

New Hampshire Municipal Bond Bank

Basic Financial Statements
and Management's Discussion and Analysis

Year Ended June 30, 2013
With Independent Auditors' Report

NEW HAMPSHIRE MUNICIPAL BOND BANK

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

For the Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
New Hampshire Municipal Bond Bank

We have audited the accompanying financial statements, consisting of the General Operating Fund Group, State Guaranteed Fund Group, Qualified School Construction Fund Group, Non-State Guaranteed Fund Group, and Coe-Brown Northwood Academy Fund Group, of New Hampshire 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.

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 Directors
New Hampshire Municipal Bond Bank

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Hampshire Municipal Bond Bank, as well as the individual fund groups referred to above, as of June 30, 2013, and the 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.

Manchester, New Hampshire
October 15, 2013

Baker *Nauman* & *Noyes*
Limited Liability Company

NEW HAMPSHIRE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

As financial management of the New Hampshire 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. 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 were \$42,123,321 for fiscal year 2013, a decrease of \$5,370,261 or 11.3% below fiscal year 2012.

Interest on loans receivable from governmental units	\$ (751,803)
Interest income from investments	(237,638)
Net decrease in the fair value of investments	(4,682,947)
Other income	<u>302,127</u>
Total decrease	<u>\$ (5,370,261)</u>

- Investments are recorded at fair value to comply with the Governmental Accounting Standards Board's rules. The Bond Bank generally holds investments until maturity to pay reserve fund bonds as they become due, so fluctuations in the fair value of the investments have a minimal long-term effect.

Operating loss for 2013	\$ (908,951)
Add net decrease in the fair value of investments	<u>2,574,697</u>
Operating income for 2013 (excluding net decrease in fair value of investments)	<u>\$ 1,665,746</u>

- Net position of the Bond Bank decreased \$908,951 in fiscal year 2013. At June 30, 2013, the Bond Bank had a net position of \$24,981,392, a decrease of 3.5% from the prior year.

- The Bond Bank's bonds outstanding at June 30, 2013 of \$962,561,178 represents a net decrease of \$12,197,141 from the balance at June 30, 2012. This decrease was the result of the following activity in fiscal year 2013:

Issued 2012 B, C, D and 2013 A, B bonds totaling	\$ 123,410,000
Adjustment to deferred loss and premiums	412,730
Refunded principal	(58,595,000)
2013 principal paid	<u>(77,424,871)</u>
Total net decrease	<u>\$ (12,197,141)</u>

- The 2013 A series, issued in February 2013, was a refunding issue resulting in approximately \$3.6 million in savings in debt service, with a net present value savings of \$3.1 million. A second refunding was issued in April 2013, series 2013 B, resulting in approximately \$2 million in savings in debt service, with a net present value savings of \$1.9 million.

NEW HAMPSHIRE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

- The Bond Bank provided \$60,750,000 in new loans to local governmental units during fiscal year 2013 resulting in a net decrease of \$8,725,000, which was a 12.6% decrease from the loans provided in fiscal year 2012. Reserve bonds totaling \$3,525,000 were issued as part of the 2012 B, C and D issues.
- In September 2012, the Bond Bank issued 2012 Series C bonds to refinance fifty USDA loans for 24 municipalities. This refinancing resulted in approximately \$6.1 million savings in debt service and a present value savings of approximately \$4 million.

Overview of the Bond Bank

The Bond Bank was created in 1977 by an Act of the New Hampshire Legislature, RSA:35-A, is 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 districts or other districts (the governmental units) within the State of New Hampshire. 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.

As the result of the Bond Bank issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of bonds outstanding and remit payment to the Internal Revenue Service every five years. The Bond Bank's policy is to review the calculations annually for financial statement purposes. The Bond Bank has hired an outside firm to calculate arbitrage rebate liability and required payments.

Since its inception, the Bond Bank has issued bonds for its non guaranteed program pursuant to a General Resolution adopted on December 1, 1978, as amended from time to time (the 1978 Resolution). On July 14, 2005, the Bond Bank adopted a new General Resolution (the 2005 Resolution). While substantially similar to the 1978 Resolution, the 2005 Resolution contained a number of improvements, including a flexible reserve fund sizing requirement, wholesale changes in permitted investments, the ability to meet its reserve fund requirement with surety bond policies and other credit facilities, and a streamlined approach to calling bonds for early redemption. The Bond Bank has issued eight series of bonds under the terms of the 2005 Resolution, totaling \$295,571,000. Bonds issued under the 2005 Resolution are separately secured from all other bonds of the Bond Bank, including those issued under the 1978 Resolution. The adoption of the 2005 Resolution has not resulted in any substantive change to the Bond Bank's overall program.

The Bond Bank analyzes the cost effectiveness of the 1978 Resolution and the 2005 Resolution whenever a new issue of bonds is being considered. Due to the downgrades of the surety bond providers, this is no longer a viable method of funding the reserve fund. Depending on the structure of the new bonds and the reserve fund requirements, we analyze the best alternative by comparing the availability of investments in the market and the possibility of purchasing State of New Hampshire bonds. In fiscal year 2013, all of the bonds were issued per the 1978 Resolution. A State of New Hampshire bond was purchased to fund the reserve fund for the 2012 C issue, and U.S. Treasury, State and Local Government Securities were purchased for the 2012 B and D issues.

NEW HAMPSHIRE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

The Bond Bank has purchased surety bond policies to meet the reserve fund requirements for bonds issued under the terms of the 2005 Resolution. Several downgrades of the surety providers occurred between September 2009 and December 2011. There were also a few changes in January and May of 2013. The table below summarizes the surety policies purchased by the Bond Bank:

Surety Provider	Amount of Surety Policies	Ratings as of September 28, 2009			Ratings as of December 19, 2011			Ratings as of June 30, 2013		
		Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Assured Guaranty Municipal*	\$3,420,269	Aa3	AAA	AA+	Aa3	AA-	With-drawn	A2	AA-	With-drawn
National Public Finance (formerly MBIA Illinois)**	\$8,247,430	Baa1	A	With-drawn	Baa2	BBB	With-drawn	Baa1	A	With-drawn
FGIC***	\$6,782,925	With-drawn	With-drawn	With-drawn	With-drawn	With-drawn	With-drawn	With-drawn	With-drawn	With-drawn

* On November 2, 2009, Assured Guaranty announced that FSA will be renamed to Assured Guaranty Municipal.

