MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
OF THE

MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY

(A Discretely Presented Component Unit of the State of Michigan)

October 1, 2008 through September 30, 2009

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

271-0271-10

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:
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Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Report Number:
271-0271-10

Michigan Higher Education Student Loan Authority
(A Discretely Presented Component Unit of the State of Michigan)
Fiscal Year Ended September 30, 2009

Released:
December 2009

A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial statements. This financial audit of the Michigan Higher Education Student Loan Authority was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Financial Statements:

Auditor's Report Issued

We issued an unqualified opinion on the Michigan Higher Education Student Loan Authority's financial statements.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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Noncompliance and Other Matters Material to the Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards.*

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Background:

The Michigan Higher Education Student Loan Authority was created and organized under Act No. 222 of the Michigan Public Acts of 1975, as amended, to complement and supplement the student loan efforts of Michigan private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

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Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

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Deputy Auditor General

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

December 30, 2009

Mr. Robert J. Kleine, Chair
Michigan Higher Education Student Loan Authority
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Kleine:

This is our report on the financial audit of the Michigan Higher Education Student Loan Authority, a discretely presented component unit of the State of Michigan, for the period October 1, 2008 through September 30, 2009.

This report contains our report summary, our independent auditor's report on the financial statements, the Authority management's discussion and analysis, and the Authority's basic financial statements. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters and a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY

GLOSSARY

INDEPENDENT AUDITOR'S REPORT

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements

Mr. Robert J. Kleine, Chair
Michigan Higher Education Student Loan Authority
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Kleine:

We have audited the accompanying financial statements of the business-type activities and each proprietary fund of the Michigan Higher Education Student Loan Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2009, as identified in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Authority's 2008 financial statements which were audited by other auditors whose report dated December 5, 2008 expressed unqualified opinions on those statements.

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

As described in Note 1, the financial statements present only the Michigan Higher Education Student Loan Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2009 and September 30, 2008 and the changes in financial position and cash flows thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2009 financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities and each proprietary fund of the Michigan Higher Education Student Loan Authority as of September 30, 2009 and the respective changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 21, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 11 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

AUDITOR GENERAL

December 21, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Michigan Higher Education Student Loan Authority (the "Authority") was organized under Act No. 222 of the Michigan Public Acts of 1975, as amended, to complement and supplement the student loan efforts of Michigan private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education. Bond and note financing is the source of funding for the Authority's loan programs. There are no State appropriations for the administration of the Authority's programs.

The Authority administers three programs that include the Michigan Student Loan Program (MSLP), the State Secondary Market (SSM), and the Michigan Alternative Student Loan (MI-LOAN) Program. The loans originated by the Authority's MSLP and acquired by the SSM are guaranteed as to payment of principal and accrued interest by the Michigan Guaranty Agency and Great Lakes Higher Education Guaranty Corporation and reinsured by the U.S. Department of Education (USDOE) under the Federal Family Education Loan Program (FFELP). The Authority is entitled to receive federal interest subsidy and special allowance payments on its FFELP loans from the USDOE. The MI-LOAN Program is a nonfederal program offered by the Authority for the exclusive use of students who are attending Michigan degree-granting colleges and universities. MI-LOAN borrowers must meet credit standards established by the Authority.

MSLP ensures all Michigan students and their parents access to FFELP loans. For the fiscal year ended September 30, 2009, MSLP disbursed 17 loans for $42,250. Since the inception of the Authority in 1976, MSLP has disbursed 450,134 FFELP loans for $1.3 billion to help families meet the costs of postsecondary education.

The SSM purchases FFELP loans from financial institutions such as banks and credit unions as a means to provide capital for those institutions to reinvest in new student loans. During fiscal year 2008-09, the SSM did not acquire any loans. Since the initiation of the SSM in 1990, the Authority has purchased a total of 1,088,258 loans in the amount of $3.4 billion.

The MI-LOAN Program provides loans to students and their families who do not typically qualify for gift aid and/or FFELP subsidized Stafford Loans but do not have sufficient savings to meet the costs of a postsecondary education. There was no MI-LOAN disbursement activity for fiscal year 2008-09. Since the inception of the MI-LOAN Program in 1990, the Authority has disbursed 50,510 MI-LOAN loans for $361.1 million.

The Authority is unable to utilize funds from its existing trusts or issue new debt for the purpose of making or acquiring student loans due to ongoing capital market disruptions. For this reason, the SSM and the MI-LOAN Program continue to be suspended. A limited number of FFELP loans will be made with the Authority's own capital.

Condensed Financial Information

	2009	2008	2007
Net Assets			
Cash and investments	$ 252,073,856	$ 135,805,340	$ 355,135,680
Loans receivable	2,018,237,560	2,195,524,813	2,037,081,506
Other assets	82,968,169	88,434,619	87,757,227
Total assets	$ 2,353,279,585	$ 2,419,764,772	$ 2,479,974,413
Tax-exempt bonds and notes	$ 2,219,084,709	$ 2,277,874,259	$ 2,317,983,809
Taxable bonds and notes			
Reserve for excess earnings (arbitrage)	23,325,536	32,572,104	45,647,353
Other liabilities	14,380,940	10,518,258	17,283,303
Total liabilities	$ 2,256,791,185	$ 2,320,964,621	$ 2,380,914,465
Total net assets	$ 96,488,400	$ 98,800,151	$ 99,059,948
Operating Results			
Interest on loans	$ 96,042,806	$ 117,846,226	$ 102,810,027
Special allowance	(27,308,773)	(4,599,350)	16,244,386
Investment income - Net	1,895,974	6,696,976	29,721,327
Other	1,193,677	678,589	462,019
Total operating revenues	$ 71,823,684	$ 120,622,441	$ 149,237,759
Interest on bonds and notes	$ 54,531,623	$ 101,330,222	$ 89,060,176
Loan servicing	12,727,447	13,886,858	14,099,781
Reserve (decrease) for excess earnings	(8,814,624)	(9,293,614)	4,401,754
Other	15,690,852	14,957,288	16,462,493
Total operating expenses	$ 74,135,298	$ 120,880,754	$ 124,024,204
Nonoperating and other expenses	$ (137)	$ (1,484)	$ (95,181,660)
Change in net assets	$ (2,311,751)	$ (259,797)	$ (69,968,105)

Financial Analysis

Net Assets

Fiscal Year 2008-09 - Total assets decreased 2.7% from $2.42 billion at September 30, 2008 to $2.35 billion at September 30, 2009. Total liabilities also decreased from $2.32 billion at September 30, 2008 to $2.26 billion at September 30, 2009 for a decrease of 2.8%. The Authority's ratio of assets to liabilities increased modestly from 1.0425 to 1.0427 due to the slightly higher rate that liabilities decreased relative to assets.

