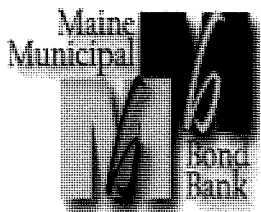


MAINE STATE LEGISLATURE

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A Program of the Maine Municipal Bond Bank and the Maine Health and Higher Educational Facilities Authority



PROGRAM SUMMARY MAINE POWEROPTIONS

In 1998 the legislature created Maine PowerOptions (MPO) as a program of the Maine Municipal Bond Bank (MMBB) and Maine Health and Higher Educational Facilities Authority (MHHEFA) to promote aggregated purchasing opportunities for governmental units and 501(c)(3) organizations throughout the State of Maine. The governing legislative statute for the MMBB is Title 30-A, Subsection 5954.

We are a member-based consortium with membership currently at 833 (788 of which are Maine Municipal Bond Bank members). All not-for-profit organizations are eligible for membership and under no obligation to participate in any MPO programs. MPO's strength lies in the purchasing power of its combined membership, voluntary participation, market education, and unbiased perspective. MPO provides guidance throughout the purchasing process, saving members costly administrative and legal expense. As energy markets increase in risk and complexity, MPO keeps members informed of key developments, pricing opportunities, regulatory changes, market pricing and trends.





Powering Maine's Future

We are committed to providing the best energy supply rates for our members — municipalities, school systems, water and sewer districts, non-profit organizations, the University of Maine System, and tax-exempt healthcare and higher educational facilities.

THE BEST WAY FOR YOUR ORGANIZATION TO APPROACH THE PURCHASE OF ENERGY IS TO JOIN A LARGE GROUP.

Maine PowerOptions brings together eligible borrowers under Maine Health and Higher Educational Facilities Authority and Maine Municipal Bond Bank, along with non-profit organizations and the University of Maine System to create one of the largest energy-related purchasing groups in the state.



WHO WE ARE AND WHAT WE DO

Maine PowerOptions is an energy-purchasing consortium that serves as an aggregator for Maine's local government and non-profit organizations.

Our purpose is to bring together or "pool" eligible organizations, analyze their combined energy needs, and negotiate pricing with suppliers to achieve the best value for our members.

We also, on behalf of our member organizations, assume all administrative responsibilities associated with the energy bid and contract negotiation process with potential suppliers. Competitive pricing offers are then presented to members for their consideration and optional participation.

Maine PowerOptions can also benefit your organization by:

- Providing cost-saving energy and educational opportunities
- Performing ongoing energy price audits
- Conducting periodic participant surveys to measure satisfaction with the program
- Monitoring the quality of the supplier service and product
- Continuously assessing the needs for new programs such as natural gas and energy management

WHAT DOES THIS MEAN FOR YOU?

Your purchase power as an individual organization is greatly enhanced. You will have access to:

- An efficient purchase process
- The best energy supply rates and contract terms available
- Educational materials
- Information regarding future energy savings programs

WHO CAN JOIN MAINE POWEROPTIONS?

Cities, towns, counties, local school systems, water and sewer districts, non-profit health and higher educational facilities, all other non-profit organizations and the University of Maine System are eligible to become members of Maine PowerOptions. To request a Membership Application simply complete the Application Request Form - at the back of this brochure and mail to: Maine PowerOptions, P.O. Box 2268, 3 University Drive, Augusta, Maine 04338-2268 or fax to: (207) 623-5359.

Maine
POWEROPTIONSSM
MAINE ENERGY PURCHASERS CONSORTIUM

MEMBER BENEFITS

- **Participation in the program is voluntary.** Joining Maine PowerOptions gives your organization the ability to evaluate competitive supply offerings and decide whether to participate, as well as access to educational materials and training. Your organization is not obligated to purchase energy through the group.
- **All eligible organizations gain access to programs, regardless of size.** Maine PowerOptions is unique in that its primary goal is to provide energy-cost savings opportunities and ongoing education to organizations of all sizes.
- **Member involvement is encouraged.** Maine PowerOptions meets regularly with member representatives from various participant segments (i.e. healthcare, higher education, and non-profit) to determine what program elements are important to the larger group.
- **The one-time membership fee is low or non-existent.** There are no hidden costs. The fee is based on your organization's annual electricity expense.
- **Members receive ongoing informational market updates and access to education.** This enables your organization to make informed decisions regarding future energy purchases. In addition to energy supply offerings, members receive a newsletter, energy market updates, and invitations to regional educational seminars.
- **Members gain access to other Maine PowerOptions programs.** New programs as they are developed will be offered to eligible members. Future programs may include energy management, natural gas, and telecommunications.

PROGRAM ELIGIBILITY

IS MY ORGANIZATION ELIGIBLE TO PARTICIPATE IN THE FUEL OIL PROGRAM?

The Fuel Oil Program is available to Maine's non-profit higher education institutions, including colleges and universities. The program is also available to non-profit healthcare organizations such as hospitals, community health centers, nursing facilities, and agencies serving adults and children with disabilities.

IS MY ORGANIZATION ELIGIBLE TO PARTICIPATE IN THE ELECTRICITY PROGRAM?

The Electricity Program is available to Maine's non-profit higher education institutions, healthcare organizations, cities, towns, counties, school systems, water and sewer districts, museums, cultural and scientific organizations, all other non-profit organizations, and the University of Maine System.

Maine PowerOptions is one of the largest energy purchasing groups in the State and is made up of some of the most prestigious and desirable energy users in Maine.



ABOUT OUR PROGRAMS

FUEL OIL PROGRAM

Since 1998, the goal of the Fuel Oil Program is to provide members with the lowest price for fuel products.

The Fuel Oil Program offers members a variety of pricing options. The program also offers a range of fuel products, including #2, #4, #5, and #6 heating oil (all sulfur levels), as well as gasoline, kerosene, diesel, and propane.

Maine PowerOptions provides administrative support to member organizations. Each year, we survey eligible members and determine their annual fuel usage for each product, tank size, location, delivery time, and service requirements. We decide when to go to market, and negotiate the RFP process with suppliers statewide. Bids generally go out to qualified fuel suppliers in the spring and awards to suppliers are usually in place by late summer.

The Fuel Oil Program is voluntary for members, however a large number of members do purchase their fuel through the program. In previous years, members participating in the fixed pricing program obtained a yielded savings of between 20% - 40% over the market prices of #2 fuel oil. (Depending on the location and tank size.)

Maine PowerOptions enhances the purchasing power of individual organizations.

ELECTRICITY PROGRAM

Maine PowerOptions began organizing the Electricity Program in 1998. Today, over 630 organizations are members of the Maine PowerOptions Electricity Program purchasing group. The group consists of a variety of small, medium, and large electricity consumers.

The goal of Maine PowerOptions is to provide a program that will save members money, and provide them with as many protections as possible. By engaging the best technical resources in the area of electricity deregulation, Maine PowerOptions developed the generation service agreements between energy suppliers and members that contain strict enforcement provisions.

Maine PowerOptions uses two competitive energy suppliers to deliver electricity to its members statewide. Fixed rate supplier contracts negotiated by Maine PowerOptions generally provide members with significant savings below the Standard Offer Service Rate. The savings can range from 1% to 8%, depending on the rate class, and service territory. The terms range from 12 - 36 months, providing price stability and enabling participants to accurately budget their energy expenses.



APPLICATION REQUEST FORM



Applicant organization: _____

(fill in legal name)

chooses to participate in the Maine PowerOptions, and agrees to:

- Have its name listed as a potential purchaser of power or other energy products and services
- Provide necessary information on energy usage and billing to Maine PowerOptions, or its selected power supplier(s)
- Appoint a senior-level contact person
- Receive and fairly consider Maine PowerOptions' energy supply and services arrangements

Note: Your institution is not required to make a purchase commitment and this form is not to be construed as an obligation to contract for energy or services through Maine PowerOptions until you sign an energy supply contract, including all terms and conditions, the service package, and guarantees of financial security and reliability.

Please mail completed form to:

Maine PowerOptions • P.O. Box 2268 • 3 University Drive • Augusta • Maine • 04338-2268
or fax to: (207) 623-5359

Mailing Address: _____

City: _____ State: _____ Zip: _____

Contact Name: _____

Title: _____

Date: _____

Phone: _____

Fax: _____

E-mail: _____

Type of Organization (please check one):

_____ Municipality _____ Water District _____ Sewer District

_____ Higher Education _____ School System _____ Healthcare

_____ Other (please explain) _____

Upon receipt of this Application Request Form, Maine PowerOptions will forward to you the Membership Application forms. (Intent to Participate - Membership Application, Agreement Regarding Energy Data, Authorization of Release Information, and Request for Utility Accounts.) Please complete and return the forms to the above address.

JOINING

Join with other organizations from York to Aroostook counties to increase your energy purchasing power. Becoming a member does not obligate you to buy energy through the program, however it does give you the ability to evaluate the supply contracts negotiated by Maine PowerOptions, as well as provide your organization with extensive and ongoing educational and informational services. This will include periodic informational mailings, regional education programs, and alerts to significant developments. The information alone will prove invaluable to your organization even if you ultimately do not sign a competitive supply contract negotiated by Maine PowerOptions.

Become a member today, and save on your future energy costs. Joining is easy with three convenient ways to request a Membership Application.

- 1) You can call us toll free at **1-877-852-3332**.
- 2) Visit our web site at **www.mainepoweroptions.org** to download the Membership Application forms.
- 3) Complete the **Application Request Form** (see reverse) and either fax it to **(207) 623-5359**

or mail it to:

**P.O. Box 2268, 3 University Drive
Augusta, Maine 04338-2268.**

*There is no risk to your organization.
Joining Maine PowerOptions allows your
organization access to competitive supply
contracts without having to commit to
purchasing energy through the group.*

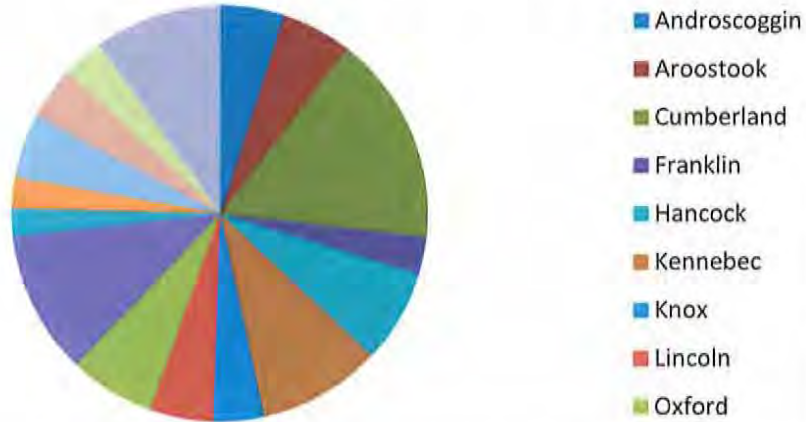


A Program of the Maine Municipal Bond Bank and the Maine Health and Higher Educational Facilities Authority

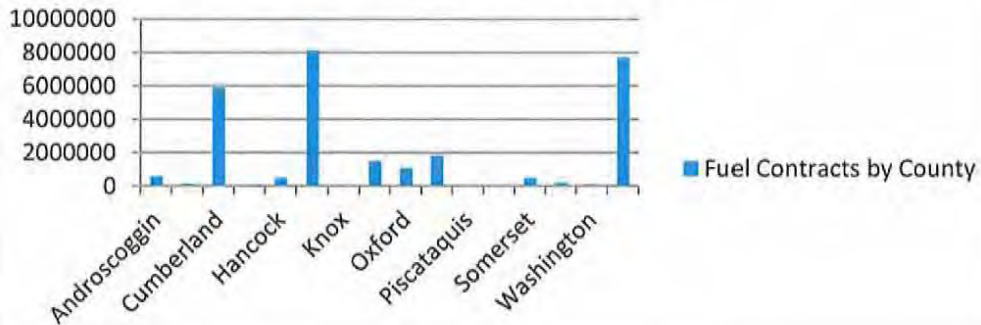


County	Members by County	Fuel Program Gallons Contracted	Electricity Program Accounts Contracted
Androscoggin	39	578606	858
Aroostook	43	127884	
Cumberland	129	5902130	4097
Franklin	23	54752	277
Hancock	57	489802	401
Kennebec	76	8114828	1417
Knox	31	31600	204
Lincoln	39	1491500	237
Oxford	52	1059738	525
Penobscot	88	1856399	1227
Piscataquis	17		172
Sagadahoc	19	12200	395
Somerset	39	466240	296
Waldo	33	195000	245
Washington	25	108712	7
York	78	7701179	1758
Totals	788	28,190,570	12,116

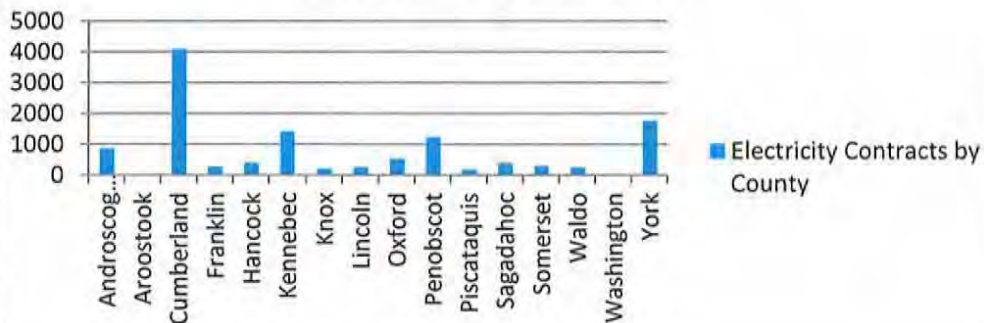
Membership by County

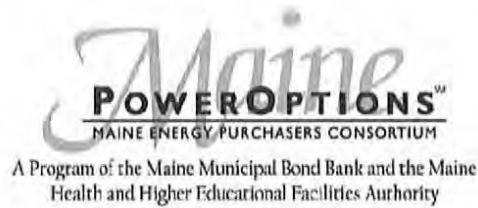


Fuel Contracts by County Gallons Contracted



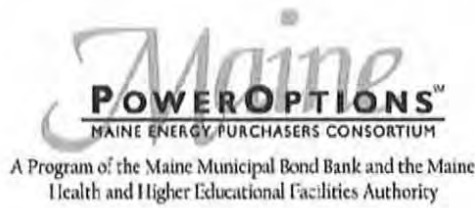
Electricity Contracts by County Accounts Contracted



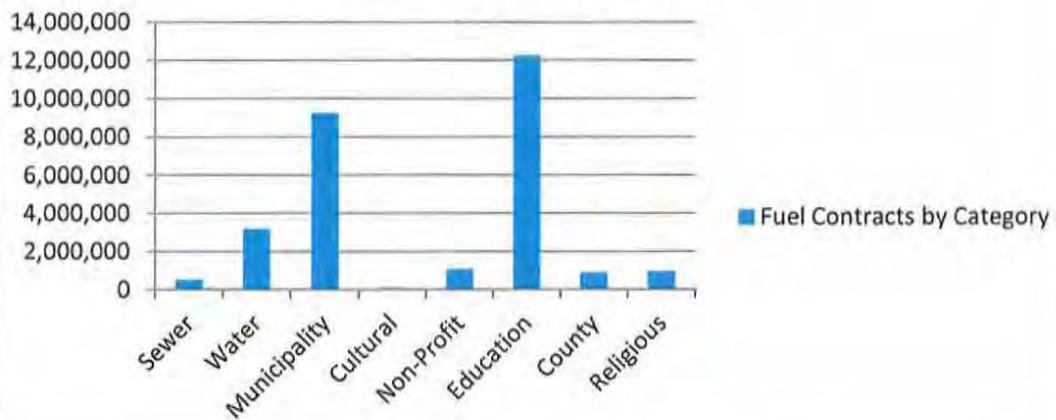


Participant Category	# Members	Fuel Program Gallons Contracted	Electricity Program Accounts Contracted
Sewer	34	515,100	345
Water	75	3,175,849	1,194
Municipality	260	9,233,524	6,925
Cultural	62	109,078	133
Non-Profit	142	1,068,836	459
Education	170	12,243,308	1,922
County	15	881,625	105
Religious	30	963,250	1,033
Totals	788	28,190,570	12,116

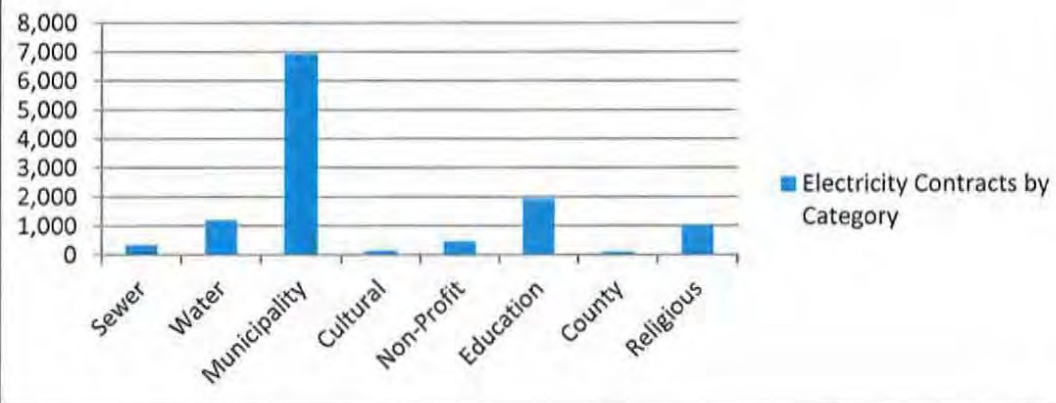




Fuel Contracts by Category Gallons Contracted



Electricity Contracts by Category Accounts Contracted



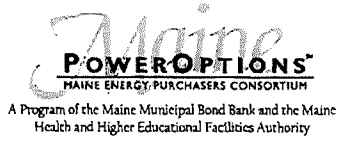


Sources of Funding for Maine PowerOptions Program

Sources of funding for the Maine PowerOptions program are the suppliers of services to members. The Electricity Program currently has a rebate program where the supplier selected through a competitive bid process provides rebates based on the number and frequency of supply offerings and contracts secured through the program. The Fuel Program was opened to Bond Bank eligible borrowers for supply beginning in 2006. Funding is in the form of a rebate from suppliers based on the number of contracted gallons.

Revenue Analysis from 2006 forward

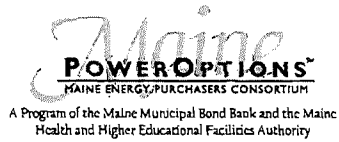
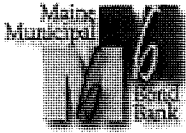
Financial Year (June to June)	Electricity	Fuel Oils	Total
2006	\$79,655.00	\$0.00	\$79,655.00
2007	\$82,404.50	\$725.00	\$83,129.50
2008	\$42,853.39	\$3,575.00	\$46,428.39
2009	\$146,044.47	\$5,918.50	\$151,962.97
2010	\$87,527.98	\$3,577.50	\$91,105.48
2011	\$57,815.89	\$4,220.00	\$62,035.89
2012	\$123,742.00	\$3,292.50	\$127,034.50
2013	\$111,025.50	\$3,072.50	\$114,098.00
2014	\$116,322.00	\$3,050.00	\$119,372.00
2015	\$121,014.50	\$2,620.00	\$123,634.50



Bond Bank Eligible Membership/Participation

Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
AAA Northern New England		
Abbe Museum	21,000	
Abnaki Girl Scout Council		
Acton School Department		1
Acton, Town of		
Alfred Water District		5
Alfred, Town of		
Alna, Town of		
American Legion Post 97-Howland		
American Martial Arts Foundation		
American Red Cross		8
Amvets		
Andover School Department		2
Andover Water District		
Andover, Town of		14
Androscoggin County		
Androscoggin Valley Council of Governments		2
Androscoggin-Sagadahoc Counties Extension Association		
Anson - Madison Sanitary District		
Anson - Madison Water District		
Anson, Town of		15
AOS #47		13
AOS #90	108,712	
AOS #92		
AOS #93		19
AOS #94		38
Appleton School Department		1
Appleton, Town of		
Aroostook Area Agency on Aging, Inc.	5,094	
Aroostook County of		
Aroostook Valley Solid Waste Disposal		
Arundel, Town of	52,827	
Ashland Water & Sewer District		
Ashland, Town of		
Auburn Housing Authority	426,852	32
Auburn Public Library		6

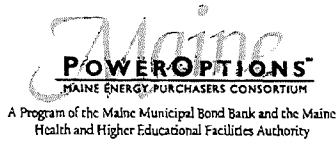
Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
Auburn School Department		13
Auburn Water & Sewer Districts		26
Auburn, City of		99
Auburn-Lewiston Municipal Airport		
Augusta Lodge of Elks #964		
Augusta ME Facilities Mgmt.Group (Church of JCLS)	783,700	
Augusta School Department	1,146,000	26
Augusta Water District		
Augusta, City of	2,482,375	430
Avesta Housing		
Baileyville Utilities District		
Baileyville, Town of		
Bangor Area Homeless Shelter		
Bangor Federal Credit Union		
Bangor Public Library		2
Bangor Water District		38
Bangor, City of		468
Bar Harbor, Town of	57,500	58
Bath Water District		5
Bath, City of		224
Belfast Area Child Care Services, Inc.		
Belfast Curling Club		4
Belfast Water District		3
Belfast, City of		140
Belgrade, Town of		
Belmont, Town of		
Benton, Town of		
Berwick Academy		4
Berwick Sewer District	2,000	10
Berwick, Town of	21,100	21
Bethel Water District		
Bethel, Town of		21
Biddeford Department of Education		32
Biddeford, City of		235
Biddeford-Saco-OOB Transit Committee		1
Bigelow Laboratory for Ocean Sciences		



Bond Bank Eligible Membership/Participation

Member Name	Fuel # Gallons Contracted	Electricity # Accts Contracted
Bingham Water District		
Bingham, Town of		14
Blue Hill Public Library		
Bonney Memorial Library		
Boothbay Harbor Sewer District	41,000	21
Boothbay Harbor Water System		
Boothbay Harbor, Town of	16,500	
Boothbay Railway Village		1
Boothbay Region Ambulance	2,500	
Boothbay Region Lobstermen's Co-op, Inc.		
Boothbay Region Refuse Disposal District		
Boothbay Region Water District	7,750	4
Boothbay Region YMCA	50,000	
Boothbay, Town of	196,500	2
Bowdoinham Water District		
Bowdoinham, Town of		
Boys & Girls Clubs of Greater Gardiner		
Bradley, Town of		12
Breakwater School	6,300	10
Brewer, City of		131
Bridgewater, Town of		
Bridgton Academy		31
Bridgton Historical Society		
Bridgton Ice Arena, Inc.		
Bridgton Water District		
Bridgton, Town of	500	70
Bristol, Town of		20
Brownville Water & Sewer District		
Brownville, Town of		78
Brunswick & Topsham Water District	49,760	16
Brunswick Housing Authority		11
Brunswick School Department		44
Brunswick Sewer District	106,500	44
Brunswick, Town of		41
Buckfield, Town of		22
Bucksport Area Child Care Center		
Bucksport, Town of	230,800	84

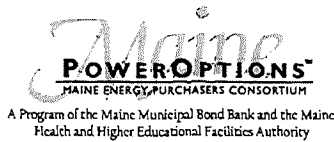
Member Name	Fuel # Gallons Contracted	Electricity # Accts Contracted
Burlington, Town of		
Buxton, Town of		
C.S.D. #12		
Calais, City of		
Caleb Affordable Housing Associates		
Cambridge Baptist Church		
Cambridge, Town of		
Camden, Town of		65
Camp Sunshine at Sebago Lake, Inc.		
Camp Tekakwitha, Inc.		
Canaan, Town of		
Canton Water District		
Cape Elizabeth, Town of		22
Caribou Congregate Housing Develop. Corp., Inc.		
Caribou Utilities District		
Caribou, City of		
Carmel, Town of	5,700	
Carrabassett Valley Academy		20
Carrabassett Valley Sanitary District		10
Carrabassett Valley, Town of		
Carthage, Town of		
Carver Memorial Library Assoc		
Casco Bay Island Transit District		4
Casco Public Library		
Castine, Town of		22
Caswell School Department		
Catherine McAuley High School		
Catherine Morrill Day Nursery		
Center for Cultural Exchange		
Central Maine Bible Conference		2
Chebeague Island		
Chebeague Recreation Center, Inc.		
Chelsea School Department		
Chelsea, Town of	5,200	5
Chester, Town of	2,400	
Cheverus High School	38,000	4
Chewonki Foundation		26



Bond Bank Eligible Membership/Participation

Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
Child & Family Opportunities, Inc.	15,227	9
China, Town of		14
Clinton Water District		
Clinton, Town of		
Coastal Community Action Program		
Coastal Humane Society		7
Coastal Opportunities		
Connections For Kids		
Conners Emerson School		
Corinna Sewer District		11
Cornish Water District		
Cornish, Town of		
Cornville, Town of		
Cranberry Isle School		
Creative Health Foundation, Inc.		
Credit Counseling Centers Inc., d/b/a CCCS of Maine		
Crossroads for Women		
Cumberland County	28,000	15
Cumberland County Civic Center		5
Cumberland County Training Resource Center		
Cumberland, Town of		48
Cumberland/York Aggregation Coalition		
Curtis Memorial Library/Town of Brunswick		7
Cushing, Town of		
Damariscotta, Town of	2,200	25
Danforth, Town of		
Davis Family Foundation		1
Dedham Congregational Church		
Dedham, Town of	16,300	
Delta Ambulance		
Denmark Public Library		
Detroit, Town of		
Dexter, Town of		52
Dixfield, Town of		20
Dorcas Library Association		
Dover-Foxcroft Water District		3
Dover-Foxcroft, Town of		53

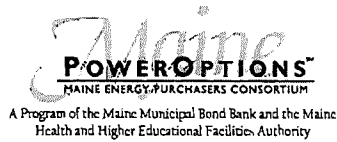
Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
Dresden School Department		
Dresden Town of		
Drug Rehabilitation, Inc. (Day One)		
Durham, Town of		
Dyer Library Association		8
East Boothbay Water District		
East Millinocket School Dept.		11
East Orrington Congregational Church		1
Easton Housing Corporation		
Easton, Town of		
Eastport Public Library Assoc.		
Eddington, Town of		
Edgecomb, Town of	3,300	
Eliot Baptist Church		
Eliot, Town of		18
Ellsworth School Department		1
Ellsworth, City of		158
Enfield, Town of	3,500	
Episcopal Union, Inc./ St. Swithun's Chapel		
Erskine Academy		23
Etna, Town of		
Eustis Water Department		
Eustis, Town of		
Exeter, Town of		6
Fairfield, Town of		22
Falmouth Congregational Church		
Falmouth Memorial Library		3
Falmouth School Department	634,000	23
Falmouth, Town of	128,325	130
Families United		
Family Crisis Services, Inc.	2,150	
Family Ice Center		1
Farmingdale, Town of		
Farmington Village Corp. Water Dept.	14,000	16
Farmington, Town of	34,152	47
Farnsworth Art Museum		25
Fayette, Town of		2



Bond Bank Eligible Membership/Participation

Member Name	Fuel # Gallons Contracted	Electricity # Accts Contracted
Ferry Beach Park Association		
First Baptist Church		1
First Congregational Church	33,500	
First Parish Church of Brunswick, ME		5
Five Town CSD		5
Flanders Bay Community School District		
Forest Society of Maine		
Fort Fairfield Utilities District		
Fort Fairfield, Town of		
Fort Kent, Town of		
Foxcroft Academy		
Freedom, Town of		
Freeport School Department		
Freeport, Town of	20,100	23
Frenchville, Town of		
Friendship, Town of		
Frye Island, Town of		
Fryeburg, Town of		28
Gardiner Water District	8,800	28
Gardiner, City of	144,700	105
Garland, Town of		
George Stevens Academy		5
Georgetown, Town of		6
Girl Scouts of Maine		
Glenburn, Town of	43,658	11
Good Will Home Assoc	140,500	14
Goodall Memorial Library		
Goodwins Mills Fire-Rescue		
Gorham School Department		22
Gorham, Town of		36
Gould Academy		39
Grand Isle, Town of		
Gray Water District		4
Gray, Town of		48
Great Salt Bay Sanitary District		14
Greater Augusta Utility District	504,500	165
Greater Portland Landmarks, Inc.		

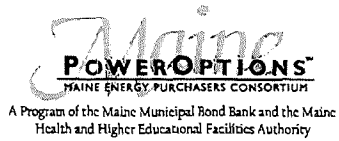
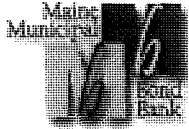
Member Name	Fuel # Gallons Contracted	Electricity # Accts Contracted
Greater Portland Transit District		1
Greater Rumford Community Center		
Green Street United Methodist Church	7,700	5
Green Valley Assoc., Inc.		
Greenbush, Town of	7,950	
Greenwood, Town of		
Guilford Memorial Library		
Guilford, Town of		
Guilford-Sangerville Sanitary District		10
Guilford-Sangerville Water District		
H.O.P.E.		
Hallowell Water District		2
Hallowell, City of		
Hampden Water District	15,339	6
Hampden, Town of	288,840	46
Hancock County Cooperative Extension	7,192	
Hancock, County of	52,000	
Hancock, Town of		14
Harbor House Community Service Center		
Harpwell, Town of		18
Harrison Water District		
Harrison, Town of		2
Hartland, Town of		
Haystack Mountain School of Crafts		
Hebron Academy		15
Hebron Water Company		
Henry D. Moore Parish House & Library		
Hermon, Town of		29
Hiram, Town of		
Holden, Town of		
Hope Elementary School		1
Hope Haven Gospel Mission, Inc.		
Hope, Town of		
Hospice of Hancock County		
Hospice of Southern Maine		
Housing Authority of Fort Fairfield		
Howland, Town of		



Bond Bank Eligible Membership/Participation

Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
Immanuel Baptist Church		
Island Falls, Town of		
Island Institute		7
Islesboro, Town of		5
Italian Heritage Center		
Jackman, Town of		
Jackson Memorial Library		
Jay, Town of	90,000	58
Jay-Niles Memorial Library		
Jefferson, Town of		
Jesup Memorial Library		
John Bapst Memorial High School	1,700	
Kennebec County of	465,800	18
Kennebec Sanitary Treatment District		12
Kennebec Valley Council of Govt's	3,750	
Kennebec Valley EMS Council, Inc.		
Kennebec Valley YMCA		
Kennebec Water District	35,000	12
Kennebunk Sewer District	209,100	8
Kennebunk, Kennebunkport and Wells Water District		4
Kennebunkport Historical Society		
Kennebunkport, Town of	55,830	103
Kents Hill School		13
Kids Peace Natl Center		2
Kieve Affective Education, Inc.		16
Kingfield Water District		
Kingfield, Town of		27
Kittery School Department	300,000	
Kittery Water District		5
Kittery, Town of	702,863	83
Knights of Columbus- Fort Kent		
Knox, County of		4
Knox-Lincoln County Extension Association		
L/A Water Pollution Control Auth		7
Lake Arrowhead Community Inc		
Lamoine, Town of		6
Lee Academy	371,745	10

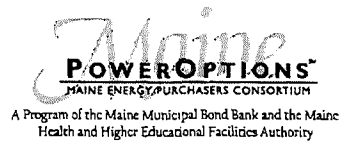
Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
Lee, Town of	5,252	
Leeds, Town of		
Levant, Town of		
Lewiston School Department		
Lewiston, City of		356
Limerick, Town of		
Lincoln & Sagadahoc Multi-county Jail Authority		4
Lincoln Academy		10
Lincoln Sanitary District	5,500	
Lincoln Water District	12,600	12
Lincoln, County of		3
Lincoln, Town of	67,460	41
Lincolnton School Department		1
Lincolnton, Town of		
Lisbon, Town of		84
Litchfield, Town of		
Littleton, Town of		
Livermore Falls Water District		22
Livermore Falls, Town of	55,554	2
Livermore Public Library		
Long Island, Town of		
Louis T. Graves Memorial Library		
Lovell, Town of		
Lubec Water District		
Lubec, Town of		
M.S.A.D. # 3	195,000	6
M.S.A.D. # 4		18
M.S.A.D. # 6		73
M.S.A.D. # 7		
M.S.A.D. # 9		41
M.S.A.D. #11	490,253	40
M.S.A.D. #13		15
M.S.A.D. #14		
M.S.A.D. #15		33
M.S.A.D. #16		
M.S.A.D. #17		89
M.S.A.D. #19		



Bond Bank Eligible Membership/Participation

Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
M.S.A.D. #20		
M.S.A.D. #21		
M.S.A.D. #22		31
M.S.A.D. #24		
M.S.A.D. #25		
M.S.A.D. #28		17
M.S.A.D. #30	11,000	
M.S.A.D. #31	107,000	
M.S.A.D. #34		
M.S.A.D. #35	337,671	27
M.S.A.D. #37		6
M.S.A.D. #39		
M.S.A.D. #41		3
M.S.A.D. #43		
M.S.A.D. #44	339,625	14
M.S.A.D. #46		
M.S.A.D. #47		
M.S.A.D. #49		36
M.S.A.D. #51	412,500	
M.S.A.D. #52		25
M.S.A.D. #53		15
M.S.A.D. #54	212,500	21
M.S.A.D. #55		18
M.S.A.D. #56		
M.S.A.D. #57	2,107,048	23
M.S.A.D. #58		29
M.S.A.D. #59		
M.S.A.D. #60	395,030	50
M.S.A.D. #72		20
M.S.A.D. #74		4
M.S.A.D. #75		55
Machias, Town of		1
Macwahoc, Town of	1,500	
Madawaska School Department		
Madawaska Water District		
Madawaska, Town of	121,290	
Madison, Town of		

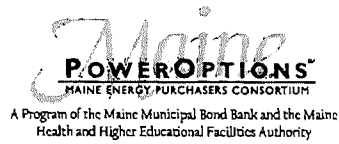
Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
Maine Association of Non-Profits		
Maine Audubon Society		8
Maine Central Institute		24
Maine Children's Home for Little Wanderers (The)		
Maine Civil Liberties Union		
Maine Coast Artists		
Maine Coast Heritage Trust		
Maine Discovery Museum		2
Maine Energy Investment Corporation		
Maine Historical Society		
Maine Humanities Council		
Maine Interfaith Power & Light		
Maine Municipal Association		3
Maine Organic Farmers & Gardeners Association		
Maine PERS		
Maine PowerOptions		
Maine Public Broadcasting Corp.		58
Maine Region 10 Technical High School		5
Maine School Management Association		1
Maine State Golf Association		
Manchester, Town of		
Mariaville, Town of		
Marine Animal Lifeline		
Mariners Lodge #68 AF & AM		
Mars Hill Utility District		
Mars Hill, Town of		
Mattawamkeag, Town of	12,000	14
McLaughlin Foundation		
Mechanic Falls Sanitary District		4
Mechanic Falls Water Dept.		4
Mechanic Falls, Town of		19
Med-Care Ambulance Service		
Medway School Department	45,000	5
Medway, Town of		
Mercer, Town of	1,000	
Messiah Christian Church		
Mexico Water District		4



Bond Bank Eligible Membership/Participation

Member Name	Fuel # Gallons Contracted	Electricity # Accts Contracted
Mexico, Town of		12
Mid Coast Hunger Prevention Program		3
Midcoast Maine Community Action		1
Midcoast Regional Redevelopment Authority		21
Mid-Coast School of Technology		3
Mid-Coast Solid Waste Corp.		
Mid-Maine Waste Action Corporation		
Milbridge Water District		
Milbridge, Town of		
Milford, Town of	43,720	
Millinocket School Department	431,800	6
Millinocket, Town of		48
Milo Water District		
Milo, Town of		
Monmouth Sanitary District		
Monmouth School Department		
Monmouth, Town of		10
Monroe, Town of		
Moscow, Town of		
Mount Desert and Ellsworth Housing Authorities	86,383	10
Mount Desert Elementary School		
Mount Desert Island Regional HS		
Mount Desert Water District		5
Mount Desert, Town of		
Mount Merici School Inc		1
Mount Vernon, Town of		6
Mt. Blue Standard Water District		
Naples Public Library		
Naples, Town of	2,200	22
National Theatre Workshop of the Handicapped, Inc.		
Natural Resources Council of Maine		3
New England Electric Railway Historical Society		
New Gloucester, Town of		3
New Portland Water District		
New Portland, Town of		
Newburgh, Town of		
Newcastle, Town of	22,500	

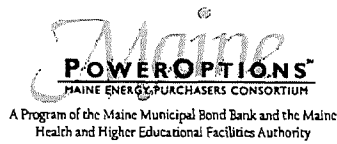
Member Name	Fuel # Gallons Contracted	Electricity # Accts Contracted
Newport Water District		
Newport, Town of		
Newry, Town of		
Next Step Domestic Violence		
Norridgewock Water District		1
Norridgewock, Town of	4,037	1
North Berwick Sanitary District		
North Berwick Water District		
North Berwick, Town of	145,700	
North Bridgton Library		
North Oxford Regional Waste Station		
North Yarmouth Academy		8
North Yarmouth, Town of		
Northeast Occupational Exchange, Inc.		
Northern Aroostook Regional Incinerator Facility		
Northern New England Passenger Rail Authority		5
Northern Penobscot Tech - Region III	49,000	4
Northport Village Corp		
Northport, Town of		
Norway Water District		5
Norway, Town of	252,163	10
O.H.I.		
Oakland, Town of	34,000	24
Ocean Park Association		
Ogunquit Sewer District		20
Ogunquit, Town of		43
Old Orchard Beach School Department		
Old Orchard Beach, Town of		98
Old Town Housing Authority		
Old Town United Methodist Church		
Old Town Water District	16,000	25
Old Town, City of		22
Old York Historical Society	32,478	12
Orono, Town of	46,535	8
Orrington, Town of		
Otisfield, Town of		
Owls Head Transportation Museum		



Bond Bank Eligible Membership/Participation

Member Name	Fuel # Gallons Contracted	Electricity # Accts Contracted
Oxford, Town of		
Oxford County		
Oxford Water District		10
Palmyra, Town of	6,200	
Paris Public Library Assoc		
Paris Utility District		15
Paris, Town of		
Parsons Memorial Library		
Passadumkeag, Town of		
Patten Free Library		4
Pemetic Elementary School		
Peninsula Community School District		
Penobscot Bay YMCA		1
Penobscot County		
Penobscot Marine Museum		
Penobscot Theatre Company		
Penobscot, Town of		
Penquis C.A.P., Inc.		
Peregrine Corp		
Peru, Town of		9
Phillips Public Library	1,600	
Phillips, Town of		
Phippsburg, Town of	1,500	9
Pine Tree Society for Handicapped	4,600	11
Piscataquis County		
Pittsfield, Town of		39
Pittston, Town of	5,650	
Pleasant Street United Methodist Church		
Plymouth, Town of		
Poland, Town of		23
Portland Elks Lodge #188		
Portland Museum of Art	50,000	1
Portland Public Library		
Portland School Department		80
Portland Water District	2,494,500	620
Portland, City of		400
Positive Turning Points for Youth		

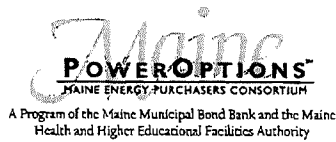
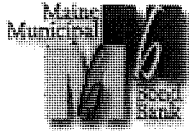
Member Name	Fuel # Gallons Contracted	Electricity # Accts Contracted
Pottle Hill, Inc.		
Pownal, Town of		
Presque Isle Housing Authority		
Presque Isle Sewer District		
Presque Isle Water District		
Prospect, Town of		
Quoddy Regional Land Trust, Inc.		
Randolph, Town of	5,350	2
Rangeley, Town of		49
Raymond School Department		
Raymond, Town of	338,400	
Readfield, Town of		8
Region 9 School of Applied Technology		
Richmond Schools		
Richmond Utilities District		12
Richmond, Town of		
Richville Library Inc.		
Robbinston, Town of		
Rockland, City of		35
Rockport, Town of		
Roman Catholic Diocese of Maine		1,013
Roman Catholic Diocese- St John Vianney		
Roxbury, Town of	12,800	
RSU #1		11
RSU #10	452,500	82
RSU #12		
RSU #13		10
RSU #14	250,500	10
RSU #16		
RSU #18		19
RSU #19		36
RSU #2	1,170,600	27
RSU #20		54
RSU #21	677,324	
RSU #23		23
RSU #24		3
RSU #25		15



Bond Bank Eligible Membership/Participation

Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
RSU #26		5
RSU #34		26
RSU #38		6
RSU #5	101,000	21
RSU #64		24
RSU #67	241,500	14
RSU #68		
RSU #71		
RSU #73		16
RSU #87		7
Rumford Group Homes, Inc.	450	
Rumford, Town of		64
Rumford-Mexico Sewerage District		12
Rutherford Library Assoc.		
Sabattus Sanitary District		
Sabattus Water District		
Saco School Department		29
Saco, City of	1,448,070	108
Sagadahoc County		7
Saint Joseph's Catholic Church & Stella Maris Parish		
Sanford Housing Authority		6
Sanford School Department		
Sanford Sewer District		
Sanford Water District		
Sanford, City of		216
Sangerville, Town of		
Scarborough Public Library		
Scarborough Sanitary District		99
Scarborough School Department	172,300	37
Scarborough, Town of	115,200	161
Schoodic Community School District		
School Union # 29 (Poland School Dept)		
School Union # 42 - CSD #10		
School Union # 47		
School Union # 49	580,500	15
School Union # 52		
School Union # 60		5

Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
School Union # 76		8
School Union # 87		
School Union # 92		
School Union # 93 -Blue Hill School Dept.		
School Union # 93 -Brooksville School Dept.		
School Union # 93- Castine School Dept.		
School Union # 93- Penobscot School Dept.		
School Union #106		
School Union #107 -Princeton & Baileyville School Departments		
School Union #108		
School Union #122		
Seal Cove Auto Museum		
Searsmont, Town of	31,600	
Searsport Water District		
Searsport, Town of		
Second Congregational Church in Newcastle	16,750	
Seniors Plus	4,200	8
Seton Village-Roman Catholic Diocese		
Sexual Assault Victims Emergency Services		
Shalom House, Inc.		
Shapleigh, Town of		4
Sherman, Town of		
Sidney, Town of	119,100	9
Skowhegan Public Library	4,000	
Skowhegan, Town of	40,028	60
Smithfield, Town of	2,400	
Solon, Town of		
Somerset County Extension Association		
Somerset, County of	51,825	15
Sorrento-Sullivan Recreation Center		
South Berwick Sewer District	8,000	8
South Berwick Water District	6,600	16
South Berwick, Town of		12
South Parish Congregational Church		
South Portland Housing Authority		29
South Portland, City of	511,095	351
South Thomaston		

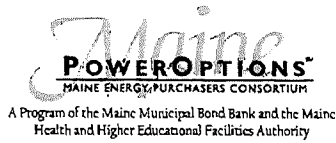


Bond Bank Eligible Membership/Participation

Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
Southern Maine Agency on Aging		8
Southport, Town of		
Southwest Harbor Public Library		
Southwest Harbor Sewer District		
Southwest Harbor Water District		
Southwest Harbor, Town of		
Springfield, Town of	4,200	
Springvale Public Library		
St Leo's Roman Catholic Church		
St. Agatha Sanitary District		
St. Agatha, Town of		
St. Albans, Town of		
St. Demetrios Greek Orthodox Community		
St. Marks Episcopal Church	2,600	
Standish, Town of		15
Stetson, Town of		
Steuben School Department		
Stewart Public Library		
Stonington, Town of		
Stow, Town of		
Strong, Town of		
Sullivan, Town of		
Sumner, Town of	2,200	
Sunrise Opportunities		
Support Solutions, Inc.	193,524	58
Surry, Town of		
Susan Curtis Foundation		6
Swanville, Town of		
Temple Beth El		1
The Housing Foundation		8
The Landing School of Boatbuilding & Design	29,514	2
The Little Dolphin School		
The Woodlands Club		
Thomaston, Town of		21
Thompson Free Library		2
Thornton Academy		1
Topsham, Town of		46

Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
Training & Development Corporation (Job Corps)		
Tremont Consolidated School		
Tremont, Town of		
Turner, Town of		
Twin City Baptist Church		
Union, Town of		
United Ambulance		
United Society of Shakers		
United Technologies Center - Voc Reg#04	17,000	4
Unity, Town of		
Van Buren Housing Authority		
Van Buren Water District		
Van Buren, Town of		
Vassalboro Sanitary District		
Vassalboro, Town of		
Veazie Sewer District		
Veazie, Town of		
Vienna, Town of		4
Vineyard Christian Fellowship		
Volunteers of America		
Waban Projects	30,000	84
Waldo County		24
Waldo County Extension Association		
Waldo County Technical Center		5
Waldoboro Public Library		
Waldoboro Utility District		14
Waldoboro, Town of		7
Walker Memorial Library		
Warren Sanitary District		
Warren, Town of		9
Washburn Norlands Foundation Inc.		
Washington Academy		
Waterford, Town of		
Waterville Public Library		
Waterville Regional Art & Community Center		1
Waterville School Department		15
Waterville Sewerage District		





Bond Bank Eligible Membership/Participation

Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
Waterville, City of	651,000	182
Wayne Library Association		
Wayne, Town of		
Wells Auto Museum		
Wells National Estuarine Research Reserve	61,900	21
Wells Sanitary District	143,000	28
Wells, Town of	6,800	56
Wells/Ogunquit CSD #918	441,800	25
West Bath, Town of		4
West Gardiner, Town of	19,000	
Westbrook (City of) Housing Authority		9
Westbrook City of		98
Westbrook School Department		46
Westport, Town of		
Wilton, Town of		22
Windham School Department		
Windham, Town of	32,200	32
Windsor Fair		5
Winn, Town of		
Winslow, Town of		136
Winter Harbor Utility District		1
Winter Harbor, Town of	3,400	
Winterport Water District		1
Winterport, Town of		
Winthrop School Department		3
Winthrop Utilities District		28
Winthrop, Town of		24
Wiscasset School Department	398,400	16
Wiscasset Water District		
Wiscasset, Town of	153,600	20
Woodard & Curran		
Woodfords Congregational Church	119,000	5
Woodland, Town of		
Woodstock, Town of		
Woolwich, Town of	6,100	
Work First Inc.	5,000	
Yarmouth School Department		

Member Name	Fuel	Electricity
	# Gallons Contracted	# Accts Contracted
Yarmouth Water District		21
Yarmouth, Town of	289,600	221
YMCA of Bangor-Brewer		
York County	284,000	15
York County Arena Associates		1
York Housing Authority		2
York Public Library		3
York School Department		19
York Sewer District		27
York Water District	11,000	36
York, Town of		84
York-Cumberland Housing Corp		
YWCA of Portland Me., Inc.		

Total Fuel Gallons Contracted	Total Electricity Accounts Contracted
28,190,570	12,116

Maine PowerOptions Fuel Program 2015-6 Pre-Bid Fuel Survey

Anywhere MAINE

Bumer Service Required

Add New Locations:

Fuel Type	Location	No. Tanks	Tank Size	Auto Delivery	Contract End Date	Notes	100% Large Tanker Delivery	Outside Tank	Winter Blend Required	Owns Tanks (Propane)	Usage
				<input type="checkbox"/>				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

I have reviewed the above usage estimates and have made any necessary changes. I understand that this information is the basis on which my fuel needs will be bid and contracted, should I choose a supplier through Maine PowerOptions.

Please sign below:

_____ / /
 Authorized Signature Date
 Anywhere MAINE

 Print Name

 Job Title



Intent to Participate - Membership Application

(Fill in legal name of applicant organization)

chooses to participate in the Maine PowerOptions - Non-Profit Energy Purchasers Consortium, and agrees to:

- Have its name listed as a potential purchaser of power or other energy products and services;
- Provide necessary information on energy usage and billing to Maine PowerOptions, or its selected power supplier(s);
- Appoint a senior-level contact person; and
- Receive and fairly consider Maine PowerOptions' energy supply and services arrangements.

NOTE: Your institution is not required to make a purchase commitment and this form is not to be construed as an obligation to contract for energy or services through Maine PowerOptions until you sign an energy supply contract, including all terms and conditions, the service package, and guarantees of financial security and reliability.

Mailing Address: _____
 _____ Date: _____

Authorized Officer Signature (CEO, CFO, etc.): _____

Printed Name: _____ Title: _____

Phone: _____ FAX: _____ Email: _____

Organization Type: (check one): Municipality Municipal Water Municipal Sewer
 Educational Healthcare Other (please explain) _____

Contact Person for this project: _____

Title: _____ Phone: _____

FAX: _____ Email: _____

****Send one copy of an electric bill for each of the Organization's electricity accounts with this form along with a copy of your tax exemption certificate.****

Please indicate approximate annual usage of Electricity (in \$): \$ _____
(required from all applicants)

Name of Electric Utility (Utilities) _____

Does the institution have self-generation capacity? yes no list-kW of self generation _____

Maine PowerOptions

P.O. Box 2268
127 Community Drive
Augusta, ME 04338-2268

877-852-3332 x211 (voice)
207-621-0744 x211 (voice)
207-623-5359 (FAX)

Agreement Regarding Energy Data

The undersigned ("Member") has indicated its Intent to Participate in Maine PowerOptions, a program of the Maine Municipal Bond Bank ("MMBB") and the Maine Health & Higher Educational Facilities Authority ("MHHEFA"). To carry out the goals of the consortium, MMBB and MHHEFA and Member more specifically agree to the gathering and tabulation of relevant energy data as described below. Throughout this Agreement, references to Member also include the Member's affiliates.

Member will provide data that MMBB and MHHEFA reasonably requests for the purposes of 1) describing and evaluating Member and its integration into the consortium, 2) describing the business volume and characteristics of the consortium and various subsets, 3) representing the group to potential suppliers, aggregators and other service providers, 4) calculating group benefits, and 5) other purposes consistent with the aims of Maine PowerOptions. Member also agrees to facilitate MMBB's and MHHEFA's efforts to obtain information directly from its suppliers or others with access to needed data; the "Authorization to Release Information" will evidence its approval.

Member understands its data may be obtained and used by MMBB and MHHEFA in disaggregated form and that MMBB and MHHEFA expects to release consortium information only in aggregated formats, combined in various ways for evaluation. MMBB and MHHEFA agrees not to identify Member's data without express consent, or to release disaggregated data unless Member, by virtue of size or load characteristics, is unavoidably the sole member of an evaluated class. MMBB and MHHEFA will use its best efforts to avoid publishing analyses that single out members and to mask identities in any such presentations.

MMBB and MHHEFA agrees that, absent a lawful order, it will not release Member's identifiable disaggregated data to any party not directly related to Maine PowerOptions, including potential or engaged suppliers, without Member's specific written approval. Member specifically acknowledges that its data may be or may become available to others through sources other than MMBB and MHHEFA.

In the event of withdrawal from Maine PowerOptions, Member's data will be excluded from subsequent MMBB and MHHEFA analyses and MMBB and MHHEFA will have no further right to access, or responsibility to maintain the information.

Upon request, a copy of its data will be provided to Member.

Agreed this _____ day of _____, 20__,

FOR: Maine PowerOptions
P.O. Box 2268
127 Community Drive
Augusta, ME 04338-2268

Member: _____
(Organization Name)

(Address)

By: _____

By: _____
(print name and sign below)

Signature: _____

Signature: _____

Title: _____

Title: _____

Telephone: 877-852-3332 or 207-621-0744 Telephone: _____

FAX: 207-623-5359 FAX: _____

e-mail: _____ e-mail: _____

Maine PowerOptions Authorization to Release Information

On behalf of the PowerOptions member ("Member") named below, the undersigned hereby authorizes Member's electric, fuel and gas providers and their affiliates or agents, and Member's lessors, landlords, housing authorities (or others with access to or control over the referenced information) and their affiliates or agents, to provide to Maine PowerOptions or its designated representatives, information regarding Member's (and Member's affiliates') electricity, fuel or gas consumption, characteristics, and billing data of that consumption, since December 2003. The information to be provided may be requested by Maine PowerOptions or by representatives of Member for delivery to Maine PowerOptions. The format of the request and desired response may be directed, and agreed with the provider of the information, by Maine PowerOptions.

Member has provided Maine PowerOptions with a list(s) of its utility service accounts, or other energy accounts which is to form the basis of requests. Information regarding additional accounts of Member or its affiliates may be released to Maine PowerOptions upon inclusion in the list(s).

For supply arrangements procured through the Maine PowerOptions program Member specifically authorizes the release of billing data by the supplier to Maine PowerOptions for the limited use of verifying billing or rate accuracy, or to aggregate with other member's data for purposes of analysis of program effectiveness.

Member specifically authorizes delivery of disaggregated data regarding its accounts, that is, data may be provided separately for each account, if requested.

Restrictions and limitations on the use of the data provided to Maine PowerOptions are described in an agreement between Member and Maine PowerOptions and need no further elaboration by providers. Maine PowerOptions is obligated to maintain a file of this Authorization and any revocations. The file may be consulted for authorization validity at Maine PowerOptions, 127 Community Drive, P.O. Box 2268, Augusta, ME 04338 877-852-3332 or 207-621-0744.

Member Organization (Legal Name): _____

Authorized by (print name): _____

Signature: _____ **Date:** _____

Title: _____

Telephone: _____

FAX: _____ **e-mail:** _____



A program of the Maine Health and Higher Educational Facilities Authority

127 Community Drive, P.O. Box 2268 Augusta, Maine 04338-2268 1-877-852-3332 (207) 621-0744 FAX: (207) 623-5359

Maine Power Options - *One time Membership Fee Schedule

Annual Electricity Bill Amount	Membership Fee
\$1,000,000 and up	\$500.00
\$750,000 to \$999,999	\$375.00
\$500,000 to \$749,999	\$250.00
\$250,000 to \$499,999	\$175.00
\$100,000 to \$249,999	\$125.00
\$50,000 to \$99,999	\$50.00
\$25,000 to \$49,999	\$25.00
Below \$25,000	Fee Waived

*Provides access to educational materials and evaluation of all program offerings.

Membership Fee Enclosed

Please bill us

**MAINE RURAL WATER ASSOCIATION
GRANT ADMINISTRATION**

The bank has an agreement with the Maine Rural Water Association to oversee the administration of a grant that is appropriated from the state to the association each year. The bank's obligations with respect to the grant include receiving the funds into a designated account and making monthly disbursements upon the request of the association. The contract agreement governing the bank's relationship with Maine Rural Water and a six year history of the grants received and disbursed is attached.

Maine Rural Water Grant

	<u>Receipts</u>	<u>Expenditures</u>
FY 2005	\$ 92,463.00	\$ 70,813.32
FY 2006	\$ 82,840.00	\$ 73,215.40
FY 2007	\$ 82,840.00	\$ 88,615.19
FY 2008	\$ 82,840.00	\$ 96,517.38
FY 2009	\$ 75,620.00	\$ 84,071.56
FY 2010	\$ 71,928.00	\$ 75,298.05
FY 2011	\$ 67,645.00	\$ 61,601.85
FY 2012	\$ 71,928.00	\$ 77,920.31
FY 2013	\$ 69,332.00	\$ 56,262.14
FY 2014	\$ 69,331.00	\$ 82,451.55
FY 2015	\$ 69,331.00	\$ 73,376.53
Total	<u>\$ 836,098.00</u>	<u>\$ 840,143.28</u>

CONTRACT

THIS AGREEMENT, made this first day of July, 1997 is by and between the Maine Municipal Bond Bank, hereinafter called "the Bank" and Maine Rural Water Association hereinafter called "Contractor".

The principal office of the Contractor is located at
14 Maine Street, Suite 407, Brunswick, Maine 04011

The Employer Identification Number of the Contractor is
01-03660057

WITNESSETH, that for and in consideration of the payments and agreements hereinafter mentioned, to be made and performed by the Bank, the Contractor hereby agrees with the Bank to furnish all qualified personnel, facilities, materials and services and in consultation with the Bank, to perform the services, study or projects described in Rider A. The following riders are hereby incorporated into this Contract by reference::

Rider A - Specifications of Work to be Performed
Rider B - Payment and Other Provisions

IN WITNESS WHEREOF, the Bank and the Contractor, by their representatives duly authorized, have executed this agreement in two originals as of the day and year first above written.

Maine Municipal Bond Bank

By: 

Authorized Signature

ROBERT O. LENNA, EXECUTIVE DIRECTOR

Typed Name and Title

Maine Rural Water Association

By: 

Authorized Signature

Typed Name and Title

RIDER A
SPECIFICATIONS OF WORK TO BE PERFORMED

TASK I.

The Contractor will develop and implement technical assistance and training programs as funded and authorized by P&S Ch. 67 for existing public water and wastewater facilities. The Contractor will also provide organizational assistance to communities in the process of developing water and wastewater facilities. Assistance includes, but is not limited to planning, management policies, operating practices, financial management and liaison, between state and federal agencies.

TASK II.

The Contractor will maintain time logs for all personnel. The logs will be submitted to the Bank by the second week of every month during the duration of this contract. The Contractor will also provide copies of all bulletins and manuals produced and class lists for all seminars conducted.

TASK III.

The Contractor shall provide within a reasonable time after the closing of books an audited financial statement of its activities for the proceeding twelve month period.

TASK IV.

The Contractor shall provide at the end of the contract period a summary of activities undertaken under the contract with accompanying documents and additional documentation as may have been developed during the contract period concerning activities undertaken under Task I above.

RIDER B
PAYMENT AND OTHER PROVISIONS

1. CONTRACT PRICE \$ 200,000.00 PAYMENT SCHEDULE. MONTHLY

Grant award is conditional on the availability of State and Federal funds. During the period of this Agreement, the Contractor shall obligate/spend no more than \$100,000 per year ending June 30, 1995 and June 30, 1995 to carry out the Program activities. ~~8~~ ^{SCF} The Contractor is responsible for any funds expended or obligated that exceed the Agreement amount. Funds unobligated at the termination of the Grant period must be returned to the Bank.

2. **INVOICES AND PAYMENTS.** Payment shall be made as follows: a sum of \$10,000 to be paid upon approval of this contract, supporting documentation to be supplied by end of the contract. The balance to be paid by the Bank within 15 days after receipt of an approved itemized invoice submitted by the Contractor upon his usual billing forms or business letterhead.
3. **BENEFITS AND DEDUCTIONS.** If the Contractor is an individual, the Contractor understands and agrees that he is an Independent Contractor for whom no Federal or State Income Tax will be deducted by the Bank, and for whom no retirement benefits, survivor benefit insurance, group life insurance, vacation and sick leave, and similar benefits available to State or Bank employees will accrue. The Contractor further understands that the annual information returns as required by the Internal Revenue Code or State of Maine Income Tax Law will be filed by the Bank with the Internal Revenue Service and that State of Maine Bureau of Taxation, copies of which will be furnished to the Contractor for his income tax records.
4. **INDEPENDENT CAPACITY.** The parties hereto agree that the Contractor, and any agents and employees of the Contractor, in the performance of this agreement, shall act in an independent capacity and not as officers or employees or agents of the State or the Bank.
5. **CONTRACT ADMINISTRATOR.** All invoices, progress reports, correspondence and related submissions from the Contractor shall be directed to:

Name: David R. Delano

Title: Senior Financial Officer

Address: Maine Municipal Bond Bank
45 Community Drive, P.O. Box 2268
Augusta, Maine 04338

who is designed as the Contract Administrator on behalf of the Bank for this contract.

6. **BANK'S REPRESENTATIVE.** The Contract Administrator shall be the Bank's representative during the period of this agreement. He has the authority to stop the work if necessary to ensure its proper execution. He shall certify to the Bank when payments under the contract are due and the amounts to be paid. He shall make decisions on all claims of the Contractor, subject to the approval of the Executive Director of the Bank.

7. **CHANGES IN THE WORK.** The Bank may order changes in the work, the contract sum being adjusted accordingly. All such orders and adjustments shall be in writing. Claims by the Contractor for extra cost must be made in writing and signed by the Contract Administrator before executing the work involved.

8. **PERIOD OF PERFORMANCE.** The Contractor shall (check on as applicable):

- A. Work when called by the Department.
- B. Use due diligence to complete the work within a reasonable time.
- C. Complete the work no later than June 30, 1999 ^{9 SCL}.
- D. If the work is not completed by _____ Contractor shall pay the Bank as follows _____

9. **SUBCONTRACTS.** Unless provided for in this contract, no contract shall be made by the Contractor with any other party for furnishing any of the work or services herein contracted for without the consent, guidance and approval of the Contract Administrator. Any subcontract hereunder entered into subsequent to the execution of the contract must be annotated "approved" by the Contract Administrator before it is reimbursable hereunder. This provision will not be taken as requiring the approval of contracts of employment between the Contractor and his employees assigned for services thereunder.

10. **SUBLETTING, ASSIGNMENT OR TRANSFER.** The Contractor shall not sublet, sell, transfer, assign, or otherwise dispose of this agreement or any portion thereof, or of his right, title or interest therein, without written request to and written consent of the Contract Administrator. No subcontracts or transfer of agreement shall in any case release the Contractor of his liability under this agreement.

11. **EQUAL EMPLOYMENT OPPORTUNITY.** During the performance of this contract, the Contractor agrees as follows:

- a. The Contractor will not discriminate against any employee or applicant for employment relating to this agreement because of race, color, religious creed, sex, national origin, ancestry, age or physical handicap, unless related to a bona fide occupational qualification. The Contractor will take affirmative action to ensure that applicants are employed and employees are treated during employment, without regard to their race, color, religion, sex, age or national origin. Such action shall

include but not be limited to the following: employment, upgrading, demotions, or transfers; recruitment or recruitment advertising; layoffs or terminations, rates of pay or other forms of compensation; and selection for training including apprenticeship. The Contractor agrees to post in conspicuous places available to employees and applicants for employment notices setting forth the provision of this nondiscrimination clause.