** On February 18, 2009, MBIA Insurance Corporation (MBIA) separated its operations into two entities with National Public Finance Guaranty Corporation (National) (formerly MBIA Insurance Corp. of Illinois) becoming the public finance sector insurer/surety bond provider.

*** Policies carried by FGIC are reinsured by National Public Finance Guaranty Corporation.

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 bond 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 financial statements present information on all of the Bond Bank's assets and liabilities, with the difference between the two reported as 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. Increases to assets without a corresponding increase to liabilities, result in increased net position, which may indicate an improved financial position.

The statements of revenues, expenses, and changes in net position present information showing how the Bond Bank's net position changed during the fiscal year. Changes in net position are generally 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.

NEW HAMPSHIRE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

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, assets exceeded liabilities by \$24,981,392 at June 30, 2013. This represents a decrease of \$908,951 or 3.5% from the previous fiscal year.

By far, the largest portion of the Bond Bank's net position 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.

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>	<u>Percentage Change</u>
Current assets:			
Cash	\$ 151,672	\$ 67,754	123.86%
Investments held by trustee, at fair value	36,223,305	20,677,577	75.18
Loans receivable from governmental units	69,227,853	67,472,870	2.60
Accrued investment income receivable	953,840	998,796	(4.50)
Accrued interest receivable from governmental units	14,869,473	15,229,778	(2.37)
Unamortized rebates to governmental units and bond issuance costs	625,044	672,173	(7.01)
Other current assets	<u>2,526</u>	<u>3,312</u>	<u>(23.73)</u>
Total current assets	122,053,713	105,122,260	16.11
Noncurrent assets:			
Investments held by trustee, at fair value	82,024,827	101,235,394	(18.98)
Loans receivable from governmental units	796,266,458	807,106,251	(1.34)
Unamortized rebates to governmental units and bond issuance costs	<u>3,951,091</u>	<u>4,499,989</u>	<u>(12.20)</u>
Total noncurrent assets	<u>882,242,376</u>	<u>912,841,634</u>	<u>(3.35)</u>
Total assets	1,004,296,089	1,017,963,894	(1.34)
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued liabilities	72,085	1,029	6,905.34
Accrued interest payable	16,180,340	16,626,897	(2.69)
Accrued interest rebate payable to U.S. Government	313,483	169,956	84.45
Bonds payable	<u>91,860,934</u>	<u>76,396,159</u>	<u>20.24</u>
Total current liabilities	108,426,842	93,194,041	16.35
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	187,611	517,350	(63.74)
Bonds payable	<u>870,700,244</u>	<u>898,362,160</u>	<u>(3.08)</u>
Total noncurrent liabilities	<u>870,887,855</u>	<u>898,879,510</u>	<u>(3.11)</u>
Total liabilities	<u>979,314,697</u>	<u>992,073,551</u>	<u>(1.29)</u>
Total net position	<u>\$ 24,981,392</u>	<u>\$ 25,890,343</u>	<u>(3.51)%</u>

NEW HAMPSHIRE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

Total cash and investments held by trustee decreased \$3,580,921 or 2.9% at June 30, 2013 compared to June 30, 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. Treasury strips, U.S. Government sponsored enterprise notes and 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 values) are recognized in the statements of revenues, expenses and changes in net position.

The Bond Bank's loans receivable from governmental units decreased \$9,084,810 in fiscal year 2013. The Bond Bank's total new loan originations in 2013 of \$60,750,000 were 12.6% lower than 2012 originations of \$69,475,000. Net bonds payable decreased 1.3%.

Net position decreased 3.5% in fiscal year 2013. The Bond Bank continued to maintain a positive spread of income from investments and loans to governmental units over bond interest and operating expenses.

	<u>2013</u>	<u>2012</u>	<u>Percentage Change</u>
Interest on loans receivable from governmental units	\$39,334,540	\$40,086,343	(1.88)%
Interest income from investments	4,406,729	4,644,367	(5.12)
Net (decrease) increase in the fair value of investments	(2,574,697)	2,108,250	(222.12)
Other income	<u>956,749</u>	<u>654,622</u>	<u>46.15</u>
Total operating revenues	42,123,321	47,493,582	(11.31)
Interest expense	42,116,249	43,977,515	(4.23)
Operating expenses	358,571	371,323	(3.43)
Other expense	<u>557,452</u>	<u>354,097</u>	<u>57.43</u>
Total operating expenses	<u>43,032,272</u>	<u>44,702,935</u>	<u>(3.74)</u>
Operating (loss) income	(908,951)	2,790,647	(132.57)
Net position, beginning of year	<u>25,890,343</u>	<u>23,099,696</u>	<u>12.08</u>
Net position, end of year	<u>\$24,981,392</u>	<u>\$25,890,343</u>	<u>(3.51)%</u>

Operating revenues are generated principally from interest earned on investments and from fees and interest received from governmental units. The Bond Bank's annual operating budget is approved by the Board of Directors.

The net decrease in the fair value of investments in 2013 of \$2,574,697 (versus a net increase in the fair value of investments in 2012 of \$2,108,250, which equates to a total change in this account of \$4,682,947) was caused by movements in market interest rates during the year that had a negative impact on the fair value of investments held by the Bond Bank.

The increase in other income and other expense was mainly due to the increase of bond issuance costs pertaining to the 2012 C series. This series was issued to refund USDA loans for 24 communities. The issuance costs for each borrower were included in the Bond Bank's issuance costs to simplify the refunding analysis for each borrower.

NEW HAMPSHIRE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

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, New Hampshire Municipal Bond Bank, 25 Triangle Park Drive, Suite 102, Concord, New Hampshire 03301.