Cash and cash equivalents and investments increased by 85.6% from $135.8 million at September 30, 2008 to $252.1 million at September 30, 2009. The increase was primarily attributable to the fact that the Authority is not able, due to restrictions in its trust indentures, to use the principal and interest collected from the existing loan portfolio to originate new student loans.

Loans receivable decreased by 8.1% from $2.2 billion at September 30, 2008 to $2.0 billion at September 30, 2009. The reduction was attributable to the repayment of principal on loans, guarantee reimbursements from defaulted loans, and the ongoing suspension of SSM loan purchases since April 2008 and MI-LOAN originations since February 2008. FFELP originations, also suspended in April 2008, resumed in August 2009 and $42,250 of loans were made through MSLP with unencumbered Authority funds.

Accounts payable increased by 536.9% from $1.7 million at September 30, 2008 to $11.0 million at September 30, 2009. The increase was primarily from an increase in excess interest (negative special allowance) that the Authority is required to rebate to the USDOE (see Operating Revenues and Expenses and Note 6).

Bonds and notes payable decreased by 2.6% from $2.28 billion at September 30, 2008 to $2.22 billion at September 30, 2009. The net decrease was due to scheduled principal payments on the Authority's bonds.

Fiscal Year 2007-08 - Total assets decreased 2.4% from $2.48 billion at September 30, 2007 to $2.42 billion at September 30, 2008. Total liabilities also decreased from $2.38 billion at September 30, 2007 to $2.32 billion at September 30, 2008 for a decrease of 2.5%.

Cash and cash equivalents and investments decreased by 61.8% from $355.1 million at September 30, 2007 to $135.8 million at September 30, 2008. The decrease is primarily attributable to an increase in loans receivable and an increase in bond interest paid.

Accounts payable decreased by 78.7% from $8.1 million at September 30, 2007 to $1.7 million at September 30, 2008. The decrease is primarily from a drop in pending disbursements because of suspension in loan activity.

Reserve for excess earnings has decreased from $45.6 million at the end of fiscal year 2006-07 to $32.6 million at the end of fiscal year 2007-08. The reduction is due to lower investment and student loan rates and increasing bond yields.

Operating Results

Operating Revenues and Expenses

Fiscal Year 2008-09 - Revenues were down by 40.5% from $120.6 million at September 30, 2008 to $71.8 million at September 30, 2009. The lower revenue was due to decreased interest income from loans and less investment income attributable to lower yields. Additionally, the Authority paid $27.3 million to the USDOE for negative special allowance that resulted from the loan yield exceeding a cap established by the USDOE.

Interest on bonds and notes decreased by $46.8 million from $101.3 million in fiscal year 2007-08 to $54.5 million in fiscal year 2008-09. The change in interest expense was attributable to the fact that approximately 88% of the Authority's debt is variable rate and directly affected by the short-term interest rate environment, which was comprised of low rates to offset the effects of recession on the economy.

Fiscal Year 2007-08 - Revenues were down by 19.2% from $149.2 million at the end of fiscal year 2006-07 to $120.6 million at the end of fiscal year 2007-08. The decrease in revenue was due to decreases in investment income because of lower cash and cash equivalents balances and lower rates and the decrease in special allowance. As a result of the College Cost Reduction and Access Act, the special allowance factors on loans disbursed on or after October 1, 2007 were reduced. Also, the special allowance calculation was negative for those loans, requiring the Authority to pay $4.6 million of special allowance to the USDOE for fiscal year 2007-08.

Interest on bonds and notes increased as compared to fiscal year 2006-07 because of volatile interest rates from capital market disruptions in the last three quarters of the fiscal year.

State Legislation Update

No amendments were made to the Authority's enabling legislation in fiscal year 2008-09. The Authority's enabling legislation was amended effective September 10, 2008 by Act No. 269 of the Michigan Public Acts of 2008. The amendment allows the Authority to establish Reserve Funds used only to provide security for bonds. The Authority may deposit appropriated funds, bond proceeds from the issuance of bonds, transfer of unencumbered net assets, and funds from any other source in the Reserve Funds. As of September 30, 2009, the Authority has not established a Reserve Fund.

Debt Administration

During fiscal year 2008-09, the Authority did not issue any debt. In addition, $58.9 million of bond principal was redeemed.

Federal Legislation Update

The United States House of Representatives passed the Student Aid and Financial Responsibility Act (SAFRA) on September 17, 2009. This legislation encompassed many of President Obama's proposals from his fiscal year 2009-10 budget presentation including the elimination of FFELP and shifting all federal student loans into the government run Direct Loan Program. The full Senate has yet to act on a corresponding bill. If this proposed legislation is passed, it will affect the Authority's ability to make new FFELP loans.

On August 14, 2008, President Bush signed into law H.R. 4137, the Higher Education Opportunity Act of 2008, which reauthorized the Higher Education Act of 1965.

Auction Rate Securities Markets

Continued illiquidity in the Auction Rate Securities (ARS) market has led to the inability to determine a market interest rate for the Authority's $1.9 billion ARS portfolio at each of its 35-day auctions since February 2008. Therefore, as prescribed in the bond documents, the interest rate for each bond series is determined by a formula that is equal to a margin in excess of the applicable short-term index. The Authority continues to evaluate and pursue opportunities to restructure its ARS portfolio.