- b. The Contractor will, in all solicitations or advertising for the employees placed by or on behalf of the Contractor relating to this agreement, state that all qualified applicants will receive consideration for employment without regard to race, color, religious creed, sex, national origin, ancestry, age or physical handicap.
- c. The Contractor will send to each labor union or representative of the workers with which he has a collective or bargaining agreement, or other contract or understanding, whereby he is furnished with labor for the performance of this contract, a notice, to be provided by the contracting department or agency, advising the said labor union or workers' representative of the Contractor's commitment under this section and shall post copies of the notice in conspicuous places available to employees and to applicants for employment.
- d. The Contractor will cause the foregoing provisions to be inserted in any subcontracts for any work covered by this agreement so that such provisions shall be binding upon each subcontractor, provided that the foregoing provisions shall not apply to contracts or subcontracts for standard commercial supplies or raw materials. The Contractor, or any subcontractor holding a contract under the Contractor, proposes to fill from within his own organization all services called for in this contract. Listing of such openings with the Employment Service Division of the Maine employment Security Commission shall involve only the normal obligations which attach to such listings.

12. **STATE EMPLOYEES NOT TO BENEFIT.** No individual employed by the State or the Bank at the time this contract is executed or any time thereafter shall be admitted to any share or part of this contract or to any benefit that may arise therefrom directly or indirectly due to his employment by or financial interest in the Contractor or any affiliate of the Contractor. This provision shall not be construed to extend to this Contract if made with a corporation for its general benefit.

13. **WARRANTY.** The Contractor warrants that it has not employed or written any company or person, other than a bona fide employee working solely for the contractor to solicit or secure this agreement, and that it has not paid, or agreed to pay any company or person, other than a bona fide employee working solely for the contractor any fee, commission, percentage, brokerage fee, gifts, or any other consideration, contingent

upon, or resulting from the award for making this agreement. For breach or violation of this warranty, the Bank shall have the right to annul this agreement without liability and, at its discretion, to deduct from the contract price or consideration, or otherwise recover the full amount of such fee, commission, percentage, brokerage fee, gifts, or contingent fee.

14. **ACCESS TO RECORDS.** The Contractor shall maintain all books, documents, payrolls, papers, accounting records and other evidence pertaining to cost incurred under this agreement and to make such materials available at their offices at all reasonable times during the period of this agreement and for three years from the date of the expiration of this agreement, for inspection by the Bank or any authorized representative of the State of Maine and copies thereof shall be furnished, if requested.
15. **AUDIT.** Funds provided under this agreement are subject to the audit requirements contained in the Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP), and are further subject to audit by authorized representatives of the Federal government and/or the Bank.
16. **TERMINATION.** The performance of work under the contract may be terminated by the Bank in whole, or, from time to time, in part whenever for any reason the Contract Administrator shall determine that such termination is in the best interest of the Bank. Any such termination shall be effected by delivery to the Contractor of a Notice of Termination specifying the extent to which performance of the work under the contract is terminated and the date on which such termination becomes effective. The contract shall be equitably adjusted to compensate for such termination and the contract modified accordingly. In any event, this contract shall terminate on June 30, 1998 ~~1999~~ *SCL*.
17. **GOVERNMENTAL REQUIREMENTS.** The Contractor warrants and represents that all governmental ordinances, laws and regulations shall be complied with.
18. **INTERPRETATION AND PERFORMANCE.** This agreement shall be governed by the laws of the State of Maine as to interpretation and performance.
19. **OWNERSHIP.** All notebooks, plans, working papers, or other work produced in the performance of this contract are the property of the Bank and upon request shall be turned over to the Bank.
20. **STATE HELD HARMLESS.** The Contractor agrees to indemnify, defend and save harmless the State and the Maine Municipal Bond Bank, their officers, agents and employees from any and all claims and losses accruing or resulting to any and all contractors, subcontractors, materialmen, laborers and any other person, firm or corporation furnishing or supplying work, services, materials or supplies in connection with the performance of this contract, and from any and all claims and

losses accruing or resulting to any person, firm or corporation who may be injured or damaged by the contractor in the performance of this contract and against any liability, including costs and expenses for violation of proprietary rights, copyrights, or rights of privacy, arising out of publication, translation, reproduction, delivery, performance, use or disposition or any data furnished under this contract or based on any libelous or other unlawful matter contained in such data.

21. **ASSURANCE OF COMPLIANCE WITH CIVIL RIGHTS STANDARDS.** The Contractor will comply with the U. S. Department of Health and Human Services, U. S. Dept. of Agriculture, and U. S. Dept. of Justice regulations implementing Federal statutes that prohibit discrimination on the basis of race, color, national origin, sex, handicap, age and religion in programs and activities receiving Federal financial assistance, as applicable: 45 C.F. R. Part 80, 7 C. F. R. Part 15, and 28 C. F. R. Parts 42 & 50, implementing Title VI of the Civil Rights Act of 1964 (42 U.S.C. Sec. 2000 d et seq.); 45 C. F. R. Part 83 implementing Section 704 and 855 of the Public Health Service Act (42 U. S. C. Sec. 292 d and 298 b-2); 45 C. F. R. Part 84, implementing Section 504 of the Rehabilitation Act of 1973, as amended (29 U. S. C. Sec. 294); 45 C. F. R. Part 86, implementing Title IX of the Education Amendments of 1972, as amended (20 U. S. C. Sec. 1681 et seq.); 45 C. F. R. Part 91, implementing the Age Discrimination Act of 1975, as amended (42 U.S.C. Sec. 6101 et seq.) and 45 C. F. R. Part 92, implementing block grant provisions of the Omnibus Budget Reconciliation Act of 1981 (42 U. S. C. Sec. 300 w-7, 300 x-7, 300 y-9, 708, 8625, and 9906). In addition the Contractor will comply with the Maine Human Rights Act (5 M RSA Sec. 4551 et seq.).
22. **ENTIRE AGREEMENT.** This contract contains the entire agreement of the parties, and neither party shall be bound by any statement or representation not contained herein or referenced.

AMENDMENT TO CONTRACT

This Amendment To Contract is effective as of 1st day of July, 1999 by and between the Maine Municipal Bond Bank and Maine Rural Water Association.

WHEREAS, the Maine Municipal Bond Bank (the "Bank") and the Maine Rural Water Association (the "Contractor") entered into a certain contract with an effective date of July 1, 1997 (the "Contract"), amended July 1, 1998;

WHEREAS, the Contract provides for the administration by the Bank of certain funds appropriated by the legislature to the Contractor; and

WHEREAS, the Bank and the Contractor desire to amend the Contract to extend the term until June 30, 2001 and to change the annual amount available under the contract to that amount appropriated by the legislature for the periods ended June 30, 2000 and June 30, 2001.

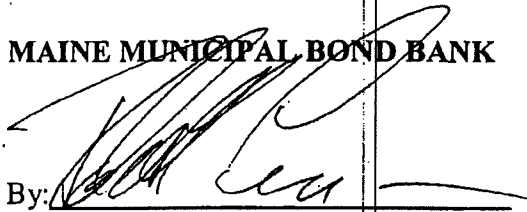
NOW THEREFORE, in consideration of the covenants contained in the Contract with the subsequent amendment stated above and this Amendment, the Bank and the Contractor agree to amend the contract as follows:

1. Rider B of the contract shall read:

"Grant award is conditional on the availability of State and Federal funds. During the period of this Agreement, the Contractor shall obligate/spend no more than the amount appropriated by the legislature per year ending June 30, 2000 and June 30, 2001. The Contractor is responsible for any funds expended or obligated that exceed the Agreement amount. Funds unobligated at the termination of the Grant period must be returned to the Bank."

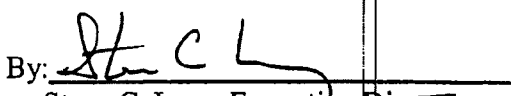
IN WITNESS WHEREOF, this Amendment was duly executed by the Bank and the Contractor.

MAINE MUNICIPAL BOND BANK

By: 
Robert O. Lenna, Executive Director


Witness

MAINE RURAL WATER ASSOCIATION

By: 
Steve C. Levy, Executive Director


Witness

AMENDMENT TO CONTRACT

This Amendment To Contract is effective as of 1st day of July, 2001 by and between the Maine Municipal Bond Bank and Maine Rural Water Association.

WHEREAS, the Maine Municipal Bond Bank (the "Bank") and the Maine Rural Water Association (the "Contractor") entered into a certain contract with an effective date of July 1, 1997 (the "Contract"), amended July 1, 1998 and July 1, 1999;

WHEREAS, the Contract provides for the administration by the Bank of certain funds appropriated by the legislature to the Contractor; and

WHEREAS, the Bank and the Contractor desire to amend the Contract to extend the term until June 30, 2003 and to change the annual amount available under the contract to that amount appropriated by the legislature for the periods ended June 30, 2001 and June 30, 2002.

NOW THEREFORE, in consideration of the covenants contained in the Contract with the subsequent amendment stated above and this Amendment, the Bank and the Contractor agree to amend the contract as follows:

1. Rider B of the contract shall read:

"Grant award is conditional on the availability of State and Federal funds. During the period of this Agreement, the Contractor shall obligate/spend no more than the amount appropriated by the legislature per year ending June 30, 2001 and June 30, 2002. The Contractor is responsible for any funds expended or obligated that exceed the Agreement amount. Funds unobligated at the termination of the Grant period must be returned to the Bank."

IN WITNESS WHEREOF, this Amendment was duly executed by the Bank and the Contractor.

MAINE MUNICIPAL BOND BANK

Karen Assel
Witness

By: Robert O. Lenna
Robert O. Lenna, Executive Director

MAINE RURAL WATER ASSOCIATION

Karen Assel
Witness

By: Steve C. Levy
Steve C. Levy, Executive Director

1. The first part of the document discusses the importance of maintaining accurate records.

2. This section describes the various methods used to collect and analyze data.

3. The results of the study are presented in the following table.

4. The data shows a significant correlation between the variables studied.

5. It is concluded that the findings have important implications for practice.

6. Further research is needed to explore these findings in greater detail.

7. The authors would like to thank the following individuals for their assistance.

8. This work was supported by a grant from the National Science Foundation.

9. The authors declare no conflict of interest.

10. Correspondence should be addressed to the author at the following address.

11. The authors are grateful to the reviewers for their constructive comments.

12. The document is published in the Journal of Applied Psychology.

13. The copyright for this document is held by the American Psychological Association.

14. All rights reserved. No part of this document may be reproduced without permission.

15. The document is available for purchase at the following link.

16. The authors are available for consultation at the following contact information.

17. The document is part of a larger collection of research papers.

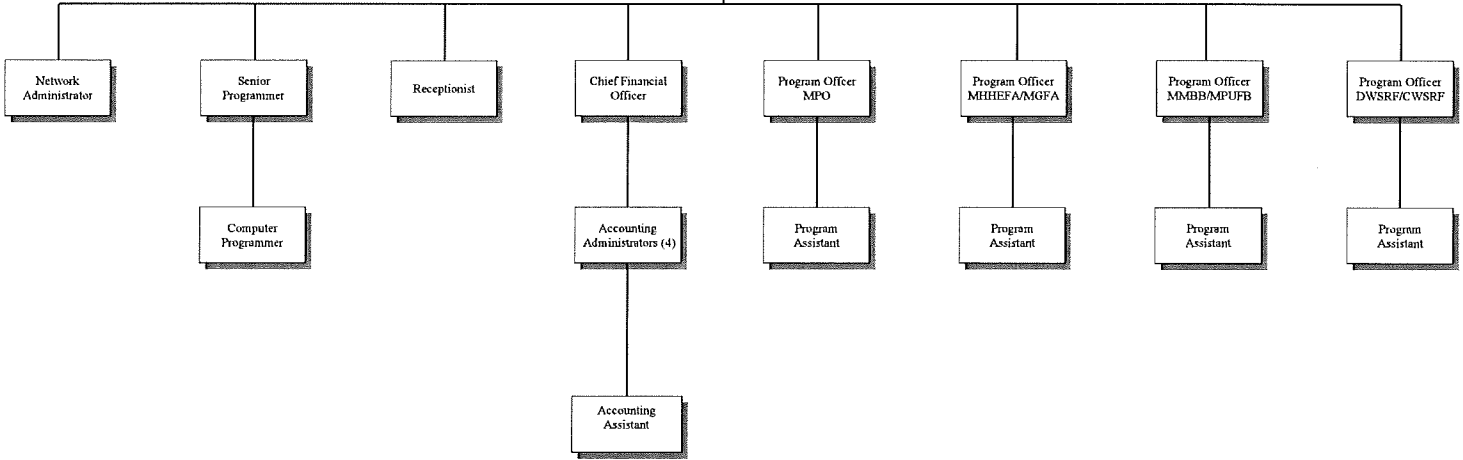
18. The authors are grateful to the publisher for their support.

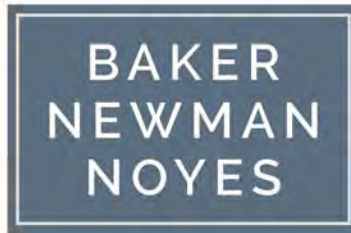
19. The document is published in the journal's print edition.

20. The authors are available for citation at the following reference list.

Boards of the
Maine Municipal Bond Bank
Maine Health and Higher Educational Facilities Authority
Maine Government Facilities Authority
Maine Public Utility Financing Bank

Executive Director





Maine Municipal Bond Bank

**Basic Financial Statements, Management's
Discussion and Analysis and Required
Supplementary Information**

*Year Ended June 30, 2015
With Independent Auditors' Report*

MAINE MUNICIPAL BOND BANK

BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION AND ANALYSIS AND REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2015

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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, 2015, 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.

Board of Commissioners
Maine Municipal Bond Bank

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, 2015, 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. 68, *Accounting and Financial Reporting for Pensions*, amended by Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, as of July 1, 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 and Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Portland, Maine
September 15, 2015

Baker Newman & Noyes
Limited Liability Company

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

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, 2015. 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 \$765,826 for fiscal year 2015, an increase of \$38,003 or 5.2% from fiscal year 2014. This was primarily attributed to an increase in net investment income of approximately \$50,000.
- Net position in the Bond Bank's General Operating Account increased \$716,367 in fiscal year 2015. This increase is the net result of Operating Revenues totaling \$765,826, Operating Transfers totaling \$1,244,238 and Operating Expenses totaling \$1,293,697. Operating Transfers from the General Tax-Exempt Fund Group are mandated by the Bond Bank's annual operating budget. At June 30, 2015, the Bond Bank's General Operating Account had a net position of \$28,416,521.
- The Bond Bank's gross principal amount of bonds outstanding at June 30, 2015 of \$1,542,681,713 represents a net decrease of \$40,100,406 over the balance at June 30, 2014. This decrease was the net result of the General Tax Exempt Resolution issuing Series 2014BC and 2015AB bonds, totaling \$180,130,000, and the Grant Anticipation Fund Group issuing 2014A bonds totaling \$44,810,000, less the scheduled debt service principal payments of \$142,485,406 and insubstance defeased bonds totaling \$122,555,000. Refer to note 4 to the financial statements for a detail of bonds payable activity in 2015.
- The Bond Bank committed loans to local governmental units during fiscal year 2015 totaling \$104,145,465, which was a 43.3% increase from the loans committed in fiscal year 2014. 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 \$3,189,174 in potential loan forgiveness in fiscal year 2015, which was a 46.8% decrease from fiscal year 2014.
- The provisions of Governmental Accounting Standards Board Statement No. 68, as amended by Governmental Accounting Standards Board Statement No. 71, were adopted as of July 1, 2014. This resulted in a decrease of \$489,597 to the net position of the General Operating Account as of July 1, 2014. Refer to note 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, 2015

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, and paid to the Bond Bank monthly or quarterly.

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. Payments are made to the Bond Bank annually and deposited in a principal sinking fund. The sinking funds will be used to pay-off the bonds on the final maturity 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, and paid to the Bond Bank monthly.

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.

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

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, notes to the financial statements and required supplementary information. 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.

Supplementary Information

In addition to the financial statements and the accompanying notes, this report also presents certain required supplementary information, as listed in the table of contents, to provide readers with a broader insight into the financial standing of the Bond Bank.

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 \$668,370,545 at June 30, 2015. This represents an increase of \$20,718,795 or 3.2% over the previous fiscal year (as restated). 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 \$596,164,810, unrestricted net position totals \$71,723,102 and net investment in capital assets totals \$482,633 at June 30, 2015. 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, 2015

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, 2015 and 2014

	<u>2015</u>	<u>2014</u> (As restated)	<u>Percentage Change</u>
Current assets:			
Cash	\$ 566,598	\$ 246,263	130.1%
Investments held by trustee	230,889,421	208,768,222	10.6
Operating investments	22,029,627	21,249,199	3.7
Loans receivable from governmental units	124,316,258	126,907,926	(2.0)
Advances to State of Maine	49,369,113	45,334,223	8.9
Accrued investment income receivable	1,245,597	1,020,426	22.1
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	9,063,969	8,721,709	3.9
Undisbursed federal letter of credit payments	44,980,783	40,319,894	11.6
Due from other funds	5,574,824	5,695,394	(2.1)
Other assets	<u>180,246</u>	<u>191,469</u>	<u>(5.9)</u>
Total current assets	488,216,436	458,454,725	6.5
Noncurrent assets:			
Investments held by trustee	168,531,518	167,073,967	0.9
Loans receivable from governmental units	1,279,452,776	1,308,308,974	(2.2)
Advances to State of Maine	427,819,319	427,642,929	0.0
Land and building, net of depreciation	<u>482,633</u>	<u>548,395</u>	<u>(12.0)</u>
Total noncurrent assets	<u>1,876,286,246</u>	<u>1,903,574,265</u>	<u>(1.4)</u>
Total assets	<u>2,364,502,682</u>	<u>2,362,028,990</u>	<u>0.1</u>
Deferred outflows of resources:			
Unamortized refunding benefits rebated to governmental units	629,229	996,543	(36.9)
Unamortized deferred loss on refundings	30,375,604	21,558,857	40.9
Pension contributions	<u>164,078</u>	<u>68,861</u>	<u>138.3</u>
Total deferred outflows of resources	\$ 31,168,911	\$ 22,624,261	37.8%

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

	<u>2015</u>	2014 (As restated)	<u>Percentage Change</u>
Current liabilities:			
Accounts payable and accrued liabilities	\$ 291,517	\$ 393,269	(25.9)%
Due to other funds	5,574,824	5,695,394	(2.1)
Accrued interest payable	12,380,928	12,385,211	0.0
Unearned grant revenue	3,929,127	272,727	1,340.7
Undisbursed loans	33,205,031	34,212,981	(2.9)
Accrued interest rebate payable to U.S. Government	474,604	723,879	(34.4)
Due to State of Maine	52,576,660	44,457,062	18.3
Bonds payable, net	<u>150,800,559</u>	<u>151,070,374</u>	<u>(0.2)</u>
Total current liabilities	<u>259,233,250</u>	<u>249,210,897</u>	<u>4.0</u>
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	461,456	1,004,730	(54.1)
Bonds payable, net	1,466,609,738	1,485,889,971	(1.3)
Accrued pension and other post-employment benefit liabilities	<u>671,965</u>	<u>895,903</u>	<u>(25.0)</u>
Total noncurrent liabilities	<u>1,467,743,159</u>	<u>1,487,790,604</u>	<u>(1.3)</u>
Total liabilities	<u>1,726,976,409</u>	<u>1,737,001,501</u>	<u>(0.6)</u>
Deferred inflows of resources:			
Pension adjustments	<u>324,639</u>	<u>—</u>	<u>0.0</u>
Total deferred inflows of resources	<u>324,639</u>	<u>—</u>	<u>0.0</u>
Net position:			
Net investment in capital assets	482,633	548,395	(12.0)
Restricted	596,164,810	577,446,830	3.2
Unrestricted	<u>71,723,102</u>	<u>69,656,525</u>	<u>3.0</u>
Total net position	<u>\$ 668,370,545</u>	<u>\$ 647,651,750</u>	<u>3.2%</u>

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

Total short and long-term investments held by trustee at June 30, 2015 increased \$23,578,750 or 6.3% from June 30, 2014. The increase was primarily the net result of additional funds being held in the Transportation Infrastructure Fund Group of approximately \$10,971,600, and approximately \$5,300,000 received from the State of Maine on June 30, 2015 to meet current and future federal grant match requirements for the Clean Water and Drinking Water Revolving Loan Fund Groups. Additionally, investments had a net decrease in fair value of \$1,373,938 in 2015, as compared to a net decrease of \$772,045 on 2014. The Bond Bank's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises securities (i.e. FNMA, FMLMC), U.S. Treasury and U.S. Government-sponsored enterprise strips, guaranteed investment contracts and certificates of deposit. The Bond Bank's investments are carried at fair value. Unrealized gains and losses (primarily due to fluctuations in market interest rates) are recognized in the statement of revenues, expenses and changes in net position. The Bond Bank's investments are scheduled to mature to meet operating or debt service requirements and are normally held until maturity.

The Bond Bank's net loans (bond and equity) to governmental units decreased \$31,447,866 in fiscal year 2015. The Bond Bank's total new loan commitment in 2015 of \$104,145,465 was a 43.3% increase over the 2014 commitments of \$72,688,342. Net bonds payable decreased \$19,550,048 primarily as a result of scheduled debt service principal payments in excess of new bond issuances (net of bonds refunded).

Unearned grant revenue at June 30, 2015 increased \$3,656,400 or 1340.7% over the balance at June 30, 2014. The increase is primarily attributed to timing of receipt of State of Maine matching funds. In fiscal 2015, the Bond Bank received approximately \$5,300,000 in State of Maine matching funds at the end of the fiscal year, of which approximately \$3,778,000 represents advance deposit of matching funds related to future federal awards.

Unamortized refunding benefits rebated to governmental units decreased \$367,314 or 36.9% from 2014. The decrease is due to current year amortization. Unamortized deferred loss on refundings increased \$8,816,747 or 40.9% from 2014. The net increase is due to the Bond Bank issuing \$119,350,000 (par) of refunding bonds in 2015, which resulted in recognition of a deferred accounting loss of approximately \$13.7 million, and current year amortization.

Undisbursed loans at June 30, 2015 decreased \$1,007,950 or 2.9% from fiscal 2014. 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 decreased \$792,549 from fiscal 2014 primarily as a result of rebate payments made to the IRS during the year.

Accrued pension and other post-employment benefit liabilities decreased \$223,938 or 25% in fiscal year 2015. A majority of the net decrease is related to a decrease of \$252,790 in the pension liability between fiscal year 2014 and 2015.

The Bond Bank's financial position improved as net assets increased 3.2% in fiscal year 2015. 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, 2015

MAINE MUNICIPAL BOND BANK
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> (as restated)	<u>Percentage Change</u>
Interest on loans receivable from governmental units	\$ 42,309,609	\$ 45,124,051	(6.2)%
Program revenue from State of Maine	17,800,033	15,394,217	15.6
Interest income from investments	7,727,565	8,392,575	(7.9)
Net decrease in the fair value of investments	(1,373,938)	(772,045)	(78.0)
Grant revenue from Environmental Protection Agency	19,698,000	18,756,000	5.0
Grant revenue from State of Maine	3,939,600	3,770,024	4.5
Other income	<u>1,776,173</u>	<u>2,735,143</u>	<u>(35.1)</u>
 Total operating revenues	 91,877,042	 93,399,965	 (1.6)
Interest expense	58,019,337	59,673,387	(2.8)
Operating expenses (direct and shared)	5,916,326	5,184,908	14.1
Cost of issuance expenses	1,480,608	1,608,904	(8.0)
Loan forgiveness	5,374,662	4,522,523	18.8
Amortization of refunding benefits rebated to governmental units	<u>367,314</u>	<u>501,975</u>	<u>(26.8)</u>
 Total operating expenses	 <u>71,158,247</u>	 <u>71,491,697</u>	 <u>(0.5)</u>
 Operating income	 20,718,795	 21,908,268	 (5.4)
Net position, beginning of year, as previously reported	648,141,347	626,301,940	3.5
Effect of change in accounting principle on beginning of year net position	<u>(489,597)</u>	<u>(558,458)</u>	<u>12.3</u>
Net position, beginning of year, as restated	<u>647,651,750</u>	<u>625,743,482</u>	<u>3.5</u>
Net position, end of year	<u>\$ 668,370,545</u>	<u>\$ 647,651,750</u>	<u>3.2%</u>

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

Program revenue from the State of Maine increased \$2,405,816 in fiscal year 2015 over fiscal year 2014 or 15.6% as a result of an increase of fees and taxes collected by the State and recorded as revenue for the Transportation Infrastructure Fund Group and Liquor Operation Revenue Fund Group to meet increased debt service requirements on the related bonds outstanding.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2015

Grant revenues from the Environmental Protection Agency and the State of Maine are contingent on continued funding by the U.S. Congress and the State of Maine Legislature. The Bond Bank recorded grant revenues from the Environmental Protection Agency totaling \$19,698,000 in fiscal year 2015, which was a 5.0% increase from 2014. The Bond Bank recorded grant revenue from the State of Maine totaling \$3,939,600 in 2015, which increased \$169,576 or 4.5% from 2014 grants.

Other income decreased \$958,970 in fiscal year 2015 or 35.1% from fiscal year 2014. In 2014, the Bond Bank recorded \$1,416,281 of revenues from the 2013 Series A Liquor Operation Revenue Bond issue to pay for costs of issuance related to the bond issue.

Cost of issuance expenses decreased in fiscal year 2015 over 2014 by \$128,296 or 8.0% as a result of less Bond issuances (par value) in fiscal year 2015.

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 2015 was \$1,736,978 and \$1,776,538 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 2015 was \$1,861,146. Forgiveness expense will vary from year to year depending upon repayment and drawdown activity within the respective programs.

Requests for Information

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

MAINE MUNICIPAL BOND BANK

STATEMENTS OF NET POSITION

June 30, 2015

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Fund Groups Grant Anticipation Fund Group</u>	<u>Transportation Infrastructure Fund Group</u>
<u>ASSETS</u>				
Current assets:				
Cash	\$ 566,598	\$ –	\$ –	\$ –
Investments held by trustee (notes 3 and 5)	–	40,713,840	–	52,859,999
Operating investments (note 3)	22,029,627	–	–	–
Loans receivable from governmental units (note 4)	353,742	84,479,543	–	–
Advances to State of Maine (note 4)	–	–	16,603,201	12,895,912
Accrued investment income receivable	93,263	322,689	–	208,447
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	8,223	5,973,075	1,716,677	–
Undisbursed federal letter of credit payments	–	–	–	–
Due from other funds	5,078,146	–	–	–
Other assets	<u>174,654</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total current assets	28,304,253	131,489,147	18,319,878	65,964,358
Noncurrent assets:				
Investments held by trustee (notes 3 and 5)	–	120,662,608	–	10,553,273
Loans receivable from governmental units (note 4)	729,790	818,184,631	–	–
Advances to State of Maine (note 4)	–	–	103,052,888	170,479,946
Land and building, net of depreciation of \$1,422,987	<u>482,633</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total noncurrent assets	<u>1,212,423</u>	<u>938,847,239</u>	<u>103,052,888</u>	<u>181,033,219</u>
Total assets	<u>29,516,676</u>	<u>1,070,336,386</u>	<u>121,372,766</u>	<u>246,997,577</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Unamortized refunding benefits rebated to governmental units	–	398,576	–	–
Unamortized deferred loss on refundings	–	29,665,711	–	–
Pension contributions (notes 8 and 10)	<u>164,078</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total deferred outflows of resources	<u>164,078</u>	<u>30,064,287</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
		<u>Revolving Loan Fund Groups</u> Clean Water	Drinking Water	Operating Fund Group		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 566,598
-	1,368,940	89,257,099	21,468,283	6,970,208	18,251,052	230,889,421
-	-	-	-	-	-	22,029,627
1,938,675	-	27,019,883	7,474,975	-	3,049,440	124,316,258
-	19,870,000	-	-	-	-	49,369,113
99,868	174,740	290,923	25,478	227	29,962	1,245,597
300,897	-	870,274	194,823	-	-	9,063,969
-	-	32,084,561	12,896,222	-	-	44,980,783
-	-	476,716	-	19,962	-	5,574,824
-	-	<u>4,351</u>	<u>1,241</u>	-	-	<u>180,246</u>
2,339,440	21,413,680	150,003,807	42,061,022	6,990,397	21,330,454	488,216,436
6,255,499	27,556,752	2,818,198	685,188	-	-	168,531,518
24,553,173	-	289,352,561	138,796,372	-	7,836,249	1,279,452,776
-	154,286,485	-	-	-	-	427,819,319
-	-	-	-	-	-	<u>482,633</u>
<u>30,808,672</u>	<u>181,843,237</u>	<u>292,170,759</u>	<u>139,481,560</u>	-	<u>7,836,249</u>	<u>1,876,286,246</u>
<u>33,148,112</u>	<u>203,256,917</u>	<u>442,174,566</u>	<u>181,542,582</u>	<u>6,990,397</u>	<u>29,166,703</u>	<u>2,364,502,682</u>
-	-	194,957	35,696	-	-	629,229
-	-	707,961	1,932	-	-	30,375,604
-	-	-	-	-	-	<u>164,078</u>
-	-	<u>902,918</u>	<u>37,628</u>	-	-	<u>31,168,911</u>

MAINE MUNICIPAL BOND BANK

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2015

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Fund Groups</u>	
			<u>Grant Anticipation Fund Group</u>	<u>Transportation Infrastructure Fund Group</u>
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 267,629	\$ —	\$ —	\$ 66
Due to other funds	—	4,426,283	—	43,610
Accrued interest payable	—	6,787,858	1,716,677	2,862,473
Unearned grant revenue	—	—	—	—
Undisbursed loans	—	—	—	—
Accrued interest rebate payable to U.S. Government	—	474,604	—	—
Due to State of Maine	—	—	—	50,913,670
Bonds payable, net (note 4)	<u>—</u>	<u>97,637,948</u>	<u>16,603,201</u>	<u>12,895,912</u>
Total current liabilities	267,629	109,326,693	18,319,878	66,715,731
Noncurrent liabilities:				
Accrued interest rebate payable to U.S. Government	—	416,888	—	—
Bonds payable, net (note 4)	—	950,862,034	103,052,888	180,281,846
Accrued pension and other post-employment benefit liabilities (notes 8 and 10)	<u>671,965</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total noncurrent liabilities	<u>671,965</u>	<u>951,278,922</u>	<u>103,052,888</u>	<u>180,281,846</u>
Total liabilities	<u>939,594</u>	<u>1,060,605,615</u>	<u>121,372,766</u>	<u>246,997,577</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Pension adjustments (notes 8 and 10)	<u>324,639</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total deferred inflows of resources	<u>324,639</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>NET POSITION</u>				
Net investment in capital assets	482,633	—	—	—
Restricted (notes 5, 6 and 7)	—	4,670,829	—	—
Unrestricted (notes 6 and 7)	<u>27,933,888</u>	<u>35,124,229</u>	<u>—</u>	<u>—</u>
Total net position	<u>\$28,416,521</u>	<u>\$ 39,795,058</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			Operating Fund Group	School Facilities Fund Group	Total
		Revolving Loan Fund Groups	Clean Water	Drinking Water			
\$ -	\$ 56	\$ 20,140	\$ 3,587	\$ -	\$ 39	\$ 291,517	
-	12,983	312,324	741,081	-	38,543	5,574,824	
301,732	580,888	109,914	21,386	-	-	12,380,928	
-	-	1,982,497	1,946,630	-	-	3,929,127	
-	-	26,071,502	4,680,046	-	2,453,483	33,205,031	
-	-	-	-	-	-	474,604	
-	1,662,990	-	-	-	-	52,576,660	
-	19,870,000	3,346,977	446,521	-	-	150,800,559	
301,732	22,126,917	31,843,354	7,839,251	-	2,492,065	259,233,250	
-	-	44,568	-	-	-	461,456	
32,846,380	181,130,000	15,530,415	2,906,175	-	-	1,466,609,738	
-	-	-	-	-	-	671,965	
32,846,380	181,130,000	15,574,983	2,906,175	-	-	1,467,743,159	
33,148,112	203,256,917	47,418,337	10,745,426	-	2,492,065	1,726,976,409	
-	-	-	-	-	-	324,639	
-	-	-	-	-	-	324,639	
-	-	-	-	-	-	482,633	
-	-	395,659,147	170,402,319	-	25,432,515	596,164,810	
-	-	-	432,465	6,990,397	1,242,123	71,723,102	
\$ -	\$ -	\$ 395,659,147	\$ 170,834,784	\$ 6,990,397	\$ 26,674,638	\$ 668,370,545	

MAINE MUNICIPAL BOND BANK

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30, 2015

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Grant Anticipation Fund Group</u>	<u>Transportation Fund Groups Infrastructure Fund Group</u>
Operating revenues:				
Interest on loans receivable from governmental units	\$ 48,212	\$36,285,916	\$ –	\$ –
Program revenue from State of Maine	–	–	3,879,275	7,191,478
Interest income from investments	373,249	5,036,126	–	588,793
Net decrease in the fair value of investments	(259,768)	(383,991)	–	(45,789)
Grant revenue from Environmental Protection Agency (note 6)	–	–	–	–
Grant revenue from State of Maine (notes 6 and 7)	–	–	–	–
Other income	<u>604,133</u>	<u>–</u>	<u>472,897</u>	<u>–</u>
Total operating revenues	765,826	40,938,051	4,352,172	7,734,482
Operating expenses:				
Interest expense	–	37,054,025	3,708,475	7,604,983
Operating expenses (direct and shared) (note 8)	1,293,697	52,671	170,800	129,499
Cost of issuance expenses	–	1,007,711	472,897	–
Loan forgiveness (notes 6 and 7)	–	–	–	–
Amortization of refunding benefits rebated to governmental units	<u>–</u>	<u>223,415</u>	<u>–</u>	<u>–</u>
Total operating expenses	<u>1,293,697</u>	<u>38,337,822</u>	<u>4,352,172</u>	<u>7,734,482</u>
Operating (loss) income before operating transfers	(527,871)	2,600,229	–	–
Operating transfers	<u>1,244,238</u>	<u>(1,188,837)</u>	<u>–</u>	<u>–</u>
Operating income (loss)	716,367	1,411,392	–	–
Net position, beginning of year, as previously reported	28,189,751	38,383,666	–	–
Effect of change in accounting principle on beginning of year net position (note 10)	<u>(489,597)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net position, beginning of year, as restated	<u>27,700,154</u>	<u>38,383,666</u>	<u>–</u>	<u>–</u>
Net position, end of year	<u>\$28,416,521</u>	<u>\$39,795,058</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			Operating Fund Group	School Facilities Fund Group	Total
		Revolving Loan Fund Groups	Clean Water	Drinking Water			
\$ 1,586,142	\$ -	\$ 3,502,727	\$ 886,612	\$ -	\$ -	\$ 42,309,609	
-	6,729,280	-	-	-	-	17,800,033	
244,242	720,111	625,932	32,210	4,802	102,100	7,727,565	
(19,992)	(216,588)	(320,703)	(23,069)	(5,176)	(98,862)	(1,373,938)	
-	-	10,853,000	8,845,000	-	-	19,698,000	
-	-	2,170,600	1,769,000	-	-	3,939,600	
-	-	-	-	699,143	-	1,776,173	
<u>1,810,392</u>	<u>7,232,803</u>	<u>16,831,556</u>	<u>11,509,753</u>	<u>698,769</u>	<u>3,238</u>	<u>91,877,042</u>	
1,810,392	7,163,124	553,106	125,232	-	-	58,019,337	
-	69,679	975,189	2,489,325	236,607	498,859	5,916,326	
-	-	-	-	-	-	1,480,608	
-	-	1,776,538	1,736,978	-	1,861,146	5,374,662	
-	-	119,240	24,659	-	-	367,314	
<u>1,810,392</u>	<u>7,232,803</u>	<u>3,424,073</u>	<u>4,376,194</u>	<u>236,607</u>	<u>2,360,005</u>	<u>71,158,247</u>	
-	-	13,407,483	7,133,559	462,162	(2,356,767)	20,718,795	
-	-	66,131	108,327	(229,859)	-	-	
-	-	13,473,614	7,241,886	232,303	(2,356,767)	20,718,795	
-	-	382,185,533	163,592,898	6,758,094	29,031,405	648,141,347	
-	-	-	-	-	-	(489,597)	
-	-	382,185,533	163,592,898	6,758,094	29,031,405	647,651,750	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 395,659,147</u>	<u>\$ 170,834,784</u>	<u>\$ 6,990,397</u>	<u>\$ 26,674,638</u>	<u>\$ 668,370,545</u>	

MAINE MUNICIPAL BOND BANK

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2015

	<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	\$ 397,265	\$ 123,523,030	\$ 16,970,182	\$ 38,426,820
Cash payments to governmental units	-	(60,825,665)	(50,004,855)	-
Cash payments to State of Maine	-	-	-	(7,486,419)
Cash received from other income	604,133	-	472,897	-
Cash payments for operating expenses	(1,302,566)	(52,671)	(170,800)	(129,433)
Cash paid for bond issuance costs	-	(1,007,711)	(472,897)	-
Cash received from (paid to) other funds	1,339,717	(1,178,041)	-	19,650
Cash received (paid) for other assets and liabilities	<u>10,146</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by operating activities	1,048,695	60,458,942	(33,205,473)	30,830,618
NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds payable	-	207,911,670	50,004,855	-
Principal paid on bonds payable	-	(94,595,406)	(12,930,000)	(11,490,000)
Interest paid on bonds payable	-	(38,798,222)	(3,869,382)	(8,782,580)
Grant receipts from Environmental Protection Agency and State of Maine	-	-	-	-
Amount deposited to refunding escrow (note 9)	<u>-</u>	<u>(140,531,511)</u>	<u>-</u>	<u>-</u>
Net cash (used) provided by noncapital financing activities	-	(66,013,469)	33,205,473	(20,272,580)
INVESTING ACTIVITIES:				
Purchase of investment securities	(28,239,077)	(199,218,005)	-	(132,465,204)
Proceeds from sale and maturities of investment securities	27,198,881	199,529,394	-	121,447,813
Income received from investments	335,574	6,347,881	-	459,353
Interest rebate paid to U.S. Government	-	(1,104,743)	-	-
Additions to land and building	<u>(23,738)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash (used) provided by investing activities	<u>(728,360)</u>	<u>5,554,527</u>	<u>-</u>	<u>(10,558,038)</u>
Increase in cash	320,335	-	-	-
Cash, beginning of year	<u>246,263</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash, end of year	<u>\$ 566,598</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Qualified School Construction Fund Group	Liquor Operation Revenue Fund Group	Sewer and Water Fund Groups			Operating Fund Group	School Facilities Fund Group	Total
		Revolving Loan Fund Groups					
		Clean Water	Drinking Water				
\$ 3,750,782	\$ 38,912,248	\$ 29,836,587	\$ 7,908,306	\$ -	\$ 3,626,471	\$ 263,351,691	
-	-	(23,788,503)	(13,058,724)	-	(3,831,767)	(151,509,514)	
-	(15,614,804)	-	-	-	-	(23,101,223)	
-	-	-	-	699,143	-	1,776,173	
-	(69,623)	(972,549)	(2,486,194)	(236,607)	(502,651)	(5,923,094)	
-	-	-	-	-	-	(1,480,608)	
-	12,983	(86,190)	97,578	(204,768)	(929)	-	
-	-	1,202	(125)	-	-	11,223	
3,750,782	23,240,804	4,990,547	(7,539,159)	257,768	(708,876)	83,124,648	
-	-	-	-	-	-	257,916,525	
-	(19,660,000)	(3,380,000)	(430,000)	-	-	(142,485,406)	
(1,810,392)	(7,180,621)	(713,467)	(135,360)	-	-	(61,290,024)	
-	-	9,046,678	13,586,433	-	-	22,633,111	
-	-	-	-	-	-	(140,531,511)	
(1,810,392)	(26,840,621)	4,953,211	13,021,073	-	-	(63,757,305)	
(6,504,968)	(138,314,803)	(250,421,706)	(65,847,653)	(10,856,077)	(28,693,679)	(860,561,172)	
4,355,763	141,193,868	239,915,133	60,349,135	10,591,598	29,274,656	833,856,241	
208,815	720,752	581,031	16,604	6,711	127,899	8,804,620	
-	-	(18,216)	-	-	-	(1,122,959)	
-	-	-	-	-	-	(23,738)	
(1,940,390)	3,599,817	(9,943,758)	(5,481,914)	(257,768)	708,876	(19,047,008)	
-	-	-	-	-	-	320,335	
-	-	-	-	-	-	246,263	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 566,598	

MAINE MUNICIPAL BOND BANK

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2015

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Fund Groups</u>	
			<u>Grant Anticipation Fund Group</u>	<u>Transportation Infrastructure Fund Group</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 716,367	\$ 1,411,392	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Interest income from investments	(373,249)	(5,036,126)	-	(588,793)
Net decrease in the fair value of investments	259,768	383,991	-	45,789
Loan forgiveness	-	-	-	-
Depreciation	89,500	-	-	-
Amortization of refunding benefits rebated to governmental units	-	223,415	-	-
Interest expense on bonds payable	-	37,054,025	3,708,475	7,604,983
Federal and State grants	-	-	-	-
Change in assets and liabilities:				
Loans receivable from governmental units and advances to State of Maine	346,995	26,312,848	(36,408,769)	12,537,489
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	2,058	98,601	(505,179)	-
Due to/from other funds	95,479	10,796	-	19,650
Other assets	10,146	-	-	-
Accrued pension and other post-employment benefit liabilities	5,484	-	-	-
Accounts payable and accrued liabilities	(103,853)	-	-	66
Due to State of Maine	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,211,434</u>
Net cash provided (used) by operating activities	<u>\$ 1,048,695</u>	<u>\$ 60,458,942</u>	<u>\$(33,205,473)</u>	<u>\$ 30,830,618</u>

See accompanying notes to the financial statements.

Qualified School Construction Fund Group	Liquor Operation Revenue Fund Group	Sewer and Water Fund Groups			Operating Fund Group	School Facilities Fund Group	Total
		Revolving Loan Fund Groups					
		Clean Water	Drinking Water				
\$ -	\$ -	\$ 13,473,614	\$ 7,241,886	\$ 232,303	\$ (2,356,767)	\$ 20,718,795	
(244,242)	(720,111)	(625,932)	(32,210)	(4,802)	(102,100)	(7,727,565)	
19,992	216,588	320,703	23,069	5,176	98,862	1,373,938	
-	-	1,776,538	1,736,978	-	1,861,146	5,374,662	
-	-	-	-	-	-	89,500	
-	-	119,240	24,659	-	-	367,314	
1,810,392	7,163,124	553,106	125,232	-	-	58,019,337	
-	-	(13,023,600)	(10,614,000)	-	-	(23,637,600)	
2,163,805	19,660,000	2,486,814	(6,039,912)	-	(205,296)	20,853,974	
835	-	58,543	2,882	-	-	(342,260)	
-	12,983	(152,321)	(10,749)	25,091	(929)	-	
-	-	1,202	(125)	-	-	11,223	
-	-	-	-	-	-	5,484	
-	56	2,640	3,131	-	(3,792)	(101,752)	
-	(3,091,836)	-	-	-	-	8,119,598	
<u>\$ 3,750,782</u>	<u>\$ 23,240,804</u>	<u>\$ 4,990,547</u>	<u>\$ (7,539,159)</u>	<u>\$ 257,768</u>	<u>\$ (708,876)</u>	<u>\$ 83,124,648</u>	

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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, 2015, the General Operating Account has approximately \$50,000 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, 2015 is \$629,855. 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, 2015 is \$453,677.

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 2015 was approximately \$963,300, 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, 2015

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, which are paid to the Bond Bank monthly or quarterly. 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 2015 was approximately \$383,600 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 2015 was approximately \$1,546,300 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, 2015

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, 2015 was approximately \$300,700 in the General Tax-Exempt Fund Group. Arbitrage rebate expense in the Clean Water Revolving Fund Group for the year ended June 30, 2015 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.

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.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

2. Significant Accounting Policies (Continued)

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, clean water fund group, drinking water fund group and liquor operation revenue fund group of approximately \$3,564,000, \$217,000, \$51,000, \$21,000 and \$39,000, respectively, have been recorded as interest income from investments in 2015. Reserve fund investments that are not expected to be utilized to fund bond principal and interest payments until after June 30, 2016 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).

Pension Plan: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the fiduciary net position of the Participating Local District (PLD) Defined Benefit Plan and additions to/deductions from PLD's fiduciary net position have been determined on the same basis as they are reported by PLD. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2015 was approximately \$4,748,100, \$192,600 and \$1,000 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. Refunding benefits for governmental units are distributed to the governmental units as a one-time, upfront, rebate or as reduced debt service payments generally allocated over the remaining life of the refunded bonds. If the refunding benefits are distributed as a one-time, upfront, rebate, the refunding benefits 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, 2015

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, 2015.

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 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 is no longer connected to the funding of the plan. This results in pension expense being different from the actuarially determined annual required contributions. The Bond Bank adopted these two statements in the fiscal year ended June 30, 2015. The impact of adoption of these statements is described in note 10.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

2. Significant Accounting Policies (Continued)

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. Management is currently evaluating the impact this statement 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, 2015, investments are categorized as follows:

	<u>Fair Value</u>
<u>General Operating Account</u>	
Operating investments:	
U.S. Government-sponsored enterprises	\$ 20,043,361
Cash and cash equivalents	<u>1,986,266</u>
	<u>\$ 22,029,627</u>
<u>General Tax-Exempt Fund Group</u>	
Investments held by trustee:	
Guaranteed investment contracts	\$ 8,572,352
U.S. Government obligations	20,654,799
U.S. Government-sponsored enterprises	20,314,363
U.S. Treasury strips	36,769,941
U.S. Government-sponsored enterprise strips	54,976,594
Cash and cash equivalents	<u>20,088,399</u>
	<u>\$ 161,376,448</u>
<u>Transportation Infrastructure Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 27,469,085
U.S. Treasury strips	9,567,291
Cash and cash equivalents	<u>26,376,896</u>
	<u>\$ 63,413,272</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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	\$ 6,027,120
Cash and cash equivalents	<u>228,379</u>
	<u>\$ 6,255,499</u>
<u>Liquor Operation Revenue Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 26,332,166
U.S. Treasury strips	1,224,586
Cash and cash equivalents	<u>1,368,940</u>
	<u>\$ 28,925,692</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	178,067
U.S. Government-sponsored enterprises	67,113,960
U.S. Government-sponsored enterprise strips	1,467,291
Certificates of deposit	7,828,713
Cash and cash equivalents	<u>13,955,600</u>
	<u>\$ 92,075,297</u>
Revolving Loan Fund Group – Drinking Water:	
U.S. Government-sponsored enterprises	\$ 16,193,586
U.S. Government-sponsored enterprise strips	105,735
Cash and cash equivalents	<u>5,854,150</u>
	<u>\$ 22,153,471</u>
Operating Fund Group:	
U.S. Government-sponsored enterprises	\$ 2,297,845
Cash and cash equivalents	<u>4,672,363</u>
	<u>\$ 6,970,208</u>
<u>School Facilities Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 15,149,555
Cash and cash equivalents	<u>3,101,497</u>
	<u>\$ 18,251,052</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 most 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, 2015:

	<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>20,043,361</u>	\$ <u>8,947,136</u>	\$ <u>11,096,225</u>	\$ <u>—</u>	\$ <u>—</u>
<u>General Tax Exempt Fund Group</u>					
Guaranteed investment contracts	\$ 8,572,352	\$ —	\$ —	\$ —	\$ 8,572,352
U.S. Government obligations	20,654,799	13,358,809	1,673,504	5,392,531	229,955
U.S. Government-sponsored enterprises	20,314,363	1,681,595	7,776,537	2,282,283	8,573,948
U.S. Treasury strips	36,769,941	3,858,971	17,008,493	15,239,484	662,993
U.S. Government-sponsored enterprise strips	<u>54,976,594</u>	<u>1,726,066</u>	<u>9,735,726</u>	<u>18,776,128</u>	<u>24,738,674</u>
	<u>\$ 141,288,049</u>	<u>\$20,625,441</u>	<u>\$36,194,260</u>	<u>\$41,690,426</u>	<u>\$42,777,922</u>
<u>Transportation Infra- structure Fund Group</u>					
U.S. Government-sponsored enterprises	\$ 27,469,085	\$27,469,085	\$ —	\$ —	\$ —
U.S. Treasury strips	<u>9,567,291</u>	<u>—</u>	<u>—</u>	<u>8,243,433</u>	<u>1,323,858</u>
	<u>\$ 37,036,376</u>	<u>\$27,469,085</u>	<u>\$ —</u>	<u>\$ 8,243,433</u>	<u>\$ 1,323,858</u>
<u>Qualified School Construction Fund Group</u>					
U.S. Government obligations	\$ <u>6,027,120</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>485,669</u>	\$ <u>5,541,451</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Government-sponsored enterprises	26,332,166	-	-	26,332,166	-
U.S. Treasury strips	<u>1,224,586</u>	<u>-</u>	<u>-</u>	<u>1,224,586</u>	<u>-</u>
	<u>\$ 27,556,752</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,556,752</u>	<u>\$ -</u>
 <u>Revolving Loan Fund</u>					
<u>Group – Clean Water</u>					
Guaranteed investment contracts	\$ 1,531,666	\$ 167,000	\$ -	\$ 1,364,666	\$ -
U.S. Government obligations	178,067	178,067	-	-	-
U.S. Government-sponsored enterprises	67,113,960	38,995,817	28,118,143	-	-
U.S. Government-sponsored enterprise strips	1,467,291	34,915	1,432,376	-	-
Certificates of deposit	<u>7,828,713</u>	<u>457,725</u>	<u>7,370,988</u>	<u>-</u>	<u>-</u>
	<u>\$ 78,119,697</u>	<u>\$ 39,833,524</u>	<u>\$ 36,921,507</u>	<u>\$ 1,364,666</u>	<u>\$ -</u>
 <u>Revolving Loan Fund</u>					
<u>Group – Drinking Water</u>					
U.S. Government-sponsored enterprises	\$ 16,193,586	\$ 11,535,785	\$ 4,496,175	\$ -	\$ 161,626
U.S. Government-sponsored enterprise strips	<u>105,735</u>	<u>-</u>	<u>105,735</u>	<u>-</u>	<u>-</u>
	<u>\$ 16,299,321</u>	<u>\$ 11,535,785</u>	<u>\$ 4,601,910</u>	<u>\$ -</u>	<u>\$ 161,626</u>
 <u>Sewer and Water Fund</u>					
<u>Groups – Operating Fund</u>					
<u>Group</u>					
U.S. Government-sponsored enterprises	<u>\$ 2,297,845</u>	<u>\$ 499,375</u>	<u>\$ 1,798,470</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>School Facilities Fund</u>					
<u>Group</u>					
U.S. Government-sponsored enterprises	<u>\$ 15,149,555</u>	<u>\$ 10,346,255</u>	<u>\$ 4,803,300</u>	<u>\$ -</u>	<u>\$ -</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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, 2015.

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, 2015, 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, 2015, 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 \$104,111,400 at June 30, 2015.

Trustee held cash and cash equivalents at June 30, 2015 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, 2015 consist entirely of money market funds secured by short-term U.S. Treasury obligations.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. Bonds Payable

Total General Tax-Exempt Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2015:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2015</u>
Series 2004 C, 2.00% – 5.00%, dated September 23, 2004	2004 – 2020	\$ 58,675,000	\$ 8,245,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2005 – 2021	91,250,000	65,925,333
Series 2005 B and C, 3.00% – 5.00%, dated May 26, 2005	2006 – 2031	22,050,000	1,345,000
Series 2005 D and E, 3.00% – 5.00%, dated October 27, 2005	2006 – 2034	60,395,000	3,795,000
Series 2006 A, 3.48% – 4.77%, dated May 25, 2006	2006 – 2036	14,040,000	1,575,000
Series 2006 B and C, 3.55% – 5.00%, dated October 26, 2006	2007 – 2027	24,065,000	3,750,000
Series 2007 A, 3.75% – 5.00%, dated April 5, 2007	2007 – 2022	51,335,000	48,495,000
Series 2007 B and C, 4.00% – 5.00%, dated May 24, 2007	2007 – 2029	69,380,000	10,450,000
Series 2007 D and E, 4.00% – 5.00%, dated October 25, 2007	2008 – 2037	53,560,000	7,655,000
Series 2008 A and B, 3.00% – 5.00%, dated May 15, 2008	2008 – 2038	49,060,000	9,625,000
Series 2008 C, 4.00% – 5.50%, dated October 30, 2008	2009 – 2038	100,010,000	20,095,000
Series 2009 A, 2.00% – 5.00%, dated March 17, 2009	2009 – 2020	10,060,000	5,880,000
Series 2009 B, 3.00% – 5.00%, dated May 28, 2009	2009 – 2034	42,845,000	31,855,000
Series 2009 C, 1.10% – 4.25%, dated August 27, 2009	2010 – 2029	21,620,000	16,580,000
Series 2009 D, 3.00% – 5.00%, dated August 27, 2009	2010 – 2029	34,930,000	26,495,000
Series 2009 G, 3.00% – 5.00%, dated October 29, 2009	2010 – 2039	9,590,000	7,320,000
Series 2009 H, 3.00% – 5.00%, dated January 14, 2010	2010 – 2030	38,710,000	30,890,000
Series 2010 A, 2.00% – 4.25%, dated May 27, 2010	2010 – 2040	8,320,000	4,340,000
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	86,820,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2015</u>
Series 2010 DEF, 0.71% – 5.12%, dated October 28, 2010	2011 – 2040	\$ 80,165,000	\$ 62,885,000
Series 2011 A, 2.37% – 5.00%, dated January 27, 2011	2011 – 2031	80,275,000	69,095,000
Series 2011 C, 2.00% – 5.00%, dated May 26, 2011	2012 – 2041	77,275,000	65,900,000
Series 2011 EF, 2.00% – 5.00%, dated October 27, 2011	2012 – 2033	50,375,000	32,505,000
Series 2012 ABC, 0.67% – 5.00%, dated May 24, 2012	2013 – 2038	66,435,000	59,630,000
Series 2012 E, 1.50% – 4.00%, dated October 25, 2012	2013 – 2042	28,590,000	25,460,000
Series 2012 FG, 0.50% – 5.00%, dated December 11, 2012	2013 – 2034	41,975,000	41,465,000
Series 2013 A, 2.00% – 5.00%, dated May 23, 2013	2014 – 2043	15,905,000	15,245,000
Series 2013 B, 2.00% – 4.50%, dated October 24, 2013	2014 – 2043	13,525,000	12,685,000
Series 2014 A, 2.00% – 5.00%, dated May 22, 2014	2015 – 2044	19,250,000	19,250,000
Series 2014 BC, 2.00% – 5.00%, dated October 23, 2014	2015 – 2034	109,750,000	109,750,000
Series 2015 AB, 2.00% – 5.00%, dated May 28, 2015	2016 – 2040	<u>70,380,000</u>	<u>70,380,000</u>
		<u>\$ 1,524,955,000</u>	<u>\$ 987,120,333</u>

Total General Tax-Exempt Fund Group Bonds payable is presented on the statement of net position at June 30, 2015 as follows:

Total principal outstanding	\$ 987,120,333
Unamortized original issue premium	<u>61,379,649</u>
Total General Tax-Exempt Fund Group Bonds payable	1,048,499,982
Current portion	<u>97,637,948</u>
Noncurrent portion	<u>\$ 950,862,034</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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>
2015	\$ 88,672,358	\$ 20,352,412	\$ 109,024,770
2016	89,363,516	37,971,997	127,335,513
2017	84,969,459	34,733,672	119,703,131
2018	83,005,000	31,650,569	114,655,569
2019	74,425,000	28,461,558	102,886,558
2020 – 2024	299,030,000	98,199,458	397,229,458
2025 – 2029	190,205,000	41,431,513	231,636,513
2030 – 2034	65,300,000	8,644,108	73,944,108
2035 – 2039	9,100,000	1,476,575	10,576,575
2040 – 2044	<u>3,050,000</u>	<u>335,435</u>	<u>3,385,435</u>
	<u>\$ 987,120,333</u>	<u>\$ 303,257,297</u>	<u>\$ 1,290,377,630</u>

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

Municipal loan obligations – principal and interest	\$ 1,131,342,557 ¹
Reserve Funds – principal and interest	<u>159,035,073</u>
	<u>\$ 1,290,377,630</u>

¹ Includes approximately \$10,140,300 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, 2015:

	<u>Original</u> <u>Maturity</u>	<u>Original</u> <u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2015</u>
Series 2004 A, 2.50% – 5.00%, dated December 16, 2004	2005 – 2015	\$ 48,395,000	\$ 5,325,000
Series 2008 A, 3.25% – 4.00%, dated September 10, 2008	2009 – 2020	50,000,000	27,645,000
Series 2010 A, 2.00% – 5.00%, dated December 2, 2010	2011 – 2017	25,915,000	12,375,000
Series 2010 B, 4.52% – 5.32%, dated December 2, 2010	2018 – 2022	24,085,000	24,085,000
Series 2014 A, 2.00% – 5.00%, dated December 3, 2014	2015 – 2026	<u>44,810,000</u>	<u>44,810,000</u>
		<u>\$ 193,205,000</u>	<u>\$ 114,240,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. Bonds Payable (Continued)

Total Grant Anticipation Fund Group Bonds payable is presented on the statement of net position at June 30, 2015 as follows:

Total principal outstanding	\$ 114,240,000
Unamortized original issue premium	<u>5,416,089</u>
 Total Grant Anticipation Fund Group Bonds payable	 119,656,089
Less current portion	<u>16,603,201</u>
 Noncurrent portion	 <u>\$ 103,052,888</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>
2015	\$ 15,680,000	\$ 2,575,015	\$ 18,255,015
2016	11,465,000	4,542,905	16,007,905
2017	11,965,000	4,043,205	16,008,205
2018	12,520,000	3,490,005	16,010,005
2019	13,010,000	2,932,418	15,942,418
2020 – 2024	40,075,000	6,764,992	46,839,992
2025 – 2026	<u>9,525,000</u>	<u>525,050</u>	<u>10,050,050</u>
	<u>\$ 114,240,000</u>	<u>\$24,873,590</u>	<u>\$ 139,113,590</u>

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

Repayment of advances to State of Maine – principal and interest	\$ <u>139,113,590</u> ¹
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¹ Includes approximately \$2,332,900 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, 2015:

	<u>Original</u> <u>Maturity</u>	<u>Original</u> <u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2015</u>
Series 2008 A, 3.00% – 5.50%, dated November 20, 2008	2009 – 2023	\$ 50,000,000	\$ 34,240,000
Series 2009 A, 2.50% – 5.00%, dated July 22, 2009	2010 – 2023	105,000,000	74,240,000
Series 2009 B, 2.00% – 5.00%, dated September 10, 2009	2010 – 2024	30,000,000	25,755,000
Series 2011A, 2.00% – 5.00%, dated December 14, 2011	2012 – 2026	<u>55,000,000</u>	<u>52,135,000</u>
		<u>\$ 240,000,000</u>	<u>\$ 186,370,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. Bonds Payable (Continued)

Total Transportation Infrastructure Fund Group Bonds payable is presented on the statement of net position at June 30, 2015 as follows:

Total principal outstanding	\$ 186,370,000
Unamortized original issue premium	<u>6,807,758</u>
 Total Transportation Infrastructure Fund Group Bonds payable	 193,177,758
Less current portion	<u>12,895,912</u>
 Noncurrent portion	 <u>\$ 180,281,846</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>
2015	\$ 11,910,000	\$ 4,293,709	\$ 16,203,709
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	14,180,000	6,411,675	20,591,675
2020 – 2024	82,375,000	21,036,030	103,411,030
2025 – 2026	<u>39,015,000</u>	<u>2,349,150</u>	<u>41,364,150</u>
	<u>\$ 186,370,000</u>	<u>\$56,869,927</u>	<u>\$ 243,239,927</u>

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

Repayment of advances to State of Maine – principal and interest	\$ 233,438,028
Reserve fund – principal and interest	<u>9,801,899</u>
	<u>\$ 243,239,927</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. Bonds Payable (Continued)

Total Qualified School Construction Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2015:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2015</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, 2015 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>
2015	\$ —	\$ 905,196	\$ 905,196
2016	—	1,810,392	1,810,392
2017	—	1,810,392	1,810,392
2018	—	1,810,392	1,810,392
2019	—	1,810,392	1,810,392
2020 – 2024	—	9,051,962	9,051,962
2025 – 2028	<u>32,846,380</u>	<u>3,290,536</u>	<u>36,136,916</u>
	<u>\$32,846,380</u>	<u>\$20,489,262</u>	<u>\$53,335,642</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. Bonds Payable (Continued)

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

Government unit loan obligations – principal and interest	\$ 47,262,911 ¹
Sinking fund – principal and interest	<u>6,072,731</u>
	\$ <u>53,335,642</u>

¹ Includes approximately \$18,878,000 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, 2015:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Outstanding June 30, 2015</u>
Series 2013, 1.07% – 4.35%, dated September 5, 2013	2015 – 2024	\$ 220,660,000	\$ 201,000,000

The Liquor Operation Revenue Bonds payable are presented on the statement of net position at June 30, 2015 as follows:

Total Liquor Operation Revenue Bonds payable	\$ 201,000,000
Less current portion	<u>19,870,000</u>
Noncurrent portion	\$ <u>181,130,000</u>

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

<u>Due Bond Year Ending June 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2015	\$ –	\$ 3,485,326	\$ 3,485,326
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	21,295,000	5,185,834	26,480,834
2020 – 2024	<u>118,930,000</u>	<u>12,861,868</u>	<u>131,791,868</u>
	\$ <u>201,000,000</u>	\$ <u>40,567,273</u>	\$ <u>241,567,273</u>

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

Governmental unit loan obligations – principal and interest	\$ 207,950,287
Reserve fund – principal and interest	33,608,230
Capitalized interest fund – interest	<u>8,756</u>
	\$ <u>241,567,273</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. Bonds Payable (Continued)

Sewer and Water Fund Group Clean Water Bonds payable, with original interest rates, consist of the following at June 30, 2015:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Outstanding June 30, 2015</u>
Series 2003 A and B, 1.05% – 5.00%, dated March 1, 2003	2003 – 2023	\$32,165,000	\$ 135,000
Series 2003 C, 1.00% – 4.9%, dated November 13, 2003	2004 – 2024	16,065,000	280,000
Series 2009 A, 3.00% – 5.00%, dated November 3, 2009	2010 – 2018	14,520,000	3,880,000
Series 2009 B, 2.50 – 3.625%, dated November 3, 2009	2010 – 2018	2,660,000	1,230,000
Series 2012 A, 2.00% – 5.00% dated March 22, 2012	2012 – 2024	<u>17,375,000</u>	<u>12,240,000</u>
		<u>\$82,785,000</u>	<u>\$17,765,000</u>

The Sewer and Water Fund Group Clean Water Bonds payable are presented on the statement of net position at June 30, 2015 as follows:

Total principal outstanding	\$17,765,000
Unamortized original issue premium	<u>1,112,392</u>
Total Sewer and Water Fund Group Waste Water Bonds payable	18,877,392
Less current portion	<u>3,346,977</u>
Noncurrent portion	<u>\$15,530,415</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>
2015	\$ 3,065,000	\$ 329,743	\$ 3,394,743
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	1,380,000	216,605	1,596,605
2020 – 2024	<u>4,630,000</u>	<u>523,215</u>	<u>5,153,215</u>
	<u>\$17,765,000</u>	<u>\$2,376,685</u>	<u>\$20,141,685</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. Bonds Payable (Continued)

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

Governmental unit loan obligations – principal and interest	\$18,942,125
Reserve fund – principal and interest	<u>1,199,560</u>
	<u>\$20,141,685</u>

Sewer and Water Fund Group Drinking Water Bonds payable, with original interest rates, consist of the following at June 30, 2015:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2015</u>
Series 2005 A, 2.25% – 4.45%, dated March 24, 2005	2005 – 2025	\$ 3,770,000	\$ 2,280,000
Series 2009 C, 3.00% dated November 3, 2009	2010 – 2018	<u>2,380,000</u>	<u>1,060,000</u>
		<u>\$6,150,000</u>	<u>\$3,340,000</u>

The Sewer and Water Fund Group Drinking Water Bonds payable are presented on the statement of net position at June 30, 2015 as follows:

Total principal outstanding	\$ 3,340,000
Unamortized original issue premium	<u>12,696</u>
Total Sewer and Water Fund Group Drinking Water Bonds payable	3,352,696
Less current portion	<u>446,521</u>
Noncurrent portion	<u>\$2,906,175</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>
2015	\$ 440,000	\$ 64,158	\$ 504,158
2016	450,000	113,675	563,675
2017	455,000	98,418	553,418
2018	470,000	82,773	552,773
2019	200,000	66,373	266,373
2020 – 2024	1,175,000	193,778	1,368,778
2025	<u>150,000</u>	<u>6,675</u>	<u>156,675</u>
	<u>\$3,340,000</u>	<u>\$625,850</u>	<u>\$3,965,850</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. Bonds Payable (Continued)

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

Governmental unit loan obligations – principal and interest \$3,965,850

The following summarizes bond payable activity for the Bond Bank for the year ended June 30, 2015:

	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	\$ 1,068,107,603	\$ 83,247,320	\$ 205,715,247	\$ 32,846,380	\$ 220,660,000	\$ 22,592,327	\$ 3,791,468
Issuances – face value	180,130,000	44,810,000	–	–	–	–	–
Redemptions	(94,595,406)	(12,930,000)	(11,490,000)	–	(19,660,000)	(3,380,000)	(430,000)
Refunded bonds	(122,555,000)	–	–	–	–	–	–
Capitalized premiums, net	25,999,835	5,194,855	–	–	–	–	–
Amortization of premiums	(8,587,050)	(666,086)	(1,047,489)	–	–	(334,935)	(8,772)
Balance, end of year	<u>\$ 1,048,499,982</u>	<u>\$ 119,656,089</u>	<u>\$ 193,177,758</u>	<u>\$ 32,846,380</u>	<u>\$ 201,000,000</u>	<u>\$ 18,877,392</u>	<u>\$ 3,352,696</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.