NEW HAMPSHIRE MUNICIPAL BOND BANK

STATEMENTS OF NET POSITION

June 30, 2013

	Municipal Division			
	General Operating Fund Group	State Guaranteed Fund Group	Qualified School Construction Fund Group	Non-State Guaranteed Fund Group
ASSETS				
Current assets:				
Cash (note 3)	\$ 151,672	\$ —	\$ —	\$ —
Investments held by trustee, at fair value (note 3):				
Cash equivalents	4,160,002	145,927	29	7,861,413
Investments	439,270	—	—	—
Reserve Fund investments (note 4)	—	426,087	—	23,190,577
Loans receivable from governmental units (note 4)	—	759,793	2,945,000	65,523,060
Accrued investment income receivable	918	600	—	952,322
Accrued interest receivable from governmental units	—	213,423	655,470	14,000,580
Unamortized rebates to governmental units and bond issuance costs	—	52,911	—	572,133
Other assets	<u>2,526</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total current assets	4,754,388	1,598,741	3,600,499	112,100,085
Noncurrent assets:				
Reserve Fund investments held by trustee, at fair value (notes 3 and 4):				
Cash equivalents	—	—	—	4,303,300
Investments	—	770,782	—	76,950,745
Loans receivable from governmental units (note 4)	—	1,410,058	37,970,000	756,886,400
Unamortized rebates to governmental units and bond issuance costs	—	<u>121,882</u>	<u>—</u>	<u>3,829,209</u>
Total noncurrent assets	<u>—</u>	<u>2,302,722</u>	<u>37,970,000</u>	<u>841,969,654</u>
Total assets	4,754,388	3,901,463	41,570,499	954,069,739
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	685	—	—	71,400
Accrued interest payable	—	215,589	655,470	15,309,281
Accrued interest rebate payable to U.S. Government	—	225,159	—	88,324
Bonds payable (note 4)	<u>—</u>	<u>1,056,482</u>	<u>2,945,000</u>	<u>87,859,452</u>
Total current liabilities	685	1,497,230	3,600,470	103,328,457
Noncurrent liabilities:				
Accrued interest rebate payable to U.S. Government	—	25,285	—	162,326
Bonds payable (note 4)	<u>—</u>	<u>1,975,614</u>	<u>37,970,000</u>	<u>830,754,630</u>
Total noncurrent liabilities	<u>—</u>	<u>2,000,899</u>	<u>37,970,000</u>	<u>830,916,956</u>
Total liabilities	<u>685</u>	<u>3,498,129</u>	<u>41,570,470</u>	<u>934,245,413</u>
Total net position	\$ <u>4,753,703</u>	\$ <u>403,334</u>	\$ <u>29</u>	\$ <u>19,824,326</u>

See accompanying notes to the financial statements.

Educational
Institution Division

Coe-Brown
Northwood
Academy
Fund Group

Total

\$	—	\$	151,672
	—		12,167,371
	—		439,270
	—		23,616,664
	—		69,227,853
	—		953,840
	—		14,869,473
	—		625,044
	—		2,526
	—		<u>122,053,713</u>
	—		4,303,300
	—		77,721,527
	—		796,266,458
	—		3,951,091
	—		<u>882,242,376</u>
	—		<u>1,004,296,089</u>
	—		72,085
	—		16,180,340
	—		313,483
	—		<u>91,860,934</u>
	—		<u>108,426,842</u>
	—		187,611
	—		<u>870,700,244</u>
	—		<u>870,887,855</u>
	—		<u>979,314,697</u>
\$	—	\$	<u><u>24,981,392</u></u>

NEW HAMPSHIRE MUNICIPAL BOND BANK

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the Year Ended June 30, 2013

		Municipal Division		
	General Operating Fund Group	State Guaranteed Fund Group	Qualified School Construction Fund Group	Non-State Guaranteed Fund Group
Operating revenues:				
Interest on loans receivable from governmental units	\$ –	\$ 278,817	\$2,237,507	\$36,766,489
Interest income from investments	22,898	82,596	29	4,301,189
Net decrease in the fair value of investments	(20,434)	(107,975)	–	(2,446,288)
Other income	<u>352,978</u>	<u>–</u>	<u>–</u>	<u>603,271</u>
Total operating revenues	355,442	253,438	2,237,536	39,224,661
Operating expenses:				
Interest expense	–	363,335	2,237,507	39,463,680
Operating expenses	358,054	–	–	–
Other expense	<u>–</u>	<u>–</u>	<u>–</u>	<u>557,452</u>
Total operating expenses	<u>358,054</u>	<u>363,335</u>	<u>2,237,507</u>	<u>40,021,132</u>
Operating income (loss) before operating transfers	(2,612)	(109,897)	29	(796,471)
Operating transfers in (out) (note 1)	<u>322,558</u>	<u>(300,000)</u>	<u>–</u>	<u>–</u>
Operating income (loss)	319,946	(409,897)	29	(796,471)
Net position, beginning of year	<u>4,433,757</u>	<u>813,231</u>	<u>–</u>	<u>20,620,797</u>
Net position, end of year	<u>\$4,753,703</u>	<u>\$ 403,334</u>	<u>\$ 29</u>	<u>\$19,824,326</u>

See accompanying notes to the financial statements.

<u>Educational Institution Division</u>	
<u>Fund Group</u>	<u>Total</u>
\$ 51,727	\$39,334,540
17	4,406,729
—	(2,574,697)
<u>500</u>	<u>956,749</u>
52,244	42,123,321
51,727	42,116,249
517	358,571
<u>—</u>	<u>557,452</u>
<u>52,244</u>	<u>43,032,272</u>
—	(908,951)
<u>(22,558)</u>	<u>—</u>
(22,558)	(908,951)
<u>22,558</u>	<u>25,890,343</u>
\$ <u>—</u>	\$ <u>24,981,392</u>

NEW HAMPSHIRE MUNICIPAL BOND BANK

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2013

		Municipal Division		
	General Operating Fund Group	State Guaranteed Fund Group	Qualified School Construction Fund Group	Non-State Guaranteed Fund Group
Operating activities:				
Cash received from governmental units	\$ —	\$ 1,661,948	\$ 5,229,686	\$ 101,952,159
Cash payments to governmental units	—	—	—	(60,750,000)
Cash received from other income	352,978	—	—	674,671
Cash paid for operating expenses	(357,881)	—	—	—
Cash payments for bond issuance costs	—	—	—	(557,452)
Cash received for other assets	786	—	—	—
Cash received from (paid to) other funds	<u>322,558</u>	<u>(300,000)</u>	<u>—</u>	<u>—</u>
Net cash provided by operating activities	318,441	1,361,948	5,229,686	41,319,378
Investing activities:				
Purchases of investments	(3,544,262)	(384,540)	—	(4,428,929)
Proceeds from sale and maturities of investments	3,545,874	759,553	—	6,045,943
Interest received on investments	23,745	111,508	29	4,436,302
Interest rebate paid to U.S. Government	<u>—</u>	<u>(21,677)</u>	<u>—</u>	<u>(284,451)</u>
Net cash provided by investing activities	25,357	464,844	29	5,768,865
Noncapital financing activities:				
Proceeds from bonds payable	—	—	—	124,736,621
Deposit to refunding escrow	—	—	—	(58,973,306)
Principal paid on bonds payable	—	(1,699,871)	(2,945,000)	(71,715,000)
Interest paid on bonds payable	<u>—</u>	<u>(338,067)</u>	<u>(2,284,686)</u>	<u>(40,258,749)</u>
Net cash used by noncapital financing activities	<u>—</u>	<u>(2,037,938)</u>	<u>(5,229,686)</u>	<u>(46,210,434)</u>
Increase (decrease) in cash and cash equivalents	343,798	(211,146)	29	877,809
Cash and cash equivalents, beginning of year	<u>3,967,876</u>	<u>357,073</u>	<u>—</u>	<u>11,286,904</u>
Cash and cash equivalents, end of year	<u>\$ 4,311,674</u>	<u>\$ 145,927</u>	<u>\$ 29</u>	<u>\$ 12,164,713</u>