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BASIC FINANCIAL STATEMENTS

MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY

Statement of Net Assets

September 30, 2009 and 2008

	Business-Type Activities		Total	
	Operating Fund	Bond Fund	2009	2008
Assets				
Current Assets				
Cash and cash equivalents (Note 3)	$ 20,905,521	$ 227,168,982	$ 248,074,503	$ 69,546,077
Investments (Note 3)	3,499,353		3,499,353	65,759,263
Loans receivable (Note 4)	1,463,860	214,568,288	216,032,148	235,008,976
Investment interest receivable	10,015	8,899	18,914	451,823
Loan interest receivable (Note 4)	247,527	64,494,753	64,742,280	70,330,005
Special allowance receivable (payable) (Note 6)		612	612	(1,334,318)
Interfund receivable (payable)	635,048	(635,048)	0	0
Accounts receivable		2,766	2,766	5,360
Prepaid expenses		1,828,201	1,828,201	1,869,623
Due from State of Michigan	360,479		360,479	264,600
Total current assets	$ 27,121,803	$ 507,437,453	$ 534,559,256	$ 441,901,409
Noncurrent Assets				
Investments (Note 3)	$	$ 500,000	$ 500,000	$ 500,000
Loans receivable - Net of allowance of $23,563,363 in 2009 and $18,802,791 in 2008 (Note 4)	12,211,966	1,789,993,446	1,802,205,412	1,960,515,837
Deferred financing costs - Net		16,014,917	16,014,917	16,847,526
Total noncurrent assets	$ 12,211,966	$ 1,806,508,363	$ 1,818,720,329	$ 1,977,863,363
Total assets	$ 39,333,769	$ 2,313,945,816	$ 2,353,279,585	$ 2,419,764,772
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 7,522	$ 10,942,829	$ 10,950,351	$ 1,719,420
Bond and note interest payable		3,190,960	3,190,960	8,540,304
Reserve for excess earnings		2,021,794	2,021,794	1,552,101
Bonds and notes payable (Note 5)		79,210,000	79,210,000	58,930,000
Total current liabilities	$ 7,522	$ 95,365,583	$ 95,373,105	$ 70,741,825
Noncurrent Liabilities				
Compensated absences	$ 239,629	$	$ 239,629	$ 258,534
Reserve for excess earnings		21,303,742	21,303,742	31,020,003
Bonds and notes payable (Note 5)		2,139,874,709	2,139,874,709	2,218,944,259
Total noncurrent liabilities	$ 239,629	$ 2,161,178,451	$ 2,161,418,080	$ 2,250,222,796
Total liabilities	$ 247,151	$ 2,256,544,034	$ 2,256,791,185	$ 2,320,964,621
Net Assets				
Restricted - Bond indenture	$ 12,953,371	$	$ 12,953,371	$ 14,001,471
Unrestricted	26,133,247	57,401,782	83,535,029	84,798,680
Total net assets	$ 39,086,618	$ 57,401,782	$ 96,488,400	$ 98,800,151
Total liabilities and net assets	$ 39,333,769	$ 2,313,945,816	$ 2,353,279,585	$ 2,419,764,772

The accompanying notes are an integral part of the financial statements.

MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Assets
Fiscal Years Ended September 30, 2009 and 2008

	Business-Type Activities		Total	
	Operating Fund	Bond Fund	2009	2008
Operating Revenues				
Interest on loans (Notes 4 and 6)	$ 750,199	$ 95,292,607	$ 96,042,806	$ 117,846,226
Special allowance (Note 6)	180	(27,308,953)	(27,308,773)	(4,599,350)
Investment interest income	177,927	1,594,115	1,772,042	6,973,654
Increase (decrease) in fair value of investments	14,274	109,658	123,932	(276,678)
Other	142,478	1,051,199	1,193,677	678,589
Total operating revenues	$ 1,085,058	$ 70,738,626	$ 71,823,684	$ 120,622,441
Operating Expenses				
Interest on bonds and notes	$	$ 54,531,623	$ 54,531,623	$ 101,330,222
Loan servicing	68,777	12,658,670	12,727,447	13,886,858
Salaries and employee benefits	2,667,533		2,667,533	2,862,143
Amortization of deferred financing costs		812,610	812,610	866,294
Liquidity facility and other expenses	191,709	10,337,645	10,529,354	10,257,080
Trustees fees	2,751	100,451	103,202	101,903
Program expenses (Note 8)	(3,389,649)	3,389,649	0	0
Other administrative expenses (Note 7)	753,580	824,573	1,578,153	869,868
Reserve (decrease) for excess earnings		(8,814,624)	(8,814,624)	(9,293,614)
Total operating expenses	$ 294,701	$ 73,840,597	$ 74,135,298	$ 120,880,754
Operating Income (Loss)	$ 790,357	$ (3,101,971)	$ (2,311,614)	$ (258,313)
Nonoperating Expenses	(137)		(137)	(1,484)
Transfers	2,538,763	(2,538,763)	0	0
Change in Net Assets	$ 3,328,983	$ (5,640,734)	$ (2,311,751)	$ (259,797)
Net Assets - Beginning of fiscal year	35,757,635	63,042,516	98,800,151	99,059,948
Net Assets - End of fiscal year	$ 39,086,618	$ 57,401,782	$ 96,488,400	$ 98,800,151

The accompanying notes are an integral part of the financial statements.

MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY
Statement of Cash Flows
Fiscal Years Ended September 30, 2009 and 2008

	Business-Type Activities		Total	
	Operating Fund	Bond Fund	2009	2008
Cash Flows from Operating Activities				
Loan receipts	$ 2,043,780	$ 332,253,231	$ 334,297,011	$ 225,654,787
Loan activities	(2,916,364)	(52,462,864)	(55,379,228)	(275,087,120)
Cash payments to vendors	(81,028)	(3,518,690)	(3,599,718)	(24,053,477)
Payments to employees	(2,686,438)		(2,686,438)	(2,861,423)
Other operating revenue (expense)	2,460,335	(42,501,676)	(40,041,341)	(10,151,839)
Net cash provided by (used in) operating activities	$ (1,179,714)	$ 233,770,001	$ 232,590,286	$ (86,499,072)
Cash Flows from Investing Activities				
Maturities and sales of investments	$ 9,915,757	$ 166,172,640	$ 176,088,397	$ 811,335,798
Purchase of investments	(7,018,513)	(106,805,711)	(113,824,224)	(609,094,896)
Interest received	225,915	1,989,051	2,214,966	9,415,043
Net cash provided by investing activities	$ 3,123,159	$ 61,355,980	$ 64,479,139	$ 211,655,945
Cash Flows from Noncapital Financing Activities				
Proceeds from sale of bonds and notes	$	$	$	$ 9,000,000
Principal paid on bonds and notes payments		(58,930,000)	(58,930,000)	(49,250,000)
Payment of bond issue costs		(19,999)	(19,999)	(178,000)
Interest paid on bonds and notes		(59,880,967)	(59,880,967)	(101,718,705)
Other	2,918	287,047	289,965	138,966
Net cash provided by (used in) noncapital financing activities	$ 2,918	$ (118,543,919)	$ (118,541,001)	$ (142,007,739)
Net Increase (Decrease) in Cash and Cash Equivalents	$ 1,946,364	$ 176,582,062	$ 178,528,426	$ (16,850,866)
Cash and Cash Equivalents - Beginning of fiscal year	18,959,157	50,586,920	69,546,077	86,396,943
Cash and Cash Equivalents - End of fiscal year	$ 20,905,521	$ 227,168,982	$ 248,074,503	$ 69,546,077
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	$ 790,356	$ (3,101,971)	$ (2,311,615)	$ (258,313)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Amortization of deferred financing costs	$	$ 812,610	$ 812,610	$ 967,115
Investment interest income	(177,927)	(1,594,115)	(1,772,042)	(6,973,654)
Increase (decrease) in fair value of investments	(14,274)	(109,658)	(123,932)	238,572
Interest expense on bonds and notes		54,531,623	54,531,623	101,229,401
(Increase) decrease in assets:				
Loans receivable	(1,676,432)	178,963,685	177,287,253	(158,443,307)
Interest receivable on loans	53,650	5,534,075	5,587,725	(9,073,824)
Special allowance receivable	280	(1,335,210)	(1,334,930)	5,259,755
Interfund receivable (payable)	(31,083)	31,083		
Accounts receivable		2,594	2,594	(5,360)
Prepaid expenses		41,422	41,422	80,343
Due from State of Michigan	(95,879)		(95,879)	(90,332)
Increase (decrease) in liabilities				
Accounts payable	(9,500)	9,240,431	9,230,931	(6,354,941)
Compensated absences	(18,905)		(18,905)	722
Reserve for excess earnings		(9,246,568)	(9,246,568)	(13,075,249)
Total adjustments	$ (1,970,070)	$ 236,871,972	$ 234,901,902	$ (86,240,759)
Net cash provided by (used in) operating activities	$ (1,179,714)	$ 233,770,001	$ 232,590,287	$ (86,499,072)