Reserve funds are generally funded by selling additional bonds. 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, ultimately resulting in 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 general reserve funds, until they are depleted. In addition, the General Tax-Exempt Fund Group also has a supplemental reserve fund to cover shortfalls in excess of the available general reserve funds within the Fund Group. If this creates a deficiency in the required amount of the reserve funds, the State can annually appropriate and replenish the reserve funds. This feature is referred to as “Moral Obligation” and is only available to debt issued by the General Tax-Exempt Fund Group, Liquor Operation Revenue Fund Group, and Sewer and Water Fund Groups. 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 has the option 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, 2015, the required debt service reserve was approximately \$117,020,000.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

5. **Reserve Funds (Continued)**

In addition, the Bond Bank maintains the Special Reserve Account balance of \$1,971,000 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, 2015, the fair value of the reserve fund assets totaled approximately \$144,131,000, which exceeded the required reserves by approximately \$22,440,000.

Transportation Infrastructure Fund Group: The Bond Bank is required to maintain a capital reserve which is equal to 50% of the maximum amount of principal installments and interest maturing and becoming due in any succeeding fiscal year on all bonds payable within the fund group as of such date of calculation. At June 30, 2015, the required capital reserve was approximately \$10,136,000 and the fair value of the capital reserve assets totaled approximately \$10,553,000 which exceeded the required reserves by approximately \$417,000.

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, 2015, the required capital reserve was approximately \$4,380,000 and the fair value of the capital reserve assets totaled approximately \$4,393,000, which exceeded the required reserves by approximately \$13,000.

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, 2015, the required capital reserve was approximately \$26,844,000 and the fair value of the capital reserve assets totaled approximately \$27,557,000, which exceeded the required reserves by approximately \$713,000.

6. **Sewer and Water Revolving Fund Group**

Pursuant to the Sewer and Water General Bond Resolution adopted February 7, 1990, the Bond Bank receives capitalization grants from the Environmental Protection Agency 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 since inception. 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.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

6. Sewer and Water Revolving Fund Group (Continued)

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.

Net position consists of the following at June 30, 2015:

	<u>Clean Water</u>	<u>Drinking Water</u>
Reserved for revolving loans:		
Grants received from Environmental Protection Agency under existing capitalization grant program	\$ 270,405,659	\$ 157,411,900
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	129,710
Hardship grants received from Environmental Protection Agency	643,800	-
Grants received from State of Maine	54,135,162	30,919,370
Other amounts reserved (utilized) for program loans and costs	<u>38,790,716</u>	<u>(37,558,661)</u>
	395,659,147	170,402,319
Unreserved amounts available	<u>-</u>	<u>432,465</u>
Net position at June 30, 2015	<u>\$ 395,659,147</u>	<u>\$ 170,834,784</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, 2015 are \$13,376,708 (clean water) and \$6,943,042 (drinking water), with \$13,376,708 and \$6,510,577, respectively, expended to date. The remaining amount of \$0 in the Clean Water Revolving Loan Fund Group and \$432,465 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 \$36,189,000 at June 30, 2015, 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 2015 was \$1,736,978.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 which 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 \$14,360,000 at June 30, 2015 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. The total amount forgiven under these programs in 2015 was \$1,776,538.

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, 2015, the Bond Bank has \$7,828,713 of certificates of deposits outstanding at various banks of which \$7,328,713 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	\$ 100,413,577
Loans forgiven	(82,951,728)
Other amounts reserved for program loans and costs	<u>7,970,666</u>

Unreserved amounts available	25,432,515
	<u>1,242,123</u>

Net position at June 30, 2015	<u>\$ 26,674,638</u>
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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, 2015 are \$3,636,845, with \$2,394,722 expended to date. The remaining amount of \$1,242,123 can be used for future administrative costs.

Portions of the loans made to school administrative units from the School Facilities Fund Group are forgiven. For purposes of the general purpose financial statements, the Bond Bank recognizes forgiveness expense within this fund at the time the loans are disbursed to the school administrative unit. This accounting treatment differs from the treatment within the Drinking Water and Clean Water Revolving Loan Funds due to the fact that there are no relevant continuing criteria that would require recognition of the forgiven amount as the related loans are repaid. The total amounts forgiven under this program in 2015 was \$1,861,146.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

8. Cost Sharing Multiple-Employer Defined Benefit Pension Plan and Other Post-Employment Benefits

Defined Benefit Pension Plan

General Information about the Pension Plan

Plan description – The Bond Bank participates in the Participating Local District Defined Benefit Plan (the PLD Plan), a multiple-employer cost sharing plan administered by the Maine Public Employees Retirement System (MEPERS). All full-time employees are eligible to participate in the PLD Plan.

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 MEPERS issues a publicly available financial report that includes financial statements and required supplementary information for the PLD Plan. That report may be obtained by writing to the Maine Public Employees Retirement System, 46 State House Station, Augusta, Maine 04333-0046

Benefits provided – Benefit terms are established in Maine statute; in the case of the PLD Plan, an advisory group, also established by statute, reviews the terms of the plan and periodically makes recommendations to the Legislature to amend the terms. The Plan provides defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting occurs upon the earning of five years of service credit. Members who retire at or after age 60 (normal retirement age) 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 monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below his/her normal retirement age at retirement.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by MEPERS' Board of Trustees and is currently 5.0%.

Contributions – Retirement benefits are funded by contributions from members and employers and by earnings on investments. Disability and death benefits are funded by employer normal cost and by earnings on investments. In accordance with State statute, members are required to contribute 7.0% of their annual covered salary to the Plan. The Bond Bank's payroll for the year ended June 30, 2015 for employees covered by the Plan was approximately \$1,094,000, 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 PLD 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, 2015, 2014 and 2013 were \$85,296, \$68,861 and \$53,387 (employer) and \$77,396, \$68,861 and \$65,475 (employee), respectively.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

8. Cost Sharing Multiple-Employer Defined Benefit Pension Plan and Other Post-Employment Benefits (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to the Pension Plan

At June 30, 2015, the Bond Bank reported a liability of \$305,668 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Bond Bank's proportionate share of the net position liability was based on a projection of the Bond Bank's long-term share of contributions to the pension plan relative to the projected contributions of all participating local districts, actuarially determined. At June 30, 2014, the Bond Bank's proportion was 0.20%, which was an increase of .02 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Bond Bank recognized pension expense of approximately \$62,000 within the General Operating Account. At June 30, 2015, the Bond Bank reported deferred outflows of resources and deferred inflows of resources related to the pension plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 38,383	\$ —
Net difference between projected and actual earnings on pension plan investments	—	324,639
Changes in proportion and differences between Bond Bank contributions and proportionate share of contributions	40,399	—
Bond Bank contributions subsequent to the measurement date	<u>85,296</u>	<u>—</u>
Total	<u>\$164,078</u>	<u>\$324,639</u>

The above total of \$85,296 reported as deferred outflows of resources related to the pension plan resulting from Bond Bank contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension plan will be recognized as a (reduction) increase in pension expense as follows:

Year Ended June 30

2016	\$ (54,900)
2017	(54,900)
2018	(54,897)
2019	(81,160)

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

8. **Cost Sharing Multiple-Employer Defined Benefit Pension Plan and Other Post-Employment Benefits (Continued)**

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following methods and assumptions, applied to all periods included in the measurement:

Actuarial Cost Method – The Entry Age Normal actuarial funding method is used to determine costs. Under this funding method, the total employer contribution rate consists of two elements, the normal cost rate and the unfunded actuarial liability (UAL) rate.

The individual entry age normal method is used to determine liabilities. Under the individual entry age normal method, a normal cost rate is calculated for each member. This rate is determined by taking the value, as of age at entry into the plan, of the member's projected future benefits, and dividing it by the value, also as of the member's entry age, of his/her expected future salary. The normal cost for each member is the product of his/her pay and his/her normal cost rate. The normal cost for the group is the sum of the normal costs for all members. Experience gains and losses, i.e., decreases or increases in liabilities and/or in assets when actual experience differs from the actuarial assumptions, affect the unfunded actuarial accrued liability.

Asset Valuation Method – The actuarial valuation employs a technique for determining the actuarial value of assets which dampens the swing in the market value. The specific technique adopted in this valuation recognizes in a given year one-third of the investment return that is different from the actuarial assumption for investment return.

Amortization – The net pension liability is amortized on an open basis over a period of fifteen years.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2014 and June 30, 2013 are as follows:

Investment Rate of Return – 7.25% per annum, compounded annually

Salary Increases, Merit and Inflation – 3.5% to 9.5% per year

Mortality Rates – For active members and non-disabled retirees, the RP2000 Tables projected forward to 2015 using Scale AA are used

Cost of Living Benefit Increases – 3.12% per annum

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

8. Cost Sharing Multiple-Employer Defined Benefit Pension Plan and Other Post-Employment Benefits (Continued)

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equities	20%	5.2%
Non-U.S. equities	20	5.5
Private equity	10	7.6
Real assets:		
Real estate	10	3.7
Infrastructure	10	4.0
Hard assets	5	4.8
Fixed income	25	0.0

Discount Rate - The discount rate used to measure the collective total pension liability was 7.25% for 2014 and 2013. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table shows how the Bond Bank's proportionate share of the net pension liability/(asset) as of June 30, 2014 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 7.25%.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Bond Bank's proportionate share of the net pension liability	\$953,594	\$305,668	\$(253,918)

Changes in net pension liability are recognized in pension expense for the year ended June 30, 2015 with the following exceptions.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

8. Cost Sharing Multiple-Employer Defined Benefit Pension Plan and Other Post-Employment Benefits (Continued)

Differences between expected and actual experience – The difference between expected and actual experience with regard to economic or demographic factors were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members. For the 2014 actuarial valuation, this was 4 years.

Differences between Projected and Actual Investment Earnings – Differences between projected and actual investment earnings were recognized in pension expense using a straight-line amortization method over a closed five-year period.

Changes in Assumptions – There were no changes in assumptions for the PLD Plan.

Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions – Differences resulting from a change in proportionate share of contributions and differences between total employer contributions and the employer's proportionate share of contributions were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members. Differences between total employer contributions and the employer's proportionate share of contributions may arise when an employer has a contribution requirement for an employer specific liability. This is not applicable to the Bond Bank.

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.

Funding Policy: The post-employment healthcare benefits are currently being funded on a pay-as-you-go basis (the Bond Bank paid approximately \$11,000 in 2015). No assets have been segregated and restricted to provide post-employment benefits.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

8. Cost Sharing Multiple-Employer Defined Benefit Pension Plan and Other Post-Employment Benefits (Continued)

Annual OPEB Cost: For 2015, the Bond Bank’s annual OPEB cost (expense) of \$39,852 for the Plan approximated 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 2015, 2014 and 2013 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>
6/30/15	\$39,852	0%	\$366,297
6/30/14	40,871	0	337,445
6/30/13	46,308	0	296,574

Funded Status and Funding Progress:

For the year-end June 30, 2015, 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%	\$1,094,000	47.2%

⁽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.

In the January 1, 2014 actuarial valuation, the projected unit 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.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

9. Refunding Issues

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

On October 23, 2014, the Bond Bank issued \$92,295,000 in General Tax-Exempt Series 2014 C bonds with an average interest rate of 4.93% to in-substance defease \$94,965,000 of various outstanding maturities of the 2004 A, 2005 C, 2007 B, 2007 C, 2007 D, 2007 E and 2008 C bonds with an average interest rate of 5.11%. The net proceeds of approximately \$109,708,000, including a bond premium of approximately \$17,958,000 and after payment of approximately \$545,000 in underwriting fees, insurance and other costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately \$11.1 million in the year ending June 30, 2015, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$8.0 million over the next twenty-four years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$6.9 million. As a result of the in-substance defeasance, the Bond Bank will reduce future debt service requirements of borrowers by approximately \$7.0 million over a period of fifteen years.

On May 28, 2015, the Bond Bank issued \$27,055,000 in General Tax-Exempt Series 2015 B bonds with an average interest rate of 4.31% to in-substance defease \$27,590,000 of various outstanding maturities of the 2006 A, 2006 C, 2007 B, 2007 E and 2008 B bonds with an average interest rate of 4.67%. The net proceeds of approximately \$30,824,000, including a bond premium of approximately \$3,959,000 and after payment of approximately \$190,000 in underwriting fees, insurance and other costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately \$2.6 million in the year ending June 30, 2015, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$2.0 million over the next twenty-four years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1.5 million. As a result of the in-substance defeasance, the Bond Bank will reduce future debt service requirements of borrowers by approximately \$1.5 million over a period of twenty-four years.

At June 30, 2015, the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately \$174,330,000.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

10. **Adoption of New Accounting Pronouncement**

As discussed in note 2, the Bond Bank adopted the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*, amended by Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, as of July 1, 2014. Among other provisions, GASB 68 requires that pension assets or obligations be retroactively reported on the fiduciary plan net position, rather than plan funding on the statement of net position for a defined benefit plan. See also note 8.

The net position of the Bond Bank's General Operating Account as of July 1, 2014 was restated to adopt the provisions of GASB 68. The following table summarizes the changes in the affected statement of position line items (total column amounts) as of the adoption of GASB 68 on July 1, 2014:

	(Debit) Credit		
	As		
	<u>Previously</u>	<u>Accounting</u>	<u>As</u>
	<u>Reported</u>	<u>Change</u>	<u>Restated</u>
Deferred outflows – pension contributions	\$ –	\$ (68,861)	\$ (68,861)
Accrued pension liability	–	558,458	558,458
Total net position – July 1, 2014	28,189,751	(489,597)	27,700,154

MAINE MUNICIPAL BOND BANK

**SCHEDULE OF THE BOND BANK'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

Participating Local District Plan

Last 2 Fiscal Years*

	<u>2015</u>	<u>2014</u>
Bond Bank's proportion of the net pension liability (asset)	0.20%	0.18%
Bond Bank's proportionate share of the net pension liability (asset)	\$ 305,668	\$ 558,458
Bond Bank's covered-employee payroll	1,094,000	1,059,000
Bond Bank's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	27.9%	52.7%
Plan fiduciary net position as a percentage of the total pension liability	94.1	87.5

* The amounts presented for each fiscal year were determined as of the beginning of the fiscal year. Data has been provided for fiscal years in which the data is available

MAINE MUNICIPAL BOND BANK

SCHEDULE OF THE BOND BANK'S PENSION CONTRIBUTIONS

Participating Local District Plan

Last 10 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 85,296	\$ 68,861	\$ 53,387	\$ 46,976	\$ 35,864	\$ 27,676	\$ 27,269	\$ 26,728	\$ 25,692	\$ 23,162
Contributions in relation to the contractually required contribution	<u>(85,296)</u>	<u>(68,861)</u>	<u>(53,387)</u>	<u>(46,976)</u>	<u>(35,864)</u>	<u>(27,676)</u>	<u>(27,269)</u>	<u>(26,728)</u>	<u>(25,692)</u>	<u>(23,162)</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Bond Bank's covered-employee payroll	\$1,094,000	\$1,059,000	\$1,007,000	\$1,068,000	\$1,025,000	\$988,000	\$974,000	\$955,000	\$918,000	\$895,000
Contributions as a percentage of covered-employee payroll	7.72%	6.50%	5.30%	4.40%	3.50%	2.80%	2.80%	2.80%	2.80%	2.59%

MAINE MUNICIPAL BOND BANK

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2015

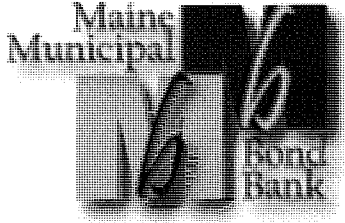
	Program Revenues				Net Revenue (Expense) and Changes in Net Position	
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Municipal Bond Bank	\$ (71,158,247)	\$ 60,109,642	\$ 5,922,538	\$ 317,608	\$ 23,637,600	\$ 18,829,141
Total	\$ (71,158,247)	\$ 60,109,642	\$ 5,922,538	\$ 317,608	\$ 23,637,600	18,829,141
General revenues:						
Unrestricted interest and investment earnings						113,481
Non program specific grants, contributions and appropriations						-
Miscellaneous income						1,776,173
Loss on assets held for sale						-
Extraordinary item						-
Total general revenues and extraordinary items						<u>1,889,654</u>
Changes in net position						20,718,795
Net position, beginning of year, as restated						<u>647,651,750</u>
Net position, end of year						<u>\$ 668,370,545</u>

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

Annual Report
Maine Municipal Bond Bank

2014





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". The signature is written in a cursive, flowing style.

Stephen R. Crockett
Chairman

Maine Municipal Bond Bank

Basic Financial Statements and
Management's Discussion and Analysis

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.

Portland, Maine
September 16, 2014


Limited Liability Company

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</u> <u>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			Operating Fund Group	School Facilities Fund Group	Total
		Revolving Loan Fund Groups					
		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</u> <u>Operating</u> <u>Account</u>	<u>General</u> <u>Tax-Exempt</u> <u>Fund Group</u>	<u>Transportation Fund Groups</u> <u>Grant</u> <u>Anticipation</u> <u>Fund Group</u>	<u>Transportation</u> <u>Infrastructure</u> <u>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			Operating Fund Group	School Facilities Fund Group	Total
		Revolving Loan Fund Groups		Clean Water			
		Drinking 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	
-	19,660,000	3,714,935	438,771	-	-	151,070,374	
301,732	25,013,211	31,320,735	4,020,761	-	4,577,294	249,548,342	
-	-	33,043	-	-	-	1,004,730	
32,846,380	201,000,000	18,877,392	3,352,697	-	-	1,485,889,971	
32,846,380	201,000,000	18,910,435	3,352,697	-	-	1,486,894,701	
33,148,112	226,013,211	50,231,170	7,373,458	-	4,577,294	1,736,443,043	
-	-	-	-	-	-	548,395	
-	-	381,863,473	163,128,759	-	27,783,769	577,446,830	
-	-	322,060	464,139	6,758,094	1,247,636	70,146,122	
\$ -	\$ -	\$ 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</u>	
			<u>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			Operating Fund Group	School Facilities Fund Group	Total
		Revolving Loan Fund Groups					
		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>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>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>(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>(218,054)</u>	<u>(10,786)</u>	<u>-</u>	<u>-</u>	<u>(6,510,744)</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>	<u>\$ 382,185,533</u>	<u>\$ 163,592,898</u>	<u>\$ 6,758,094</u>	<u>\$ 29,031,405</u>	<u>\$ 648,141,347</u>	

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</u>	
			<u>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>

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			
\$ 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

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Fund Groups</u>	
			<u>Grant Anticipation Fund Group</u>	<u>Transportation Infrastructure Fund Group</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 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 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 Clean Water	Drinking Water	Operating Fund Group		
\$ -	\$ -	\$ 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:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2014</u>
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)

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2014</u>
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:

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Outstanding June 30, 2014</u>
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:

<u>Due Bond Year Ending December 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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 <u>Reported</u>	Accounting <u>Change</u>	As <u>Restated</u>
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

	<u>Program Revenues</u>					<u>Net Revenue (Expense) and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants/ Contributions</u>	<u>Total</u>
Functions/Programs:						
Maine Municipal Bond Bank	\$(71,560,558)	\$60,518,268	\$7,050,139	\$506,613	\$22,526,024	\$ 19,040,486
Total	\$(71,560,558)	\$60,518,268	\$7,050,139	\$506,613	\$22,526,024	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						-
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.

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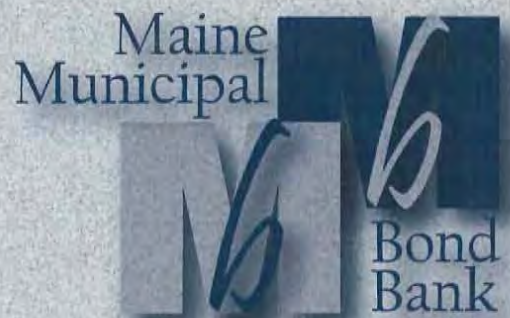
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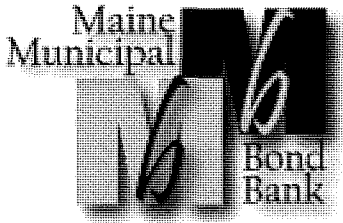


P.O. Box 2268
Augusta, Maine 04338

Annual Report
Maine Municipal Bond Bank

2013





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

November 29, 2013

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

Dear Governor LePage:

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

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

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

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

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

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

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

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

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

Sincerely,

A handwritten signature in black ink that reads "Stephen R. Crockett". The signature is written in a cursive, flowing style.

Stephen R. Crockett
Chairman

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Maine Municipal Bond Bank

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

Year Ended June 30, 2013
With Independent Auditors' Report

MAINE MUNICIPAL BOND BANK

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

For the Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Municipal Bond Bank

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

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



Limited Liability Company

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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

Financial Highlights

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

Overview of the Bond Bank

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

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

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

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

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

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

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

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

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

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

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

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

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

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

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

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

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

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

Requests for Information

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

MAINE MUNICIPAL BOND BANK

STATEMENTS OF NET POSITION

June 30, 2013

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

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

MAINE MUNICIPAL BOND BANK

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2013

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

See accompanying notes.

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

MAINE MUNICIPAL BOND BANK

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30, 2013

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

See accompanying notes.

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

MAINE MUNICIPAL BOND BANK

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2013

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

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

MAINE MUNICIPAL BOND BANK

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2013

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

See accompanying notes.

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. Organization

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. Organization (Continued)

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

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

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

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

2. Significant Accounting Policies

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

2. Significant Accounting Policies (Continued)

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

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

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

Federal Income Taxes

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

2. Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

2. Significant Accounting Policies (Continued)

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

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

Implementation of New Accounting Standards

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

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

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

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

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

Other GASB standards that are under evaluation include:

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

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

2. Significant Accounting Policies (Continued)

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

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

3. Investments Held By Trustee and Operating Investments

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

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

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

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

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

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

4. Bonds Payable

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

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

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

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

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

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

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

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

Governmental unit loan obligations – principal and interest	<u>\$5,115,593</u>
---	--------------------

The following summarizes bond payable activity for the Bond Bank for the year ended June 30, 2013:

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

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

5. Reserve Funds

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

6. Sewer and Water Revolving Fund Group

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

6. Sewer and Water Revolving Fund Group (Continued)

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

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

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

7. School Facilities Fund Group

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

7. School Facilities Fund Group (Continued)

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

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

8. Defined Benefit Pension Plan and Other Postemployment Benefits

Pension Plan Description and Funding Policy

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

Other Postemployment Benefits (OPEB)

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

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

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

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

Funded Status and Funding Progress:

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

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

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

9. Refunding Issues

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

10. Pass-Through State Grants

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

Riverfront Community Development Program

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

Municipal Investment Trust Fund Program

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

Dam Repair Loan Program

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

MAINE MUNICIPAL BOND BANK

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2013

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

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

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P.O. Box 2268
Augusta, Maine 04338

Maine Municipal Bond Bank

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

Year Ended June 30, 2012
With Independent Auditors' Report

MAINE MUNICIPAL BOND BANK

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

For the Year Ended June 30, 2012

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BAKER NEWMAN NOYES

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Municipal Bond Bank

We have audited the accompanying financial statements which include the General Operating Account, General Tax-Exempt Fund Group, Grant Anticipation Fund Group, Transportation Infrastructure Fund Group, Qualified School Construction Fund Group, Clean Water and Drinking Water Revolving Loan Fund Groups and Operating Fund Group and the School Facilities Fund Group, which collectively comprise the basic financial statements of Maine Municipal Bond Bank, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine, as of and for the year ended June 30, 2012, as listed in the accompanying table of contents. These financial statements are the responsibility of the Bond Bank's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Maine Municipal Bond Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Bond Bank, as well as the individual fund groups referred to above, as of June 30, 2012, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2012 on our consideration of Maine Municipal Bond Bank's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Commissioners
Maine Municipal Bond Bank

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

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



Limited Liability Company

Portland, Maine
September 10, 2012

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

As financial management of the Maine Municipal Bond Bank (the "Bond Bank"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Bond Bank for the fiscal year ended June 30, 2012. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Bond Bank and to identify any significant changes in financial position. Readers should consider the information presented here only in conjunction with the basic financial statements as a whole.

Financial Highlights

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

Overview of the Bond Bank

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

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

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

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

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

The Bond Bank administers the Federal Clean Water Act and Drinking Water Act Revolving Loan Funds. Each of the Revolving Loan Funds periodically receives capitalization grants from the Environmental Protection Agency and matching funds from the State of Maine. Additionally, both of the revolving loan funds received *American Recovery and Reinvestment Act of 2009* (ARRA) grant awards in 2009 (see note 6 to the accompanying financial statements) and continued to disburse ARRA funds to local borrowers during 2012. The State of Maine Department of Environmental Protection approves low interest revolving loans to eligible borrowers, under the Clean Water Act Fund, that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. The Drinking Water Revolving Loan Fund operates similar to the Clean Water Revolving Loan Fund whereby the Maine Department of Human Services (Office of Drinking Water) approves low interest revolving loans, under the Drinking Water Act, to eligible borrowers that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. Under the base Clean Water and Drinking Water Revolving Loan Program, a portion of each federal capitalization grant may be provided to borrowers as loan forgiveness. Starting in fiscal 2009, both the Clean Water and the Drinking Water Revolving Funds received ARRA funding, 50% of which was required to be provided as subsidies including grants, loan forgiveness or negative interest rates. Each of the programs opted to meet the 50% subsidy requirement by providing up to a maximum of 100% loan forgiveness on ARRA funded loans. Beginning with the fiscal year 2010 federal grants, the programs had to provide a minimum of 30% of the federal grants awarded as additional subsidies, which includes loan forgiveness, to eligible borrowers.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

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

As the result of the Bond Bank issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Bond Bank's policy is to prepare and review internal calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability. In fiscal 2012, the Bond Bank has contracted with an arbitrage consultant to prepare all rebate calculations that will be filed with the Internal Revenue Service.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Bond Bank, assets exceeded liabilities by \$619,324,055 at June 30, 2012. This represents an increase of \$30,864,165 or 5.2% over the previous fiscal year. Most of this increase is due to revenues exceeding expenses in the Sewer and Water Fund Groups as federal and state matching grants are received to fund revolving loans to eligible borrowers, and the net increase in the fair value of investments within the General Tax Exempt Fund Group. Restricted net assets are \$539,552,184 and unrestricted net assets are \$79,771,871 at June 30, 2012. The largest portion of the Bond Bank's net assets is its investment in loans to governmental units and investments held by trustee included in the Sewer and Water and School Facilities Fund Groups (provided by grants).

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

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

MAINE MUNICIPAL BOND BANK
Balance Sheets
June 30, 2012 and 2011

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

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

Total short and long-term investments held by trustee at June 30, 2012 increased \$13,598,987 or 3.9% from June 30, 2011. The increase was the net result of additional reserve fund investments purchased of approximately \$3,805,771 in conjunction with 2012 bond issuances, the net receipt of approximately \$23,000,000 from the State of Maine for the Transportation Infrastructure Fund Group and also the net impact of drawdowns of investments for equity loans to borrowers and the repayment on equity loans from borrowers in 2012. Additionally, investments had a net increase in fair value of \$10,565,685 in 2012. The Bond Bank's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises securities (i.e. FNMA, FLMC), U.S. Treasury and U.S. Government-sponsored enterprise strips, guaranteed investment contracts and certificates of deposit. The Bond Bank's investments are carried at fair value. Unrealized gains and losses (primarily due to fluctuations in market interest rates) are recognized in the statement of revenues, expenses and changes in net assets.

The Bond Bank's net loans (bond and equity) to governmental units decreased \$20,792,565 in fiscal year 2012. The Bond Bank's total new loan commitment in 2012 of \$216,616,068 was a 46.4% decrease over the 2011 commitments of \$404,410,251. Net bonds payable decreased \$23,470,017.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

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

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

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

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

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

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

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

Requests for Information

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

MAINE MUNICIPAL BOND BANK

BALANCE SHEET

June 30, 2012

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

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

MAINE MUNICIPAL BOND BANK

BALANCE SHEET (CONTINUED)

June 30, 2012

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

See accompanying notes.

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

MAINE MUNICIPAL BOND BANK

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2012

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

See accompanying notes.

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

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

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

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

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2012

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

See accompanying notes.

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. Organization

The Maine Municipal Bond Bank (the Bond Bank) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Article 30-A, Title 5901 (the Act), as amended.

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. Organization (Continued)

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

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

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

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

2. Significant Accounting Policies

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

2. Significant Accounting Policies (Continued)

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

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

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

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

Investments: Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net assets. Interest earnings on principal-only strips within the general tax-exempt fund group of approximately \$4,366,000 have been recorded as interest income from investments in 2012. Reserve fund investments that are not expected to be utilized to fund bond principal and interest payments until after June 30, 2013 have been classified as long-term.

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

2. Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

2. Significant Accounting Policies (Continued)

New Accounting Pronouncements

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

2. **Significant Accounting Policies (Continued)**

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

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

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

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

3. **Investments Held By Trustee and Operating Investments**

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

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

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Bond Bank will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Bond Bank's investments are primarily held by U.S. Bank and Bangor Savings Bank. Management of the Bond Bank is not aware of any issues with respect to custodial credit risk at either bank at June 30, 2012.

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

At June 30, 2012, the rating for investments in U.S. Treasury Obligations and U.S. Government-sponsored enterprise securities (includes FHLMC, FHLB, FFCB, FNMA) was AA+. At June 30, 2012, the Bond Bank's guaranteed investment contracts within the General Tax Exempt Fund Group and Revolving Loan Fund Group are primarily with three institutions, all of which are AA rated or better.

The Bond Bank has invested some of its long-term funds in U.S. Treasury and U.S. Government-sponsored enterprise principal-only strips in order to maximize yields coincident with cash needs for operations, debt service, and arbitrage. These securities are similar to zero coupon bonds which are purchased deeply discounted, with the Bond Bank receiving its only repayment stream at maturity; therefore, they are sensitive to interest rate changes. These securities are reported at fair value in the balance sheet. The fair value of these investments is approximately \$118,620,000 at June 30, 2012.

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

The cash and cash equivalents of the Bond Bank's General Operating Account at June 30, 2012 consist entirely of money market funds secured by short-term U.S. Treasury obligations, held by a trust company.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable

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

	<u>Original Maturity</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding June 30, 2012</u>
Series 1993 B and C, 5% – 5.85%, dated May 1, 1993	1994 – 2020	\$ 40,070,000	\$ 5,130,000
Series 1998 A, 3.70% – 5.50%, dated February 1, 1998	1999 – 2012	60,950,000	8,140,000
Series 1998 D and E, 3.75% – 4.80%, dated October 1, 1998	1999 – 2018	13,890,000	325,000
Series 2000 A and B, 4.5% – 5.875%, dated May 1, 2000	2000 – 2020	70,125,000	2,815,000
Series 2000 C and D, 4.625% – 5.70%, dated October 1, 2000	2001 – 2021	39,560,000	1,315,000
Series 2001 A and B, 4.125% – 5.25%, dated May 1, 2001	2002 – 2021	34,635,000	2,560,000
Series 2002 B and C, 2.50% – 5.25%, dated May 1, 2002	2002 – 2032	77,575,000	4,005,000
Series 2002 D, 2.00% – 5.00%, dated July 1, 2002	2003 – 2015	49,315,000	3,355,000
Series 2002 E and F, 2.00% – 5.00%, dated October 1, 2002	2003 – 2023	32,720,000	3,155,000
Series 2003 A, 3.00% – 5.25%, dated March 1, 2003	2003 – 2020	186,050,000	16,035,413
Series 2003 B and C, 2.00% – 5.00%, dated May 1, 2003	2003 – 2024	17,290,000	2,600,000
Series 2003 D and E, 2.00% – 5.00%, dated October 1, 2003	2004 – 2033	18,460,000	2,200,000
Series 2004 A and B, 2.00% – 5.00%, dated May 27, 2004	2004 – 2025	94,565,000	15,430,000
Series 2004 C, 2.00% – 5.00%, dated September 23, 2004	2004 – 2020	58,675,000	47,115,000
Series 2004 D and E, 2.25% – 5.00%, dated October 28, 2004	2005 – 2034	46,850,000	8,685,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2005 – 2021	91,250,000	86,150,000
Series 2005 B and C, 3.00% – 5.00%, dated May 26, 2005	2006 – 2031	22,050,000	6,635,000
Series 2005 D and E, 3.00% – 5.00%, dated October 27, 2005	2006 – 2034	60,395,000	15,560,000
Series 2006 A, 3.48% – 4.77%, dated May 25, 2006	2006 – 2036	14,040,000	9,795,000
Series 2006 B and C, 3.55% – 5.00%, dated October 26, 2006	2007 – 2027	24,065,000	14,635,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

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

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

Total principal outstanding	\$ 106,830,000
Unamortized original issue premium	<u>1,421,805</u>
Total Grant Anticipation Fund Group Bonds payable	108,251,805
Less current portion	<u>12,291,886</u>
Noncurrent portion	<u>\$ 95,959,919</u>

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

<u>Due Bond Year Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2012	\$ 12,005,000	\$ 2,280,057	\$ 14,285,057
2013	12,465,000	4,098,180	16,563,180
2014	12,930,000	3,634,493	16,564,493
2015	13,460,000	3,103,980	16,563,980
2016	8,440,000	2,541,255	10,981,255
2017 – 2021	42,410,000	6,786,582	49,196,582
2022	<u>5,120,000</u>	<u>272,589</u>	<u>5,392,589</u>
	<u>\$ 106,830,000</u>	<u>\$22,717,136</u>	<u>\$ 129,547,136</u>

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

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

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

Total principal outstanding	\$ 219,555,000
Unamortized original issue premium	<u>10,126,499</u>
Total Transportation Infrastructure Fund Group Bonds payable	229,681,499
Less current portion	<u>11,794,254</u>
Noncurrent portion	<u>\$ 217,887,245</u>

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

<u>Due Bond Year Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2012	\$ 10,630,000	\$ 4,923,646	\$ 15,553,646
2013	11,065,000	9,428,842	20,493,842
2014	11,490,000	8,977,743	20,467,743
2015	11,910,000	8,587,417	20,497,417
2016	12,410,000	8,130,288	20,540,288
2017 – 2021	71,165,000	31,851,340	103,016,340
2022 – 2026	<u>90,885,000</u>	<u>12,594,590</u>	<u>103,479,590</u>
	<u>\$ 219,555,000</u>	<u>\$84,493,866</u>	<u>\$ 304,048,866</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. Bonds Payable (Continued)

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

5. Reserve Funds

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

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

In addition, the Bond Bank maintains the Special Reserve Account balance of \$1,970,829 and the Supplemental Reserve Fund General Reserve Account principal balance of \$2,700,000. These reserves represent segregated net assets and are pledged to the payment of the principal or interest on the outstanding bonds of the General Tax-Exempt Fund Group if a deficiency occurs. At June 30, 2012, the fair value of the reserve fund assets totaled approximately \$166,558,000, which exceeded the required reserves by approximately \$35,996,000.

Transportation Infrastructure Fund Group: The Bond Bank is required to maintain a capital reserve which is equal to 50% of the maximum amount of principal installments and interest maturing and becoming due in any succeeding fiscal year on all bonds payable within the fund group as of such date of calculation. At June 30, 2012, the required capital reserve was approximately \$10,136,000 and the fair value of the capital reserve assets totaled approximately \$10,205,000, which exceeded the required reserves by approximately \$69,000.

Sewer and Water Fund Groups: The Bond Bank is required to maintain a capital reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all government unit loan obligations within the fund groups as of such date of calculation. At June 30, 2012, the required capital reserve was approximately \$6,410,000 and the fair value of the capital reserve assets totaled approximately \$8,323,000, which exceeded the required reserves by approximately \$1,913,000.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

6. Sewer and Water Revolving Fund Group

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

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

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

	<u>Clean Water</u>	<u>Drinking Water</u>
Reserved for revolving loans:		
Grants received from Environmental Protection Agency under existing capitalization grant program	\$ 238,277,659	\$ 131,170,900
Grants received from Environmental Protection Agency under ARRA	30,336,800	19,500,000
Other administrative grants received from Environmental Protection Agency	1,347,010	23,813
Hardship grants received from Environmental Protection Agency	643,800	-
Grants received from State of Maine	47,709,562	25,671,170
Other amounts reserved (utilized) for program loans and costs	<u>36,927,933</u>	<u>(27,203,176)</u>
	355,242,764	149,162,707
Unreserved amounts available	<u>231,516</u>	<u>632,781</u>
Net assets at June 30, 2012	<u>\$ 355,474,280</u>	<u>\$ 149,795,488</u>

Under the provisions of the grants from the Environmental Protection Agency (including ARRA grants), the Bond Bank is allowed administrative costs of up to 4% of the total grants awarded. In addition, the Bond Bank receives other grants from the Environmental Protection Agency that are used solely for administrative purposes. The total administrative costs allowed at June 30, 2012 are \$12,091,588 (clean water) and \$5,762,955 (drinking water), with \$11,860,072 and \$5,130,174, respectively, expended to date. The remaining amount of \$231,516 in the Clean Water Revolving Loan Fund Group and \$632,781 in the Drinking Water Revolving Loan Fund Group can be used for future administrative costs. The Bond Bank also charges annual administrative fees to borrowers that are used to administer the programs.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

6. Sewer and Water Revolving Fund Group (Continued)

Portions of the loans made to eligible borrowers under the Drinking Water Revolving Loan Fund Program may be forgiven if certain continuing criteria are met, including that the borrower continues to make debt service payments, continues to operate the project in compliance with laws and regulations, and does not dispose of or discontinue the project. The Bond Bank has loaned approximately \$36,935,000 at June 30, 2012, that, upon fulfillment of these requirements by the borrowing unit, could be forgiven at some future point. For purposes of the basic financial statements, the Bond Bank recognizes forgiveness expense within these funds as the related loans are repaid. The total amount forgiven under these programs in 2012 was \$1,796,513.

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

Within the Clean Water Revolving Loan Fund Group, the Bond Bank is participating in a linked deposit loan program with local banks to encourage environmentally sound logging practices. Under the program, the Bond Bank is subsidizing loans to loggers by investing in certificates of deposit at the respective banks at rates 2% below normal which is passed on as a subsidy to the borrower. At June 30, 2012, the Bond Bank has approximately \$6,162,000 of certificates of deposits outstanding at various banks of which approximately \$894,000 is in excess of the limits insured by the Federal Deposit Insurance Corporation.

7. School Facilities Fund Group

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

Reserved for revolving loans:

Grants received from State of Maine	\$100,108,883
Loans forgiven	(79,260,973)
Other amounts reserved for program loans and costs	<u>9,627,974</u>

30,475,884

Unreserved amounts available

1,281,663

Net assets at June 30, 2012

\$ 31,757,547

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

7. School Facilities Fund Group (Continued)

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

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

8. Defined Benefit Pension Plan and Other Postemployment Benefits

Pension Plan Description and Funding Policy

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

In accordance with State statute, participants are required to contribute 6.5% of their annual covered salary to the Plan. The Bond Bank's payroll for the year ended June 30, 2012 for employees covered by the Plan was approximately \$1,068,000, which was 100% of payroll. The Bond Bank is required to contribute at an actuarially determined rate that, when combined with the contributions of other reporting entities, will be adequate to fund the Plan. The contribution rate is determined using an entry age normal actuarial funding method for retirement benefits and a term cost method for ancillary benefits. The Bond Bank may be required to make contributions to fund the Plan's pooled unfunded actuarial liability, if any. The contribution requirements of the plan members and the Bond Bank are established by and may be amended by the State legislature. The contributions made for the years ended June 30, 2012, 2011 and 2010 were \$46,976, \$35,864 and \$27,676 (employer) and \$69,397 \$66,604 and \$64,247 (employee), respectively.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

Other Postemployment Benefits (OPEB)

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

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

Annual OPEB Cost: For 2012, the Bond Bank's annual OPEB cost (expense) of \$43,728 for the Plan was equal to the Annual Required Contribution (ARC). The Bond Bank's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011 and 2010 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/12	\$43,728	0%	\$250,266
6/30/11	68,846	0	206,538
6/30/10	68,846	0	137,692

Funded Status and Funding Progress:

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

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

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

9. Refunding Issues

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

9. Refunding Issues (Continued)

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

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

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

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

10. Pass-Through State Grants

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

10. Pass-Through State Grants (Continued)

Riverfront Community Development Program

The Bond Bank received no additional State of Maine grants as of June 30, 2012. Of the deferred monies from the previous year totaling \$1,622,686, \$1,525,334 has been passed on to qualifying municipalities. The balance of \$97,352 plus \$4,958 of interest income earned on the related investment balances, is included in pass-through grants payable, representing remaining DECD funds to be passed on to qualified municipalities in future years.

Municipal Investment Trust Fund Program

The Bond Bank received no additional State of Maine grants as of June 30, 2012. Of the deferred monies from the previous year totaling \$348,872, \$248,275 has been passed on to qualifying municipalities. The balance of \$100,597 plus \$1,446 of interest income earned on the related investment balances is included in pass-through grants payable, representing remaining DECD funds to be passed on to qualified municipalities in future years.

MAINE MUNICIPAL BOND BANK

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2012

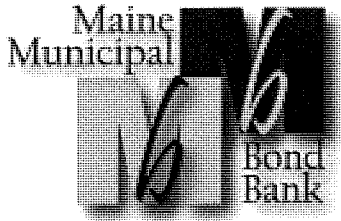
	<u>Expenses</u>	<u>Program Revenues</u>			<u>Capital Grants/ Contributions</u>	<u>Net Revenue (Expense) and Changes in net assets</u>
		<u>Charges for Services</u>	<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>		
Functions/Programs:						
Maine Municipal Bond Bank	<u>\$(81,049,146)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

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

Annual Report
Maine Municipal Bond Bank

2011





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

December 5th, 2011

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 2011 year-end Annual Report.

The Maine Municipal Bond Bank was established by the legislature in 1972. Since its inception the Bond Bank has issued in excess of \$3 billion for funding to meet the needs of Maine's municipalities. During its thirty-nine year history the Bond Bank has never experienced a default.

Within the 2011 fiscal year, the Bond Bank sold \$237,715,000.00 under its General Bond Resolution Program. Those sales provided towns, cities, school systems, and utility districts with lower cost capital funding to meet their municipal needs. The Bond Bank also sold one refunding issue in the amount of \$99,425,000 providing \$5,656,782 in savings credits to underlying borrowers.

The Bank and the Department of Education have successfully committed \$3,684,852 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 \$46,172,310 to finance fifty-five projects in fiscal year 2011.

The Transportation Grant Anticipation Fund issued \$50,000,000 in GARVEE bonds in fiscal year 2011.

The Transportation Infrastructure Fund issued \$185,000,000 in TRANSCAP Revenue bonds in fiscal year 2011.

The Qualified School Construction Bonds Program sold QSCB's in the amount of \$21,860,000 to finance five projects in fiscal year 2011.

We are proud of our accomplishments within fiscal year 2011 and look forward to continuing our commitment of providing a service that benefits the growing needs of the State of Maine.

Sincerely,

A handwritten signature in black ink that reads "Stephen R. Crockett". The signature is written in a cursive, flowing style.

Stephen R. Crockett
Chairman

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Maine Municipal Bond Bank

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

Year Ended June 30, 2011
With Independent Auditors' Report

MAINE MUNICIPAL BOND BANK
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND ADDITIONAL INFORMATION

For the Year Ended June 30, 2011

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BAKER NEWMAN NOYES

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Municipal Bond Bank

We have audited the accompanying financial statements which include the General Operating Account, General Tax-Exempt Fund Group, Grant Anticipation Fund Group, Transportation Infrastructure Fund Group, Qualified School Construction Fund Group, Waste Water and Drinking Water Revolving Loan Fund Groups and Operating Fund Group and the School Facilities Fund Group, which collectively comprise the basic financial statements of Maine Municipal Bond Bank, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine for accounting purposes only, as of and for the year ended June 30, 2011, as listed in the accompanying table of contents. These financial statements are the responsibility of the Bond Bank's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Bond Bank, as well as the individual fund groups referred to above, as of June 30, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2011 on our consideration of Maine Municipal Bond Bank's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 10 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Commissioners
Maine Municipal Bond Bank

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Bond Bank's basic financial statements. The additional information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Limited Liability Company

Portland, Maine
September 9, 2011

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

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, 2011. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Bond Bank and to identify any significant changes in financial position. Readers should consider the information presented here only in conjunction with the basic financial statements as a whole.

Financial Highlights

- Revenues for the Bond Bank's General Operating Account were \$2,278,235 for fiscal year 2011, a decrease of \$1,256,283 or 35.5% from fiscal year 2010. This was primarily attributed to a decrease of \$884,401 of pass-through grant revenue from the State of Maine to fund the Riverfront Community Development and Municipal Investment Trust Fund programs. Additionally, there was a decrease in other income of approximately \$293,949, which represents a decrease in loan origination fees charged in conjunction with the Transportation Fund Group bond issuances (fees used to offset related costs of issuance incurred in connection with bond issuances).
- Net assets in the Bond Bank's General Operating Account decreased \$13,259 in fiscal year 2011. This decrease is the net result of Operating Revenues totaling \$2,278,235, Operating Transfers totaling \$738,196 and Operating Expenses totaling \$3,029,690. Operating Transfers from the General Tax-Exempt Fund Group are mandated by the Bond Bank's annual operating budget. At June 30, 2011, the Bond Bank's General Operating Account had net assets of \$26,337,490.
- The Bond Bank's gross principal amount of bonds outstanding at June 30, 2011 of \$1,569,178,762 represents a net increase of \$187,719,532 over the balance at June 30, 2010. This increase was the net result of the General Tax Exempt Resolution issuing Series 2010C, 2010DEF, 2011A, and 2011C bonds; the Grant Anticipation Fund Group issuing Series 2010A&B bonds; and the Qualified School Construction Fund Group issuing 2011B bonds and 2011D bonds, less the scheduled debt service principal payments of \$121,495,468 and in-substance defeased bonds totaling \$99,785,000. Refer to note 4 to the basic financial statements for a detail of bonds payable activity in 2011.
- The Bond Bank committed loans to local governmental units during fiscal year 2011 totaling \$404,410,251, which was a 65.3% increase from the loans committed in fiscal year 2010. The Bond Bank also advanced \$50,000,000 to the State of Maine for qualified transportation projects within its Grant Anticipation Fund Group. The Bond Bank also provided borrowers participating in the Drinking Water Revolving Loan Fund Program, the Waste Water Revolving Loan Fund Program, and the School Facilities Revolving Loan Fund Program \$9,071,047 in potential loan forgiveness in fiscal year 2011, which was a 46% decrease from fiscal year 2010.

Overview of the Bond Bank

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

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

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

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

The Bond Bank created the Qualified School Construction Fund Group Resolution in fiscal 2011. 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 for the construction, rehabilitation, or repair of a public school facility, or for the acquisition of land on which such a facility is to be constructed. The bonds issued in this fund group are tax credit bonds in that they receive a federal interest subsidy payment on each debt service payment date.

The Bond Bank administers the Federal Clean Water Act and Drinking Water Act Revolving Loan Funds. Each of the Revolving Loan Funds periodically receives capitalization grants from the Environmental Protection Agency and matching funds from the State of Maine. Additionally, both of the revolving loan funds received *American Recovery and Reinvestment Act of 2009* (ARRA) grant awards in 2009 (see note 6 to the accompanying financial statements) and continued to disburse ARRA funds to local borrowers during 2011. The State of Maine Department of Environmental Protection approves low interest revolving loans to eligible borrowers, under the Clean Water Act Fund, that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. The Drinking Water Revolving Loan Fund operates similar to the Clean Water Revolving Loan Fund whereby the Maine Department of Human Services (Office of Drinking Water) approves low interest revolving loans, under the Drinking Water Act, to eligible borrowers that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. Under the base Drinking Water Revolving Loan Program, up to 30% of each federal capitalization grant may be provided to borrowers as loan forgiveness. Eligible borrowers typically receive up to a maximum of 75% loan forgiveness. Starting in fiscal 2009, both the Clean Water and the Drinking Water Revolving Funds received ARRA funding, 50% of which was required to be provided as subsidies including grants, loan forgiveness or negative interest rates. Each of the programs opted to meet the 50% subsidy requirement by providing up to a maximum of 100% loan forgiveness on ARRA funded loans. Beginning with the fiscal year 2010 federal grants, the programs had to provide a minimum of 30% of the federal grants awarded as additional subsidies, which includes loan forgiveness, to eligible borrowers.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

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

As the result of the Bond Bank issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Bond Bank's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Bond Bank, assets exceeded liabilities by \$588,459,890 at June 30, 2011. This represents an increase of \$29,953,548 or 5.4% 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 assets are \$523,111,344 and unrestricted net assets are \$65,348,546 at June 30, 2011. The largest portion of the Bond Bank's net assets is its investment in loans to governmental units and investments held by trustee included in the Sewer and Water and School Facilities Fund Groups (provided by grants).

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

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

MAINE MUNICIPAL BOND BANK

Balance Sheets

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Percentage Change</u>
Current assets:			
Cash	\$ 128,908	\$ 305,228	(57.8)%
Investments held by trustee	201,115,649	170,462,629	18.0
Operating investments	21,038,748	21,939,812	(4.1)
Loans receivable from governmental units	123,249,108	124,571,892	(1.1)
Advances to State of Maine	21,276,377	18,062,143	17.8
Accrued investment income receivable	1,187,291	1,117,552	6.2
Accrued interest and fees receivable on loans to governmental units and advances to the State of Maine	10,966,570	9,602,363	14.2
Undisbursed federal letter of credit payments	28,870,502	23,611,762	22.3
Refunding benefits rebated to governmental units, net of amortization	966,190	1,272,172	(24.1)
Due from other funds	6,017,080	6,482,569	(7.2)
Other assets	<u>163,117</u>	<u>122,466</u>	<u>33.2</u>
Total current assets	414,979,540	377,550,588	9.9
Noncurrent assets:			
Investments held by trustee	147,678,953	139,451,502	5.9
Loans receivable from governmental units	1,446,449,708	1,268,206,673	14.1
Advances to State of Maine	269,642,500	239,559,828	12.6
Land and building, net of depreciation	742,636	740,982	0.2
Refunding benefits rebated to governmental units, net of amortization	<u>2,209,125</u>	<u>3,174,097</u>	<u>(30.4)</u>
Total noncurrent assets	<u>1,866,722,922</u>	<u>1,651,133,082</u>	<u>13.1</u>
Total assets	<u>\$ 2,281,702,462</u>	<u>\$ 2,028,683,670</u>	<u>12.5%</u>

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

	<u>2011</u>	<u>2010</u>	<u>Percentage Change</u>
Current liabilities:			
Accounts payable and accrued liabilities	\$ 468,148	\$ 369,328	26.8%
Due to other funds	6,017,080	6,482,569	(7.2)
Accrued interest payable	13,668,147	11,980,228	14.1
Deferred revenue	2,590,989	2,060,189	25.8
Pass-through grants payable	1,971,558	3,596,564	(45.2)
Undisbursed loans	30,207,728	24,627,826	22.7
Accrued interest rebate payable to U.S. Government	483,859	709,468	(31.8)
Due to State of Maine	40,467,376	19,344,253	109.2
Bonds payable	<u>125,176,004</u>	<u>123,376,588</u>	<u>1.5</u>
Total current liabilities	221,050,889	192,547,013	14.8
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	2,881,007	2,680,833	7.5
Bonds payable	<u>1,469,310,676</u>	<u>1,274,949,482</u>	<u>15.2</u>
Total noncurrent liabilities	<u>1,472,191,683</u>	<u>1,277,630,315</u>	<u>15.2</u>
Total liabilities	1,693,242,572	1,470,177,328	15.2
Net assets:			
Restricted	523,111,344	491,573,325	6.4
Unrestricted	<u>65,348,546</u>	<u>66,933,017</u>	<u>(2.4)</u>
Total net assets	<u>588,459,890</u>	<u>558,506,342</u>	<u>5.4</u>
Total liabilities and net assets	<u>\$ 2,281,702,462</u>	<u>\$ 2,028,683,670</u>	<u>12.5%</u>

Total short and long-term investments held by trustee at June 30, 2011 increased \$38,880,471 or 12.5% from June 30, 2010. The increase was the net result of additional reserve fund investments purchased of approximately \$21,817,000 in conjunction with 2011 bond issuances, the receipt of approximately \$38,000,000 from the State of Maine for the Transportation Infrastructure Fund Group and also the net impact of drawdowns of investments for equity loans to borrowers and the repayment on equity loans from borrowers in 2011. Additionally, investments had a net decrease in fair value of \$4,239,928 in 2011. The Bond Bank's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises securities (i.e. FNMA, FLMC), U.S. Treasury and U.S. Government-sponsored enterprise strips, guaranteed investment contracts and certificates of deposit. The Bond Bank's investments are carried at fair value. Unrealized gains and losses (primarily due to fluctuations in market interest rates) are recognized in the statement of revenues, expenses and changes in net assets.

The Bond Bank's net loans (bond and equity) to governmental units increased \$176,920,251 in fiscal year 2011. The Bond Bank's total new loan commitments in 2011 of \$404,410,251 were a 65.3% increase over the 2010 commitments of \$244,712,620. Net bonds payable increased \$196,160,610.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

Advances to the State of Maine increased \$33,296,906 or 12.9% from June 30, 2010. This increase is primarily the net result of issuing Grant Anticipation Series 2010A and 2010B bonds totaling \$50,000,000, less the scheduled debt service payments of \$17,060,000.

Undisbursed federal letter of credit payments increased \$5,258,740 in 2011 which is a 22.3% increase from fiscal year 2010. This increase is the net result of the disbursement of \$7,391,435 in federal ARRA grants awarded to the Bond Bank in 2009 and the disbursement of \$16,695,825 of other federal grants, offset by federal grants awarded in fiscal 2011 totaling \$29,346,000.

Refunding benefits rebated to governmental units decreased \$1,270,954 in 2011, which is a 28.6% decrease compared to fiscal 2010. The decrease is entirely attributed to fiscal 2011 amortization. The Bond Bank issued \$99,425,000 of refunding bonds in 2011 and passed on savings of approximately \$5.7 million to borrowers by adjusting their remaining interest debt service schedules.

Accrued interest payable increased \$1,687,919 or 14.1% in fiscal 2011 over fiscal 2010. This is due to the issuance of \$309,575,000 (net of \$99,425,000 of refunding bonds) in new bond series in 2011.

Undisbursed loans increased \$5,579,902 in 2011 which is a 22.7% increase over fiscal 2010. This increase is primarily a timing issue between when grants are awarded, loans are committed and related funds are disbursed.

Deferred revenue increased \$530,800 or 25.8% in fiscal year 2011 over fiscal year 2010. The increase is primarily the result of deferring State of Maine grant revenue received from the Department of Environmental Protection that will be used to match Federal Grant awards received in future years.

Fund availability in the Transportation Infrastructure Fund Group consists of the net between motor fuel taxes and other program fees collected less annual debt service on bonds outstanding and administrative fees paid to the Bond Bank resulting in funds available for the various purposes of the program. The net difference results in the Due to the State of Maine increasing \$21,123,123 or 109.2% in fiscal year 2011 over fiscal year 2010.

The Bond Bank's financial position improved as net assets increased 5.4% in fiscal year 2011. 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, 2011

MAINE MUNICIPAL BOND BANK
Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Percentage Change</u>
Interest on loans receivable from governmental units	\$ 48,525,230	\$ 48,232,263	0.6%
Program revenue from State of Maine	10,507,095	9,779,281	7.4
Interest income from investments	8,136,970	7,192,210	13.1
Net (decrease) increase in the fair value of investments	(4,239,928)	3,336,083	(227.1)
Grant revenue from Environmental Protection Agency	29,346,000	28,025,065	4.7
Grant revenue from State of Maine	8,083,040	3,555,043	127.4
Other income	<u>1,466,585</u>	<u>1,490,262</u>	<u>(1.6)</u>
Total operating revenue	101,824,992	101,610,207	0.2
Interest expense	58,842,840	57,647,184	2.1
Operating expenses (direct and shared)	6,345,942	6,328,692	0.3
Pass-through grant expense	1,626,482	2,510,883	(35.2)
Loan forgiveness	3,262,424	11,348,146	(71.3)
Amortization of deferred financing costs and refunding benefits rebated to governmental units	<u>1,793,756</u>	<u>1,958,062</u>	<u>(8.4)</u>
Total operating expenses	<u>71,871,444</u>	<u>79,792,967</u>	<u>(9.9)</u>
Operating income	29,953,548	21,817,240	37.3
Net assets, beginning of year	<u>558,506,342</u>	<u>536,689,102</u>	<u>4.1</u>
Net assets, end of year	<u>\$ 588,459,890</u>	<u>\$ 558,506,342</u>	<u>5.4%</u>

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

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 \$29,346,000 in fiscal year 2011, which was a 4.7% increase from 2010. The Bond Bank recorded grant revenue from the State of Maine totaling \$8,083,040 in 2011, which increased \$4,527,997 or 127.4% from 2010 grants. The fiscal year 2011 State grants consist of State of Maine matching funds for the Sewer and Water Funds Groups totaling \$5,869,200, grants to the General Operating Account totaling \$1,626,482 (from the Maine Department of Economic and Community Development), and grants to the School Facilities Fund Group totaling \$587,358.

Pass through grant expense decreased \$884,401 in fiscal 2011. This is due to the Bond Bank jointly administering the Riverfront Community Development and Municipal Investment Trust Fund programs with the Maine Department of Economic Development (DECD). All grant revenue recognized in 2011 was passed-through to municipalities designated for such grants by the DECD (see note 10).

