



## 2012 ANNUAL REPORT

PO BOX 110405  
JUNEAU, ALASKA 99811-0405

## LETTER FROM THE CHAIRPERSON

To all Alaskans:

The year 2012 marked the 37th year that the Alaska Municipal Bond Bank Authority (Bond Bank) has provided the low cost alternative for funding a wide range of Alaska's public works projects. These efforts translate into a lower cost of facilities for each and every resident of those communities that access the Bond Bank's programs and resources. At the Bond Bank we are proud to be the stewards of this financial resource available to all Alaskans.

The Bond Bank's strong credit saved Alaskans an estimated \$17.2 million in 2012 while funding \$67 million of projects and refinancing \$82.4 million of existing debt. Over the last 37 years the Bond Bank has saved Alaskan communities approximately \$112 million while securing over \$1.2 billion dollars for the construction of key projects; including schools, roads, utilities, harbors, hospitals, and other municipal facilities.

The Bond Bank helps Alaskan communities issue bonds at the lowest cost available. Some communities rely on the Bond Bank due to a lack of familiarity with the financial markets, while others are driven by the goal of seeking the lowest cost for their bonds.

The Bond Bank produces these savings for communities by careful management of the authority provided to us, creatively utilizing our programs to, capitalize on the strength of the State of Alaska to achieve high credit ratings, combine smaller community bonds into a larger economic bond issue, and negotiate lower costs to issue bonds.

In addition, the Bond Bank itself is self-supporting relying on NO state support from the general fund and consistently providing an annual dividend back to the State. Over the past 37 years the Bond Bank has transferred \$27.8 million to the State's general fund.

The savings achieved by the borrowing communities, has directly reduced local taxpayer burden. In 2012 alone the Bond Bank entered into 32 municipal loan agreements for projects in 19 communities, resulting in \$149.4 million in bonds being issued. Of these, \$82.4 million of the Bond Bank issued bonds were to refinance older general obligation bonds to achieve current and future savings over existing debt carried by communities.

As of June 30, 2012 the Bond Bank had \$735.6 million of debt outstanding.

In accordance with Alaska Statute 44.85.100, we respectfully submit the attached year 2012 report of the activities and financial condition of the Bond Bank.

We hope you share with us our pride in the Bond Bank's accomplishments this past year and we look forward to serving any Alaskan community that seeks our expertise and assistance in the coming year.

Sincerely,



Mark Pfeffer

## THE ALASKA MUNICIPAL BOND BANK AUTHORITY

The Bond Bank is a public corporation of the State of Alaska created in 1975 to save Alaskan communities money when they borrow for capital projects. The Bond Bank achieves this by purchasing municipalities' general obligation bonds, revenue bonds, or other obligations at interest rates that are lower than the communities could obtain otherwise.

The Bond Bank has a legal existence independent of and separate from the State of Alaska. Bonds issued by the Bond Bank are payable only from pledged Bond Bank funds. The State requires the maintenance of a debt service reserve for all of the Bond Bank's bonds to create a State of Alaska moral obligation for the bonds' repayment. (*For more information please see Notes to Financial Statements.*)

The powers of the Bond Bank are vested in its Board of Directors. The membership of the Board consists of five directors representing

both the public and private sector. The three private sector board members are appointed by the Governor and serve four-year terms. They are joined on the Board by the Commissioner of Revenue and the Commissioner of Commerce, Community & Economic Development (or their assigned representatives).

The Board of Directors operates in accordance with the Bond Bank Act (AS 44.85), its published regulations (15 AAC144) and its by-laws. The board's main responsibility is to consider municipal loans and approve bond issues.

The Bond Bank may not issue revenue bonds in excess of \$75 million in any fiscal year unless the Alaska Legislature approves a greater amount. The Bond Bank is further restricted to a limit of \$1 billion of bonds or notes outstanding. As of June 30, 2012, obligations totaled \$735.6 million, allowing for additional bond issuances of \$264.4 million.



### AN IDEA THAT WORKS

The Bond Bank's operation is funded by the investment earnings on assets of the corporation. Statutory earnings are available for appropriation by the State or if not appropriated have automatically flowed into the State's general fund. Since 1977 the Bond Bank has transferred \$27.8 million to the State, which is over \$9.2 million more than the general fund transfers to the Bond Bank. Due to program growth earnings over the last five years, \$1.8 million has been retained by the Bond Bank through State appropriations. Additionally, during fiscal year 2012, Senate Bill 160 directed a special appropriation of \$13.2 from the State of Alaska General Fund to the Bond Bank to provide forgiveness on principal and interest of loans previously granted to the Bond Bank to fund a portion of the reserve funding requirements associated with the Authority's 2011 and 2012 bond issuances.

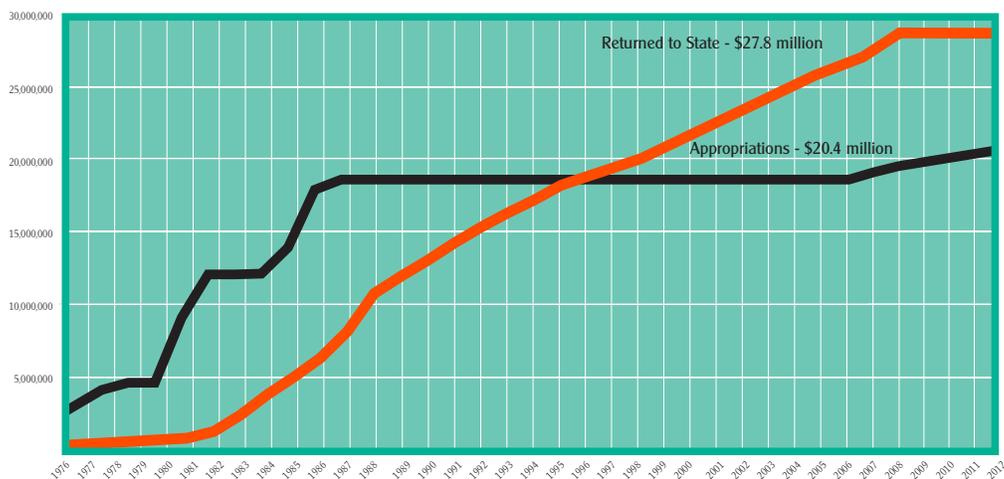
In addition to direct monetary transfers, Alaska's investment in the Bond Bank is realized in reduced payments in other programs as well as lower local tax requirements in Alaskan communities. The State manages reimbursement programs for school projects through the Alaska

Department of Education and certain other capital projects through the Alaska Department of Transportation. As communities are borrowing at lower interest rates through the Bond Bank the State of Alaska pays less money in reimbursements to the communities eligible for these programs.

Alaskan communities taking advantage of the Bond Bank program realize considerable savings. These communities may have low bond ratings, or although credit worthy have not issued bonds, or have little outstanding debt, and lack investor familiarity. The Bond Bank has high credit ratings and frequently issues bonds and uses these attributes to meet the capital needs of Alaska. The Bond Bank is efficient enough that some larger communities, that routinely issue their own bonds, find that the Bond Bank's services result in less expense, especially for small bond issues.

The Bond Bank operates efficiently with Alaska Department of Revenue staff serving as executive director, providing accounting expertise and administrative support. Where economies of scale dictate, the Bond Bank hires outside professional staff.

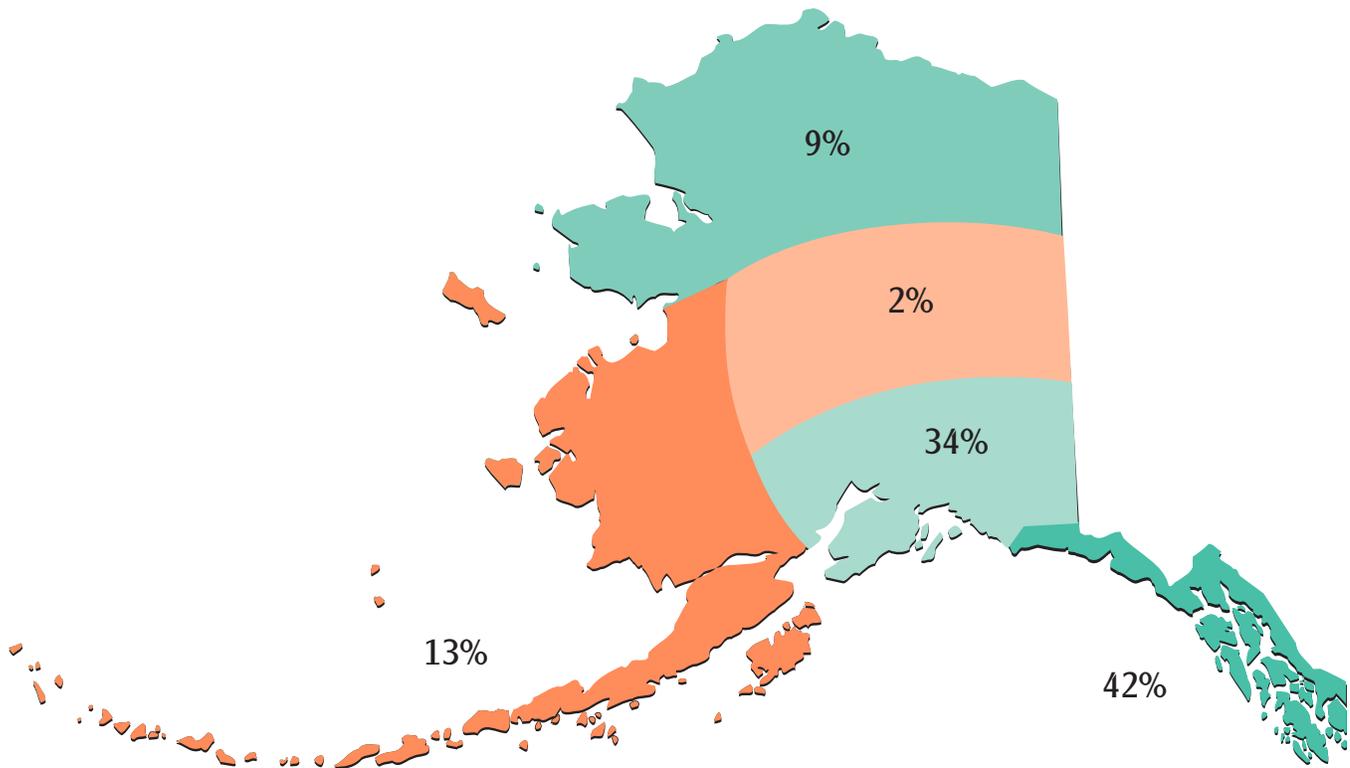
CUMULATIVE APPROPRIATIONS COMPARED TO CUMULATIVE EXCESS EARNINGS RETURNED TO STATE



## HELPING ALASKAN COMMUNITIES

The Bond Bank is organized to work with all Alaska's municipalities in funding their capital needs at the lowest cost. From the time a municipality contacts the Bond Bank, legal and financial professionals with extensive experience in Alaska financing begin working with municipal managers to identify and develop the most advantageous financing program for the community.

In most instances the Bond Bank is able to relieve municipalities from paying certain costs of issuing bonds. For this reason, even large communities seek the services provided by the Bond Bank.