Noncash Investing, Capital, and Financing Activities - In fiscal year 2008-09, the Bond Fund transferred loans receivable of $2,535,708 to the Operating Fund. In fiscal year 2007-08, the Operating Fund transferred loans receivable of $5,224,324 to the Bond Fund.

The accompanying notes are an integral part of the financial statements.

Note 1 Organization

The Michigan Higher Education Student Loan Authority (the "Authority") was created and organized under Act No. 222 of the Michigan Public Acts of 1975, as amended, to complement and supplement the student loan efforts of Michigan private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education. The Authority is a self-supporting discretely presented component unit of the State of Michigan and is reported in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The Authority's board is comprised of 15 members appointed by the Governor and one ex-officio member, the State Treasurer, who serves as the chairman of the Authority.

The Authority's enabling legislation, Act No. 222 of the Michigan Public Acts of 1975, was amended effective September 10, 2008 by Act No. 269 of the Michigan Public Acts of 2008. The amendment allows the Authority, with State Treasurer approval, to establish one or more special funds as Reserve Funds. The Authority may deposit appropriated funds, bond proceeds from the issuance of bonds, transfer of unencumbered net assets, and funds from any other source in the Reserve Funds. The Reserve Fund is used only to provide security for bonds issued by the Authority and may not be reduced below the minimum reserve balance established by the Authority, except for payment of debt service on bonds secured by the Reserve Fund. If the Reserve Fund is exhausted on or before September 1, the Governor and the State Budget Director shall include an appropriation to the Authority for the Reserve Fund in the annual budget submitted to the Legislature for the next State fiscal year. As of September 30, 2009, no Reserve Fund had been established.

To obtain capital for originating and acquiring student and parent loans, the Authority has the legal authority to borrow funds. It has accomplished this through the issuance of tax-exempt revenue bonds and notes and taxable bonds and notes. Notes or bonds issued by the Authority are not obligations of the State.

The enabling legislation, authorizing resolutions adopted by the Authority, agreements, and various notes and bond indentures contain specific provisions pertaining to (a) the use of the proceeds from the sale of the notes and bonds, (b) the creation of certain funds and accounts, and (c) the application of revenues and expenses.

To accomplish the various public purpose loan programs empowered by its authorizing legislation and to conform with the bond and note resolutions and indentures, the Authority records financial activities in the Operating Fund and the Bond Fund. Administrative transactions and those loan transactions not associated with the Authority's bond issues are recorded in the Operating Fund. Transactions associated with the Authority's debt issues are accounted for separately in designated funds and accounts in compliance with general and supplemental indentures and agreements. These funds and accounts are combined under the heading "Bond Fund" for financial statement purposes.

The accompanying financial statements present only the Michigan Higher Education Student Loan Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2009 and September 30, 2008 and the changes in financial position and cash flows thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Authority follows the business-type activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Authority's financial activities.

Basis of Accounting - The Authority follows the accounting rules promulgated by the Governmental Accounting Standards Board (GASB). Additionally, the Authority follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB Statements. After November 30, 1989, the Authority only applies applicable GASB pronouncements. The periodic determination of revenues earned, expenses incurred, and net income is appropriate for management control and accountability; therefore, the proprietary fund model is followed, and the full accrual basis of accounting is used.

Cash and Cash Equivalents - The Authority considers short-term investments having maturities of three months or less at the time of purchase and U.S. government money market funds to be cash and cash equivalents.

Investments - The Authority reports investments at fair market value based on quoted market prices with gains and losses included in the statement of revenues, expenses, and changes in net assets.

Deferred Financing Costs - Financing costs, comprised of underwriter's discount, legal expenses, and other costs related to financing, have been deferred and are being amortized over the term of each bond issue.

Loans Receivable - Premiums paid to financial institutions for loans acquired are included in loans receivable and amortized over the remaining life of the loans as a reduction to interest income. See Note 4 for additional information.

Reserve for Excess Earnings (Arbitrage) - In accordance with provisions of the Internal Revenue Code and related regulations, interest income from investments related to the Authority's tax-exempt bond issues is generally limited to the bond yield of the related bond issue. Similarly, loan income on all tax-exempt bond issues which may be retained by the Authority is limited to the bond yield plus an allowable spread. Reserves are maintained for estimated future payments of excess loan and investment income. Payments of excess investment or loan income are required to be made to the federal government on a periodic basis during the term and at a final maturity of the related bond issue.

Net Assets - Substantially all of the assets of the Authority are pledged for payment against the various bond indentures.

Operating Revenues and Expenses - Bond and note issuance is the principal source of the funds necessary to carry out the purposes of the Authority, which are used to originate and acquire student loans. The Authority's revenue is derived primarily from income on student loans and, secondarily, from investment income. The primary cost of the program is interest expense on bonds and notes outstanding. Therefore, loan income, net investment income, and interest expense are shown as operating revenues and expenses in the statement of revenues, expenses, and changes in net assets.

Historically, the Authority provided financial support to the State scholarship and grant programs and other Student Financial Services Bureau programs. These costs are included as nonoperating expenses in the statement of revenues, expenses, and changes in net assets. The Authority provided minimal support in fiscal years 2008-09 and 2007-08.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Authority uses estimates to calculate its arbitrage liability.

Note 3 Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments for the fiscal years ended September 30, 2009 and September 30, 2008 consist of the following:

	Cash and Cash Equivalents	Investments	Total
2009:			
Cash and cash equivalents	$ 13,743,156	$	$ 13,743,156
Mutual funds	224,456,347		224,456,347
Investments	9,875,000	3,999,353	13,874,353
Total	$ 248,074,503	$ 3,999,353	$ 252,073,856

	Cash and Cash Equivalents	Investments	Total
2008:			
Cash and cash equivalents	$ 37,574,649	$	$ 37,574,649
Mutual funds	31,971,428		31,971,428
Investments		66,259,263	66,259,263
Total	$ 69,546,077	$ 66,259,263	$ 135,805,340

The Authority has designated two banks for the deposit of its funds. The investment policy adopted by the Authority's board in accordance with State statutes authorizes the Authority to invest in obligations of, or guaranteed by, the State of Michigan or the U.S. government or federal agency obligation repurchase agreements, mutual funds, or common trust funds composed of investment vehicles that are allowable for direct investment, bankers' acceptance of U.S. banks, certificates of deposit, savings and deposit accounts of banks or credit unions which are federally insured, and commercial paper rated within the three highest classifications established by two standard rating services.