Loan forgiveness expense (see notes 6 and 7 in the accompanying financial statements) decreased 71.3 % in fiscal year 2011 from 2010. Portions of the loans made to eligible borrowers under the Drinking Water and Waste Water (under ARRA grants) Revolving Loan Fund Programs may be forgiven if certain continuing criteria are met as the borrowers repay the loans. The total amount forgiven under these programs in 2011 was \$1,379,875 and \$1,555,293 within the Drinking Water and Waste Water Revolving Loan Fund Program, respectively. Also, portions of the loans made to school administrative units under the School Facilities Fund Group are forgiven at the time the loans are disbursed to the units. The amount forgiven within the School Facilities Fund Group in 2011 was \$327,256. Forgiveness expense will vary from year to year depending upon repayment and drawdown activity within the respective programs.

Requests for Information

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

MAINE MUNICIPAL BOND BANK

BALANCE SHEET

June 30, 2011

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Fund Groups Grant Anticipation Fund Group</u>	<u>Transportation Infrastructure Fund Group</u>
<u>ASSETS</u>				
Current assets:				
Cash	\$ 128,908	\$ --	\$ --	\$ --
Investments held by trustee (notes 3 and 5)	--	44,714,003	--	42,501,188
Operating investments (notes 3 and 10)	21,038,748	--	--	--
Loans receivable from governmental units (note 4)	101,995	87,397,836	--	--
Advances to State of Maine (note 4)	--	--	11,094,613	10,181,764
Accrued investment income receivable	58,400	417,500	--	201,279
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	11,408	7,914,472	1,642,200	--
Undisbursed federal letter of credit payments	--	--	--	--
Refunding benefits rebated to governmental units, net of amortization	--	590,218	--	--
Due from other funds	5,540,364	--	--	--
Other assets	<u>159,284</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total current assets	27,039,107	141,034,029	12,736,813	52,884,231
Noncurrent assets:				
Investments held by trustee (notes 3 and 5)	--	130,129,436	--	8,909,883
Loans receivable from governmental units (note 4)	971,503	1,007,629,682	--	--
Advances to State of Maine (note 4)	--	--	108,251,805	161,390,695
Land and building, net of depreciation of \$1,073,722	742,636	--	--	--
Refunding benefits rebated to governmental units, net of amortization	<u>--</u>	<u>1,352,173</u>	<u>--</u>	<u>--</u>
Total noncurrent assets	<u>1,714,139</u>	<u>1,139,111,291</u>	<u>108,251,805</u>	<u>170,300,578</u>
Total assets	<u>\$28,753,246</u>	<u>\$ 1,280,145,320</u>	<u>\$ 120,988,618</u>	<u>\$ 223,184,809</u>

Qualified School Construction Fund Group	Sewer and Water Fund Groups			Operating Fund Group	School Facilities Fund Group	Total
	Revolving Loan Fund Groups					
	Waste Water	Drinking Water				
\$ --	\$ --	\$ --	\$ --	\$ --	\$ 128,908	
--	78,437,405	10,653,821	5,455,245	19,353,987	201,115,649	
--	--	--	--	--	21,038,748	
--	25,371,939	5,346,166	--	5,031,172	123,249,108	
--	--	--	--	--	21,276,377	
--	435,609	16,020	17	58,466	1,187,291	
197,250	1,011,285	189,955	--	--	10,966,570	
--	15,156,780	13,713,722	--	--	28,870,502	
--	332,050	43,922	--	--	966,190	
--	476,716	--	--	--	6,017,080	
--	<u>2,583</u>	<u>1,250</u>	--	--	<u>163,117</u>	
197,250	121,224,367	29,964,856	5,455,262	24,443,625	414,979,540	
--	8,000,956	638,678	--	--	147,678,953	
21,860,000	276,869,714	123,041,085	--	16,077,724	1,446,449,708	
--	--	--	--	--	269,642,500	
--	--	--	--	--	742,636	
--	<u>728,157</u>	<u>128,795</u>	--	--	<u>2,209,125</u>	
<u>21,860,000</u>	<u>285,598,827</u>	<u>123,808,558</u>	--	<u>16,077,724</u>	<u>1,866,722,922</u>	
<u>\$22,057,250</u>	<u>\$ 406,823,194</u>	<u>\$ 153,773,414</u>	<u>\$5,455,262</u>	<u>\$40,521,349</u>	<u>\$ 2,281,702,462</u>	

MAINE MUNICIPAL BOND BANK

BALANCE SHEET (CONTINUED)

June 30, 2011

	<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 AND NET ASSETS</u>				
Current liabilities:				
Accounts payable and accrued liabilities (note 8)	\$ 444,198	\$ —	\$ —	\$ —
Due to other funds	—	3,746,070	—	30,665
Accrued interest payable	—	8,956,626	1,642,200	2,574,177
Deferred revenue	—	—	—	—
Pass-through grants payable (note 10)	1,971,558	—	—	—
Undisbursed loans	—	—	—	—
Accrued interest rebate payable to U.S. Government	—	483,859	—	—
Due to State of Maine	—	—	—	40,467,376
Bonds payable (note 4)	<u>—</u>	<u>97,792,423</u>	<u>11,094,613</u>	<u>10,181,764</u>
Total current liabilities	2,415,756	110,978,978	12,736,813	53,253,982
Noncurrent liabilities:				
Accrued interest rebate payable to U.S. Government	—	2,773,311	—	—
Bonds payable (note 4)	<u>—</u>	<u>1,130,387,880</u>	<u>108,251,805</u>	<u>169,930,827</u>
Total noncurrent liabilities	<u>—</u>	<u>1,133,161,191</u>	<u>108,251,805</u>	<u>169,930,827</u>
Total liabilities	2,415,756	1,244,140,169	120,988,618	223,184,809
Net assets:				
Restricted (notes 5, 6 and 7)	—	4,670,829	—	—
Unrestricted (notes 6 and 7)	<u>26,337,490</u>	<u>31,334,322</u>	<u>—</u>	<u>—</u>
Total net assets	26,337,490	36,005,151	—	—
Total liabilities and net assets	<u>\$28,753,246</u>	<u>\$ 1,280,145,320</u>	<u>\$ 120,988,618</u>	<u>\$ 223,184,809</u>

See accompanying notes.

Qualified School Construction Fund Group	Sewer and Water Fund Groups			Operating Fund Group	School Facilities Fund Group	Total
	Revolving Loan Fund Groups					
	Waste Water	Drinking Water				
\$ -	\$ 13,900	\$ 6,050	\$ -	\$ 4,000	\$ 468,148	
-	1,394,010	754,506	53,441	38,388	6,017,080	
197,250	267,437	30,457	-	-	13,668,147	
-	1,509,297	1,081,692	-	-	2,590,989	
-	-	-	-	-	1,971,558	
-	22,120,643	4,727,502	-	3,359,583	30,207,728	
-	-	-	-	-	483,859	
-	-	-	-	-	40,467,376	
-	5,677,836	429,368	-	-	125,176,004	
197,250	30,983,123	7,029,575	53,441	3,401,971	221,050,889	
-	107,696	-	-	-	2,881,007	
<u>21,860,000</u>	<u>34,224,680</u>	<u>4,655,484</u>	<u>-</u>	<u>-</u>	<u>1,469,310,676</u>	
<u>21,860,000</u>	<u>34,332,376</u>	<u>4,655,484</u>	<u>-</u>	<u>-</u>	<u>1,472,191,683</u>	
22,057,250	65,315,499	11,685,059	53,441	3,401,971	1,693,242,572	
-	341,207,695	141,377,693	-	35,855,127	523,111,344	
-	300,000	710,662	5,401,821	1,264,251	65,348,546	
-	341,507,695	142,088,355	5,401,821	37,119,378	588,459,890	
<u>\$22,057,250</u>	<u>\$ 406,823,194</u>	<u>\$ 153,773,414</u>	<u>\$5,455,262</u>	<u>\$40,521,349</u>	<u>\$ 2,281,702,462</u>	

MAINE MUNICIPAL BOND BANK

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2011

	<u>General</u> <u>Operating</u> <u>Account</u>	<u>General</u> <u>Tax-Exempt</u> <u>Fund Group</u>	<u>Transportation</u> <u>Grant</u> <u>Anticipation</u> <u>Fund Group</u>	<u>Transportation</u> <u>Infrastructure</u> <u>Fund Group</u>
Operating revenues:				
Interest on loans receivable from governmental units	\$ 61,637	\$43,589,929	\$ —	\$ —
Program revenue from State of Maine	—	—	3,907,562	6,599,533
Interest income from investments	300,273	5,698,229	—	258,797
Net decrease in the fair value of investments	(176,954)	(2,780,123)	—	(141,850)
Grant revenue from Environmental Protection Agency (note 6)	—	—	—	—
Grant revenue from State of Maine (notes 6, 7 and 10)	1,626,482	—	—	—
Other income (note 10)	<u>466,797</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total operating revenue	2,278,235	46,508,035	3,907,562	6,716,480
Operating expenses:				
Interest expense	—	46,240,363	3,796,209	6,629,444
Operating expenses (direct and shared) (note 8)	1,403,208	13,640	111,353	87,036
Pass-through grant expense (note 10)	1,626,482	—	—	—
Loan forgiveness (notes 6 and 7)	—	—	—	—
Amortization of deferred financing costs and refunding benefits rebated to governmental units	<u>—</u>	<u>1,259,047</u>	<u>—</u>	<u>—</u>
Total operating expenses	<u>3,029,690</u>	<u>47,513,050</u>	<u>3,907,562</u>	<u>6,716,480</u>
Operating income (loss) before operating transfers	(751,455)	(1,005,015)	—	—
Operating transfers	<u>738,196</u>	<u>(738,196)</u>	<u>—</u>	<u>—</u>
Operating income (loss)	(13,259)	(1,743,211)	—	—
Net assets, beginning of year	<u>26,350,749</u>	<u>37,748,362</u>	<u>—</u>	<u>—</u>
Net assets, end of year	<u>\$26,337,490</u>	<u>\$36,005,151</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes.

Qualified School Construction Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$344,378	\$ 3,732,065	\$ 797,221	\$ --	\$ --	\$ 48,525,230
--	--	--	--	--	10,507,095
--	1,546,212	129,405	6,899	197,155	8,136,970
--	(866,037)	(90,519)	(5,043)	(179,402)	(4,239,928)
--	15,773,000	13,573,000	--	--	29,346,000
--	3,154,600	2,714,600	--	587,358	8,083,040
<u>205,646</u>	<u>--</u>	<u>--</u>	<u>794,142</u>	<u>--</u>	<u>1,466,585</u>
550,024	23,339,840	17,123,707	795,998	605,111	101,824,992
344,378	1,661,675	170,771	--	--	58,842,840
205,646	925,706	2,502,279	212,297	884,777	6,345,942
--	--	--	--	--	1,626,482
--	1,555,293	1,379,875	--	327,256	3,262,424
<u>--</u>	<u>479,088</u>	<u>55,621</u>	<u>--</u>	<u>--</u>	<u>1,793,756</u>
<u>550,024</u>	<u>4,621,762</u>	<u>4,108,546</u>	<u>212,297</u>	<u>1,212,033</u>	<u>71,871,444</u>
--	18,718,078	13,015,161	583,701	(606,922)	29,953,548
<u>--</u>	<u>248,277</u>	<u>1,170</u>	<u>(249,447)</u>	<u>--</u>	<u>--</u>
--	18,966,355	13,016,331	334,254	(606,922)	29,953,548
<u>--</u>	<u>322,541,340</u>	<u>129,072,024</u>	<u>5,067,567</u>	<u>37,726,300</u>	<u>558,506,342</u>
<u>\$ --</u>	<u>\$ 341,507,695</u>	<u>\$ 142,088,355</u>	<u>\$ 5,401,821</u>	<u>\$ 37,119,378</u>	<u>\$ 588,459,890</u>

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2011

	General Operating <u>Account</u>	General Tax-Exempt <u>Fund Group</u>	<u>Transportation Fund Groups</u> Grant Anticipation <u>Fund Group</u>	Transportation Infrastructure <u>Fund Group</u>
OPERATING ACTIVITIES:				
Cash received from governmental units and State of Maine	\$ 158,958	\$ 128,968,292	\$ 11,404,686	\$ 37,878,134
Cash payments to governmental units	(1,626,482)	(223,020,558)	-	-
Cash advances to State of Maine	-	-	(51,709,930)	-
Cash received from other income	466,797	-	-	-
Cash payments for operating expenses	(1,216,613)	(13,640)	(111,353)	-
Cash (paid to) received from other funds	1,135,683	(754,166)	-	11,926
Cash paid for other assets and liabilities	<u>(40,651)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash (used) provided by operating activities	(1,122,308)	(94,820,072)	(40,416,597)	37,890,060
NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds payable	-	359,836,550	51,709,930	-
Principal paid on bonds payable	-	(97,930,468)	(7,950,000)	(9,110,000)
Interest paid on bonds payable	-	(45,215,894)	(3,343,333)	(7,840,817)
Amount deposited to refunding escrow (note 9)	-	(114,389,087)	-	-
Issuance costs paid for refunding bonds (note 9)	-	(606,492)	-	-
Grant receipts from Environmental Protection Agency and State of Maine	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	-	101,694,609	40,416,597	(16,950,817)
INVESTING ACTIVITIES:				
Purchase of investment securities	(22,999,640)	(227,984,573)	-	(61,227,767)
Proceeds from sale and maturities of investment securities	23,723,750	212,558,751	-	40,170,842
Income received from investments	310,157	9,247,507	-	117,682
Interest rebate paid to U.S. Government	-	(696,222)	-	-
Additions to land and building	<u>(88,279)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash (used) provided by investing activities	<u>945,988</u>	<u>(6,874,537)</u>	<u>-</u>	<u>(20,939,243)</u>
Decrease in cash	(176,320)	-	-	-
Cash, beginning of year	<u>305,228</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash, end of year	<u>\$ 128,908</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Qualified School Construction Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ 147,128	\$ 32,446,795	\$ 5,940,268	\$ --	\$ 4,575,347	\$ 221,519,608
(21,860,000)	(35,419,725)	(18,116,761)	--	(588,108)	(300,631,634)
--	--	--	--	--	(51,709,930)
205,646	--	--	794,142	--	1,466,585
(205,646)	(926,935)	(2,502,375)	(212,297)	(884,602)	(6,073,461)
--	(171,929)	(12,719)	(173,344)	(35,451)	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(40,651)</u>
(21,712,872)	(4,071,794)	(14,691,587)	408,501	3,067,186	(135,469,483)
21,860,000	--	--	--	--	433,406,480
--	(6,095,000)	(410,000)	--	--	(121,495,468)
(147,128)	(1,696,447)	(188,927)	--	--	(58,432,546)
--	--	--	--	--	(114,389,087)
--	--	--	--	--	(606,492)
<u>--</u>	<u>19,275,339</u>	<u>11,211,921</u>	<u>--</u>	<u>587,358</u>	<u>31,074,618</u>
21,712,872	11,483,892	10,612,994	--	587,358	169,557,505
--	(145,145,766)	(32,195,253)	(1,988,544)	(6,328,420)	(497,869,963)
--	136,193,714	36,077,306	1,566,924	2,472,131	452,763,418
--	1,539,954	196,540	13,119	201,745	11,626,704
--	--	--	--	--	(696,222)
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(88,279)</u>
<u>--</u>	<u>(7,412,098)</u>	<u>4,078,593</u>	<u>(408,501)</u>	<u>(3,654,544)</u>	<u>(34,264,342)</u>
--	--	--	--	--	(176,320)
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>305,228</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 128,908</u>

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2011

	<u>General</u> <u>Operating</u> <u>Account</u>	<u>General</u> <u>Tax-Exempt</u> <u>Fund Group</u>	<u>Transportation Fund Groups</u> <u>Grant</u> <u>Anticipation</u> <u>Fund Group</u>	<u>Transportation</u> <u>Infrastructure</u> <u>Fund Group</u>
Reconciliation of operating income (loss) to net cash (used) provided by operating activities:				
Operating income (loss)	\$ (13,259)	\$ (1,743,211)	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:				
Interest income from investments	(300,273)	(5,698,229)	-	(258,797)
Net decrease in the fair value of investments	176,954	2,780,123	-	141,850
Loan forgiveness	-	-	-	-
Depreciation	86,309	-	-	-
Loss on disposal of equipment	316	-	-	-
Amortization of deferred financing costs and refunding benefits rebated to units	-	1,259,047	-	-
Interest expense on bonds payable	-	46,240,363	3,796,209	6,629,444
Federal and State grants	(1,626,482)	-	-	-
Change in assets and liabilities:				
Loans receivable from governmental units and advances to State of Maine	96,573	(136,875,443)	(43,539,420)	10,242,514
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	748	(766,752)	(673,386)	-
Due to/from other funds	397,487	(15,970)	-	11,926
Other assets	(40,651)	-	-	-
Accounts payable and accrued liabilities	99,970	-	-	-
Due to State of Maine	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,123,123</u>
Net cash (used) provided by operating activities	<u>\$ (1,122,308)</u>	<u>\$ (94,820,072)</u>	<u>\$ (40,416,597)</u>	<u>\$ 37,890,060</u>

See accompanying notes.

Qualified School Construction Fund Group	Sewer and Water Fund Groups			Operating Fund Group	School Facilities Fund Group	Total
	Revolving Loan Fund Groups					
	Waste Water	Drinking Water				
\$ —	\$ 18,966,355	\$ 13,016,331	\$334,254	\$ (606,922)	\$ 29,953,548	
—	(1,546,212)	(129,405)	(6,899)	(197,155)	(8,136,970)	
—	866,037	90,519	5,043	179,402	4,239,928	
—	1,555,293	1,379,875	—	327,256	3,262,424	
—	—	—	—	—	86,309	
—	—	—	—	—	316	
—	479,088	55,621	—	—	1,793,756	
344,378	1,661,675	170,771	—	—	58,842,840	
—	(18,927,600)	(16,287,600)	—	(587,358)	(37,429,040)	
(21,860,000)	(6,967,353)	(12,983,789)	—	3,987,239	(207,899,679)	
(197,250)	262,358	10,075	—	—	(1,364,207)	
—	(420,206)	(13,889)	76,103	(35,451)	—	
—	—	—	—	—	(40,651)	
—	(1,229)	(96)	—	175	98,820	
—	—	—	—	—	21,123,123	
<u>\$(21,712,872)</u>	<u>\$ (4,071,794)</u>	<u>\$(14,691,587)</u>	<u>\$408,501</u>	<u>\$3,067,186</u>	<u>\$(135,469,483)</u>	

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

1. Organization

The Maine Municipal Bond Bank (the Bond Bank) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Article 30-A, Title 5901 (the Act), as amended.

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

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

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

The General Operating Account also administers various loan and grant programs in conjunction with the State of Maine. Additionally, the General Operating Account from time-to-time will provide loans to municipalities (governmental units) experiencing financial difficulties. During 2010, the General Operating Account provided a loan of approximately \$1.2 million to a municipality, which is to be repaid in quarterly installments of \$39,740, including interest at 5.5%, through October 2019. The balance outstanding on this loan as of June 30, 2011 is \$1,073,498.

General Tax-Exempt Fund Group: This fund group consists of funds and accounts established under the Bond Bank’s General Bond Resolution adopted July 11, 1973, as amended and supplemented by the First Supplemental Resolution adopted September 20, 1977, the Second Supplemental Resolution adopted July 18, 1984, the Third Supplemental Resolution adopted May 7, 1993 and the Fourth Supplemental Resolution adopted June 25, 1993. Under these resolutions, the Bond Bank issues bonds exempt from federal and State of Maine income taxes and makes loans to local governmental units. In addition, the Bond Bank issues taxable bonds that receive a federal interest subsidy payment on each debt service payment date. The total federal interest subsidy received in 2011 was approximately \$533,000, and is included in interest on loans receivable from governmental units in the statement of revenues, expenses and changes in net assets.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 2011 was approximately \$102,000 and is included in program revenue from State of Maine in the statement of revenues, expenses and changes in net assets.

Qualified School Construction Fund Group: This fund group consists of funds and accounts established under the Bond Bank's General Bond Resolution adopted November 18, 2010. Under this resolution, the Bond Bank issues bonds which are exempt from State of Maine income taxes (but not federal income taxes) and makes loans to qualified Governmental Units. The bonds issued in this fund group receive a federal interest subsidy payment on each debt service payment date. The total federal interest subsidy received in 2011 was approximately \$131,000 and is included in interest on loans receivable from governmental units in the statement of revenues, expenses and changes in net assets.

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

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

2. Significant Accounting Policies

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

2. Significant Accounting Policies (Continued)

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

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

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

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

Investments: Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net assets. Interest earnings on principal-only strips within the general tax-exempt fund group of approximately \$4,255,000 have been recorded as interest income from investments in 2011. Reserve fund investments that are not expected to be utilized to fund bond principal and interest payments until after June 30, 2012 have been classified as long-term.

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

2. Significant Accounting Policies (Continued)

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

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

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

Construction Funds: The Sewer and Water General Bond Resolution requires bond proceeds to be deposited into construction funds. Upon deposit into the construction funds, a loan receivable from the governmental unit is recorded and the construction funds are excluded from Sewer and Water Fund Groups. The Bond Bank maintains control over disbursement of these funds until the project is complete. There are no bond proceeds held in Waste Water or Drinking Water Construction funds as of June 30, 2011.

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

2. Significant Accounting Policies (Continued)

New Accounting Pronouncements

In June 2010, GASB Statement No. 59, *Financial Instruments Omnibus* was issued. This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. Management has determined that GASB 59 has no effect on its financial statements.

3. Investments Held By Trustee and Operating Investments

The Bond Bank is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises, state and local government agencies, guaranteed investment contracts and collateralized repurchase agreements. At June 30, 2011, investments are categorized as follows:

	<u>Fair Value</u>
<u>General Operating Account</u>	
Operating investments:	
U.S. Government-sponsored enterprises	\$ 15,239,780
Cash and cash equivalents	<u>5,798,968</u>
	<u>\$ 21,038,748</u>
<u>General Tax-Exempt Fund Group</u>	
Investments held by trustee:	
Guaranteed investment contracts	\$ 9,617,086
U.S. Government obligations	21,587,897
U.S. Government-sponsored enterprises	26,305,630
U.S. Treasury strips	57,730,874
U.S. Government-sponsored enterprise strips	41,344,898
Cash and cash equivalents	<u>18,257,054</u>
	<u>\$174,843,439</u>
<u>Transportation Infrastructure Fund Group</u>	
Investments held by trustee:	
Guaranteed investment contracts	\$ 16,020
U.S. Government-sponsored enterprises	24,466,446
U.S. Government-sponsored enterprise strips	2,367,089
Cash and cash equivalents	<u>24,561,516</u>
	<u>\$ 51,411,071</u>
<u>Sewer and Water Fund Groups</u>	
Investments held by trustee:	
Revolving Loan Fund Group – Waste Water:	
Guaranteed investment contracts	\$ 3,302,304
U.S. Government obligations	212,100
U.S. Government-sponsored enterprises	51,205,861
U.S. Government-sponsored enterprise strips	3,246,417
Certificates of deposit	6,282,855
Cash and cash equivalents	<u>22,188,824</u>
	<u>\$ 86,438,361</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

	<u>Fair Value</u>
Revolving Loan Fund Group – Drinking Water:	
U.S. Government-sponsored enterprises	\$ 5,196,327
U.S. Government-sponsored enterprise strips	413,856
Cash and cash equivalents	<u>5,682,316</u>
	<u>\$ 11,292,499</u>
Operating Fund Group:	
Cash and cash equivalents	<u>\$ 5,455,245</u>
<u>School Facilities Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 13,574,505
Cash and cash equivalents	<u>5,779,482</u>
	<u>\$ 19,353,987</u>

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Bond Bank's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, guaranteed investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Bond Bank to terminate individual contracts at par. The Bond Bank's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Bond Bank's investments in guaranteed investment contracts, U.S. Government obligations, U.S. Government-sponsored enterprises, U.S. Treasury Strips and U.S. Government-sponsored enterprise strips as of June 30, 2011:

	<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>15,239,780</u>	\$ <u>7,079,810</u>	\$ <u>8,159,970</u>	\$ <u>—</u>	\$ <u>—</u>
<u>General Tax Exempt Fund Group</u>					
Guaranteed investment contracts	\$ 9,617,086	\$ —	\$ —	\$ —	\$ 9,617,086
U.S. Government obligations	21,587,897	14,491,460	275,603	5,762,049	1,058,785
U.S. Government-sponsored enterprises	26,305,630	2,794,685	7,485,198	7,052,763	8,972,984
U.S. Treasury strips	57,730,874	8,228,394	22,186,900	17,946,884	9,368,696
U.S. Government-sponsored enterprise strips	<u>41,344,898</u>	<u>942,411</u>	<u>8,702,316</u>	<u>9,715,027</u>	<u>21,985,144</u>
	<u>\$ 156,586,385</u>	<u>\$ 26,456,950</u>	<u>\$ 38,650,017</u>	<u>\$ 40,476,723</u>	<u>\$ 51,002,695</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>Transportation Infrastructure Fund Group</u>					
Guaranteed investment contracts	\$ 16,020	\$ 16,020	\$ --	\$ --	\$ --
U.S. Government-sponsored enterprises	24,466,446	14,328,100	10,138,346	--	--
U.S. Government sponsored enterprise strips	<u>2,367,089</u>	<u>1,472,595</u>	<u>894,494</u>	<u>--</u>	<u>--</u>
	<u>\$ 26,849,555</u>	<u>\$ 15,816,715</u>	<u>\$ 11,032,840</u>	<u>\$ --</u>	<u>\$ --</u>
<u>Revolving Loan Fund Group – Waste Water</u>					
Guaranteed investment contracts	\$ 3,302,304	\$ --	\$ 1,937,638	\$ --	\$ 1,364,666
U.S. Government obligations	212,100	--	212,100	--	--
U.S. Government-sponsored enterprises	51,205,861	21,152,150	30,030,438	23,273	--
U.S. Government-sponsored enterprise strips	3,246,417	4,973	2,034,595	1,206,849	--
Certificates of deposit	<u>6,282,855</u>	<u>321,574</u>	<u>5,961,281</u>	<u>--</u>	<u>--</u>
	<u>\$ 64,249,537</u>	<u>\$ 21,478,697</u>	<u>\$ 40,176,052</u>	<u>\$ 1,230,122</u>	<u>\$ 1,364,666</u>
<u>Revolving Loan Fund Group – Drinking Water</u>					
U.S. Government-sponsored enterprises	\$ 5,196,327	\$ 2,037,444	\$ 3,006,112	\$ --	\$ 152,771
U.S. Government-sponsored enterprise strips	<u>413,856</u>	<u>--</u>	<u>324,641</u>	<u>89,215</u>	<u>--</u>
	<u>\$ 5,610,183</u>	<u>\$ 2,037,444</u>	<u>\$ 3,330,753</u>	<u>\$ 89,215</u>	<u>\$ 152,771</u>
<u>School Facilities Fund Group</u>					
U.S. Government-sponsored enterprises	<u>\$ 13,574,505</u>	<u>\$ 6,570,060</u>	<u>\$ 7,004,445</u>	<u>\$ --</u>	<u>\$ --</u>

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Bond Bank will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Bond Bank's investments are primarily held by U.S. Bank and Bangor Savings Bank. Management of the Bond Bank is not aware of any issues with respect to custodial credit risk at either bank at June 30, 2011.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

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

At June 30, 2011, the Bond Bank's guaranteed investment contracts within the General Tax Exempt Fund Group and Revolving Loan Fund Group are primarily with three institutions, all of which are AA rated or better.

The Bond Bank has invested some of its long-term funds in U.S. Treasury and U.S. Government-sponsored enterprise principal-only strips in order to maximize yields coincident with cash needs for operations, debt service, and arbitrage. These securities are similar to zero coupon bonds which are purchased deeply discounted, with the Bond Bank receiving its only repayment stream at maturity; therefore, they are sensitive to interest rate changes. These securities are reported at fair value in the balance sheet. The fair value of these investments is approximately \$105,100,000 at June 30, 2011.

Trustee held cash and cash equivalents at June 30, 2011 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, 2011 consist entirely of money market funds secured by short-term U.S. Treasury obligations, held by a trust company.

4. Bonds Payable

Total General Tax-Exempt Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2011:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2011</u>
Series 1993 B and C, 5% – 5.85%, dated May 1, 1993	1994 – 2020	\$ 40,070,000	\$ 5,130,000
Series 1998 A, 3.70% – 5.50%, dated February 1, 1998	1999 – 2012	60,950,000	15,080,000
Series 1998 D and E, 3.75% – 4.80%, dated October 1, 1998	1999 – 2018	13,890,000	650,000
Series 2000 A and B, 4.5% – 5.875%, dated May 1, 2000	2000 – 2020	70,125,000	5,915,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2011</u>
Series 2000 C and D, 4.625% – 5.70%, dated October 1, 2000	2001 – 2021	\$ 39,560,000	\$ 2,925,000
Series 2001 A and B, 4.125% – 5.25%, dated May 1, 2001	2002 – 2021	34,635,000	4,990,000
Series 2001 C and D, 3.00% – 5.125%, dated October 1, 2001	2002 – 2022	68,835,000	12,700,000
Series 2002 A, 3.00% – 5.375%, dated March 1, 2002	2002 – 2021	36,520,000	1,730,000
Series 2002 B and C, 2.50% – 5.25%, dated May 1, 2002	2002 – 2032	77,575,000	7,805,000
Series 2002 D, 2.00% – 5.00%, dated July 1, 2002	2003 – 2015	49,315,000	12,965,000
Series 2002 E and F, 2.00% – 5.00%, dated October 1, 2002	2003 – 2023	32,720,000	9,500,000
Series 2003 A, 3.00% – 5.25%, dated March 1, 2003	2003 – 2020	186,050,000	38,973,762
Series 2003 B and C, 2.00% – 5.00%, dated May 1, 2003	2003 – 2024	17,290,000	9,850,000
Series 2003 D and E, 2.00% – 5.00%, dated October 1, 2003	2004 – 2033	18,460,000	10,815,000
Series 2004 A and B, 2.00% – 5.00%, dated May 27, 2004	2004 – 2025	94,565,000	25,235,000
Series 2004 C, 2.00% – 5.00%, dated September 23, 2004	2004 – 2020	58,675,000	51,190,000
Series 2004 D and E, 2.25% – 5.00%, dated October 28, 2004	2005 – 2034	46,850,000	13,930,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2005 – 2021	91,250,000	86,325,000
Series 2005 B and C, 3.00% – 5.00%, dated May 26, 2005	2006 – 2031	22,050,000	15,970,000
Series 2005 D and E, 3.00% – 5.00%, dated October 27, 2005	2006 – 2034	60,395,000	43,575,000
Series 2006 A, 3.48% – 4.77%, dated May 25, 2006	2006 – 2036	14,040,000	10,630,000
Series 2006 B and C, 3.55% – 5.00%, dated October 26, 2006	2007 – 2027	24,065,000	16,715,000
Series 2007 A, 3.75% – 5.00%, dated April 5, 2007	2007 – 2022	51,335,000	50,420,000
Series 2007 B and C, 4.00% – 5.00%, dated May 24, 2007	2007 – 2029	69,380,000	58,135,000
Series 2007 D and E, 4.00% – 5.00%, dated October 25, 2007	2008 – 2037	53,560,000	44,545,000
Series 2008 A and B, 3.00% – 5.00%, dated May 15, 2008	2008 – 2038	49,060,000	43,350,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2011</u>
Series 2008 C, 4.00% – 5.50%, dated October 30, 2008	2009 – 2038	\$ 100,010,000	\$ 89,905,000
Series 2009 A, 2.00% – 5.00%, dated March 17, 2009	2009 – 2020	10,060,000	8,780,000
Series 2009 B, 3.00% – 5.00%, dated May 28, 2009	2009 – 2034	42,845,000	40,600,000
Series 2009 C, 1.10% – 4.25%, dated August 27, 2009	2010 – 2029	21,620,000	20,595,000
Series 2009 D, 3.00% – 5.00%, dated August 27, 2009	2010 – 2029	34,930,000	32,980,000
Series 2009 E, 1.25% – 3.00%, dated August 27, 2009	2009 – 2014	4,685,000	3,105,000
Series 2009 F, 3.00% – 5.00%, dated August 27, 2009	2010 – 2012	19,115,000	11,445,000
Series 2009 G, 3.00% – 5.00%, dated October 29, 2009	2010 – 2039	9,590,000	9,185,000
Series 2009 H, 3.00% – 5.00%, dated January 14, 2010	2010 – 2030	38,710,000	38,610,000
Series 2010 A, 2.00% – 4.25%, dated May 27, 2010	2010 – 2040	8,320,000	7,925,000
Series 2010 B, 3.28% – 5.67%, dated May 27, 2010	2010 – 2034	11,735,000	11,735,000
Series 2010 C, 2.00% – 5.00%, dated October 7, 2010	2012 – 2034	99,425,000	99,425,000
Series 2010 DEF, 0.71% – 5.12%, dated October 28, 2010	2011 – 2040	80,165,000	80,165,000
Series 2011 A, 2.37% – 5.00%, dated January 27, 2011	2011 – 2031	80,275,000	80,275,000
Series 2011 C, 2.00% – 5.00%, dated May 26, 2011	2012 – 2041	<u>77,275,000</u>	<u>77,275,000</u>
		<u>\$ 2,019,980,000</u>	<u>\$ 1,211,053,762</u>

Total General Tax-Exempt Fund Group Bonds payable is presented on the balance sheet at June 30, 2011 as follows:

Total principal outstanding	\$ 1,211,053,762
Deferred amount on refunding	(23,241,642)
Unamortized original issue discount	(56,594)
Unamortized original issue premium	<u>40,424,777</u>
 Total General Tax-Exempt Fund Group Bonds payable	 1,228,180,303
Current portion	<u>97,792,423</u>
 Noncurrent portion	 <u>\$ 1,130,387,880</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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>
2011	\$ 95,843,349	\$ 26,843,115	\$ 122,686,464
2012	98,276,067	48,563,263	146,839,330
2013	90,083,607	44,492,697	134,576,304
2014	88,790,406	40,804,009	129,594,415
2015	81,422,358	37,140,285	118,562,643
2016 – 2020	361,552,975	139,028,579	500,581,554
2021 – 2025	231,980,000	70,975,044	302,955,044
2026 – 2030	136,575,000	24,505,773	161,080,773
2031 – 2035	23,835,000	2,428,296	26,263,296
2036 – 2040	2,500,000	400,824	2,900,824
2041	<u>195,000</u>	<u>9,506</u>	<u>204,506</u>
	<u>\$ 1,211,053,762</u>	<u>\$ 435,191,391</u>	<u>\$ 1,646,245,153</u>

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

Municipal loan obligations – principal and interest	\$1,450,167,468 ¹
Reserve Funds – principal and interest	<u>196,077,685</u>
	<u>\$ 1,646,245,153</u>

¹ Includes approximately \$14,325,000 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, 2011:

	<u>Original</u> <u>Maturity</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2011</u>
Series 2004 A, 2.50% – 5.00%, dated December 16, 2004	2005 – 2015	\$ 48,395,000	\$ 24,525,000
Series 2008 A, 3.25% – 4.00%, dated September 10, 2008	2009 – 2020	50,000,000	43,075,000
Series 2010 A, 2.00% – 5.00%, dated December 2, 2010	2011 – 2017	25,915,000	25,915,000
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>\$ 117,600,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

4. Bonds Payable (Continued)

Total Grant Anticipation Fund Group Bonds payable is presented on the balance sheet at June 30, 2011 as follows:

Total principal outstanding	\$ 117,600,000
Unamortized original issue premium	<u>1,746,418</u>
 Total Grant Anticipation Fund Group Bonds payable	 119,346,418
Less current portion	<u>11,094,613</u>
 Noncurrent portion	 <u>\$ 108,251,805</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>
2011	\$ 10,770,000	\$ 2,463,300	\$ 13,233,300
2012	12,005,000	4,560,112	16,565,112
2013	12,465,000	4,098,180	16,563,180
2014	12,930,000	3,634,493	16,564,493
2015	13,460,000	3,103,980	16,563,980
2016 – 2020	45,890,000	8,803,578	54,693,578
2021 – 2022	<u>10,080,000</u>	<u>796,848</u>	<u>10,876,848</u>
	<u>\$ 117,600,000</u>	<u>\$27,460,491</u>	<u>\$ 145,060,491</u>

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

Repayment of advances to State of Maine – principal and interest	<u>\$145,060,491</u> ¹
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¹ Includes approximately \$4,000,000 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, 2011:

	<u>Original</u> <u>Maturity</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2011</u>
Series 2008 A, 3.00% – 5.50%, dated November 20, 2008	2009 – 2023	\$ 50,000,000	\$ 45,455,000
Series 2009 A, 2.50% – 5.00%, dated July 22, 2009	2010 – 2023	105,000,000	99,285,000
Series 2009 B, 2.00% – 5.00%, dated September 10, 2009	2010 – 2024	<u>30,000,000</u>	<u>29,185,000</u>
		<u>\$ 185,000,000</u>	<u>\$ 173,925,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

4. Bonds Payable (Continued)

Total Transportation Infrastructure Fund Group Bonds payable is presented on the balance sheet at June 30, 2011 as follows:

Total principal outstanding	\$ 173,925,000
Unamortized original issue premium	<u>6,187,591</u>
 Total Transportation Infrastructure Fund Group Bonds payable	 180,112,591
Less current portion	<u>10,181,764</u>
 Noncurrent portion	 <u>\$ 169,930,827</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>
2011	\$ 9,370,000	\$ 3,861,265	\$ 13,231,265
2012	9,710,000	7,443,143	17,153,143
2013	10,115,000	7,043,092	17,158,092
2014	10,495,000	6,629,992	17,124,992
2015	10,875,000	6,279,468	17,154,468
2016 – 2020	61,910,000	24,248,287	86,158,287
2021 – 2024	<u>61,450,000</u>	<u>7,888,230</u>	<u>69,338,230</u>
	<u>\$ 173,925,000</u>	<u>\$63,393,477</u>	<u>\$ 237,318,477</u>

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

Repayment of advances to State of Maine – principal and interest	\$ 228,778,344
Reserve fund – principal	<u>8,540,133</u>
	<u>\$ 237,318,477</u>

Total Qualified School Construction Fund Group Bonds payable, with original interest rates, consist of the following at June 30, 2011:

	<u>Original</u> <u>Maturity</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2011</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	<u>12,650,000</u>	<u>12,650,000</u>
		<u>\$21,860,000</u>	<u>\$21,860,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

4. Bonds Payable (Continued)

Total Qualified School Construction Fund Group Bonds payable is presented on the balance sheet at June 30, 2011 as follows:

Total Qualified School Construction Fund Group Bonds payable	\$21,860,000
Less current portion	<u> --</u>
Noncurrent portion	<u>\$21,860,000</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</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2011	\$ --	\$ 591,750	\$ 591,750
2012	--	1,283,506	1,283,506
2013	--	1,283,506	1,283,506
2014	--	1,283,506	1,283,506
2015	--	1,283,506	1,283,506
2016 – 2020	--	6,417,529	6,417,529
2021 – 2025	12,650,000	6,417,529	19,067,529
2026	<u>9,210,000</u>	<u>563,468</u>	<u>9,773,468</u>
	<u>\$21,860,000</u>	<u>\$19,124,300</u>	<u>\$40,984,300</u>

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

Government unit loan obligations – principal and interest	<u>\$40,984,300</u> ¹
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¹ Includes approximately \$17,300,000 of interest to be funded through federal interest subsidy payments.

Sewer and Water Fund Group Waste Water Bonds payable, with original interest rates, consist of the following at June 30, 2011:

	<u>Original</u> <u>Maturity</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30, 2011</u>
Series 2003 A and B, 1.05% – 5.00%, dated March 1, 2003	2003 – 2023	\$32,165,000	\$14,280,000
Series 2003 C, 1% – 4.9%, dated November 13, 2003	2004 – 2024	16,065,000	11,205,000
Series 2009 A, 3.00% – 5.00%, dated November 3, 2009	2010 – 2018	14,520,000	11,825,000
Series 2009 B, 2.50 – 3.625%, dated November 3, 2009	2010 – 2018	<u>2,660,000</u>	<u>2,380,000</u>
		<u>\$65,410,000</u>	<u>\$39,690,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

4. Bonds Payable (Continued)

The Sewer and Water Fund Group Waste Water Bonds payable are presented on the balance sheet at June 30, 2011 as follows:

Total principal outstanding	\$39,690,000
Deferred amount on refunding	(384,732)
Unamortized original issue discount	(4,355)
Unamortized original issue premium	<u>601,603</u>
 Total Sewer and Water Fund Group Waste Water Bonds payable	 39,902,516
Less current portion	<u>5,677,836</u>
 Noncurrent portion	 <u>\$34,224,680</u>

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

<u>Due Bond Year</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2011	\$ 5,645,000	\$ 802,311	\$ 6,447,311
2012	5,745,000	1,377,823	7,122,823
2013	6,450,000	1,166,213	7,616,213
2014	3,410,000	873,725	4,283,725
2015	3,110,000	751,985	3,861,985
2016 – 2020	11,405,000	2,148,040	13,553,040
2021 – 2024	<u>3,925,000</u>	<u>445,870</u>	<u>4,370,870</u>
	<u>\$39,690,000</u>	<u>\$7,565,967</u>	<u>\$47,255,967</u>

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

Governmental unit loan obligations – principal and interest	\$40,679,816
Reserve fund – principal and interest	<u>6,576,151</u>
	<u>\$47,255,967</u>

Sewer and Water Fund Group Drinking Water Bonds payable, with original interest rates, consist of the following at June 30, 2011:

	<u>Original</u> <u>Maturity</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2011</u>
Series 2005 A, 2.25% – 4.45%, dated March 24, 2005	2005 – 2025	\$3,770,000	\$2,930,000
Series 2009 C, 3.00% – 3.00% dated November 3, 2009	2010 – 2018	<u>2,380,000</u>	<u>2,120,000</u>
		<u>\$6,150,000</u>	<u>\$5,050,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

4. Bonds Payable (Continued)

The Sewer and Water Fund Group Drinking Water Bonds payable are presented on the balance sheet at June 30, 2011 as follows:

Total principal outstanding	\$5,050,000
Deferred amount on refunding	(7,143)
Unamortized original issue discounts and costs of issuance	(19,438)
Unamortized original issue premium	<u>61,433</u>
 Total Sewer and Water Fund Group Drinking Water Bonds payable	 5,084,852
Less current portion	<u>429,368</u>
 Noncurrent portion	 <u>\$4,655,484</u>

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

<u>Due Bond Year</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2011	\$ 420,000	\$ 91,370	\$ 511,370
2012	425,000	169,753	594,753
2013	435,000	156,362	591,362
2014	430,000	142,405	572,405
2015	440,000	128,315	568,315
2016 – 2020	1,785,000	419,210	2,204,210
2021 – 2025	<u>1,115,000</u>	<u>142,480</u>	<u>1,257,480</u>
	<u>\$5,050,000</u>	<u>\$1,249,895</u>	<u>\$6,299,895</u>

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

Governmental unit loan obligations – principal and interest	<u>\$6,299,895</u>
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MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

4. Bonds Payable (Continued)

The following summarizes bond payable activity for the Bond Bank for the year ended June 30, 2011:

	General Tax Exempt Fund Group	Grant Anticipation Fund Group	Trans- portation Infra- structure Fund Group	Qualified School Construc- tion Fund Group	Waste Water Fund Group	Drinking Water Fund Group
Balance, beginning of year	\$ 1,080,632,244	\$ 75,806,998	\$ 190,355,106	\$ -	\$ 46,026,047	\$ 5,505,675
Issuances – face value	337,140,000	50,000,000	-	21,860,000	-	-
Redemptions	(97,930,468)	(7,950,000)	(9,110,000)	-	(6,095,000)	(410,000)
Refunded bonds (note 9)	(99,785,000)	-	-	-	-	-
Capitalized premiums, net	21,872,118	1,709,930	-	-	-	-
Deferred amounts on refunding	(12,184,037)	-	-	-	-	-
Accretion/amortization of discounts, premiums and deferred amounts on refunding	<u>(1,564,554)</u>	<u>(220,510)</u>	<u>(1,132,515)</u>	<u>-</u>	<u>(28,531)</u>	<u>(10,823)</u>
Balance, end of year	<u>\$ 1,228,180,303</u>	<u>\$ 119,346,418</u>	<u>\$ 180,112,591</u>	<u>\$ 21,860,000</u>	<u>\$ 39,902,516</u>	<u>\$ 5,084,852</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 Waste Water and Drinking Water Revolving Loan Fund Groups, reserve funds of one fund group cannot be used to cover deficiencies of another fund group. In order to recover any shortfall covered by the reserve, the Bond Bank has the ability to attach certain State funds due to the governmental units. Additionally, the Bond Bank is required to utilize funds available within the general operating accounts as necessary.

5. Reserve Funds

Each of the 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, 2011, the required debt service reserve was approximately \$132,655,000.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

5. Reserve Funds (Continued)

In addition, the Bond Bank maintains the Special Reserve Account balance of \$1,970,829 and the Supplemental Reserve Fund General Reserve Account principal balance of \$2,700,000. These reserves represent segregated net assets and are pledged to the payment of the principal or interest on the outstanding bonds of the General Tax-Exempt Fund Group if a deficiency occurs. At June 30, 2011, the fair value of the reserve fund assets totaled approximately \$161,077,000, which exceeded the required reserves by approximately \$23,751,000.

Transportation Infrastructure Fund Group: The Bond Bank is required to maintain a capital reserve which is equal to 50% of the maximum amount of principal installments and interest maturing and becoming due in any succeeding fiscal year on all bonds payable within the fund group as of such date of calculation. At June 30, 2011, the required capital reserve was approximately \$8,477,000 and the fair value of the capital reserve assets totaled approximately \$8,900,000.

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, 2011, the required capital reserve was approximately \$7,077,000 and the fair value of the capital reserve assets totaled approximately \$8,676,000.

6. Sewer and Water Revolving Fund Group

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

In 2009, the Bond Bank was awarded American Recovery and Reinvestment Act (ARRA) grants for use in its Sewer and Water Revolving Fund Group. ARRA grants are for purposes consistent with the intent of the Sewer and Water Revolving Fund Group, including construction of wastewater treatment facilities, drinking water facilities and associated infrastructure, green infrastructure, nonpoint source projects, estuary projects and program administration. The grants do not contain any State of Maine matching provisions. The grants stipulated that the Bond Bank must have committed loans to recipients with signed construction contracts by February 17, 2010; this requirement was met in 2010.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

6. Sewer and Water Revolving Fund Group (Continued)

Net assets consist of the following at June 30, 2011:

	<u>Waste Water</u>	<u>Drinking Water</u>
Reserved for revolving loans:		
Grants received from Environmental Protection Agency under existing capitalization grant program	\$ 226,846,659	\$ 121,752,900
Grants received from Environmental Protection Agency under ARRA	30,336,800	19,500,000
Other administrative grants received from Environmental Protection Agency	1,347,010	—
Hardship grants received from Environmental Protection Agency	643,800	—
Grants received from State of Maine	45,423,362	24,028,308
Other amounts reserved (utilized) for program loans and costs	<u>36,610,064</u>	<u>(23,903,515)</u>
	341,207,695	141,377,693
Unreserved amounts available	<u>300,000</u>	<u>710,662</u>
Net assets at June 30, 2011	<u>\$ 341,507,695</u>	<u>\$ 142,088,355</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, 2011 are \$11,634,348 (waste water) and \$5,357,422 (drinking water), with \$11,334,348 and \$4,646,760, respectively, expended to date. The remaining amount of \$300,000 in the Waste Water Revolving Loan Fund Group and \$710,662 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 \$36,060,990 at June 30, 2011, 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 2011 was \$1,379,875.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

6. Sewer and Water Revolving Fund Group (Continued)

During fiscal 2009, the Bond Bank and the State of Maine Department of Environmental Protection implemented a joint rule change in the Waste Water Revolving Loan Fund program in order to allow the program to make loans under ARRA grant provisions. The rule change allows the Bond Bank, after consultation with the State of Maine Department of Environmental Protection, to set interest rates at any level, including 0%. It also allows portions of loans made to eligible borrowers under the Waste Water Revolving Loan Fund Program to be forgiven if certain continuing criteria are met (similar to criteria in the Drinking Water Revolving Loan Fund Program). The Bond Bank has loaned approximately \$13,585,068 at June 30, 2011 under the Waste Water Revolving Loan Fund Program that, upon fulfillment of these requirements by the borrowing unit, could be forgiven at some future point. For purposes of the basic financial statements, the Bond Bank recognizes forgiveness expense within these funds as the related loans are repaid. Loans forgiven under this program in 2011 were \$1,555,293.

Within the Waste Water Revolving Loan Fund Group, the Bond Bank is participating in a linked deposit loan program with local banks to encourage environmentally sound logging practices. Under the program, the Bond Bank is subsidizing loans to loggers by investing in certificates of deposit at the respective banks at rates 2% below normal which is passed on as a subsidy to the borrower. At June 30, 2011, the Bond Bank has approximately \$6,283,000 of certificates of deposits outstanding at various banks of which approximately \$833,000 is in excess of the limits insured by the Federal Deposit Insurance Corporation.

7. School Facilities Fund Group

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

Reserved for revolving loans:	
Grants received from State of Maine	\$ 99,267,214
Loans forgiven	(73,770,827)
Other amounts reserved for program loans and costs	<u>10,358,740</u>
	35,855,127
Unreserved amounts available	<u>1,264,251</u>
Net assets at June 30, 2011	<u>\$ 37,119,378</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, 2011 are \$3,048,199, with \$1,783,948 expended to date. The remaining amount of \$1,264,251 can be used for future administrative costs.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 Waste Water Revolving Loan Funds due to the fact that there are no relevant continuing criteria that would require recognition of the forgiven amount as the related loans are repaid. The total amounts forgiven under this program in 2011 were \$327,256.

8. Defined Benefit Pension Plan and Other Postemployment Benefits

Pension Plan Description and Funding Policy

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

In accordance with State statute, participants are required to contribute 6.5% of their annual covered salary to the Plan. The Bond Bank's payroll for the year ended June 30, 2011 for employees covered by the Plan was approximately \$1,025,000, 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, 2011, 2010 and 2009 were \$35,864, \$27,676 and \$27,269 (employer) and \$66,604 \$64,247 and \$63,303 (employee), respectively.

Other Postemployment Benefits (OPEB)

Plan Description: The Bond Bank sponsors a post-retirement health care benefit plan (the Plan). The Plan provides supplemental health care benefits to any full-time employee with ten or more years of employment who retires from the Bond Bank and has reached the age of 65 (Medicare eligible retirement age). The Bond Bank is a member of the Maine Municipal Association and participates in an agent multiple-employer postemployment healthcare plan administered by the Maine Municipal Employees Health Trust. The Bond Bank may terminate the Plan at its option, in which case future benefit payments would be limited to those employees that retired prior to the termination date (there are two retirees as of June 30, 2011).

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

8. Defined Benefit Pension Plan and Other Postemployment 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 \$4,490 in 2011). No assets have been segregated and restricted to provide post-employment benefits.

Annual OPEB Cost: For 2011, the Bond Bank's annual OPEB cost (expense) of \$68,846 for the Plan was equal to the Annual Required Contribution (ARC). The Bond Bank's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2010 and 2009 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/11	\$68,846	0%	\$206,538
6/30/10	68,846	0	137,692
6/30/09	68,846	0	68,846

Funded Status and Funding Progress:

For the year-end June 30, 2011, the Bond Bank's OPEB funding progress is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (ALL)</u>	<u>Unfunded ALL (UALL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UALL as a Percentage of Covered Payroll</u>
⁽¹⁾ 1/1/2009	\$ -	\$647,132	\$647,132	0%	\$1,025,000	63%

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

In the January 1, 2009 actuarial valuation, the projected united credit (PUC) cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return and an annual healthcare cost trend rate of 9.6 percent initially, reduced by decrements to an ultimate rate of 4 percent after twenty years. Both rates include a 3.0 percent inflation assumption. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at January 1, 2009, was twenty-nine years.

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 were principally used to purchase U.S. Treasury obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the in-substance defeased bonds. The U.S. Treasury obligations were deposited with the trustees of the in-substance defeased bonds. The Bond Bank accounted for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and recorded a deferred amount on refunding.

On October 7, 2010, the Bond Bank issued \$99,425,000 in General Tax-Exempt bonds with an average interest rate of 4.47% to in-substance defease \$99,785,000 of various outstanding maturities of the 2002 A, 2002 C, 2004 B and 2004E bonds with an average interest rate of 5.04%. The net proceeds of approximately \$114,389,000, including a bond premium of approximately \$15,574,000 and after payment of approximately \$610,000 in underwriting fees, insurance and other costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately \$11.6 million in the year ending June 30, 2011, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$8.1 million over the next twenty three years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$5.9 million. As a result of the in-substance defeasance, the Bond Bank will reduce future debt service requirements of borrowers by approximately \$5.7 million over a period of fourteen years commencing in fiscal 2011.

At June 30, 2011, the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately \$149 million.

10. Pass-Through State Grants

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

10. Pass-Through State Grants (Continued)

Riverfront Community Development Program

The Bond Bank received no additional State of Maine grants as of June 30, 2011. Of the deferred monies from the previous year totaling \$2,897,911, \$1,276,481 has been passed on to qualifying municipalities. The balance of \$1,621,430 plus \$1,256 of interest income earned on the related investment balances, is included in pass-through grants payable, representing remaining DECD funds to be passed on to qualified municipalities in future years.

Municipal Investment Trust Fund Program

The Bond Bank received no additional State of Maine grants as of June 30, 2011. Of the deferred monies from the previous year totaling \$698,653, \$350,000 has been passed on to qualifying municipalities. The balance of \$348,653 plus \$219 of interest income earned on the related investment balances is included in pass-through grants payable, representing remaining DECD funds to be passed on to qualified municipalities in future years.

MAINE MUNICIPAL BOND BANK

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2011

	<u>Program Revenues</u>					<u>Net Revenue (Expense) and Changes in net assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants/ Contributions</u>	<u>Total</u>
Functions/Programs:						
Maine Municipal Bond Bank	\$(71,871,444)	\$59,032,325	\$3,036,909	\$ 736,814	\$37,429,040	\$ 28,363,644
Total	\$(71,871,444)	\$59,032,325	\$3,036,909	\$ 736,814	\$37,429,040	28,363,644
General revenues:						
Unrestricted interest and investment earnings						123,319
Non program specific grants, contributions and appropriations						-
Miscellaneous income						1,466,585
Loss on assets held for sale						-
Extraordinary item						-
Total general revenues and extraordinary items						<u>1,589,904</u>
Changes in net assets						29,953,548
Net assets, beginning of year						<u>558,506,342</u>
Net assets, end of year						<u>\$ 588,459,890</u>

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

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P.O. Box 2268 • 127 Community Drive
Augusta, Maine 04338

Maine Municipal Bond Bank

Basic Financial Statements and
Management's Discussion and Analysis

Year Ended June 30, 2010
With Independent Auditors' Report

MAINE MUNICIPAL BOND BANK

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

For the Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Municipal Bond Bank

We have audited the accompanying financial statements which include the General Operating Account, General Tax-Exempt Fund Group, Grant Anticipation Fund Group, Transportation Infrastructure Fund Group, Special Obligation Taxable Fund Group, Waste Water and Drinking Water Revolving Loan Fund Groups and Operating Fund Group and the School Facilities Fund Group, which collectively comprise the basic financial statements of Maine Municipal Bond Bank, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine for accounting purposes only, as of and for the year ended June 30, 2010, as listed in the accompanying table of contents. These financial statements are the responsibility of the Bond Bank's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Bond Bank, as well as the individual fund groups referred to above, as of June 30, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2010 on our consideration of Maine Municipal Bond Bank's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Commissioners
Maine Municipal Bond Bank

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Bond Bank's basic financial statements. The additional information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Portland, Maine
September 10, 2010

Limited Liability Company

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

As financial management of the Maine Municipal Bond Bank (the "Bond Bank"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Bond Bank for the fiscal year ended June 30, 2010. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Bond Bank and to identify any significant changes in financial position. Readers should consider the information presented here only in conjunction with the basic financial statements as a whole.

Financial Highlights

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

Overview of the Bond Bank

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

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

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

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

The Bond Bank administers the Federal Clean Water Act and Drinking Water Act Revolving Loan Funds. Each of the Revolving Loan Funds periodically receives capitalization grants from the Environmental Protection Agency and matching funds from the State of Maine. Additionally, both of the revolving loan funds received *American Recovery and Reinvestment Act of 2009* (ARRA) grant awards in 2009 (see note 6 to the accompanying financial statements) and continued to commit and disburse grants to local borrowers during 2010. The State of Maine Department of Environmental Protection approves low interest revolving loans to eligible borrowers, under the Clean Water Act Fund, that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. The Drinking Water Revolving Loan Fund operates similar to the Clean Water Revolving Loan Fund whereby the Maine Department of Human Services (Office of Drinking Water) approves low interest revolving loans, under the Drinking Water Act, to eligible borrowers that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. Under the base Drinking Water Revolving Loan Program, up to 30% of each federal capitalization grant may be provided to borrowers as loan forgiveness. Eligible borrowers typically receive up to a maximum of 75% loan forgiveness. The base Clean Water Revolving Loan Program does not provide any loan forgiveness at this time. Starting in fiscal 2009, both the Clean Water and the Drinking Water Revolving Funds received ARRA funding, 50% of which was required to be provided as subsidies including grants, loan forgiveness or negative interest rates. Each of the programs opted to meet the 50% subsidy requirement by providing up to a maximum of 100% loan forgiveness on ARRA funded loans.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

The Bond Bank administers the School Facilities Revolving Loan Fund, which is capitalized by monies received from the State of Maine. The Department of Education approves qualified projects that are eligible for interest-free revolving loans, subject to the Bond Bank's approval, to school administrative units for renovation and maintenance of school facilities. Borrowers are eligible to receive a minimum of 20% and a maximum of 70% loan forgiveness.

As the result of the Bond Bank issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Bond Bank's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Bond Bank, assets exceeded liabilities by \$558,506,342 at June 30, 2010. This represents an increase of \$21,817,240 (4.1%) over the previous fiscal year. Most of this increase is due to revenue exceeding expenses in the Sewer and Water Fund Groups as federal and state matching grants are received to fund revolving loans to eligible borrowers. Restricted net assets are \$491,573,325 and unrestricted net assets are \$66,933,017 at June 30, 2010. The largest portion of the Bond Bank's net assets is its investment in loans to governmental units and investments held by trustee included in the Sewer and Water and School Facilities Fund Groups (provided by grants).

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

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

MAINE MUNICIPAL BOND BANK

Balance Sheet

June 30, 2010 and 2009

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

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

Total short and long-term investments held by trustee at June 30, 2010 increased \$25,418,990 or 8.9% from June 30, 2009. The increase was the net result of an increase in the fair value of investments, additional reserve fund investments purchased in conjunction with 2010 bond issuances of approximately \$17,969,000, the receipt of approximately \$32,374,600 from the State of Maine for the Transportation Infrastructure Fund Group and also the net impact of drawdowns of investments for equity loans to borrowers and the repayment on equity loans from borrowers in 2010. The Bond Bank also received additional pass-through grants from the Maine Department of Economic and Community Development, of which \$3,596,564 has been deferred at June 30, 2010. The Bond Bank's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises securities (i.e. FNMA, FMLMC), U.S. Treasury and U.S. Government-sponsored enterprise strips, guaranteed investment contracts and certificates of deposit. The Bond Bank's investments are carried at fair value. Unrealized gains and losses (primarily due to fluctuations in market interest rates) are recognized in the statement of revenues, expenses and changes in net assets.

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

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

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

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

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

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

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

As a result of the Bond Bank issuing tax-exempt debt and investing some of the proceeds in US Government securities, it earns arbitrage that is required to be rebated to the US Government every 5 years. The Bond Bank maintains rebate calculations for each tax-exempt bond issue and updates the calculations every 6 months for financial statement purposes. Accrued interest rebate payable to US Government decreased \$1,094,325 or 24.4% in fiscal year 2010 over fiscal year 2009 as a result of refunding of outstanding bonds and subsequent call of remaining defeased bonds, which resulted in final calculations and payments not otherwise anticipated.

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

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

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2010

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

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

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

Loan forgiveness expense (see notes 6 and 7 in the accompanying financial statements) increased 180.4 % in fiscal year 2010 over 2009. Portions of the loans made to eligible borrowers under the Drinking Water and Waste Water (under ARRA grants) Revolving Loan Fund Programs may be forgiven if certain continuing criteria are met as the borrowers repay the loans. The total amount forgiven under these programs in 2010 was \$1,190,886 and \$7,038,704 within the Drinking Water and Waste Water Revolving Loan Fund Program, respectively. Also, portions of the loans made to school administrative units under the School Facilities Fund Group are forgiven at the time the loans are disbursed to the units. The amount forgiven within the School Facilities Fund Group in 2010 was \$3,118,556. Forgiveness expense will vary from year to year depending upon repayment and drawdown activity within the respective programs.

Requests for Information

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

MAINE MUNICIPAL BOND BANK

BALANCE SHEET

June 30, 2010

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

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

MAINE MUNICIPAL BOND BANK

BALANCE SHEET (CONTINUED)

June 30, 2010

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

See accompanying notes.

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

MAINE MUNICIPAL BOND BANK

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2010

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

See accompanying notes.

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

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2010

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

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

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2010

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

See accompanying notes.

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

1. Organization

The Maine Municipal Bond Bank (the Bond Bank) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Article 30-A, Title 5901 (the Act), as amended.

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

The Bond Bank has a management agreement with related parties, Maine Health and Higher Educational Facilities Authority and Maine Governmental Facilities Authority, whereby the Bond Bank allocates payroll and general overhead expenses from its operations to each Authority.

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

The General Operating Account also administers various loan and grant programs in conjunction with the State of Maine. Additionally, the General Operating Account from time-to-time will provide loans to municipalities (governmental units) experiencing financial difficulties. During 2010, the General Operating Account provided a loan of approximately \$1.2 million to a municipality, which is to be repaid in quarterly installments of \$39,740, including interest at 5.5%, through October 2019.