ALL BOND PROCEEDS DISTRIBUTION  
BY AREA PERCENTAGES

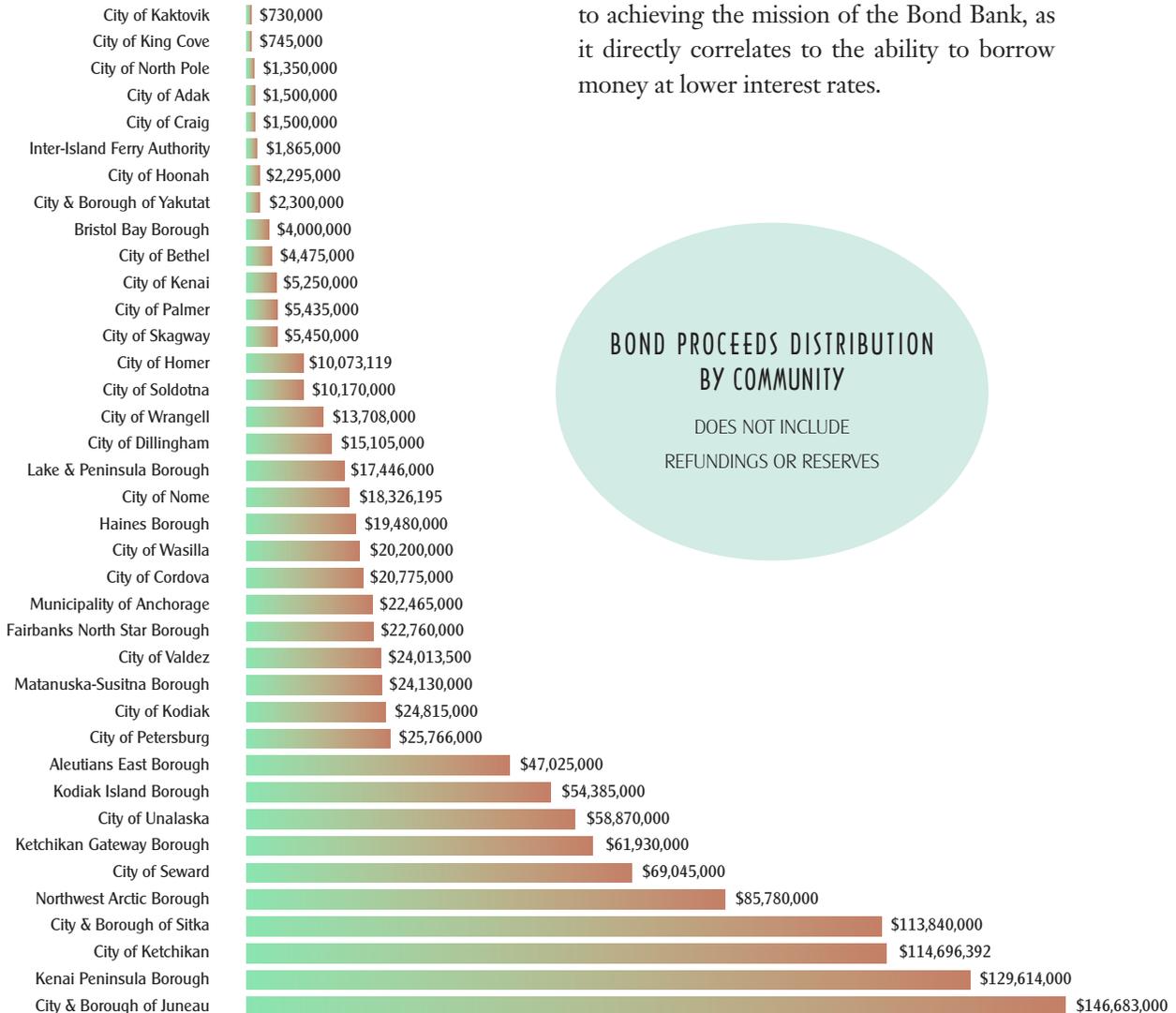
ISSUING BONDS

The Bond Bank issues both taxable and tax exempt bonds. Purchasers of these bonds include bond mutual funds, institutional investors, insurance companies, and private individual investors. Purchasers of tax exempt bonds do not have to pay federal income taxes on the interest income received.

The Bond Bank has historically pooled municipal general obligation bond issues into a single issue. This is accomplished by selling one larger Bond Bank bond issue to fund a number

of smaller community bond issues. Starting in 2005 the Bond Bank began pooling both general obligation and revenue bonds, and thereby further increased the efficiency of the program.

Bond issues of the Bond Bank are typically reviewed by at least one of the national rating agencies. The 2005 general obligation bond resolution program of the Bond Bank is rated by both Moody's Investors Service and Fitch Ratings. These bonds receive an AA rating from Fitch and an Aa2 rating from Moody's. Both of these ratings are considered "investment grade". Maintenance of these high ratings is crucial to achieving the mission of the Bond Bank, as it directly correlates to the ability to borrow money at lower interest rates.



## LEVERAGING STATE DOLLARS

An important reason for the Bond Bank's favorable bond rating and lower borrowing costs is that it secures its bonds with reserve funds supported by the "moral obligation" of the State of Alaska. The State has demonstrated the depth of this pledge, by appropriating an unlimited amount in the FY 2013 budget to satisfy the moral obligation specific to the 2005 program.

The reserve funds are available to cure defaults, should they occur, and sized to an amount equal to 125% of average debt service over the life of all bond issues in the specific program. For the 1976 loan program, at least two-thirds of the reserve must be funded from bond bank assets and up to one-third funded from the proceeds of new bond issues, for older revenue bond issues Bond Bank assets funded the entire reserve, and with the 2005 loan program there is flexibility to use any combination of bond bank assets, bond proceeds, or surety policies to satisfy reserve requirements. For both the 1976 and the 2005 loan program the reserve is pooled, meaning that the reserve that is in place is equivalent to many years of debt payments on even the largest of borrower loans.

## GENERAL OBLIGATION BONDS

The majority of the Bond Bank's bonds have been issued to fund general obligation loans. Communities typically issue general obligation bonds to finance facilities that do not generate revenue, such as schools, roads, public safety and municipal buildings. Such bonds must be approved by the municipal voters.

## REVENUE BONDS

The Bond Bank also funds loans for community revenue bonds that are used to finance revenue-producing capital improvements such as utility or port facilities. Because they are not secured by a municipality's taxing power, such bonds do not normally require municipal voter approval.

## CURRENT FINANCINGS FY 2012 BONDS ISSUES

\$78,115,000

General Obligation Bonds, 2011 Series Three

City of Cordova – School Improvements

City of Hoonah–Maintenance Projects &  
School Improvements

Kenai Peninsula Borough – Refinanced for Savings/  
Hospital Improvements

Kodiak Island Borough – Landfill Improvements

City of Seward – Library/Museum Construction

Municipality of Skagway – Library Improvements

Bond Bank Bonds Refinanced for Savings:  
2000E; 2001B; 2002B; 2003A; 2003D; 2003E; 2003G  
25 year: True Interest Cost 2.57%

\$18,495,000

General Obligation Bonds, 2012 Series One

City & Borough of Juneau – Refinanced for Savings /  
School Improvements

City & Borough of Juneau / "Wildflower Court" –  
Refinanced for Savings / Facilities Improvement  
13 year: True Interest Cost 1.45%

\$52,795,000

General Obligation Bonds, 2012 Series Two

City of Ketchikan – Library Construction

City & Borough of Juneau – Refinanced for Savings /  
School Improvements

Bond Bank Bonds Refinanced for Savings:  
2004A; 2004B; 2004C; 2004D; 2005B  
20 year: True Interest Cost 2.16%

**ISSUED AMOUNTS ARE INCLUSIVE OF  
RESERVE OBLIGATIONS**



### 2005 BOND INDENTURE

In Fiscal Year 2006 the Bond Bank created the 2005 lending program that allows both general obligation bond and revenue bond loans through the issuance of general obligation bonds of the Bond Bank. All bond issued during Fiscal Year 2012 were issued under the 2005 bond indenture; however, a portion of debt was used to refund certain outstanding obligations under the 1976 bond resolution. The ability to pool communities' bonds provides greater operational efficiency for the Bond Bank and provides additional flexibility and savings to communities. The 2005 & 2010 lending programs are now used for all issues of the Bond Bank going forward.

### 2010 BOND INDENTURE

During Fiscal Year 2011 the Bond Bank created the 2010 lending program that allows both general obligation bond and revenue bond loans through the issuance of general obligation bonds of the Bond Bank. Series 2010 A-1 & Series 2010 A-2 were the first issues under the 2010 bond indenture. No bonds were issued under the 2010 bond indenture during Fiscal Year 2012. The 2005 & 2010 lending programs

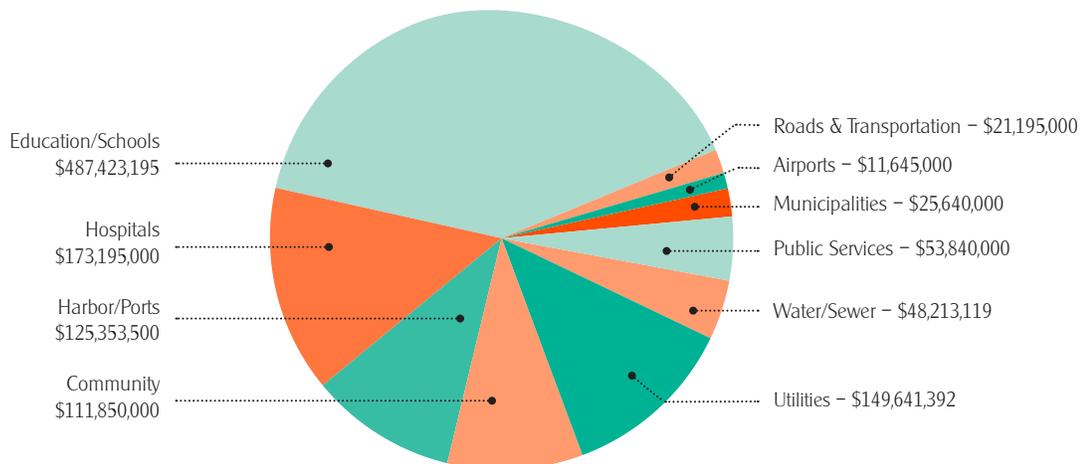
are now used for all issues of the Bond Bank going forward.

Bonds issued by the Bond Bank to purchase municipal general obligation bonds are secured by:

- For general obligation loans the full faith and credit of each respective community with no taxing limitation.
- For revenue bond loans the revenues for the facility or enterprise being financed.
- The Bond Bank's general obligation debt service reserve fund.
- All unobligated Bond Bank assets.
- The statutory right of the Bond Bank, in the event of default, to demand and receive any funds held by a state agency which are payable to the defaulting municipality.
- The moral obligation of the State of Alaska to maintain the debt service reserves at their required levels.
- The commitment to seek current year funding for reserve replenishment for the 2005 G.O. program. This is currently funded in the State's FY2013 operating budget.

### USES OF BOND PROCEEDS—INCEPTION TO DATE

DOES NOT INCLUDE REFUNDINGS



## SUMMARY OF DEBT SERVICE SCHEDULE OF TOTAL DEBT SERVICE BY CLASSIFICATION AT JUNE 30, 2012

ISSUE	PRINCIPAL	INTEREST	TOTAL
2002 Series B	\$ 555,000	10,753	\$ 565,753
2003 Series A	425,000	8,500	433,500
2003 Series C	1,125,000	40,781	1,165,781
2003 Series D	700,000	14,350	714,350
2003 Series E	1,395,000	56,900	1,451,900
2003 Series G	2,170,000	141,800	2,311,800
2004 Series A	1,685,000	55,810	1,740,810
2004 Series B	2,445,000	123,300	2,568,300
2004 Series C	1,935,000	118,875	2,053,875
2004 Series D	2,645,000	458,913	3,103,913
2005 Series A	25,510,000	5,680,290	31,190,290
2005 Series B	7,240,000	1,149,875	8,389,875
2005 Series C	25,545,000	7,953,584	33,498,584
2006 Series A	11,270,000	2,201,060	13,471,060
	<u>\$ 84,645,000</u>	<u>18,014,791</u>	<u>\$ 102,659,791</u>
2005 Series ONE	\$ 11,060,000	2,283,998	\$ 13,343,998
2006 Series ONE	5,870,000	2,189,393	8,059,393
2006 Series TWO	36,855,000	27,943,138	64,798,138
2007 Series ONE	22,250,000	5,154,401	27,404,401
2007 Series TWO	24,245,000	12,311,181	36,556,181
2007 Series THREE	13,330,000	7,539,834	20,869,834
2007 Series FOUR	13,640,000	5,657,194	19,297,194
2007 Series FIVE	5,735,000	4,410,838	10,145,838
2008 Series ONE	57,275,000	32,238,543	89,513,543
2008 Series TWO	17,700,000	10,113,484	27,813,484
2009 Series ONE	26,055,000	18,624,750	44,679,750
2009 Series TWO	23,520,000	10,407,119	33,927,119
2009 Series THREE	11,200,000	1,777,825	12,977,825
2009 Series FOUR	26,385,000	21,996,309	48,381,309
2010-A Series ONE	14,545,000	2,238,350	16,783,350
2010-B Series ONE	7,415,000	6,512,969	13,927,969
2010-A Series TWO	2,825,000	183,350	3,008,350
2010-B Series TWO	11,405,000	6,040,591	17,445,591
2010-A Series THREE	4,135,000	638,838	4,773,838
2010-B Series THREE	6,900,000	4,966,553	11,866,553
2010-A Series FOUR	24,750,000	6,135,444	30,885,444
2010-B Series FOUR	51,940,000	37,174,510	89,114,510
2011 Series ONE	8,340,000	4,216,756	12,556,756
2011 Series TWO	11,370,000	3,216,685	14,586,685
2011 Series THREE	77,695,000	27,646,950	105,341,950
2012 Series ONE	18,495,000	3,221,412	21,716,412
2012 Series TWO	52,795,000	16,190,642	68,985,642
	<u>\$ 587,730,000</u>	<u>281,031,054</u>	<u>\$ 868,761,054</u>
2010 Series A-1	\$ 1,000,000	133,925	\$ 1,133,925
2010 Series A-2	3,700,000	4,001,576	7,701,576
	<u>\$ 4,700,000</u>	<u>4,135,501</u>	<u>\$ 8,835,501</u>
Coastal Energy Reserve Loan Fund	\$ 10,682,527	2,842,112	\$ 13,524,638
2001B Revenue Bond Resolution	1,340,000	250,984	1,590,984
2002A Revenue Bond Resolution	1,830,000	131,838	1,961,838
2003B Revenue Bond Resolution	14,500,000	4,416,388	18,916,388
2004A Revenue Bond Resolution	25,570,000	18,148,826	43,718,826
2004B Revenue Bond Resolution	4,630,000	3,071,858	7,701,858
	<u>58,552,527</u>	<u>28,862,004</u>	<u>87,414,531</u>
	<u>\$ 735,627,527</u>	<u>332,043,351</u>	<u>\$ 1,067,670,878</u>