The Authority's cash and investments are subject to several types of risk which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At September 30, 2009, the carrying amount of the Authority's deposits was $13,743,156 and the banks' balances were $13,719,896. Of the banks' balances, $500,000 was covered by federal depository insurance and $13,219,896 was uninsured and uncollateralized. At September 30, 2008, the carrying amount of the Authority's deposits was $17,291,997 and the banks' balances were $9,730,684. Of the banks' balances, $200,000 was covered by federal depository insurance and $9,530,684 was uninsured and uncollateralized. None of the banks' balances were covered by collateral held in the pledging banks' Federal Reserve account in the Authority's name in either 2009 or 2008.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy restricts the average maturity of the portfolio to no more than three years, with the exception that debt service reserve account investment maturities may exceed three years, but no individual instrument may exceed the maturity date of the associated bonds or notes. At September 30, 2009, the average maturities of investments are as follows:

Type of Investment	Fair Value	Less than One Year	1-5 Years	6-10 Years	More than 10 Years
Repurchase agreements	$ 500,000	$		$ 500,000	
U.S. government securities	$ 3,499,353	$ 3,499,353			
Mutual funds	$224,456,347	$224,456,347			
Commercial paper	$ 9,875,000	$ 9,875,000			

As of September 30, 2008, the average maturities of investments are as follows:

Type of Investment	Fair Value	Less than One Year	1-5 Years	6-10 Years	More than 10 Years
Repurchase agreements	$ 500,000	$		$ 500,000	
U.S. government securities	$33,956,819	$33,956,819			
Mutual funds	$31,971,428	$31,971,428			
Commercial paper	$52,085,096	$52,085,096			

Credit Risk

The Authority's investment policy limits its investment choices to those specified by the State statute. At September 30, 2009, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Repurchase agreement	$ 500,000	Aaa/P-1	Moody's
Mutual funds	$224,456,347	AAAm	S&P
Commercial paper	$ 9,875,000	A-1 +	S&P

As of September 30, 2008, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Repurchase agreement	$ 500,000	A/Negative/A-1	S&P
Mutual funds	$31,971,428	AAAm	S&P
Commercial paper	$ 8,854,466	A-1	S&P
Commercial paper	$43,230,630	A-1 +	S&P

Concentration of Credit Risk

The Authority's investment policy limits concentration of credit with a single investment category to 50%, other than securities of the U.S. Treasury and/or obligations where principal and interest are guaranteed by the State of Michigan or the United States. In addition, no more than 5% of the total investment portfolio for commercial paper and 12.5% for certificates of deposit may be invested with a single issuer or financial institution. At September 30, 2009, the Authority was in compliance with its policy.

Note 4 <u>Loans Receivable</u>

Loans include educational loans made under the Federal Family Education Loan Program (FFELP) to students (Stafford Loans), to parents of dependent undergraduates, and to independent students (PLUS and SLS Loans, respectively), and to borrowers consolidating certain of their student loans (Consolidation Loans). These loans are insured against loss from death, total and permanent disability, school closure, false certification, unpaid refunds, and default and reinsured by the U.S. Department of Education (USDOE). Loans also include education loans made under the Authority's Michigan Alternative Student Loan (MI-LOAN) Program, which are not federally insured.

The SLS Loan Program was ended during fiscal year 1993-94. After July 1, 1994, only loans in which the loan period began prior to that date and were certified by the school were made.

The terms of federal loans, which vary, generally provide for repayment in monthly installments of principal and interest rates over a period of up to 10 years.

Stafford Loans - Stafford Loans may be subsidized or unsubsidized. Interest is paid on subsidized Stafford Loans during the enrolled and grace periods by the USDOE, whereas borrowers must either pay interest from the time of the loan or capitalize the interest until repayment begins on unsubsidized Stafford Loans. Stafford Loans may bear fixed or variable rate interest with fixed rates ranging primarily from 5.6% to 6.8% and variable rates equivalent to the annual average U.S. Treasury bill rate, plus a factor which depends on the status and/or date of disbursement of the loan.

The following is a summary of the factors and interest rates applied to various disbursement dates of Stafford Loans for the fiscal years ended September 30, 2009 and September 30, 2008:

First Disbursement Made in the Period	Status	Factor	Interest Rate at September 30, 2009	Interest Rate at September 30, 2008
10/01/1992 - 06/30/1995	In school, grace, deferment, repayment	3.10%	3.28%	5.01%
07/01/1995 - 06/30/1998	In school, grace, deferment	2.50%	2.68%	4.41%
07/01/1995 - 06/30/1998	Repayment	3.10%	3.28%	5.01%
07/01/1998 - 06/30/2006	In school, grace, deferment	1.70%	1.88%	3.61%
07/01/1998 - 06/30/2006	Repayment	2.30%	2.48%	4.21%
07/01/2006 - 06/30/2010	All statuses	-	6.80%	6.80%
07/01/2008 - 06/30/2010	All statuses, undergraduate	-	5.60%	6.00%
07/01/2008 - 06/30/2010	All statuses, except undergraduate	-	6.80%	6.80%

Consolidation Loans - Interest rates on Consolidation Loans are fixed, calculated by rounding the weighted average of the interest rates on the loans consolidated to the nearest 1/8 of 1%, or variable based on the 91-day U.S. Treasury bill, plus 3.10%, not to exceed 8.25%.

PLUS and SLS Loans - The PLUS interest rate has been a fixed rate of 8.5% since July 1, 2006. Prior to July 1, 2006, interest rates on the PLUS and SLS Loans varied annually each July 1, based upon the bond equivalent rate for the 91-day U.S. Treasury bill or one-year constant maturity, plus a factor of either 3.25% or 3.10%, dependent upon when borrowers obtained their first PLUS or SLS Loans.