General Tax-Exempt Fund Group: This fund group consists of funds and accounts established under the Bond Bank’s General Bond Resolution adopted July 11, 1973, as amended and supplemented by the First Supplemental Resolution adopted September 20, 1977, the Second Supplemental Resolution adopted July 18, 1984, the Third Supplemental Resolution adopted May 7, 1993 and the Fourth Supplemental Resolution adopted June 25, 1993. Under these resolutions, the Bond Bank issues bonds exempt from federal and State of Maine income taxes and makes loans to local governmental units. In addition, the Bond Bank issues taxable bonds that receive a federal interest subsidy payment on each debt service payment date.

Transportation Fund Groups: These fund groups consist of funds and accounts established under the Bond Bank’s Grant Anticipation General Bond Resolution adopted December 10, 2004 and the Bond Bank’s Transportation Infrastructure General Bond Resolution adopted September 24, 2008. Under these resolutions, the Bond Bank issues bonds or notes exempt from Federal and State of Maine income taxes for the purpose of making advances to the State of Maine Department of Transportation to finance qualified transportation projects. The Grant Anticipation bonds or notes are to be repaid from future federal highway grant monies received by the State of Maine and the Transportation Infrastructure bonds or notes are to be repaid from a portion of future fees and taxes collected by the State of Maine.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

1. Organization (Continued)

Special Obligation Taxable Fund Group: This fund group consists of funds and accounts established under the Bond Bank's Special Obligation Bond Resolution adopted May 25, 1990. Under this resolution, the Bond Bank issues bonds which are exempt from State of Maine income taxes (but not federal income taxes) and makes loans to governmental units. All loans to government units and related bonds were paid in full during 2010.

Sewer and Water Fund Groups: These fund groups consist of funds and accounts established under the Bond Bank's Sewer and Water General Bond Resolution adopted February 7, 1990, as amended and supplemented by the First Supplemental Resolution adopted March 6, 1991. Under this resolution, the Bond Bank issues bonds exempt from federal and State of Maine income taxes for the purpose of making revolving loans to governmental units to finance wastewater collection, treatment system or water supply system projects. Under the Drinking Water Fund Group, eligible borrowers consist of public water systems, which include municipalities, districts, private for-profit and non-profit water systems. Some of these projects may be partially financed by grants from the Environmental Protection Agency and the State of Maine under the State Revolving Fund Program and the Drinking Water State Revolving Loan Fund Program.

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

2. Significant Accounting Policies

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

2. Significant Accounting Policies (Continued)

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

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

Investments: Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net assets. Interest earnings on principal-only strips within the general tax-exempt fund group of approximately \$4,259,000 have been recorded as interest income from investments in 2010. Reserve fund investments that are not expected to be utilized to fund bond principal and interest payments until after June 30, 2011 have been classified as long-term.

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

2. Significant Accounting Policies (Continued)

Construction Funds: The Sewer and Water General Bond Resolution requires bond proceeds to be deposited into construction funds. Upon deposit into the construction funds, a loan receivable from the governmental unit is recorded and the construction funds are excluded from Sewer and Water Fund Groups. The Bond Bank maintains control over disbursement of these funds until the project is complete. Approximately \$128,000 in investments are held in the construction funds at June 30, 2010.

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

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

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

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

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

3. Investments Held By Trustee and Board Designated Investments

The Bond Bank is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises, state and local government agencies, guaranteed investment contracts and collateralized repurchase agreements. At June 30, 2010, investments are categorized as follows:

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Bond Bank's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, guaranteed investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Bond Bank to terminate individual contracts at par. The Bond Bank's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Bond Bank's investments in guaranteed investment contracts, U.S. Government obligations, U.S. Government-sponsored enterprises, U.S. Treasury Strips and U.S. Government-sponsored enterprise strips as of June 30, 2010:

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Bond Bank will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Bond Bank's investments are primarily held by U.S. Bank and Bangor Savings Bank. Management of the Bond Bank is not aware of any issues with respect to custodial credit risk at either bank at June 30, 2010.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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

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

At June 30, 2010, the Bond Bank's guaranteed investment contracts within the General Tax Exempt Fund Group and Revolving Loan Fund Group are primarily with three institutions, all of which are AA rated or better.

The Bond Bank has invested some of its long-term funds in U.S. Treasury and U.S. Government-sponsored enterprise principal-only strips in order to maximize yields coincident with cash needs for operations, debt service, and arbitrage. These securities are similar to zero coupon bonds which are purchased deeply discounted, with the Bond Bank receiving its only repayment stream at maturity; therefore, they are sensitive to interest rate changes. These securities are reported at fair value in the balance sheet. The fair value of these investments is approximately \$98,765,000 at June 30, 2010.

Trustee held cash and cash equivalents at June 30, 2010 consist primarily of money market funds secured by short-term U.S. Treasury obligations.

The cash and cash equivalents of the Bond Bank's General Operating Account at June 30, 2010 consist entirely of money market funds secured by short-term U.S. Treasury obligations, held by a trust company.

4. Bonds Payable

Total General Tax-Exempt Fund Group Bonds payable consist of the following at June 30, 2010:

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

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

Total principal outstanding	\$75,550,000
Unamortized original issue premium	<u>256,998</u>
 Total Grant Anticipation Fund Group Bonds payable	 75,806,998
Less current portion	<u>8,037,796</u>
 Noncurrent portion	 <u>\$67,769,202</u>

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

<u>Due Bond Year</u> <u>Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2010	\$ 7,950,000	\$ 1,453,222	\$ 9,403,222
2011	8,195,000	2,659,044	10,854,044
2012	8,510,000	2,344,056	10,854,056
2013	8,795,000	2,056,875	10,851,875
2014	9,130,000	1,721,637	10,851,637
2015 – 2019	27,905,000	4,029,325	31,934,325
2020	<u>5,065,000</u>	<u>202,600</u>	<u>5,267,600</u>
	<u>\$75,550,000</u>	<u>\$14,466,759</u>	<u>\$90,016,759</u>

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

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

Total principal outstanding	\$183,035,000
Unamortized original issue premium	<u>7,320,106</u>
Total Transportation Infrastructure Fund Group Bonds payable	190,355,106
Less current portion	<u>10,024,347</u>
Noncurrent portion	<u>\$180,330,759</u>

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

<u>Due Bond Year</u> <u>Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2010	\$ 9,110,000	\$ 3,979,553	\$ 13,089,553
2011	9,370,000	7,722,530	17,092,530
2012	9,710,000	7,443,143	17,153,143
2013	10,115,000	7,043,092	17,158,092
2014	10,495,000	6,629,992	17,124,992
2015 – 2019	59,240,000	26,783,955	86,023,955
2020 – 2024	<u>74,995,000</u>	<u>11,632,030</u>	<u>86,627,030</u>
	<u>\$183,035,000</u>	<u>\$71,234,295</u>	<u>\$254,269,295</u>

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

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

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

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

<u>Due Bond Year</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2010	\$ 6,095,000	\$ 894,136	\$ 6,989,136
2011	5,645,000	1,604,623	7,249,623
2012	5,745,000	1,377,822	7,122,822
2013	6,450,000	1,166,213	7,616,213
2014	3,410,000	873,725	4,283,725
2015 – 2019	13,345,000	2,653,010	15,998,010
2020 – 2024	<u>5,095,000</u>	<u>692,885</u>	<u>5,787,885</u>
	<u>\$45,785,000</u>	<u>\$9,262,414</u>	<u>\$55,047,414</u>

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

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

Total principal outstanding	\$5,460,000
Deferred amount on refunding	(8,958)
Unamortized original issue discounts and costs of issuance	(24,709)
Unamortized original issue premium	<u>79,342</u>
 Total Sewer and Water Fund Group Drinking Water Bonds payable	 5,505,675
Less current portion	<u>420,822</u>
 Noncurrent portion	 <u>\$5,084,853</u>

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

<u>Due Bond Year</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2010	\$ 410,000	\$ 97,558	\$ 507,558
2011	420,000	182,740	602,740
2012	425,000	169,753	594,753
2013	435,000	156,362	591,362
2014	430,000	142,405	572,405
2015 – 2019	2,015,000	489,553	2,504,553
2020 – 2024	1,175,000	193,777	1,368,777
2025 – 2028	<u>150,000</u>	<u>6,675</u>	<u>156,675</u>
	<u>\$5,460,000</u>	<u>\$1,438,823</u>	<u>\$6,898,823</u>

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. Bonds Payable (Continued)

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

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

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

5. Reserve Funds

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

General Tax-Exempt Fund Group: The Bond Bank is required to maintain a debt service reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all governmental unit loan obligations then outstanding as of such date of calculation. At June 30, 2010, the required debt service reserve was approximately \$121,651,000.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

5. Reserve Funds (Continued)

In addition, the Bond Bank maintains the Special Reserve Account balance of \$1,970,829 and the Supplemental Reserve Fund General Reserve Account principal balance of \$2,700,000. These reserves represent segregated net assets and are pledged to the payment of the principal or interest on the outstanding bonds of the General Tax-Exempt Fund Group if a deficiency occurs. At June 30, 2010, the fair value of the reserve fund assets totaled approximately \$151,200,000, which exceeded the required reserves by approximately \$24,878,000.

Transportation Infrastructure Fund Group: The Bond Bank is required to maintain a capital reserve which is equal to 50% of the maximum amount of principal installments and interest maturing and becoming due in any succeeding fiscal year on all bonds payable within the fund group as of such date of calculation. At June 30, 2010, the required capital reserve was approximately \$8,477,000 and the fair value of the capital reserve assets totaled approximately \$8,880,000.

Sewer and Water Fund Groups: The Bond Bank is required to maintain a capital reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all government unit loan obligations within the fund groups as of such date of calculation. At June 30, 2010, the required capital reserve was approximately \$7,650,000 and the fair value of the capital reserve assets totaled approximately \$8,787,000.

6. Sewer and Water Revolving Fund Group

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

The Bond Bank was awarded American Recovery and Reinvestment Act (ARRA) grants for use in its Sewer and Water Revolving Fund Group. ARRA grants are for purposes consistent with the intent of the Sewer and Water Revolving Fund Group, including construction of wastewater treatment facilities, drinking water facilities and associated infrastructure, green infrastructure, nonpoint source projects, estuary projects and program administration. The grants do not contain any State of Maine matching provisions. The grants stipulated that the Bond Bank must have committed loans to recipients with signed construction contracts by February 17, 2010; this requirement was met in 2010. In 2010, the Bond Bank recognized ARRA grant revenues of \$14,264,867 and \$8,539,398 within the Waste Water and Drinking Water Revolving Loan Fund Groups, respectively, representing the total amount of loans committed during 2010 and allowable program administrative appropriations.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

6. Sewer and Water Revolving Fund Group (Continued)

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

	<u>Waste Water</u>	<u>Drinking Water</u>
Reserved for revolving loans:		
Grants received from Environmental Protection Agency under existing capitalization grant program	\$211,073,659	\$108,179,900
Grants received from Environmental Protection Agency under ARRA	30,336,800	19,500,000
Other administrative grants received from Environmental Protection Agency	\$ 1,347,010	\$ -
Hardship grants received from Environmental Protection Agency	643,800	-
Grants received from State of Maine	42,268,762	21,313,708
Other amounts reserved (utilized) for program loans and costs	<u>36,417,222</u>	<u>(20,652,452)</u>
	322,087,253	128,341,156
Unreserved amounts available	<u>454,087</u>	<u>730,868</u>
Net assets at June 30, 2010	<u>\$322,541,340</u>	<u>\$129,072,024</u>

Under the provisions of the grants from the Environmental Protection Agency (including ARRA grants), the Bond Bank is allowed administrative costs of up to 4% of the total grants awarded. In addition, the Bond Bank receives other grants from the Environmental Protection Agency that are used solely for administrative purposes. The total administrative costs allowed at June 30, 2010 are \$11,003,428 (waste water) and \$4,814,502 (drinking water), with \$10,549,341 and \$4,083,634, respectively, expended to date. The remaining amount of \$454,087 in the Waste Water Revolving Loan Fund Group and \$730,868 in the Drinking Water Revolving Loan Fund Group can be used for future administrative costs. The Bond Bank also charges annual administrative fees to borrowers that are used to administer the programs.

Portions of the loans made to eligible borrowers under the Drinking Water Revolving Loan Fund Program may be forgiven if certain continuing criteria are met, including that the borrower continues to make debt service payments, continues to operate the project in compliance with laws and regulations, and does not dispose of or discontinue the project. The Bond Bank has loaned approximately \$33,388,437 at June 30, 2010, that, upon fulfillment of these requirements by the borrowing unit, could be forgiven at some future point. For purposes of the basic financial statements, the Bond Bank recognizes forgiveness expense within these funds as the related loans are repaid. The total amount forgiven under these programs in 2010 was \$1,190,886.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

6. Sewer and Water Revolving Fund Group (Continued)

During fiscal 2009, the Bond Bank and the State of Maine Department of Environmental Protection implemented a joint rule change in the Waste Water Revolving Loan Fund program in order to allow the program to make loans under ARRA grant provisions. The rule change allows the Bond Bank, after consultation with the State of Maine Department of Environmental Protection, to set interest rates at any level, including 0%. It also allows portions of loans made to eligible borrowers under the Waste Water Revolving Loan Fund Program to be forgiven if certain continuing criteria are met (similar to criteria in the Drinking Water Revolving Loan Fund Program). The Bond Bank has loaned approximately \$11,995,978 at June 30, 2010 under the Waste Water Revolving Loan Fund Program that, upon fulfillment of these requirements by the borrowing unit, could be forgiven at some future point. For purposes of the basic financial statements, the Bond Bank recognizes forgiveness expense within these funds as the related loans are repaid. Loans forgiven under this program in 2010 were \$7,038,704.

Within the Waste Water Revolving Loan Fund Group, the Bond Bank is participating in a linked deposit loan program with local banks to encourage environmentally sound logging practices. Under the program, the Bond Bank is subsidizing loans to loggers by investing in certificates of deposit at the respective banks at rates 2% below normal which is passed on as a subsidy to the borrower. At June 30, 2010, the Bond Bank has approximately \$6,505,000 of certificates of deposits outstanding at various banks of which approximately \$697,000 is in excess of the limits insured by the Federal Deposit Insurance Corporation.

7. School Facilities Fund Group

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

Reserved for revolving loans:	
Grants received from State of Maine	\$ 98,679,856
Loans forgiven	(73,443,571)
Other amounts reserved for program loans and costs	<u>11,237,802</u>
	36,474,087
Unreserved amounts available	<u>1,252,213</u>
Net assets at June 30, 2010	<u>\$ 37,726,300</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, 2010 are \$2,884,829, with \$1,632,616 expended to date. The remaining amount of \$1,252,213 can be used for future administrative costs.

Portions of the loans made to school administrative units from the School Facilities Fund Group are forgiven. For purposes of the general purpose financial statements, the Bond Bank recognizes forgiveness expense within this fund at the time the loans are disbursed to the school administrative unit. This accounting treatment differs from the treatment within the Drinking Water and Waste Water Revolving Loan Funds due to the fact that there are no relevant continuing criteria that would require recognition of the forgiven amount as the related loans are repaid. The total amounts forgiven under this program in 2010 were \$3,118,556.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

8. Defined Benefit Pension Plan and Other Postemployment Benefits

Pension Plan Description and Funding Policy

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

In accordance with State statute, participants are required to contribute 6.5% of their annual covered salary to the Plan. The Bond Bank's payroll for the year ended June 30, 2010 for employees covered by the Plan was approximately \$988,000, which was 100% of payroll. The Bond Bank is required to contribute at an actuarially determined rate that, when combined with the contributions of other reporting entities, will be adequate to fund the Plan. The contribution rate is determined using an entry age normal actuarial funding method for retirement benefits and a term cost method for ancillary benefits. The Bond Bank may be required to make contributions to fund the Plan's pooled unfunded actuarial liability, if any. The contribution requirements of the plan members and the Bond Bank are established by and may be amended by the State legislature. The contributions made for the years ended June 30, 2010, 2009 and 2008 were \$27,676, \$27,269 and \$26,728 (employer) and \$64,247, \$63,303 and \$62,047 (employee), respectively.

Other Postemployment Benefits (OPEB)

Plan Description: The Bond Bank sponsors a post-retirement health care benefit plan (the Plan). The Plan provides supplemental health care benefits to any full-time employee with ten or more years of employment who retires from the Bond Bank and has reached the age of 65 (Medicare eligible retirement age). The Bond Bank is a member of the Maine Municipal Association and participates in an agent multiple-employer postemployment healthcare plan administered by the Maine Municipal Employees Health Trust. The Bond Bank may terminate the Plan at its option, in which case future benefit payments would be limited to those employees that retired prior to the termination date (there are two retirees as of June 30, 2010).

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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

Annual OPEB Cost: For 2010, the Bond Bank's annual OPEB cost (expense) of \$68,846 for the Plan was equal to the Annual Required Contribution (ARC). The Bond Bank's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and 2009 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/10	\$68,846	0%	\$137,692
6/30/09	68,846	0	68,846

Funded Status and Funding Progress:

For the year-end June 30, 2010, the Bond Bank's OPEB funding progress is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (ALL)</u>	<u>Unfunded ALL (UALL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UALL as a Percentage of Covered Payroll</u>
⁽¹⁾ 1/1/2009	\$ –	\$647,132	\$647,132	0%	\$988,000	66%

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

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

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

In the January 1, 2009 actuarial valuation, the projected united credit (PUC) cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return and an annual healthcare cost trend rate of 9.6 percent initially, reduced by decrements to an ultimate rate of 4 percent after twenty years. Both rates include a 3.0 percent inflation assumption. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at January 1, 2009, was twenty-nine years.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

9. Refunding Issues

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

9. Refunding Issues (Continued)

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

On November 3, 2009, the Bond Bank issued \$2,660,000 of Series B Refunding Sewer and Water bonds with an average interest rate of 3.19% to in-substance defease \$2,785,000 of various outstanding maturities of 1997 B bonds with an average interest rate of 5.44%. The net proceeds of approximately \$2,798,000, including a bond premium of approximately \$17,000 and liquidation of existing excess reserve funds of \$172,000, and after payment of approximately \$51,000 in underwriting fees, insurance and other costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately \$13,000 in the period ending June 30, 2010, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$374,000 over the next nine years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$179,000.

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

10. Pass-Through State Grants

The Bond Bank entered into memoranda of understanding with the Maine Department of Economic and Community Development (DECD) to jointly administer the Riverfront Community Development and Municipal Investment Trust Fund programs within its General Operating Account. Under the programs, the Bond Bank receives grants from the DECD that are passed-through to municipalities designated for such grants by the DECD. A portion of the grants received from the DECD, up to a statutorily determined limit, are used to reimburse the Bond Bank for administrative expenses incurred. The Bond Bank recorded \$50,000 as administrative fee revenue related to the programs in fiscal 2010, which is included in other income on the statement of revenues, expenses and changes in net assets.

Riverfront Community Development Program

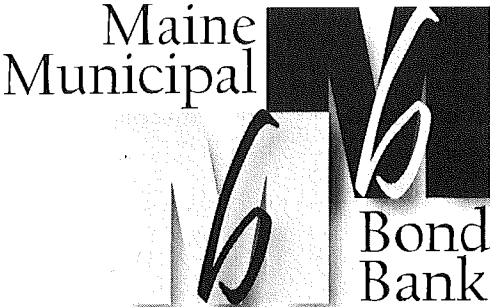
Through June 30, 2010, the Bond Bank has received \$4,900,000 from DECD, of which \$2,006,957 was disbursed in 2010. At June 30, 2010, the remaining funds totaling \$2,893,043, plus \$4,868 of interest income earned on the related investment balances, is included in pass-through grants payable, representing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

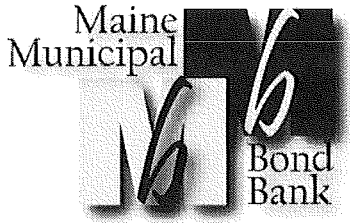
Municipal Investment Trust Fund Program

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

Annual Report
Maine Municipal Bond Bank

2009





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

December 4th, 2009

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

Dear Governor Baldacci:

On behalf of the Commissioners and staff of the Maine Municipal Bond Bank, I am pleased to provide you with our 2009 year-end Annual Report.

The Maine Municipal Bond Bank was established by the legislature in 1972. Since its inception the Bond Bank has issued in excess of \$3 billion for funding to meet the needs of Maine's municipalities. During its thirty-seven year history the Bond Bank has never experienced a default.

Within the 2009 fiscal year, the Bond Bank sold \$159,915,000.00 under its General Bond Resolution Program. Those sales provided nineteen towns, one city, five school systems, and two utility districts with lower cost capital funding to meet their municipal needs.

Also in 2009, the Bank and the Department of Education have successfully committed \$7,338,414.98 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 \$48,624,995 to finance seventy-nine projects in fiscal year 2009.

We are proud of our accomplishments within fiscal year 2009 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

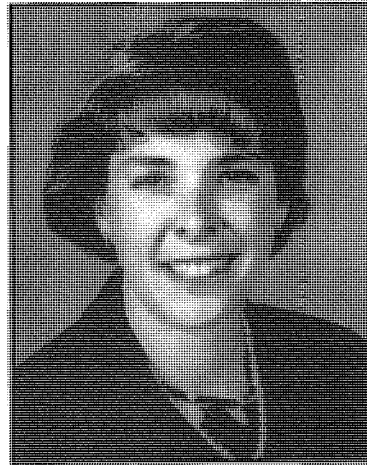
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MAINE MUNICIPAL BOND BANK

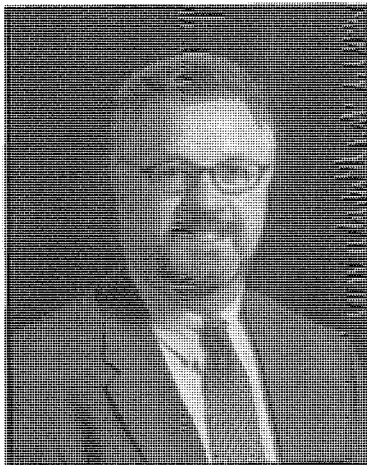
Commissioners 2009



Stephen R. Crockett
Chairman



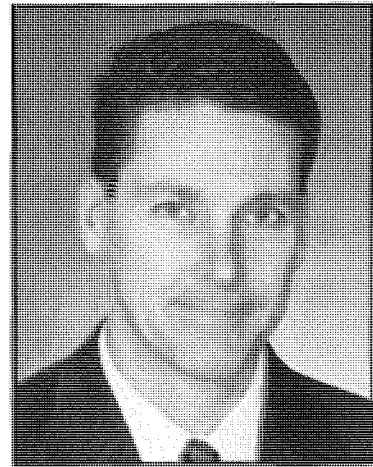
Cathryn Robinson
Vice Chairman



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



Geneva Punch



David Lemoine
Treasurer of State

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Maine Municipal Bond Bank

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

Year Ended June 30, 2009
With Independent Auditors' Report

MAINE MUNICIPAL BOND BANK

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

For the Year Ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Municipal Bond Bank

We have audited the accompanying financial statements which include the General Operating Account, General Tax-Exempt Fund Group, Grant Anticipation Fund Group, Transportation Infrastructure Fund Group, Special Obligation Taxable Fund Group, Waste Water and Drinking Water Revolving Loan Fund Groups and Operating Fund Group and the School Facilities Fund Group, which collectively comprise the basic financial statements of Maine Municipal Bond Bank, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine for accounting purposes only, as of and for the year ended June 30, 2009, as listed in the accompanying table of contents. These financial statements are the responsibility of the Bond Bank's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Bond Bank, as well as the individual fund groups referred to above, as of June 30, 2009, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2009 on our consideration of Maine Municipal Bond Bank's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 10 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Commissioners
Maine Municipal Bond Bank

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Bond Bank's basic financial statements. The additional information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Limited Liability Company

Portland, Maine
September 10, 2009

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

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, 2009. 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.

Certain 2008 amounts included herein have been reclassified to facilitate comparison to the 2009 presentation format.

Financial Highlights

- Revenues for the Bond Bank's General Operating Account were \$1,582,135 for fiscal year 2009, an increase of \$221,385 or 16.3% over fiscal year 2008. This was primarily attributed to the bank receiving \$250,000 of initial issuance fees from the issuance of two bond series within the Transportation Fund Groups. The Bond Bank also collected various other fees and rental income that total approximately \$233,000, offset by a decrease in interest income from investments of approximately \$262,000.
- Net assets in the Bond Bank's General Operating Account increased \$833,903 in fiscal year 2009 primarily as a result of net transfers from the General Tax Exempt Fund Group to the General Operating Account of \$506,717. This total includes transfers mandated by the Bond Bank's annual operating budget totaling \$506,422. The remaining increase of \$327,186 is due to revenues exceeding expenses. At June 30, 2009, the Bond Bank's General Operating Account had net assets of \$25,622,001, an increase of 3.4% compared to the prior year.
- The Bond Bank implemented Governmental Accounting Standard Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2009. The statement establishes standards for measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities/(assets), and requires additional note disclosures in financial statements. The effects of applying this standard resulted in an additional operating expense and accrued liability within the General Operating Account of \$68,846 at June 30, 2009.
- The Bond Bank's gross principal amount of bonds outstanding at June 30, 2009 of \$1,234,930,271 represents a net increase of \$150,152,405 over the balance at June 30, 2008. This increase was the result of the General Tax Exempt Resolution issuing Series 2008C, 2009A and 2009B bonds; the Grant Anticipation Fund Group issuing Series 2008A bonds; the Transportation Infrastructure Fund Group issuing Series 2008A bonds; less the scheduled debt service principal payment of \$102,762,596.
- The Bond Bank committed loans to local governmental units during fiscal year 2009 totaling \$240,933,969, which was a 44.0% increase from the loans committed in fiscal year 2008. The Bond Bank also advanced \$100,000,000 to the State of Maine for qualified transportation projects within its Transportation Fund Groups. The Bond Bank also provided borrowers participating in the Drinking Water Revolving Loan Fund Program, the Waste Water Revolving Loan Fund Program, and the School Facilities Revolving Loan Fund Program \$22,452,479 in potential loan forgiveness in fiscal year 2009, which was a 248% increase from fiscal year 2008.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2009

Overview of the Bond Bank

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

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

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

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

The Bond Bank administers the Federal Clean Water Act and Drinking Water Act Revolving Loan Funds. Each of the Revolving Loan Funds periodically receives capitalization grants from the Environmental Protection Agency and matching funds from the State of Maine. Additionally, both of the revolving loan funds received *American Recovery and Reinvestment Act of 2009* (ARRA) grant awards in 2009 (see note 6 to the accompanying financial statements). The State of Maine Department of Environmental Protection approves low interest revolving loans to eligible borrowers, under the Clean Water Act Fund, that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. The Drinking Water Revolving Loan Fund operates similar to the Clean Water Revolving Loan Fund whereby the Maine Department of Human Services (Office of Drinking Water) approves low interest revolving loans, under the Drinking Water Act, to eligible borrowers that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. Under the base Drinking Water Revolving Loan Program, up to 30% of each federal capitalization grant may be provided to borrowers as loan forgiveness. Eligible borrowers typically receive up to a maximum of 75% loan forgiveness. The base Clean Water Revolving Loan Program does not provide any loan forgiveness at this time. Starting in fiscal 2009, both the Clean Water and the Drinking Water Revolving Funds received ARRA funding, 50% of which was required to be provided as subsidies including grants, loan forgiveness or negative interest rates. Each of the programs opted to meet the 50% subsidy requirement by providing up to a maximum of 100% loan forgiveness on ARRA funded loans.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2009

The Bond Bank administers the School Facilities Revolving Loan Fund, which is capitalized by monies received from the State of Maine. The Department of Education approves qualified projects that are eligible for interest-free revolving loans, subject to the Bond Bank's approval, to school administrative units for renovation and maintenance of school facilities. Borrowers are eligible to receive a minimum of 20% and a maximum of 70% loan forgiveness.

As the result of the Bond Bank issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Bond Bank's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Bond Bank, assets exceeded liabilities by \$536,689,102 at June 30, 2009. This represents an increase of \$54,615,681 (11.3%) over the previous fiscal year. Most of this increase is due to a net increase from interest on loans receivable from governmental units and an increase in grant revenue over the previous fiscal year. Restricted net assets were \$473,396,076 compared to unrestricted net assets of \$63,293,026. The largest portion of the Bond Bank's net assets is its investment in loans to governmental units and investments held by trustee included in the Sewer and Water and School Facilities Fund Groups (provided by grants).

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2009

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

MAINE MUNICIPAL BOND BANK

Balance Sheet

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Percentage Change</u>
Current assets:			
Cash	\$ 248,246	\$ 48,588	410.9%
Investments held by trustee	153,297,806	129,653,436	18.2
Board designated cash and investments	24,284,872	20,796,494	16.8
Loans receivable from governmental units	120,856,058	116,621,632	3.6
Advances to State of Maine	9,694,705	4,256,119	127.8
Accrued investment income receivable	1,159,787	1,330,491	(12.8)
Accrued interest and fees receivable on loans to governmental units and advances to the State of Maine	9,441,896	8,955,217	5.4
Undisbursed federal letter of credit payments	74,588,820	24,928,726	199.2
Refunding benefits rebated to governmental units, net of amortization	909,239	1,153,619	(21.2)
Due from other funds	4,010,423	3,001,037	33.6
Other assets	<u>216,485</u>	<u>271,790</u>	<u>(20.3)</u>
Total current assets	398,708,337	311,017,149	28.2
Noncurrent assets:			
Investments held by trustee	131,197,335	119,257,330	10.0
Loans receivable from governmental units	1,230,445,180	1,136,344,963	8.3
Advances to State of Maine	121,407,623	33,536,702	262.0
Land and building, net of depreciation	769,256	775,318	(0.8)
Refunding benefits rebated to governmental units, net of amortization	<u>2,626,769</u>	<u>3,536,008</u>	<u>(25.7)</u>
Total noncurrent assets	<u>1,486,446,163</u>	<u>1,293,450,321</u>	<u>14.9</u>
Total assets	<u>\$1,885,154,500</u>	<u>\$1,604,467,470</u>	<u>17.5%</u>

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2009

	<u>2009</u>	<u>2008</u>	<u>Percentage Change</u>
Current liabilities:			
Accounts payable and accrued liabilities	\$ 550,954	\$ 360,979	52.6%
Grants payable	-	50,646	(100.0)
Due to other funds	4,010,423	3,001,037	33.6
Accrued interest payable	10,132,536	8,394,299	20.7
Deferred revenue	24,208,614	1,606,909	1406.5
Pass-through grants payable	3,654,819	-	-
Undisbursed loans	61,646,254	19,664,088	213.5
Accrued interest rebate payable to U.S. Government	792,312	1,507,592	(47.4)
Due to State of Maine	1,253,573	-	-
Bonds payable	<u>111,161,789</u>	<u>102,547,748</u>	<u>8.4</u>
Total current liabilities	217,411,274	137,133,298	58.5
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	3,692,314	2,195,508	68.2
Bonds payable	<u>1,127,361,810</u>	<u>983,065,243</u>	<u>14.7</u>
Total noncurrent liabilities	<u>1,131,054,124</u>	<u>985,260,751</u>	<u>14.8</u>
Total liabilities	1,348,465,398	1,122,394,049	20.1
Net assets:			
Restricted	473,396,076	423,196,923	11.9
Unrestricted	<u>63,293,026</u>	<u>58,876,498</u>	<u>7.5</u>
Total net assets	<u>536,689,102</u>	<u>482,073,421</u>	<u>11.3</u>
Total liabilities and net assets	<u>\$1,885,154,500</u>	<u>\$1,604,467,470</u>	<u>17.5%</u>

Total short and long-term investments held by trustee at June 30, 2009 increased \$35,584,375 or 14.3% from June 30, 2008. The increase was the net result of an increase in the fair value of investments, additional reserve fund investments purchased in conjunction with 2009 bond issuances (\$17,418,172), and the net impact of drawdowns of investments for equity loans to borrowers and the repayment on equity loans from borrowers in 2009. The Bond Bank also received two pass-through grants from the Maine Department of Economic and Community Development of which \$3,654,819 has not been used at June 30, 2009. The Bond Bank's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises securities (i.e. FNMA, FMLMC), U.S. Treasury and U.S. Government-sponsored enterprise strips, guaranteed investment contracts and certificates of deposit. The Bond Bank's investments are carried at fair value. Unrealized gains and losses (primarily due to fluctuations in market interest rates) are recognized in the statement of revenues, expenses and changes in net assets.

The Bond Bank's net loans (bond and equity) to governmental units increased \$98,334,643 in fiscal year 2009. The Bond Bank's total new loan commitments in 2009 of \$240,933,969 were 44.0% more than the 2008 commitments of \$167,341,583. Net bonds payable increased \$152,910,608.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2009

Undisbursed federal letter of credit payments increased \$49,660,094 in 2009 which is a 199.2% increase over fiscal 2008. This increase is primarily the result of federal ARRA grants awarded to the Bond Bank in 2009 totaling \$49,836,800 of which \$49,298,424 remains to be disbursed.

The balance of the due to/from other funds, which increased \$1,009,386 or 33.6% in 2009, represents amounts that were disbursed from one fund and are to be reimbursed by another fund in subsequent years. This increase is primarily due to the General Operating Account remitting \$891,081 to the Internal Revenue Service for the 1993 B&C bonds (in General Tax Exempt Fund Group) rebate payment. The General Tax-Exempt Fund Group will reimburse the General Operating Account for this payment in future years.

Due to the issuance of \$252,915,000 in new bond series in 2009, accrued interest payable increased \$1,738,237 or 20.7% in fiscal 2009 over fiscal 2008.

Undisbursed loans increased \$41,982,166 in 2009 which is a 213.5% increase over fiscal 2008. This increase is primarily a timing issue between when grants are awarded, loans are committed and related funds are disbursed.

As a result of the Bond Bank issuing tax-exempt debt and investing some of the proceeds in US Government securities, it earns arbitrage that is required to be rebated to the US Government every 5 years. The Bond Bank maintains rebate calculations for each tax-exempt bond issue and updates the calculations every 6 months for financial statement purposes. Accrued interest rebate payable to US Government increased \$781,526 or 21.0% in fiscal year 2009 over fiscal year 2008.

Deferred revenue increased \$22,601,705 or 1,406% in fiscal year 2009 over fiscal year 2008. The increase is a result of the deferral of \$1,404,349 of State of Maine grant revenue received from the Department of Environmental Protection that will be used to match Federal Grant awards received in future years and the deferral of \$22,804,265 of ARRA grants that had not been committed to borrowers at June 30, 2009.

The Bond Bank's financial position improved as net assets increased 11.3% in fiscal year 2009. The Bond Bank continued to maintain a positive spread of income from investments and loans to governmental units over bond interest and operating expenses.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2009

MAINE MUNICIPAL BOND BANK
Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Percentage Change</u>
Interest on loans receivable from governmental units	\$ 47,904,277	\$ 46,088,671	3.9%
Fee revenue from State of Maine	4,143,214	1,329,145	211.7
Interest income from investments	8,145,538	9,984,062	(18.4)
Net increase in the fair value of investments	1,787,693	5,800,788	(69.2)
Grant revenue from Environmental Protection Agency	48,545,335	16,497,800	194.3
Grant revenue from State of Maine	4,879,156	4,934,013	(1.1)
Other income	<u>1,510,643</u>	<u>939,967</u>	<u>60.7</u>
 Total operating revenue	 116,915,856	 85,574,446	 36.6
Interest expense	52,169,653	47,873,722	9.0
Operating expenses	4,433,785	4,881,464	(9.2)
Loan forgiveness	4,046,530	10,557,072	(61.7)
Amortization of deferred financing costs and refunding benefits rebated to governmental units	<u>1,650,207</u>	<u>1,959,654</u>	<u>(15.8)</u>
 Total operating expenses	 <u>62,300,175</u>	 <u>65,271,912</u>	 <u>(4.6)</u>
 Operating income	 54,615,681	 20,302,534	 169.0
 Net assets, beginning of year	 <u>482,073,421</u>	 <u>461,770,887</u>	 <u>4.4</u>
 Net assets, end of year	 <u>\$536,689,102</u>	 <u>\$482,073,421</u>	 <u>11.3%</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 2009 decreased 18.4% from 2008. This decrease was primarily the result of a declining short-term interest rate environment in 2009 that resulted in less interest earned on cash and cash equivalents, and an increase in arbitrage rebate expense over fiscal 2008.

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 \$48,545,335 in fiscal year 2009, which was a 194.3% increase over 2008. The increase is primarily the result of federal ARRA grants awarded to the Bond Bank in 2009 totaling \$49,836,800, of which \$27,032,535 is recorded as grant revenues in the 2009 statement of revenues, expenses and changes in net assets (see note 6 in the accompanying financial statements). The Bond Bank recorded grant revenue from the State of Maine totaling \$4,879,156, which decreased \$54,857 or 1.1% from 2008 grants. The fiscal year 2009 State grants were made up of State of Maine matching funds for the Sewer and Water Funds Groups totaling \$4,302,560 and grants to the School Facilities Fund Group totaling \$576,596.

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2009

Other income consists primarily of fees from borrowers within the Sewer and Water Fund Groups and other income within the General Operating Account Fund Group. The increase of \$570,676 or 60.7% in fiscal year 2009 compared to fiscal year 2008 is attributed primarily to the Transportation Fund Group initial issuance fees of \$250,000 recorded in the General Operating Account and the increase in the number of loans being serviced in the Sewer and Waste-Fund Groups.

Loan forgiveness expense (see notes 6 and 7 in the accompanying financial statements) decreased 61.7 % in fiscal year 2009 over 2008. Portions of the loans made to eligible borrowers under the Drinking Water and Waste Water (under ARRA grants) Revolving Loan Fund Programs may be forgiven if certain continuing criteria are met as the borrowers repay the loans. The total amount forgiven under these programs in 2009 was \$992,385 and \$-0- within the Drinking Water and Waste Water Revolving Loan Fund Program, respectively. Also, portions of the loans made to school administrative units under the School Facilities Fund Group are forgiven at the time the loans are disbursed to the units. The amount forgiven within the School Facilities Fund Group in 2009 was \$3,054,145. Forgiveness expense will vary from year to year depending upon repayment and drawdown activity within the respective programs. Forgiveness expense is down \$6,733,569 from prior year within the School Facilities Fund Group, which is due to a decrease in loan disbursements in 2009 of approximately \$13 million.

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.

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MAINE MUNICIPAL BOND BANK

BALANCE SHEET

June 30, 2009

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Transportation Fund Groups Grant Anticipation Fund Group</u>	<u>Transportation Infrastructure Fund Group</u>
<u>ASSETS</u>				
Current assets:				
Cash	\$ 248,246	\$ —	\$ —	\$ —
Investments held by trustee (notes 3 and 5)	—	41,436,675	47	1,965,741
Board designated cash and investments (notes 3 and 10)	24,284,872	—	—	—
Loans receivable from governmental units (note 4)	—	87,321,857	—	—
Advances to State of Maine (note 4)	—	—	7,729,705	1,965,000
Accrued investment income receivable	114,977	429,179	—	25,983
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	—	6,913,503	1,047,869	—
Undisbursed federal letter of credit payments	—	—	—	—
Refunding benefits rebated to governmental units, net of amortization	—	791,540	—	—
Due from other funds	3,920,375	—	—	—
Other assets	<u>208,944</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total current assets	28,777,414	136,892,754	8,777,621	3,956,724
Noncurrent assets:				
Investments held by trustee (notes 3 and 5)	—	118,950,967	—	2,478,345
Loans receivable from governmental units (note 4)	—	836,980,992	—	—
Advances to State of Maine (note 4)	—	—	75,806,998	45,600,625
Land and building, net of depreciation of \$950,889	769,256	—	—	—
Refunding benefits rebated to governmental units, net of amortization	<u>—</u>	<u>2,418,673</u>	<u>—</u>	<u>—</u>
Total noncurrent assets	<u>769,256</u>	<u>958,350,632</u>	<u>75,806,998</u>	<u>48,078,970</u>
Total assets	<u>\$29,546,670</u>	<u>\$1,095,243,386</u>	<u>\$84,584,619</u>	<u>\$52,035,694</u>

Special Obligation Taxable Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 248,246
227,104	71,013,458	17,626,963	4,613,940	16,413,878	153,297,806
-	-	-	-	-	24,284,872
185,000	23,376,141	3,769,666	-	6,203,394	120,856,058
-	-	-	-	-	9,694,705
-	528,554	18,196	749	42,149	1,159,787
3,022	1,223,340	254,162	-	-	9,441,896
-	38,229,892	36,358,928	-	-	74,588,820
-	117,699	-	-	-	909,239
-	-	-	90,048	-	4,010,423
-	5,458	2,083	-	-	216,485
415,126	134,494,542	58,029,998	4,704,737	22,659,421	398,708,337
-	9,627,282	140,741	-	-	131,197,335
-	269,342,167	101,333,634	-	22,788,387	1,230,445,180
-	-	-	-	-	121,407,623
-	-	-	-	-	769,256
-	208,096	-	-	-	2,626,769
-	279,177,545	101,474,375	-	22,788,387	1,486,446,163
<u>\$415,126</u>	<u>\$413,672,087</u>	<u>\$159,504,373</u>	<u>\$4,704,737</u>	<u>\$45,447,808</u>	<u>\$1,885,154,500</u>

MAINE MUNICIPAL BOND BANK

BALANCE SHEET (CONTINUED)

June 30, 2009

	<u>General</u>	<u>General</u>	<u>Transportation Fund Groups</u>	
	<u>Operating</u>	<u>Tax-Exempt</u>	<u>Grant</u>	<u>Transportation</u>
	<u>Account</u>	<u>Fund Group</u>	<u>Anticipation</u>	<u>Infrastructure</u>
			<u>Fund Group</u>	<u>Fund Group</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current liabilities:				
Accounts payable and accrued liabilities (note 8)	\$ 269,850	\$ —	\$ 47	\$ —
Due to other funds	—	3,528,213	—	—
Accrued interest payable	—	7,853,921	1,047,869	782,121
Deferred revenue (note 6)	—	—	—	—
Pass-through grants payable (note 10)	3,654,819	—	—	—
Undisbursed loans	—	—	—	—
Accrued interest rebate payable to U.S. Government	—	792,312	—	—
Due to State of Maine	—	—	—	1,253,573
Bonds payable (note 4)	<u>—</u>	<u>94,999,165</u>	<u>7,729,705</u>	<u>1,965,000</u>
Total current liabilities	3,924,669	107,173,611	8,777,621	4,000,694
Noncurrent liabilities:				
Accrued interest rebate payable to U.S. Government	—	3,614,690	—	—
Bonds payable (note 4)	<u>—</u>	<u>950,519,007</u>	<u>75,806,998</u>	<u>48,035,000</u>
Total noncurrent liabilities	<u>—</u>	<u>954,133,697</u>	<u>75,806,998</u>	<u>48,035,000</u>
Total liabilities	3,924,669	1,061,307,308	84,584,619	52,035,694
Net assets (deficit):				
Restricted (notes 5, 6 and 7)	—	4,670,829	—	—
Unrestricted (notes 6 and 7)	<u>25,622,001</u>	<u>29,265,249</u>	<u>—</u>	<u>—</u>
Total net assets (deficit)	<u>25,622,001</u>	<u>33,936,078</u>	<u>—</u>	<u>—</u>
Total liabilities and net assets	<u>\$29,546,670</u>	<u>\$1,095,243,386</u>	<u>\$84,584,619</u>	<u>\$52,035,694</u>

See accompanying notes.

Special Obligation Taxable Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$237,577	\$ 22,585	\$ 11,393	\$ —	\$ 9,502	\$ 550,954
—	364,144	25,130	48,750	44,186	4,010,423
3,160	401,793	43,672	—	—	10,132,536
—	15,272,924	8,935,690	—	—	24,208,614
—	—	—	—	—	3,654,819
—	37,009,504	21,027,972	—	3,608,778	61,646,254
—	—	—	—	—	792,312
—	—	—	—	—	1,253,573
<u>185,000</u>	<u>5,907,919</u>	<u>375,000</u>	<u>—</u>	<u>—</u>	<u>111,161,789</u>
425,737	58,978,869	30,418,857	48,750	3,662,466	217,411,274
—	77,624	—	—	—	3,692,314
<u>—</u>	<u>47,465,805</u>	<u>5,535,000</u>	<u>—</u>	<u>—</u>	<u>1,127,361,810</u>
<u>—</u>	<u>47,543,429</u>	<u>5,535,000</u>	<u>—</u>	<u>—</u>	<u>1,131,054,124</u>
425,737	106,522,298	35,953,857	48,750	3,662,466	1,348,465,398
—	305,936,317	122,249,612	—	40,539,318	473,396,076
<u>(10,611)</u>	<u>1,213,472</u>	<u>1,300,904</u>	<u>4,655,987</u>	<u>1,246,024</u>	<u>63,293,026</u>
<u>(10,611)</u>	<u>307,149,789</u>	<u>123,550,516</u>	<u>4,655,987</u>	<u>41,785,342</u>	<u>536,689,102</u>
<u>\$415,126</u>	<u>\$413,672,087</u>	<u>\$159,504,373</u>	<u>\$4,704,737</u>	<u>\$45,447,808</u>	<u>\$ 1,885,154,500</u>

MAINE MUNICIPAL BOND BANK

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2009

	<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	\$ —	\$42,501,534	\$ —	\$ —
Fee revenue from State of Maine	—	—	2,702,809	1,440,405
Interest income from investments	655,875	4,286,828	47	71,707
Net increase (decrease) in the fair value of investments	101,498	1,472,062	—	51,003
Grant revenue from Environmental Protection Agency (note 6)	—	—	—	—
Grant revenue from State of Maine (notes 6 and 7)	—	—	—	—
Other income (note 10)	<u>824,762</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total operating revenue	1,582,135	48,260,424	2,702,856	1,563,115
Operating expenses:				
Interest expense	—	45,116,468	2,702,809	1,440,405
Operating expenses (note 8)	1,254,949	35,000	47	122,710
Loan forgiveness (notes 6 and 7)	—	—	—	—
Amortization of deferred financing costs and refunding benefits rebated to governmental units	<u>—</u>	<u>1,469,481</u>	<u>—</u>	<u>—</u>
Total operating expenses	<u>1,254,949</u>	<u>46,620,949</u>	<u>2,702,856</u>	<u>1,563,115</u>
Operating income (loss) before operating transfers	327,186	1,639,475	—	—
Operating transfers	<u>506,717</u>	<u>(506,717)</u>	<u>—</u>	<u>—</u>
Operating income (loss)	833,903	1,132,758	—	—
Net assets (deficit), beginning of year	<u>24,788,098</u>	<u>32,803,320</u>	<u>—</u>	<u>—</u>
Net assets (deficit), end of year	<u>\$25,622,001</u>	<u>\$33,936,078</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes.

Special Obligation Taxable Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ 24,770	\$ 4,506,285	\$ 871,688	\$ —	\$ —	\$ 47,904,277
—	—	—	—	—	4,143,214
1,647	2,451,346	255,457	49,020	373,611	8,145,538
—	155,861	(19,999)	(3,601)	30,869	1,787,693
—	21,292,733	27,252,602	—	—	48,545,335
—	1,044,160	3,258,400	—	576,596	4,879,156
—	—	—	685,881	—	1,510,643
26,417	29,450,385	31,618,148	731,300	981,076	116,915,856
24,771	2,618,565	266,635	—	—	52,169,653
4,921	377,632	1,796,174	189,144	653,208	4,433,785
—	—	992,385	—	3,054,145	4,046,530
—	180,726	—	—	—	1,650,207
29,692	3,176,923	3,055,194	189,144	3,707,353	62,300,175
(3,275)	26,273,462	28,562,954	542,156	(2,726,277)	54,615,681
—	212,983	15,189	(228,172)	—	—
(3,275)	26,486,445	28,578,143	313,984	(2,726,277)	54,615,681
(7,336)	280,663,344	94,972,373	4,342,003	44,511,619	482,073,421
<u>\$ (10,611)</u>	<u>\$307,149,789</u>	<u>\$123,550,516</u>	<u>\$4,655,987</u>	<u>\$41,785,342</u>	<u>\$ 536,689,102</u>

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2009

	<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	\$ -	\$ 126,960,025	\$ 6,393,102	\$ 5,000,000
Cash payments to governmental units	(329,120)	(138,944,248)	-	-
Cash advances to State of Maine	-	-	(50,000,000)	(49,994,357)
Cash received from other income	824,762	-	-	-
Cash payments for operating expenses	(1,018,922)	(35,000)	-	-
Cash (paid to) received from other funds	(502,669)	719,561	-	-
Cash paid for other assets and liabilities	<u>55,198</u>	<u>107</u>	<u>-</u>	<u>-</u>
Net cash (used) provided by operating activities	(970,751)	(11,299,555)	(43,606,898)	(44,994,357)
NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds payable	-	155,482,518	50,000,000	50,000,000
Principal paid on bonds payable	-	(92,012,596)	(4,135,000)	-
Interest paid on bonds payable	-	(44,999,895)	(2,258,102)	(658,284)
Grant receipts from Environmental Protection Agency and State of Maine	<u>3,920,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	3,920,000	18,470,027	43,606,898	49,341,716
INVESTING ACTIVITIES:				
Purchase of investment securities	(52,927,163)	(187,055,247)	(1,146,751)	(8,042,024)
Proceeds from sale and maturities of investment securities	49,540,283	173,308,418	1,146,704	3,648,941
Income received from investments	708,027	7,932,241	47	45,724
Interest rebate paid to U.S. Government	-	(1,355,884)	-	-
Additions to land and building	<u>(70,738)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash (used) provided by investing activities	<u>(2,749,591)</u>	<u>(7,170,472)</u>	<u>-</u>	<u>(4,347,359)</u>
Increase in cash	199,658	-	-	-
Cash, beginning of year	<u>48,588</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash, end of year	\$ <u>248,246</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

Special Obligation Taxable Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ 197,675	\$ 39,316,336	\$ 3,933,680	\$ —	\$ 5,058,489	\$ 186,859,307
—	(27,841,971)	(15,349,707)	—	(5,745,863)	(188,210,909)
—	—	—	—	—	(99,994,357)
—	—	—	685,881	—	1,510,643
—	(363,447)	(1,788,681)	(189,144)	(649,106)	(4,044,300)
—	2,227	10,609	(227,954)	(1,774)	—
—	—	—	—	—	55,305
197,675	11,113,145	(13,194,099)	268,783	(1,338,254)	(103,824,311)
—	—	—	—	—	255,482,518
(170,000)	(6,075,000)	(370,000)	—	—	(102,762,596)
(27,675)	(2,524,424)	(268,937)	—	—	(50,737,317)
—	9,676,387	16,113,118	—	576,596	30,286,101
(197,675)	1,076,963	15,474,181	—	576,596	132,268,706
(2,101)	(154,769,933)	(20,351,215)	(2,257,488)	(27,687,001)	(454,238,923)
138	140,090,526	17,728,614	1,930,597	28,009,245	415,403,466
1,963	2,489,299	342,519	58,108	439,414	12,017,342
—	—	—	—	—	(1,355,884)
—	—	—	—	—	(70,738)
—	(12,190,108)	(2,280,082)	(268,783)	761,658	(28,244,737)
—	—	—	—	—	199,658
—	—	—	—	—	48,588
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 248,246

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2009

	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 (used) provided by operating activities:				
Operating income (loss)	\$ 833,903	\$ 1,132,758	\$ —	\$ —
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:				
Interest income from investments	(655,875)	(4,286,828)	(47)	(71,707)
Net (increase) decrease in the fair value of investments	(101,498)	(1,472,062)	—	(51,003)
Loan forgiveness	—	—	—	—
Depreciation	76,800	—	—	—
Amortization of deferred financing costs and refunding benefits rebated to units	—	1,469,481	—	—
Interest expense on bonds payable	—	45,116,468	2,702,809	1,440,405
Federal and State grants	(278,474)	—	—	—
Change in assets and liabilities:				
Loans receivable from governmental units and advances to State of Maine	—	(54,138,097)	(45,743,882)	(47,565,625)
Accrued interest and fees receivable on loans to governmental units and advances to State of Maine	—	(347,660)	(565,825)	—
Due to/from other funds	(1,009,386)	1,226,278	—	—
Other assets	55,198	107	—	—
Accounts payable and accrued liabilities	159,227	—	47	—
Grant payable	(50,646)	—	—	—
Due to State of Maine	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,253,573</u>
Net cash (used) provided by operating activities	\$ <u>(970,751)</u>	\$ <u>(11,299,555)</u>	\$ <u>(43,606,898)</u>	\$ <u>(44,994,357)</u>

See accompanying notes.

Special Obligation Taxable Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups Waste Water	Drinking Water	Operating Fund Group		
\$ (3,275)	\$ 26,486,445	\$ 28,578,143	\$ 313,984	\$(2,726,277)	\$ 54,615,681
(1,647)	(2,451,346)	(255,457)	(49,020)	(373,611)	(8,145,538)
—	(155,861)	19,999	3,601	(30,869)	(1,787,693)
—	—	992,385	—	3,054,145	4,046,530
—	—	—	—	—	76,800
—	180,726	—	—	—	1,650,207
24,771	2,618,565	266,635	—	—	52,169,653
—	(22,336,893)	(30,511,002)	—	(576,596)	(53,702,965)
170,000	6,491,216	(12,234,752)	—	(687,374)	(153,708,514)
2,905	476,864	(52,963)	—	—	(486,679)
—	(210,756)	(4,580)	218	(1,774)	—
—	—	—	—	—	55,305
4,921	14,185	7,493	—	4,102	189,975
—	—	—	—	—	(50,646)
—	—	—	—	—	1,253,573
<u>\$197,675</u>	<u>\$ 11,113,145</u>	<u>\$(13,194,099)</u>	<u>\$ 268,783</u>	<u>\$(1,338,254)</u>	<u>\$(103,824,311)</u>

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MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

1. Organization

The Maine Municipal Bond Bank (the Bond Bank) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Article 30-A, Title 5901 (the Act), as amended.

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

The Bond Bank has a management agreement with related parties, Maine Health and Higher Educational Facilities Authority and Maine Governmental Facilities Authority, whereby the Bond Bank allocates payroll and general overhead expenses from its operations to each Authority.

The general operating account consists of the operating revenues and expenses incurred by the Bond Bank in administering the six resolutions under which it is operating. The funds and accounts of these resolutions have been grouped within each of the resolutions and fund groups as follows:

General Tax-Exempt Fund Group: This fund group consists of funds and accounts established under the Bond Bank’s General Bond Resolution adopted July 11, 1973, as amended and supplemented by the First Supplemental Resolution adopted September 20, 1977, the Second Supplemental Resolution adopted July 18, 1984, the Third Supplemental Resolution adopted May 7, 1993 and the Fourth Supplemental Resolution adopted June 25, 1993. Under these resolutions, the Bond Bank issues bonds exempt from federal and State of Maine income taxes and makes loans to local governmental units.

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.

Special Obligation Taxable Fund Group: This fund group consists of funds and accounts established under the Bond Bank’s Special Obligation Bond Resolution adopted May 25, 1990. Under this resolution, the Bond Bank issues bonds which are exempt from State of Maine income taxes (but not federal income taxes) and makes loans to governmental units.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

1. Organization (Continued)

Sewer and Water Fund Groups: These fund groups consist of funds and accounts established under the Bond Bank's Sewer and Water General Bond Resolution adopted February 7, 1990, as amended and supplemented by the First Supplemental Resolution adopted March 6, 1991. Under this resolution, the Bond Bank issues bonds exempt from federal and State of Maine income taxes for the purpose of making revolving loans to governmental units to finance wastewater collection, treatment system or water supply system projects. Under the Drinking Water Fund Group, eligible borrowers consist of public water systems, which include municipalities, districts, private for-profit and non-profit water systems. Some of these projects may be partially financed by grants from the Environmental Protection Agency and the State of Maine under the State Revolving Fund Program and the Drinking Water State Revolving Loan Fund Program.

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

2. Significant Accounting Policies

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

2. Significant Accounting Policies (Continued)

Investments: Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net assets. Interest earnings on principal-only strips within the general tax-exempt fund group of approximately \$4,130,000 have been recorded as interest income from investments in 2009. Reserve fund investments that are not expected to be utilized to fund bond principal and interest payments until after June 30, 2010 have been classified as long-term.

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

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

2. Significant Accounting Policies (Continued)

Construction Funds: The Sewer and Water General Bond Resolution requires bond proceeds to be deposited into construction funds. Upon deposit into the construction funds, a loan receivable from the governmental unit is recorded and the construction funds are excluded from Sewer and Water Fund Groups. The Bond Bank maintains control over disbursement of these funds until the project is complete. Approximately \$328,000 in investments are held in the construction funds at June 30, 2009.

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.

New Accounting Pronouncement: GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was implemented by the Bank as of June 30, 2009. The statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities/(assets), and requires additional note disclosures in the financial statements. The effects of applying this standard require the Bond Bank to account for OPEB, primarily healthcare, on an accrual basis rather than on the past pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Revenues, Expenses, and Changes in Net Assets when future retirees earn their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a post employment benefit obligation is recognized on the Balance Sheet over time. As permitted by GASB Statement No. 45, the statement was implemented prospectively with a zero net OPEB obligation at transition.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

3. Investments Held By Trustee and Board Designated Investments

The Bond Bank is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises, state and local government agencies, guaranteed investment contracts and collateralized repurchase agreements. At June 30, 2009, investments are categorized as follows:

	<u>Fair Value</u>
<u>General Operating Account</u>	
Board-designated investments:	
U.S. Government-sponsored enterprises	\$ 16,154,304
Cash and cash equivalents	<u>8,130,568</u>
	<u>\$ 24,284,872</u>
<u>General Tax-Exempt Fund Group</u>	
Investments held by trustee:	
Guaranteed investment contracts	\$ 9,739,339
U.S. Government obligations	9,126,973
U.S. Government-sponsored enterprises	23,860,690
U.S. Treasury strips	66,160,028
U.S. Government-sponsored enterprise strips	21,995,089
Cash and cash equivalents	<u>29,505,523</u>
	<u>\$160,387,642</u>
<u>Grant Anticipation Fund Group</u>	
Investments held by trustee:	
Cash and cash equivalents	\$ <u>47</u>
<u>Transportation Infrastructure Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 1,074,643
U.S. Government-sponsored enterprise strips	1,403,702
Cash and cash equivalents	<u>1,965,741</u>
	<u>\$ 4,444,086</u>
<u>Special Obligation Taxable Fund Group</u>	
Investments held by trustee:	
Cash and cash equivalents	\$ <u>227,104</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

	<u>Fair Value</u>
<u>Sewer and Water Fund Groups</u>	
Investments held by trustee:	
Revolving Loan Fund Group – Waste Water:	
Guaranteed investment contracts	\$ 9,018,193
U.S. Government obligations	210,564
U.S. Government-sponsored enterprises	35,670,190
Certificates of deposit	4,538,072
Cash and cash equivalents	<u>31,203,721</u>
	<u>\$ 80,640,740</u>
Revolving Loan Fund Group – Drinking Water:	
U.S. Government-sponsored enterprises	\$ 4,152,099
Cash and cash equivalents	<u>13,615,605</u>
	<u>\$ 17,767,704</u>
Operating Fund Group:	
U.S. Government-sponsored enterprises	\$ 250,235
Cash and cash equivalents	<u>4,363,705</u>
	<u>\$ 4,613,940</u>
<u>School Facilities Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 6,548,660
Cash and cash equivalents	<u>9,865,218</u>
	<u>\$ 16,413,878</u>

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Bond Bank's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, guaranteed investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Bond Bank to terminate individual contracts at par. The Bond Bank's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Bond Bank's investments in guaranteed investment contracts, U.S. Government obligations, U.S. Government-sponsored enterprises, U.S. Treasury Strips and U.S. Government-sponsored enterprise strips as of June 30, 2009:

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>General Operating Account</u>					
U.S. Government-sponsored enterprises	<u>\$16,154,304</u>	<u>\$5,107,925</u>	<u>\$11,046,379</u>	<u>\$ —</u>	<u>\$ —</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>General Tax Exempt Fund Group</u>					
Guaranteed investment contracts	\$ 9,739,339	\$ —	\$ —	\$ —	\$ 9,739,339
U.S. Government obligations	9,126,973	732,907	1,607,347	1,780,194	5,006,525
U.S. Government- sponsored enterprises	23,860,690	1,699,617	5,476,967	9,233,720	7,450,386
U.S. Treasury strips	66,160,028	8,647,648	29,506,597	15,572,866	12,432,917
U.S. Government-spon- sored enterprise strips	<u>21,995,089</u>	<u>850,980</u>	<u>5,889,319</u>	<u>6,285,488</u>	<u>8,969,302</u>
	<u>\$130,882,119</u>	<u>\$11,931,152</u>	<u>\$42,480,230</u>	<u>\$32,872,268</u>	<u>\$43,598,469</u>
<u>Transportation Infra- structure Fund Group</u>					
U.S. Government- sponsored enterprises	\$ 1,074,643	\$ —	\$ 1,074,643	\$ —	\$ —
U.S. Government spon- sored enterprise strips	<u>1,403,702</u>	<u>—</u>	<u>1,403,702</u>	<u>—</u>	<u>—</u>
	<u>\$ 2,478,345</u>	<u>\$ —</u>	<u>\$ 2,478,345</u>	<u>\$ —</u>	<u>\$ —</u>
<u>Revolving Loan Fund Group – Waste Water</u>					
Guaranteed investment contracts	\$ 9,018,193	\$ —	\$ 3,238,450	\$ 4,415,077	\$ 1,364,666
U.S. Government obligations	210,564	—	—	210,564	—
U.S. Government- sponsored enterprises	35,670,190	18,002,890	17,667,300	—	—
Certificates of deposit	<u>4,538,072</u>	<u>1,292,503</u>	<u>3,245,569</u>	<u>—</u>	<u>—</u>
	<u>\$ 49,437,019</u>	<u>\$19,295,393</u>	<u>\$24,151,319</u>	<u>\$ 4,625,641</u>	<u>\$ 1,364,666</u>
<u>Revolving Loan Fund Group–Drinking Water</u>					
U.S. Government- sponsored enterprises	<u>\$ 4,152,099</u>	<u>\$ 2,248,175</u>	<u>\$ 1,764,378</u>	<u>\$ —</u>	<u>\$ 139,546</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>Sewer and Water Fund</u>					
<u>Groups—Operating Fund</u>					
<u>Group</u>					
U.S. Government- sponsored enterprises	\$ <u>250,235</u>	\$ <u>—</u>	\$ <u>250,235</u>	\$ <u>—</u>	\$ <u>—</u>
 <u>School Facilities Fund</u>					
<u>Group</u>					
U.S. Government- sponsored enterprises	\$ <u>6,548,660</u>	\$ <u>3,012,673</u>	\$ <u>3,535,987</u>	\$ <u>—</u>	\$ <u>—</u>

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Bond Bank will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Bond Bank's investments are primarily held by U.S. Bank and Bangor Savings Bank. Management of the Bond Bank is not aware of any issues with respect to custodial credit risk at either bank at June 30, 2009.