Educational
Institution Division

Coe-Brown Northwood Academy <u>Fund Group</u>	<u>Total</u>
\$ 1,125,454	\$ 109,969,247
–	(60,750,000)
500	1,028,149
(1,034)	(358,915)
–	(557,452)
–	786
<u>(22,558)</u>	<u>–</u>
1,102,362	49,331,815
–	(8,357,731)
–	10,351,370
17	4,571,601
<u>–</u>	<u>(306,128)</u>
17	6,259,112
–	124,736,621
–	(58,973,306)
(1,065,000)	(77,424,871)
<u>(60,454)</u>	<u>(42,941,956)</u>
<u>(1,125,454)</u>	<u>(54,603,512)</u>
(23,075)	987,415
<u>23,075</u>	<u>15,634,928</u>
\$ <u>–</u>	\$ <u>16,622,343</u>

NEW HAMPSHIRE MUNICIPAL BOND BANK

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2013

		Municipal Division		
	General Operating <u>Fund Group</u>	State Guaranteed <u>Fund Group</u>	Qualified School Construction <u>Fund Group</u>	Non-State Guaranteed <u>Fund Group</u>
Statement of net position classification:				
Cash	\$ 151,672	\$ —	\$ —	\$ —
Cash equivalents – investments held by trustee	4,160,002	145,927	29	7,861,413
Cash equivalents – reserve fund investments held by trustee	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,303,300</u>
	<u>\$ 4,311,674</u>	<u>\$ 145,927</u>	<u>\$ 29</u>	<u>\$ 12,164,713</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 319,946	\$ (409,897)	\$ 29	\$ (796,471)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Interest income from investments	(22,898)	(82,596)	(29)	(4,301,189)
Net decrease in the fair value of investments	20,434	107,975	—	2,446,288
Amortization of rebates to governmental units	—	40,103	—	399,489
Interest expense on bonds payable	—	363,335	2,237,507	39,463,680
Change in assets and liabilities:				
Loans receivable from governmental units	—	1,319,870	2,945,000	3,754,940
Accrued interest receivable from governmental units	—	23,158	47,179	281,241
Other assets	786	—	—	—
Accounts payable and accrued liabilities	<u>173</u>	<u>—</u>	<u>—</u>	<u>71,400</u>
Net cash provided by operating activities	<u>\$ 318,441</u>	<u>\$ 1,361,948</u>	<u>\$ 5,229,686</u>	<u>\$ 41,319,378</u>

See accompanying notes to the financial statements.

Educational
Institution Division

Coe-Brown
 Northwood
 Academy

<u>Fund Group</u>	<u>Total</u>
\$ -	\$ 151,672
-	12,167,371
<u>-</u>	<u>4,303,300</u>
<u>\$ -</u>	<u>\$ 16,622,343</u>
\$ (22,558)	\$ (908,951)
(17)	(4,406,729)
-	2,574,697
-	439,592
51,727	42,116,249
1,065,000	9,084,810
8,727	360,305
-	786
<u>(517)</u>	<u>71,056</u>
<u>\$ 1,102,362</u>	<u>\$ 49,331,815</u>

NEW HAMPSHIRE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. Organization

The New Hampshire Municipal Bond Bank (Bond Bank) was created in 1977 by Chapter 35-A (Act) of the State of New Hampshire (State) Revised Statutes Annotated. The Bond Bank is an instrumentality of the State, but is not a State agency and has no taxing authority. The Bond Bank has separate corporate and sovereign capacity and its board of directors is composed of the State Treasurer (who serves as director ex officio) and four directors appointed by the Governor and Executive Council. The Bond Bank has no oversight authority over any other entity.

Under the Act, the Bond Bank is empowered to issue its bonds to make funds available to governmental units having the power to levy taxes (county, city, town, school district, village district or other body corporate and politic), through the purchase by the Bond Bank of their municipal bonds. The governmental units enter into loan agreements with the Bond Bank pursuant to which they issue municipal bonds. Accordingly, the Bond Bank enables governmental units to issue debt at a lower cost of borrowing and on more favorable terms than would be possible by financing on their own. As discussed below, the Act was amended in 1982 to establish the Educational Institutions Division.

To achieve its purpose, the Bond Bank operates the following divisions and programs:

General

General Operating Fund Group consists of the operating revenues and expenses incurred by the Bond Bank in administering the resolutions under which it is operating. The resolutions have been grouped into two categories, the Municipal Division and the Educational Institution Division. The General Operating Fund Group was created in July 2011 through transfers from the State Guaranteed Fund Group and the Qualified School Construction Fund Group. No State appropriations are made to the Bond Bank. Fees and charges are received by the Bond Bank for the use of its services or facilities. These fees and charges, along with income from investments, provide for the annual operating costs of the Bond Bank. Prior to the formation of the General Operating Fund Group, the Bond Bank's operating revenues and expenses were included in the revenues and expenses of the State Guaranteed Fund Group, Non-State Guaranteed Fund Group and Coe-Brown Northwood Academy Fund Group.

Municipal Division

State Guaranteed bonds issued are not a debt of the State of New Hampshire, and the State is not liable on such bonds. However, the municipal bonds issued through the Bond Bank are guaranteed as to payment of principal and interest by a pledge of the full faith and credit of the State of New Hampshire. The Bond Bank has issued bonds for its State Guaranteed program pursuant to a General Resolution adopted on July 19, 1979, as amended from time to time (the "1979 Resolution").

Qualified School Construction bonds issued are not a debt of the State of New Hampshire, and the State is not liable on such bonds. However, the municipal bonds issued through the Bond Bank are guaranteed as to 75 percent of principal and interest by a pledge of the full faith and credit of the State of New Hampshire. The Bond Bank has issued bonds for its Qualified School Construction program pursuant to a General Resolution adopted on June 2, 2010 (the QSCB Resolution).

Non-State Guaranteed bonds issued are not a debt of the State of New Hampshire, and the State is not liable on such bonds.

NEW HAMPSHIRE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. Organization (Continued)

Since its inception, the Bond Bank has issued bonds for its Non-State Guaranteed program pursuant to a General Resolution adopted on December 1, 1978, as amended from time to time (the 1978 Resolution). On July 14, 2005, the Bond Bank adopted a new General Resolution (the 2005 Resolution). While substantially similar to the 1978 Resolution, the 2005 Resolution contains a number of improvements, including a flexible reserve fund sizing requirement, some changes in permitted investments, the ability to meet its reserve fund requirement with surety bond policies and other credit facilities, and a streamlined approach to calling bonds for early redemption. The adoption of the 2005 Resolution has not resulted in any substantive change to the Bond Bank's overall program. Total assets and liabilities of the 2005 Resolution, which are reported under the Non-State Guaranteed Fund Group, were approximately \$228,295,000 at June 30, 2013, consisting primarily of loans to governmental units and bonds payable.

Bonds issued under the 2005 Resolution are separately secured from all other bonds of the Bond Bank, including those issued under the 1978 Resolution. Bonds issued under the 2005 Resolution (through 2008) have met the reserve fund requirements through the purchase of surety bond policies. Providers of these policies have been downgraded since their purchase, and in the case of one provider the ratings have been withdrawn. The table below summarizes the surety policies purchased by the Bond Bank:

<u>Surety Provider</u>	<u>Amount of Surety Policies</u>	<u>Ratings as of June 30, 2013</u>		
		<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
Assured Guaranty Municipal National Public Finance Guaranty Corporation	\$3,420,269	A2	AA-	Withdrawn
FGIC*	8,247,430	Baa1	A	Withdrawn
	6,782,925	Withdrawn	Withdrawn	Withdrawn

* Policies carried by FGIC are reinsured by National Public Finance Guaranty Corporation

Educational Institution Division

Coe-Brown Northwood Academy Fund Group: Effective February 19, 1982 (and as modified July 11, 1998), the State Legislature enacted the *New Hampshire Municipal Bond Bank Educational Institutions Bond Financing Act*, to assist certain elementary and secondary education institutions, or any other institution which provides a program of education within the state which is preparatory of secondary, postsecondary, or higher education, to finance the construction and improvement of their facilities. In 2013, all outstanding loans in this Fund were refinanced with an outside third party and the corresponding bonds payable were paid in full.

2. Significant Accounting Policies

Proprietary Fund Accounting

The Bond Bank is accounted for as an Enterprise Fund. An Enterprise Fund is used to account for an operation where periodic determination, on an accrual basis, of revenues earned, expenses incurred and net income is appropriate. Accordingly, the Bond Bank recognizes revenues in the period earned and expenses in the period incurred (i.e. the accrual basis of accounting).

NEW HAMPSHIRE 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 Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62).

The financial statements are prepared in accordance with GASB 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*.

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, the Bond Bank 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 \$120,000 in total for the State Guaranteed and Non-State Guaranteed Fund Groups.

Cash and Cash Equivalents

The Bond Bank considers all checking and savings deposits and highly liquid investments with original 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 State Guaranteed and Non-State Guaranteed Fund Groups have been recorded as interest income from investments. 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.

NEW HAMPSHIRE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

2. Significant Accounting Policies (Continued)

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. Bond issuance costs and original issue discounts or premiums associated with the Series 2003, 2004, 2005, 2007, 2009, 2010, 2012 and 2013 refunding bond issues were not offset by fees collected from governmental units, thus they were deferred and are being amortized to interest expense over the life of the refunding bond issues using the straight-line method. For each refunding, bond discounts (premiums) are presented as a reduction of (increase to) the face amount of bonds payable (note 4), whereas issuance costs are recorded as deferred charges included in unamortized rebates to governmental units and bond issuance costs.

Advanced Refundings

All advanced refundings completed subsequent to July 1, 1993 within the Bond Bank's municipal division 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 straight-line method. The unamortized portion of the deferred amount is reported as a reduction of the face amount of the bonds payable (note 4). Amortization for the year ended June 30, 2013 was approximately \$60,000 and \$2,287,000 for the State Guaranteed and Non-State Guaranteed Fund Groups, respectively.

The gains, losses and economic benefits of advance refundings completed within the Educational Institution Division inure to the respective institution and not the Bond Bank. The Board of Directors determines what percentage, if any, of the gains, losses and economic benefits of advanced refunding within the Municipal Divisions 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.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 HAMPSHIRE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

2. Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

As discussed above, 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*. This pronouncement is intended to codify all sources of Generally Accepted Accounting Principles for state and local governments so that they can be found in one source. The primary objective of this Statement is to directly incorporate the applicable guidance from those FASB and AICPA pronouncements into the state and local government accounting and financial reporting standards, with the provisions modified, as appropriate, to recognize the effects of the governmental environment and the needs of governmental financial statement users without affecting the substance of the applicable guidance. This statement supersedes Statement No. 20. It is effective for financial statements for periods beginning after December 15, 2012 and earlier application is encouraged. The Bond Bank implemented this pronouncement during the year ending June 30, 2013. There was no impact on the Bond Bank's financial statements as a result of the adoption of GASB 62.

In June 2011 GASB issued Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This pronouncement requires the presentation of certain elements of the Statement of Net Position as deferred inflows and outflows of resources in accordance with Concepts Statement No. 4, *Elements of Financial Statements* for transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods. This statement is effective for financial statements for periods beginning after December 15, 2011, and earlier application is encouraged. The Bond Bank implemented this pronouncement during the year ending June 30, 2013, resulting in a retitling of the Balance Sheets as Statements of Net Position. The Bond Bank had no deferred inflows or outflows at June 30, 2013.

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. GASB 65 is effective for the year ending June 30, 2014 and the Bond Bank has decided not to implement early.

3. Cash, Cash Equivalents and Investments

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 held by trustee and Reserve Fund investments held by trustee consist primarily of U.S. Treasury obligations, U.S. Government-sponsored enterprises, New Hampshire government obligations, and shares of money market funds which invest in U.S. Government and Government Agency obligations. All investments are held by a trustee in the Bond Bank's name. In addition to the above, the Bond Bank's internal investment policies allow operating investments to include fixed-income mutual funds which hold diversified portfolios in investment-grade debt securities.

NEW HAMPSHIRE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

3. **Cash, Cash Equivalents and Investments (Continued)**

The Act and each of the Municipal Division's general bond resolutions under the State Guaranteed Fund Group and the Non-State Guaranteed Fund Group require the establishment of a debt service reserve fund. These resolutions are secured separately from all other general bond resolutions of the Bond Bank. Amounts on deposit in the debt service reserve fund of each of these resolutions are held by the trustee under each of such general bond resolutions. Investment earnings on amounts held in each respective debt service reserve fund are restricted to the payment of debt service on bonds of the Bond Bank issued pursuant to each respective general bond resolution for the purpose of funding each respective debt service reserve fund. Each of these resolutions pledges its debt service reserve fund to the payment of debt service in the event of a governmental unit payment default.

The 1978 and 1979 Resolutions require their respective debt service funds be sized to meet the maximum amount of maturing municipal bond debt service in any calendar year. The 2005 Resolution requires that for each issue of bonds, the reserve fund requirement shall equal the lesser of (i) 10% of the aggregate original net proceeds of such Series of Bonds, (ii) 125% of the average annual aggregate Debt Service on such Bonds, or (iii) the maximum aggregate amount of Debt Service due on such Bonds in any succeeding bond year. This requirement is subject to change by an amendment to the 2005 Resolution under certain circumstances, but only once 100 loans have been made by the Bank under the 2005 Resolution. At June 30, 2013, the Bank had made 75 loans under the 2005 Resolution.

As permitted by the bond resolution, any funds not required for loans to government units or deposit to reserve funds, may be held by the Bond Bank as unrestricted investments. These amounts are classified as investments within the General Operating Fund Group.

Reserve Fund investments and investments held by trustee must be invested in any of the following obligations; (a) direct obligations of the United States of America or direct obligations of the State or obligations for which the faith and credit of the United States of America or the State is pledged to provide for the payment of the principal and interest, (b) any bond, debenture, note, participation or other similar obligation issued by the Federal National Mortgage Association, and (c) any other obligation of the United States of America or any Federal agencies which may then be purchased with funds belonging to the State or held in the State Treasury.

Investments of the Bond Bank consist of short-term money market funds that are 100% collateralized by government securities and investments in U.S. Treasury and U.S. Government sponsored enterprise securities. At June 30, 2013, investments are categorized as follows:

	<u>Fair Value</u>
<u>General Operating Fund Group</u>	
Investments held by trustee:	
Cash equivalents	\$ <u>4,160,002</u>
Operating investments:	
Fixed income – mutual funds	\$ <u>439,270</u>
<u>State Guaranteed Fund Group</u>	
Investments held by trustee:	
Cash equivalents	\$ <u>145,927</u>

NEW HAMPSHIRE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

3. Cash, Cash Equivalents and Investments (Continued)

	<u>Fair Value</u>
Reserve fund investments held by trustee:	
U.S. Treasury strips	\$ 812,765
U.S. Government-sponsored enterprises strips ⁽¹⁾	<u>384,104</u>
	\$ <u>1,196,869</u>
<u>Qualified School Construction Fund Group</u>	
Investments held by Trustee:	
Cash equivalents	\$ <u>29</u>
<u>Non-State Guaranteed Fund Group</u>	
Investments held by trustee:	
Cash equivalents	\$ <u>7,861,413</u>
Reserve fund investments held by trustee:	
Cash equivalents	\$ 4,303,300
U.S. Government obligations	54,031,310
U.S. Treasury strips	22,096,794
U.S. Government-sponsored enterprises ⁽¹⁾	10,214
U.S. Government-sponsored enterprises strips ⁽¹⁾	14,543,736
N.H. G.O. capital improvement bonds	<u>9,459,268</u>
	\$ <u>104,444,622</u>

⁽¹⁾ Includes FHLMC, FHLB, FFCB, FNMA and REFCORP.

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. 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 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 Fund Group</u>					
Fixed income – mutual funds	\$ <u>439,270</u>	\$ <u>439,270</u>	\$ _____	\$ _____	\$ _____
	\$ <u>439,270</u>	\$ <u>439,270</u>	\$ _____	\$ _____	\$ _____

NEW HAMPSHIRE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

3. Cash, Cash Equivalents and 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>State Guaranteed Fund Group</u>					
U.S. Treasury strips	\$ 812,765	\$ 41,983	\$ 770,782	\$ -	\$ -
U.S. Government- sponsored enterprises strips	<u>384,104</u>	<u>384,104</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,196,869</u>	<u>\$ 426,087</u>	<u>\$ 770,782</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Non-State Guaranteed Fund Group</u>					
U.S. Government obligations	\$ 54,031,310	\$ 19,108,610	\$ 3,322,132	\$ 4,289,059	\$ 27,311,509
U.S. Treasury strips	22,096,794	3,426,889	9,656,702	9,013,203	-
U.S. Government- sponsored enterprises	10,214	10,214	-	-	-
U.S. Government- sponsored enterprises strips	14,543,736	644,875	4,073,604	4,821,860	5,003,397
N.H. G.O. capital improvement bonds	<u>9,459,268</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,459,268</u>
	<u>\$ 100,141,322</u>	<u>\$ 23,190,588</u>	<u>\$ 17,052,438</u>	<u>\$ 18,124,122</u>	<u>\$ 41,774,174</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 held by People's United Bank, a state-chartered and publicly traded commercial bank. Management of the Bond Bank is not aware of any issues with respect to custodial credit risk at People's United Bank at June 30, 2013.

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. Fixed income mutual funds are deemed permissible holdings under the Bond Bank's investment guidelines provided such funds hold diversified portfolios of fixed income securities with average maturity dates not to exceed five years.

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are considered to have minimal credit risk.

At June 30, 2013, the Bond Bank's investments in the State of New Hampshire's general obligation capital improvement bonds within the Non-State Guaranteed Fund Group were rated AA.

NEW HAMPSHIRE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

3. Cash, Cash Equivalents and Investments (Continued)

The Bond Bank has invested some of its long-term funds in U.S. Treasury and U.S. Government-sponsored enterprises 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 statement of net position. At June 30, 2013, the fair value of these investments is approximately \$1,197,000 and \$36,641,000 with the State Guaranteed and Non-State Guaranteed Fund Groups, respectively.

4. Bonds Payable

The carrying amount of bonds payable at June 30, 2013, by program, are as follows:

Municipal Division:	
State Guaranteed	\$ 3,032,096
Qualified School Construction	40,915,000
Non-State Guaranteed	<u>918,614,082</u>
	<u>\$ 962,561,178</u>

Following is a comprehensive summary of bonds payable, with original interest rates, by program at June 30, 2013:

Municipal Division – State Guaranteed

Bonds payable consist of the following at June 30, 2013:

Series 1994 D Bonds, maturing August 15, 1995 to August 15, 2014, with interest ranging from 4.25% to 7.15%	\$ 134,850
Series 1994 E Bonds, maturing August 15, 2001 to August 15, 2014, with interest ranging from 5.25% to 6.25%	275,000
Series 2009 B Refunding Bonds, maturing August 15, 2009 to August 15, 2017 with interest ranging from 2.25% to 4.00%	<u>2,580,000</u>
	2,989,850
Net unamortized original issue premium	141,590
Unamortized deferred loss on refundings	<u>(99,344)</u>
Bonds payable	3,032,096
Current portion	<u>1,056,482</u>
Noncurrent portion	<u>\$1,975,614</u>

NEW HAMPSHIRE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

The above bonds payable will mature as follows, with interest payable semiannually:

<u>Fiscal year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$1,079,792	\$288,644	\$1,368,436
2015	720,058	258,886	978,944
2016	295,000	40,225	335,225
2017	285,000	30,100	315,100
2018	<u>610,000</u>	<u>12,200</u>	<u>622,200</u>
	<u>\$2,989,850</u>	<u>\$630,055</u>	<u>\$3,619,905</u>

Municipal Division – Qualified School Construction Bond

Bonds payable consist of the following at June 30, 2013:

Series 2010 C Bonds maturing September 15, 2011 to September 15, 2026 with interest at 5.39%	\$40,915,000
Current portion	<u>2,945,000</u>
Noncurrent portion	<u>\$37,970,000</u>

The above bonds payable will mature as follows, with interest payable semiannually:

<u>Fiscal year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,945,000	\$ 2,125,951	\$ 5,070,951
2015	2,945,000	1,967,215	4,912,215
2016	2,940,000	1,808,615	4,748,615
2017	2,925,000	1,650,553	4,575,553
2018	2,925,000	1,492,895	4,417,895
2019 – 2023	14,595,000	5,101,231	19,696,231
2024 – 2027	<u>11,640,000</u>	<u>1,254,792</u>	<u>12,894,792</u>
	<u>\$40,915,000</u>	<u>\$15,401,252</u>	<u>\$56,316,252</u>

Municipal Division – Non-State Guaranteed

Series 2003 C Bonds, maturing August 15, 2004 to August 15, 2013, with interest ranging from 3% to 6%	\$ 10,510,000
Series 2003 D Bonds, maturing August 15, 2004 to August 15, 2023, with interest ranging from 2% to 5%	7,700,000
Series 2003 E Bonds, maturing August 15, 2004 to August 15, 2013, with interest ranging from 3.5% to 5%	7,895,000

NEW HAMPSHIRE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

Municipal Division – Non-State Guaranteed (Continued)

Series 2003 F Bonds, maturing January 15, 2005 to January 15, 2014, with interest ranging from 4% to 5%	\$ 6,830,000
Series 2004 A Refunding Bonds, maturing August 15, 2005 to August 15, 2014, with interest ranging from 2% to 5%	14,775,000
Series 2004 B Bonds, maturing August 15, 2005 to August 15, 2014 with interest ranging from 3% to 5%	9,350,000
Series 2004 C Bonds, maturing January 15, 2006 to January 15, 2015 with interest ranging from 3.75% to 5%	520,000
Series 2005 A Refunding Bonds, maturing August 15, 2009 to August 15, 2020 with interest ranging from 3% to 5%	29,565,000
Series 2005 B Bonds, maturing August 15, 2006 to August 15, 2015 with interest ranging from 4% to 5%	9,760,000
Series 2005 C Bonds, maturing March 15, 2006 to March 15, 2028 with interest ranging from 3% to 5%	16,765,000
Series 2005 D Bonds, maturing July 15, 2006 to July 15, 2029 with interest ranging from 3% to 5%	38,425,000
Series 2006 A Bonds, maturing August 15, 2007 to August 15, 2026 with interest ranging from 4% to 5%	37,975,000
Series 2006 B Bonds, maturing January 15, 2008 to January 15, 2027 with interest ranging from 4% to 5%	12,115,000
Series 2007 A Refunding Bonds, maturing August 15, 2008 to February 15, 2029 with interest ranging from 3.75% to 4.50%	36,610,000
Series 2007 B Bonds, maturing August 15, 2008 to August 15, 2036 with interest ranging from 4% to 5%	54,855,000
Series 2007 C Bonds, maturing January 15, 2009 to January 15, 2037 with interest ranging from 4.25% to 5.25%	7,825,000
Series 2008 A Bonds, maturing August 15, 2009 to August 15, 2037 with interest ranging from 4% to 5.25%	33,210,000
Series 2008 B Bonds, maturing January 15, 2010 to January 15, 2029 with interest ranging from 4.50% to 5.875%	8,345,000
Series 2009 A Refunding Bonds, maturing August 15, 2009 to February 15, 2026 with interest ranging from 2.50% to 4.25%	5,935,000
Series 2009 C Bonds, maturing August 15, 2010 to August 15, 2029 with interest ranging from 3.00% to 5.00%	18,720,000
Series 2009 D Bonds, maturing July 15, 2010 to July 15, 2039 with interest ranging from 2.50% to 5.50%	26,460,000
Series 2009 E Bonds, maturing January 15, 2011 to January 15, 2030 with interest ranging from 3.00% to 5.00%	25,170,000
Series 2010 A Refunding Bonds, maturing August 15, 2010 to August 15, 2022 with interest ranging from 2.00% to 5.00%	96,715,000
Series 2010 B Bonds, maturing August 15, 2011 to August 15, 2039 with interest ranging from 3.00% to 5.00%	98,695,000

NEW HAMPSHIRE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

Municipal Division – Non-State Guaranteed (Continued)

Series 2010 D Bonds, maturing January 15, 2012 to January 15, 2031 with interest ranging from 3.00% to 5.00%	\$ 2,245,000
Series 2011 A Bonds, maturing August 15, 2011 to August 15, 2021 with interest ranging from 2.00% to 4.50%	7,605,000
Series 2011 B Bonds, maturing August 15, 2012 to August 15, 2031 with interest ranging from 2.00% to 4.00%	22,910,000
Series 2011 C Bonds, maturing January 1, 2012 to January 1, 2026 with interest ranging from 2.00% to 4.00%	7,240,000
Series 2011 D Bonds, maturing February 15, 2012 to February 15, 2024 with interest ranging from 2.00% to 5.00%	43,385,000
Series 2011 E Bonds, maturing January 15, 2013 to January 15, 2041 with interest ranging from 3.00% to 5.00%	33,965,000
Series 2011 F Bonds, maturing from July 15, 2012 to July 15, 2021 with interest ranging from 2.00% to 4.00%	5,560,000
Series 2012 A Refunding Bonds, maturing August 15, 2012 to February 15, 2025 with interest ranging from 2.00% to 5.00%	49,210,000
Series 2012 B Bonds, maturing August 15, 2013 to August 15, 2032 with interest ranging from 2.00% to 5.00%	17,655,000
Series 2012 C Bonds, maturing August 15, 2013 to February 15, 2039 with interest ranging from 2.00% to 5.00%	37,510,000
Series 2012 D Bonds, maturing February 15, 2014 to February 15, 2033 with interest ranging from 2.00% to 5.00%	8,155,000
Series 2013 A Refunding Bonds, maturing August 15, 2018 to August 15, 2025 with interest ranging from 3.00% to 5.00%	29,090,000
Series 2013 B Refunding Bonds, maturing August 15, 2013 to February 15, 2020 with interest ranging from 0.25% to 2.10%	<u>30,045,000</u>
	909,300,000
Net unamortized original issue premium on refundings	31,178,000
Unamortized deferred loss on refundings	<u>(21,863,918)</u>
Bonds payable	918,614,082
Current portion	<u>87,859,452</u>
Noncurrent portion	<u>\$ 830,754,630</u>

NEW HAMPSHIRE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

The above bonds payable will mature as follows, with interest payable semiannually:

<u>Fiscal year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 87,145,000	\$ 37,818,897	\$ 124,963,897
2015	68,115,000	34,444,905	102,559,905
2016	66,485,000	31,837,008	98,322,008
2017	66,315,000	29,270,858	95,585,858
2018	56,985,000	26,717,319	83,702,319
2019 – 2023	270,105,000	97,614,817	367,719,817
2024 – 2028	167,525,000	45,977,733	213,502,733
2029 – 2033	68,760,000	20,750,050	89,510,050
2034 – 2038	36,575,000	9,596,434	46,171,434
2039 – 2041	<u>21,290,000</u>	<u>1,336,103</u>	<u>22,626,103</u>
	<u>\$ 909,300,000</u>	<u>\$ 335,364,124</u>	<u>\$ 1,244,664,124</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 or institutions. 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 or institutions, transfers can be made from the 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 through the moral obligation. Reserve funds of one division (as defined in note 1) cannot be used to cover deficiencies of another division.

In periods of declining interest rates, the Bond Bank has refunded certain bond obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old 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. As of June 30, 2013, defeased bonds payable by irrevocable trusts were approximately \$207,835,000.

On February 6, 2013, the Bond Bank issued \$29,090,000 in Non-State Guaranteed Fund Group bonds with an average coupon rate of 4.04% to advance refund \$30,625,000 of various outstanding maturities of the 2005B series bond with an average coupon rate of 4.34%. The net proceeds of approximately \$34,336,000 including bond premium of approximately \$5,437,000 and after payment of approximately \$191,000 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 advance refunding resulted in the recognition of a deferred accounting loss of approximately \$3,068,000 in the year ended June 30, 2013, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$3.6 million over the next thirteen years and obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately \$3,185,000. The advanced refunding resulted in a net present value savings of 10.40% of the refunded bonds.

NEW HAMPSHIRE MUNICIPAL BOND BANK

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

4. Bonds Payable (Continued)

On April 25, 2013, the Bond Bank issued \$30,045,000 in Non-State Guaranteed Fund Group bonds with an average coupon rate of 1.45% to advance refund \$27,970,000 of various outstanding maturities of the 2004A series bond with an average coupon rate of 5.00%. The net proceeds of approximately \$30,019,000 including bond premium of approximately \$156,000 and after payment of approximately \$182,000 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 advance refunding resulted in the recognition of a deferred accounting loss of approximately \$2,231,000 in the year ended June 30, 2013, the Bond Bank in effect reduced its aggregate debt service payments by approximately \$2 million over the next seven years and obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately \$1,955,000. The advanced refunding resulted in a net present value savings of 6.99% of the refunded bonds.

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

	State Guaranteed Fund Group	Qualified School Construction Fund Group	Non-State Guaranteed Fund Group	Coe-Brown Northwood Academy Fund Group
Balance, beginning of year	\$ 4,707,841	\$43,860,000	\$ 925,125,478	\$ 1,065,000
Issuances	—	—	123,410,000	—
Redemptions	(1,699,871)	(2,945,000)	(71,715,000)	(1,065,000)
Refunded principal	—	—	(58,595,000)	—
Capitalized premiums and deferred losses, net	—	—	1,326,621	—
Amortization of premiums and deferred losses, net	<u>24,126</u>	<u>—</u>	<u>(938,017)</u>	<u>—</u>
Balance, end of year	\$ <u>3,032,096</u>	\$ <u>40,915,000</u>	\$ <u>918,614,082</u>	\$ <u>—</u>

5. Subsequent Events

On July 18, 2013, the Bond Bank issued \$53,390,000 in Non-State Guaranteed Bonds. The issue included \$48,225,000 for loans to fourteen municipalities and \$5,165,000 issued as Reserve Fund Bonds. The coupon rate ranged from 4.00% to 5.50% with a True Interest Cost (TIC) of 3.30%.