The following is a summary of the factors and interest rates applied to various disbursement dates of PLUS and SLS Loans for the fiscal years ended September 30, 2009 and September 30, 2008:

First Disbursement Made in the Period	Factor	Interest Rate at September 30, 2009	Interest Rate at September 30, 2008
Prior to 10/01/1992	3.25%	3.73%	5.82%
10/01/1992 - 06/30/1998	3.10%	3.58%	5.67%
07/01/1998 - 06/30/2006	3.10%	3.28%	5.01%
07/01/2006 and after	-	8.50%	8.50%

MI-LOAN - Under the Authority's MI-LOAN Program, loans are made to assist students in meeting the costs of education at a degree-granting college or university located in Michigan. Borrowers or eligible co-signers must meet standards of credit established by the Authority. For the fiscal years ended September 30, 2009 and September 30, 2008, MI-LOAN balances outstanding were $263,112,303 and $269,518,986, respectively. For both fiscal years ended September 30, 2009 and September 30, 2008, the MI-LOAN Program's fixed interest rate was at 6.95% for creditworthy borrowers. The variable rate was 2.69% at September 30, 2009 and 5.70% at September 30, 2008. Repayment begins within 60 days of the disbursement and extends over a maximum period of 25 years. On July 1, 2007, the credit-ready MI-LOAN Program was suspended for new borrowers.

Allowance - The Authority's Stafford, PLUS, SLS, and Consolidation Loans are guaranteed primarily by the Michigan Higher Education Assistance Authority's Michigan Guaranty Agency and by Great Lakes Higher Education Guaranty Corporation and reinsured by the USDOE. The guarantee is for 100% of the principal and interest balance on loans made through September 30, 1993. The guarantee is 98% with respect to loans made from October 1, 1993 through June 30, 2006 and 97% with respect to loans made on or after July 1, 2006. Historically, the Authority has recorded an allowance to estimate the unguaranteed portion of future loan defaults. For the fiscal years ended September 30, 2009 and September 30, 2008, the Authority recorded an allowance for the FFELP loans of $1,700,000 and $229,300, respectively.

MI-LOAN loans are not guaranteed or reinsured; therefore, the Authority estimates future loan defaults and records an allowance for the estimate. For the fiscal years ended September 30, 2009 and September 30, 2008, the allowance for the MI-LOAN loans was $3,488,000 and $3,872,640, respectively.

Loan Origination Fees - The USDOE requires all lenders, including the Authority, to withhold from the loan proceeds a federal loan origination fee equal to 5.0% of the principal amount of the loan for loans with enrollment periods on or after July 1, 1994 and before July 1, 2006. Beginning July 1, 2006, the federal loan origination fee is incrementally reduced according to the following schedule:

First Disbursement of Principal	Origination Fee
07/01/2006 - 06/30/2007	2.00%
07/01/2007 - 06/30/2008	1.50%
07/01/2008 - 06/30/2009	1.00%
07/01/2009 - 06/30/2010	0.50%
07/01/2010 and after	None

The Authority is also required to pay a lender origination fee equal to .5% of the principal amount of loans made between October 1, 1993 and September 30, 2007 and 1% beginning October 1, 2007. The federal interest subsidy paid by the USDOE is then reduced by the amount of the federal loan origination fees withheld or owed. Total federal loan origination fees and lender loan origination fees for the fiscal years ended September 30, 2009 and September 30, 2008 amounted to $266 and $209,209, respectively.

Reserve Fees - Michigan Alternative Student Loan (MI-LOAN) Program loan origination fees, called reserve fees, are received and retained by the Authority for all MI-LOAN loans. The MI-LOAN reserve fee is 3.5% and is capitalized and amortized as an adjustment to interest income over the life of the loan. For the fiscal years ended September 30, 2009 and September 30, 2008, MI-LOAN reserve fees collected were $0 and $931,161, respectively, and amortization for the respective years was $1,229,759 and $1,075,871.

Unamortized Premiums - Also included in the loans receivable are premiums paid to the financial institutions for loans purchased. These premiums are amortized over the remaining life of the loans as a reduction to interest income. Premiums capitalized during the fiscal years ended September 30, 2009 and September 30, 2008 were $0 and $9,381,075, respectively. Total amortization for the respective years was $11,533,443 and $14,320,551.

Below is a summary of the components of the loans receivable:

Components	2009	2008
Loans receivable	$2,036,447,566	$2,198,669,728
Allowance for loan loss	(23,563,363)	(18,802,791)
Loan origination fees receivable	(14,938,325)	(14,937,450)
MI-LOAN reserve fees	7,704,339	6,474,540
Unamortized premiums paid	12,587,343	24,120,786
Net loans receivable	$2,018,237,559	$2,195,524,813

Suspension of Programs - On February 15, 2008, origination of new MI-LOAN loans was suspended. On April 21, 2008, the Authority suspended its origination and acquisition of new FFELP loans through its Michigan Student Loan Program (MSLP) and State Secondary Market (SSM), respectively. Prohibitions in the Authority's bond documents restrict the use of trust estate moneys for new loan originations because of the illiquidity of the Authority's $1.9 billion Auction Rate Securities (ARS) portfolio. When financial market conditions warrant and the ARS portfolio is sufficiently restructured, the Authority will resume MI-LOAN loan originations. MSLP originations of FFELP loans resumed in August 2009 utilizing unencumbered Authority funds.

Loan Servicing - Servicing of the Authority's loans is provided by Nelnet Loan Services, Inc., Sallie Mae Servicing Corporation, and Great Lakes Educational Loan Services, Inc. The servicing agreements were extended through January 31, 2010 to allow time to finalize new multi-year servicing agreements. The servicers are responsible for satisfying all material provisions of the Higher Education Act, applicable federal regulations, and State of Michigan requirements with respect to the student loans that they service for the Authority.

Note 5 Bonds and Notes Payable

Bonds and notes are issued by the Authority to originate and acquire loans made to eligible students and parents of eligible students. Such bonds and notes constitute a limited obligation of the Authority and are not a debt of the State of Michigan. Each bond and note issue is secured by the pledge of repayments to the Authority of loans issued with the proceeds of the bond and note issue and all income earned by the Authority relating to those bonds and notes payable. Interest on all such debt is payable semiannually, except for Series XII-B, which is paid on a monthly basis. The bonds and notes payable are subject to a variety of redemption provisions as set forth in the official statements for each issue.