### SUMMARY OF TOTAL DEBT SERVICE REQUIREMENTS BY FISCAL YEAR

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2013	\$ 47,496,032	33,060,613	\$ 80,556,645
2014	42,260,165	31,602,634	73,862,799
2015	46,394,468	29,838,004	76,232,472
2016	49,368,946	27,864,428	77,233,374
2017	45,468,607	25,824,204	71,292,812
2018-2022	214,115,793	99,276,980	313,392,773
2023-2027	154,748,626	55,530,147	210,278,773
2028-2032	93,470,349	23,026,054	116,496,403
2033-2037	38,002,412	5,711,817	43,714,229
2038 and after	4,302,129	308,469	4,610,599
	<u>\$ 735,627,527</u>	<u>332,043,351</u>	<u>\$ 1,067,670,878</u>

THE BOND BANK HAS FIVE DIRECTORS CONSISTING OF THREE PUBLIC MEMBERS APPOINTED BY THE GOVERNOR, THE COMMISSIONER OF REVENUE, AND THE COMMISSIONER OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT.

THE COMMISSIONERS MAY APPOINT DELEGATES TO SERVE IN THEIR PLACE.

## THE BOARD OF DIRECTORS

**MARK PFEFFER**  
Chairman  
Term expires July 15, 2013

Mr. Pfeffer was appointed October 10, 2001. Mr. Pfeffer is a registered architect who has owned and led an architectural practice in Alaska for over 25 years. He is active in the development, design and management of commercial real estate projects, many of which include public/private partnerships. He is a partner in the firms Koonce Pfeffer Bettis, Inc. and Venture Development Group, LLC. Mr. Pfeffer received a Bachelor of Architecture Degree from the University of Nebraska in 1980.

**LUKE WELLES**  
Vice Chairman  
Term expires July 15, 2015

Mr. Welles was appointed on May 16, 2008. Mr. Welles is Chief Financial Officer for the Yukon Kuskokwim Healthcare Corporation which administers healthcare in 52 rural communities, including a hospital located in Bethel, Alaska. He has management experience in healthcare, civil construction and commercial real estate. Over the past 17 years he has served on several economic development commissions in the State, a city council member in Homer, Alaska and multiple boards. Mr. Welles received a Bachelor of Arts in Foreign Service and International Business from Baylor University in 1989.



GREGORY GURSEY

Member

Term expires July 15, 2014

Mr. Gursey was appointed to the board on June 22, 2009. Mr. Gursey became President of Benefit Brokers, Inc in 2001, after working as Vice President of Investments for Wedbush Morgan Securities for 11 years. Benefit Brokers has been providing investment advisory services to clients for over 30 years. Mr. Gursey also serves as a FINRA industry arbitrator in both civil and industry arbitration cases. After graduating from the University of Alaska Anchorage with a degree in finance, Mr. Gursey became involved with the University of Alaska Foundation. He served as the first Chairman of the UAA College of Fellows, currently is a member of the Investment Committee and serves as a Trustee to the UA Foundation. Mr. Gursey has served on the U.S. Treasury's Department, Taxpayer Advocacy Panel, State of Alaska Dental Examiner's Board, the Investment Commission for the Municipality of Anchorage, as well as numerous other boards.

ANGELA RODELL

Member

Angela Rodell, Deputy Commissioner of Revenue, joined the State of Alaska in September 2011. Ms. Rodell is responsible for the oversight of more than \$24 billion of state funds and more than \$20 billion of retirement assets. She has responsibility for portfolio management, cash management, debt management, unclaimed property, child support division and the permanent fund division. Ms. Rodell also serves as the ex officio board designee on a number of state boards including the Alaska Industrial Development and Export Authority, the Alaska Energy Authority, the Knik Arm Bridge & Toll Authority, the Alaska Student Loan Corporation, the Alaska Municipal Bond Bank Authority and the State Bond Committee. Formerly, Ms. Rodell served as financial advisor to more than \$30 billion of transactions for state and state authorities in Alaska, Arkansas, California, Illinois, New Jersey, New York, North Carolina, Rhode Island and Virginia. She has a Bachelor of Arts degree from Marquette University, Milwaukee, Wisconsin and a Master of Public Administration from the University of Kentucky, Lexington, Kentucky.

TED LEONARD

Member

Mr. Leonard is the first delegate for Susan Bell, Commissioner of the Department of Commerce, Community & Economic Development. Mr. Leonard was appointed Executive Director of the Alaska Industrial Development and Export Authority (AIDEA) on May 19, 2008. He was most recently the Deputy Commissioner of the Department of Commerce, Community and Economic Development. In the Deputy Commissioner capacity, he oversaw the regulatory divisions of the department which included the Division of Insurance, Division of Banking and Securities and the Division of Corporations, Business and Professional Licensing. He served as the Commissioner's designee on the boards of the Alaska Housing Finance Corporation, Alaska Aerospace Development Corporation and the Alaska Community Service Commission. Mr. Leonard has worked for the last 19 years in both the government and private sector in the areas of finance and accounting in Alaska, including the Mat-Su and Lower Kuskokwim School Districts as well as the City of Dillingham. He also served as the Director of Finance and Administrative Services for the city of Wasilla. He received his undergraduate degree from the College of Idaho and a Masters in Management from Willamette University. He is a Certified Management Accountant and Senior Professional in Human Resources.

THE STATE'S DEPARTMENT OF REVENUE-TREASURY DIVISION (DOR-TREASURY) FULFILLS ADMINISTRATIVE AND MANAGEMENT RESPONSIBILITIES FOR THE BOND BANK.

DEVEN MITCHELL

Executive Director, appointed April 7, 1998

Mr. Mitchell also serves as the State Debt Manager and Investment officer in Department of Revenue-Treasury. Mr. Mitchell has worked for the State of Alaska Department of Revenue since 1992. He previously held several positions in Alaskan financial institutions. Mr. Mitchell holds a Bachelor of Science in Business Administration from Northern Arizona University.

PAMELA LEARY, CPA

Deputy Treasurer, appointed October 15, 2007

Ms. Leary is the Comptroller for the State of Alaska Department of Revenue, Treasury Division. Ms. Leary started her career as an auditor with Price Waterhouse. She became partner in the firm PricewaterhouseCoopers, advising and consulting clients on various disciplines, including securities litigation and bankruptcy. Prior to joining Treasury, Ms. Leary worked for the Alaska Permanent Fund Corporation. Ms. Leary holds a Bachelor of Science degree in Economics from the Wharton School, University of Pennsylvania and is a Certified Public Accountant in the State of Alaska.

RATHER THAN EMPLOY STAFF, THE BOND BANK CONTRACTS IN THE PRIVATE SECTOR FOR A WIDE RANGE OF PROFESSIONAL SERVICES. THE EXECUTIVE DIRECTOR COORDINATES THE ACTIVITIES OF THESE PROFESSIONALS INCLUDING BOND COUNSEL, FINANCIAL ADVISOR, ACCOUNTANTS, AUDITORS, FUND TRUSTEES, BOND TRUSTEES AND CLERICAL SUPPORT.

FINANCIAL ADVISOR

WESTERN FINANCIAL GROUP, LLC

Provides loan analysis services, including recommendations as to the adequacy of loan applications, credit worthiness, projected capability to repay, and the overall effect a proposed loan will have on the credit of the Bond Bank. Assists in preparation of the official statements, recommends type and timing of bond sales, negotiates with underwriters and assists with investment of various funds. Also coordinates financial reviews with bond rating houses and prepares other general financial reviews and analyses required by the Bond Bank.

BOND COUNSEL

WOHLFORTH BRECHT CARTLEDGE & BROOKING

Prepares for the authorization, sale, issuance and delivery of Bond Bank bonds. Prepares series resolutions, notices of sale; assists in preparation of official statements; renders necessary opinions as required; and provides other general legal services.

TRUSTEE/PAYING AGENT

BANK OF NEW YORK MELLON TRUST COMPANY, N.A.

Acts as custodian of the bond proceeds and supervises the investment of funds for the purposes specified in the bond resolutions. The trustee oversees debt service funds and maintenance of certain reserve accounts required in the contract with the bondholders. As paying agent, makes all necessary interest and principal payments to the bondholders.

INVESTMENT MANAGER

ALASKA PERMANENT CAPITAL MANAGEMENT

Supervises and controls the investment of the custodial funds and the trustee funds. Also provides analyses of investments, advice on investment guidelines, and directs the investment of all funds in accordance with Bond Bank procedures and guidelines.

CUSTODIAL BANK

FIRST NATIONAL BANK ALASKA

Acts as the Authority's bank for processing all fund transactions.

## FINANCIAL STATEMENTS

JUNE 30, 2012

### TABLE OF CONTENTS

Management Discussion & Analysis	14
Independent Auditors' Report	20
Statement of Net Assets and Governmental Funds Balance Sheets	21
Statement of Activities and Governmental Funds Statements of Revenues, Expenses and Changes in Fund Balance/Net Assets	22
Notes to Financial Statements	23
Supplemental Schedule of Statutory Reserve Accounts	39

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is required by GASB Statement 34, a standard established by the Governmental Accounting Standards Board. This section is intended to make the financial statements more understandable to the average reader who is not familiar with traditional accounting terminology.

This financial report has two integral parts: this MD&A and the financial statements with the accompanying notes that follow. Together, they present the Alaska Municipal Bond Bank Authority's (Bond Bank) financial performance during the fiscal year ended June 30, 2012. Summarized prior fiscal year information is shown within this MD&A, as needed, for comparative purposes.

### REQUIRED FINANCIAL STATEMENTS

GASB 34 requires two types of financial statements: the Statement of Net Assets and Governmental Fund Balance Sheets and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance. These statements report financial information about the Bond Bank's activities using accounting principles generally accepted in the United States of America. In addition to the basic financial statements, the Notes to Financial Statements provide information that is essential to a full understanding of the data provided in the basic financial statements.

### FINANCIAL HIGHLIGHTS

During fiscal year 2012, the Bond Bank entered into 32 municipal loan agreements for projects in 19 communities, resulting in \$149.4 million in bonds being issued; \$82.4 million of the current year issuances was used to defease older general obligation bonds. Bond Bank bond activity in FY2012 resulted in approximate present value savings of \$17.2 million to the borrowing communities. In comparison, the Bond Bank's activity level and community benefit in FY2011 was an issuance of \$115.6 million to fund 11 community projects and provided present value savings of \$13.6 million to borrowing communities.

The financial position of the Bond Bank remains strong. During Fiscal year 2012, Senate Bill 160 appropriated \$13,200,000 from the State of Alaska General Fund to the Bond Bank's reserve funds to provide forgiveness for the principal and accrued interest of two loans occurring in FY2011 and FY2012. These loans, pursuant to Memorandums of Understanding between the State of Alaska and the Authority, dated November 20, 2010, and August 17, 2011, were in the cumulative amount of \$13,000,000 from the State of Alaska General Fund, and primarily used to satisfy reserve funding requirements associated with the Authority's 2011 and 2012 bond issuances. The appropriation was effective as of April 15, 2012.

### STATEMENT OF NET ASSETS

The Statement of Net Assets reports assets, liabilities and net assets of the Bond Bank.

### ASSETS

Assets represent 1) the value of the Bond Bank's investments and investment income receivable on the financial statement dates, recorded at fair market value, and 2) bond principal and inter-

est payments receivable from municipalities. The investments generate income for the Bond Bank, used to meet reserve requirements and pay operating costs. Historically excess operating account earnings were transferred to the State of Alaska's (State) general fund each year. Fiscal year ending June 30, 2012 marked the fifth consecutive year that the State operating budget has appropriated the excess earnings of the operating account to the Bond Bank's reserve fund (HB 284, Sec. 26). Interest received on bonds purchased from municipalities is used to pay the Bond Bank's corresponding interest payments on the bonds that it has issued.

#### LIABILITIES

Liabilities represent claims against the fund for 1) goods and services provided before the financial statement date but not yet paid for at that date, and 2) interest and bond payments due to purchasers of the Bond Bank's bonds after the financial statement date.

#### RESTRICTED AND UNRESTRICTED NET ASSETS

Net assets are comprised of two components. The restricted portion reflects monies maintained in separate trust accounts where their use is limited by applicable bond covenants for repayment of bonds. The unrestricted portion reflects monies that are available for any authorized purpose of the Bond Bank.

The following table provides a summary of the Bond Bank's assets, liabilities and net assets as of June 30, 2012 and 2011:

	As of June 30		Change from 2011 to 2012 Increase (Decrease)	
	2012	2011	Dollars	Percent
<b>ASSETS:</b>				
Cash and investments	\$ 86,872,475	\$ 77,932,565	\$ 8,939,910	11.47%
Bonds and bond interest receivable	720,187,057	698,660,518	21,526,539	3.08%
Total assets	807,059,532	776,593,083	30,466,449	3.92%
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities	1,762,342	1,762,218	124	0.01%
Bonds and bond interest payable	744,497,389	728,569,043	15,928,346	2.19%
Total liabilities	746,259,731	730,331,261	15,928,470	2.18%
<b>NET ASSETS:</b>				
Restricted	46,808,431	32,337,958	14,470,473	44.75%
Unrestricted	13,991,370	13,923,864	67,506	0.48%
Total net assets	\$ 60,799,801	\$ 46,261,822	\$ 14,537,979	31.43%

The increase in cash and investments reflects realized and unrealized investment income. The Bond Bank's investments are all held in U.S. Government securities.

The increase in bonds and bond interest receivable, as well as in bonds and bond interest payable, reflects the issuance of approximately \$156.4 million in new bonds and loans during the year, net of principal payments on bonds previously issued of approximately \$44.9 million, loan repayments of \$13.0 million and bond defeasances of approximately \$82.4 million.

Included in the restricted net assets are Bond Bank funds placed into separate accounts in accordance with the reserve requirements of each bond indenture. The unrestricted net assets represent monies available for any authorized purpose of the Bond Bank.

### STATEMENTS OF ACTIVITIES

The statement of activities shows the activity that occurred during each of the last fiscal years.

#### Revenues

Revenues include total return on investments and interest payments received from municipalities. Earnings on investments include interest on fixed income marketable securities and the change in fair market value of those investments.

#### Expenses

Expenses include interest payments made to bond holders who purchased the Bond Bank's bonds, payments made to the State of Alaska and operating expenses. Operating expenses include all expenditures required to issue bonds during the current year and include in-house expenses, as well as external consultant fees. Expenses are subtracted from revenues.

The following is a condensed statement of the Bond Bank's changes in net assets:

	As of June 30		Change from 2011 to 2012 Increase (Decrease)	
	2012	2011	Dollars	Percent
<b>REVENUES:</b>				
Interest income on bonds receivable	\$ 31,546,543	\$ 28,778,591	\$ 2,767,952	9.62%
Investment earnings	1,829,271	1,359,347	469,924	34.57%
Total income	33,375,814	30,137,938	3,237,876	10.74%
<b>EXPENSES:</b>				
Interest expense on bonds payable	32,806,291	29,926,821	2,879,470	9.62%
Operating expenses	531,544	663,277	(131,733)	-19.86%
Payments to primary government	-	86,814	(86,814)	-100%
Total expenses	33,337,835	30,676,912	2,660,923	8.67%
Other financing source – transfer from primary government	14,500,000	2,536,814	11,963,186	472%
Change in net assets	14,537,979	1,997,840	12,540,139	628%
Net assets, beginning of period	46,261,822	44,263,982	1,997,840	4.51%
Net assets, end of period	\$ 60,799,801	\$ 46,261,822	\$ 14,537,979	31.43%

Interest income and expense on bonds receivable and payable are a function of the total amount of bonds outstanding, the age of the bonds and the interest rates at which they are issued. The increases in both of these line items of \$2.8 million (interest income) and \$2.9 million (interest expense) are consistent with the increase in bond receivable and payable balances, respectively. Net assets increased a total of \$14.5 million at June 30, 2012 primarily due to the State of Alaska loan forgiveness appropriation.

Investment earnings are a function of market conditions. The Bond Bank uses other assets to subsidize debt service during times of low investment returns in bond reserve funds.

**GOVERNMENTAL FUNDS**

The governmental funds include the General Fund, which accounts for the primary operations of the Bond Bank, and the Debt Service Fund, which accounts for the resources accumulated and payments made on the long-term debt of the Bond Bank. The primary difference between the governmental funds balance sheet and the statement of net assets is the elimination of inter-fund payables and receivables. Bond proceeds are reported as other financing source in the governmental funds statement of revenues and expenses and this contributes to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of debt principal is recorded as expenditure in the governmental funds statement of revenues and expenses and reduces the liability in the statement of net assets.

The following tables show governmental funds' condensed balance sheets and statements of revenues, expenditures and changes in fund balances.

**GENERAL FUND**

	As of June 30		Change from 2011 to 2012 Increase (Decrease)	
	2012	2011	Dollars	Percent
<b>ASSETS:</b>				
Cash, investments and related				
accrued interest	\$ 7,568,286	\$ 6,068,050	\$ 1,500,236	24.72%
Bonds and bond interest receivable	2,639,101	2,615,097	24,004	0.92%
Interfund receivable	5,641,565	5,570,612	70,953	1.27%
Total assets	<u>15,848,952</u>	<u>14,253,759</u>	<u>1,595,193</u>	<u>11.19%</u>
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities	<u>97,007</u>	<u>61,881</u>	<u>35,126</u>	<u>56.76%</u>
<b>FUND BALANCE:</b>				
Restricted for debt service	1,689,200	86,814	1,602,386	1846%
Unassigned	<u>14,062,745</u>	<u>14,105,064</u>	<u>(42,319)</u>	<u>-0.30%</u>
Total fund balance	<u>15,751,945</u>	<u>14,191,878</u>	<u>1,560,067</u>	<u>10.99%</u>
Total liabilities and fund balance	<u>\$ 15,848,952</u>	<u>\$ 14,253,759</u>	<u>\$ 1,595,193</u>	<u>11.19%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DEBT SERVICE FUND

	As of June 30		Change from 2011 to 2012 Increase (Decrease)	
	2012	2011	Dollars	Percent
<b>ASSETS:</b>				
Cash, investments and related accrued interest	\$ 79,304,189	\$ 71,864,515	\$ 7,439,674	10.35%
Bonds and bond interest receivable	717,547,956	696,045,421	21,502,535	3.09%
Total assets	796,852,145	767,909,936	28,942,209	3.77%
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities	1,665,335	1,700,337	(35,002)	-2.06%
Interfund payables	5,641,565	5,570,614	70,951	1.27%
Total liabilities	7,306,900	7,270,951	35,949	0.49%
<b>FUND BALANCE:</b>				
Restricted for debt service	789,545,245	760,638,985	28,906,260	3.80%
Total liabilities and fund balance	\$ 796,852,145	\$ 767,909,936	\$ 28,942,209	3.77%

GENERAL FUND

	As of June 30		Change from 2011 to 2012 Increase (Decrease)	
	2012	2011	Dollars	Percent
<b>REVENUES:</b>				
Interest income	\$ 120,837	\$ 144,104	\$ (23,267)	-16.15%
<b>EXPENDITURES:</b>				
Operating expenses	531,544	663,277	(131,733)	-19.86%
Payments to primary government	-	86,814	(86,814)	-100%
Total expenditures	531,544	750,091	(218,547)	-29.14%
Excess (deficiency) of revenues over expenditures	(410,707)	(605,987)	195,280	32.23%
Other financing sources (uses)-transfers	1,970,774	2,871,853	(901,079)	-31.38%
Excess (deficiency) of revenues and transfers over expenditures	1,560,067	2,265,866	(705,799)	-31.15%
Fund balance, beginning of period	14,191,878	11,926,012	2,265,866	19.00%
Fund balance, end of period	\$ 15,751,945	\$ 14,191,878	\$ 1,560,067	10.99%

CONTACTING THE BOND BANK'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors, and creditors with a general overview of the Bond Bank's finances and to demonstrate the Bond Bank's accountability of its assets. If you have any questions about this report or need additional financial information, contact the Executive Director of the Bond Bank at (907) 465-3409.

**DEBT SERVICE FUND**

	As of June 30		Change from 2011 to 2012 Increase (Decrease)	
	2012	2011	Dollars	Percent
<b>REVENUES:</b>				
Interest income on bonds receivable	\$ 31,516,916	\$ 28,725,941	\$ 2,790,975	9.72%
Investment earnings	1,738,061	1,267,893	470,168	37.08%
Total revenues	<u>33,254,977</u>	<u>29,993,834</u>	<u>3,261,143</u>	<u>10.87%</u>
<b>EXPENDITURES:</b>				
Interest payments	33,020,882	28,789,194	4,231,688	14.70%
Principal payments	57,902,061	35,768,246	22,133,815	61.88%
Total expenditures	<u>90,922,943</u>	<u>64,557,440</u>	<u>26,365,503</u>	<u>40.84%</u>
Excess (deficiency) of revenues over expenditures	(57,667,966)	(34,563,606)	(23,104,360)	-66.85%
Other financing sources (uses):				
Bond proceeds	149,405,000	115,625,000	33,780,000	29.22%
Loan proceeds	7,000,000	6,000,000	1,000,000	16.67%
Payments to Bond Escrow Agent	(82,360,000)	-	(82,360,000)	-100%
Transfers	12,529,226	(335,039)	12,864,265	3840%
Total other financing sources (uses):	<u>86,574,226</u>	<u>121,289,961</u>	<u>(34,715,735)</u>	<u>-28.62%</u>
Excess of revenues and transfers over expenditures	28,906,260	86,726,355	(57,820,095)	-66.67%
Fund balance, beginning of period	<u>760,638,985</u>	<u>673,912,630</u>	<u>86,726,355</u>	<u>12.87%</u>
Fund balance, end of period	<u>\$ 789,545,245</u>	<u>\$ 760,638,985</u>	<u>\$ 28,906,260</u>	<u>3.80%</u>

**LONG-TERM DEBT**

At June 30, 2012 the Bond Bank had \$735,627,527 of bonds and notes outstanding up 2.24% from \$719,484,588 at June 30, 2011. This debt is secured by the assets of the Bond Bank, except for the Coastal Energy notes payable, see note (5) to the financial statements.

As discussed in the previous sections, net increase in 2012 long term debt balances is due to new bond issuances for loans to communities and \$3.3 million in bonds issued to fund reserve deposits.

Outstanding long term debt is comprised of the following bonds and loans at year end:

	As of June 30		Change from 2011 to 2012 Increase (Decrease)	
	2012	2011	Dollars	Percent
GO bonds payable	\$ 677,075,000	\$ 651,325,000	\$ 25,750,000	3.95%
Revenue bonds payable	47,870,000	51,380,000	(3,510,000)	-6.83%
Coastal Energy notes payable	10,682,527	10,779,588	(97,061)	-0.90%
Due to primary government	-	6,000,000	(6,000,000)	-100%
	<u>\$ 735,627,527</u>	<u>\$ 719,484,588</u>	<u>\$ 16,142,939</u>	<u>2.24%</u>

# ELGEE REHFELD MERTZ, LLC

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Alaska Municipal Bond Bank Authority  
Juneau, Alaska

We have audited the accompanying financial statements of the governmental activities and each major fund of Alaska Municipal Bond Bank Authority (the Authority), a component unit of the State of Alaska, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. 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. 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Alaska Municipal Bond Bank Authority, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages I through VII 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 evidence sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Supplemental Schedule of Statutory Reserve Accounts – Assets, Liabilities and Account Reserves, on pages 39 and 40 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*ERM*

October 29, 2012

ALASKA MUNICIPAL BOND BANK AUTHORITY (A Component Unit of the State of Alaska)

**STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUNDS BALANCE SHEETS**

June 30, 2012

	General Fund	Debt Service Fund	Total	Adjustments (Note 7)	Statement of Net Assets
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,877,580	\$ 3,827,834	\$ 5,705,414	\$ -	\$ 5,705,414
Investments, at fair value (note 4)	5,639,994	75,021,982	80,661,976	-	80,661,976
Accrued interest receivable:					
Bonds receivable	6,200	8,570,429	8,576,629	-	8,576,629
Investment securities	21,185	454,373	475,558	-	475,558
Receivable from the primary government	29,527	-	29,527	-	29,527
Bonds receivable (note 5)	2,632,901	708,977,527	711,610,428	-	711,610,428
Interfund receivables	5,641,565	-	5,641,565	(5,641,565)	-
Total assets	<u>\$ 15,848,952</u>	<u>\$ 796,852,145</u>	<u>\$ 812,701,097</u>	<u>\$ (5,641,565)</u>	<u>\$ 807,059,532</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 97,007	\$ -	\$ 97,007	\$ -	\$ 97,007
Deferred revenue	-	1,665,335	1,665,335	-	1,665,335
Accrued interest payable	-	-	-	8,869,862	8,869,862
Interfund payables	-	5,641,565	5,641,565	(5,641,565)	-
Long-term liabilities (notes 5 and 6):					
Portion due or payable within one year:					
General obligation bonds payable	-	-	-	41,505,000	41,505,000
Revenue bonds payable	-	-	-	2,490,000	2,490,000
Other long-term debt	-	-	-	3,501,032	3,501,032
Portion due or payable after one year:					
General obligation bonds payable	-	-	-	635,570,000	635,570,000
Revenue bonds payable	-	-	-	45,380,000	45,380,000
Other long-term debt	-	-	-	7,181,495	7,181,495
Total liabilities	<u>97,007</u>	<u>7,306,900</u>	<u>7,403,907</u>	<u>738,855,824</u>	<u>746,259,731</u>
<b>FUND BALANCES/NET ASSETS</b>					
Fund balances:					
Restricted (note 2)	1,689,200	789,545,245	791,234,445	(791,234,445)	-
Unassigned	14,062,745	-	14,062,745	(14,062,745)	-
Total fund balances	<u>15,751,945</u>	<u>789,545,245</u>	<u>805,297,190</u>	<u>(805,297,190)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 15,848,952</u>	<u>\$ 796,852,145</u>	<u>\$ 812,701,097</u>		
Net assets:					
Restricted (note 2)				46,808,431	46,808,431
Unrestricted				13,991,370	13,991,370
Total net assets				<u>\$ 60,799,801</u>	<u>\$ 60,799,801</u>

ALASKA MUNICIPAL BOND BANK AUTHORITY (A Component Unit of the State of Alaska)

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENTS OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES/NET ASSETS**

For the year ended June 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments (Note 7)</u>	<u>Statement of Activities</u>
<b>REVENUES</b>					
Investment earnings	\$ 91,210	\$ 1,738,061	\$ 1,829,271	\$ -	\$ 1,829,271
Interest income on bonds receivable	29,627	31,516,916	31,546,543	-	31,546,543
Total revenues	<u>120,837</u>	<u>33,254,977</u>	<u>33,375,814</u>	<u>-</u>	<u>33,375,814</u>
<b>EXPENDITURES / EXPENSES:</b>					
Debt service:					
Principal payments	-	57,902,061	57,902,061	(57,902,061)	-
Interest payments / expense	-	33,020,882	33,020,882	(214,591)	32,806,291
Professional services	341,769	-	341,769	-	341,769
Personal services	134,838	-	134,838	-	134,838
Administrative travel	37,447	-	37,447	-	37,447
Printing and advertising	9,662	-	9,662	-	9,662
Office expense	726	-	726	-	726
Arbitrage interest	3,905	-	3,905	-	3,905
Miscellaneous expenses	3,197	-	3,197	-	3,197
Total expenditures / expenses	<u>531,544</u>	<u>90,922,943</u>	<u>91,454,487</u>	<u>(58,116,652)</u>	<u>33,337,835</u>
Excess (deficiency) of revenues over expenditures / expenses	<u>(410,707)</u>	<u>(57,667,966)</u>	<u>(58,078,673)</u>	<u>58,116,652</u>	<u>37,979</u>
Other financing source / (uses):					
Proceeds of bonds payable	-	156,405,000	156,405,000	(156,405,000)	-
Payments to bond escrow agent	-	(82,360,000)	(82,360,000)	82,360,000	-
Loan forgiveness- Senate Bill 160	29,527	13,170,473	13,200,000	-	13,200,000
Transfers from primary government- IFA Defeasance	1,300,000	-	1,300,000	-	1,300,000
Transfers to/from Custodial Fund	302,391	(302,391)	-	-	-
Transfers- internal activities	338,856	(338,856)	-	-	-
Total other financing sources / (uses)	<u>1,970,774</u>	<u>86,574,226</u>	<u>88,545,000</u>	<u>(74,045,000)</u>	<u>14,500,000</u>
Excess (deficiency) of revenues and transfers in over expenditures / expenses and transfers out	<u>1,560,067</u>	<u>28,906,260</u>	<u>30,466,327</u>	<u>(15,928,348)</u>	<u>14,537,979</u>
<b>FUND BALANCES / NET ASSETS:</b>					
Beginning of the year	<u>14,191,878</u>	<u>760,638,985</u>	<u>774,830,863</u>	<u>(728,569,041)</u>	<u>46,261,822</u>
End of the year	<u>\$ 15,751,945</u>	<u>\$ 789,545,245</u>	<u>\$ 805,297,190</u>	<u>\$ (744,497,389)</u>	<u>\$ 60,799,801</u>

See accompanying notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2012

**NOTE 1** ► HISTORY/REPORTING ENTITY

The Alaska Municipal Bond Bank Authority (Authority or Bond Bank) was created pursuant to Alaska Statute, Chapter 85, Title 44, as amended, (Act) as a public corporation and instrumentality of the State of Alaska (State), but with a legal existence independent of and separate from the State. The Authority is a discretely presented component unit of the State of Alaska for purposes of financial reporting.

The Authority was created for the purpose of making moneys available to municipalities within the State to finance capital projects or for other authorized purposes by means of issuance of bonds by the Authority and use of proceeds from such bonds to purchase from the municipalities their general obligation and revenue bonds. The Authority commenced operations in August 1975.

The bonds are obligations of the Authority, payable only from revenues or funds of the Authority, and the State of Alaska is not obligated to pay principal or interest thereon, and neither the faith and credit nor the taxing power of the State is pledged to the bonds. The municipal bonds and municipal bond payments, investments thereof and proceeds of such investments, if any, and all funds and accounts established by the bond resolution to be held by the Trustee (with the exception of the Coastal Energy Loan Debt Service Program, which is administered by the Authority) are pledged and assigned for the payment of bonds.

The Authority may not issue revenue bonds in excess of \$75 million in any fiscal year unless the State of Alaska Legislature approves a greater amount. Revenue refunding bonds are not included in the \$75 million fiscal year limitation.

AS 44.85.180(c) was enacted in 1975, limiting Bond Bank outstanding bonds at any time to \$150 million. This Statute has been periodically amended to raise the limit. In fiscal year 2012, the limit is \$1 billion. Total Bond Bank bonds and notes outstanding as of June 30, 2012 are approximately \$735.6 million. Thus, the limit on additional bond issuance as of June 30, 2012 is approximately \$264.4 million.

**NOTE 2** ► SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the Authority's accounting policies are described below.

**(A) GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities report information on all of the activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. The balance sheet and statement of revenues, expenditures and changes in fund balances are provided for governmental funds.

## Summary of Significant Accounting Policies, continued

## (B) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The Authority reports the following major governmental funds:

The *General Fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund. The Authority adopts an annual budget for the operating account only.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt of the Authority. The Authority does not adopt a budget for the Debt Service Fund because it is not legally required to do so.

The purposes of each of these funds are described in the following paragraphs:

**GENERAL FUND**

The General Fund is comprised of a Custodian Account and an Operating Account. The Custodian Account is established to account for appropriations by the State of Alaska Legislature available to fund the Special Reserve Accounts. The Operating Account is established to account for the ordinary operations of the Authority. Moneys are derived from the following sources: (a) amounts appropriated by the Legislature, (b) fees and charges collected, (c) income on investments of the Statutory Reserve Account in excess of required debt service reserves required by bond resolutions and (d) any other moneys made available for purposes of the General Fund from any other source.

Amounts in the Operating Account may be used to pay (a) administrative expenses of the Authority, (b) fees and expenses of the Trustee and paying agents, (c) financing costs incurred with respect to issuance of bonds and (d) any expenses in carrying out any other purpose then authorized by the Act. The excess revenues of the Operating Account are returned to the State of Alaska. The State of Alaska may appropriate the excess revenues to the Bond Bank Custodian Account to fund Reserve Accounts.

**DEBT SERVICE FUND**

Within the Debt Service Fund, separate Debt Service Programs have been established for each bond resolution to account for the portion of bond sale proceeds used to purchase obligations of the municipalities and for the payment of interest and principal on all bonds of the Authority issued under its resolutions. Each program is comprised of an

“interest account” and a “principal account”, both of which are maintained by a trustee. The receipts of interest and principal from the municipalities and the Statutory Reserve Account are deposited in these programs and are used to pay interest and principal on the Authority bonds. One additional Debt Service Program has been established to account for transactions not involving bond resolutions. This is the Coastal Energy Loan Debt Service Program. The Coastal Energy Loan Debt Service Program is not maintained by a trustee. Payments of interest and principal by municipalities having coastal energy loans are made directly to the federal government by the municipalities and are accounted for in the Coastal Energy Loan Debt Service Program.

Each debt service fund program contains a Statutory Reserve Account established to account for (a) money available to fund debt service reserves required by future bond sales under various bond resolutions (Custodian Account) and (b) debt service reserves which have already been established under various bond resolutions which are to be used in the case of deficiency in a Debt Service Program in accordance with its respective bond resolution (reserve accounts). Separate reserve accounts exist under each bond resolution as follows:

*1976 General Bond Resolution* – The amount on deposit in the reserve account is to be the greater of the maximum annual debt service requirement or 10% of all municipal loan obligations outstanding. The reserve account is comprised of an ordinary reserve sub-account and a special reserve sub-account. The ordinary reserve sub-account is created as a result of the Authority increasing each bond issue by the amount necessary to fund up to one-third of the required debt service reserve or with a transfer from the Custodian Account. The special reserve sub-account is created and funded from the Custodian Account at an amount equal at least to two-thirds of the required debt service reserve. Both sub-accounts are maintained by a trustee.

On August 23, 1999, the Authority amended the debt service reserve requirement for the 1976 bond resolution that takes effect when all bonds outstanding as of the date of the resolution are retired. Under this new requirement, the reserve must be the least of: (i) 10% of the original stated principal amount of all bonds outstanding; (ii) the maximum annual principal and interest requirements on all bonds then outstanding; (iii) 125% of the average principal and interest requirements on all bonds then outstanding; or (iv) such lesser amount as shall be required to maintain the exemption of interest of all bonds outstanding from inclusion in gross income for federal income tax purposes under the Internal Revenue Code.

*2001B, 2002A, 2003B, 2004A, 2004B Revenue Bond Resolutions* – Under these resolutions special reserve accounts were created at amounts equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

*2005 General Bond Resolution* – The reserve must be the least of: (i) 10% of the initial principal amount of each Series of Bonds outstanding; (ii) the maximum annual principal and interest requirements on all bonds outstanding; (iii) 125% of the average annual debt service on all bonds then outstanding; or (iv) such lower amount as may be allowed by law.

ALASKA MUNICIPAL BOND BANK AUTHORITY (A Component Unit of the State of Alaska)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Summary of Significant Accounting Policies, continued

The reserve fund may be funded with transfers from the custodian account, surety policies, bond proceeds, or other funds available to the Bond Bank.

*2010 General Bond Resolution* – The reserve must be the least of: (i) 10% of the initial principal amount of each Series of Bonds then outstanding; (ii) Maximum Annual Debt Service with respect to all Bonds outstanding; (iii) 125% of Average Annual Debt Service on all Bonds outstanding; or (iv) such lower amount as may be required by law.