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, 2009, the Bond Bank's guaranteed investment contracts within the General Tax Exempt Fund Group and Revolving Loan Fund Group are primarily with four institutions, all of which are AA rated or better.

The Bond Bank has invested some of its long-term funds in U.S. Treasury and U.S. Government-sponsored enterprise principal-only strips in order to maximize yields coincident with cash needs for operations, debt service, and arbitrage. These securities are similar to zero coupon bonds which are purchased deeply discounted, with the Bond Bank receiving its only repayment stream at maturity; therefore, they are sensitive to interest rate changes. These securities are reported at fair value in the balance sheet. The fair value of these investments is approximately \$89,559,000 at June 30, 2009.

Trustee held cash and cash equivalents at June 30, 2009 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, 2009 consist entirely of money market funds secured by short-term U.S. Treasury obligations, held by a trust company.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

4. Bonds Payable

Total General Tax-Exempt Fund Group Bonds payable consist of the following at June 30, 2009:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2009</u>
Series 1993 B and C, 5% – 5.85%, dated May 1, 1993	1994 – 2020	\$ 40,070,000	\$ 5,130,000
Series 1994 D, 4% – 6.3%, dated September 1, 1994	1995 – 2014	12,365,000	4,670,000
Series 1997 A and B, 5.10% – 5.75%, dated May 1, 1997	1998 – 2017	31,870,000	1,385,000
Series 1997 C and D, 4.5% – 5.35%, dated October 1, 1997	1998 – 2017	50,785,000	2,100,000
Series 1998 A, 3.70% – 5.50%, dated February 1, 1998	1999 – 2012	60,950,000	26,640,000
Series 1998 B and C, 4% – 5.35%, dated May 1, 1998	1998 – 2018	73,770,000	9,550,000
Series 1998 D and E, 3.75% – 4.80%, dated October 1, 1998	1999 – 2018	13,890,000	1,300,000
Series 1999 B and C, 4% – 5.25%, dated May 1, 1999	2000 – 2028	62,860,000	12,070,000
Series 1999 D and E, 4% – 5.875%, dated October 1, 1999	2000 – 2021	46,460,000	6,320,000
Series 2000 A and B, 4.5% – 5.875%, dated May 1, 2000	2000 – 2020	70,125,000	13,475,000
Series 2000 C and D, 4.625% – 5.70%, dated October 1, 2000	2001 – 2021	39,560,000	8,150,000
Series 2001 A and B, 4.125% – 5.25%, dated May 1, 2001	2002 – 2021	34,635,000	8,850,000
Series 2001 C and D, 3.00% – 5.125%, dated October 1, 2001	2002 – 2022	68,835,000	19,680,000
Series 2002 A, 3.00% – 5.375%, dated March 1, 2002	2002 – 2021	36,520,000	10,365,000
Series 2002 B and C, 2.50% – 5.25%, dated May 1, 2002	2002 – 2032	77,575,000	55,305,000
Series 2002 D, 2.00% – 5.00%, dated July 1, 2002	2003 – 2015	49,315,000	21,315,000
Series 2002 E and F, 2.00% – 5.00%, dated October 1, 2002	2003 – 2023	32,720,000	13,940,000
Series 2003 A, 3.00% – 5.25%, dated March 1, 2003	2003 – 2020	186,050,000	75,735,271
Series 2003 B and C, 2.00% – 5.00%, dated May 1, 2003	2003 – 2024	17,290,000	11,925,000
Series 2003 D and E, 2.00% – 5.00%, dated October 1, 2003	2004 – 2033	18,460,000	13,000,000
Series 2004 A and B, 2.00% – 5.00%, dated May 27, 2004	2004 – 2025	94,565,000	74,185,000
Series 2004 C, 2.00% – 5.00%, dated September 23, 2004	2004 – 2020	58,675,000	53,065,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2009</u>
Series 2004 D and E, 2.25% – 5.00%, dated October 28, 2004	2005 – 2034	\$ 46,850,000	\$ 35,175,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2005 – 2021	91,250,000	89,075,000
Series 2005 B and C, 3.00% – 5.00%, dated May 26, 2005	2006 – 2031	22,050,000	18,410,000
Series 2005 D and E, 3.00% – 5.00%, dated October 27, 2005	2006 – 2034	60,395,000	50,435,000
Series 2006 A, 3.48% – 4.77%, dated May 25, 2006	2006 – 2036	14,040,000	12,300,000
Series 2006 B and C, 3.55% – 5.00%, dated October 26, 2006	2007 – 2027	24,065,000	20,340,000
Series 2007 A, 3.75% – 5.00% dated April 5, 2007	2007 – 2022	51,335,000	50,830,000
Series 2007 B and C, 4.00% – 5.00% dated May 24, 2007	2007 – 2029	69,380,000	65,355,000
Series 2007 D and E, 4.00% – 5.00% dated October 25, 2007	2008 – 2037	53,560,000	50,525,000
Series 2008 A and B, 3.00% – 5.00% dated May 15, 2008	2008 – 2038	49,060,000	48,350,000
Series 2008 C, 4.00% – 5.50% dated October 30, 2008	2009 – 2038	100,010,000	100,010,000
Series 2009 A, 2.00% – 5.00% dated March 17, 2009	2009 – 2020	10,060,000	10,060,000
Series 2009 B, 3.00% – 5.00% dated May 28, 2009	2009 – 2034	<u>42,845,000</u>	<u>42,845,000</u>
		<u>\$1,812,245,000</u>	<u>\$1,041,865,271</u>

Total General Tax-Exempt Fund Group Bonds payable is presented on the balance sheet at June 30, 2009 as follows:

Total principal outstanding	\$1,041,865,271
Deferred amount on refunding	(18,134,082)
Unamortized original issue discount	(96,403)
Unamortized original issue premium	<u>21,883,386</u>
Total General Tax-Exempt Fund Group Bonds payable	1,045,518,172
Current portion	<u>(94,999,165)</u>
Noncurrent portion	<u>\$ 950,519,007</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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>
2009	\$ 94,871,040	\$ 23,528,629	\$ 118,399,669
2010	94,375,468	43,241,107	137,616,575
2011	84,973,350	39,212,585	124,185,935
2012	80,156,067	35,503,971	115,660,038
2013	72,463,607	31,962,538	104,426,145
2014 – 2018	310,780,739	114,895,446	425,676,185
2019 – 2023	195,965,000	52,921,878	248,886,878
2024 – 2028	95,880,000	15,690,587	111,570,587
2029 – 2033	11,000,000	1,567,685	12,567,685
2034 – 2038	<u>1,400,000</u>	<u>133,269</u>	<u>1,533,269</u>
	<u>\$1,041,865,271</u>	<u>\$ 358,657,695</u>	<u>\$1,400,522,966</u>

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

Municipal loan obligations – principal and interest	\$1,229,077,681
Reserve Funds – principal and interest	<u>171,445,285</u>
	<u>\$1,400,522,966</u>

Total Grant Anticipation Fund Group Bonds payable consist of the following at June 30, 2009:

	<u>Original</u> <u>Maturity</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2009</u>
Series 2004 A, 2.50% – 5.00%, dated December 16, 2004	2005 – 2015	\$48,395,000	\$33,175,000
Series 2008 A, 3.25% – 4.00%, dated September 10, 2008	2009 – 2020	<u>50,000,000</u>	<u>50,000,000</u>
		<u>\$98,395,000</u>	<u>\$83,175,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

4. Bonds Payable (Continued)

Total Grant Anticipation Fund Group Bonds payable is presented on the balance sheet at June 30, 2009 as follows:

Total principal outstanding	\$ 83,175,000
Unamortized original issue premium	<u>361,703</u>
 Total Grant Anticipation Fund Group Bonds payable	 83,536,703
Less current portion	<u>7,729,705</u>
 Noncurrent portion	 <u>\$ 75,806,998</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>
2009	\$ 7,625,000	\$ 1,571,802	\$ 9,196,802
2010	7,950,000	2,906,444	10,856,444
2011	8,195,000	2,659,044	10,854,044
2012	8,510,000	2,344,056	10,854,056
2013	8,795,000	2,056,875	10,851,875
2014 – 2018	32,160,000	5,353,363	37,513,363
2019 – 2020	<u>9,940,000</u>	<u>600,200</u>	<u>10,540,200</u>
	<u>\$83,175,000</u>	<u>\$17,491,784</u>	<u>\$100,666,784</u>

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

Advances to State of Maine – principal and interest	<u>\$100,666,784</u>
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MAINE MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

4. Bonds Payable (Continued)

Total Transportation Infrastructure Fund Group Bonds payable consist of the following at June 30, 2009:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2009</u>
Series 2008 A, 3.00% – 5.50%, dated November 20, 2008	2009 – 2023	\$50,000,000	\$50,000,000
Less current portion			<u>1,965,000</u>
Noncurrent portion			<u>\$48,035,000</u>

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

<u>Due Bond Year Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2009	\$ 1,965,000	\$ 1,173,181	\$ 3,138,181
2010	2,580,000	2,287,413	4,867,413
2011	2,655,000	2,210,013	4,865,013
2012	2,745,000	2,123,725	4,868,725
2013	2,850,000	2,013,924	4,863,924
2014 – 2018	16,330,000	8,004,425	24,334,425
2019 – 2023	<u>20,875,000</u>	<u>3,451,330</u>	<u>24,326,330</u>
	<u>\$50,000,000</u>	<u>\$21,264,011</u>	<u>\$71,264,011</u>

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

Advances to State of Maine – principal and interest	<u>\$71,264,011</u>
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Total Special Obligation Taxable Fund Group Bonds payable consist of the following at June 30, 2009:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2009</u>
Series 1990 A, 10.25%, dated June 1, 1990	1991 – 2009	\$1,700,000	\$185,000
Less current portion			<u>185,000</u>
Noncurrent portion			<u>\$ —</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

4. Bonds Payable (Continued)

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

<u>Due Bond Year</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2009	\$ <u>185,000</u>	\$ <u>9,481</u>	\$ <u>194,481</u>

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

Governmental unit loan obligations – principal and interest	\$ <u>194,481</u>
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Sewer and Water Fund Group Waste Water Bonds payable consist of the following at June 30, 2009:

	<u>Original</u> <u>Maturity</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30, 2009</u>
Series 1993 A and B, 2.75% – 5.45%, dated October 1, 1993	1994 – 2016	\$ 27,815,000	\$ 8,230,000
Series 1996 A, 3.7% – 5.85%, dated March 1, 1996	1997 – 2017	6,795,000	2,840,000
Series 1997 A and B, 3.9% – 5.45%, dated July 15, 1997	1998 – 2018	20,835,000	11,040,000
Series 2003 A and B, 1.05% – 5.00%, dated March 1, 2003	2003 – 2023	32,165,000	18,985,000
Series 2003 C, 1% – 4.9%, dated November 13, 2003	2004 – 2024	<u>16,065,000</u>	<u>12,700,000</u>
		<u>\$103,675,000</u>	<u>\$53,795,000</u>

The Sewer and Water Fund Group Waste Water Bonds payable are presented on the balance sheet at June 30, 2009 as follows:

Total principal outstanding	\$53,795,000
Deferred amount on refunding	(525,006)
Unamortized original issue discount	(17,482)
Unamortized original issue premium	<u>121,212</u>
Total Sewer and Water Fund Group Waste Water Bonds payable	53,373,724
Less current portion	<u>5,907,919</u>
Noncurrent portion	<u>\$47,465,805</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

4. **Bonds Payable (Continued)**

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

<u>Due Bond Year</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2009	\$ 6,050,000	\$ 1,205,378	\$ 7,255,378
2010	6,130,000	2,173,788	8,303,788
2011	6,545,000	1,926,262	8,471,262
2012	5,625,000	1,645,608	7,270,608
2013	6,400,000	1,384,514	7,784,514
2014 – 2018	16,530,000	3,931,230	20,461,230
2019 – 2023	5,805,000	969,762	6,774,762
2024	<u>710,000</u>	<u>34,792</u>	<u>744,792</u>
	<u>\$53,795,000</u>	<u>\$13,271,334</u>	<u>\$67,066,334</u>

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

Governmental unit loan obligations – principal and interest	\$56,478,608
Reserve fund – principal and interest	<u>10,587,726</u>
	<u>\$67,066,334</u>

Sewer and Water Fund Group Drinking Water Bonds payable consist of the following at June 30, 2009:

	<u>Original</u> <u>Maturity</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u> <u>June 30, 2009</u>
Series 1998 A, 3.65% – 5.2%, dated August 15, 1998	1999 – 2028	\$ 4,795,000	\$2,685,000
Series 2005 A, 2.25% – 4.45%, dated March 24, 2005	2005 – 2025	<u>3,770,000</u>	<u>3,225,000</u>
		<u>\$ 8,565,000</u>	<u>\$ 5,910,000</u>

The Sewer and Water Fund Group Drinking Water Bonds payable are presented on the balance sheet at June 30, 2009 as follows:

Total Sewer and Water Fund Group Drinking Water Bonds payable	\$5,910,000
Less current portion	<u>375,000</u>
Noncurrent portion	<u>\$5,535,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

4. Bonds Payable (Continued)

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

<u>Due Bond Year</u> <u>Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2009	\$ 375,000	\$ 131,015	\$ 506,015
2010	385,000	247,360	632,360
2011	395,000	231,858	626,858
2012	405,000	215,420	620,420
2013	415,000	198,098	613,098
2014 – 2018	2,245,000	696,737	2,941,737
2019 – 2023	1,205,000	274,887	1,479,887
2024 – 2028	<u>485,000</u>	<u>37,698</u>	<u>522,698</u>
	<u>\$5,910,000</u>	<u>\$2,033,073</u>	<u>\$7,943,073</u>

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

Governmental unit loan obligations – principal and interest	\$7,658,828
Reserve fund – principal and interest	<u>284,245</u>
	<u>\$7,943,073</u>

The following summarizes bond payable activity for the Bond Bank for the year ended June 30, 2009:

	<u>General</u> <u>Tax</u> <u>Exempt</u> <u>Fund</u> <u>Group</u>	<u>Grant</u> <u>Anticipation</u> <u>Fund Group</u>	<u>Trans-</u> <u>portation</u> <u>Infra-</u> <u>structure</u> <u>Fund Group</u>	<u>Special</u> <u>Obligation</u> <u>Taxable</u> <u>Fund</u> <u>Group</u>	<u>Waste</u> <u>Water</u> <u>Fund</u> <u>Group</u>	<u>Drinking</u> <u>Water</u> <u>Fund</u> <u>Group</u>
Balance, beginning of year	\$ 981,906,231	\$37,792,821	\$ –	\$ 355,000	\$59,278,939	\$6,280,000
Issuances – face value	152,915,000	50,000,000	50,000,000	–	–	–
Redemptions	(92,012,596)	(4,135,000)	–	(170,000)	(6,075,000)	(370,000)
Capitalized premiums	2,567,518	–	–	–	–	–
Accretion/amortization of discounts, premiums and deferred amounts on refunding	<u>142,019</u>	<u>(121,118)</u>	<u>–</u>	<u>–</u>	<u>169,785</u>	<u>–</u>
Balance, end of year	<u>\$1,045,518,172</u>	<u>\$83,536,703</u>	<u>\$50,000,000</u>	<u>\$ 185,000</u>	<u>\$53,373,724</u>	<u>\$5,910,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

4. Bonds Payable (Continued)

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

5. Reserve Funds

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

General Tax-Exempt Fund Group: The Bond Bank is required to maintain a debt service reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all governmental unit loan obligations then outstanding as of such date of calculation. At June 30, 2009, the required debt service reserve was approximately \$122,046,000.

In addition, the Bond Bank maintains the Special Reserve Account balance of \$1,970,829 and the Supplemental Reserve Fund General Reserve Account principal balance of \$2,700,000. These reserves represent segregated net assets and are pledged to the payment of the principal or interest on the outstanding bonds of the General Tax-Exempt Fund Group if a deficiency occurs. At June 30, 2009, the fair value of the reserve fund assets totaled approximately \$150,074,000, which exceeded the required reserves by approximately \$23,357,000.

Transportation Infrastructure Fund Group: The Bond Bank is required to maintain a capital reserve which is equal to 50% of the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all bonds payable within the fund group as of such date of calculation. At June 30, 2009, the required capital reserve was approximately \$2,368,000 and the fair value of the capital reserve assets totaled approximately \$2,505,000.

Special Obligation Taxable Fund Group: The Bond Bank is required to maintain a capital reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all governmental unit loan obligations then outstanding as of such date of calculation. At June 30, 2009, the required capital reserve was approximately \$194,500 and the fair value of the capital reserve assets totaled approximately \$227,000.

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 bonds payable within the fund groups as of such date of calculation. At June 30, 2009, the required capital reserve was approximately \$7,672,000 and the fair value of the capital reserve assets totaled approximately \$9,935,000.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

6. Sewer and Water Revolving Fund Group

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

During 2009, the Bond Bank was also awarded American Recovery and Reinvestment Act (ARRA) grants for use in its Sewer and Water Revolving Fund Group. ARRA grants are for purposes consistent with the intent of the Sewer and Water Revolving Fund Group, including construction of wastewater treatment facilities, drinking water facilities and associated infrastructure, green infrastructure, nonpoint source projects, estuary projects and program administration. The grants do not contain any State of Maine matching provisions. The grants stipulate that the Bond Bank must have committed loans to recipients with signed construction contracts by February 17, 2010. Any unused grant funds are to be returned to the federal government.

In 2009, the Bond Bank was awarded \$30,336,800 and \$19,500,000 of ARRA grants within the Waste Water and Drinking Water Revolving Loan Fund Groups, respectively. Of these totals, the Bond Bank recorded grant revenues of \$16,071,933 and \$10,960,602 within the Waste Water and Drinking Water Revolving Loan Fund Groups, respectively, representing the combined total amount of loans committed through June 30, 2009 and allowable program administrative appropriations. The remaining grant award amounts of \$14,264,867 and \$8,539,398 within the Waste Water and Drinking Water Revolving Loan Fund Groups, respectively, are included in deferred revenue on the June 30, 2009 balance sheet.

Net assets consist of the following:

	<u>Waste Water</u>	<u>Drinking Water</u>
Reserved for revolving loans:		
Grants received from Environmental Protection Agency under existing capitalization grant program	\$ 205,852,859	\$ 108,179,900
Grants received from Environmental Protection Agency under ARRA	16,071,933	10,960,602
Other administrative grants received from Environmental Protection Agency	1,347,010	-
Hardship grants received from Environmental Protection Agency	643,800	-
Grants received from State of Maine	41,224,602	21,313,708
Other amounts reserved (utilized) for program loans and costs	<u>40,796,113</u>	<u>(18,204,598)</u>
	305,936,317	122,249,612
Unreserved amounts available	<u>1,213,472</u>	<u>1,300,904</u>
Net assets at June 30, 2009	<u>\$ 307,149,789</u>	<u>\$ 123,550,516</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

6. Sewer and Water Revolving Fund Group (Continued)

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, 2009 are \$10,794,596 (waste water) and \$4,814,502 (drinking water), with \$9,581,124 and \$3,513,598, respectively, expended to date. The remaining amount of \$1,213,472 in the Waste Water Revolving Loan Fund Group and \$1,300,904 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 \$28,541,032 at June 30, 2009, 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 2009 was \$992,385.

During 2009, the Bond Bank and the Environmental Protection Agency implemented a joint rule change in the Waste Water Revolving Loan Fund program in order to allow the program to make loans under ARRA grant provisions. The rule change allows the Bond Bank, after consultation with the Environmental Protection Agency, to set interest rates at any level, including 0%. It also allows portions of loans made to eligible borrowers under the Waste Water Revolving Loan Fund Program to be forgiven if certain continuing criteria are met (similar to criteria in the Drinking Water Revolving Loan Fund Program). The Bond Bank has loaned approximately \$9,504,000 at June 30, 2009 under the Waste Water Revolving Loan Fund Program that, upon fulfillment of these requirements by the borrowing unit, could be forgiven at some future point. For purposes of the basic financial statements, the Bond Bank recognizes forgiveness expense within these funds as the related loans are repaid. There were no amounts forgiven under this program in 2009.

Within the Waste Water Revolving Loan Fund Group, the Bond Bank is participating in a linked deposit loan program with local banks to encourage environmentally sound logging practices. Under the program, the Bond Bank is subsidizing loans to loggers by investing in certificates of deposit at the respective banks and providing 2% of the interest earned as a subsidy to the borrower. At June 30, 2009, the Bond Bank has \$4,538,072 of certificates of deposits outstanding at various bank of which approximately \$222,000 is in excess of the limits insured by the Federal Deposit Insurance Corporation.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

7. **School Facilities Fund Group**

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

Reserved for revolving loans:	
Grants received from State of Maine	\$ 98,679,856
Loans forgiven	(70,325,015)
Other amounts reserved for program loans and costs	<u>12,184,477</u>
	40,539,318
Unreserved amounts available	<u>1,246,024</u>
Net assets at June 30, 2009	\$ <u>41,785,342</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, 2009 are \$2,716,135, with \$1,470,111 expended to date. The remaining amount of \$1,246,024 can be used for future administrative costs.

Portions of the loans made to school administrative units from the School Facilities Fund Group are forgiven. For purposes of the general purpose financial statements, the Bond Bank recognizes forgiveness expense within this fund at the time the loans are disbursed to the school administrative unit. This accounting treatment differs from the treatment within the Drinking Water and Waste Water Revolving Loan Funds due to the fact that there are no relevant continuing criteria that would require recognition of the forgiven amount as the related loans are repaid. The total amounts forgiven under this program in 2009 were \$3,054,145.

8. **Defined Benefit Pension Plan and Other Postemployment Benefits**

Pension Plan Description and Funding Policy

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

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, 2009 for employees covered by the Plan was approximately \$974,000, 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, 2009, 2008 and 2007 were \$27,269, \$26,728 and \$25,692 (employer) and \$63,303, \$62,047 and \$59,641 (employee), respectively.

Other Postemployment Benefits (OPEB)

Plan Description: The Bond Bank sponsors a post-retirement health care benefit plan (the Plan). The Plan provides supplemental health care benefits to any full-time employee (and their spouse) with ten or more years of employment who retires from the Bond Bank and has reached the age of 65 (Medicare eligible retirement age). The Bond Bank is a member of the Maine Municipal Association and participates in an agent multiple-employer postemployment healthcare plan administered by the Maine Municipal Employees Health Trust. The Bond Bank may terminate the Plan at its option, in which case future benefit payments would be limited to those employees that retired prior to the termination date (there is one retiree as of June 30, 2009).

Funding Policy: The post employment healthcare benefits are currently being funded on a pay-as-you-go basis (the Bond Bank paid approximately \$2,200 in 2009). No assets have been segregated and restricted to provide post-employment benefits.

Annual OPEB Cost: For 2009, the Bond Bank's annual OPEB cost (expense) of \$68,846 for the Plan was equal to the Annual Required Contribution (ARC). The Bond Bank's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/09	\$68,846	0%	\$68,846

Funded Status and Funding Progress: The funded status of the plan as of January 1, 2009, was as follows:

Actuarial accrued liability (AAL)	\$647,132
Actuarial value of plan assets	<u> —</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$647,132</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$974,000
UAAL as a percentage of covered payroll	66%

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

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

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

In the January 1, 2009, actuarial valuation, the projected united credit (PUC) cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return and an annual healthcare cost trend rate of 9.6 percent initially, reduced by decrements to an ultimate rate of 4 percent after twenty years. Both rates include a 3.0 percent inflation assumption. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at January 1, 2009, was twenty-nine years.

9. Refunding Issues

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

At June 30, 2009, the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately \$128 million.

10. Pass-Through State Grants

The Bond Bank entered into memoranda of understanding with the Maine Department of Economic and Community Development (DECD) to jointly administer the Riverfront Community Development and Municipal Investment Trust Fund programs within its General Operating Account. Under the programs, the Bond Bank receives grants from the DECD that are passed-through to municipalities designated for such grants by the DECD. A portion of the grants received from the DECD, up to a statutorily determined limit, are used to reimburse the Bond Bank for administrative expenses incurred. The Bond Bank recorded \$80,000 as administrative fee revenue related to the programs in fiscal 2009, which is included in other income on the statement of revenues, expenses and changes in net assets.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

10. Pass-Through State Grants (Continued)

Riverfront Community Development Program

During fiscal 2009, the Bond Bank received \$2,450,000 from DECD, none of which has been disbursed at June 30, 2009. At June 30, 2009, the \$2,450,000, plus \$2,936 of interest income earned on the related investment balances, is included in pass-through grants payable, representing remaining DECD funds to be passed on to qualified municipalities in future years.

Municipal Investment Trust Fund Program

During fiscal 2009, the Bond Bank received \$1,470,000 from DECD. Through June 30, 2009, the Bond Bank made grants totaling \$278,474 to qualified municipalities. At June 30, 2009, the remaining \$1,191,526, plus \$10,357 of interest income earned on the related investment balances is included in pass-through grants payable, representing remaining DECD funds to be passed on to qualified municipalities in future years.

11. Subsequent Events

On August 27, 2009, the Bond Bank issued \$21,620,000 of Series 2009 C General Resolution Bonds. The Bonds mature from 2010 – 2029 and carry an interest rate ranging from 1.10% to 4.25%. Also, on August 27, 2009, the Bond Bank issued \$34,930,000 of Series D Bonds, \$4,685,000 of Series E Refunding Bonds and \$19,115,000 of Series F Refunding Bonds. The 2009 Series E Refunding Bonds refunded the 1994 Series D Bonds maturing in 2014 for \$4,670,000, and the Series F Refunding Bonds refunded the 1998 Series C, 1999 Series C and 1999 Series E Bonds maturing in 2010 – 2012, aggregating \$19,410,000.

On July 22, 2009, the Bond Bank issued \$105,000,000 of Series 2009A Transportation Infrastructure Revenue Bonds. The Bonds mature from 2010 – 2023 and carry an interest rate ranging from 2.50% to 5.00%.

MAINE MUNICIPAL BOND BANK

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2009

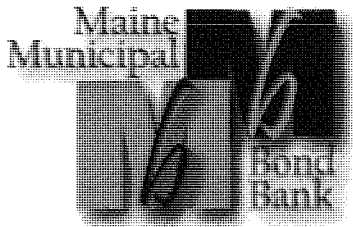
	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue (Expense)</u>	
		<u>Charges for Services</u>	<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants/Contributions</u>	<u>and Changes in net assets</u>
					<u>Total</u>	
Functions/Programs:						
Maine Municipal Bond Bank	<u>\$(62,300,175)</u>	<u>\$52,047,491</u>	<u>\$5,928,713</u>	<u>\$3,247,145</u>	<u>\$53,424,491</u>	<u>\$ 52,347,665</u>
Total	<u>\$(62,300,175)</u>	<u>\$52,047,491</u>	<u>\$5,928,713</u>	<u>\$3,247,145</u>	<u>\$53,424,491</u>	
General revenues:						
Unrestricted interest and investment earnings						757,373
Non program specific grants, contributions and appropriations						-
Miscellaneous income						1,510,643
Loss on assets held for sale						-
Extraordinary item						-
Total general revenues and extraordinary items						<u>2,268,016</u>
Changes in net assets						54,615,681
Net assets, beginning of year						<u>482,073,421</u>
Net assets, end of year						<u>\$ 536,689,102</u>

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

Annual Report
Maine Municipal Bond Bank

2008





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

December 5th, 2008

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

Dear Governor Baldacci:

On behalf of the Commissioners and staff of the Maine Municipal Bond Bank, I am pleased to provide you with our 2008 year-end Annual Report.

The Maine Municipal Bond Bank was established by the legislature in 1972. Since its inception the Bond Bank has issued in excess of \$3 billion for funding to meet the needs of Maine's municipalities. During its thirty-six year history the Bond Bank has never experienced a default.

Within the 2008 fiscal year, the Bond Bank sold \$102,620,000 under its General Bond Resolution Program. Those sales provided sixteen towns, four cities, six school systems, and five utility districts with lower cost capital funding to meet their municipal needs.

Also in 2008, the Bank and the Department of Education have successfully committed \$5,156,339 from the State Revolving Loan Fund for school renovation projects. The Maine Municipal Lease Program funded \$2,015,362 in lease transactions.

The Maine Clean Water Revolving Loan Fund and the Maine Drinking Water Revolving Fund provided loans totaling \$57,636,126 to finance forty-seven projects in fiscal year 2008.

We are proud of our accomplishments within fiscal year 2008 and look forward to continuing our commitment of providing a service that benefits the growing needs of the State of Maine.

Sincerely,

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

Stephen R. Crockett
Chairman

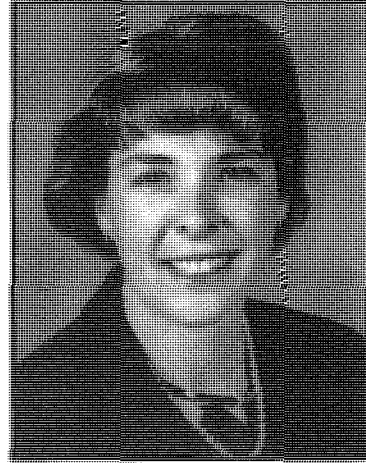
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MAINE MUNICIPAL BOND BANK

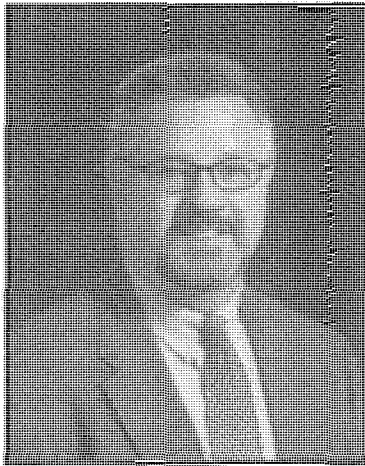
Commissioners 2008



Stephen R. Crockett
Chairman



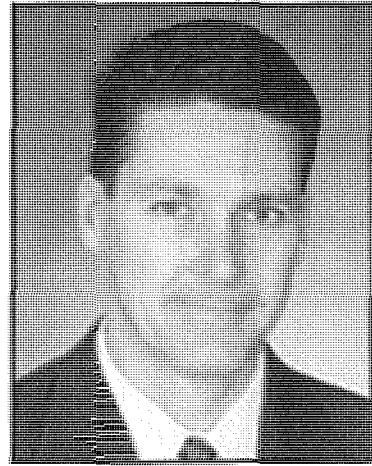
Cathryn Robinson
Vice Chairman



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



Geneva Punch



David Lemoine
Treasurer of State

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Maine Municipal Bond Bank

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

*Year Ended June 30, 2008
With Independent Auditors' Report*

MAINE MUNICIPAL BOND BANK

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

For the Year Ended June 30, 2008

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Municipal Bond Bank

We have audited the accompanying basic financial statements which include the General Operating Account, General Tax-Exempt Fund Group, Special Obligation Taxable Fund Group, Grant Anticipation Fund Group, Waste Water and Drinking Water Revolving Loan Fund Groups and Operating Fund Group and the School Facilities Fund Group of Maine Municipal Bond Bank, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine for accounting purposes only, as of and for the year ended June 30, 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the Bond Bank's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Bond Bank, including the individual fund groups referred to above, as of June 30, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.


In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2008 on our consideration of Maine Municipal Bond Bank's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Board of Commissioners
Maine Municipal Bond Bank

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Bond Bank's basic financial statements. The additional information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Portland, Maine
September 12, 2008


Limited Liability Company

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

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, 2008. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Bond Bank and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Revenues for the Bond Bank's General Operating Account were \$1,360,750 for fiscal year 2008, a decrease of \$3,964,951 or 74.4% over fiscal year 2007. This was primarily attributed to the bank not receiving any pass-through grant revenue from the State of Maine, Department of Economic and Community Development in its General Operating Account in fiscal year 2008.
- Net assets in the Bond Bank's General Operating Account increased \$1,386,706 in fiscal year 2008 primarily as a result of several transfers between the General Operating Account and the General Tax-Exempt Fund Group of \$997,454. These transfers include transfers mandated by the Bond Bank's annual operating budget totaling \$480,311. Also, the Bond Bank transferred \$517,143 from the General Tax-Exempt Fund Group to the General Operating Account. The remaining \$389,252 increase is due to revenue exceeding expenses. At June 30, 2008, the Bond Bank's General Operating Account had net assets of \$24,788,098, an increase of 5.9% compared to the prior year.
- The Bond Bank's gross principal amount of bonds outstanding at June 30, 2008 of \$1,084,777,866 represents a net increase of \$2,380,957 over the balance at June 30, 2007. This increase was the result of issuing Series 2007D&E and 2008A&B bonds in the General Tax Exempt Resolution, less the scheduled debt service principal payment of \$100,239,042.
- The Bond Bank committed loans to local governmental units during fiscal year 2008 totaling \$167,341,583, which was a 13.5% decrease from the loans committed in fiscal year 2007. The Bond Bank also provided borrowers participating in the Drinking Water Revolving Loan Fund Program and the School Facilities Revolving Loan Fund Program \$6,452,349 in potential loan forgiveness in fiscal year 2008, which was a 42.7% decrease from fiscal year 2007.

Overview of the Bond Bank

The Bond Bank was created in 1973 by an Act of the Maine Legislature, as a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Bond Bank was established to issue bonds for the purpose, among other things, of providing funds to enable it to lend money to counties, cities, towns, school administrative districts, community school districts or other quasi-municipal corporations (the "governmental units") within the State of Maine. The provision of funds is accomplished by the direct purchase from such governmental units of their bonds, notes or evidence of debt payable from taxes, charges for services or assessments.

For financial statement reporting purposes, the Bond Bank is considered a component unit of the State of Maine. However, the Bond Bank does not receive any State appropriations for its operations. The Bond Bank does receive grant monies from the State to fund the revolving loan funds for clean water, drinking water and school renovations. The Bond Bank also administers a pass-through grant for the Maine Rural Water Association.

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

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

The Bond Bank administers the Federal Clean Water Act and Drinking Water Act Revolving Loan Funds. Each of the Revolving Loan Funds periodically receives capitalization grants from the Environmental Protection Agency and matching funds from the State of Maine. The State of Maine Department of Environmental Protection approves low interest revolving loans to eligible borrowers, under the Clean Water Act Fund, that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. The Drinking Water Revolving Loan Fund operates similar to the Clean Water Revolving Loan Fund whereby the Maine Department of Human Services (Office of Drinking Water) approves low interest revolving loans, under the Drinking Water Act, to eligible borrowers that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. Under the Drinking Water Revolving Loan Fund, borrowers are eligible to receive a maximum 75% loan forgiveness.

The Bond Bank administers the School Facilities Revolving Loan Fund, which is capitalized by monies received from the State of Maine. The Department of Education approves qualified projects that are eligible for interest-free revolving loans, subject to the Bond Bank's approval, to school administrative units for renovation and maintenance of school facilities. Borrowers are eligible to receive a minimum of 20% and a maximum of 70% loan forgiveness.

As the result of the Bond Bank issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Bond Bank's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Bond Bank, assets exceeded liabilities by \$482,073,421 at June 30, 2008. This represents an increase of \$20,302,534 (4.4%) over the previous fiscal year. Most of this increase is due to a net increase in the fair value of investments and an increase in net grant revenue over the previous fiscal year. Restricted net assets were \$423,196,923 compared to unrestricted net assets of \$58,876,498. The largest portion of the Bond Bank's net assets is its investment in loans to governmental units and investments held by trustee included in the Sewer and Water and School Facilities Fund Groups provided by grants.

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

MAINE MUNICIPAL BOND BANK

Balance Sheet

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
Current assets:			
Cash	\$ 48,588	\$ 85,708	(43.3)%
Investments held by trustee, at market value	129,653,436	139,651,566	(7.2)
Board designated cash and investments, at market value	20,796,494	19,799,468	5.0
Loans receivable from governmental units	120,877,751	114,801,419	5.3
Accrued investment income receivable	1,330,491	1,746,189	(23.8)
Accrued interest receivable from governmental units	8,955,217	8,274,873	8.2
Undisbursed federal letter of credit payments	24,928,726	23,267,751	7.1
Refunding benefits rebated to governmental units, net of amortization	1,153,619	1,414,625	(18.5)
Due from other funds	3,001,037	3,176,069	(5.5)
Other assets	<u>271,790</u>	<u>175,967</u>	<u>54.5</u>
Total current assets	311,017,149	312,393,635	(0.4)
Noncurrent assets:			
Investments held by trustee, at market value	119,257,330	119,859,734	(0.5)
Loans receivable from governmental units	1,169,881,665	1,154,432,942	1.3
Land and building, net of depreciation	775,318	815,937	(5.0)
Refunding benefits rebated to governmental units, net of amortization	<u>3,536,008</u>	<u>4,689,234</u>	<u>(24.6)</u>
Total noncurrent assets	<u>1,293,450,321</u>	<u>1,279,797,847</u>	<u>1.1</u>
Total assets	<u>\$ 1,604,467,470</u>	<u>\$ 1,592,191,482</u>	<u>0.8%</u>

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
Current liabilities:			
Accounts payable and accrued liabilities	\$ 360,979	\$ 452,245	(20.2)%
Grants payable	50,646	546,121	(90.7)
Due to other funds	3,001,037	3,176,069	(5.5)
Accrued interest payable	8,394,299	8,351,444	0.5
Deferred revenue	1,606,909	506,469	217.3
Undisbursed loans	19,664,088	32,094,386	(38.7)
Accrued interest rebate payable to U.S. Government	1,507,592	3,085,362	(51.1)
Bonds payable	<u>102,547,748</u>	<u>99,826,855</u>	<u>2.7</u>
Total current liabilities	137,133,298	148,038,951	(7.4)
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	2,195,508	1,607,549	36.6
Bonds payable	<u>983,065,243</u>	<u>980,774,095</u>	<u>0.2</u>
Total noncurrent liabilities	<u>985,260,751</u>	<u>982,381,644</u>	<u>0.3</u>
Total liabilities	1,122,394,049	1,130,420,595	(0.7)
Net assets:			
Restricted	423,196,923	408,184,111	3.7
Unrestricted	<u>58,876,498</u>	<u>53,586,776</u>	<u>9.9</u>
Total net assets	<u>482,073,421</u>	<u>461,770,887</u>	<u>4.4</u>
Total liabilities and net assets	<u>\$ 1,604,467,470</u>	<u>\$ 1,592,191,482</u>	<u>0.8%</u>

Total short and long-term investments held by trustee at June 30, 2008 decreased \$10,600,534 or (4.1)% from June 30, 2007. The decrease was the net result of an increase in the fair value of investments and drawdowns of investments for equity loans (primarily in the School Facilities Fund Group) to borrowers in 2008. The Bond Bank's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises securities (i.e. FNMA, FMLMC), U.S. Treasury strips, guaranteed investment contracts and certificates of deposit. The Bond Bank's investments are carried at fair value. Unrealized gains and losses (primarily due to fluctuations in market interest rates) are recognized in the statement of revenues, expenses and changes in net assets.

The Bond Bank's net loans (bond and equity) to governmental units increased \$21,525,055 in fiscal year 2008. The Bond Bank's total new loan commitments in 2008 of \$167,341,583 were 13.5% less than the 2007 commitments of \$193,451,395. Net bonds payable increased \$5,012,041.

As a result of the Bond Bank issuing tax-exempt debt and investing some of the proceeds in US Government securities, it earns arbitrage that is required to be rebated to the US Government every 5 years. The Bond Bank maintains rebate calculations for each tax-exempt bond issue and updates the calculations every 6 months for financial statement purposes. Accrued interest rebate payable to US Government decreased \$989,811 or 21.1% in fiscal year 2008 over fiscal year 2007 primarily due to payments made of \$3,434,643.

Deferred revenue increased \$1,100,440 or 217.3% in fiscal year 2008 over fiscal year 2007. The increase is the result of deferring State of Maine grant revenue received from the Department of Environmental Protection that will be used to match Federal Grant awards received in future years.

The Bond Bank's financial position improved as net assets increased 4.4% in fiscal year 2008. The Bond Bank continued to maintain a positive spread of income from investments and loans to governmental units over bond interest and operating expenses.

MAINE MUNICIPAL BOND BANK
Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
Interest on loans receivable from governmental units	\$ 47,417,816	\$ 47,457,224	(0.1)%
Interest income from investments	9,984,062	12,179,681	(18.0)
Net increase in the fair value of investments	5,800,788	1,725,147	236.2
Grant revenue from Environmental Protection Agency	16,497,800	14,976,500	10.2
Grant revenue from State of Maine	4,934,013	7,066,420	(30.2)
Other income	<u>939,967</u>	<u>937,736</u>	<u>0.2</u>
 Total operating revenue	 85,574,446	 84,342,708	 1.5
Interest expense	47,873,722	47,431,321	0.9
Operating expenses	4,881,464	4,039,098	20.9
Pass-through grant expense	-	4,071,120	(100.0)
Credit Quality grant expense	-	1,001,121	(100.0)
Loan forgiveness	10,557,072	8,571,605	23.2
Amortization of deferred financing costs and refunding benefits related to governmental units	<u>1,959,654</u>	<u>2,249,770</u>	<u>(12.9)</u>
 Total operating expenses	 <u>65,271,912</u>	 <u>67,364,035</u>	 <u>(3.1)</u>
 Operating income	 20,302,534	 16,978,673	 19.6
 Net assets, beginning of year	 <u>461,770,887</u>	 <u>444,792,214</u>	 <u>3.8</u>
 Net assets, end of year	 <u>\$ 482,073,421</u>	 <u>\$ 461,770,887</u>	 <u>4.4%</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 2008 decreased 18% from 2007. This decrease was primarily the result of a declining short-term interest rate environment in 2008 that resulted in less interest earned on cash and cash equivalents.

Grant revenues from the Environmental Protection Agency and the State of Maine are contingent on continued funding by the U.S. Congress and the State of Maine Legislature. The Environmental Protection Agency awarded the Bond Bank grants totaling \$16,497,800 in fiscal year 2008, which was a 10.2% increase over 2007. The State of Maine awarded the Bond Bank various grants, which decreased \$2,132,407 or 30.2% from 2007 grants. The fiscal year 2008 State grants were made up of State of Maine matching funds for the Sewer and Water Funds Groups totaling \$3,229,560 and grants to the School Facilities Fund Group totaling \$1,634,453.

Other income consists primarily of fees from borrowers within the Sewer and Water Fund Groups and other income within the General Operating Account Fund Group. Total other income in 2008 is consistent with 2007.

Operating expenses increased \$842,366 or 20.9% in 2008 over fiscal year 2007. This is primarily due to increased administrative fees for the Department of Education and the Department of Environmental Protection.

In previous years the Bond Bank administered pass-through grants for the Department of Economic and Community Development. For Fiscal year 2008, no pass through grant monies were received or expensed.

During fiscal year 2007, the Bond Bank established the Credit Quality program within its General Operating Account. The Bond Bank committed \$1,001,121 of grants to local governmental units, of which \$50,646 remains to be disbursed at June 30, 2008. No additional funds were provided for this grant program in fiscal year 2008.

Loan forgiveness expense (see notes 6 and 7) increased 23.2 % in fiscal year 2008 over 2007. 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 as the borrowers repay the loans. The amount forgiven within the Drinking Water Revolving Loan Fund Program in 2008 was \$769,358. 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 2008 was \$9,787,714. Forgiveness expense will vary from year to year depending upon repayment and drawdown activity with the respective programs.

Requests for Information

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

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MAINE MUNICIPAL BOND BANK

BALANCE SHEET

June 30, 2008

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Special Obli- gation Taxable Fund Group</u>
<u>ASSETS</u>			
Current assets:			
Cash	\$ 48,588	\$ -	\$ -
Investments held by trustee, at market value (notes 3 and 5)	-	37,264,536	225,141
Board designated cash and investments, at market value (note 3)	20,796,494	-	-
Loans receivable from governmental units (note 4)	-	85,661,264	170,000
Accrued investment income receivable	153,836	377,143	316
Accrued interest receivable from governmental units	-	6,565,843	5,927
Undisbursed federal letter of credit payments	-	-	-
Refunding benefits rebated to governmental units, net of amortization	-	1,010,649	-
Due from other funds	2,910,989	-	-
Other assets	<u>264,142</u>	<u>107</u>	<u>-</u>
Total current assets	24,174,049	130,879,542	401,384
Noncurrent assets:			
Investments held by trustee, at market value (notes 3 and 5)	-	109,454,612	-
Loans receivable from governmental units (note 4)	-	784,503,488	185,000
Land and building, net of depreciation of \$874,089	775,318	-	-
Refunding benefits rebated to governmental units, net of amortization	<u>-</u>	<u>3,210,213</u>	<u>-</u>
Total noncurrent assets	775,318	897,168,313	185,000
Total assets	<u>\$ 24,949,367</u>	<u>\$ 1,028,047,855</u>	<u>\$ 586,384</u>

Grant Anticipation Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,588
-	56,144,564	15,023,292	4,290,650	16,705,253	129,653,436
-	-	-	-	-	20,796,494
4,256,119	21,447,947	3,093,300	-	6,249,121	120,877,751
-	576,149	105,258	9,837	107,952	1,330,491
482,044	1,700,204	201,199	-	-	8,955,217
-	10,648,680	14,280,046	-	-	24,928,726
-	142,970	-	-	-	1,153,619
-	-	-	90,048	-	3,001,037
-	5,458	2,083	-	-	271,790
4,738,163	90,665,972	32,705,178	4,390,535	23,062,326	311,017,149
-	9,660,908	141,810	-	-	119,257,330
33,536,702	254,521,323	72,153,513	-	24,981,639	1,169,881,665
-	-	-	-	-	775,318
-	325,795	-	-	-	3,536,008
33,536,702	264,508,026	72,295,323	-	24,981,639	1,293,450,321
<u>\$ 38,274,865</u>	<u>\$ 355,173,998</u>	<u>\$ 105,000,501</u>	<u>\$ 4,390,535</u>	<u>\$ 48,043,965</u>	<u>\$ 1,604,467,470</u>

MAINE MUNICIPAL BOND BANK

BALANCE SHEET (CONTINUED)

June 30, 2008

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Special Obli- gation Taxable Fund Group</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 110,623	\$ —	\$ 232,656
Grants payable (note 10)	50,646	—	—
Due to other funds	—	2,301,935	—
Accrued interest payable	—	7,420,535	6,064
Deferred revenue	—	—	—
Undisbursed loans	—	—	—
Accrued interest rebate payable to U.S. Government	—	1,507,592	—
Bonds payable (note 4)	<u>—</u>	<u>91,831,204</u>	<u>170,000</u>
Total current liabilities	161,269	103,061,266	408,720
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	—	2,108,242	—
Bonds payable (note 4)	<u>—</u>	<u>890,075,027</u>	<u>185,000</u>
Total noncurrent liabilities	<u>—</u>	<u>892,183,269</u>	<u>185,000</u>
Total liabilities	161,269	995,244,535	593,720
Net assets (deficit):			
Restricted (notes 5, 6 and 7)	—	4,670,829	—
Unrestricted (notes 6 and 7)	<u>24,788,098</u>	<u>28,132,491</u>	<u>(7,336)</u>
Total net assets (deficit)	<u>24,788,098</u>	<u>32,803,320</u>	<u>(7,336)</u>
Total liabilities and net assets	<u>\$ 24,949,367</u>	<u>\$ 1,028,047,855</u>	<u>\$ 586,384</u>

See accompanying notes.

Grant Anticipation Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ -	\$ 8,400	\$ 3,900	\$ -	\$ 5,400	\$ 360,979
-	-	-	-	-	50,646
-	574,900	29,710	48,532	45,960	3,001,037
482,044	439,682	45,974	-	-	8,394,299
-	352,217	1,254,692	-	-	1,606,909
-	13,769,250	2,413,852	-	3,480,986	19,664,088
-	-	-	-	-	1,507,592
<u>4,256,119</u>	<u>5,920,425</u>	<u>370,000</u>	<u>-</u>	<u>-</u>	<u>102,547,748</u>
4,738,163	21,064,874	4,118,128	48,532	3,532,346	137,133,298
-	87,266	-	-	-	2,195,508
<u>33,536,702</u>	<u>53,358,514</u>	<u>5,910,000</u>	<u>-</u>	<u>-</u>	<u>983,065,243</u>
<u>33,536,702</u>	<u>53,445,780</u>	<u>5,910,000</u>	<u>-</u>	<u>-</u>	<u>985,260,751</u>
38,274,865	74,510,654	10,028,128	48,532	3,532,346	1,122,394,049
-	280,663,344	94,609,064	-	43,253,686	423,196,923
<u>-</u>	<u>-</u>	<u>363,309</u>	<u>4,342,003</u>	<u>1,257,933</u>	<u>58,876,498</u>
<u>-</u>	<u>280,663,344</u>	<u>94,972,373</u>	<u>4,342,003</u>	<u>44,511,619</u>	<u>482,073,421</u>
<u>\$ 38,274,865</u>	<u>\$ 355,173,998</u>	<u>\$ 105,000,501</u>	<u>\$ 4,390,535</u>	<u>\$ 48,043,965</u>	<u>\$ 1,604,467,470</u>

MAINE MUNICIPAL BOND BANK

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2008

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Special Obli- gation Taxable Fund Group</u>
Operating revenues:			
Interest on loans receivable from governmental units	\$ —	\$ 39,646,188	\$ 46,395
Interest income from investments	917,497	4,917,208	6,349
Net increase in the fair value of investments	77,443	5,182,778	400
Grant revenue from Environmental Protection Agency (note 6)	—	—	—
Grant revenue from State of Maine (notes 6 and 7)	—	—	—
Other income	<u>365,810</u>	<u>5,743</u>	<u>—</u>
Total operating revenue	1,360,750	49,751,917	53,144
Operating expenses:			
Interest expense	—	43,361,708	41,684
Operating expenses (note 8)	971,498	37,000	9,885
Loan forgiveness (notes 6 and 7)	—	—	—
Amortization of deferred financing costs and refunding benefits rebated to governmental units	<u>—</u>	<u>1,746,210</u>	<u>—</u>
Total operating expenses	<u>971,498</u>	<u>45,144,918</u>	<u>51,569</u>
Operating income (loss) before operating transfers	389,252	4,606,999	1,575
Operating transfers	<u>997,454</u>	<u>(997,454)</u>	<u>—</u>
Operating income (loss)	1,386,706	3,609,545	1,575
Net assets (deficit), beginning of year	<u>23,401,392</u>	<u>29,193,775</u>	<u>(8,911)</u>
Net assets (deficit), end of year	<u>\$ 24,788,098</u>	<u>\$ 32,803,320</u>	<u>\$ (7,336)</u>

See accompanying notes.

Grant Anticipation Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$1,329,145	\$ 5,577,434	\$ 818,654	\$ -	\$ -	\$ 47,417,816
-	2,611,166	616,112	132,710	783,020	9,984,062
-	395,183	39,407	-	105,577	5,800,788
-	8,268,800	8,229,000	-	-	16,497,800
-	1,653,760	1,645,800	-	1,634,453	4,934,013
-	-	-	568,414	-	939,967
1,329,145	18,506,343	11,348,973	701,124	2,523,050	85,574,446
1,329,145	2,860,925	280,260	-	-	47,873,722
-	478,814	2,046,019	190,289	1,147,959	4,881,464
-	-	769,358	-	9,787,714	10,557,072
-	213,444	-	-	-	1,959,654
<u>1,329,145</u>	<u>3,553,183</u>	<u>3,095,637</u>	<u>190,289</u>	<u>10,935,673</u>	<u>65,271,912</u>
-	14,953,160	8,253,336	510,835	(8,412,623)	20,302,534
-	139,506	51,306	(190,812)	-	-
-	15,092,666	8,304,642	320,023	(8,412,623)	20,302,534
-	265,570,678	86,667,731	4,021,980	52,924,242	461,770,887
<u>\$ -</u>	<u>\$ 280,663,344</u>	<u>\$ 94,972,373</u>	<u>\$ 4,342,003</u>	<u>\$ 44,511,619</u>	<u>\$ 482,073,421</u>

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2008

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Special Obli- gation Taxable Fund Group</u>
OPERATING ACTIVITIES:			
Cash received from governmental units	\$ —	\$ 120,976,432	\$ 204,157
Cash payments to governmental units	(495,475)	(100,292,457)	—
Cash received from other income	365,810	5,743	—
Cash payments for operating expenses	(955,155)	(61,302)	(1,700)
Cash received from (paid to) other funds	1,172,486	(1,287,988)	(3,150)
Cash paid for other assets and liabilities	<u>(95,823)</u>	<u>—</u>	<u>—</u>
Net cash (used) provided by operating activities	(8,157)	19,340,428	199,307
NONCAPITAL FINANCING ACTIVITIES:			
Proceeds from bonds payable	—	104,733,709	—
Principal paid on bonds payable	—	(89,644,042)	(155,000)
Interest paid on bonds payable	—	(43,280,560)	(44,332)
Grant receipts from Environmental Protection Agency and State of Maine	<u>—</u>	<u>—</u>	<u>—</u>
Net cash (used) provided by noncapital financing activities	—	(28,190,893)	(199,332)
INVESTING ACTIVITIES:			
Purchase of investment securities	(73,942,893)	(174,547,370)	(230,798)
Proceeds from sale and maturities of investment securities	73,023,310	178,924,802	222,244
Income received from investments	921,704	7,522,468	8,579
Interest rebate paid to U.S. Government	—	(3,049,435)	—
Additions to land and building	<u>(31,084)</u>	<u>—</u>	<u>—</u>
Net cash (used) provided by investing activities	<u>(28,963)</u>	<u>8,850,465</u>	<u>25</u>
Decrease in cash	(37,120)	—	—
Cash, beginning of year	<u>85,708</u>	<u>—</u>	<u>—</u>
Cash, end of year	<u>\$ 48,588</u>	<u>\$ —</u>	<u>\$ —</u>

Grant Anticipation Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ 5,521,344	\$ 31,850,734	\$ 3,801,485	\$ -	\$ 5,092,229	\$ 167,446,381
-	(37,999,033)	(8,880,619)	-	(18,049,225)	(165,716,809)
-	-	-	568,414	-	939,967
-	(488,749)	(2,050,018)	(190,289)	(1,153,814)	(4,901,027)
-	242,696	56,052	(190,593)	10,497	-
-	-	-	-	-	(95,823)
5,521,344	(6,394,352)	(7,073,100)	187,532	(14,100,313)	(2,327,311)
-	-	-	-	-	104,733,709
(4,015,000)	(6,065,000)	(360,000)	-	-	(100,239,042)
(1,506,344)	(2,745,211)	(282,468)	-	-	(47,858,915)
-	10,544,431	8,692,394	-	1,634,453	20,871,278
(5,521,344)	1,734,220	8,049,926	-	1,634,453	(22,492,970)
-	(149,816,397)	(36,324,650)	(5,896,028)	(54,652,848)	(495,410,984)
-	151,763,124	34,719,928	5,564,620	66,148,345	510,366,373
-	3,098,613	627,896	143,876	970,363	13,293,499
-	(385,208)	-	-	-	(3,434,643)
-	-	-	-	-	(31,084)
-	4,660,132	(976,826)	(187,532)	12,465,860	24,783,161
-	-	-	-	-	(37,120)
-	-	-	-	-	85,708
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,588</u>

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS
(CONTINUED)

For the Year Ended June 30, 2008

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Special Obli- gation Taxable Fund Group</u>
Reconciliation of operating income (loss) to net cash (used) provided by operating activities:			
Operating income (loss)	\$ 1,386,706	\$ 3,609,545	\$ 1,575
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:			
Interest income from investments	(917,497)	(4,917,208)	(6,349)
Net increase in the fair value of investments	(77,443)	(5,182,778)	(400)
Loan forgiveness	-	-	-
Depreciation	71,703	-	-
Amortization of deferred financing costs and refunding benefits	-	1,746,210	-
Interest expense on bonds payable	-	43,361,708	41,684
Federal and State grants	-	-	-
Change in assets and liabilities:			
Loans receivable from governmental units	-	(18,793,509)	155,000
Accrued interest receivable from governmental units	-	(168,704)	2,762
Due to/from other funds	175,032	(290,534)	(3,150)
Other assets	(95,823)	-	-
Accounts payable and accrued liabilities	(55,360)	(24,302)	8,185
Grant payable	<u>(495,475)</u>	<u>-</u>	<u>-</u>
Net cash (used) provided by operating activities	\$ <u>(8,157)</u>	\$ <u>19,340,428</u>	\$ <u>199,307</u>

See accompanying notes.

Grant Anticipation Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ —	\$ 15,092,666	\$ 8,304,642	\$ 320,023	\$ (8,412,623)	\$ 20,302,534
—	(2,611,166)	(616,112)	(132,710)	(783,020)	(9,984,062)
—	(395,183)	(39,407)	—	(105,577)	(5,800,788)
—	—	769,358	—	9,787,714	10,557,072
—	—	—	—	—	71,703
—	213,444	—	—	—	1,959,654
1,329,145	2,860,925	280,260	—	—	47,873,722
—	(9,922,560)	(9,874,800)	—	(1,634,453)	(21,431,813)
4,152,049	(11,180,292)	(5,888,677)	—	(12,956,996)	(44,512,425)
40,150	(545,441)	(9,111)	—	—	(680,344)
—	103,190	4,746	219	10,497	—
—	—	—	—	—	(95,823)
—	(9,935)	(3,999)	—	(5,855)	(91,266)
—	—	—	—	—	(495,475)
<u>\$5,521,344</u>	<u>\$ (6,394,352)</u>	<u>\$ (7,073,100)</u>	<u>\$ 187,532</u>	<u>\$(14,100,313)</u>	<u>\$ (2,327,311)</u>

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MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

1. Organization

The Maine Municipal Bond Bank (the Bond Bank) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Components Units*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Article 30-A, Title 5901 (the Act), as amended.

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

The general operating account consists of the operating revenues and expenses incurred by the Bond Bank in administering the five resolutions under which it is operating. The funds and accounts of these resolutions have been grouped within each of the resolutions and fund groups as follows:

General Tax-Exempt Fund Group: This fund group consists of funds and accounts established under the Bond Bank's General Bond Resolution adopted July 11, 1973, as amended and supplemented by the First Supplemental Resolution adopted September 20, 1977, the Second Supplemental Resolution adopted July 18, 1984, the Third Supplemental Resolution adopted May 7, 1993 and the Fourth Supplemental Resolution adopted June 25, 1993. Under these resolutions, the Bond Bank issues bonds exempt from federal and State of Maine income taxes and makes loans to local governmental units.

Special Obligation Taxable Fund Group: This fund group consists of funds and accounts established under the Bond Bank's Special Obligation Bond Resolution adopted May 25, 1990. Under this resolution, the Bond Bank issues bonds which are exempt from State of Maine income taxes (but not federal income taxes) and makes loans to governmental units.

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

Sewer and Water Fund Groups: These fund groups consist of funds and accounts established under the Bond Bank's Sewer and Water General Bond Resolution adopted February 7, 1990, as amended and supplemented by the First Supplemental Resolution adopted March 6, 1991. Under this resolution, the Bond Bank issues bonds exempt from federal and State of Maine income taxes for the purpose of making revolving loans to governmental units to finance wastewater collection, treatment system or water supply system projects. 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.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

1. Organization (Continued)

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

2. Significant Accounting Policies

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

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

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

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

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

Investments: Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net assets. Interest earnings on principal-only strips within the general tax-exempt fund group of approximately \$4,300,000 have been recorded as interest income from investments in 2008. Reserve fund investments that are not expected to be utilized to fund bond principal and interest payments until after June 30, 2009 have been classified as long-term.

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

2. Significant Accounting Policies (Continued)

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

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

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

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

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

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

Construction Funds: The Sewer and Water General Bond Resolution requires bond proceeds to be deposited into construction funds. Upon deposit into the construction funds, a loan receivable from the governmental unit is recorded and the construction funds are excluded from Sewer and Water Fund Groups. The Bond Bank maintains control over disbursement of these funds until the project is complete. Approximately \$189,000 in investments are held in the construction funds at June 30, 2008.

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

2. **Significant Accounting Policies (Continued)**

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

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

New Accounting Pronouncements: GASB issued Statement No. 45, *Accounting and Financial Reporting for Employers for Post-Employment Benefits Other Than Pensions*, in June 2004. This statement establishes standards for the measurement, recognition and display of other post-employment benefits (including post-employment healthcare benefits). This statement is expected to be applicable to the Bond Bank beginning in fiscal 2009.