Changes in bonds and notes payable are as follows:

	2009	2008
Beginning balance before deferral	$2,280,175,000	$2,320,425,000
Additional proceeds	0	9,000,000
Principal payments	(58,930,000)	(49,250,000)
Ending balance before deferral	$2,221,245,000	$2,280,175,000
Deferred amount on refunding of bonds	(2,160,291)	(2,300,741)
Ending balance	$2,219,084,709	$2,277,874,259
Amount due within one year	$ 79,210,000	$ 58,930,000

Michigan Higher Education Student Loan Authority Limited Obligations outstanding as of September 30 are as follows:

	2009	2008
Student Loan and Refunding Revenue Bonds, Series XII-B, payable through October 1, 2013, with an effective interest rate of 5.33%	$ 56,400,000	$ 56,400,000
Student Loan Refunding Revenue Bonds, Series XII-N, payable through September 1, 2025, with an effective interest rate of 1.93%	7,500,000	7,500,000
Student Loan Refunding Revenue Bonds, Series XII-Q, payable through September 1, 2010, with interest rate of 5.20%	10,310,000	13,065,000
Student Loan Revenue Bonds, Series XII-R, payable through March 1, 2029, with an effective interest rate of 1.98%	80,000,000	80,000,000
Student Loan Refunding Revenue Bonds, Series XII-T, payable through September 1, 2010, with an interest rate of 5.30%	11,855,000	15,855,000
Student Loan Revenue Bonds, Series XII-U, payable through September 1, 2030, with an effective interest rate of 1.66%	53,300,000	53,300,000
Student Loan Refunding Revenue Bonds, Series XII-W, payable through September 1, 2010, with an interest rate of 4.88%	11,915,000	16,165,000
Student Loan Refunding Revenue Bonds, Series XII-ZI, payable through September 1, 2010, with an interest rate of 3.55%	11,980,000	11,980,000
Student Loan Revenue Bonds, Series XII-Z2-3, payable through September 1, 2033, with an effective interest rate of 1.79%	120,000,000	120,000,000
Subtotal - Series XII	$363,260,000	$374,265,000
Student Loan Revenue Bonds, Series XVII-A, payable through June 1, 2013, with interest rates ranging from 5.65% to 5.75%	$ 5,400,000	$ 6,700,000
Student Loan Revenue Bonds, Series XVII-B, payable through June 1, 2018, with an interest rate of 5.40%	17,000,000	17,000,000
Student Loan Refunding Revenue Bonds, Series XVII-D, payable through June 1, 2013, with an interest rate of 5.00%	700,000	700,000
Student Loan Revenue Bonds, Series XVII-E, payable through June 1, 2025, with interest rates ranging from 5.40% to 5.50%	31,110,000	31,110,000
Student Loan Refunding Revenue Bonds, series XVII-F, payable through September 1, 2010, with an interest rate of 4.45%	11,950,000	16,275,000
Student Loan Revenue Bonds, Series XVII-G, payable through September 1, 2026, with interest rates ranging from 5.20% to 5.45%	30,000,000	30,000,000
Student Loan Revenue Bonds and Refunding Revenue Bonds, Series XVII-HI-H2, payable through September 1, 2020, with an effective interest rate of 2.03%	87,800,000	118,100,000
Student Loan Revenue Bonds with Refunding Revenue Bonds, Series XVII-H3-H6, payable through March 1, 2037, with an effective interest rate of 1.96%	295,000,000	295,000,000
Student Loan Revenue Bonds, Series XVII-I, payable through March 1, 2024, with interest rates ranging from 3.65% to 5.20%	25,000,000	28,000,000

	2009	2008
Student Loan Refunding Revenue Bonds, Series XVII-J, payable through September 1, 2020, with an effective interest rate of 2.05%	$ 40,000,000	$ 40,000,000
Student Loan Revenue Bonds, Series XVII-KI-K7, payable through March 1, 2039, with an effective interest rate of 1.98%	508,350,000	508,350,000
Student Loan Revenue Bonds and Refunding Revenue Bonds, Series XVII-L, payable through March 1, 2039, with an effective interest rate of 1.90%	25,000,000	25,000,000
Student Loan Refunding Revenue Bonds, Series XVII-M, payable through September 1, 2036, with an effective interest rate of 1.89%	112,500,000	112,500,000
Student Loan Revenue Bonds, Series XVII-N, payable through March 1, 2040, with an effective interest rate of 1.92%	485,000,000	485,000,000
Student Loan Revenue and Refunding Revenue Bonds, Series XVII-O, payable through March 1, 2040, with an effective interest rate of 2.05%	25,000,000	25,000,000
Student Loan Revenue Bonds, Series XVII-P, payable through March 1, 2030, with interest rates ranging from 4.50% to 4.88%	41,125,000	41,125,000
Student Loan Revenue Bonds, Series XVII-Q, payable through March 1, 2031, with interest rates ranging from 4.75% to 5.00%	50,550,000	50,550,000
Subtotal - Series XVII	$1,791,485,000	$1,830,410,000
Student Loan Refunding Revenue Bonds, Senior Lien Series 20-A payable through September 1, 2042, with an effective interest rate of 2.02%	$ 64,500,000	$ 64,500,000
Student Loan Refunding Revenue Bonds, Subordinate Lien Series 20-B, payable through September 1, 2042, with an effective interest rate of 2.46%	2,000,000	2,000,000
Subtotal Series 20	$ 66,500,000	$ 66,500,000
Student Loan Revenue Bonds, Series 21-A, payable through September 15, 2009	$ 0	$ 9,000,000
Total bonds and notes payable before deferred amount on refunding	$2,221,245,000	$2,280,175,000
Deferred amount on refunding of bonds	(2,160,291)	(2,300,741)
Total bonds payable	$2,219,084,709	$2,277,874,259
Less current portion	79,210,000	58,930,000
Long-term portion	$2,139,874,709	$2,218,944,259

The annual requirements of service debt outstanding, including both principal and interest, are as follows:

Fiscal Year	Principal				Interest	Total
	XII	XVII	20	Total		
2010	$ 46,060,000	$ 33,150,000	$ 0	$ 79,210,000	$ 28,894,708	$ 108,104,708
2011	0	2,000,000	0	2,000,000	25,930,907	27,930,907
2012	0	1,000,000	0	1,000,000	25,911,157	26,911,157
2013	0	2,700,000	0	2,700,000	25,911,157	28,611,157
2014	56,400,000	0	0	56,400,000	24,659,157	81,059,157
2015-2019	0	83,125,000	0	83,125,000	118,171,193	201,296,193
2020-2024	0	149,000,000	0	149,000,000	96,418,280	245,418,280
2025-2029	87,500,000	62,610,000	0	150,110,000	81,657,970	231,767,970
2030-2034	173,300,000	89,550,000	0	262,850,000	62,820,168	325,670,168
2035-2039	0	868,350,000	0	868,350,000	47,256,802	915,606,802
2040-2044	0	500,000,000	66,500,000	566,500,000	2,441,469	568,941,469
Total	$363,260,000	$1,791,485,000	$66,500,000	$2,221,245,000	$540,072,968	$2,761,317,968

For the fiscal years ended September 30, 2009 and September 30, 2008, Authority bonds and notes totaling $258,895,000 and $278,525,000, respectively, are fixed rate limited obligation revenue bonds with annual interest rates ranging from 3.30% to 5.75%.