The Reserve Fund Requirement may be satisfied with (i) moneys made available by the State and paid to the Bank for the purpose of the Alaska Municipal Bond Bank Reserve Fund created by Section 44.85.270 of the Act in the amount provided by a Series Resolution; (ii) all moneys paid to the Bank pursuant to the Act for the purpose of restoring the Reserve Fund to the amount of the Required Debt Service Reserve; (iii) such portion of the proceeds of sale of Bonds, if any, as shall be provided by any Series Resolution; (iv) Credit Enhancement; (v) any other moneys which may be made available to the Bank for the purposes of the Reserve Fund from any other source or sources; or (vi) any combination of the foregoing.

Amounts in excess of the required debt service are transferred to the Operating Account.

(C) RESTRICTED ASSETS

Certain resources set aside for the repayment of the Authority's bonds, net of certain proceeds from additional bonds issued, are classified as restricted net assets on the statement of net assets because they are maintained in separate trust accounts and their use is limited by applicable bond covenants. Cash and cash equivalents and investments include \$46,808,431 of restricted assets. These assets were funded as follows:

Original State of Alaska appropriation	\$ 18,601,414
2008 appropriation of excess earnings	855,347
2009 appropriation of excess earnings	819,843
2010 appropriation of excess earnings	32,628
2011 appropriation of excess earnings	86,814
2012 appropriation for loan forgiveness	<u>13,000,000</u>
Total State of Alaska appropriated equity	<u>\$ 33,396,046</u>
Restricted for Debt Service:	
Appropriated amounts residing in reserve accounts	\$ 33,006,846
Appropriated amounts residing in Custodial account	<u>389,200</u>
Total State of Alaska appropriated equity	33,396,046
Bond Bank equity residing in reserve accounts	<u>12,112,385</u>
Total restricted for debt service	45,508,431
Restricted for bond defeasance - residing in Custodial account, for Inter-Island Authority bond defeasance	<u>1,300,000</u>
Total restricted net assets	<u>\$ 46,808,431</u>

**(D) LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**(E) FUND EQUITY**

Generally, fund equity represents the difference between the current assets and current liabilities and is classified as fund balance. Bond Bank, in accordance with GASB Statement No. 54 provisions, which require classification of fund balance as nonspendable, restricted, committed, assigned or unassigned, had fund balances in restricted and unassigned categories.

*Restricted Fund Balance* – Restricted fund balance is that portion of fund equity that has constraints placed upon the use of the resources either by an external party or imposed by law.

*Unassigned Fund Balance* – this classification represents fund balance that has not been restricted, committed or assigned to specific purposes within the general fund.

The Authority does not have a policy for its use of unrestricted fund balance amounts, therefore, it considers that committed amounts are reduced first (if any), followed by assigned amounts (if any), and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

In the government-wide financial statements, restrictions of net assets are reported when constraints placed on net assets are either externally imposed by creditors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**(F) INTEREST ARBITRAGE REBATE**

Bonds issued and funds segregated into reserves after August 15, 1986 are subject to Internal Revenue Service income tax regulations which require rebates to the U.S. Government of interest income earned on investments purchased with the proceeds from the bonds or any applicable reserves in excess of the allowable yield of the issue. Amounts owed are expensed when paid and refunds are recorded when received.

**(G) INCOME TAXES**

The Authority is exempt from paying federal and state income taxes.

**(H) REFUNDING GAINS/LOSSES**

The Authority reports gains or losses recognized from the refunding of bonds in interest revenue or expense.

**NOTE 3 ► CASH**

The Authority considers all highly liquid investments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents at June 30, 2012 consist of money market accounts held with various financial institutions.

The bank balance of all of the Authority's cash and cash equivalents are collateralized by securities held in the Authority's name by its custodial agent.

**NOTE 4 ► INVESTMENTS**

The fair value as of June 30, 2012 of the Authority's investments is \$80,661,976. At June 30, 2012 the investments held in the reserve accounts total \$75,021,982, and the Custodian account total \$5,639,994.

The fair value of debt security investments by contractual maturity as of June 30, 2012 is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

	Investment Maturities (in Years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Treasury securities	\$ 10,787,223	\$ 54,508,225	\$ 485,000	\$ -	\$ 65,780,448
U.S. Government agencies securities	<u>3,328,517</u>	<u>11,553,011</u>	<u>-</u>	<u>-</u>	<u>14,881,528</u>
Total investments	<u>\$ 14,115,740</u>	<u>\$ 66,061,236</u>	<u>\$ 485,000</u>	<u>\$ -</u>	<u>\$ 80,661,976</u>

**(A) INVESTMENT POLICIES**

The Authority has distinct investment objectives and policies associated with the Custodian Account, Reserve Funds, and municipal debt payments. The three classes of funds are listed below:

**CUSTODIAN ACCOUNT**

The Custodian Account investment portfolio is designed with the objective of attaining the highest market rate of return subject to the required use of the Custodian Account for operation, funding transfers to the state, and funding reserves. When the Custodian Account balance allows, a longer investment horizon is implemented for the Custodian Account, accepting the limited probability of short-term loss in exchange for higher yield on investments. The Custodian Account balance must exceed \$15 million, and be forecasted to exceed \$15 million for the subsequent twelve-month period, and an analysis of risk profile and historical benefit between the varying strategies must be undertaken before any shift in the investment strategy of the Account. The Custodian Account has to maintain sufficient liquidity to meet operating requirements, provide the prior fiscal year's state dividend, and to allow transfers to reserves as needed for bond issuance activity. Long-term preservation of principal is the third objective of the Custodian Account's investment program. Investments shall be undertaken in a manner that minimizes the probability of long-term loss.

- The Custodian Account balance is a critical component in determining anticipated life, ability to diversify, and investment policy in this account. Accordingly, when the account balance is above \$15 million a more aggressive policy will be implemented. When the account balance is below \$15 million a more conservative policy will be used.
- Shifting from one asset allocation to another may be approved by the Investment Committee when there is a projection of a continued trend in account balance justifying the shift.
- There are no arbitrage restrictions.

When the Custodian Account balance is less than \$15 million, the following policies apply:

- 20% Money Market Fund and 80% government agencies and U.S. Treasuries with maturities of less than 5 years.
- Performance benchmark for the 20%: Three month U.S. Treasury Bill.
- Performance benchmark for the 80%: Merrill Lynch 1-5 Government Index.

When the Custodian Account balance exceeds and is expected to remain in excess of \$15 million, the following policies apply:

- Greater of 10% or a percentage equal to \$750,000 in market value: Money Market Fund.
- Up to 90%: Broad U.S. Bond Market Fund.
- Performance benchmark for the greater of 10% or the percentage of the fund invested that is benchmarked to Money Market Fund: Three-month U.S. Treasury Bill.
- Performance benchmark for the up to 90%: Barclays Capital Aggregate Index.

The following transactions are prohibited with the Custodian Account unless those transactions have the prior written consent of the Investment Committee:

- Short sale of securities (the sale and settlement of a security not currently owned by the Authority and a formal agreement to borrow the security to facilitate the settlement of the short sale);
- Purchases of futures, forwards or options for the purpose of speculating (currency futures, forwards and options are permitted only for hedging or to facilitate otherwise permissible transactions);
- Borrowing to leverage the return on investments. Extended settlement of securities purchases executed to facilitate or improve the efficiency of a transaction will not be considered borrowing, provided that sufficient cash equivalent securities or receivables are available to facilitate the extended settlement;
- Purchases of “private placement” or unrated corporate bonds.

#### BOND RESERVE FUNDS

Preservation of principal is the foremost objective of the Bond Reserve Funds investment program. These funds shall be managed to ensure that the corpus is preserved. These funds will not be expended until the final maturity of the bond issue they secure, unless there is a failure to pay debt service by a community. As there is limited benefit in maximizing return it is the least important objective of the Bond Reserve Funds. It is anticipated that the Reserve Funds cumulative average return should target the blended arbitrage yield limit of the bond issues secured.

Bond resolutions limit allowed investment of these funds. Investment risk is examined on an annual basis to ensure that no greater than the minimum level of risk required to achieve the highest probability of earning the arbitrage yield limit on the bonds is incurred.

Investment Policies, continued

The bond resolutions limit investments to:

- 100% government agencies and U.S. Treasuries with maturities of less than 5 years.
- Performance benchmark is Merrill Lynch 1-5 Government Index.

MUNICIPAL DEBT PAYMENTS

Preservation of principal and liquidity are the foremost objectives of the Municipal Debt Payments investment program, as these funds will be expended within seven business days of receipt. Return on investment is a benefit of holding these funds for the advance payment period, but not the focus of investing the funds. The bond resolutions limit investments to:

- 100% Money Market Fund.
- Performance benchmark is three-month U.S. Treasury Bill.

It is the policy of the Authority to diversify its investments and to ensure the safety and liquidity of the investments by observing the following sound investment practices:

- Not more than 5% of the Custodian Account may be invested in the corporate debt of any one issuer, at the time of purchase.
- In the event of a credit downgrade which reduces a security below the required rating written notification will be made to the Investment Committee setting forth the particulars of the downgrade and recommending a course of action.
- Not more than 50% of the Custodian Account may be invested in corporate securities, at the time of purchase.
- The duration of the Custodian Account must remain within 80 to 120 percent of the duration of the Barclays Capital Aggregate Index.
- Purchases of more than 10% of a corporate bond issue shall not be made.

(B) CONCENTRATION RISK

Concentration risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. Concentration limits are not established in the bond indentures and governing agreements for pledged investments. The Authority's policies set out maximum concentration limits for investments managed by the external investment manager.

(C) CREDIT RISK

Credit risk is the risk of loss due to the failure of the security or backer. The Authority mitigates its credit risk by limiting investments permitted in the investment policies. U.S. Treasury securities and securities of agencies that are explicitly guaranteed by the U.S. government total \$80,661,976, and are not considered to have credit risk

(D) CUSTODIAL CREDIT RISK

The Authority assumes levels of custodial credit risk for its deposits with financial institutions, bank investment agreements, and investments. For deposits, custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority has not established a formal custodial credit risk policy for its investments. The Authority had no investments registered in the name of a counterparty.

(E) INTEREST RATE RISK

Interest rate risk is the risk that the market value of investments will decline as a result of changes in general interest rates. For non-pledged investments, the Authority mitigates interest rate risk by structuring its investments' maturities to meet cash requirements, thereby avoiding the need to sell securities in the open market prior to maturity. For investments held in trust, investment maturities are structured to meet cash requirements as outlined in its bond indentures and contractual and statutory agreements.

(F) MODIFIED DURATION

Modified duration estimates the sensitivity of an investment to interest rate changes. The following table shows the Authority's investments with their weighted average modified duration as of June 30, 2012 by investment type:

	<u>Investments Fair Value</u>	<u>Modified Duration</u>
U.S. Treasury securities	\$ 65,780,448	3.66
U.S. Government agency	<u>14,881,528</u>	<u>4.05</u>
Total portfolio	<u>\$ 80,661,976</u>	<u>3.61</u>

**NOTE 5** ► **BOND AND NOTES RECEIVABLE**

The General Fund includes \$2,632,901 of bonds receivable with interest rates varying from 1% to 5% due from the Cities of Yakutat, Galena, Ketchikan and Cordova with maturities as follows:

<u>Year Ending June 30</u>	<u>General Fund Bonds Receivable</u>
2013	\$ 532,260
2014	263,840
2015	160,436
2016	162,047
2017	163,675
2018-2022	842,035
2023-2027	<u>508,608</u>
	<u>\$ 2,632,901</u>

Under the Coastal Energy Loan Program (Program), the Authority issued \$5,000,000 1986 Series A Coastal Energy Bonds (Bonds) payable to the National Oceanic and Atmospheric Administration (NOAA). The proceeds of these bonds were used to purchase port revenue bonds from the City of Nome. The City of Nome entered into a tripartite agreement with NOAA and the Authority effective August 2, 1994 to defer payment of the principal and accrual of interest for ten years. Effective January 29, 2009 a second amendment to the tripartite agreement was executed. The amendment authorized the issuance of 2009A Bonds for the purpose of refunding by exchange the outstanding City of Nome, Alaska, Port Revenue Bond 1986 Series A. The related loan payable does not represent a general obligation of the Authority as it is payable only from proceeds received from the City of Nome.

Also under the Program, the Authority issued \$6,563,000 1987 Series A Coastal Energy Bonds payable to NOAA. The proceeds of these bonds were used to purchase port revenue bonds from the City of St. Paul. The City of St. Paul entered into a tripartite agreement with NOAA and the Authority effective December 14, 2000 to modify and amend the repayment terms including

ALASKA MUNICIPAL BOND BANK AUTHORITY (A Component Unit of the State of Alaska)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Bond and Notes Receivable, continued

principal and interest. On April 18, 2005, the City of St. Paul asked for NOAA's recommendation for loan forgiveness which was denied on January 24, 2006. Subsequently, on March 17, 2009, NOAA issued another determination on request for recommendation of CEIP loan forgiveness but a final agreement has not been reached between the City of St. Paul and NOAA as of June 30, 2012.

The related loan payables do not represent a general obligation of the Authority as they are payable only from proceeds received from the City of Nome and St. Paul, respectively. Payment of principal and interest on the Bond Bank's Coastal Energy Bond is not secured by a pledge of any amounts held by or payable to the Bond Bank under the General Bond Resolution, including the Reserve Account, and is not in any way a debt or liability of the Bond Bank. The Coastal Energy Bonds and related accounts are included in the Bond Bank's statutory limit for total bonds outstanding and therefore included in the Bond Bank's financial statements.

Bonds and notes receivable by debt service program at June 30, 2012 mature in varying annual installments as follows:

Year ending June 30	1976 General	2005 General	2010 General	2001B Ketchikan Revenue	2002A Ketchikan Revenue
2013	\$ 14,490,000	\$ 25,100,000	\$ 130,000	\$ 165,000	\$ 585,000
2014	11,710,000	26,630,000	135,000	175,000	610,000
2015	9,125,000	32,340,000	140,000	180,000	635,000
2016	6,650,000	34,695,000	140,000	190,000	-
2017	5,710,000	35,780,000	145,000	200,000	-
2018-2022	22,545,000	168,280,000	820,000	430,000	-
2023-2027	9,415,000	131,600,000	960,000	-	-
2028-2032	-	79,985,000	1,150,000	-	-
2033-2037	-	27,785,000	1,080,000	-	-
2038 and after	-	3,885,000	-	-	-
	<u>\$ 79,645,000</u>	<u>\$ 566,080,000</u>	<u>\$ 4,700,000</u>	<u>\$ 1,340,000</u>	<u>\$ 1,830,000</u>

Year ending June 30	2003B Valdez Revenue	2004A CBI Revenue	2004B Anchorage Revenue	Coastal Energy Loan	Total Principal
2013	\$ 1,000,000	\$ 620,000	\$ 120,000	\$ 3,501,032	\$ 45,711,032
2014	1,070,000	650,000	125,000	555,165	41,660,165
2015	1,135,000	680,000	130,000	559,468	44,924,468
2016	1,195,000	705,000	135,000	563,946	44,273,946
2017	1,260,000	740,000	140,000	568,607	44,543,607
2018-2022	7,215,000	4,270,000	790,000	1,475,793	205,825,793
2023-2027	1,625,000	5,545,000	990,000	818,626	150,953,626
2028-2032	-	7,140,000	1,270,000	1,000,349	90,545,349
2033-2037	-	5,220,000	930,000	1,222,412	36,237,412
2038 and after	-	-	-	417,129	4,302,129
	<u>\$ 14,500,000</u>	<u>\$ 25,570,000</u>	<u>\$ 4,630,000</u>	<u>\$ 10,682,527</u>	<u>\$ 708,977,527</u>

**NOTE 6** ▶ **LONG TERM LIABILITIES**

Bond Bank's long term liabilities consist of the following as of June 30, 2012:

ISSUE	Debt Service Account		Statutory Reserve Account Ordinary Reserve Sub-Account	
	Interest Rate	Principal Outstanding	Interest Rate	Principal Outstanding
1976 General Bond Resolution Program:				
2002 Series B Wrangell, City of Northwest Arctic Borough	3.88%-4.80%	\$ 555,000	-	\$ -
2003 Series A - Ketchikan Gateway Borough	3.70%-4.80%	425,000	-	-
2003 Series C Kenai Peninsula Borough Lake & Peninsula Borough	2.00%-3.63%	915,000	2.00%-3.63%	210,000
2003 Series D - Kenai	4.00%-6.00%	700,000	-	-
2003 Series E Aleutians East Borough Kenai Peninsula Borough	2.00%-5.25%	1,395,000	-	-
2003 Series G - NW Arctic Borough	2.00%-5.00%	2,170,000	-	-
2004 A Series Fairbanks Sitka	3.00%-4.40%	1,685,000	-	-
2004 B Series Nome Valdez Petersburg Craig Seward	2.00%-4.00%	2,220,000	2.00%-4.00%	225,000
2004 C Series Kodiak Island Borough Palmer Petersburg	4.00%-5.00%	1,935,000	-	-
2004 D Series Adak Kodiak Island Borough	3.00%-5.00%	2,645,000	-	-
2005 A Series Cordova Fairbanks Ketchikan Gateway Borough Northwest Arctic Borough Sitka Unalaska	2.50%-5.00%	24,080,000	2.75%-5.00%	1,430,000
2005 B Series Haines Ketchikan Gateway Borough North Pole, City of Palmer Sitka	3.00%-5.00%	7,240,000	-	-
2005 C Series Haines Petersburg Northwest Arctic Borough	4.00%-5.00%	23,360,000	5.00%	2,185,000
2006 A Series Aleutians East Borough Ketchikan Gateway Borough Lake & Peninsula Borough Nome Wrangell	4.00%-4.35%	10,320,000	4.00%	950,000
Total 1976 General Bond Resolution Fund		<u>79,645,000</u>		<u>5,000,000</u>
2005 Series General Bond Resolution Program:				
2005 - One Series Ketchikan, City of Nome Seward	3.00%-5.00%	10,710,000	3.00%-5.00%	350,000
2006 - One Series Kenai Peninsula Borough Seward	4.00%-6.00%	5,535,000	4.50%-6.00%	335,000
2006-Two Series - Ketchikan, City of	4.25%-4.75%	35,090,000	5.00%	1,765,000

ALASKA MUNICIPAL BOND BANK AUTHORITY (A Component Unit of the State of Alaska)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Long Term Liabilities, continued

ISSUE	Debt Service Account		Statutory Reserve Account Ordinary Reserve Sub-Account	
	Interest Rate	Principal Outstanding	Interest Rate	Principal Outstanding
2007-One Series Kenai Peninsula Borough Inter-Island Ferry Authority Nome, City of NW Arctic Borough Petersburg Seward, City of Sitka, City of Wasilla, City of	4.00%-5.50%	20,985,000	4.00%-5.50%	1,265,000
2007-Two Series Kenai Peninsula Borough Aleutians East Borough	3.75%-5.00%	23,560,000	4.50%	685,000
2007-Three Series Bethel, City of Juneau, City and Borough of	4.25%-5.50%	12,915,000	4.00%	415,000
2007-Four Series - Kenai Peninsula Borough	4.25%-5.00%	12,570,000	4.25%-4.50%	1,070,000
2007-Five Series - Kodiak, City of	4.00%-6.00%	5,735,000	-	-
2008-One Series Dillingham Kodiak Island Borough Kodiak, City of Seward	4.00%-5.00%	53,025,000	5.00%	4,250,000
2008-Two Series Seward Sitka, City of Skagway	4.40%-6.00%	16,140,000	4.75%-6.00%	1,560,000
2009-One Series Kodiak, City of Unalaska, City of	3.00%-5.63%	25,325,000	4.00%-5.50%	730,000
2009-Two Series Cordova Nome, City of Unalaska, City of Kodiak, Island Borough	4.00%-6.00%	21,695,000	4.00%-6.00%	1,825,000
2009-Three Series - Juneau, City and Borough of	2.00%-4.00%	10,225,000	2.00%-4.00%	975,000
2009-A-Four Series Kenai Peninsula Borough Ketchikan Gateway Borough	3.00%-4.00%	5,120,000	3.00%-4.00%	840,000
2009-B-Four Series - Ketchikan Gateway Borough	4.63%-5.40%	20,425,000	-	-
2010-A-Series One Ketchikan, City of Ketchikan Gateway Borough Kenai, City of Northwest Arctic Borough Petersburg Unalaska, City of	2.00%-5.00%	14,210,000	3.00%	335,000
2010-A Series Two Juneau, City and Borough of Cordova King Cove, City of	2.00%-3.00%	2,500,000	3.00%	325,000
2010-B Series One Kenai, City of Northwest Arctic Borough Petersburg Unalaska, City of	5.99%-6.34%	7,415,000	-	-
2010-B Series Two Juneau, City and Borough of Cordova King Cove, City of	3.75%-4.91%	11,405,000	-	-
2010-A Series Three Aleutians East Borough Unalaska, City of King Cove, City of	2.00%-4.00%	3,730,000	2.00%-4.00%	405,000
2010-B Series Three Aleutians East Borough Unalaska, City of King Cove, City of	4.93%-5.43%	6,900,000	-	-

Long Term Liabilities, continued

ISSUE	Debt Service Account		Statutory Reserve Account Ordinary Reserve Sub-Account	
	Interest Rate	Principal Outstanding	Interest Rate	Principal Outstanding
2010-A Series Four Kenai Peninsula Borough Ketchikan, City of Ketchikan Gateway Borough Sitka Sitka (Refunding) Soldotna	2.00%-5.00%	24,750,000	-	-
2010-B Series Four Kenai Peninsula Borough Ketchikan, City of Ketchikan Gateway Borough Sitka Soldotna	1.42%-6.26%	51,940,000	-	-
2011 Series One Kodiak Island Borough Wrangell, City of	3.00%-5.13%	7,925,000	3.00%	415,000
2011 Series Two Juneau, City and Borough of Sitka	2.00%-4.38%	10,555,000	2.00%	815,000
2011 Series Three Wrangell, City of Aleutians East Borough Northwest Arctic Borough Ketchikan Gateway Borough Kenai Peninsula Borough Cordova Hoonah Skagway Seward Kodiak Island Borough	2.00%-5.00%	76,305,000	2.00%-5.00%	1,390,000
2012 Series One Juneau, City and Borough of (Wildflower Court) Juneau, City and Borough of	2.00%-5.00%	18,495,000	-	-
2012 Series Two Juneau, City and Borough of Ketchikan, City of Ketchikan Gateway Borough Kodiak Island Borough Nome, City of North Pole, City of Palmer, City of Petersburg Sitka Valdez	1.75%-5.00%	50,895,000	2.00%-4.00%	1,900,000
Total 2005 Series General Bond Resolution Fund		<u>566,080,000</u>		<u>21,650,000</u>
2010 Series General Bond Resolution Program:				
2010 Series A-1 Ketchikan Gateway Borough	3.00%-4.00%	1,000,000	-	-
2010 Series A-2 Ketchikan Gateway Borough	5.78%-6.86%	3,700,000	-	-
Total 2010 Series General Bond Resolution Program		<u>4,700,000</u>	-	-
2001B Ketchikan Revenue Bond Resolution Program	4.50%-4.90%	1,340,000	-	-
2002A Ketchikan Revenue Bond Public Utilities	3.00%-5.00%	1,830,000	-	-
2003B Valdez, City of Bond Resolution Program	2.75%-5.25%	14,500,000	-	-
2004A Juneau, City and Borough of Bond Resolution Program	6.25%-4.38%	25,570,000	-	-
2004B Anchorage Bond Resolution Program	4.00%-4.75%	4,630,000	-	-
Total Revenue Bonds		<u>47,870,000</u>	-	-
Coastal Energy Reserve Loan Account:				
City of Nome Port Facility Revenue Bond	8.50%	4,676,649	-	-
City of Saint Paul - Fuel Dock	5.00%	6,005,878	-	-
Total Coastal Energy Reserve Loan Account		<u>10,682,527</u>	-	-
		<u>\$ 708,977,527</u>		<u>\$ 26,650,000</u>

ALASKA MUNICIPAL BOND BANK AUTHORITY (A Component Unit of the State of Alaska)

During the year ended June 30, 2012 the Authority's long-term liabilities changed as follows:

	<u>Beginning of year</u>	<u>New debt</u>	<u>Repayments</u>	<u>End of year</u>
General obligation bonds payable	\$ 651,325,000	\$ 149,405,000	\$ 123,655,000	\$ 677,075,000
Revenue bonds payable	51,380,000	-	3,510,000	47,870,000
Other long-term debt	10,779,588	-	97,061	10,682,527
Due to primary government	6,000,000	7,000,000	13,000,000	-
Total	<u>\$ 719,484,588</u>	<u>\$ 156,405,000</u>	<u>\$ 140,262,061</u>	<u>\$ 735,627,527</u>

All bonds are secured by bonds receivable and by amounts in the reserve account. The Act further provides that if a municipality defaults on its principal and/or interest payments, upon written notice by the Authority, the State of Alaska must consider paying to the Authority all funds due from the defaulting municipality from the State in an amount sufficient to clear the default. The Bond Bank Executive Director is obligated per resolution to seek and the State may provide an appropriation annually to replenish reserves.

On September 15, 2011, the Authority issued \$78.1 million in general obligation and refunding bonds with interest rates ranging between 2% and 5%. The Authority issued the bonds to advance refund \$43,660,000 million of the outstanding series 2000E, 2001B, 2002B, 2003A, 2003D, 2003E, and 2003G general obligation bonds with interest rates ranging between 3.9% and 5.25%. The Authority used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the series bonds listed above. As a result, these bonds are considered defeased, and the Authority has removed the liability from its financial statements. The outstanding principal of the defeased bonds is \$40,970,000 at June 30, 2012.

The advance refunding reduced total debt service payments over the next 2 years by nearly \$7.2 million. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$5.9 million.

On May 24, 2012, the Authority issued \$52.8 million in general obligation and refunding bonds with interest rates ranging between 1.75% and 5%. The Authority issued the bonds to advance refund \$38.7 million of the outstanding series 2004 Series A, B, C and D general obligation bonds with interest rates ranging between 2% and 5%. The Authority used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the series bonds listed above. As a result, these bonds are considered defeased, and the Authority has removed the liability from its financial statements. The outstanding principal of the defeased bonds is \$38,700,000 at June 30, 2012.

The advance refunding reduced total debt service payments over the next 3 years by nearly \$3.4 million. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2.9 million.

During fiscal year 2011 and 2012, pursuant to Memorandums of Understanding between the State of Alaska and the Authority, dated November 20, 2010, and August 17, 2011 the Authority secured two loans from the State of Alaska General Fund in the cumulative amount of \$13,000,000 to satisfy reserve funding requirements associated with the Authority's 2011 and 2012 bond issuances. The loans were secured by the expected 1976 GO Reserve funds releases during subsequent years. Subsequent to the issuance of these two loans, Senate Bill 160 appropriated \$13,200,000 from

the State of Alaska General Fund to the Bond Bank's reserve funds to provide forgiveness for the principal and accrued interest for the two loans. The appropriation was effective as of April 15, 2012. The State of Alaska appropriation is shown as a repayment above and as a transfer from primary government for loan forgiveness in the accompanying statement of activities.

Loans made under the Coastal Energy Loan Program are payable only from proceeds received from the municipalities to which the loans were made.

The above bonds mature in varying annual installments. The maturities at June 30, 2012 are as follows:

Year ending June 30	1976		2005		2010	
	General	Reserve	General	Reserve	General	Reserve
2013	\$ 14,490,000	\$ 435,000	\$ 25,100,000	\$ 1,350,000	\$ 130,000	\$ -
2014	11,710,000	5,000	26,630,000	595,000	135,000	-
2015	9,125,000	245,000	32,340,000	1,225,000	140,000	-
2016	6,650,000	3,135,000	34,695,000	1,960,000	140,000	-
2017	5,710,000	500,000	35,780,000	425,000	145,000	-
2018-2022	22,545,000	680,000	168,280,000	7,610,000	820,000	-
2023-2027	9,415,000	-	131,600,000	3,795,000	960,000	-
2028-2032	-	-	79,985,000	2,925,000	1,150,000	-
2033-2037	-	-	27,785,000	1,765,000	1,080,000	-
2038 and after	-	-	3,885,000	-	-	-
	<u>\$ 79,645,000</u>	<u>\$ 5,000,000</u>	<u>\$566,080,000</u>	<u>\$ 21,650,000</u>	<u>\$ 4,700,000</u>	<u>\$ -</u>

Year ending June 30	2001B	2002A	2003B	2004A	2004B	Coastal
	Ketchikan Revenue	Ketchikan Revenue	Valdez Revenue	CBJ Revenue	Anchorage Revenue	Energy Loan
2013	\$ 165,000	\$ 585,000	\$ 1,000,000	\$ 620,000	\$ 120,000	\$ 3,501,032
2014	175,000	610,000	1,070,000	650,000	125,000	555,165
2015	180,000	635,000	1,135,000	680,000	130,000	559,468
2016	190,000	-	1,195,000	705,000	135,000	563,946
2017	200,000	-	1,260,000	740,000	140,000	568,607
2018-2022	430,000	-	7,215,000	4,270,000	790,000	1,475,793
2023-2027	-	-	1,625,000	5,545,000	990,000	818,626
2028-2032	-	-	-	7,140,000	1,270,000	1,000,349
2033-2037	-	-	-	5,220,000	930,000	1,222,412
2038 and after	-	-	-	-	-	417,129
	<u>\$ 1,340,000</u>	<u>\$ 1,830,000</u>	<u>\$ 14,500,000</u>	<u>\$25,570,000</u>	<u>\$ 4,630,000</u>	<u>\$10,682,527</u>

Year ending June 30	Total	Total
	Principal	Interest
2013	47,496,032	33,060,613
2014	42,260,165	31,602,634
2015	46,394,468	29,838,004
2016	49,368,946	27,864,428
2017	45,468,607	25,824,204
2018-2022	214,115,793	99,276,980
2023-2027	154,748,626	55,530,147
2028-2032	93,470,349	23,026,054
2033-2037	38,002,412	5,711,817
2038 and after	4,302,129	308,469
	<u>\$ 735,627,527</u>	<u>\$ 332,043,350</u>

**NOTE 7 ▶ ADJUSTMENTS**

Certain adjustments are considered to be necessary to the governmental funds in order to present the Authority's financial position and the results of its operations. These adjustments include the elimination of inter-fund payables and receivables. Additionally, bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds and reduces the liability in the statement of net assets.

**NOTE 8 ▶ COMMITMENTS**

During 2011 State Legislature appropriated \$2,450,000 to Bond Bank to issue a 15-year, one percent interest loan to the City of Galena to retire existing debt obligations and make certain utility improvements. The intent of the legislature was that loan repayments made for the loan be paid into the State of Alaska General Fund in accordance with the provisions of the AS 44.85.270(h). The amount of receipts appropriated to the Authority during fiscal 2011 as discussed in Note 2(c), included \$155,825 of City of Galena loan repayments for the year ended June 30, 2012.

The amount of Authority receipts determined under AS 44.85.270(h) and as discussed in Note 2(c), available for transfer by the Authority for fiscal year 2012, were appropriated to the Bond Bank Authority Reserve Fund (AS 44.85.270(a)), increasing the cumulative state appropriated amount to \$33,396,046 at June 30, 2012.

The entire Custodian Account balance is available for appropriation, at any time, by the State Legislature.

**NOTE 9 ▶ SUBSEQUENT EVENTS**

At the beginning of fiscal 2013, the Authority has released the 1976 Ordinary and Special Reserves to the Custodian account due to a springing covenant that shifted the reserve requirement to the lesser of the three tests (at least 125% of the average annual debt service requirement). Per the 1976 resolution the Bond Bank cannot remove principal from the reserve (special or ordinary) until all reserve obligations are paid off. AMBBA has defeased the remaining principal reserve obligations of the 1976 resolution reserves and released excess funds to the Custodial Account. The amount released to the Custodial Account was in excess of \$16 million.

Subsequent to June 30, 2012, the Authority issued a preliminary statement for the potential 2012 Series Three general obligation bond issuance in the approximate amount of \$20-22 million. The 2012 Series Three bond proceeds are going to be used for the following purposes: (i) to make four loans to local governments to fund various capital improvement projects and (ii) to pay a portion of the costs of issuance of the 2012 Series Three Bonds. The issuance is expected to take place in October 2012.

State of Alaska Senate Bill 160 included an appropriation of \$1,300,000 to the Alaska Municipal Bond Bank for the defeasance of the Inter-Island Authority's loan obligations to the Authority. The appropriation was effective as of April 15, 2012. The appropriation is shown as a transfer from the primary government in the accompanying statement of activities, however, the actual defeasement through the use of an escrow account was not established until July 2012.

In October 2012 the Ketchikan Gateway Borough will optionally redeem their 2001A Revenue Bonds, which were purchased as a direct investment by the Authority during fiscal 2012.

SUPPLEMENTAL SCHEDULE OF STATUTORY RESERVE ACCOUNTS—ASSETS, LIABILITIES AND ACCOUNT RESERVES

For the year ended June 30, 2012

	1976 General "Ordinary"	1976 General "Special"	2005 Series Resolution	2001B Ketchikan
<b>ASSETS</b>				
Cash	\$ 261,479	\$ 202,820	\$ 98,786	\$ 30,499
Accrued interest receivable	62,373	128,845	261,868	53
Marketable securities	9,016,401	20,262,283	41,070,464	199,879
Interaccount receivables	853,053	5,210,801	1,850,345	—
	<u>\$ 10,193,306</u>	<u>\$ 25,804,749</u>	<u>\$43,281,463</u>	<u>\$ 230,431</u>
<b>LIABILITIES</b>				
Interaccount payables	\$ 5,493,318	\$ 6,821,427	\$ 238,965	\$ 715
Bond payable	5,000,000	—	21,650,000	—
Accrued interest payable	64,511	—	234,922	—
	<u>10,557,829</u>	<u>6,821,427</u>	<u>22,123,887</u>	<u>715</u>
<b>RESERVES</b>				
Special Reserve—State Appropriated	—	15,663,302	16,720,590	229,870
Special Reserve—Unappropriated	—	3,243,579	4,243,409	—
Special Reserve—Unrealized gain (loss)	—	76,441	193,577	(154)
Ordinary Reserve—Unallocated	(465,243)	—	—	—
Ordinary Reserve—Unrealized gain (loss)	100,720	—	—	—
	<u>(364,523)</u>	<u>18,983,322</u>	<u>21,157,576</u>	<u>229,716</u>
	<u>\$ 10,193,306</u>	<u>\$ 25,804,749</u>	<u>\$ 43,281,463</u>	<u>\$ 230,431</u>

	2002A Ketchikan	2003B Valdez	2004A CBI	2004B Anchorage
<b>ASSETS</b>				
Cash	\$ 52,333	\$ 285,925	\$ 131,822	\$ 43,104
Accrued interest receivable	158	424	474	83
Marketable securities	574,733	1,499,415	1,749,103	229,883
Interaccount receivables	—	22,570	—	—
	<u>\$ 627,224</u>	<u>\$ 1,808,334</u>	<u>\$ 1,881,399</u>	<u>\$ 343,070</u>
<b>LIABILITIES</b>				
Interaccount payables	\$ 2,730	\$ —	\$ 6,973	\$ 1,347
Bond payable	—	—	—	—
Accrued interest payable	—	—	—	—
	<u>2,730</u>	<u>—</u>	<u>6,973</u>	<u>1,347</u>
<b>RESERVES</b>				
Special Reserve—State Appropriated	—	—	—	—
Special Reserve—Unappropriated	625,000	1,780,063	1,875,750	341,931
Special Reserve—Unrealized gain (loss)	(506)	28,271	(1,324)	(208)
Ordinary Reserve—Unallocated	—	—	—	—
Ordinary Reserve—Unrealized gain (loss)	—	—	—	—
	<u>624,494</u>	<u>1,808,334</u>	<u>1,874,426</u>	<u>341,723</u>
	<u>\$ 627,224</u>	<u>\$ 1,808,334</u>	<u>\$ 1,881,399</u>	<u>\$ 343,070</u>

See Independent Auditors' Report

ALASKA MUNICIPAL BOND BANK AUTHORITY (A Component Unit of the State of Alaska)

SUPPLEMENTAL SCHEDULE OF STATUTORY RESERVE ACCOUNTS—ASSETS, LIABILITIES AND ACCOUNT RESERVES

For the year ended June 30, 2012

	<u>2010 Series Reserve</u>	<u>Total</u>
<b>ASSETS</b>		
Cash	\$ 54,359	\$ 1,161,127
Accrued interest receivable	95	454,373
Marketable securities	349,821	75,021,982
Interaccount receivables	—	7,936,769
	<u>\$ 404,275</u>	<u>\$84,574,251</u>
<b>LIABILITIES</b>		
Interaccount payables	\$ 11,486	\$12,576,961
Bond payable	—	26,650,000
Accrued interest payable	—	299,433
	<u>11,486</u>	<u>39,526,394</u>
<b>RESERVES</b>		
Special Reserve—State Appropriated	393,084	33,006,846
Special Reserve—Unappropriated	2,653	12,112,385
Special Reserve—Unrealized gain (loss)	(2,948)	293,149
Ordinary Reserve—Unallocated	—	(465,243)
Ordinary Reserve—Unrealized gain (loss)	—	100,720
	<u>392,789</u>	<u>45,047,857</u>
	<u>\$ 404,275</u>	<u>\$84,574,251</u>

See Independent Auditors' Report

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