978,871
2015	11,910,000	8,587,418	20,497,418
2016	12,410,000	8,130,288	20,540,288
2017	12,945,000	7,586,300	20,531,300
2018	13,535,000	7,062,775	20,597,775
2019 – 2023	78,390,000	24,887,505	103,277,505
2024 – 2026	<u>57,180,000</u>	<u>4,909,350</u>	<u>62,089,350</u>
	<u>\$ 197,860,000</u>	<u>\$65,652,507</u>	<u>\$ 263,512,507</u>

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

Repayment of advances to State of Maine – principal and interest	\$ 253,710,608
Reserve fund – principal and interest	<u>9,801,899</u>
	<u>\$ 263,512,507</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

4. Bonds Payable (Continued)

Total Qualified School Construction Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2014:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2014</u>
Series 2011 B, 6.12%, dated January 27, 2011	2026	\$ 9,210,000	\$ 9,210,000
Series 2011 D, 5.69%, dated May 26, 2011	2025	12,650,000	12,650,000
Series 2011 G, 4.45% – 4.95%, dated October 27, 2011	2025 – 2028	8,515,000	8,515,000
Series 2012 D, 5.14%, dated May 24, 2012	2027	1,321,142	1,321,142
Series 2013 C, 5.20%, dated October 24, 2013	2028	<u>1,150,238</u>	<u>1,150,238</u>
		<u>\$32,846,380</u>	<u>\$32,846,380</u>

Total Qualified School Construction Fund Group Bonds payable is presented on the statement of net position at June 30, 2014 as follows:

Total Qualified School Construction Fund Group Bonds payable	\$32,846,380
Less current portion	<u>—</u>
Noncurrent portion	<u>\$32,846,380</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>
2014	\$ —	\$ 905,196	\$ 905,196
2015	—	1,810,392	1,810,392
2016	—	1,810,392	1,810,392
2017	—	1,810,392	1,810,392
2018	—	1,810,392	1,810,392
2019 – 2023	—	9,051,962	9,051,962
2024 – 2028	<u>32,846,380</u>	<u>5,100,928</u>	<u>37,947,308</u>
	<u>\$32,846,380</u>	<u>\$22,299,654</u>	<u>\$55,146,034</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

4. Bonds Payable (Continued)

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

Government unit loan obligations – principal and interest	\$ 51,012,860 ¹
Sinking fund – principal and interest	<u>4,133,174</u>
	<u>\$ 55,146,034</u>

¹ Includes approximately \$20,565,000 of interest to be funded through federal interest subsidy payments.

Liquor Operation Revenue Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2014:

	Original Maturity	Original Amount Issued	Outstanding June 30, 2014
Series 2013, 1.07% – 4.35%, dated September 5, 2013	2015 – 2024	\$ 220,660,000	\$ 220,660,000

The Liquor Operation Revenue Bonds payable are presented on the statement of net position at June 30, 2014 as follows:

Total Liquor Operation Revenue Bonds payable	\$ 220,660,000
Less current portion	<u>19,660,000</u>
Noncurrent portion	<u>\$ 201,000,000</u>

The outstanding Liquor Operation Revenue Fund Group Bonds payable will mature in each of the following years with interest payable semiannually:

Due Bond Year Ending December 1	Principal	Interest	Total Debt Service
2014	\$ –	\$ 3,590,311	\$ 3,590,311
2015	19,660,000	7,075,637	26,735,637
2016	19,870,000	6,800,963	26,670,963
2017	20,210,000	6,388,349	26,598,349
2018	20,695,000	5,844,933	26,539,933
2019 – 2023	114,505,000	17,488,035	131,993,035
2024	<u>25,720,000</u>	<u>559,667</u>	<u>26,279,667</u>
	<u>\$ 220,660,000</u>	<u>\$47,747,895</u>	<u>\$ 268,407,895</u>

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

Governmental unit loan obligations – principal and interest	\$ 229,863,097
Reserve fund – principal and interest	34,945,733
Capitalized interest fund – interest	<u>3,599,065</u>
	<u>\$ 268,407,895</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

4. Bonds Payable (Continued)

Sewer and Water Fund Group Clean Water Bonds payable, with original interest rates, consist of the following at June 30, 2014:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Outstanding June 30, 2014</u>
Series 2003 A and B, 1.05% – 5.00%, dated March 1, 2003	2003 – 2023	\$32,165,000	\$ 595,000
Series 2003 C, 1.00% – 4.9%, dated November 13, 2003	2004 – 2024	16,065,000	300,000
Series 2009 A, 3.00% – 5.00%, dated November 3, 2009	2010 – 2018	14,520,000	4,870,000
Series 2009 B, 2.50 – 3.625%, dated November 3, 2009	2010 – 2018	2,660,000	1,520,000
Series 2012 A, 2.00% – 5.00% dated March 22, 2012	2012 – 2024	<u>17,375,000</u>	<u>13,860,000</u>
		<u>\$82,785,000</u>	<u>\$21,145,000</u>

The Sewer and Water Fund Group Clean Water Bonds payable are presented on the statement of net position at June 30, 2014 as follows:

Total principal outstanding	\$21,145,000
Unamortized original issue premium	<u>1,447,327</u>
Total Sewer and Water Fund Group Waste Water Bonds payable	22,592,327
Less current portion	<u>3,714,935</u>
Noncurrent portion	<u>\$18,877,392</u>

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 Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	\$ 3,380,000	\$ 383,723	\$ 3,763,723
2015	3,065,000	659,486	3,724,486
2016	2,910,000	546,724	3,456,724
2017	3,015,000	442,499	3,457,499
2018	2,765,000	317,899	3,082,899
2019 – 2023	5,380,000	714,620	6,094,620
2024	<u>630,000</u>	<u>25,200</u>	<u>655,200</u>
	<u>\$21,145,000</u>	<u>\$3,090,151</u>	<u>\$24,235,151</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

4. Bonds Payable (Continued)

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

Governmental unit loan obligations – principal and interest	\$22,948,962
Reserve fund – principal and interest	<u>1,286,189</u>
	<u>\$24,235,151</u>

Sewer and Water Fund Group Drinking Water Bonds payable, with original interest rates, consist of the following at June 30, 2014:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2014</u>
Series 2005 A, 2.25% – 4.45%, dated March 24, 2005	2005 – 2025	\$3,770,000	\$2,450,000
Series 2009 C, 3.00% dated November 3, 2009	2010 – 2018	<u>2,380,000</u>	<u>1,320,000</u>
		<u>\$6,150,000</u>	<u>\$3,770,000</u>

The Sewer and Water Fund Group Drinking Water Bonds payable are presented on the statement of net position at June 30, 2014 as follows:

Total principal outstanding	\$3,770,000
Unamortized original issue premium	<u>21,468</u>
Total Sewer and Water Fund Group Drinking Water Bonds payable	3,791,468
Less current portion	<u>438,771</u>
Noncurrent portion	<u>\$3,352,697</u>

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

<u>Due Bond Year Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	\$ 430,000	\$ 71,203	\$ 501,203
2015	440,000	128,315	568,315
2016	450,000	113,675	563,675
2017	455,000	98,417	553,417
2018	470,000	82,772	552,772
2019 – 2023	1,120,000	242,128	1,362,128
2024 – 2025	<u>405,000</u>	<u>24,698</u>	<u>429,698</u>
	<u>\$3,770,000</u>	<u>\$761,208</u>	<u>\$4,531,208</u>

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

Governmental unit loan obligations – principal and interest	<u>\$4,531,208</u>
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MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

4. Bonds Payable (Continued)

The following summarizes bond payable activity for the Bond Bank for the year ended June 30, 2014:

	General Tax Exempt Fund Group	Grant Anticipation Fund Group	Trans- portation Infra- structure Fund Group	Qualified School Construc- tion Fund Group	Liquor Operation Revenue Fund Group	Clean Water Fund Group	Drinking Water Fund Group
Balance, beginning of year as restated – see note 10	\$1,136,352,739	\$ 95,959,919	\$217,887,246	\$ 31,696,142	\$ –	\$ 29,416,885	\$ 4,237,481
Issuances – face value	32,775,000	–	–	1,150,238	220,660,000	–	–
Redemptions	(94,628,607)	(12,465,000)	(11,065,000)	–	–	(6,435,000)	(435,000)
Capitalized premiums	1,642,113	–	–	–	–	–	–
Amortization of premiums	(8,033,642)	(247,599)	(1,106,999)	–	–	(389,558)	(11,013)
Balance, end of year	<u>\$1,068,107,603</u>	<u>\$ 83,247,320</u>	<u>\$205,715,247</u>	<u>\$ 32,846,380</u>	<u>\$220,660,000</u>	<u>\$ 22,592,327</u>	<u>\$ 3,791,468</u>

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, 2014, the required debt service reserve was approximately \$117,158,000.

In addition, the Bond Bank maintains the Special Reserve Account balance of \$1,970,829 and the Supplemental Reserve Fund General Reserve Account principal balance of \$2,700,000. These reserves represent segregated net position and are pledged to the payment of the principal or interest on the outstanding bonds of the General Tax-Exempt Fund Group if a deficiency occurs. At June 30, 2014, the fair value of the reserve fund assets totaled approximately \$147,002,000, which exceeded the required reserves by approximately \$25,173,000.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

5. Reserve Funds (Continued)

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, 2014, the required capital reserve was approximately \$10,141,000 and the fair value of the capital reserve assets totaled approximately \$10,141,000.

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, 2014, the required capital reserve was approximately \$4,527,000 and the fair value of the capital reserve assets totaled approximately \$4,531,000, which exceeded the required reserves by approximately \$4,000.

Liquor Operation Revenue Fund Group: The Bond Bank is required to maintain a capital reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding fiscal year on all outstanding bonds within the fund group as of the date of calculation. At June 30, 2014, the required capital reserve was approximately \$26,843,500 and the fair value of the capital reserve assets totaled approximately \$27,733,000, which exceeded the required reserves by approximately \$889,500.

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 did not contain any State of Maine matching provisions.

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

6. Sewer and Water Revolving Fund Group (Continued)

Net position consists of the following at June 30, 2014:

	<u>Clean Water</u>	<u>Drinking Water</u>
Reserved for revolving loans:		
Grants received from Environmental Protection Agency under existing capitalization grant program	\$ 259,552,659	\$ 148,566,900
Grants received from Environmental Protection Agency under ARRA	30,336,800	19,500,000
Other administrative grants received from Environmental Protection Agency	1,347,010	80,763
Hardship grants received from Environmental Protection Agency	643,800	—
Grants received from State of Maine	51,964,562	29,150,370
Other amounts reserved (utilized) for program loans and costs	<u>38,018,642</u>	<u>(34,169,274)</u>
	381,863,473	163,128,759
Unreserved amounts available	<u>322,060</u>	<u>464,139</u>
Net position at June 30, 2014	<u>\$ 382,185,533</u>	<u>\$ 163,592,898</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, 2014 are \$12,942,588 (clean water) and \$6,540,745 (drinking water), with \$12,620,528 and \$6,076,606, respectively, expended to date. The remaining amount of \$322,060 in the Clean Water Revolving Loan Fund Group and \$464,139 in the Drinking Water Revolving Loan Fund Group can be used for future administrative costs. The Bond Bank also charges annual administrative fees to borrowers that are used to administer the programs.

Portions of the loans made to eligible borrowers under the Drinking Water Revolving Loan Fund Program may be forgiven if certain continuing criteria are met, including that the borrower continues to make debt service payments, continues to operate the project in compliance with laws and regulations, and does not dispose of or discontinue the project. The Bond Bank has loaned approximately \$35,758,000 at June 30, 2014, 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 2014 was \$1,857,678.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

6. Sewer and Water Revolving Fund Group (Continued)

During fiscal 2009, the Bond Bank and the State of Maine Department of Environmental Protection implemented a joint rule change in the Clean Water Revolving Loan Fund program in order to allow the program to make loans under ARRA grant provisions. The rule change allows the Bond Bank, after consultation with the State of Maine Department of Environmental Protection, to set interest rates at any level, including 0%. It also allows portions of loans made to eligible borrowers under the Clean Water Revolving Loan Fund Program to be forgiven if certain continuing criteria are met (similar to criteria in the Drinking Water Revolving Loan Fund Program). The Bond Bank has loaned approximately \$15,637,000 at June 30, 2014 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 2014 were \$1,083,049.

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, 2014, the Bond Bank has \$6,002,140 of certificates of deposits outstanding at various banks of which \$5,207,496 is in excess of the limits insured by the Federal Deposit Insurance Corporation.

7. School Facilities Fund Group

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

Reserved for revolving loans:	
Grants received from State of Maine	\$100,413,578
Loans forgiven	(81,090,582)
Other amounts reserved for program loans and costs	<u>8,460,773</u>
	27,783,769
Unreserved amounts available	<u>1,247,636</u>
Net position at June 30, 2014	<u>\$ 29,031,405</u>

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, 2014 are \$3,488,684, with \$2,241,048 expended to date. The remaining amount of \$1,247,636 can be used for future administrative costs.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

7. School Facilities Fund Group (Continued)

Portions of the loans made to school administrative units from the School Facilities Fund Group are forgiven. For purposes of the general purpose financial statements, the Bond Bank recognizes forgiveness expense within this fund at the time the loans are disbursed to the school administrative unit. This accounting treatment differs from the treatment within the Drinking Water 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 2014 were \$1,581,796.

8. Defined Benefit Pension Plan and Other Post-Employment 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, 2014 for employees covered by the Plan was approximately \$1,059,000, 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, 2014, 2013 and 2012 were \$68,861, \$53,387 and \$46,976 (employer) and \$68,861, \$65,475 and \$69,397 (employee), respectively.

Other Post-Employment 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.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

8. Defined Benefit Pension Plan and Other Post-Employment Benefits (Continued)

Funding Policy: The post employment healthcare benefits are currently being funded on a pay-as-you-go basis (the Bond Bank paid approximately \$10,000 in 2014). No assets have been segregated and restricted to provide post-employment benefits.

Annual OPEB Cost: For 2014, the Bond Bank's annual OPEB cost (expense) of \$40,871 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 2014, 2013 and 2012 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>
6/30/14	\$40,871	0%	\$337,445
6/30/13	46,308	0	296,574
6/30/12	43,728	0	250,266

Funded Status and Funding Progress:

For the year-end June 30, 2014, 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 (AAL)</u>	<u>Unfunded ALL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UALL as a Percentage of Covered Payroll</u>
⁽¹⁾ 1/1/2014	\$ —	\$516,237	\$516,237	0%	\$1,059,000	48.8%

⁽¹⁾ GASB 45 requires triennial actuarial valuations for employers with fewer than 200 employees. The Bond Bank will obtain an updated valuation January 1, 2017.

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

8. Defined Benefit Pension Plan and Other Post-Employment Benefits (Continued)

In the January 1, 2014 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 8.9 percent initially, reduced by decrements to an ultimate rate of 4.6 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.

At June 30, 2014, the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately \$132,895,000.

10. Adoption of New Accounting Pronouncement

As discussed in note 2, the Bond Bank adopted the provisions of GASB 65, *Items Previously Reported as Assets and Liabilities* as of July 1, 2013. Among other provisions, GASB 65 requires the immediate write-off of bond issuance costs. Additionally, certain statement of net position items, including unamortized rebates to governmental units and unamortized deferred loss on refundings, are required to be presented as deferred outflows of resources. The provisions of GASB 65 are required to be applied retrospectively.

The net position of the Bond Bank's General Tax Exempt Fund Group, Clean Water and Drinking Water Revolving Loan Fund Groups as of July 1, 2013 were restated to adopt the provisions of GASB 65. The following table summarizes the changes in the affected statement of position line items (total column amounts) as of the adoption of GASB 65 on July 1, 2013:

	As Previously Reported	Accounting Change	As Restated
Unamortized deferred loss on refundings	\$ 26,952,755	\$ (677,172)	\$ 26,275,583
Bonds payable, excluding unamortized deferred loss on refundings	1,509,716,840	5,833,572	1,515,550,412
Total net position – July 1, 2013	632,812,684	(6,510,744)	626,301,940

MAINE MUNICIPAL BOND BANK

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2014

	Program Revenues					Net Revenue (Expense) and Changes in Net Position
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Municipal Bond Bank	<u>\$(71,560,558)</u>	<u>\$60,518,268</u>	<u>\$7,050,139</u>	<u>\$506,613</u>	<u>\$22,526,024</u>	<u>\$ 19,040,486</u>
Total	<u>\$(71,560,558)</u>	<u>\$60,518,268</u>	<u>\$7,050,139</u>	<u>\$506,613</u>	<u>\$22,526,024</u>	19,040,486
General revenues:						
Unrestricted interest and investment earnings						63,778
Non program specific grants, contributions and appropriations						—
Miscellaneous income						2,735,143
Loss on assets held for sale						—
Extraordinary item						<u>—</u>
Total general revenues and extraordinary items						<u>2,798,921</u>
Changes in net position						21,839,407
Net position, beginning of year, as restated						
<u>626,301,940</u>						
Net position, end of year						<u>\$ 648,141,347</u>

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