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

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

3. **Investments Held By Trustee and Board Designated Investments**

The Bond Bank is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises, state and local government agencies, guaranteed investment contracts and collateralized repurchase agreements. At June 30, 2008, investments are categorized as follows:

	<u>Fair Value</u>
<u>General Operating Account</u>	
Board-designated investments:	
U.S. Government-sponsored enterprises	\$ 17,014,346
Cash and cash equivalents	<u>3,782,148</u>
	<u>\$ 20,796,494</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

	<u>Fair Value</u>
<u>General Tax-Exempt Fund Group</u>	
Investments held by trustee:	
Guaranteed investment contracts	\$ 14,594,636
U.S. Government obligations	10,428,498
U.S. Government-sponsored enterprises	13,642,914
U.S. Treasury strips	83,871,254
Cash and cash equivalents	<u>24,181,846</u>
	<u>\$ 146,719,148</u>
 <u>Special Obligation Taxable Fund Group</u>	
Investments held by trustee:	
Cash and cash equivalents	\$ <u>225,141</u>
	<u>\$ 225,141</u>
 <u>Sewer and Water Fund Groups</u>	
Investments held by trustee:	
Revolving Loan Fund Group –	
Waste Water:	
Guaranteed investment contracts	\$ 9,079,124
U.S. Government obligations	206,417
U.S. Government-sponsored enterprises	44,327,585
Certificates of deposit	3,671,531
Cash and cash equivalents	<u>8,520,815</u>
	<u>\$ 65,805,472</u>
Revolving Loan Fund Group –	
Drinking Water:	
U.S. Government-sponsored enterprises	\$ 6,940,261
Cash and cash equivalents	<u>8,224,841</u>
	<u>\$ 15,165,102</u>
Operating Fund Group:	
U.S. Government-sponsored enterprises	\$ 250,351
Cash and cash equivalents	<u>4,040,299</u>
	<u>\$ 4,290,650</u>
 <u>School Facilities Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 10,496,273
Cash and cash equivalents	<u>6,208,980</u>
	<u>\$ 16,705,253</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Bond Bank's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, guaranteed investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Bond Bank to terminate individual contracts at par. The Bond Bank's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Bond Bank's investments in guaranteed investment contracts, U.S. Government obligations, U.S. Government-sponsored enterprises and U.S. Treasury Strips as of June 30, 2008:

	<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>17,014,346</u>	\$ <u>5,047,355</u>	\$ <u>11,966,991</u>	\$ <u>—</u>	\$ <u>—</u>
<u>General Tax Exempt Fund Group</u>					
Guaranteed investment contracts	\$ 14,594,636	\$ 2,401,198	\$ —	\$ —	\$ 12,193,438
U.S. Government obligations	10,428,498	1,861,330	1,825,476	1,754,451	4,987,241
U.S. Government-sponsored enterprises	13,642,914	—	3,114,944	5,223,218	5,304,752
U.S. Treasury strips	<u>83,871,254</u>	<u>8,820,162</u>	<u>35,074,068</u>	<u>23,271,129</u>	<u>16,705,895</u>
	<u>\$ 122,537,302</u>	<u>\$ 13,082,690</u>	<u>\$ 40,014,488</u>	<u>\$ 30,248,798</u>	<u>\$ 39,191,326</u>
<u>Revolving Loan Fund Group – Waste Water</u>					
Guaranteed investment contracts	\$ 9,079,124	\$ —	\$ 1,231,500	\$ 6,482,958	\$ 1,364,666
U.S. Government obligations	206,417	—	—	206,417	—
U.S. Government-sponsored enterprises	44,327,585	12,443,468	31,884,117	—	—
Certificates of deposit	<u>3,671,531</u>	<u>3,045,093</u>	<u>626,438</u>	<u>—</u>	<u>—</u>
	<u>\$ 57,284,657</u>	<u>\$ 15,488,561</u>	<u>\$ 33,742,055</u>	<u>\$ 6,689,375</u>	<u>\$ 1,364,666</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>Revolving Loan Fund Group – Drinking Water</u>					
U.S. Government-sponsored enterprises	\$ <u>6,940,261</u>	\$ <u>4,801,076</u>	\$ <u>1,997,375</u>	\$ <u>—</u>	\$ <u>141,810</u>
	\$ <u>6,940,261</u>	\$ <u>4,801,076</u>	\$ <u>1,997,375</u>	\$ <u>—</u>	\$ <u>141,810</u>
<u>Revolving Loan Fund Group – Operating Fund Group</u>					
U.S. Government-sponsored enterprises	\$ <u>250,351</u>	\$ <u>250,351</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>
<u>School Facilities Fund Group</u>					
U.S. Government-sponsored enterprises	\$ <u>10,496,273</u>	\$ <u>3,261,880</u>	\$ <u>7,234,393</u>	\$ <u>—</u>	\$ <u>—</u>

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Bond Bank will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Bond Bank’s investments are primarily held by U.S. Bank and Bangor Savings Bank. Management of the Bond Bank is not aware of any issues with respect to custodial credit risk at either bank at June 30, 2008.

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, 2008, the Bond Bank’s guaranteed investment contracts within the General Tax Exempt Fund Group and Revolving Loan Fund Group are primarily with three institutions, all of which are AA rated or better.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

The Bond Bank has invested some of its long-term funds in U.S. Government principal-only strips in order to maximize yields coincident with cash needs for operations, debt service, and arbitrage. These securities are similar to zero coupon bonds which are purchased deeply discounted, with the Bond Bank receiving its only repayment stream at maturity; therefore, they are sensitive to interest rate changes. These securities are reported at fair value in the balance sheet. The fair value of these investments is approximately \$83,900,000 at June 30, 2008.

Trustee held cash and cash equivalents at June 30, 2008 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, 2008 consist entirely of money market funds secured by short-term U.S. Treasury obligations, held by a trust company.

4. Bonds Payable

Total General Tax-Exempt Fund Group Bonds payable consist of the following at June 30, 2008:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2008</u>
Series 1993 B and C, 5% – 5.85%, dated May 1, 1993	1994 – 2020	\$ 40,070,000	\$ 5,130,000
Series 1994 D, 4% – 6.3%, dated September 1, 1994	1995 – 2014	12,365,000	5,420,000
Series 1997 A and B, 5.10% – 5.75%, dated May 1, 1997	1998 – 2017	31,870,000	2,770,000
Series 1997 C and D, 4.5% – 5.35%, dated October 1, 1997	1998 – 2017	50,785,000	4,195,000
Series 1998 A, 3.70% – 5.50%, dated February 1, 1998	1999 – 2012	60,950,000	32,275,000
Series 1998 B and C, 4% – 5.35%, dated May 1, 1998	1998 – 2018	73,770,000	13,330,000
Series 1998 D and E, 3.75% – 4.80%, dated October 1, 1998	1999 – 2018	13,890,000	2,190,000
Series 1999 B and C, 4% – 5.25%, dated May 1, 1999	2000 – 2028	62,860,000	15,170,000
Series 1999 D and E, 4% – 5.875%, dated October 1, 1999	2000 – 2021	46,460,000	8,690,000
Series 2000 A and B, 4.5% – 5.875%, dated May 1, 2000	2000 – 2020	70,125,000	16,900,000
Series 2000 C and D, 4.625% – 5.70%, dated October 1, 2000	2001 – 2021	39,560,000	10,305,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2008</u>
Series 2001 A and B, 4.125% – 5.25%, dated May 1, 2001	2002 – 2021	\$ 34,635,000	\$ 10,695,000
Series 2001 C and D, 3.00% – 5.125%, dated October 1, 2001	2002 – 2022	68,835,000	23,100,000
Series 2002 A, 3.00% – 5.375%, dated March 1, 2002	2002 – 2021	36,520,000	12,040,000
Series 2002 B and C, 2.50% – 5.25%, dated May 1, 2002	2002 – 2032	77,575,000	58,965,000
Series 2002 D, 2.00% – 5.00%, dated July 1, 2002	2003 – 2015	49,315,000	25,260,000
Series 2002 E and F, 2.00% – 5.00%, dated October 1, 2002	2003 – 2023	32,720,000	16,125,000
Series 2003 A, 3.00% – 5.25%, dated March 1, 2003	2003 – 2020	186,050,000	98,437,866
Series 2003 B and C, 2.00% – 5.00%, dated May 1, 2003	2003 – 2024	17,290,000	12,930,000
Series 2003 D and E, 2.00% – 5.00%, dated October 1, 2003	2004 – 2033	18,460,000	14,105,000
Series 2004 A and B, 2.00% – 5.00%, dated May 27, 2004	2004 – 2025	94,565,000	79,200,000
Series 2004 C, 2.00% – 5.00%, dated September 23, 2004	2004 – 2020	58,675,000	54,185,000
Series 2004 D and E, 2.25% – 5.00%, dated October 28, 2004	2005 – 2034	46,850,000	38,225,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2005 – 2021	91,250,000	89,410,000
Series 2005 B and C, 3.00% – 5.00%, dated May 26, 2005	2006 – 2031	22,050,000	19,630,000
Series 2005 D and E, 3.00% – 5.00%, dated October 27, 2005	2006 – 2034	60,395,000	53,910,000
Series 2006 A, 3.48% – 4.77%, dated May 25, 2006	2006 – 2036	14,040,000	13,210,000
Series 2006 B and C, 3.55% – 5.00%, dated October 26, 2006	2007 – 2027	24,065,000	22,275,000
Series 2007 A, 3.75% – 5.00% dated April 5, 2007	2007 – 2022	51,335,000	51,135,000
Series 2007 B and C, 4.00% – 5.00% dated May 24, 2007	2007 – 2029	69,380,000	69,130,000
Series 2007 D and E, 4.00% – 5.00% dated October 25, 2007	2008 – 2037	53,560,000	53,560,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2008</u>
Series 2008 A and B, 3.00% – 5.00% dated May 15, 2008	2008 – 2038	\$ <u>49,060,000</u>	\$ <u>49,060,000</u>
		\$ <u>1,659,330,000</u>	\$ <u>980,962,866</u>

Total General Tax-Exempt Fund Group Bonds payable is presented on the balance sheet at June 30, 2008 as follows:

Total principal outstanding	\$ 980,962,866
Deferred amount on refunding	(22,001,864)
Unamortized original issue discount	(132,402)
Unamortized original issue premium	<u>23,077,631</u>
 Total General Tax-Exempt Fund Group Bonds payable	 981,906,231
Current portion	<u>91,831,204</u>
 Noncurrent portion	 \$ <u>890,075,027</u>

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

<u>Due Bond Year Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2008	\$ 92,012,596	\$ 22,225,441	\$ 114,238,037
2009	89,011,040	40,602,516	129,613,556
2010	86,605,468	36,762,137	123,367,605
2011	77,298,349	33,015,615	110,313,964
2012	72,031,067	29,592,101	101,623,168
2013 – 2017	286,549,346	104,318,565	390,867,911
2018 – 2022	189,600,000	46,811,828	236,411,828
2023 – 2027	77,945,000	12,475,925	90,420,925
2028 – 2032	7,365,000	1,481,075	8,846,075
2033 – 2037	<u>2,545,000</u>	<u>230,369</u>	<u>2,775,369</u>
	\$ <u>980,962,866</u>	\$ <u>327,515,572</u>	\$ <u>1,308,478,438</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

4. Bonds Payable (Continued)

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

Municipal loan obligations – principal and interest	\$ 1,154,249,047
Reserve Funds – principal and interest	<u>154,229,391</u>
	<u>\$ 1,308,478,438</u>

Total Special Obligation Taxable Fund Group Bonds payable consist of the following at June 30, 2008:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2008</u>
Series 1990 A, 10.25%, dated June 1, 1990	1991 – 2009	\$1,700,000	\$355,000
Current portion			<u>170,000</u>
Noncurrent portion			<u>\$185,000</u>

The outstanding Special Obligation Taxable 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>
2008	\$170,000	\$18,194	\$188,194
2009	<u>185,000</u>	<u>18,962</u>	<u>203,962</u>
	<u>\$355,000</u>	<u>\$37,156</u>	<u>\$392,156</u>

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

Governmental unit loan obligations – principal and interest	\$ <u>392,156</u>
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Total Grant Anticipation Fund Group Bonds payable consist of the following at June 30, 2008:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2008</u>
Series 2004 A, 2.50% – 5.00%, dated December 16, 2004	2005 – 2015	\$ 48,395,000	\$ <u>37,310,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

4. Bonds Payable (Continued)

Total Grant Anticipation Fund Group Bonds payable is presented on the balance sheet at June 30, 2008 as follows:

Total principal outstanding	\$ 37,310,000
Unamortized original issue premium	<u>482,821</u>
Total Grant Anticipation Fund Group Bonds payable	37,792,821
Current portion	<u>4,256,119</u>
Noncurrent portion	<u>\$ 33,536,702</u>

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

Due Bond Year Ending September 1	Principal	Interest	Total Debt Service
2008	\$ 4,135,000	\$ 723,066	\$ 4,858,066
2009	4,260,000	1,322,081	5,582,081
2010	4,390,000	1,194,281	5,584,281
2011	4,520,000	1,062,581	5,582,581
2012	4,715,000	867,031	5,582,031
2013 – 2017	<u>15,290,000</u>	<u>1,456,625</u>	<u>16,746,625</u>
	<u>\$ 37,310,000</u>	<u>\$ 6,625,665</u>	<u>\$ 43,935,665</u>

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

General unit obligations – principal and interest	<u>\$ 43,935,665</u>
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Sewer and Water Fund Group Waste Water Bonds payable consist of the following at June 30, 2008:

	Original Maturity	Amount Issued	Outstanding June 30, 2008
Series 1993 A and B, 2.75% – 5.45%, dated October 1, 1993	1994 – 2016	\$ 27,815,000	\$ 9,975,000
Series 1996 A, 3.7% – 5.85%, dated March 1, 1996	1997 – 2017	6,795,000	3,135,000
Series 1997 A and B, 3.9% – 5.45%, dated July 15, 1997	1998 – 2018	20,835,000	11,995,000
Series 2003 A and B, 1.05% – 5.00%, dated March 1, 2003	2003 – 2023	32,165,000	21,325,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Outstanding June 30, 2008</u>
Series 2003 C, 1% – 4.9%, dated November 13, 2003	2004 – 2024	\$ <u>16,065,000</u>	\$ <u>13,440,000</u>
		\$ <u>103,675,000</u>	\$ <u>59,870,000</u>

The Sewer and Water Fund Group Waste Water Bonds payable are presented on the balance sheet at June 30, 2008 as follows:

Total principal outstanding	\$ 59,870,000
Deferred amount on refunding	(738,086)
Unamortized original issue discount	(27,380)
Unamortized original issue premium	<u>174,405</u>
 Total Sewer and Water Fund Group Waste Water Bonds payable	 59,278,939
Current portion	<u>5,920,425</u>
 Noncurrent portion	 <u>\$ 53,358,514</u>

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

Due Bond Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
November 1			
2008	\$ 6,075,000	\$ 1,319,047	\$ 7,394,047
2009	6,050,000	2,410,756	8,460,756
2010	6,130,000	2,173,788	8,303,788
2011	6,545,000	1,926,262	8,471,262
2012	5,625,000	1,645,608	7,270,608
2013 – 2017	19,305,000	4,828,084	24,133,084
2018 – 2022	8,425,000	1,373,716	9,798,716
2023 – 2027	<u>1,715,000</u>	<u>118,498</u>	<u>1,833,498</u>
	<u>\$ 59,870,000</u>	<u>\$ 15,795,759</u>	<u>\$ 75,665,759</u>

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

Governmental unit loan obligations – principal and interest	\$ 64,644,621
Reserve fund – principal and interest	<u>11,021,138</u>
	<u>\$ 75,665,759</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

4. Bonds Payable (Continued)

Sewer and Water Fund Group Drinking Water Bonds payable consist of the following at June 30, 2008:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2008</u>
Series 1998 A, 3.65% – 5.2%, dated August 15, 1998	1999 – 2028	\$4,795,000	\$2,910,000
Series 2005 A, 2.25% – 4.45%, dated March 24, 2005	2005 – 2025	<u>3,770,000</u>	<u>3,370,000</u>
		<u>\$8,565,000</u>	
Total Sewer and Water Fund Group Drinking Water Bonds payable			6,280,000
Current portion			<u>370,000</u>
Noncurrent portion			<u>\$5,910,000</u>

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

<u>Due Bond Year Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2008	\$ 370,000	\$ 137,922	\$ 507,922
2009	375,000	262,030	637,030
2010	385,000	247,360	632,360
2011	395,000	231,858	626,858
2012	405,000	215,420	620,420
2013 – 2017	2,180,000	797,163	2,977,163
2018 – 2022	1,420,000	338,472	1,758,472
2023 – 2027	730,000	70,745	800,745
2028 – 2032	<u>20,000</u>	<u>1,040</u>	<u>21,040</u>
	<u>\$6,280,000</u>	<u>\$2,302,010</u>	<u>\$ 8,582,010</u>

Repayment of the debt and interest thereon is to be funded by:	
Governmental unit loan obligations – principal and interest	\$ 8,290,657
Reserve fund – principal and interest	<u>291,353</u>
	<u>\$ 8,582,010</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

4. Bonds Payable (Continued)

The following summarizes bond payable activity for the Bond Bank for the year ended June 30, 2008:

	General Tax-Exempt <u>Fund Group</u>	Special Obligation Taxable <u>Fund Group</u>	Grant Anticipation <u>Fund Group</u>	Waste Water <u>Fund Group</u>	Drinking Water <u>Fund Group</u>
Balance, beginning of year	\$ 966,358,750	\$ 510,000	\$ 41,944,870	\$ 65,147,330	\$ 6,640,000
Issuances – face value	102,620,000	–	–	–	–
Redemptions	(89,644,042)	(155,000)	(4,015,000)	(6,065,000)	(360,000)
Capitalized premiums	2,113,709	–	–	–	–
Accretion/amortization of discounts, premiums and deferred amounts on refunding	<u>457,814</u>	<u>–</u>	<u>(137,049)</u>	<u>196,609</u>	<u>–</u>
Balance, end of year	<u>\$ 981,906,231</u>	<u>\$ 355,000</u>	<u>\$ 37,792,821</u>	<u>\$ 59,278,939</u>	<u>\$ 6,280,000</u>

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

5. Reserve Funds

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

General Tax-Exempt Fund Group: The Bond Bank is required to maintain a debt service reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all governmental unit loan obligations then outstanding as of such date of calculation. At June 30, 2008, the required debt service reserve was approximately \$118,820,000.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

5. Reserve Funds (Continued)

In addition, the Bond Bank maintains the Special Reserve Account balance of \$1,970,829 and the Supplemental Reserve Fund General Reserve Account principal balance of \$2,700,000. These reserves represent segregated net assets and are pledged to the payment of the principal or interest on the outstanding bonds of the General Tax-Exempt Fund Group if a deficiency occurs. At June 30, 2008, the fair value of the reserve fund assets totaled approximately \$136,561,000, which exceeded the required reserves by \$13,070,171.

Special Obligation Taxable Fund Group: The Bond Bank is required to maintain a capital reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all governmental unit loan obligations then outstanding as of such date of calculation. At June 30, 2008, the required capital reserve was approximately \$207,275 and the fair value of the capital reserve assets totaled approximately \$225,000.

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 bonds payable within the fund groups as of such date of calculation. At June 30, 2008, the required capital reserve was approximately \$7,704,000 and the fair value of the capital reserve assets totaled approximately \$9,955,000.

6. Sewer and Water Revolving Fund Group

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

	<u>Waste Water</u>	<u>Drinking Water</u>
Reserved for revolving loans:		
Grants received from Environmental Protection Agency	\$ 200,632,059	\$ 91,887,900
Other administrative grants received from Environmental Protection Agency	1,347,010	-
Hardship grants received from Environmental Protection Agency	643,800	-
Grants received from State of Maine	40,180,442	18,055,308
Other amounts reserved (utilized) for program loans and costs	<u>37,860,033</u>	<u>(15,334,144)</u>
	280,663,344	94,609,064
Unreserved amounts available	<u>-</u>	<u>363,309</u>
Net assets at June 30, 2008	<u>\$ 280,663,344</u>	<u>\$ 94,972,373</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

6. Sewer and Water Revolving Fund Group (Continued)

Under the provisions of the grants from the Environmental Protection Agency, the Bond Bank is allowed administrative costs of up to 4% of the total grants received. In addition, the Bond Bank receives other grants from the Environmental Protection Agency that are used solely for administrative purposes. The total administrative costs allowed at June 30, 2008 are \$9,372,292 (waste water) and \$3,653,822 (drinking water), with \$9,372,292 and \$3,290,513, respectively, expended to date. The remaining amount of \$363,309 in the Drinking Water Revolving Loan Fund Group can be used for future administrative costs. At June 30, 2008, there are no remaining Waste Water Revolving Loan Fund Group grant administration funds available 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 \$20,105,400 at June 30, 2008 under the Drinking Water Revolving Loan Fund Program that, upon fulfillment of these requirements by the borrowing unit, could be forgiven at some future point. 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 2008 was \$769,358.

Within the Waste Water Revolving Loan Fund Group, the Bond Bank is participating in a linked deposit loan program with local banks to encourage environmentally sound logging practices. Under the program, the Bond Bank is subsidizing loans to loggers by investing in certificates of deposit at the respective banks and providing 2% of the interest earned as a subsidy to the borrower. At June 30, 2008, the Bond Bank has \$3,671,531 of certificates of deposits outstanding at various bank of which approximately \$2,088,000 is in excess of the limits insured by the Federal Deposit Insurance Corporation.

7. School Facilities Fund Group

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

Reserved for revolving loans:	
Grants received from State of Maine	\$ 98,103,260
Loans forgiven	(67,270,870)
Other amounts reserved for program loans and costs	<u>12,421,296</u>
	43,253,686
Unreserved amounts available	<u>1,257,933</u>
Net assets at June 30, 2008	\$ <u>44,511,619</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

7. School Facilities Fund Group (Continued)

Under the provisions of the grants, the Bond Bank is allowed administrative costs up to 0.5% of the highest fund balance in any fiscal year. The total administrative costs allowed through June 30, 2008 are \$2,526,161, with \$1,268,228 expended to date. The remaining amount of \$1,257,933 can be used for future administrative costs.

Portions of the loans made to school administrative units from the School Facilities Fund Group are forgiven. For purposes of the general purpose financial statements, the Bond Bank recognizes forgiveness expense within this fund at the time the loans are disbursed to the school administrative unit. This accounting treatment differs from the treatment within the Drinking Water Revolving Loan Fund due to the fact that there are no relevant continuing criteria that would require recognition of the forgiven amount as the related loans are repaid. The total amounts forgiven under this program in 2008 were \$9,787,714.

8. Defined Benefit Pension Plan and Other Postemployment Benefits

Pension Plan Description and Funding Policy

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

In accordance with State statute, participants are required to contribute 6.5% of their annual covered salary to the Plan. The Bond Bank's payroll for the year ended June 30, 2008 for employees covered by the Plan was approximately \$955,000, 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, 2008, 2007 and 2006 were \$26,728, \$25,692 and \$23,162 (employer) and \$62,047, \$59,641 and \$58,206 (employee), respectively.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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

Other Postemployment Benefits

During 2004, the Bond Bank established a postemployment health care benefit 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. Management of the Bond Bank expects to make necessary contributions to the Plan as benefits come due. The Bond Bank may terminate the Plan at its option, in which case future benefit payments would be limited to those employees that retired prior to the termination date (one as of June 30, 2008). The Bond Bank recorded approximately \$2,100 of expense under this plan during fiscal 2008.

9. **Refunding Issues**

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

At June 30, 2008, the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately \$154 million.

10. **Credit Quality Grant Program**

During fiscal 2007, the Bond Bank established the credit quality grant program within its General Operating Account. The program provides financial assistance to units of local government to undertake studies, planning activities and systems purchases to help the entities identify or implement methods available to reduce costs for delivery of local governmental unit services or increase the efficiency associated with the financial operation of a local government. At June 30, 2008, the Bond Bank had committed \$1,001,121 of grants to local governmental units under this program, of which \$50,646 remains to be disbursed.

11. **Subsequent Event**

On September 1, 2008, the Bond Bank issued \$50,000,000 of Series 2008A Grant Anticipation Bonds. The Bonds mature from 2009 – 2020 and carry an interest rate ranging from 3.25% to 4.00%.

MAINE MUNICIPAL BOND BANK

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2008

	Program Revenues				Net Revenue (Expense) and Changes in net assets	
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Municipal Bond Bank	\$ (65,271,912)	\$ 47,417,816	\$ 10,239,445	\$ 4,550,465	\$ 21,431,813	\$ 18,367,627
Total	\$ (65,271,912)	\$ 47,417,816	\$ 10,239,445	\$ 4,550,465	\$ 21,431,813	
General revenues:						
Unrestricted interest and investment earnings						994,940
Non program specific grants, contributions and appropriations						-
Miscellaneous income						939,967
Loss on assets held for sale						-
Extraordinary item						-
Total general revenues and extraordinary items						<u>1,934,907</u>
Changes in net assets						20,302,534
Net assets, beginning of year						<u>461,770,887</u>
Net assets, end of year						<u>\$ 482,073,421</u>

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

Maine Municipal Bond Bank

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

*Year Ended June 30, 2007
With Independent Auditors' Report*

MAINE MUNICIPAL BOND BANK

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

For the Year Ended June 30, 2007

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MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

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, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Bond Bank and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Revenues for the Bond Bank's General Operating Account were \$5,325,701 for fiscal year 2007, an increase of \$873,416 or 19.6% over fiscal year 2006. This was primarily attributed to increased average investment balances and increases in short-term interest rates in fiscal 2007 over 2006, which caused a corresponding increase in income from investments for the year of approximately \$403,000. The other contributing factor was an increase of approximately \$428,000 in pass-through grant revenue from the State of Maine, Department of Economic and Community Development.
- Fund equity in the Bond Bank's General Operating Account decreased \$205,831 in fiscal year 2007 primarily as a result of grants totaling \$1,001,121 provided to local governmental units under the new credit quality program (see note 11). At June 30, 2007, the Bond Bank's General Operating Account had fund equity of \$23,401,392, a decrease of 0.9% compared to the prior year.
- The Bond Bank's gross principal amount of bonds outstanding at June 30, 2007 of \$1,082,396,909 represents a net decrease of \$2,940,314 over the balance at June 30, 2006. This decrease was the result of issuing Series 2006B&C, 2007A and 2007B&C bonds in the General Tax Exempt Resolution, less the scheduled debt service principal payment of \$98,510,314 and in-substance defeased bonds totaling \$49,210,000.
- The Bond Bank committed loans to local governmental units during fiscal year 2007 totaling \$193,451,395, which was a 41.6% increase from the loans committed in fiscal year 2006. The Bond Bank also provided borrowers participating in the Drinking Water Revolving Loan Fund Program and the School Facilities Revolving Loan Fund Program \$11,261,061 in potential loan forgiveness in fiscal year 2007, which was an 11.6% increase from fiscal year 2006.

Overview of the Bond Bank

The Bond Bank was created in 1973 by an Act of the Maine Legislature, as a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Bond Bank was established to issue bonds for the purpose, among other things, of providing funds to enable it to lend money to counties, cities, towns, school administrative districts, community school districts or other quasi-municipal corporations (the "governmental units") within the State of Maine. The provision of funds is accomplished by the direct purchase from such governmental units of their bonds, notes or evidence of debt payable from taxes, charges for services or assessments.

For financial statement reporting purposes, the Bond Bank is considered a component unit of the State of Maine. However, the Bond Bank does not receive any State appropriations for its operations. The Bond Bank does receive grant monies from the State to fund the revolving loan funds for clean water, drinking water and school renovations. The Bond Bank also administers a pass-through grant for the Maine Rural Water Association and received pass-through grants from the State of Maine, Department of Economic and Community Development.

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

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

The Bond Bank administers the Federal Clean Water Act and Drinking Water Act Revolving Loan Funds. Each of the Revolving Loan Funds periodically receives capitalization grants from the Environmental Protection Agency and state matching funds from the State of Maine. The State of Maine Department of Environmental Protection approves low interest revolving loans to eligible borrowers, under the Clean Water Act Fund, that may be comprised of bond proceeds and federal and State equity monies or solely equity monies. The Drinking Water Revolving Loan Fund operates similar to the Clean Water Revolving Loan Fund whereby the Maine Department of Human Services (Office of Drinking Water) approves low interest revolving loans, under the Drinking Water Act, to eligible borrowers that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. Under the Drinking Water Revolving Loan Fund, borrowers are eligible to receive a maximum 75% loan forgiveness.

The Bond Bank administers the School Facilities Revolving Loan Fund, which is capitalized by monies received from the State of Maine. The Department of Education approves qualified projects that are eligible for interest-free revolving loans, subject to the Bond Bank's approval, to school administrative units for renovation and maintenance of school facilities. Borrowers are eligible to receive a minimum of 20% and a maximum of 70% loan forgiveness.

During fiscal year 2007, the Board of Commissioners voted to set aside \$1,001,121, from the General Operating Account, to establish the credit quality grant program. This program provides financial assistance to the Bond Bank's borrowers to undertake studies, planning activities and system purchases to help the local governments identify or implement methods available to reduce costs for delivery of services or increase the efficiency of their financial operations (see note 11).

As the result of the Bond Bank issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Bond Bank's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

Fund equity may serve, over time, as a useful indicator of a government's financial position. In the case of the Bond Bank, assets exceeded liabilities by \$461,770,887 at June 30, 2007. This represents an increase of \$16,978,673 (3.8%) over the previous fiscal year. Most of this increase is attributable to increases in short term interest rates, decreases in the interest rates on the bonds payable as a result of the multiple refundings over the past several years and additional federal and state grants received during fiscal 2007. The restricted fund equity was \$408,184,111 compared to unrestricted fund equity of \$53,586,776. By far, with the exception of the School Facilities Fund Group, the largest portion of the Bond Bank's fund equity is its investment in loans to governmental units plus bond proceeds remaining in trust investments, less any related debt used to acquire those assets.

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

MAINE MUNICIPAL BOND BANK

Balance Sheet

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
Current assets:			
Cash	\$ 85,708	\$ 288,296	(70.3)%
Investments held by trustee, at market value	145,796,600	144,481,188	0.9
Board designated cash and investments, at market value	19,799,468	18,670,918	6.0
Loans receivable from governmental units	114,801,419	113,782,746	0.9
Accrued investment income receivable	1,746,189	1,557,854	12.1
Accrued interest receivable from governmental units	8,274,873	8,119,261	1.9
Undisbursed federal letter of credit payments	23,267,751	26,026,054	(10.6)
Refunding benefits rebated to governmental units, net of amortization	1,414,625	1,658,155	(14.7)
Due from other funds	3,176,069	8,853,017	(64.1)
Other assets	<u>175,967</u>	<u>111,150</u>	<u>58.3</u>
Total current assets	318,538,669	323,548,639	(1.5)
Noncurrent assets:			
Investments held by trustee, at market value	113,714,700	118,740,298	(4.2)
Loans receivable from governmental units	1,154,432,942	1,132,289,358	2.0
Land and building, net of depreciation	815,937	847,109	(3.7)
Refunding benefits rebated to governmental units, net of amortization	<u>4,689,234</u>	<u>6,066,514</u>	<u>(22.7)</u>
Total noncurrent assets	<u>1,273,652,813</u>	<u>1,257,943,279</u>	<u>1.2</u>
Total assets	<u>\$ 1,592,191,482</u>	<u>\$ 1,581,491,918</u>	<u>0.7%</u>

	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
Current liabilities:			
Accounts payable and accrued liabilities	\$ 452,245	\$ 374,501	20.8%
Grants payable	546,121	-	-
Due to other funds	3,176,069	8,853,017	(64.1)
Accrued interest payable	8,351,444	8,437,451	(1.0)
Deferred revenue	506,469	4,288,149	(88.2)
Undisbursed loans	32,094,386	30,154,640	6.4
Accrued interest rebate payable to U.S. Government	3,085,362	468,016	559.2
Bonds payable	<u>99,826,855</u>	<u>97,592,795</u>	<u>2.3</u>
Total current liabilities	148,038,951	150,168,569	(1.4)
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	1,607,549	3,163,101	(49.2)
Bonds payable	<u>980,774,095</u>	<u>983,368,034</u>	<u>(0.3)</u>
Total noncurrent liabilities	<u>982,381,644</u>	<u>986,531,135</u>	<u>(0.4)</u>
Total liabilities	1,130,420,595	1,136,699,704	(0.6)
Fund equity:			
Restricted	408,184,111	391,665,234	4.2
Unrestricted	<u>53,586,776</u>	<u>53,126,980</u>	<u>0.9</u>
Total fund equity	<u>461,770,887</u>	<u>444,792,214</u>	<u>3.8</u>
Total liabilities and fund equity	<u>\$ 1,592,191,482</u>	<u>\$ 1,581,491,918</u>	<u>0.7%</u>

Total short and long-term investments held by trustee at June 30, 2007 decreased \$3,710,186 or (1.4)% from June 30, 2006. The decrease was primarily the result of drawdowns of investments for equity loans to borrowers in 2007. The Bond Bank's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises securities (i.e. FNMA, FMLMC), U.S. Treasury strips and bank investment contracts. The Bond Bank's investments are carried at fair value. Unrealized gains and losses (primarily due to fluctuations in market interest rates) are recognized in the statement of revenues, expenses and changes in fund equity.

The Bond Bank's net loans (bond and equity) to governmental units increased \$23,162,257 in fiscal year 2007. The Bond Bank's total new loan commitments in 2007 of \$193,451,395 were 41.6% more than the 2006 commitments of \$136,612,643. Net bonds payable decreased \$359,879.

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

Accrued interest rebate payable to US Government increased \$1,061,794 or 29.2% in fiscal year 2007 over fiscal year 2006. As a result of the Bond Bank issuing tax-exempt debt and investing some of the proceeds in US Government securities, it earns arbitrage that is required to be rebated to the US Treasury every 5 years. The Bond Bank maintains rebate calculations for each tax-exempt bond issue and updates the calculations every 6 months for financial statement purposes.

Deferred revenue decreased \$3,781,680 or (88.2)% in fiscal year 2007 over fiscal year 2006. The decrease is the result of recognizing grant revenue from the Department of Economic Development in conjunction with the completion of this award program (see note 10).

The Bond Bank's financial position improved as fund equity increased 3.8% in fiscal year 2007. The Bond Bank continued to maintain a positive spread of income from investments and loans to governmental units over bond interest and operating expenses.

MAINE MUNICIPAL BOND BANK
Statement of Revenues, Expenses and Changes in Fund Equity
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
Interest on loans receivable from governmental units	\$ 47,457,224	\$ 50,369,545	(5.8)%
Interest income from investments	12,179,681	11,446,562	6.4
Net increase (decrease) in the fair value of investments	1,725,147	(9,739,701)	-
Grant revenue from Environmental Protection Agency	14,976,500	16,654,500	(10.1)
Grant revenue from State of Maine	7,066,420	20,538,093	(65.6)
Other income	<u>937,736</u>	<u>924,150</u>	<u>1.5</u>
 Total operating revenue	 84,342,708	 90,193,149	 (6.5)
Interest expense	47,431,321	50,022,393	(5.2)
Operating expenses	4,039,098	3,899,931	3.6
Pass-through grant expense	4,071,120	3,642,847	11.8
Credit Quality grant expense	1,001,121	-	-
Loan forgiveness	8,571,605	8,891,087	(3.6)
Amortization of deferred financing costs and refunding benefits related to governmental units	<u>2,249,770</u>	<u>2,586,004</u>	<u>(13.0)</u>
 Total operating expenses	 <u>67,364,035</u>	 <u>69,042,262</u>	 <u>(2.4)</u>
 Operating income	 16,978,673	 21,150,887	 (19.7)
 Fund equity, beginning of year	 <u>444,792,214</u>	 <u>423,641,327</u>	 <u>5.0</u>
 Fund equity, end of year	 <u>\$ 461,770,887</u>	 <u>\$ 444,792,214</u>	 <u>3.8%</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 2007 increased 6.4% from 2006. This increase was primarily the result of an improving short-term interest rate environment in 2007.

Grant revenues from the Environmental Protection Agency and the State of Maine are contingent on continued funding by the U.S. Congress and the State of Maine Legislature. The Environmental Protection Agency awarded the Bond Bank grants totaling \$14,976,500 in fiscal year 2007, which was a 10.1% decrease over 2006. The State of Maine awarded the Bond Bank various grants, which decreased \$13,471,673 or 65.6% from 2006 grants. The fiscal year 2007 grants were made up of State of Maine matching funds for the Sewer and Water Funds Groups totaling \$2,995,300 and Department of Economic and Community Development grants totaling \$4,071,120 to the General Operating Account.

The State grant revenue from the Department of Economic and Community Development totaling \$4,071,120 is a pass-through grant that is administered by the Bond Bank within the General Operating Account Fund Group. The grant revenue fluctuates from year to year in conjunction with the pass-through grant expense, which represents grants awarded to approved municipalities. The pass-through grant program was completed during fiscal year 2007.

Other income consists primarily of fees from borrowers within the Sewer and Water Fund Groups and other income within the General Operating Account Fund Group. The increase of \$13,586 or 1.5% in fiscal year 2007 compared to fiscal year 2006 is attributed primarily to the increase of loans being serviced. The Bond Bank committed \$193,451,395 in new loans in fiscal year 2007.

Loan forgiveness expense (see notes 6 and 7) decreased 3.6 % in fiscal year 2007 over 2006. Portions of the loans made to governmental units under the Drinking Water Revolving Loan Fund Programs may be forgiven if certain continuing criteria are met as the borrowers repay the loans. The amount forgiven within the Drinking Water Revolving Loan Fund Program in 2007 was \$641,723. 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 2007 was \$7,929,882. Forgiveness expense will vary from year to year depending upon repayment and drawdown activity with the respective programs.

Requests for Information

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

MAINE MUNICIPAL BOND BANK

BALANCE SHEET

June 30, 2007

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Special Obli- gation Taxable Fund Group</u>
<u>ASSETS</u>			
Current assets:			
Cash	\$ 85,708	\$ —	\$ —
Investments held by trustee, at market value (notes 3 and 5)	—	36,565,431	11,587
Board designated cash and investments, at market value (note 3)	19,799,468	—	—
Loans receivable from governmental units (note 4)	—	82,183,468	155,000
Accrued investment income receivable	158,043	405,100	2,546
Accrued interest receivable from governmental units	—	6,397,139	8,689
Undisbursed federal letter of credit payments	—	—	—
Refunding benefits rebated to governmental units, net of amortization	—	1,246,369	—
Due from other funds	3,086,021	—	—
Other assets	<u>168,319</u>	<u>107</u>	<u>—</u>
Total current assets	23,297,559	126,797,614	177,822
Noncurrent assets:			
Investments held by trustee, at market value (notes 3 and 5)	—	109,797,278	204,600
Loans receivable from governmental units (note 4)	—	769,187,775	355,000
Land and building, net of depreciation of \$802,386	815,937	—	—
Refunding benefits rebated to governmental units, net of amortization	<u>—</u>	<u>4,220,470</u>	<u>—</u>
Total noncurrent assets	815,937	883,205,523	559,600
Total assets	<u>\$ 24,113,496</u>	<u>\$ 1,010,003,137</u>	<u>\$ 737,422</u>

Grant Anticipation Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85,708
-	57,636,338	13,383,795	3,959,242	28,095,173	139,651,566
-	-	-	-	-	19,799,468
4,152,049	19,757,314	2,790,894	-	5,762,694	114,801,419
-	747,160	117,042	21,003	295,295	1,746,189
522,194	1,154,763	192,088	-	-	8,274,873
-	11,224,311	12,043,440	-	-	23,267,751
-	168,256	-	-	-	1,414,625
-	-	-	90,048	-	3,176,069
-	5,458	2,083	-	-	175,967
4,674,243	90,693,600	28,529,342	4,070,293	34,153,162	312,393,635
-	9,720,678	137,178	-	-	119,859,734
37,792,821	244,807,981	66,913,101	-	35,376,264	1,154,432,942
-	-	-	-	-	815,937
-	468,764	-	-	-	4,689,234
37,792,821	254,997,423	67,050,279	-	35,376,264	1,279,797,847
<u>\$ 42,467,064</u>	<u>\$ 345,691,023</u>	<u>\$ 95,579,621</u>	<u>\$ 4,070,293</u>	<u>\$ 69,529,426</u>	<u>\$ 1,592,191,482</u>

MAINE MUNICIPAL BOND BANK

BALANCE SHEET (CONTINUED)

June 30, 2007

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Special Obli- gation Taxable Fund Group</u>
<u>LIABILITIES AND FUND EQUITY (DEFICIT)</u>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 165,983	\$ 24,302	\$ 224,471
Grants payable (note 11)	546,121	-	-
Due to other funds	-	2,592,469	3,150
Accrued interest payable	-	7,296,968	8,712
Deferred revenue	-	-	-
Undisbursed loans	-	-	-
Accrued interest rebate payable to U.S. Government	-	2,933,104	-
Bonds payable (note 4)	<u>-</u>	<u>89,291,415</u>	<u>155,000</u>
Total current liabilities	712,104	102,138,258	391,333
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	-	1,603,769	-
Bonds payable (note 4)	<u>-</u>	<u>877,067,335</u>	<u>355,000</u>
Total noncurrent liabilities	<u>-</u>	<u>878,671,104</u>	<u>355,000</u>
Total liabilities	712,104	980,809,362	746,333
Fund equity (deficit):			
Restricted (notes 5, 6 and 7)	-	4,670,829	-
Unrestricted (notes 6 and 7)	<u>23,401,392</u>	<u>24,522,946</u>	<u>(8,911)</u>
Total fund equity (deficit)	<u>23,401,392</u>	<u>29,193,775</u>	<u>(8,911)</u>
Total liabilities and fund equity	<u>\$ 24,113,496</u>	<u>\$ 1,010,003,137</u>	<u>\$ 737,422</u>

See accompanying notes.

Grant Anticipation Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$ -	\$ 18,335	\$ 7,899	\$ -	\$ 11,255	\$ 452,245
-	-	-	-	-	546,121
-	471,710	24,964	48,313	35,463	3,176,069
522,194	475,388	48,182	-	-	8,351,444
-	305,977	200,492	-	-	506,469
-	13,545,567	1,990,353	-	16,558,466	32,094,386
-	152,258	-	-	-	3,085,362
<u>4,152,049</u>	<u>5,868,391</u>	<u>360,000</u>	<u>-</u>	<u>-</u>	<u>99,826,855</u>
4,674,243	20,837,626	2,631,890	48,313	16,605,184	148,038,951
-	3,780	-	-	-	1,607,549
<u>37,792,821</u>	<u>59,278,939</u>	<u>6,280,000</u>	<u>-</u>	<u>-</u>	<u>980,774,095</u>
<u>37,792,821</u>	<u>59,282,719</u>	<u>6,280,000</u>	<u>-</u>	<u>-</u>	<u>982,381,644</u>
42,467,064	80,120,345	8,911,890	48,313	16,605,184	1,130,420,595
-	265,570,678	86,269,590	-	51,673,014	408,184,111
<u>-</u>	<u>-</u>	<u>398,141</u>	<u>4,021,980</u>	<u>1,251,228</u>	<u>53,586,776</u>
<u>-</u>	<u>265,570,678</u>	<u>86,667,731</u>	<u>4,021,980</u>	<u>52,924,242</u>	<u>461,770,887</u>
<u>\$ 42,467,064</u>	<u>\$ 345,691,023</u>	<u>\$ 95,579,621</u>	<u>\$ 4,070,293</u>	<u>\$ 69,529,426</u>	<u>\$ 1,592,191,482</u>

MAINE MUNICIPAL BOND BANK

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

For the Year Ended June 30, 2007

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Special Obli- gation Taxable Fund Group</u>
Operating revenues:			
Interest on loans receivable from governmental units	\$ —	\$ 39,615,989	\$ 57,034
Interest income from investments	817,706	6,086,169	7,134
Net increase in the fair value of investments	99,680	623,320	4,028
Grant revenue from Environmental Protection Agency (note 6)	—	—	—
Grant revenue from State of Maine (notes 6, 7 and 10)	4,071,120	—	—
Other income	<u>337,195</u>	<u>—</u>	<u>—</u>
Total operating revenue	5,325,701	46,325,478	68,196
Operating expenses:			
Interest expense	—	42,560,796	57,058
Operating expenses (note 8)	954,938	8,283	14,413
Pass-through grant expense (note 10)	4,071,120	—	—
Credit quality grant expense (note 11)	1,001,121	—	—
Loan forgiveness (notes 6 and 7)	—	—	—
Amortization of deferred financing costs and refunding benefits rebated to governmental units	<u>—</u>	<u>2,003,721</u>	<u>—</u>
Total operating expenses	<u>6,027,179</u>	<u>44,572,800</u>	<u>71,471</u>
Operating income (loss) before operating transfers	(701,478)	1,752,678	(3,275)
Operating transfers	<u>495,647</u>	<u>(495,647)</u>	<u>—</u>
Operating income (loss)	(205,831)	1,257,031	(3,275)
Fund equity (deficit), beginning of year	<u>23,607,223</u>	<u>27,936,744</u>	<u>(5,636)</u>
Fund equity (deficit), end of year	<u>\$ 23,401,392</u>	<u>\$ 29,193,775</u>	<u>\$ (8,911)</u>

See accompanying notes.

Grant Anticipation Fund Group	Sewer and Water Fund Groups			School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Operating Fund Group		
	Waste Water	Drinking Water			
\$1,430,379	\$ 5,652,659	\$ 701,163	\$ —	\$ —	\$ 47,457,224
—	3,163,580	589,386	182,857	1,332,849	12,179,681
—	571,743	97,664	—	328,712	1,725,147
—	6,747,200	8,229,300	—	—	14,976,500
—	1,349,440	1,645,860	—	—	7,066,420
—	—	—	600,541	—	937,736
1,430,379	17,484,622	11,263,373	783,398	1,661,561	84,342,708
1,430,379	3,089,836	293,252	—	—	47,431,321
—	522,832	1,609,452	264,299	664,881	4,039,098
—	—	—	—	—	4,071,120
—	—	—	—	—	1,001,121
—	—	641,723	—	7,929,882	8,571,605
—	246,049	—	—	—	2,249,770
<u>1,430,379</u>	<u>3,858,717</u>	<u>2,544,427</u>	<u>264,299</u>	<u>8,594,763</u>	<u>67,364,035</u>
—	13,625,905	8,718,946	519,099	(6,933,202)	16,978,673
—	1,067,743	51,237	(1,118,980)	—	—
—	14,693,648	8,770,183	(599,881)	(6,933,202)	16,978,673
—	250,877,030	77,897,548	4,621,861	59,857,444	444,792,214
<u>\$ —</u>	<u>\$ 265,570,678</u>	<u>\$ 86,667,731</u>	<u>\$ 4,021,980</u>	<u>\$ 52,924,242</u>	<u>\$ 461,770,887</u>

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2007

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Special Obli- gation Taxable Fund Group</u>
OPERATING ACTIVITIES:			
Cash received from governmental units	\$ —	\$ 121,925,131	\$ 199,373
Cash payments to governmental units	(4,526,120)	(88,446,001)	—
Cash received from other income	337,195	—	—
Cash payments for operating expenses	(879,545)	(8,283)	(1,576)
Cash received from (paid to) other funds	5,106,960	(5,035,905)	(912)
Cash paid for other assets and liabilities	<u>(64,817)</u>	<u>—</u>	<u>—</u>
Net cash provided (used) by operating activities	(26,327)	28,434,942	196,885
NONCAPITAL FINANCING ACTIVITIES:			
Proceeds from bonds payable	—	149,810,255	—
Principal paid on bonds payable	—	(88,025,314)	(140,000)
Interest paid on bonds payable	—	(41,480,773)	(59,450)
Amount deposited to refunding escrow (note 9)	—	(52,836,736)	—
Issuance costs paid for refunding bonds (note 9)	—	(527,116)	—
Grant receipts from Environmental Protection Agency and State of Maine (note 10)	<u>84,740</u>	<u>—</u>	<u>—</u>
Net cash (used) provided by noncapital financing activities	84,740	(33,059,684)	(199,450)
INVESTING ACTIVITIES:			
Purchase of investment securities	(66,222,007)	(148,480,463)	(195,452)
Proceeds from sale and maturities of investment securities	65,193,137	148,173,397	190,894
Income received from investments	802,576	5,410,537	7,123
Interest rebate paid to U.S. Government	—	(478,729)	—
Additions to land and building	<u>(34,707)</u>	<u>—</u>	<u>—</u>
Net cash provided (used) by investing activities	<u>(261,001)</u>	<u>4,624,742</u>	<u>2,565</u>
Decrease in cash	(202,588)	—	—
Cash, beginning of year	<u>288,296</u>	<u>—</u>	<u>—</u>
Cash, end of year	<u>\$ 85,708</u>	<u>\$ —</u>	<u>\$ —</u>

Grant Anticipation Fund Group	Sewer and Water Fund Groups			Operating Fund Group	School Facilities Fund Group	Total
	Revolving Loan Fund Groups		Waste Water			
	Drinking Water	Drinking Water				
\$ 5,530,520	\$ 11,535,900	\$ 1,055,432	\$ -	\$ -	\$ 140,246,356	
-	(16,431,949)	(7,287,705)	-	(10,573,205)	(127,264,980)	
-	-	-	600,541	-	937,736	
-	(513,046)	(1,604,303)	(264,372)	(662,076)	(3,933,201)	
-	(15,781)	(133)	(50,146)	(4,083)	-	
-	-	-	-	-	(64,817)	
5,530,520	(5,424,876)	(7,836,709)	286,023	(11,239,364)	9,921,094	
-	-	-	-	-	149,810,255	
(3,915,000)	(6,080,000)	(350,000)	-	-	(98,510,314)	
(1,615,520)	(2,953,455)	(295,333)	-	-	(46,404,531)	
-	-	-	-	-	(52,836,736)	
-	-	-	-	-	(527,116)	
-	10,587,095	10,347,708	-	-	21,019,543	
(5,530,520)	1,553,640	9,702,375	-	-	(27,448,899)	
-	(109,003,212)	(25,966,393)	(2,980,316)	(58,745,489)	(411,593,332)	
-	109,802,258	23,543,040	2,517,871	68,644,218	418,064,815	
-	3,072,190	557,687	176,422	1,340,635	11,367,170	
-	-	-	-	-	(478,729)	
-	-	-	-	-	(34,707)	
-	3,871,236	(1,865,666)	(286,023)	11,239,364	17,325,217	
-	-	-	-	-	(202,588)	
-	-	-	-	-	288,296	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85,708	

MAINE MUNICIPAL BOND BANK

**STATEMENT OF CASH FLOWS
(CONTINUED)**

For the Year Ended June 30, 2007

	<u>General Operating Account</u>	<u>General Tax-Exempt Fund Group</u>	<u>Special Obli- gation Taxable Fund Group</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (205,831)	\$ 1,257,031	\$ (3,275)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Interest income from investments	(817,706)	(6,086,169)	(7,134)
Net increase in the fair value of investments	(99,680)	(623,320)	(4,028)
Loan forgiveness	-	-	-
Depreciation	65,879	-	-
Amortization of deferred financing costs and refunding benefits	-	2,003,721	-
Interest expense on bonds payable	-	42,560,796	57,058
Federal and State grants	(4,071,120)	-	-
Change in assets and liabilities:			
Loans receivable from governmental units	-	(6,138,773)	140,000
Accrued interest receivable from governmental units	-	1,914	2,339
Due to/from other funds	4,611,313	(4,540,258)	(912)
Other assets	(64,817)	-	-
Accounts payable and accrued liabilities	9,514	-	12,837
Grant payable	<u>546,121</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ (26,327)</u>	<u>\$ 28,434,942</u>	<u>\$ 196,885</u>

See accompanying notes.

Grant Anticipation Fund Group	Sewer and Water Fund Groups			Operating Fund Group	School Facilities Fund Group	Total
	Revolving Loan Fund Groups					
	Waste Water	Drinking Water				
\$ -	\$ 14,693,648	\$ 8,770,183	\$ (599,881)	\$ (6,933,202)	\$ 16,978,673	
-	(3,163,580)	(589,386)	(182,857)	(1,332,849)	(12,179,681)	
-	(571,743)	(97,664)	-	(328,712)	(1,725,147)	
-	-	641,723	-	7,929,882	8,571,605	
-	-	-	-	-	65,879	
-	246,049	-	-	-	2,249,770	
1,430,379	3,089,836	293,252	-	-	47,431,321	
-	(8,096,640)	(9,875,160)	-	-	(22,042,920)	
4,067,516	(10,351,949)	(6,937,705)	-	(10,573,205)	(29,794,116)	
32,625	(196,759)	4,269	-	-	(155,612)	
-	(1,083,524)	(51,370)	1,068,834	(4,083)	-	
-	-	-	-	-	(64,817)	
-	9,786	5,149	(73)	2,805	40,018	
-	-	-	-	-	546,121	
<u>\$ 5,530,520</u>	<u>\$ (5,424,876)</u>	<u>\$ (7,836,709)</u>	<u>\$ 286,023</u>	<u>\$ (11,239,364)</u>	<u>\$ 9,921,094</u>	

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

1. Organization

The Maine Municipal Bond Bank (the Bond Bank) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Components Units*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Article 30-A, Title 5901 (the Act), as amended.

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

The general operating account consists of the operating revenues and expenses incurred by the Bond Bank in administering the five resolutions under which it is operating. The funds and accounts of these resolutions have been grouped within each of the resolutions and fund groups as follows:

General Tax-Exempt Fund Group: This fund group consists of funds and accounts established under the Bond Bank’s General Bond Resolution adopted July 11, 1973, as amended and supplemented by the First Supplemental Resolution adopted September 20, 1977, the Second Supplemental Resolution adopted July 18, 1984, the Third Supplemental Resolution adopted May 7, 1993 and the Fourth Supplemental Resolution adopted June 25, 1993. Under these resolutions, the Bond Bank issues bonds exempt from federal and State of Maine income taxes and makes loans to local governmental units.

Special Obligation Taxable Fund Group: This fund group consists of funds and accounts established under the Bond Bank’s Special Obligation Bond Resolution adopted May 25, 1990. Under this resolution, the Bond Bank issues bonds which are exempt from State of Maine income taxes (but not federal income taxes) and makes loans to governmental units.

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

Sewer and Water Fund Groups: These fund groups consist of funds and accounts established under the Bond Bank’s Sewer and Water General Bond Resolution adopted February 7, 1990, as amended and supplemented by the First Supplemental Resolution adopted March 6, 1991. Under this resolution, the Bond Bank issues bonds exempt from federal and State of Maine income taxes for the purpose of making revolving loans to governmental units to finance wastewater collection, treatment system or water supply system projects. Some of these projects may be partially financed by grants from the Environmental Protection Agency and the State of Maine under the State Revolving Fund Program and the Drinking Water State Revolving Loan Fund Program.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

1. Organization (Continued)

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

2. Significant Accounting Policies

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

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

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

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

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

Investments: Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in fund equity. Interest earnings on principal-only strips within the general tax-exempt fund group of approximately \$4,700,000 have been recorded as interest income from investments in 2007. Reserve fund investments that are not expected to be utilized to fund bond principal and interest payments until after June 30, 2008 have been classified as long-term.

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

2. **Significant Accounting Policies (Continued)**

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

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

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

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

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

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

Construction Funds: The Sewer and Water General Bond Resolution requires bond proceeds to be deposited into construction funds. Upon deposit into the construction funds, a loan receivable from the governmental unit is recorded and the construction funds are excluded from Sewer and Water Fund Groups. The Bond Bank maintains control over disbursement of these funds until the project is complete. Approximately \$404,000 in investments are held in the construction funds at June 30, 2007.

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

2. **Significant Accounting Policies (Continued)**

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

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

New Accounting Pronouncements: GASB issued Statement No. 45, *Accounting and Financial Reporting for Employers for Post-Employment Benefits Other Than Pensions*, in June 2004. This statement establishes standards for the measurement, recognition and display of other post-employment benefits (including post-employment healthcare benefits). This statement is expected to be applicable to the Bond Bank beginning in fiscal 2009.

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

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

3. **Investments Held By Trustee and Board Designated Investments**

The Bond Bank is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises, state and local government agencies, bank investment contracts and collateralized repurchase agreements. At June 30, 2007, investments are categorized as follows:

	<u>Fair Value</u>
<u>General Operating Account</u>	
Board-designated investments:	
U.S. Government-sponsored enterprises	\$ 15,181,416
Cash and cash equivalents	<u>4,618,052</u>
	<u>\$ 19,799,468</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

	<u>Fair Value</u>
<u>General Tax-Exempt Fund Group</u>	
Investments held by trustee:	
Bank investment contracts	\$ 12,411,761
U.S. Government obligations	9,149,155
U.S. Government-sponsored enterprises	13,696,824
U.S. Treasury strips	87,123,081
Cash and cash equivalents	<u>23,981,888</u>
	<u>\$ 146,362,709</u>
 <u>Special Obligation Taxable Fund Group</u>	
Investments held by trustee:	
U.S. Government obligations	\$ 204,600
Cash and cash equivalents	<u>11,587</u>
	<u>\$ 216,187</u>
 <u>Sewer and Water Fund Groups</u>	
Investments held by trustee:	
Revolving Loan Fund Group –	
Waste Water:	
Bank investment contracts	\$ 9,133,263
U.S. Government obligations	194,158
U.S. Government-sponsored enterprises	44,678,628
Cash and cash equivalents	<u>13,350,967</u>
	<u>\$ 67,357,016</u>
 Revolving Loan Fund Group –	
Drinking Water:	
U.S. Government obligations	\$ 19,055
U.S. Government-sponsored enterprises	7,653,939
Cash and cash equivalents	<u>5,847,979</u>
	<u>\$ 13,520,973</u>
 Operating Fund Group:	
U.S. Government-sponsored enterprises	\$ 741,462
Cash and cash equivalents	<u>3,217,780</u>
	<u>\$ 3,959,242</u>
 <u>School Facilities Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 21,486,249
Cash and cash equivalents	<u>6,608,924</u>
	<u>\$ 28,095,173</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Bond Bank's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, bank investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Bond Bank to terminate individual contracts at par. The Bond Bank's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Bond Bank's investments in bank investment contracts, U.S. Government obligations and U.S. Government-sponsored enterprises as of June 30, 2007:

	<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>15,181,416</u>	\$ <u>5,470,398</u>	\$ <u>9,711,018</u>	\$ <u>—</u>	\$ <u>—</u>
<u>General Tax Exempt Fund Group</u>					
Bank investment contracts	\$ 12,411,761	\$ —	\$ 4,406,402	\$ —	\$ 8,005,359
U.S. Government obligations	9,149,155	207,881	2,183,455	1,831,725	4,926,094
U.S. Government- sponsored enterprises	13,696,824	605,879	2,784,663	1,718,281	8,588,001
U.S. Treasury strips	<u>87,123,081</u>	<u>11,769,783</u>	<u>34,001,886</u>	<u>23,509,384</u>	<u>17,842,028</u>
	\$ <u>122,380,821</u>	\$ <u>12,583,543</u>	\$ <u>43,376,406</u>	\$ <u>27,059,390</u>	\$ <u>39,361,482</u>
<u>Special Obligation Taxable Fund Group</u>					
U.S. Government obligations	\$ <u>204,600</u>	\$ <u>204,600</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>
<u>Revolving Loan Fund Group – Waste Water</u>					
Bank investment contracts	\$ 9,133,263	\$ —	\$ 1,231,500	\$ 3,960,087	\$ 3,941,676
U.S. Government obligations	194,158	—	—	194,158	—
U.S. Government- sponsored enterprises	<u>44,678,628</u>	<u>20,376,152</u>	<u>23,909,219</u>	<u>393,257</u>	<u>—</u>
	\$ <u>54,006,049</u>	\$ <u>20,376,152</u>	\$ <u>25,140,719</u>	\$ <u>4,547,502</u>	\$ <u>3,941,676</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

	<u>Fair</u> <u>Value</u>	<u>Less than</u> <u>One Year</u>	<u>One to</u> <u>Five Years</u>	<u>Six to</u> <u>Ten Years</u>	<u>More than</u> <u>Ten Years</u>
<u>Revolving Loan Fund Group – Drinking Water</u>					
U.S. Government obligations	\$ 19,055	\$ 19,055	\$ –	\$ –	\$ –
U.S. Government-sponsored enterprises	<u>7,653,939</u>	<u>7,270,511</u>	<u>246,250</u>	<u>–</u>	<u>137,178</u>
	<u>\$ 7,672,994</u>	<u>\$ 7,289,566</u>	<u>\$ 246,250</u>	<u>\$ –</u>	<u>\$ 137,178</u>
<u>Revolving Loan Fund Group – Operating Fund Group</u>					
U.S. Government-sponsored categories	<u>\$ 741,462</u>	<u>\$ 741,462</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>
<u>School Facilities Fund Group</u>					
U.S. Government-sponsored enterprises	<u>\$ 21,486,249</u>	<u>\$ 14,032,749</u>	<u>\$ 7,453,500</u>	<u>\$ –</u>	<u>\$ –</u>

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Bond Bank will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Bond Bank's investments are primarily held by U.S. Bank and Bangor Savings Bank. Management of the Bond Bank is not aware of any issues with respect to custodial credit risk at either bank at June 30, 2007.

For an investment, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Bond Bank. The Bond Bank's investment policy limits its investments to those with high credit quality, such as U.S. Treasury Obligations and U.S. Government-sponsored enterprises securities, as rated by rating agencies such as Moody's Investor Service or Standard and Poor's, or bank investment contracts backed by high credit quality banks and insurance companies (AA rated or better).

At June 30, 2007, the Bond Bank's bank investment contracts within the General Tax Exempt Fund Group and Revolving Loan Fund Group are primarily with three institutions, all of which are AA rated or better.

The Bond Bank has invested some of its long-term funds in U.S. Government principal-only strips in order to maximize yields coincident with cash needs for operations, debt service, and arbitrage. These securities are similar to zero coupon bonds which are purchased deeply discounted, with the Bond Bank receiving its only repayment stream at maturity; therefore, they are sensitive to interest rate changes. These securities are reported at fair value in the balance sheet and are included as U.S. Government obligations above. The fair value of these investments is approximately \$87,100,000 at June 30, 2007.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

Trustee held cash and cash equivalents at June 30, 2007 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, 2007 consist entirely of money market funds secured by short-term U.S. Treasury obligations, held by a trust company.

4. Bonds Payable

Total General Tax-Exempt Fund Group Bonds payable consist of the following at June 30, 2007:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2007</u>
Series 1993 B and C, 5% – 5.85%, dated May 1, 1993	1994 – 2020	\$ 40,070,000	\$ 5,130,000
Series 1994 D, 4% – 6.3%, dated September 1, 1994	1995 – 2014	12,365,000	6,155,000
Series 1996 A and B, 5% – 5.9%, dated May 1, 1996	1997 – 2016	29,970,000	1,305,000
Series 1996 D and E, 4.90% – 5.70%, dated October 1, 1996	1997 – 2016	35,225,000	1,330,000
Series 1997 A and B, 5.10% – 5.75%, dated May 1, 1997	1998 – 2017	31,870,000	4,300,000
Series 1997 C and D, 4.5% – 5.35%, dated October 1, 1997	1998 – 2017	50,785,000	6,670,000
Series 1998 A, 3.70% – 5.50%, dated February 1, 1998	1999 – 2012	60,950,000	38,040,000
Series 1998 B and C, 4% – 5.35%, dated May 1, 1998	1998 – 2018	73,770,000	17,370,000
Series 1998 D and E, 3.75% – 4.80%, dated October 1, 1998	1999 – 2018	13,890,000	3,650,000
Series 1999 B and C, 4% – 5.25%, dated May 1, 1999	2000 – 2028	62,860,000	18,955,000
Series 1999 D and E, 4% – 5.875%, dated October 1, 1999	2000 – 2021	46,460,000	11,960,000
Series 2000 A and B, 4.5% – 5.875%, dated May 1, 2000	2000 – 2020	70,125,000	20,790,000
Series 2000 C and D, 4.625% – 5.70%, dated October 1, 2000	2001 – 2021	39,560,000	12,775,000
Series 2001 A and B, 4.125% – 5.25%, dated May 1, 2001	2002 – 2021	34,635,000	12,865,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2007</u>
Series 2001 C and D, 3.00% – 5.125%, dated October 1, 2001	2002 – 2022	\$ 68,835,000	\$ 27,390,000
Series 2002 A, 3.00% – 5.375%, dated March 1, 2002	2002 – 2021	36,520,000	13,980,000
Series 2002 B and C, 2.50% – 5.25%, dated May 1, 2002	2002 – 2032	77,575,000	63,105,000
Series 2002 D, 2.00% – 5.00%, dated July 1, 2002	2003 – 2015	49,315,000	32,805,000
Series 2002 E and F, 2.00% – 5.00%, dated October 1, 2002	2003 – 2023	32,720,000	19,250,000
Series 2003 A, 3.00% – 5.25%, dated March 1, 2003	2003 – 2020	186,050,000	113,541,909
Series 2003 B and C, 2.00% – 5.00%, dated May 1, 2003	2003 – 2024	17,290,000	13,960,000
Series 2003 D and E, 2.00% – 5.00%, dated October 1, 2003	2004 – 2033	18,460,000	15,205,000
Series 2004 A and B, 2.00% – 5.00%, dated May 27, 2004	2004 – 2025	94,565,000	83,975,000
Series 2004 C, 2.00% – 5.00%, dated September 23, 2004	2004 – 2020	58,675,000	55,500,000
Series 2004 D and E, 2.25% – 5.00%, dated October 28, 2004	2005 – 2034	46,850,000	41,110,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2005 – 2021	91,250,000	90,090,000
Series 2005 B and C, 3.00% – 5.00%, dated May 26, 2005	2006 – 2031	22,050,000	20,850,000
Series 2005 D and E, 3.00% – 5.00%, dated October 27, 2005	2006 – 2034	60,395,000	57,145,000
Series 2006 A, 3.48% – 4.77%, dated May 25, 2006	2006 – 2036	14,040,000	14,005,000
Series 2006 B and C, 3.55% – 5.00%, dated October 26, 2006	2007 – 2027	24,065,000	24,065,000
Series 2007 A, 3.75% – 5.00% dated April 5, 2007	2007 – 2022	51,335,000	51,335,000
Series 2007 B and C, 4.00% – 5.00% dated May 24, 2007	2007 – 2029	<u>69,380,000</u>	<u>69,380,000</u>
		<u>\$ 1,621,905,000</u>	<u>\$ 967,986,909</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

4. Bonds Payable (Continued)

Total General Tax-Exempt Fund Group Bonds payable is presented on the balance sheet at June 30, 2007 as follows:

Total principal outstanding	\$ 967,986,909
Deferred amount on refunding	(26,393,247)
Unamortized original issue discount	(182,212)
Unamortized original issue premium	<u>24,947,300</u>
Total General Tax-Exempt Fund Group Bonds payable	966,358,750
Current portion	<u>89,291,415</u>
Noncurrent portion	<u>\$ 877,067,335</u>

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

Due Bond Year Ending November 1	Principal	Interest	Total Debt Service
2007	\$ 89,644,042	\$ 21,851,784	\$ 111,495,826
2008	88,267,596	40,217,817	128,485,413
2009	83,481,040	36,364,028	119,845,068
2010	81,155,468	32,726,299	113,881,767
2011	71,778,350	29,178,877	100,957,227
2012 – 2016	282,550,953	102,040,799	384,591,752
2017 – 2021	190,999,460	45,563,219	236,562,679
2022 – 2026	71,140,000	10,821,430	81,961,430
2027 – 2031	6,945,000	1,090,450	8,035,450
2032 – 2036	<u>2,025,000</u>	<u>204,117</u>	<u>2,229,117</u>
	<u>\$ 967,986,909</u>	<u>\$ 320,058,820</u>	<u>\$ 1,288,045,729</u>

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

Municipal loan obligations – principal and interest	\$ 1,126,152,125
Reserve Funds – principal and interest	<u>161,893,604</u>
	<u>\$ 1,288,045,729</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

4. Bonds Payable (Continued)

Total Special Obligation Taxable Fund Group Bonds payable consist of the following at June 30, 2007:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2007</u>
Series 1990 A, 10.25%, dated June 1, 1990	1991 – 2009	\$1,700,000	\$510,000
Current portion			<u>155,000</u>
Noncurrent portion			<u>\$355,000</u>

The outstanding Special Obligation Taxable 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>
2007	\$155,000	\$26,137	\$181,137
2008	170,000	36,388	206,388
2009	<u>185,000</u>	<u>18,962</u>	<u>203,962</u>
	<u>\$510,000</u>	<u>\$81,487</u>	<u>\$591,487</u>

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

Governmental unit loan obligations – principal and interest	\$ <u>591,487</u>
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Total Grant Anticipation Fund Group Bonds payable consist of the following at June 30, 2007:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2007</u>
Series 2004 A, 2.50% – 5.00%, dated December 16, 2004	2005 – 2015	\$ 48,395,000	\$ <u>41,325,000</u>

Total Grant Anticipation Fund Group Bonds payable is presented on the balance sheet at June 30, 2007 as follows:

Total principal outstanding	\$ 41,325,000
Unamortized original issue premium	<u>619,870</u>
Total Grant Anticipation Fund Group Bonds payable	41,944,870
Current portion	<u>4,152,049</u>
Noncurrent portion	<u>\$ 37,792,821</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

4. Bonds Payable (Continued)

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

Due Bond Year Ending September 1	Principal	Interest	Total Debt Service
2007	\$ 4,015,000	\$ 783,291	\$ 4,798,291
2008	4,135,000	1,446,131	5,581,131
2009	4,260,000	1,322,081	5,582,081
2010	4,390,000	1,194,281	5,584,281
2011	4,520,000	1,062,581	5,582,581
2012 – 2016	<u>20,005,000</u>	<u>2,323,656</u>	<u>22,328,656</u>
	<u>\$ 41,325,000</u>	<u>\$ 8,132,021</u>	<u>\$ 49,457,021</u>

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

General unit obligations – principal and interest \$ 49,457,021

Sewer and Water Fund Group Waste Water Bonds payable consist of the following at June 30, 2007:

	Original Maturity	Amount Issued	Outstanding June 30, 2007
Series 1993 A and B, 2.75% – 5.45%, dated October 1, 1993	1994 – 2016	\$ 27,815,000	\$ 11,695,000
Series 1996 A, 3.7% – 5.85%, dated March 1, 1996	1997 – 2017	6,795,000	3,450,000
Series 1997 A and B, 3.9% – 5.45%, dated July 15, 1997	1998 – 2018	20,835,000	12,930,000
Series 2003 A and B, 1.05% – 5.00%, dated March 1, 2003	2003 – 2023	32,165,000	23,665,000
Series 2003 C, 1% – 4.9%, dated November 13, 2003	2004 – 2024	<u>16,065,000</u>	<u>14,195,000</u>
		<u>\$ 103,675,000</u>	<u>\$ 65,935,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

4. Bonds Payable (Continued)

The Sewer and Water Fund Group Waste Water Bonds payable are presented on the balance sheet at June 30, 2007 as follows:

Total principal outstanding	\$ 65,935,000
Deferred amount on refunding	(985,220)
Unamortized original issue discount	(39,454)
Unamortized original issue premium	<u>237,004</u>
 Total Sewer and Water Fund Group Waste Water Bonds payable	 65,147,330
Current portion	<u>5,868,391</u>
 Noncurrent portion	 <u>\$ 59,278,939</u>

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

Due Bond Year Ending November 1	Principal	Interest	Total Debt Service
2007	\$ 6,065,000	\$ 1,426,163	\$ 7,491,163
2008	6,075,000	2,638,094	8,713,094
2009	6,050,000	2,410,756	8,460,756
2010	6,130,000	2,173,788	8,303,788
2011	6,545,000	1,926,264	8,471,264
2012 – 2016	21,685,000	5,830,184	27,515,184
2017 – 2021	10,575,000	1,880,484	12,455,484
2022 – 2026	<u>2,810,000</u>	<u>255,236</u>	<u>3,065,236</u>
	<u>\$ 65,935,000</u>	<u>\$ 18,540,969</u>	<u>\$ 84,475,969</u>

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

Governmental unit loan obligations – principal and interest	\$ 78,079,410
Reserve fund – principal and interest	<u>6,396,559</u>
	<u>\$ 84,475,969</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

4. Bonds Payable (Continued)

Sewer and Water Fund Group Drinking Water Bonds payable consist of the following at June 30, 2007:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2007</u>
Series 1998 A, 3.65% – 5.2%, dated August 15, 1998	1999 – 2028	\$4,795,000	\$3,130,000
Series 2005 A, 2.25% – 4.45%, dated March 24, 2005	2005 – 2025	<u>3,770,000</u>	<u>3,510,000</u>
		<u>\$8,565,000</u>	
Total Sewer and Water Fund Group Drinking Water Bonds payable			6,640,000
Current portion			<u>360,000</u>
Noncurrent portion			<u>\$6,280,000</u>

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

<u>Due Bond Year Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 360,000	\$ 144,545	\$ 504,545
2008	370,000	275,845	645,845
2009	375,000	262,030	637,030
2010	385,000	247,360	632,360
2011	395,000	231,858	626,858
2012 – 2016	2,125,000	893,310	3,018,310
2017 – 2021	1,625,000	412,437	2,037,437
2022 – 2026	970,000	114,233	1,084,233
2027 – 2031	<u>35,000</u>	<u>2,860</u>	<u>37,860</u>
	<u>\$6,640,000</u>	<u>\$2,584,478</u>	<u>\$ 9,224,478</u>

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

Governmental unit loan obligations – principal and interest	\$ 8,926,017
Reserve fund – principal and interest	<u>298,461</u>
	<u>\$ 9,224,478</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

4. Bonds Payable (Continued)

The following summarizes bond payable activity for the Bond Bank for the year ended June 30, 2007:

	General Tax-Exempt <u>Fund Group</u>	Special Obligation Taxable <u>Fund Group</u>	Grant Anticipation <u>Fund Group</u>	Waste Water <u>Fund Group</u>	Drinking Water <u>Fund Group</u>
Balance, beginning of year	\$ 956,303,767	\$ 650,000	\$ 46,012,386	\$ 71,004,676	\$ 6,990,000
Issuances – face value	144,780,000	–	–	–	–
Redemptions	(88,025,314)	(140,000)	(3,915,000)	(6,080,000)	(350,000)
Refunded bonds (note 9)	(49,210,000)	–	–	–	–
Capitalized premiums	5,030,255	–	–	–	–
Deferred amounts on refunding	(3,167,185)	–	–	–	–
Accretion/amortization of discounts, premiums and deferred amounts on refunding	<u>647,227</u>	<u>–</u>	<u>(152,516)</u>	<u>222,654</u>	<u>–</u>
Balance, end of year	<u>\$ 966,358,750</u>	<u>\$ 510,000</u>	<u>\$ 41,944,870</u>	<u>\$ 65,147,330</u>	<u>\$ 6,640,000</u>

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

5. Reserve Funds

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

General Tax-Exempt Fund Group: The Bond Bank is required to maintain a debt service reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all governmental unit loan obligations then outstanding as of such date of calculation. At June 30, 2007, the required debt service reserve was approximately \$118,411,000.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

5. Reserve Funds (Continued)

In addition, the Bond Bank maintains the Special Reserve Account balance of \$1,970,829 and the Supplemental Reserve Fund General Reserve Account principal balance of \$2,700,000. These reserves represent segregated fund equity and are pledged to the payment of the principal or interest on the outstanding bonds of the General Tax-Exempt Fund Group if a deficiency occurs. At June 30, 2007, the fair value of the reserve fund assets totaled approximately \$135,806,000, which exceeded the required reserves by \$12,724,171.

Special Obligation Taxable Fund Group: The Bond Bank is required to maintain a capital reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all governmental unit loan obligations then outstanding as of such date of calculation. At June 30, 2007, the required capital reserve was approximately \$207,275 and the fair value of the capital reserve assets totaled approximately \$216,200.

Sewer and Water Fund Groups: The Bond Bank is required to maintain a capital reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all bonds payable within the fund groups as of such date of calculation. At June 30, 2007, the required capital reserve was approximately \$9,341,000 and the fair value of the capital reserve assets totaled approximately \$10,028,000.

6. Sewer and Water Revolving Fund Group

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

	<u>Waste Water</u>	<u>Drinking Water</u>
Reserved for revolving loans:		
Grants received from Environmental Protection Agency	\$ 192,363,259	\$ 83,658,900
Other administrative grants received from Environmental Protection Agency	1,347,010	—
Hardship grants received from Environmental Protection Agency	643,800	—
Grants received from State of Maine	38,526,682	16,409,508
Other amounts reserved (utilized) for program loans and costs	<u>32,689,927</u>	<u>(13,798,818)</u>
	265,570,678	86,269,590
Unreserved amounts available	<u>—</u>	<u>398,141</u>
Fund equity at June 30, 2007	<u>\$ 265,570,678</u>	<u>\$ 86,667,731</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

Under the provisions of the grants from the Environmental Protection Agency, the Bond Bank is allowed administrative costs of up to 4% of the total grants received. In addition, the Bond Bank receives other grants from the Environmental Protection Agency that are used solely for administrative purposes. The total administrative costs allowed at June 30, 2007 are \$9,041,540 (waste water) and \$3,324,662 (drinking water), with \$9,041,540 and \$2,926,521, respectively, expended to date. The remaining amounts of \$0 and \$398,141, respectively, can be used for future administrative costs.

Portions of the loans made to governmental units under the Waste Water and Drinking Water Revolving Loan Fund Programs may be forgiven if certain continuing criteria are met, including that the governmental unit: continues to make debt service payments; continues to operate the project in compliance with laws and regulations; and does not dispose of or discontinue the project. The Bond Bank has loaned approximately \$17,387,000 at June 30, 2007 under the Drinking Water Revolving Loan Fund Program that, upon fulfillment of these requirements by the borrowing unit, could be forgiven at some future point. There are no loans within the Waste Water Revolving Loan Fund Program at June 30, 2007 that could be forgiven at some future date. For purposes of the basic financial statements, the Bond Bank recognizes forgiveness expense within these funds as the related loans are repaid. The total amount forgiven under these programs in 2007 was \$641,723.

7. **School Facilities Fund Group**

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

Reserved for revolving loans:	
Grants received from State of Maine	\$ 96,468,807
Loans forgiven	(57,483,156)
Other amounts reserved for program loans and costs	<u>12,687,363</u>
	51,673,014
Unreserved amounts available	<u>1,251,228</u>
Fund equity at June 30, 2007	<u>\$ 52,924,242</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, 2007 are \$2,330,308, with \$1,079,080 expended to date. The remaining amount of \$1,251,228 can be used for future administrative costs.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

7. School Facilities Fund Group (Continued)

Portions of the loans made to school administrative units from the School Facilities Fund Group are forgiven. For purposes of the general purpose financial statements, the Bond Bank recognizes forgiveness expense within this fund at the time the loans are disbursed to the school administrative unit. This accounting treatment differs from the treatment within the Drinking Water Revolving Loan Fund due to the fact that there are no relevant continuing criteria that would require recognition of the forgiven amount as the related loans are repaid. The total amounts forgiven under this program in 2007 were \$7,929,882.

8. Defined Benefit Pension Plan and Other Postemployment Benefits

Pension Plan Description and Funding Policy

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

In accordance with State statute, participants are required to contribute 6.5% of their annual covered salary to the Plan. The Bond Bank's payroll for the year ended June 30, 2007 for employees covered by the Plan was approximately \$918,000, 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, 2007, 2006 and 2005 were \$25,692, \$23,162 and \$25,042 (employer) and \$59,641, \$58,206 and \$58,133 (employee), respectively.

Other Postemployment Benefits

During 2004, the Bond Bank established a postemployment health care benefit 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. Management of the Bond Bank expects to make necessary contributions to the Plan as benefits come due. The Bond Bank may terminate the Plan at its option, in which case future benefit payments would be limited to those employees that retired prior to the termination date (one as of June 30, 2007). The Bond Bank recorded approximately \$1,900 of expense under this plan during fiscal 2007.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

9. Refunding Issues

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

On April 5, 2007, the Bond Bank issued \$51,335,000 in General Tax-Exempt bonds with an average interest rate of 4.47% to in-substance defease \$49,210,000 of various outstanding maturities of the 2001 B, 2001 D, 2002 A and 2002 F bonds with an average interest rate of 5.23%. The net proceeds of approximately \$52,837,000, including a bond premium of approximately \$2,029,000 and after payment of approximately \$527,000 in underwriting fees, insurance and other issuance costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately \$2.64 million in the year ended June 30, 2007, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$2.86 million over the next sixteen years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1.6 million. As a result of the in-substance defeasance, the Bond Bank will disburse a one-time lump sum payment to borrowers of approximately \$38,000 in fiscal 2008. Additionally, the Bond Bank will reduce future debt service requirements of borrowers by approximately \$1.6 million over a period of sixteen years commencing in fiscal 2008.

At June 30, 2007, the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately \$186 million.

10. Pass-Through State Grant

The Bond Bank received additional State of Maine grants totaling \$84,740 during 2007. These monies in combination with monies received in prior years were passed-through to municipalities designated for such grants by the Department of Economic and Community Development (DECD). Pass-through grant revenue recorded during 2007 totaled \$4,071,120, which matches pass-through grant expense and represents amounts approved and disbursed to municipalities during fiscal 2007.

11. Credit Quality Grant Program

During fiscal 2007, the Bond Bank established the credit quality grant program within its General Operating Account. The program provides financial assistance to units of local government to undertake studies, planning activities and systems purchases to help the entities identify or implement methods available to reduce costs for delivery of local governmental unit services or increase the efficiency associated with the financial operation of a local government. At June 30, 2007, the Bond Bank had committed \$1,001,121 of grants to local governmental units under this program, of which \$546,121 remains to be disbursed.

MAINE MUNICIPAL BOND BANK

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2007

	<u>Program Revenues</u>					<u>Net Revenue (Expense) and Changes in net assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants/ Contributions</u>	<u>Total</u>
Functions/Programs:						
Maine Municipal Bond Bank	\$ <u>(67,364,035)</u>	\$ <u>47,457,224</u>	\$ <u>6,903,508</u>	\$ <u>6,083,934</u>	\$ <u>22,042,920</u>	\$ <u>15,123,551</u>
Total	\$ <u>(67,364,035)</u>	\$ <u>47,457,224</u>	\$ <u>6,903,508</u>	\$ <u>6,083,934</u>	\$ <u>22,042,920</u>	15,123,551
General revenues:						
Unrestricted interest and investment earnings						917,386
Non program specific grants, contributions and appropriations						-
Miscellaneous income						937,736
Loss on assets held for sale						-
Extraordinary item						<u>-</u>
Total general revenues and extraordinary items						<u>1,855,122</u>
Changes in net assets						16,978,673
Net assets, beginning of year						<u>444,792,214</u>
Net assets, end of year						<u>\$ 461,770,887</u>

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

Maine Municipal Bond Bank

Basic Financial Statements and Management's Discussion and Analysis

Year Ended June 30, 2006

With Independent Auditors' Report

MAINE MUNICIPAL BOND BANK

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

For the Year Ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Municipal Bond Bank

We have audited the accompanying basic financial statements which include the General Operating Account, General Tax-Exempt Fund Group, Special Obligation Taxable Fund Group, Grant Anticipation Fund Group, Waste Water and Drinking Water Revolving Loan Fund Groups and Operating Fund Group and the School Facilities Fund Group of Maine Municipal Bond Bank, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine for accounting purposes only, as of and for the year ended June 30, 2006, as listed in the accompanying table of contents. These financial statements are the responsibility of the Bond Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2006 on our consideration of Maine Municipal Bond Bank's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Commissioners
Maine Municipal Bond Bank

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

Portland, Maine
September 5, 2006


Limited Liability Company

MAINE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

As financial management of the Maine Municipal Bond Bank (the "Bond Bank"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Bond Bank for the fiscal year ended June 30, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Bond Bank and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

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

Overview of the Bond Bank

The Bond Bank was created in 1973 by an Act of the Maine Legislature, as a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Bond Bank was established to issue bonds for the purpose, among other things, of providing funds to enable it to lend money to counties, cities, towns, school administrative districts, community school districts or other quasi-municipal corporations (the "governmental units") within the State of Maine. The provision of funds is accomplished by the direct purchase from such governmental units of their bonds, notes or evidence of debt payable from taxes, charges for services or assessments.

For financial statement reporting purposes, the Bond Bank is considered a component unit of the State of Maine. However, the Bond Bank does not receive any State appropriations for its operations. The Bond Bank does receive grant monies from the State to fund the revolving loan funds for clean water, drinking water and school renovations. The Bond Bank also administers a pass-through grant for the Maine Rural Water Association and received pass-through grants from the State of Maine, Department of Economic and Community Development.

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

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

The Bond Bank administers the Federal Clean Water Act and Drinking Water Act Revolving Loan Funds. Each of the Revolving Loan Funds periodically receives capitalization grants from the Environmental Protection Agency and state matching funds from the State of Maine. The State of Maine Department of Environmental Protection approves low interest revolving loans to eligible borrowers, under the Clean Water Act Fund, that may be comprised of bond proceeds and federal and State equity monies or solely equity monies. The Drinking Water Revolving Loan Fund operates similar to the Clean Water Revolving Loan Fund whereby the Maine Department of Human Services (Office of Drinking Water) approves low interest revolving loans, under the Drinking Water Act, to eligible borrowers that may be comprised of bond proceeds and federal and state equity monies or solely equity monies. Under the Drinking Water Revolving Loan Fund, borrowers are eligible to receive a maximum 75% loan forgiveness.

The Bond Bank administers the School Facilities Revolving Loan Fund, which is capitalized by monies received from the State of Maine. The Department of Education approves qualified projects that are eligible for interest-free revolving loans, subject to the Bond Bank's approval, to school administrative units for renovation and maintenance of school facilities. Borrowers are eligible to receive a minimum of 20% and a maximum of 70% loan forgiveness.

As the result of the Bond Bank issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Bond Bank's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis

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

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

MAINE MUNICIPAL BOND BANK

Balance Sheet

June 30, 2006 and 2005

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

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

Total short and long-term investments held by trustee at June 30, 2006 decreased \$11,012,965 or (4.0)% from June 30, 2005. The decrease was primarily the result of the decrease in fair value of investments of \$9,739,701 and the drawdown of investments for equity loans to borrowers in 2006. The Bond Bank's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), U.S. Government-sponsored enterprises securities (i.e. FNMA, FMLMC), U.S. Treasury strips and bank investment contracts. The Bond Bank's investments are carried at fair value. Unrealized gains and losses (primarily due to fluctuations in market interest rates) are recognized in the statement of revenues, expenses and changes in fund equity.

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

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

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

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

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

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

MAINE MUNICIPAL BOND BANK

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

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

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

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

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

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

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

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

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

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

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

Requests for Information

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

MAINE MUNICIPAL BOND BANK

BALANCE SHEET

June 30, 2006

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

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

MAINE MUNICIPAL BOND BANK

BALANCE SHEET (CONTINUED)

June 30, 2006

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

See accompanying notes.

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

MAINE MUNICIPAL BOND BANK

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

For the Year Ended June 30, 2006

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

See accompanying notes.

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

MAINE MUNICIPAL BOND BANK

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006

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

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

MAINE MUNICIPAL BOND BANK

**STATEMENT OF CASH FLOWS
(CONTINUED)**

For the Year Ended June 30, 2006

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

See accompanying notes.

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

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

1. Organization

The Maine Municipal Bond Bank (the Bond Bank) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Components Units*, is considered a component unit of the State of Maine, organized and existing under and pursuant to M.R.S.A., Article 30-A, Title 5901 (the Act), as amended.

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

The general operating account consists of the operating revenues and expenses incurred by the Bond Bank in administering the five resolutions under which it is operating. The funds and accounts of these resolutions have been grouped within each of the resolutions and fund groups as follows:

General Tax-Exempt Fund Group: This fund group consists of funds and accounts established under the Bond Bank's General Bond Resolution adopted July 11, 1973, as amended and supplemented by the First Supplemental Resolution adopted September 20, 1977, the Second Supplemental Resolution adopted July 18, 1984, the Third Supplemental Resolution adopted May 7, 1993 and the Fourth Supplemental Resolution adopted June 25, 1993. Under these resolutions, the Bond Bank issues bonds exempt from federal and State of Maine income taxes and makes loans to local governmental units.

Special Obligation Taxable Fund Group: This fund group consists of funds and accounts established under the Bond Bank's Special Obligation Bond Resolution adopted May 25, 1990. Under this resolution, the Bond Bank issues bonds which are exempt from State of Maine income taxes (but not federal income taxes) and makes loans to governmental units.

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

Sewer and Water Fund Groups: These fund groups consist of funds and accounts established under the Bond Bank's Sewer and Water General Bond Resolution adopted February 7, 1990, as amended and supplemented by the First Supplemental Resolution adopted March 6, 1991. Under this resolution, the Bond Bank issues bonds exempt from federal and State of Maine income taxes for the purpose of making revolving loans to governmental units to finance wastewater collection, treatment system or water supply system projects. Some of these projects may be partially financed by grants from the Environmental Protection Agency and the State of Maine under the State Revolving Fund Program and the Drinking Water State Revolving Loan Fund Program.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

1. **Organization (Continued)**

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

2. **Significant Accounting Policies**

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

The Bond Bank complies with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. This Statement requires that the Bond Bank apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Bond Bank has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34*, and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Accounting Method: As stated above, the Bond Bank uses the accrual basis of accounting and, accordingly, recognizes revenues as earned and expenses as incurred.

Cash and Cash Equivalents: The Bond Bank considers all checking and savings deposits and highly liquid investments with maturities of three months or less to be cash equivalents.

Investments: Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in fund equity. Interest earnings on principal-only strips within the general tax-exempt fund group of approximately \$4,800,000 have been recorded as interest income from investments in 2006. Reserve fund investments that are not expected to be utilized to fund bond principal and interest payments until after June 30, 2007 have been classified as long-term.

Undisbursed Federal Letter of Credit Payment: The Bond Bank has received federal capitalization grants under the Sewer and Water Bond Resolution's State Revolving Fund Program. The grants have been made available in the form of letters of credit which can only be drawn upon when needed for administrative and actual construction related costs.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

2. Significant Accounting Policies (Continued)

Building: The building is recorded at cost less accumulated depreciation. The provision for depreciation has been computed using the straight-line method.

Refunding Benefits Rebated to Governmental Units: The refunding benefits rebated to governmental units recognizes amounts paid to governmental units resulting from debt service savings on advance refunding of bonds outstanding. The rebated amounts are deferred and are being amortized over the life of the refunded bonds (which is equivalent to the life of the loans receivable) using a method which approximates the effective interest method.

Bond Issuance Costs and Deferred Financing Costs: Bond issuance and financing costs resulting from advance refunding of bonds outstanding have been deferred as part of deferred amounts on refunding and are being amortized over the life of the refunding bonds using the bonds outstanding method. Other bond issuance and finance costs paid by the Bond Bank are expensed as incurred.

Deferred Amounts on Refunding: The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as a deferred amount on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter, as a component of interest expense using the bonds outstanding method.

Original Issue Discounts: Original issue discounts, which are deducted from bond proceeds loaned to governmental units, are effectively paid by the governmental units and are not expenses of the Bond Bank. Original issue discounts resulting from the advance refunding of bonds outstanding have been deferred and are being accreted over the life of the refunding bonds using a method which approximates the effective interest method.

Original Issue Premiums: Original issue premiums are generally added to bond proceeds loaned to governmental units (and thus are deferred and amortized over the life of the bonds using a method which approximates the effective interest method) or used to pay costs of the bond issuance (and thus netted against issuance costs). Original issue premiums resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunding bonds using a method which approximates the effective interest method.

Construction Funds: The Sewer and Water General Bond Resolution requires bond proceeds to be deposited into construction funds. Upon deposit into the construction funds, a loan receivable from the governmental unit is recorded and the construction funds are excluded from Sewer and Water Fund Groups. The Bond Bank maintains control over disbursement of these funds until the project is complete. Approximately \$590,000 in investments are held in the construction funds at June 30, 2006.

Grant Revenue: Grant revenue is recognized when the qualifying commitments have been made and all other grant requirements have been met.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

2. **Significant Accounting Policies (Continued)**

Interfund Transactions: Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to another fund are recorded as expenses in the reimbursing fund and as reductions of expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

New Accounting Pronouncements: GASB issued Statement No. 45, *Accounting and Financial Reporting for Employers for Post-Employment Benefits Other Than Pensions*, in June 2004. This statement establishes standards for the measurement, recognition and display of other post-employment benefits (including post-employment healthcare benefits). This statement is expected to be applicable to the Bond Bank beginning in fiscal 2008.

Management Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires the Bond Bank to make estimates and assumptions that affect the amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Total Columns: The "total" columns contain the totals of the similar accounts of the various funds. Since the assets of the funds are restricted, the combination of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in the separate funds.

3. **Investments Held By Trustee and Board Designated Investments**

The Bond Bank is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Government-sponsored enterprises, state and local government agencies, bank investment contracts and collateralized repurchase agreements. At June 30, 2006, investments are categorized as follows:

	<u>Fair Value</u>
<u>General Operating Account</u>	
Board-designated investments:	
U.S. Government-sponsored enterprises	\$ 12,349,573
Cash and cash equivalents	<u>6,321,345</u>
	<u>\$ 18,670,918</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

3. Investments Held By Trustee and Board Designated Investments (Continued)

	<u>Fair Value</u>
<u>General Tax-Exempt Fund Group</u>	
Investments held by trustee:	
Bank investment contracts	\$ 4,565,868
U.S. Government obligations	13,266,884
U.S. Government-sponsored enterprises	13,779,783
U.S. Treasury strips	87,439,188
Cash and cash equivalents	<u>24,215,900</u>
	<u>\$ 143,267,623</u>
<u>Special Obligation Taxable Fund Group</u>	
Investments held by trustee:	
U.S. Government obligations	\$ 200,572
Cash and cash equivalents	<u>7,029</u>
	<u>\$ 207,601</u>
<u>Sewer and Water Fund Groups</u>	
Investments held by trustee:	
Revolving Loan Fund Group – Waste Water:	
Bank investment contracts	\$ 8,491,465
U.S. Government obligations	194,526
U.S. Government-sponsored enterprises	44,575,476
Cash and cash equivalents	<u>14,322,852</u>
	<u>\$ 67,584,319</u>
Revolving Loan Fund Group – Drinking Water:	
U.S. Government obligations	\$ 19,099
U.S. Government-sponsored enterprises	6,245,342
Cash and cash equivalents	<u>4,735,515</u>
	<u>\$ 10,999,956</u>
Operating Fund Group:	
U.S. Government-sponsored enterprises	\$ 248,908
Cash and cash equivalents	<u>3,247,889</u>
	<u>\$ 3,496,797</u>
<u>School Facilities Fund Group</u>	
Investments held by trustee:	
U.S. Government-sponsored enterprises	\$ 27,731,866
Cash and cash equivalents	<u>9,933,324</u>
	<u>\$ 37,665,190</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

3. Investments Held By Trustee and Board Designated Investments (Continued)

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Bond Bank's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. Further, bank investment contracts, which maturities are also closely matched with future bond principal and interest requirements, contain provisions that allow the Bond Bank to terminate individual contracts at par. The Bond Bank's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Bond Bank's investments in bank investment contracts, U.S. Government obligations and U.S. Government-sponsored enterprises as of June 30, 2006:

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>General Operating Account</u>					
U.S. Government- sponsored enterprises	\$ <u>12,349,573</u>	\$ <u>4,459,888</u>	\$ <u>7,889,685</u>	\$ _____	\$ _____
<u>General Tax Exempt Fund Group</u>					
Bank investment contracts	\$ 4,565,868	\$ —	\$ 4,565,868	\$ —	\$ —
U.S. Government obligations	13,266,884	4,143,058	2,272,385	249,500	6,601,941
U.S. Government- sponsored enterprises	13,779,783	157,400	1,932,593	3,158,582	8,531,208
U.S. Treasury strips	<u>87,439,188</u>	<u>5,438,756</u>	<u>36,440,950</u>	<u>25,541,368</u>	<u>20,018,114</u>
	<u>\$ 119,051,723</u>	<u>\$ 9,739,214</u>	<u>\$ 45,211,796</u>	<u>\$ 28,949,450</u>	<u>\$ 35,151,263</u>
<u>Special Obligation Taxable Fund Group</u>					
U.S. Government obligations	\$ <u>200,572</u>	\$ _____	\$ <u>200,572</u>	\$ _____	\$ _____
<u>Revolving Loan Fund Group – Waste Water</u>					
Bank investment contracts	\$ 8,491,465	\$ —	\$ 1,231,500	\$ 3,960,087	\$ 3,299,878
U.S. Government obligations	194,526	—	—	194,526	—
U.S. Government- sponsored enterprises	<u>44,575,476</u>	<u>27,666,852</u>	<u>16,523,336</u>	<u>385,288</u>	<u>—</u>
	<u>\$ 53,261,467</u>	<u>\$ 27,666,852</u>	<u>\$ 17,754,836</u>	<u>\$ 4,539,901</u>	<u>\$ 3,299,878</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

3. Investments Held By Trustee and Board Designated Investments (Continued)

	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More than Ten Years</u>
<u>Revolving Loan Fund Group – Drinking Water</u>					
U.S. Government obligations	\$ 19,099	\$ –	\$ 19,099	\$ –	\$ –
U.S. Government-sponsored enterprises	<u>6,245,342</u>	<u>6,108,503</u>	<u>–</u>	<u>–</u>	<u>136,839</u>
	<u>\$ 6,264,441</u>	<u>\$ 6,108,503</u>	<u>\$ 19,099</u>	<u>\$ –</u>	<u>\$ 136,839</u>
<u>Revolving Loan Fund Group – Operating Fund Group</u>					
U.S. Government-sponsored categories	<u>\$ 248,908</u>	<u>\$ 248,908</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>
<u>School Facilities Fund Group</u>					
U.S. Government-sponsored enterprises	<u>\$ 27,731,866</u>	<u>\$ 22,733,477</u>	<u>\$ 4,998,389</u>	<u>\$ –</u>	<u>\$ –</u>

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Bond Bank will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Bond Bank's investments are primarily held by U.S. Bank and Bangor Savings Bank. Management of the Bond Bank is not aware of any issues with respect to custodial credit risk at either bank at June 30, 2006.

For an investment, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Bond Bank. The Bond Bank's investment policy limits its investments to those with high credit quality, such as U.S. Treasury Obligations and U.S. Government-sponsored enterprises securities, as rated by rating agencies such as Moody's Investor Service or Standard and Poor's, or bank investment contracts backed by high credit quality banks and insurance companies (AA rated or better).

At June 30, 2006, the Bond Bank's bank investment contracts within the General Tax Exempt Fund Group and Revolving Loan Fund Group are primarily with three institutions, all of which are AA rated or better.

The Bond Bank has invested some of its long-term funds in U.S. Government principal-only strips in order to maximize yields coincident with cash needs for operations, debt service, and arbitrage. These securities are similar to zero coupon bonds which are purchased deeply discounted, with the Bond Bank receiving its only repayment stream at maturity; therefore, they are sensitive to interest rate changes. These securities are reported at fair value in the balance sheet and are included as U.S. Government obligations above. The fair value of these investments is approximately \$87,400,000 at June 30, 2006.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

3. Investments Held By Trustee and Board Designated Investments (Continued)

Trustee held cash and cash equivalents at June 30, 2006 consist primarily of money market funds secured by short-term U.S. Treasury obligations.

4. Bonds Payable

Total General Tax-Exempt Fund Group Bonds payable consist of the following at June 30, 2006:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2006</u>
Series 1993 B and C, 5% – 5.85%, dated May 1, 1993	1994 – 2020	\$ 40,070,000	\$ 5,130,000
Series 1994 D, 4% – 6.3%, dated September 1, 1994	1995 – 2014	12,365,000	6,880,000
Series 1996 A and B, 5% – 5.9%, dated May 1, 1996	1997 – 2016	29,970,000	2,720,000
Series 1996 D and E, 4.90% – 5.70%, dated October 1, 1996	1997 – 2016	35,225,000	3,280,000
Series 1997 A and B, 5.10% – 5.75%, dated May 1, 1997	1998 – 2017	31,870,000	6,255,000
Series 1997 C and D, 4.5% – 5.35%, dated October 1, 1997	1998 – 2017	50,785,000	9,950,000
Series 1998 A, 3.70% – 5.50%, dated February 1, 1998	1999 – 2012	60,950,000	44,050,000
Series 1998 B and C, 4% – 5.35%, dated May 1, 1998	1998 – 2018	73,770,000	22,285,000
Series 1998 D and E, 3.75% – 4.80%, dated October 1, 1998	1999 – 2018	13,890,000	4,705,000
Series 1999 B and C, 4% – 5.25%, dated May 1, 1999	2000 – 2028	62,860,000	22,150,000
Series 1999 D and E, 4% – 5.875%, dated October 1, 1999	2000 – 2021	46,460,000	14,620,000
Series 2000 A and B, 4.5% – 5.875%, dated May 1, 2000	2000 – 2020	70,125,000	24,350,000
Series 2000 C and D, 4.625% – 5.70%, dated October 1, 2000	2001 – 2021	39,560,000	14,925,000
Series 2001 A and B, 4.125% – 5.25%, dated May 1, 2001	2002 – 2021	34,635,000	25,725,000
Series 2001 C and D, 3.00% – 5.125%, dated October 1, 2001	2002 – 2022	68,835,000	53,670,000
Series 2002 A, 3.00% – 5.375%, dated March 1, 2002	2002 – 2021	36,520,000	29,480,000

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

4. Bonds Payable (Continued)

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2006</u>
Series 2002 B and C, 2.50% – 5.25%, dated May 1, 2002	2002 – 2032	\$ 77,575,000	\$ 66,895,000
Series 2002 D, 2.00% – 5.00%, dated July 1, 2002	2003 – 2015	49,315,000	38,570,000
Series 2002 E and F, 2.00% – 5.00%, dated October 1, 2002	2003 – 2023	32,720,000	24,930,000
Series 2003 A, 3.00% – 5.25%, dated March 1, 2003	2003 – 2020	186,050,000	131,422,223
Series 2003 B and C, 2.00% – 5.00%, dated May 1, 2003	2003 – 2024	17,290,000	14,920,000
Series 2003 D and E, 2.00% – 5.00%, dated October 1, 2003	2004 – 2033	18,460,000	16,295,000
Series 2004 A and B, 2.00% – 5.00%, dated May 27, 2004	2004 – 2025	94,565,000	88,830,000
Series 2004 C, 2.00% – 5.00%, dated September 23, 2004	2004 – 2020	58,675,000	57,195,000
Series 2004 D and E, 2.25% – 5.00%, dated October 28, 2004	2005 – 2034	46,850,000	43,975,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2005 – 2021	91,250,000	90,750,000
Series 2005 B and C, 3.00% – 5.00%, dated May 26, 2005	2006 – 2031	22,050,000	22,050,000
Series 2005 D and E, 3.00% – 5.00%, dated October 27, 2005	2006 – 2034	60,395,000	60,395,000
Series 2006 A, 3.48% – 4.77%, dated May 25, 2006	2006 – 2036	<u>14,040,000</u>	<u>14,040,000</u>
		<u>\$ 1,477,125,000</u>	<u>\$ 960,442,223</u>

Total General Tax-Exempt Fund Group Bonds payable is presented on the balance sheet at June 30, 2006 as follows:

Total principal outstanding	\$ 960,442,223
Deferred amount on refunding	(27,996,650)
Unamortized original issue discount	(246,317)
Unamortized original issue premium	<u>24,104,511</u>
 Total General Tax-Exempt Fund Group Bonds payable	 956,303,767
Current portion	<u>87,177,934</u>
 Noncurrent portion	 <u>\$ 869,125,833</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

4. Bonds Payable (Continued)

The outstanding General Tax-Exempt Fund Group Bonds payable will mature in each of the following years with interest payable semiannually:

Due Bond Year Ending November 1	Principal	Interest	Total Debt Service
2006	\$ 88,025,314	\$ 21,894,476	\$ 109,919,790
2007	87,404,043	40,243,316	127,647,359
2008	82,252,596	36,443,362	118,695,958
2009	77,916,040	32,847,698	110,763,738
2010	75,465,468	29,431,369	104,896,837
2011 – 2015	278,205,787	102,753,013	380,958,800
2016 – 2020	186,892,975	46,766,664	233,659,639
2021 – 2025	79,160,000	10,822,414	89,982,414
2026 – 2030	2,570,000	948,301	3,518,301
2031 – 2035	2,495,000	326,425	2,821,425
2036 – 2040	<u>55,000</u>	<u>2,548</u>	<u>57,548</u>
	<u>\$ 960,442,223</u>	<u>\$ 322,479,586</u>	<u>\$ 1,282,921,809</u>

Repayment of the debt and interest thereon is to be funded by:

Municipal loan obligations – principal and interest	\$ 1,120,363,205
Reserve Funds – principal and interest	<u>162,558,604</u>
	<u>\$ 1,282,921,809</u>

Total Special Obligation Taxable Fund Group Bonds payable consist of the following at June 30, 2006:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2006
Series 1990 A, 10.25%, dated June 1, 1990	1991 – 2009	\$1,700,000	\$650,000
Current portion			<u>140,000</u>
Noncurrent portion			<u>\$510,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

4. Bonds Payable (Continued)

The outstanding Special Obligation Taxable Fund Group Bonds payable will mature in each of the following years with interest payable semiannually:

Due Bond Year Ending November 1	Principal	Interest	Total Debt Service
2006	\$140,000	\$ 33,312	\$173,312
2007	155,000	52,275	207,275
2008	170,000	36,388	206,388
2009	<u>185,000</u>	<u>18,962</u>	<u>203,962</u>
	<u>\$650,000</u>	<u>\$140,937</u>	<u>\$790,937</u>

Repayment of the debt and interest thereon is to be funded by:

Governmental unit loan obligations – principal and interest	<u>\$790,937</u>
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Total Grant Anticipation Fund Group Bonds payable consist of the following at June 30, 2006:

	Original <u>Maturity</u>	Amount <u>Issued</u>	Amount Outstanding <u>June 30, 2006</u>
Series 2004 A, 2.50% – 5.00%, dated December 16, 2004	2005 – 2015	\$ 48,395,000	<u>\$ 45,240,000</u>

Total Grant Anticipation Fund Group Bonds payable is presented on the balance sheet at June 30, 2006 as follows:

Total principal outstanding	\$ 45,240,000
Unamortized original issue premium	<u>772,386</u>
Total Grant Anticipation Fund Group Bonds payable	46,012,386
Current portion	<u>4,067,515</u>
Noncurrent portion	<u>\$ 41,944,871</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

4. Bonds Payable (Continued)

The outstanding Grant Anticipation Fund Group Bonds payable will mature in each of the following years with interest payable semiannually:

Due Bond Year Ending September 1	Principal	Interest	Total Debt Service
2006	\$ 3,915,000	\$ 832,228	\$ 4,747,228
2007	4,015,000	1,566,581	5,581,581
2008	4,135,000	1,446,131	5,581,131
2009	4,260,000	1,322,081	5,582,081
2010	4,390,000	1,194,281	5,584,281
2011 – 2015	<u>24,525,000</u>	<u>3,386,238</u>	<u>27,911,238</u>
	<u>\$ 45,240,000</u>	<u>\$ 9,747,540</u>	<u>\$ 54,987,540</u>

Repayment of the debt and interest thereon is to be funded by:

General unit obligations – principal and interest \$ 54,987,540

Sewer and Water Fund Group Waste Water Bonds payable consist of the following at June 30, 2006:

	Original <u>Maturity</u>	Amount <u>Issued</u>	Amount <u>Outstanding June 30, 2006</u>
Series 1993 A and B, 2.75% – 5.45%, dated October 1, 1993	1994 – 2016	\$ 27,815,000	\$ 13,410,000
Series 1996 A, 3.7% – 5.85%, dated March 1, 1996	1997 – 2017	6,795,000	3,770,000
Series 1997 A and B, 3.9% – 5.45%, dated July 15, 1997	1998 – 2018	20,835,000	13,850,000
Series 2003 A and B, 1.05% – 5.00%, dated March 1, 2003	2003 – 2023	32,165,000	26,030,000
Series 2003 C, 1% – 4.9%, dated November 13, 2003	2004 – 2024	<u>16,065,000</u>	<u>14,955,000</u>
		<u>\$ 103,675,000</u>	<u>\$ 72,015,000</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

4. Bonds Payable (Continued)

The Sewer and Water Fund Group Waste Water Bonds payable are presented on the balance sheet at June 30, 2006 as follows:

Total principal outstanding	\$ 72,015,000
Deferred amount on refunding	(1,265,635)
Unamortized original issue discount	(53,680)
Unamortized original issue premium	<u>308,991</u>
 Total Sewer and Water Fund Group Waste Water Bonds payable	 71,004,676
Current portion	<u>5,857,346</u>
 Noncurrent portion	 <u>\$ 65,147,330</u>

The outstanding Sewer and Water Fund Group Waste Water Bonds payable will mature in each of the following years with interest payable semiannually:

Due Bond Year Ending November 1	Principal	Interest	Total Debt Service
2006	\$ 6,080,000	\$ 1,527,293	\$ 7,607,293
2007	6,065,000	2,852,326	8,917,326
2008	6,075,000	2,638,094	8,713,094
2009	6,050,000	2,410,756	8,460,756
2010	6,130,000	2,173,788	8,303,788
2011 – 2015	25,185,000	6,970,054	32,155,054
2016 – 2020	12,505,000	2,476,242	14,981,242
2021 – 2025	<u>3,925,000</u>	<u>445,872</u>	<u>4,370,872</u>
	<u>\$ 72,015,000</u>	<u>\$ 21,494,425</u>	<u>\$ 93,509,425</u>

Repayment of the debt and interest thereon is to be funded by:

Governmental unit loan obligations – principal and interest	\$ 86,913,875
Reserve fund – principal and interest	<u>6,595,550</u>
	<u>\$ 93,509,425</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

4. Bonds Payable (Continued)

Sewer and Water Fund Group Drinking Water Bonds payable consist of the following at June 30, 2006:

	<u>Original Maturity</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2006</u>
Series 1998 A, 3.65%-5.2%, dated August 15, 1998	1999 – 2028	\$4,795,000	\$3,345,000
Series 2005 A, 2.25% – 4.45%, dated March 24, 2005	2005 – 2025	3,770,000	<u>3,645,000</u>
Total Sewer and Water Fund Group Drinking Water Bonds payable			6,990,000
Current portion			<u>350,000</u>
Noncurrent portion			<u>\$6,640,000</u>

The outstanding Sewer and Water Fund Group Drinking Water Bonds payable will mature in each of the following years with interest payable semiannually:

<u>Due Bond Year Ending November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ 350,000	\$ 150,788	\$ 500,788
2007	360,000	289,090	649,090
2008	370,000	275,845	645,845
2009	375,000	262,030	637,030
2010	385,000	247,360	632,360
2011 – 2015	2,070,000	984,940	3,054,940
2016 – 2020	1,840,000	497,118	2,337,118
2021 – 2025	1,190,000	167,180	1,357,180
2026 – 2030	<u>50,000</u>	<u>5,460</u>	<u>55,460</u>
	<u>\$6,990,000</u>	<u>\$2,879,811</u>	<u>\$ 9,869,811</u>

Repayment of the debt and interest thereon is to be funded by:

Governmental unit loan obligations – principal and interest	\$ 9,563,164
Reserve fund – principal and interest	<u>306,647</u>
	<u>\$ 9,869,811</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

4. Bonds Payable (Continued)

The following summarizes bond payable activity for the Bond Bank for the year ended June 30, 2006:

	<u>General Tax-Exempt Fund Group</u>	<u>Special Obligation Taxable Fund Group</u>	<u>Grant Anticipation Fund Group</u>	<u>Waste Water Fund Group</u>	<u>Drinking Water Fund Group</u>
Balance, beginning of year	\$ 971,795,984	\$ 775,000	\$ 49,334,961	\$ 76,501,705	\$ 7,330,000
Issuances – face value	74,435,000	–	–	–	–
Redemptions	(93,211,498)	(125,000)	(3,155,000)	(5,745,000)	(340,000)
Capitalized premiums	2,103,463	–	–	–	–
Accretion/amortization of discounts, premiums and deferred amounts on refunding	<u>1,180,818</u>	<u>–</u>	<u>(167,575)</u>	<u>247,971</u>	<u>–</u>
Balance, end of year	<u>\$ 956,303,767</u>	<u>\$ 650,000</u>	<u>\$ 46,012,386</u>	<u>\$ 71,004,676</u>	<u>\$ 6,990,000</u>

Some bonds contain provisions for prepayment at the Bond Bank’s option. All bonds are secured by the payment stream of loans receivable from governmental units. The monies in the reserve funds shall be held and applied solely to the payment of the interest and principal of the reserve fund bonds as they become due and payable and for the retirement of the reserve fund bonds. In the event of a deficiency in an interest and/or principal payment from the governmental units, transfers can be made from the supplemental reserve and/or general reserve funds to cover the shortfall. If this transfer creates a deficiency in the required amount of the reserve funds, the State can annually appropriate and cover such deficiency. Except for deficiencies between the Waste Water and Drinking Water Revolving Loan Fund Groups, reserve funds of one fund group cannot be used to cover deficiencies of another fund group. In order to recover any shortfall covered by the reserve, the Bond Bank has the ability to attach certain State funds. Additionally, the Bond Bank is required to utilize funds available within the general operating accounts as necessary.

5. Reserve Funds

Each of the resolutions requires the Bond Bank to set up reserve funds as follows:

General Tax-Exempt Fund Group: The Bond Bank is required to maintain a debt service reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all governmental unit loan obligations then outstanding as of such date of calculation. At June 30, 2006, the required debt service reserve was approximately \$111,780,000.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

5. Reserve Funds (Continued)

In addition, the Bond Bank maintains the Special Reserve Account balance of \$1,970,829 and the Supplemental Reserve Fund General Reserve Account principal balance of \$2,700,000. These reserves represent segregated fund equity and are pledged to the payment of the principal or interest on the outstanding bonds of the General Tax-Exempt Fund Group if a deficiency occurs. At June 30, 2006, the fair value of the reserve fund assets totaled approximately \$131,600,000, which exceeded the required reserves by \$15,149,171.

Special Obligation Taxable Fund Group: The Bond Bank is required to maintain a capital reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all governmental unit loan obligations then outstanding as of such date of calculation. At June 30, 2006, the required capital reserve was approximately \$207,275 and the fair value of the capital reserve assets totaled approximately \$207,600.

Sewer and Water Fund Groups: The Bond Bank is required to maintain a capital reserve which is equal to the maximum amount of principal installments and interest maturing and becoming due in any succeeding calendar year on all bonds payable within the fund groups as of such date of calculation. At June 30, 2006, the required capital reserve was approximately \$9,583,000 and the fair value of the capital reserve assets totaled approximately \$10,033,000.

6. Sewer and Water Revolving Fund Group

Pursuant to the Sewer and Water General Bond Resolution adopted February 7, 1990, the Bond Bank receives grants from the Environmental Protection Agency and twenty percent matching grants from the State of Maine which are designated to be used for revolving loans to governmental units to finance wastewater collection, treatment systems, or water supply system projects. Fund equity consists of the following:

	<u>Waste Water</u>	<u>Drinking Water</u>
Reserved for revolving loans:		
Grants received from Environmental Protection Agency	\$ 185,616,059	\$ 75,429,600
Other administrative grants received from Environmental Protection Agency	1,347,010	-
Hardship grants received from Environmental Protection Agency	643,800	-
Grants received from State of Maine	37,177,242	14,763,648
Other amounts reserved (utilized) for program loans and costs	<u>26,024,246</u>	<u>(12,694,974)</u>
	250,808,357	77,498,274
Unreserved amounts available	<u>68,673</u>	<u>399,274</u>
Fund equity at June 30, 2006	<u>\$ 250,877,030</u>	<u>\$ 77,897,548</u>

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

6. Sewer and Water Revolving Fund Group (Continued)

Under the provisions of the grants from the Environmental Protection Agency, the Bond Bank is allowed administrative costs of up to 4% of the total grants received. In addition, the Bond Bank received other grants from the Environmental Protection Agency that are used solely for administrative purposes. The total administrative costs allowed at June 30, 2006 are \$8,771,652 (waste water) and \$2,995,490 (drinking water), with \$8,702,979 and \$2,596,216, respectively, expended to date. The remaining amounts of \$68,673 and \$399,274, respectively, can be used for future administrative costs.

Portions of the loans made to governmental units under the Waste Water and Drinking Water Revolving Loan Fund Programs may be forgiven if certain continuing criteria are met, including that the governmental unit: continues to make debt service payments; continues to operate the project in compliance with laws and regulations; and does not dispose of or discontinue the project. The Bond Bank has loaned approximately \$14,778,000 at June 30, 2006 under the Drinking Water Revolving Loan Fund Program that, upon fulfillment of these requirements by the borrowing unit, could be forgiven at some future point. There are no loans within the Waste Water Revolving Loan Fund Program at June 30, 2006 that could be forgiven at some future date. For purposes of the basic financial statements, the Bond Bank recognizes forgiveness expense within these funds as the related loans are repaid. The total amount forgiven under these programs in 2006 was \$591,047.

7. School Facilities Fund Group

Pursuant to State law, the Bond Bank receives grants from the State of Maine which are designated to be used for interest-free revolving loans to school administrative units for the renovation and maintenance of school facilities. Fund equity consists of the following:

Reserved for revolving loans:	
Grants received from State of Maine	\$ 96,468,807
Loans forgiven	(49,553,274)
Other amounts reserved for program loans and costs	<u>11,772,241</u>
	58,687,774
Unreserved amounts available	<u>1,169,670</u>
Fund equity at June 30, 2006	<u>\$ 59,857,444</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, 2006 are \$2,084,726, with \$915,056 expended to date. The remaining amount of \$1,169,670 can be used for future administrative costs.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

7. School Facilities Fund Group (Continued)

Portions of the loans made to school administrative units from the School Facilities Fund Group are forgiven. For purposes of the general purpose financial statements, the Bond Bank recognizes forgiveness expense within this fund at the time the loans are disbursed to the school administrative unit. This accounting treatment differs from the treatment within the Drinking Water Revolving Loan Fund due to the fact that there are no relevant continuing criteria that would require recognition of the forgiven amount as the related loans are repaid. The total amounts forgiven under this program in 2006 were \$8,300,040.

During 2005, the State of Maine enacted legislation that required the Bond Bank to pay \$5,900,000 of previously granted state funds back to the State of Maine's General Fund. This amount was paid during fiscal 2006. Management of the Bond Bank is not aware of any pending or proposed legislation that might require the Bond Bank to return additional program funds to the State of Maine.

8. Defined Benefit Pension Plan and Other Postemployment Benefits

Pension Plan Description and Funding Policy

The Bond Bank participates in Regular Plan A of the Consolidated Plan for Participating Local Districts (the Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the Maine State Retirement System (MSRS). The MSRS is established and administered under the Maine State Retirement System Laws, Title 5 M.R.S.A., C. 421, 423 and 425. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the Plan. Benefits vest after ten years of service. Bond Bank employees who retire at or after age 60 are entitled to an annual retirement benefit in an amount equal to 2% of the average of their highest three year earnings for each year of credited service. The authority to establish and amend benefit provisions rests with the State legislature. The MSRS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Maine State Retirement System, 46 State House Station, Augusta, Maine 04333-0046.

In accordance with State statute, participants are required to contribute 6.5% of their annual covered salary to the Plan. The Bond Bank's payroll for the year ended June 30, 2006 for employees covered by the Plan was approximately \$895,000, which was 100% of payroll. The Bond Bank is required to contribute at an actuarially determined rate that, when combined with the contributions of other reporting entities, will be adequate to fund the Plan. The contribution rate is determined using an entry age normal actuarial funding method for retirement benefits and a term cost method for ancillary benefits. The Bond Bank may be required to make contributions to fund the Plan's pooled unfunded actuarial liability, if any. The contribution requirements of the plan members and the Bond Bank are established by and may be amended by the State legislature. The contributions made for the years ended June 30, 2006, 2005 and 2004 were \$23,162, \$25,042 and \$24,466 (employer) and \$58,206, \$58,133 and \$56,797 (employee), respectively.

MAINE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

8. Defined Benefit Pension Plan and Other Postemployment Benefits (Continued)

Other Postemployment Benefits

During 2004, the Bond Bank established a postemployment healthcare benefit plan. The Plan provides supplemental healthcare benefits to any full-time employee with ten or more years of employment who retires from the Bond Bank. Management of the Bond Bank expects to make necessary contributions to the Plan as benefits come due. The Bond Bank may terminate the Plan at its option, in which case future benefit payments would be limited to those employees that retired prior to the termination date. The Bond Bank recorded approximately \$1,900 of expense under this plan during fiscal 2006.

9. Refunding Issues

In periods of declining interest rates, the Bond Bank has refunded its bond obligations, reducing aggregate debt service. Where allowed, the Bond Bank retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Treasury obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the in-substance defeased bonds. The U.S. Treasury obligations were deposited with the trustees of the in-substance defeased bonds. The Bond Bank accounted for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and recorded a deferred amount on refunding.

No advance refundings took place during 2006. At June 30, 2006, the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately \$160 million.

10. Pass Through State Grant

The Bond Bank received additional State of Maine grants totaling \$2,700,000 during 2006. These monies in combination with monies received in prior years were passed-through to municipalities designated for such grants by the Department of Economic and Community Development (DECD). Pass-through grant revenue recorded during 2006 totaled \$3,642,847, which matches pass-through grant expense and represents amounts approved and disbursed to municipalities during fiscal 2006. The Bond Bank also withdrew \$96,000 for administrative costs incurred in conjunction with running the program (included in other income at June 30, 2006). Deferred revenue of \$3,986,380 at June 30, 2006 represents un-disbursed grant monies received and interest earned on related cash and cash equivalents.

FINANCIAL SUMMARY OF MMBB PROGRAM FUNDS
07-01-2005 through 06-30-2015

	General Resolution	School RRF	GARVEE	TRANSCAP	LIQUOR	CWSRF	DWSRF
Sources of Funds							
Federal Grants						\$123,452,200.00	\$110,300,540.00
State Appropriation/Bonds		\$17,621,209.00				\$20,385,000.00	\$18,200,738.00
Repayments from Loans and Investment Income		\$52,056,333.00				\$231,597,830.00	\$46,236,114.00
MMBB Equity Deposit							
MMBB Bonds	\$1,376,780,000.00		\$144,810,000.00	\$240,000,000.00	\$220,660,000.00	\$375,435,030.00	\$174,737,392.00
Total Funded							
Committed/Allocated							
Federal Grants						\$101,092,233.00	\$110,738,672.00
State Appropriation/Bonds		\$17,621,209.00				\$14,204,344.00	\$16,792,172.00
Repayments from Loans and Investment Income		\$47,767,238.00				\$240,272,531.00 *	\$42,545,656.00
MMBB Equity Deposit							
MMBB Bonds	\$1,376,780,000.00		\$144,810,000.00	\$240,000,000.00	\$220,660,000.00		
Total Committed/Allocated						\$355,569,108.00	\$170,076,500.00
Disbursements							
Federal Grants						\$103,682,462.00 **	\$112,840,333.00 **
State Appropriation/Bonds		\$17,268,175.00				\$14,231,636.00	\$15,964,256.00
Repayments from Loans and Investment Income		\$1,334,646.00				\$228,734,090.00	\$39,423,563.00
MMBB Equity Deposit							
MMBB Bonds	\$1,376,780,000.00		\$144,810,000.00	\$240,000,000.00	\$220,660,000.00		
Total Disbursed	\$1,376,780,000.00	\$18,602,821.00	\$144,810,000.00	\$240,000,000.00	\$220,660,000.00	\$346,648,188.00	\$168,228,152.00
*Some Commitments are greater than Sources due to the fact that some of the Commitments during the reporting period were made from Funds received prior to 7/01/2005.							
**Some Disbursements are greater than Commitments due to the fact that some of the Disbursements during the reporting period were made from Commitments issued prior to 7/01/2005.							