Included in bonds and notes payable are variable rate limited obligation revenue bonds in Series XII-B, which totaled $56,400,000 as of September 30, 2009 and September 30, 2008. The variable rate bonds bear interest at a rate determined by the remarketing agent. Such rate is determined on a daily, weekly, monthly, or longer basis, at the discretion of the Authority. The rates on such bonds were being determined on a weekly basis as of September 30, 2009. The debt service requirements were prepared using the variable weekly rates on September 30, 2009 of 1.75% for the Series XII-B bonds, and may significantly differ from the rates paid in future periods. As of September 30, 2008, the debt service requirements were prepared using the variable weekly rates on September 30, 2008 of 8.75% for the Series XII-B bonds. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. To ensure the availability of funds for the timely purchase of the demand bonds so long as they are subject to tender, the Authority entered into a standby bond purchase agreement, which provides for the purchase of the variable rate bonds that are tendered. KBC Bank N.V. provided the standby bond purchase (liquidity facility) for Series XII-B which was valid through

December 1, 2009. Due to the absence of an extension of the agreement with KBC or a replacement liquidity facility from another bank, the series XII-B bonds were subject to a mandatory put as of November 4, 2009. At that time KBC purchased all outstanding series XII-B bonds and will hold them at a rate equal to the Prime rate plus 2.0%. Liquidity facility fee expenses for the fiscal years ended September 30, 2009 and September 30, 2008 were $14,411 and $55,624, respectively. Remarketing agent fees paid for the fiscal years ended September 30, 2009 and September 30, 2008 were $42,271 and $79,125, respectively.

The bond Series XII-N, Series XII-R, Series XII-U, Series XII-Z2 and Z3, Series XVII-H, Series XVII-J, Series XVII-K, Series XVII-L, Series XVII-M, Series XVII-N, Series XVII-O and Series 20 are Auction Rate Securities bearing interest at the applicable auction rate, which is determined by a bidding process every 35 days. The debt service requirements were prepared using the applicable variable rates in effect on September 30, 2009. Auction agent fees and broker dealer fee expenses for the fiscal years ended September 30, 2009 and September 30, 2008 were $2,290,763 and $3,082,508, respectively.

The Authority's $9.0 million variable rate limited obligation bonds, Series 21-A, were due and payable February 19, 2009. The variable rate bonds bore interest at a rate based on the Securities Industry and Financial Markets Association (SIFMA) index and were determined on a weekly basis. As of February 19, 2009, the Authority paid down $2.5 million in principal of the bonds and extended the maturity to May 20, 2009. At that time, the interest rate also converted to a fixed rate of 8.5%. The bond maturity was extended a final time to September 15, 2009 when the remaining $6.5 million of principal was redeemed.

Note 6 Income from U.S. Department of Education

The federal government pays the Authority an interest subsidy each quarter on the subsidized Stafford Loans for the period during which the borrowers are enrolled at an institution of higher education and during a six- to nine-month period after the borrowers have graduated or left school.

Additionally, federal legislation provides for a special allowance that is principally an incentive payment made in order that money market conditions and interest rates will not impede the issuance of student loans. The federal government pays the special allowance at the end of each quarter, which adjusts the Authority's yield on student loans to a rate related to the average of a 91-day U.S. Treasury bill yield during the quarter or, for loans disbursed on or after January 1, 2000, a rate related to the average three-month commercial paper (CP) yield. The Authority's yield on student loans financed with proceeds of the tax-exempt bonds is also subject to restrictions under applicable tax regulations (see Note 2). For loans first disbursed on or after October 1, 2007, the College Cost Reduction and Access Act reduced the special allowance factors and the Deficit Reduction Act of 2005 required that if the resulting special allowance calculation was negative, the negative special allowance must be paid to the USDOE.

Note 7 Other Administrative Expenses

Other administrative expenses of the Operating Fund consist of the following:

	2009	2008
Professional Fees	$ 441,310	$ 426,060
Rent	120,620	131,644
Postage	14,746	16,768
Supplies and Printing	29,872	55,146
Data Processing	68,416	72,375
Equipment	5,633	5,629
Other	72,983	87,232
Total	$ 753,580	$ 794,854

Note 8 Program Expenses

Program expenses reflect reimbursement by certain bond trust estates for an allocable portion of operating expenses (salaries and employee benefits, supplies, equipment, etc.) initially paid from the Operating Fund.

Note 9 Employee Benefits

Plan description - The Authority participates in the State's defined benefit and defined contribution plans that cover most State employees, as well as related component units such as the Michigan Higher Education Student Loan Authority. The defined benefit and defined contribution pension plans are part of the State Employees' Retirement System administered by the Department of Management and Budget, Office of Retirement Services. Participants in each plan are eligible for retirement, healthcare, disability, and death benefits upon meeting certain vesting requirements. The State Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State's website at http://www.michigan.gov/ors. The financial report for the defined contribution plan may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

Funding Policy - The contribution requirements of plan members and the Authority are established and may be amended by the State Legislature. The State Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for the plan.

Plan members are not required to make contributions; the Authority was required to contribute to the defined benefit plan an actuarially determined rate of 30.64% of payroll for the fiscal year ended September 30, 2009 and 30.12% of payroll for the fiscal year ended September 30, 2008. The Authority was required to contribute to the defined contribution plan 4.0% of payroll with an additional match of up to 3.0% for the fiscal years ended September 30, 2009 and September 30, 2008. During the fiscal years ended September 30, 2009 and September 30, 2008, the Authority's contributions to the plans, including postemployment benefits as described below, were $494,103 and $482,740, respectively.

Postemployment Benefits - In addition, the Authority participates in the State of Michigan's postemployment benefits. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan and funded on a pay-as-you-go basis. The State will pay 90% of healthcare benefits for employees hired on or before March 30, 1997, who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements. For employees who were hired after March 1997, the State will pay up to 90% of healthcare benefits for employees who meet certain vesting and other requirements.

Note 10 Risk Management

The Authority is exposed to various risks of loss related to property loss torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The State of Michigan provides coverage for the Authority.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters

Mr. Robert J. Kleine, Chair
Michigan Higher Education Student Loan Authority
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Kleine:

We have audited the accompanying financial statements of the business-type activities and each proprietary fund of the Michigan Higher Education Student Loan Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2009, as identified in the table of contents, and have issued our report thereon dated December 21, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Governor, the Legislature, the Michigan Higher Education Student Loan Authority, management, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

December 21, 2009

GLOSSARY

ARS	Auction Rate Securities.
control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
FFELP	Federal Family Education Loan Program.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
GASB	Governmental Accounting Standards Board.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material weakness in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.

MI-LOAN	Michigan Alternative Student Loan.
MSLP	Michigan Student Loan Program.
S&P	Standard & Poor's.
significant deficiency in internal control over financial reporting	A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected.
SSM	State Secondary Market.
unqualified opinion	An auditor's opinion in which the auditor states that the financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting.
USDOE	U.S. Department of Education.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL