MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT INCLUDING
REPORT ON INTERNAL CONTROL,
COMPLIANCE, AND OTHER MATTERS

MICHIGAN FINANCE AUTHORITY

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

Fiscal Year Ended September 30, 2014

Doug A. Ringler, CPA, CIA
AUDITOR GENERAL

271-0340-15

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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Office of the Auditor General

Report Summary

Financial Audit Including Report on Internal Control, Compliance, and Other Matters

Michigan Finance Authority

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

Fiscal Year Ended September 30, 2014

Report Number:
271-0340-15

Released:
January 2015

The Authority's mission is to provide effective, low-cost options to finance the acquisition, construction, improvement, or alteration of land, facilities, equipment, and parking; to finance the payment of project costs; or to refinance existing debt. These services are provided to municipalities; public, private, and charter schools; healthcare providers; private colleges and universities; and college students.

At September 30, 2014, the Authority had $11.0 billion of outstanding bonds and notes payable.

Auditor's Report Issued
UNMODIFIED OPINIONS ☒ MODIFIED OPINIONS ☐
We issued unmodified opinions on the Authority's basic financial statements to reflect that they were fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America. The basic financial statements include the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information and the related notes to the financial statements.

Report on Internal Control, Compliance, and Other Matters
This report does not include any findings.

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

Office of the Auditor General
201 N. Washington Square, Sixth Floor
Lansing, Michigan 48913

Doug A. Ringler, CPA, CIA
Auditor General

Laura J. Hirst, CPA
Deputy Auditor General

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January 22, 2015

Mr. R. Kevin Clinton, State Treasurer and Chair
Michigan Finance Authority Board of Directors
and
Mary G. Martin, CPA, CIA, Director, Bureau of State and Authority Finance
Michigan Finance Authority
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Clinton and Ms. Martin:

This is our report on the financial audit including the report on internal control, compliance, and other matters of the Michigan Finance Authority, a discretely presented component unit of the State of Michigan, for the fiscal year ended September 30, 2014.

This report contains our report summary, our independent auditor's report on the financial statements and other reporting required by *Government Auditing Standards*, the Authority management's discussion and analysis, the Authority's basic financial statements, the Authority's required supplementary information, and the Authority's supplemental financial statements and supplemental financial schedules. 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 abbreviations and terms.

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

Sincerely,

Doug Ringler

Doug Ringler
Auditor General

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<u>**TABLE OF CONTENTS**</u>

MICHIGAN FINANCE AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTAL FINANCIAL STATEMENTS

SUPPLEMENTAL FINANCIAL SCHEDULES

INDEPENDENT AUDITOR'S REPORT ON

INTERNAL CONTROL AND COMPLIANCE

GLOSSARY

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INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report on the Financial Statements
and Other Reporting Required by *Government Auditing Standards*

Mr. R. Kevin Clinton, State Treasurer and Chair
Michigan Finance Authority Board of Directors
and
Mary G. Martin, CPA, CIA, Director, Bureau of State and Authority Finance
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Clinton and Ms. Martin:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority, a discretely presented component unit of the State of Michigan*,* as of and for the fiscal year ended September 30, 2014 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority as of September 30, 2014 and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements present only the Michigan Finance 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, 2014, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, the Michigan Finance Authority adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the fiscal year ended September 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14 through 22 and the budgetary comparison information on pages 82 through 84 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplemental financial statements and supplemental financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental financial statements and supplemental financial schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental financial statements and supplemental financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Sincerely,

Doug Ringler

Doug Ringler
Auditor General
December 22, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of the Michigan Finance Authority's (the Authority's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2014. Please read it with the Authority's financial statements, which follow this section.

HIGHLIGHTS

- The Authority is a discretely presented component unit of the State of Michigan that consolidated certain public finance authorities in Michigan in accordance with Executive Order No. 2010-2, effective May 30, 2010. The Authority combined the operations of 10 different public finance authorities (Michigan Forest Finance Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan Public Educational Facilities Authority, Michigan State Hospital Finance Authority, Michigan Tobacco Settlement Finance Authority, Michigan Underground Storage Tank Financial Assurance Authority, and State Higher Education Facilities Commission). In addition, the authorization to finance the facilities of public and private schools, formerly under the Michigan Strategic Fund, and to issue bonds and notes on behalf of the State Land Bank Fast Track Authority was transferred to the Authority.

- During the fiscal year ended September 30, 2014, the Authority issued new and refunding debt of $4.5 billion, of which $557.0 million was conduit debt obligations and, therefore, was not recorded as debt of the Authority (Notes 9 and 10).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Authority's basic financial statements, which are comprised of four components: 1) government-wide financial statements, 2) governmental and proprietary fund financial statements, 3) fiduciary fund financial statements, and 4) notes to the financial statements.

Government-Wide Financial Statements

The statement of net position and the statement of activities report information on all non-fiduciary activities of the Authority using the accrual basis of accounting. Authority activities are distinguished between governmental and business-type activities. The current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of net position presents assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources represents the Authority's net position. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues.

Both statements report two activities:

- *Governmental Activities* - The statements report information on all non-fiduciary and non-business-type activities of the Authority. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.
- *Business-Type Activities* - The Authority charges fees to customers to help it cover the cost of services it provides. Program revenues include charges to users who directly benefit from the services, grants, and contributions that are restricted to meeting the requirements of a function.

Fund Financial Statements

The fund financial statements provide detailed information about the major individual funds and aggregate information about non-major funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Authority uses to account for specific sources of funding and spending for a particular purpose. The Authority's funds are divided into three categories (governmental, proprietary, and fiduciary) and use different accounting methodologies which are driven by required governmental accounting standards and pronouncements:

- *Governmental Funds* - The Authority's major governmental funds include the General Fund, the Tobacco Settlement Debt Service Fund, and the Unemployment Obligation Assessment Debt Service Fund. These funds are reported using the modified accrual basis of accounting, which focuses on near-term (generally 60 days) inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.
- *Proprietary Funds* - The Authority's major proprietary funds include the Municipal Bond Fund and the Student Loan Fund. These funds are reported using the full accrual basis of accounting, which provides short-term and long-term financial information about the activities of the Authority.

- *Fiduciary Fund* - The Authority's fiduciary fund is the Michigan Guaranty Agency Federal Fund that is used to account for funds received from various sources and held by the Authority on behalf of the U.S. Department of Education (USDOE). These funds are reported using the full accrual basis of accounting. The government-wide financial statements exclude fiduciary fund activities and balances because these assets do not represent resources of the Authority to finance its operations, restricted or otherwise, and are held in trust.

Additional Required Supplementary Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the Authority's General Fund financial statements. The required supplementary information includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at fiscal year-end.

Other Supplemental Information

Other supplemental information provided at the end of the report includes combining financial statements and schedules for each non-major proprietary fund and each subfund of major proprietary funds. These funds are combined, by fund type, and presented in single columns in the basic financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority's combined net position increased $613.2 million (319.0%) over the course of fiscal year 2014 operations. The net deficit position of the governmental activities decreased $378.0 million (10.4%) primarily from collections made for the unemployment obligation assessment during the fiscal year. The net position of business-type activities increased by $235.2 million (6.8%) during fiscal year 2014 primarily because of the $232.1 million in operating subsidies received from the Municipal Bond Fund to be used for future programming activities.

The following statement of net position presents the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of September 30, 2014 and September 30, 2013:

Statement of Net Position
As of September 30
(In Millions)

	Governmental Activities		Business-Type Activities		Total Authority	
	2014	2013	2014	2013	2014	2013
Total assets	$ 425.0	$ 446.1	$11,104.2	$ 9,375.6	$ 11,529.1	$ 9,821.7
Deferred outflows of resources	$ 1.1	$ 0.1	$ 28.2	$ 0.0	$ 29.3	$ 0.1
Total liabilities	$ 3,677.9	$ 4,076.0	$ 7,457.0	$ 5,938.0	$ 11,134.9	$ 10,014.0
Deferred inflows of resources	$ 0.0	$ 0.0	$ 2.6	$ 0.0	$ 2.6	$ 0.0
Net position:						
Restricted	$ 0.0	$ 0.0	$ 3,532.8	$ 3,243.5	$ 3,532.8	$ 3,243.5
Unrestricted	(3,251.8)	(3,629.9)	140.0	194.2	(3,111.8)	(3,435.7)
Total net position	$ (3,251.8)	$ (3,629.9)	$ 3,672.8	$ 3,437.6	$ 421.0	$ (192.2)

The Authority's total assets increased by $1.7 billion (17.4%) during fiscal year 2014. The governmental activities total assets decreased by $21.2 million (4.7%), primarily from implementing Governmental Accounting Standards Board (GASB) Statement No. 65 (GASB 65) and writing off $15.1 million in deferred charges and financing costs. The business-type activities total assets increased by $1.7 billion (18.4%) primarily from activity in receivables from loans, bonds, notes, and primary government.

The Authority's total liabilities increased by $1.1 billion (11.2%) during fiscal year 2014. The governmental activities liabilities decreased by $398.1 million (9.8%) primarily from using the funds received from the Department of Licensing and Regulatory Affairs (LARA) to pay down the Unemployment Obligation Assessment Revenue Bonds during fiscal year 2014. The business-type activities liabilities increased by $1.5 billion (25.6%) primarily from issuing new bonds for the Local Municipalities Subfund through the local government loan program.

The Authority's net position in unrestricted net assets of negative $3.1 billion as of September 30, 2014 is the result of the Authority recording liabilities for the entire amount of outstanding bonds for its tobacco settlement bonds and unemployment obligation assessment bonds. The tobacco settlement bonds are payable from proceeds from the Authority's share of future Master Settlement Agreement (MSA) receipts, and the unemployment obligation assessment bonds are payable from future collections of the unemployment obligation assessment as collected by LARA. However, accounting principles preclude the Authority from recording the anticipated receipt of these proceeds because the underlying economic events have not yet occurred.

The Authority's net position in restricted net assets of $3.5 billion as of September 30, 2014 represents resources that can be used only in accordance with external restrictions or enabling legislation.

The following condensed financial information was derived from the government-wide statement of activities and reflects the Authority's change in net position during the fiscal year:

Changes in Net Position
For the Fiscal Years Ended September 30
(In Millions)

	Governmental Activities		Business-Type Activities		Total Authority	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	$ 520.0	$ 542.9	$ 240.6	$ 236.8	$ 760.6	$ 779.7
Operating grants and contributions	3.4	3.1	267.6	362.5	271.0	365.5
Total revenues	$ 523.4	$ 545.9	$ 508.2	$ 599.3	$ 1,031.6	$ 1,145.2
Expenses						
Total expenses	130.2	138.1	243.6	206.8	373.8	344.9
Increase (Decrease) in net position - Restated (Note 2)	$ 393.1	$ 407.8	$ 264.6	$ 392.6	$ 657.8	$ 800.3
Net position - Beginning of fiscal year - Restated (Note 2)	(3,645.0)*	(4,037.6)	3,408.2*	3,045.1	(236.8)*	(992.6)
Net position - End of fiscal year	$ (3,251.8)	$ (3,629.9)	$ 3,672.8	$ 3,437.6	$ 421.0	$ (192.2)

*Restated for 2014; more detailed information regarding the restatement is in Note 2.

The Authority's total revenue for fiscal year 2014 decreased by $113.6 million (9.9%) over the prior year, primarily as a result of a decrease in operating subsidies received by the Municipal Bond Fund and the Tobacco Settlement Debt Service Fund when compared to prior year receipts.

The Authority's total expenses in fiscal year 2014 increased by $28.9 million (8.4%) from fiscal year 2013 expenses, primarily from an increase in interest expense paid and non-recurring settlement and legal fees for the Student Loan Fund and deferred charges and financing costs expensed as a result of the implementation of GASB 65 in the Municipal Bond Fund.

FINANCIAL ANALYSIS OF THE AUTHORITY'S MAJOR FUNDS

General Fund

The General Fund accounts for the administrative expenditures for the Tobacco Settlement Debt Service Fund and the Unemployment Obligation Assessment Debt Service Fund. General Fund total assets decreased by $0.05 million (2.3%) and revenues decreased by $0.3 million (48.1%), primarily because the Authority used available fund balance restricted for administrative expenditures.

General Fund total liabilities decreased by $0.3 million (52.0%) as a result of implementing GASB 65 in fiscal year 2014. Tobacco settlement revenue (TSR) that is not available is now required to be reported as deferred inflows of resources rather than a liability.

Other administrative expenditures decreased by $0.2 million (26.8%) because of a decrease in the costs allocated to the General Fund for MFA employee time, support activities, and legal and audit fees needed to administer the funds during fiscal year 2014.

Tobacco Settlement Debt Service Fund

Tobacco Settlement Debt Service Fund total assets decreased by $0.2 million (0.1%) and total liabilities decreased by $50.8 million (100%) during fiscal year 2014. The changes in assets and liabilities are affected by the unavailable revenue and receivable for tobacco settlement revenue expected to be received in fiscal year 2015.

GASB 65 implementation reclassified the unavailable revenue related to the Tobacco Settlement Debt Service Fund receivable to deferred inflows of resources rather than a liability on the balance sheet.

Tobacco Settlement Debt Service Fund revenues decreased by $22.1 million (25.7%) primarily from the State's participation in a settlement with tobacco product manufacturers of the disputed 2003 Non-Participating Manufacturer's Adjustment within the MSA during fiscal year 2013 (see Note 13). All TSR collections are contingent upon actual tobacco product sales and are subject to various adjustments as outlined in the MSA. No large special releases or adjustments were received during fiscal year 2014 and revenues received fell back to historical norms. Expenditures decreased by $24.0 million (27.4%) due to receiving less TSR which is used to pay the principal on debt service for the tobacco settlement bonds.

Unemployment Obligation Assessment Debt Service Fund

Unemployment Obligation Assessment Debt Service Fund total assets decreased by $9.1 million (3.4%), and the Fund had no liabilities on September 30, 2014. The decrease in assets was primarily from a decrease in the receivable from primary government for the unemployment obligation assessment, which is affected by the timing of assessment collections from LARA.

Unemployment Obligation Assessment Debt Service Fund revenues were comparable to the previous year with a nominal increase of $2.4 million (0.5%). Collections are driven by LARA quarterly billings and rates. Expenditures in fiscal year 2014 increased by $47.4 million (11.3%) from expenditures in fiscal year 2013 because additional bond principal was paid with available funds.

Municipal Bond Fund

Municipal Bond Fund total assets increased by $2.2 billion (29.3%) and total liabilities increased by $2.0 billion (45.9%) during fiscal year 2014. These increases are attributed primarily to the bonds receivable and related bonds payable for new bond issues for the Local Municipalities Subfund through the local government loan program.

Municipal Bond Fund operating revenues increased by $24.7 million (13.3%) during fiscal year 2014. This increase was primarily a result of an increase in interest revenue and investment income. Operating expenses increased by $13.7 million (8.9%)

in fiscal year 2014 primarily because of the implementation of GASB 65, which requires debt issuance costs to be expensed in the period the debt is issued and discontinues amortizing these costs over the life of the debt.

Municipal Bond Fund nonoperating revenues decreased by $110.3 million (34.9%) primarily as a result of a decrease in operating subsidies received during the fiscal year, which represent resources for current and future use to administer the program.

Student Loan Fund

Student Loan Fund total assets decreased by $501.4 million (29.9%) primarily from a decrease of $359.0 million in cash and cash equivalents used to redeem $500.5 million of notes and bonds. Loans receivable decreased by $134.1 million because new loans have not been originated since June 30, 2010, $2.0 million of loans receivable were written off because of loan defaults, and $157.9 million of student loan principal has been paid during the fiscal year.

Student Loan Fund total liabilities decreased by $503.0 million (33.9%) attributable to $578.7 million in mandatory redemptions of notes plus $770.0 million in optional redemptions of bonds less issuance of $848.2 million of bonds and notes for total net redemptions of $500.5 million. In addition, the net deferred charge on refunding under bonds and notes payable decreased by $0.4 million to $0 because GASB 65 requires reporting deferred charges as deferred outflows of resources (see Note 2).

The Student Loan Fund interest revenue decrease of $6.2 million (11.6%) was primarily attributable to the decrease of the student loan portfolio.

In fiscal year 2014, Student Loan Fund operating expenses increased by $18.8 million (148.8%) primarily because of a $14.3 million increase in interest expense, an $11.3 million increase for non-recurring settlement and legal expenses, and a decrease of $6.0 million in arbitrage expense. The interest expense increase of $14.3 million was primarily attributable to higher interest rates and a $10.7 million decrease in the amortization of deferred gains on the bonds refunded with the Straight-A Funding Student Loan note, which was fully amortized on November 14, 2013.

CONTACTING THE MICHIGAN FINANCE AUTHORITY

Additional information about the Authority as well as annual statistical and audit reports can be found at www.michigan.gov/mfa.

The contact information for the Authority is:

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BASIC FINANCIAL STATEMENTS

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MICHIGAN FINANCE AUTHORITY
Statement of Net Position
As of September 30, 2014

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current assets:			
Cash and cash equivalents (Note 4)	$	$ 489,515,797	$ 489,515,797
Receivable - Tobacco settlement revenue	50,697,718		50,697,718
Receivable from federal government		1,642,658	1,642,658
Receivable from primary government (Note 5)	67,368,935		67,368,935
Receivable from other funds		3,539,678	3,539,678
Interest receivable	780,912	64,633,778	65,414,690
Investments (Note 4)	248,466,474	1,192,836,350	1,441,302,824
Notes receivable (Note 6)		713,393,485	713,393,485
Loans receivable, net (Note 7)		348,574,142	348,574,142
Bonds receivable (Note 8)		142,537,837	142,537,837
Other current assets		650,204	650,204
Total current assets	$ 367,314,039	$ 2,957,323,929	$ 3,324,637,968
Noncurrent assets:			
Receivable from primary government (Note 5)	$	$ 1,452,290,776	$ 1,452,290,776
Investments (Note 4)	57,644,168	733,039,600	790,683,768
Loans receivable, net (Note 7)		3,325,841,753	3,325,841,753
Bonds receivable (Note 8)		2,635,678,973	2,635,678,973
Total noncurrent assets	$ 57,644,168	$ 8,146,851,102	$ 8,204,495,270
Total assets	$ 424,958,207	$ 11,104,175,031	$ 11,529,133,238
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding (Note 1)	$ 1,126,702	$ 28,213,216	$ 29,339,918
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	$ 273,592	$ 9,581,496	$ 9,855,088
Bonds and notes payable, net (Note 9)	200,750,000	1,887,866,185	2,088,616,185
Interest payable	47,761,648	71,905,136	119,666,784
Arbitrage payable		1,237,062	1,237,062
Compensated absences	3,836	126,406	130,242
Total current liabilities	$ 248,789,076	$ 1,970,716,285	$ 2,219,505,361
Noncurrent liabilities:			
Bonds and notes payable, net (Note 9)	$ 3,429,123,278	$ 5,455,097,980	$ 8,884,221,258
Arbitrage payable		30,461,237	30,461,237
Compensated absences	13,831	713,620	727,451
Total noncurrent liabilities	$ 3,429,137,109	$ 5,486,272,837	$ 8,915,409,946
Total liabilities	$ 3,677,926,185	$ 7,456,989,122	$ 11,134,915,307
DEFERRED INFLOWS OF RESOURCES			
Deferred gain on refunding (Note 1)	$	$ 2,560,416	$ 2,560,416
NET POSITION			
Restricted for (Note 1):			
Municipal Bond Fund	$	$ 3,485,014,255	$ 3,485,014,255
Other purposes		47,766,122	47,766,122
Unrestricted (deficit) (Note 3)	(3,251,841,276)	140,058,333	(3,111,782,943)
Total net position	$ (3,251,841,276)	$ 3,672,838,710	$ 420,997,434

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

MICHIGAN FINANCE AUTHORITY
Statement of Activities
For the Fiscal Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues
Governmental Activities:				
Tobacco Settlement	$ 76,433,036	$ 60,901,967	$ 3,036,426	$ (12,494,643)
Unemployment Obligation	53,770,005	459,076,098	319,032	405,625,125
Total Governmental Activities	$ 130,203,042	$ 519,978,066	$ 3,355,458	$ 393,130,482
Business-Type Activities:				
Municipal Bond Fund	$ 194,744,405	$ 175,603,147	$ 267,675,871	$ 248,534,613
Student Loan Fund	31,437,830	39,652,428	(34,614)	8,179,984
Non-Major Funds	17,414,169	25,338,740	2,358	7,926,929
Total Business-Type Activities	$ 243,596,404	$ 240,594,315	$ 267,643,615	$ 264,641,526
Total Michigan Finance Authority	$ 373,799,446	$ 760,572,381	$ 270,999,073	$ 657,772,008

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

General Revenues			
Transfers	Changes in Net Position	Net Position Beginning of Fiscal Year Restated (Note 2)	Net Position End of Fiscal Year
$	$ (12,494,643)	$ (952,657,018)	$ (965,151,661)
	405,625,125	(2,692,314,740)	(2,286,689,615)
$ 0	$ 393,130,482	$ (3,644,971,757)	$ (3,251,841,276)
$ (250,752)	$ 248,283,861	$ 3,168,514,127	$ 3,416,797,988
	8,179,984	186,575,267	194,755,251
250,752	8,177,681	53,107,790	61,285,471
$ 0	$ 264,641,526	$ 3,408,197,184	$ 3,672,838,710
$ 0	$ 657,772,008	$ (236,774,573)	$ 420,997,434

MICHIGAN FINANCE AUTHORITY
Governmental Funds
Balance Sheet
As of September 30, 2014

	Major Funds			
	General Fund	Tobacco Settlement Debt Service Fund	Unemployment Obligation Assessment Debt Service Fund	Totals
ASSETS				
Current assets:				
Receivable - Tobacco settlement revenue	$ 287,957	$ 50,409,761	$	$ 50,697,718
Receivable from primary government (Note 5)			54,924,694	54,924,694
Interest receivable		780,912		780,912
Investments (Note 4)	1,802,983	43,863,907	202,799,584	248,466,474
Total current assets	$ 2,090,940	$ 95,054,580	$ 257,724,278	$ 354,869,798
Noncurrent assets:				
Investments (Note 4)	$	$ 57,644,168	$	$ 57,644,168
Total noncurrent assets	$ 0	$ 57,644,168	$ 0	$ 57,644,168
Total assets	$ 2,090,940	$ 152,698,748	$ 257,724,278	$ 412,513,966
DEFERRED OUTFLOWS OF RESOURCES	$	$	$	$ 0
Total assets and deferred outflows of resources	$ 2,090,940	$ 152,698,748	$ 257,724,278	$ 412,513,966
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	$ 273,592	$	$	$ 273,592
Total current liabilities	$ 273,592	$ 0	$ 0	$ 273,592
Total liabilities	$ 273,592	$ 0	$ 0	$ 273,592
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue (Note 1)	$ 287,957	$ 50,409,761	$	$ 50,697,718
FUND BALANCE				
Fund balance:				
Restricted for debt service	$	$ 102,288,986	$ 257,724,278	$ 360,013,265
Restricted for administrative expenditures	1,529,391			1,529,391
Total fund balance	$ 1,529,391	$ 102,288,986	$ 257,724,278	$ 361,542,656
Total liabilities, deferred inflows of resources, and fund balance	$ 2,090,940	$ 152,698,748	$ 257,724,278	$ 412,513,966

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

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

Total fund balances for governmental funds	$ 361,542,656
Amounts reported for governmental activities in the statement of net position are different because:	
Receivable from the primary government for the unemployment obligation assessment revenue is recognized by the Authority when the primary government recognizes revenue and a liability to the Authority. The primary government recognizes additional revenue that is assessed for the statement of activities but is not available for governmental funds.	12,444,241
Deferred loss on refunding is the difference between the carrying value of refunded bonds and their reacquisition price, which is recognized as an expenditure in the governmental fund when the bonds are refunded, whereas the loss is amortized and expensed over the shorter of the life of the refunded or refunding bonds in the statement of activities.	1,126,702
Interest payable on bonds is not due and payable in the current period and therefore is not reported in the governmental funds, whereas a liability is established for bond interest when incurred in the statement of net position.	(47,761,648)
Bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds, whereas a liability for the bonds is established when the bonds are issued in the statement of net position.	(3,629,873,278)
Unavailable revenue is recorded in governmental funds for tobacco settlement revenue that has been earned but is not available, whereas revenue is recognized when earned in the statement of net position.	50,697,718
Compensated absences payable are not due and payable in the current period and therefore are not reported in the governmental funds, whereas a liability is established for absences when earned in the statement of net position.	(17,667)
Net position (deficit)	$ (3,251,841,276)

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

MICHIGAN FINANCE AUTHORITY
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended September 30, 2014

	Major Funds			
	General Fund	Tobacco Settlement Debt Service Fund	Unemployment Obligation Assessment Debt Service Fund	Totals
REVENUES				
Tobacco settlement revenue	$ 372,759	$ 60,879,131	$	$ 61,251,890
Unemployment obligation assessment revenue			455,734,806	455,734,806
Investment income	73	3,036,407	377,751	3,414,231
Total revenues	$ 372,832	$ 63,915,538	$ 456,112,557	$ 520,400,927
EXPENDITURES				
Interest and principal on bonds and notes	$	$ 63,753,890	$ 465,262,172	$ 529,016,062
Other administrative expenditures	414,181			414,181
Total expenditures	$ 414,181	$ 63,753,890	$ 465,262,172	$ 529,430,243
Excess of revenues over (under) expenditures	$ (41,349)	$ 161,648	$ (9,149,615)	$ (9,029,316)
Change in fund balance	$ (41,349)	$ 161,648	$ (9,149,615)	$ (9,029,316)
Fund balance - Beginning of fiscal year	1,570,740	102,127,338	266,873,893	370,571,972
Fund balance - End of fiscal year	$ 1,529,391	$ 102,288,986	$ 257,724,278	$ 361,542,656

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net change in fund balance - Total governmental funds	$ (9,029,316)
Amounts reported for governmental activities in the statement of net position are different because:	
Tobacco settlement revenue is not recognized as revenue until earned and available by governmental funds and is recorded as deferred inflows of resources. Revenue is recognized when earned in the statement of activities.	(349,923)
Unemployment obligation assessment revenue does not provide current financial resources for governmental funds because the revenue is not available, whereas revenue is recognized when assessed for the statement of activities.	3,341,293
Valuation gains and losses on hedging derivatives are recognized in governmental funds when changes occur in market values, whereas they are deferred until the termination of the hedging derivative in the statement of activities.	(58,773)
Bond proceeds and principal payments - Bond proceeds are current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Bond proceeds are increased/decreased for bond premiums/discounts when bonds are issued, whereas the premiums/discounts are amortized and expensed over the life of the bonds in the statement of activities.	
Repayment of bond principal	347,500,000
Amortization of bond premiums	66,860,724
Amortization of bond discounts	(310,947)
Bond interest is recognized as an expenditure when due and payable by governmental funds, whereas it is expensed when incurred for the statement of activities.	(14,639,367)
Loss on refunded bonds is recognized as an expenditure in the governmental fund when the bond is refunded, whereas the loss is amortized and expensed over the shorter of the life of the refunded or refunding bonds in the statement of activities.	(193,240)
Compensated absences are recorded as expenditures in governmental funds when due and payable, whereas they are accrued and expensed when these absences are earned in the statement of activities.	10,031
Net change in net position	$ 393,130,482

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

MICHIGAN FINANCE AUTHORITY
Proprietary Funds
Statement of Net Position
As of September 30, 2014

	Business-Type Activities			
	Major Funds			
	Municipal Bond Fund	Student Loan Fund	Non-Major Funds	Totals
ASSETS				
Current assets:				
Cash and cash equivalents (Note 4)	$ 310,346,943	$ 134,050,012	$ 45,118,842	$ 489,515,797
Receivable from federal government	215,314	1,013,308	414,036	1,642,658
Receivable from other funds			3,539,678	3,539,678
Interest receivable	47,720,493	16,822,984	90,301	64,633,778
Investments (Note 4)	1,176,107,877		16,728,473	1,192,836,350
Notes receivable (Note 6)	672,364,712		41,028,773	713,393,485
Loans receivable, net (Note 7)	229,993,205	118,580,937		348,574,142
Bonds receivable (Note 8)	142,537,837			142,537,837
Other current assets		5,917	644,287	650,204
Total current assets	$ 2,579,286,381	$ 270,473,158	$ 107,564,390	$ 2,957,323,929
Noncurrent assets:				
Receivable from primary government (Note 5)	$ 1,452,290,776	$	$	$ 1,452,290,776
Investments (Note 4)	733,039,600			733,039,600
Loans receivable, net (Note 7)	2,422,173,233	903,668,520		3,325,841,753
Bonds receivable (Note 8)	2,635,678,973			2,635,678,973
Total noncurrent assets	$ 7,243,182,582	$ 903,668,520	$ 0	$ 8,146,851,102
Total assets	$ 9,822,468,963	$ 1,174,141,678	$ 107,564,390	$ 11,104,175,031
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding (Note 1)	$ 24,928,263	$ 3,284,953	$	$ 28,213,216
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	$ 4,488,978	$ 5,091,018	$ 1,500	$ 9,581,496
Bonds and notes payable, net (Note 9)	1,045,646,185	796,640,000	45,580,000	1,887,866,185
Interest payable	71,040,347	827,303	37,486	71,905,136
Arbitrage payable	1,237,062			1,237,062
Compensated absences		12,802	113,604	126,406
Total current liabilities	$ 1,122,412,572	$ 802,571,123	$ 45,732,590	$ 1,970,716,285
Noncurrent liabilities:				
Bonds and notes payable, net (Note 9)	$ 5,301,597,980	$ 153,500,000	$	$ 5,455,097,980
Arbitrage payable	4,028,272	26,432,965		30,461,237
Compensated absences		167,292	546,328	713,620
Total noncurrent liabilities	$ 5,305,626,252	$ 180,100,257	$ 546,328	$ 5,486,272,837
Total liabilities	$ 6,428,038,824	$ 982,671,380	$ 46,278,918	$ 7,456,989,122
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on refunding (Note 1)	$ 2,560,416	$	$	$ 2,560,416
NET POSITION				
Restricted (Note 1)	$ 3,485,014,255	$	$ 47,766,122	$ 3,532,780,377
Unrestricted	(68,216,267)	194,755,251	13,519,349	140,058,333
Total net position	$ 3,416,797,988	$ 194,755,251	$ 61,285,471	$ 3,672,838,710

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

MICHIGAN FINANCE AUTHORITY
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended September 30, 2014

	Business-Type Activities			
	Major Funds			
	Municipal Bond Fund	Student Loan Fund	Non-Major Funds	Totals
OPERATING REVENUES				
Federal revenue, net of special allowance (Notes 1 and 12)	$ 635,538	$ (12,669,519)	$ 21,440,881	$ 9,406,900
Interest revenue	175,580,278	47,055,025	794,457	223,429,760
Investment income	34,988,201	(34,614)	2,358	34,955,945
Fees			1,570,185	1,570,185
Miscellaneous	22,869	5,266,922	1,495,533	6,785,324
Total operating revenues	$ 211,226,886	$ 39,617,814	$ 25,303,414	$ 276,148,114
OPERATING EXPENSES				
Arbitrage expense	$ (1,483,909)	$ (1,771,253)	$	$ (3,255,162)
Interest expense (Note 9d.)	142,184,273	5,476,571	354,841	148,015,685
Debt issuance costs	22,140,434	2,914,510	441,696	25,496,640
Bad debt expense		1,954,714		1,954,714
Other administrative expense	5,676,822	22,863,288	16,267,632	44,807,742
Total operating expenses	$ 168,517,620	$ 31,437,830	$ 17,064,169	$ 217,019,619
Operating income (loss)	$ 42,709,266	$ 8,179,984	$ 8,239,245	$ 59,128,495
NONOPERATING REVENUES (EXPENSES)				
Operating subsidies	$ 232,052,132	$	$	$ 232,052,132
American Recovery and Reinvestment Act principal forgiveness, net	822,929			822,929
Program principal forgiveness, net	(15,218,833)			(15,218,833)
Grant expense	(11,830,881)			(11,830,881)
Other			37,684	37,684
Total nonoperating revenues (expenses)	$ 205,825,347	$ 0	$ 37,684	$ 205,863,031
Income before transfers	$ 248,534,613	$ 8,179,984	$ 8,276,929	$ 264,991,526
TRANSFERS				
Transfers from other funds	$	$	$ 258,791	$ 258,791
Transfers to other funds	(250,752)		(358,039)	(608,791)
Total transfers	$ (250,752)	$ 0	$ (99,248)	$ (350,000)
Change in net position	$ 248,283,861	$ 8,179,984	$ 8,177,681	$ 264,641,526
Net position - Beginning of fiscal year - Restated (Note 2)	3,168,514,127	186,575,267	53,107,790	3,408,197,184
Net position - End of fiscal year	$ 3,416,797,988	$ 194,755,251	$ 61,285,471	$ 3,672,838,710

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

MICHIGAN FINANCE AUTHORITY
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2014

	Business-Type Activities			
	Major Funds			
	Municipal Bond Fund	Student Loan Fund	Non-Major Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Bonds, notes, and loans receivable made	$ (3,319,050,531)	$	$ (49,936,472)	$ (3,368,987,003)
Principal received on bonds, notes, and loans	1,144,099,150	157,867,267	45,894,000	1,347,860,417
Interest received on bonds, notes, and loans	157,094,511	37,040,724	794,495	194,929,730
Cash payments to employees and suppliers for goods and services	(5,424,370)	(25,809,894)	(18,086,892)	(49,321,156)
Other operating revenues	625,591	(16,505,732)	26,407,507	10,527,366
Net cash provided by (used in) operating activities	$ (2,022,655,649)	$ 152,592,365	$ 5,072,638	$ (1,864,990,646)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from sale of bonds and notes, net	$ 3,118,719,822	$ 848,200,000	$ 45,580,000	$ 4,012,499,822
Payment of debt issuance costs	(8,316,281)	(2,938,340)	(440,196)	(11,694,817)
Principal paid on bonds and notes	(1,076,499,098)	(1,348,706,634)	(46,335,000)	(2,471,540,732)
Interest paid on bonds and notes	(166,107,029)	(8,582,450)	(358,016)	(175,047,495)
Operating subsidies	176,189,575			176,189,575
American Recovery and Reinvestment Act principal forgiveness expense	822,929			822,929
Grant expense	(27,049,714)			(27,049,714)
Other	(245,013)		(99,248)	(344,261)
Net cash provided by (used in) noncapital financing activities	$ 2,017,515,191	$ (512,027,424)	$ (1,652,460)	$ 1,503,835,307
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (purchases of) proceeds from sale and maturities of investment securities	$ (33,059,770)	$ 500,000	$ 1,241,204	$ (31,318,566)
Interest and dividends on investments	34,441,603	(23,039)	51,923	34,470,487
Net cash provided by (used in) investing activities	$ 1,381,833	$ 476,961	$ 1,293,127	$ 3,151,921
Net increase (decrease) in cash	$ (3,758,624)	$ (358,958,098)	$ 4,713,305	$ (358,003,417)
Cash and cash equivalents - Beginning of fiscal year	314,105,568	493,008,109	40,405,538	847,519,215
Cash and cash equivalents - End of fiscal year	$ 310,346,943	$ 134,050,012	$ 45,118,842	$ 489,515,797
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES				
Operating income (loss)	$ 42,709,266	$ 8,179,984	$ 8,239,245	$ 59,128,495
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income	(34,988,201)	34,614	(2,358)	(34,955,945)
Other income	(22,869)	(7,500)	(1,920)	(32,289)
Interest expense	142,184,273	5,476,571	354,841	148,015,685
Amortization (accrual) of deferred charges	22,140,434	2,938,340	441,696	25,520,470
Changes in assets and liabilities:				
(Increase) Decrease in other receivables	(214,311,651)	2,371,898	100,703	(211,839,050)
Increase (Decrease) in other payables	(1,232,457)	(2,707,154)	(17,097)	(3,956,708)
(Increase) Decrease in bonds, notes, and loans receivable	(1,979,134,444)	136,305,612	(4,042,472)	(1,846,871,304)
Net cash provided by (used in) operating activities	$ (2,022,655,649)	$ 152,592,365	$ 5,072,638	$ (1,864,990,646)

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

MICHIGAN FINANCE AUTHORITY
Fiduciary Fund - Private Purpose Trust
Statement of Fiduciary Net Position
As of September 30, 2014

		Michigan Guaranty Agency Federal Fund
ASSETS		
Current assets:		
Cash and cash equivalents (Note 4)	$	6,951,123
Receivable from federal government		15,722,170
Interest receivable		43
Total current assets	$	22,673,336
Total assets	$	22,673,336
DEFERRED OUTFLOWS OF RESOURCES		
	$	0
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities	$	4,676,924
Payable to other funds		3,034,386
Student loan claims payable		8,952,541
Loan loss provision (Note 13)		1,698,711
Total current liabilities	$	18,362,562
Noncurrent liabilities:		
Loan loss provision (Note 13)	$	7,839,838
Total noncurrent liabilities	$	7,839,838
Total liabilities	$	26,202,400
DEFERRED INFLOWS OF RESOURCES		
	$	0
NET POSITION		
Net position (deficit) held in trust (Notes 1b.(5), 1d.(1), and 3)	$	(3,529,064)

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

MICHIGAN FINANCE AUTHORITY
Fiduciary Fund - Private Purpose Trust
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended September 30, 2014

		Michigan Guaranty Agency Federal Fund
Additions:		
Federal revenue	$	134,876,300
Loans recovered, repurchased, and rehabilitated		77,744,125
Investment income		803
Fees		1,267,738
Transfer from Michigan Guaranty Agency - Operating Fund		350,000
Total additions	$	214,238,966
Deductions:		
Student loan claims paid to lenders	$	134,254,871
Payments to federal government		75,849,159
Other expense		191,879
Total deductions	$	210,295,909
Net increase (decrease)	$	3,943,057
Net position - Beginning of fiscal year - Restated (Note 2)		(7,472,121)
Net position (deficit) - End of fiscal year (Note 3)	$	(3,529,064)

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

Note 1 Significant Accounting Policies

The accounting policies of the Michigan Finance Authority (the Authority) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

a. Reporting Entity

The Authority is a discretely presented component unit of the State of Michigan that consolidated certain public finance authorities in Michigan in accordance with Executive Order No. 2010-2, effective May 30, 2010. The Authority combined the operations of 10 different public finance authorities (Michigan Forest Finance Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan Public Educational Facilities Authority, Michigan State Hospital Finance Authority, Michigan Tobacco Settlement Finance Authority, Michigan Underground Storage Tank Financial Assurance Authority, and State Higher Education Facilities Commission). In addition, the authorization to finance the facilities of public and private schools, formerly under the Michigan Strategic Fund, and to issue bonds and notes on behalf of the State Land Bank Fast Track Authority was transferred to the Authority.

The Authority is governed by its own Board of Directors, composed of seven members, consisting of the State Treasurer as chair and six appointees of the Governor with the advice and consent of the State Senate. The Board provides overall governing direction for the Authority. All administrative functions of the Authority, including budgeting, procurement, personnel, and management functions, are under the direction and supervision of the State Treasurer.

The Authority is not empowered to create, in any fashion, debt or liabilities on behalf of the State or to pledge the full faith and credit of the State; however, the Authority may borrow money and issue bonds and notes to provide sources of funding for loans to governmental units and school districts. In addition, the Authority may issue bonds and notes to provide sources of funding for private or nonpublic, nonprofit institutions of higher education; governmental units; and eligible healthcare providers and facilities and to undertake or continue public and capital improvements by assisting governmental units in financing and marketing municipal debt and tax-exempt bonds.

The Authority is also empowered 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. Due to the enactment of legislation by the U.S. Congress, effective June 30, 2010, the Authority is no longer originating or acquiring loans. The Authority's Michigan Guaranty Agency (MGA) was formed for the purpose of guaranteeing loans made to qualified students and parents of qualified students through approved financial institutions.

The accompanying financial statements report the net financial position and the changes in net financial position and, where applicable, cash flows of the Authority. They do not purport to, and do not, fairly present the net financial position and the changes in net financial position and cash flows of the State of Michigan or its component units in conformity with GAAP. The financial statements of the Authority are included in the *State of Michigan Comprehensive Annual Financial Report* as a discretely presented component unit.

b. Authority Programs

(1) The Authority's Tobacco Settlement Debt Service Fund (formerly known as the Michigan Tobacco Settlement Finance Authority) was authorized by the provisions of Act 226, P.A. 2005, and amended by Act 18, P.A. 2007. The purpose of the Act is to provide for the sale by the State and the purchase by the Authority of all or a portion of tobacco settlement assets and to authorize the issuance of bonds. During fiscal years 2006, 2007, and 2008, the Authority issued bonds secured by a pledge of a percentage of the State of Michigan's tobacco settlement revenue (TSR) and deposited the bond proceeds in the State of Michigan's General Fund, School Aid Fund, and 21st Century Jobs Trust Fund.

(2) The Authority's Unemployment Obligation Assessment Debt Service Fund was created pursuant to Act 267, P.A. 2011, to account for bonds issued for the purpose of repaying federal advances to the State's unemployment trust account. Under the Act, the bonds are secured by an unemployment obligation assessment, which is collected by the Department of Licensing and Regulatory Affairs (LARA) from employers and is deposited into the fund.

(3) The Authority's Municipal Bond Fund (formerly known as the Michigan Municipal Bond Authority) was created pursuant to Act 227, P.A. 1985, to provide alternative sources of funding for governmental units within the State to undertake or continue public improvements by assisting those governmental units in financing and marketing municipal debt. The Municipal Bond Fund includes the Local Municipalities Subfund, State Revolving Subfund, Strategic Water Quality Initiatives Subfund, and School Loan Revolving Subfund:

   (a) The Local Municipalities Subfund includes the financing activities for municipalities, excluding those activities for school districts, water pollution control, and drinking water projects reported in the other subfunds.

   (b) The State Revolving Subfund, which includes the Clean Water Program and Drinking Water Program, and the Strategic Water Quality Initiatives Subfund are co-administered by the Authority and the Department of Environmental Quality. The Authority provides reduced interest loans for the construction of water pollution control and drinking water projects.

   (c) The Authority's School Loan Revolving Subfund is a self-sustaining fund and was established by Act 93, P.A. 2005, to make loans to school districts to assist in paying debt service on qualified bonds issued by school districts for capital improvement projects. Any money repaid by school districts on loans is deposited back into the revolving fund for future use in funding new loans.

(4) The Authority's Student Loan Fund (formerly known as the Michigan Higher Education Student Loan Authority) was created and organized under Act 222, P.A. 1975, as amended, to complement and supplement

the student loan efforts of private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education.

(5) The Authority's Michigan Guaranty Agency (MGA) was formed for the purpose of guaranteeing loans made to qualified students and parents of qualified students through approved financial institutions. The Michigan Guaranty Agency Federal Fund, a fiduciary fund, accounts for money received from various sources and held by the Authority on behalf of the U.S. Department of Education (USDOE). With the passage of the Health Care and Education Reconciliation Act of 2010 on March 26, 2010, no new loan guarantees were permitted to be made by MGA after June 30, 2010.

(6) The Authority's Public School Academy Facilities Fund (formerly known as the Michigan Public Educational Facilities Authority) was authorized by Executive Reorganization Order No. 2002-3 (Section 12.192 of the *Michigan Compiled Laws*) to issue bonds for the purpose of making loans through the purchase of municipal obligations in fully marketable form of a governmental unit or making loans to a nonprofit entity for the benefit of a public school academy. All Public School Academy Facilities Fund program bonds are limited obligations of the Authority and are not obligations of the State and, therefore, are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

c. Other Authority Operations

(1) The Authority's Healthcare Finance Fund (formerly known as the Michigan State Hospital Finance Authority) was organized under Act 38, P.A. 1969, as amended, to facilitate the ability of eligible healthcare providers and facilities to obtain financing and refinancing for capital improvements by obtaining loans from the Authority. The Authority issues bonds for facility equipment loans through the Healthcare Equipment Loan Program and issues revenue bonds and bonds for other capital needs of the facilities. All Healthcare Finance Fund program bonds are limited obligations of the Authority and are not

obligations of the State and, therefore, are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

(2) The Authority's Higher Education Facilities Fund (formerly known as the Michigan Higher Education Facilities Authority) was organized under Act 295, P.A. 1969, as amended, to issue tax-exempt bonds and lend the proceeds to private or nonpublic, nonprofit institutions of higher education within the State for capital improvements. All Higher Education Facilities Fund program bonds are limited obligations of the Authority and are not obligations of the State and, therefore, are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

(3) The Michigan Strategic Fund was organized under Act 270, P.A. 1984, as amended, to issue tax-exempt bonds and lend the proceeds to private schools to finance facilities. All Michigan Strategic Fund program bonds are limited obligations of the Authority and are not obligations of the State and, therefore, are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

d. Basis of Presentation

The basic financial statements have been prepared in accordance with GAAP as prescribed by the Governmental Accounting Standards Board (GASB). The Authority follows the governmental and business-type activities reporting requirements of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* as amended. These requirements provide a comprehensive one-line look at the Authority's financial activities, which are presented in the following financial statements:

(1) Government-Wide Financial Statements

The Authority's statement of net position and statement of activities report information on all non-fiduciary activities of the Authority. The

Michigan Guaranty Agency Federal Fund, a fiduciary fund, is excluded from the government-wide financial statements because these assets are held by the Authority on behalf of the USDOE and do not represent discretionary assets of the Authority to finance its operations. The Authority's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by charges to external parties for goods or services. The statement of net position presents assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources represents the Authority's net position. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Program revenues include charges to users who directly benefit from the services, grants, and contributions that are restricted to meeting the requirements of a function. Taxes and other items not meeting the definition of program revenues are reported as general revenues.

(2) Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual funds are reported as separate columns in the fund financial statements, with non-major proprietary funds being combined into a single column.

The Authority's major governmental funds include the General Fund, Tobacco Settlement Debt Service Fund, and Unemployment Obligation Assessment Debt Service Fund. The Authority's major proprietary funds include the Municipal Bond Fund and the Student Loan Fund. The non-major proprietary funds include the Michigan Guaranty Agency - Operating Fund, Michigan Finance Authority - Operating Fund, and Public School Academy Facilities Fund. The Authority's fiduciary fund is the Michigan Guaranty Agency Federal Fund.

e. Measurement Focus and Basis of Accounting

The Authority follows the accounting rules promulgated by GASB. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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 they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

f. <u>Major Account Classifications: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance</u>

(1) <u>Cash and Cash Equivalents</u> - The Authority's cash and cash equivalents include deposits with financial institutions and equity in common cash maintained by the State Treasurer. In addition, highly liquid short-term investments with original maturities of three months or less that are used by the Authority for cash management rather than investing activities are reported as cash equivalents.

(2) <u>Receivable</u> - Tobacco Settlement Revenue (TSR) - This receivable represents the revenue earned as a result of the sale by the State of a portion of its future TSR. The receivable is recognized as revenue in the government-wide financial statements but is recognized as unavailable revenue in the governmental General Fund and the debt service fund financial statements.

(3) <u>Receivable From Primary Government</u> - The receivable recorded in the School Loan Revolving Subfund is collateralized by two different sources: school districts that previously borrowed from the School Bond Loan Fund, which is a restricted subfund of the State of Michigan's General Fund, and school districts that have borrowed through the School Loan Revolving Subfund.

The receivable recorded in the Unemployment Obligation Assessment Debt Service Fund represents amounts owed to the Authority for obligation assessment collections made by LARA but not yet transferred to the Authority. The receivable is recognized as revenue in the government-wide financial statements as well as the debt service fund financial statements because the cash will be received within 60 days after year-end.

(4) Interest Receivable - This represents interest income earned but not yet received at year-end. This includes interest income earned on investments, notes, loans, and bonds.

(5) Investments - The Authority invests funds that will not be needed for program use in the near term in investments that include money market funds, commercial paper, U.S. Treasury obligations, repurchase agreements, and bonds. The investment objective is the preservation of capital while managing the cash flow requirements for making debt service payments to bondholders when due and paying other obligations as required pertaining to rating agency and trustee charges.

(6) Notes Receivable - The Authority issues State aid notes and loans the proceeds to school districts and public school academies to meet cash flow needs for operating purposes.

(7) Loans Receivable - The Authority has outstanding loans with local units of government, public schools, and students and parents. Premiums on loans are included in loans receivable and amortized over the remaining life of the loans as a reduction to interest income.

(8) Bonds Receivable - Bonds receivable consist of the value of bonds purchased from governmental units that includes regular principal and interest payments over the life of the bonds.

(9) Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until that time. The Authority reports deferred outflows of resources for deferred losses on debt refundings in the government-wide and proprietary fund financial statements. A loss on debt refunding results from the difference in the carrying value of

refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the refunding debt.

(10) Accounts Payable and Other Liabilities - The Authority's accounts payable relate to services provided by vendors and employees and other costs incurred but not yet paid as of year-end.

(11) Bonds Payable - The Authority issues bonds to provide funding for its various programs. In the government-wide and proprietary fund financial statements, bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, bond premiums and discounts are recognized in the current period. The face amount of the debt issued, premiums, and discounts are reported as other financing sources and uses.

(12) Notes Payable - The Authority issues State aid, tax anticipation, and public school academy facilities notes that are payable by the Authority, through designated trustees, solely from funds received from each participating public school in payment of the school's notes and from investment earnings, undisbursed note proceeds, and other funds of each participating public school retained by the trustees on a note issue-specific basis.

(13) Interest Payable - This represents interest expense on the Authority's outstanding bonds that has been incurred but not paid at year-end.

(14) Arbitrage Payable - 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 that 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 loan or investment income are required to be made to the federal government on a periodic basis during the term and at final maturity of the related bond issue.

(15) Compensated Absences - In the government-wide and proprietary fund financial statements, compensated absences are reported as liabilities. Compensated absences are accrued employee vacation, banked leave time, and sick leave time. In governmental fund financial statements, liabilities for compensated absences are accrued when they are considered due and payable and recorded in the fund only for separations or transfers that occur before year-end. The Authority is allocated a percentage of assigned employees of the Department of Treasury. The Authority allocates employee payroll costs among the various Authority operating funds as appropriate to where the employees' time resources are concentrated.

(16) Unavailable Revenue - The Authority records unavailable revenue when revenue has not met the recognition criteria for availability under GAAP, primarily for the TSR receivable recorded in the governmental fund financial statements.

(17) Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Authority reports deferred inflows of resources for deferred gains on debt refundings reported in the government-wide and proprietary fund financial statements. A gain on debt refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the refunding debt.

The Authority also reports deferred inflows of resources in governmental fund financial statements for unavailable revenue that has not met the recognition criteria for availability under the modified accrual basis of accounting, primarily for TSR. These amounts are deferred and recognized as inflows of resources in the period that the revenue becomes available.

(18) Net Position - The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is net position on the government-wide, proprietary fund, and fiduciary fund financial statements. Substantially all of the assets of the Authority are pledged for payment against the various bond indentures. The State Revolving

Subfund, Strategic Water Quality Initiatives Subfund, and School Loan Revolving Subfund restricted net positions are for the construction of water pollution control and drinking water projects, sewage system improvements, and qualified loans to school districts.

(19) Fund Balance - The difference between fund assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is the fund balance on the governmental fund financial statements. Fund balances for the Authority's governmental funds are classified as restricted in the fund financial statements. Restricted fund balance reflects funds that have constraints placed on the use of the resources through enabling legislation or bond covenants.

g. Major Account Classifications: Revenues, Expenses/Expenditures, and Additions/Deductions

(1) Governmental Funds - Revenues are from two primary sources. The first revenue source is from the Authority's share of the TSR received by the State of Michigan under the terms of the Master Settlement Agreement (MSA). The second revenue source is from unemployment obligation assessment revenue collections received from LARA. Expenditures are primarily debt service principal and interest on outstanding bonds.

(2) Proprietary Funds - Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are reported as nonoperating.

The Authority's primary operations include issuing bonds, providing and acquiring loans, purchasing local governmental units municipal bonds, and guaranteeing qualified student loans. The operating revenues and expenses and the nonoperating revenues and expenses from the Authority's primary operations include:

(a) Operating Revenues - The principal operating revenues of the Authority are federal grants, interest earned on loans, investment income, and charges to customers for financing services. Federal revenue is for defaulted student loan recoveries, repurchased and rehabilitated loans, and account maintenance. Fees are generated from servicing outstanding loans.

(b) Operating Expenses - Operating expenses of the Authority include arbitrage expense, interest expense on bonds and notes, debt issuance costs, bad debts related to student loans, and administrative expenses.

(c) Nonoperating Revenues/Expenses - Nonoperating revenues include recovery of principal forgiveness from the American Recovery and Reinvestment Act of 2009 (ARRA) federal grants, U.S. Environmental Protection Agency capitalization grants, and capital provided by the primary government and recognized as operating subsidies. Nonoperating expenses represent the disbursement of grant funds and principal forgiveness.

(3) Fiduciary Fund - The activity within the fund and the resulting net position do not represent resources of the Authority to finance its operations, restricted or otherwise, and are held in trust by the Authority, on behalf of the USDOE. Additions include federal funds and recovery of funds from potentially defaulted loans, repurchased loans, or rehabilitated loans. Deductions include loan claims from financial institutions for loans on which the student defaulted and the unpaid loans have been acquired by MGA and payments to the federal government for recovered, repurchased, or rehabilitated loans for which the claim was already paid.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The Authority estimates the arbitrage liability. In addition, the use of estimates by the Authority is also disclosed in Note 7d. for Student Loan Fund receivables, Note 13a. for contingencies related to the tobacco settlement revenue, and Note 13b. for contingencies related to the Michigan Guaranty Agency Federal Fund loan loss provision.

Note 2 Accounting Changes and Restatements

a. Implementation of GASB 65

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), which is effective for periods beginning after December 15, 2012. In fiscal year 2014, the Authority implemented GASB 65. GASB 65 establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. GASB 65 also establishes new requirements for the treatment of debt issuance costs and loan origination fees as an outflow of resources (expense).

(1) Deferred Outflows of Resources

In addition to assets, the statement of net position and/or governmental fund balance sheet will report a separate financial statement element for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until that time. The Authority has classified deferred loss on debt refunding as a deferred outflow of resources in the government-wide and proprietary fund financial statements. Deferred loss on debt refunding was previously reported as a component of the bonds and notes payable in the liabilities section of the government-wide and proprietary fund financial statements. A deferred loss on debt refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This loss is deferred and amortized over the shorter of the life of the refunded debt or the refunding debt as was done prior to GASB 65.

(2) Deferred Inflows of Resources

In addition to liabilities, the statement of net position and/or governmental funds balance sheet will report a separate financial statement element for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Authority has classified deferred gain on debt refunding as a deferred inflow of resources in the government-wide and proprietary fund financial statements. Deferred gain on debt refunding was previously reported as a component of the bonds and notes payable in the liabilities section of the government-wide and proprietary fund financial statements. A deferred gain on debt refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This gain is deferred and amortized over the shorter of the life of the refunded debt or the refunding debt as was done prior to GASB 65.

The Authority also classified unavailable revenue as a deferred inflow of resources under the modified accrual basis of accounting in the governmental fund financial statements. Unavailable revenue occurs when the tobacco settlement revenue has been earned and a receivable recorded as of the balance sheet date, but revenue will not be available until it is received in April of the following fiscal year.

(3) <u>Debt Issuance Costs</u>

GASB 65 requires debt issuance costs to be recognized as expenses in the period in which the debt is issued. Previous to GASB 65, debt issuance costs were amortized over the life of the debt and the unamortized balances were reported as deferred charges/financing costs in the assets of the government-wide and proprietary fund financial statements.

(4) <u>Loan Origination Fees</u>

GASB 65 requires loan origination fees, excluding points, to be recognized as revenue in the period the fees are received and no longer recognized over the life of the debt. Previously, the Michigan Alternative Student Loan (MI-LOAN) Program loan origination fees, called reserve fees, were capitalized as a component of the loans receivable asset and recognized as an increase to interest income over the life of the loan in the government-wide and proprietary fund financial statements.

As a result of implementing GASB 65, the following assets and liabilities have been reclassified for fiscal year 2014 activity:

Item	Amount	Prior Classification	New Classification After GASB 65 Implementation
Deferred gain or loss on refunding (netting gains and losses)	$26,779,502	Deferred as a component of the bonds and notes payable liability	Deferred outflow or inflow of resources
Debt issuance costs	$25,496,640	Asset	Outflow of resources (an expense)
Revenue unavailable	$50,697,718	Liability	Deferred inflow of resources
Loan origination fees (reserve fees)	$ 0	Deferred as a component of the loans receivable asset	Inflow of resources (a revenue)

In addition, beginning of fiscal year net position has been restated retroactively to implement the changes to recognize debt issuance costs as an expense and loan origination fees as revenue, as follows:

	Governmental Activities	Business-Type Activities	Proprietary Fund - Municipal Bond Fund	Proprietary Fund - Student Loan Fund	Proprietary Fund - Non-Major Funds
Net position as of October 1, 2013, originally reported	$(3,629,864,549)	$3,437,626,158	$3,194,330,830	$189,805,228	$53,490,100
Deferred charges/financing costs (debt issuance costs previously deferred)	(15,107,209)	(31,594,040)	(25,816,702)	(5,395,028)	(382,310)
Loan origination fees (previously deferred)	0	2,165,067	0	2,165,067	0
Restated net position, at October 1, 2013	$(3,644,971,757)	$3,408,197,184	$3,168,514,127	$186,575,267	$53,107,790

b. Loan Loss Provision in Michigan Guaranty Agency Federal Fund

The Authority has established a loan loss provision in the Michigan Guaranty Agency Federal Fund in accordance with GAAP to recognize future loan losses that will not be reimbursed by the federal government. The federal government reimburses MGA between 75% and 100% of defaulted loans based on when the loan was guaranteed and MGA's trigger default rate. The loan loss calculation considered all potential recoveries on defaulted loans.

Beginning of fiscal year net position has been restated retroactively to recognize the loan loss provision as a prior period expense as follows:

Fiduciary Fund -
Michigan Guaranty Agency Federal Fund

Net position as of October 1, 2013, originally reported	$	4,319,272
Loan loss provision previously unrecognized		(11,791,393)
Restated net position, at October 1, 2013	$	(7,472,121)

Note 3 Deficit Net Position

a. Governmental Funds

The Authority reported a deficit net position of $3.3 billion at September 30, 2014 on the government-wide statement of net position within governmental activities. Both the Tobacco Settlement Debt Service Fund and the Unemployment Obligation Assessment Debt Service Fund activities reported a deficit net position of $965.1 million and $2.3 billion at September 30, 2014, respectively.

The payments to be received for the Tobacco Settlement Debt Service Fund under the MSA represent a share of anticipated future sales of tobacco products. Although the Authority expects to receive certain amounts under the MSA, the collections are not subject to accrual under GAAP.

The payments to be received by the Unemployment Obligation Assessment Debt Service Fund represent collections from Michigan businesses received by LARA for the unemployment obligation assessment. Although the Authority expects to receive projected amounts under the inter-agency agreement with LARA, accounting principles preclude the Authority from recording the anticipated receipt of these proceeds because the underlying economic event has not yet occurred. However, the Authority's bonds are recorded as a liability on the entity-wide financial statements, resulting in a net deficit in the Authority's governmental activities.

b. Fiduciary Fund - Michigan Guaranty Agency Federal Fund

The Authority reported a deficit net position of $3.5 million at September 30, 2014 on the fiduciary fund - private purpose trust statement of fiduciary net position and statement of changes in fiduciary net position. The fiduciary fund reported a positive net position of $4.3 million at September 30, 2013; however, the beginning balance at October 1, 2013 has been restated resulting in a reported deficit net position beginning balance of $7.5 million at September 30, 2014 (see Note 2). The deficit net position resulted primarily from loan loss provisions that will not be reimbursed from the federal government.

Note 4 Deposits and Investments

The Authority reports investments at fair market value based on quoted market prices, consistent with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, except for commercial paper, U.S. Treasury notes, and U.S. Treasury bills, which are all reported at amortized cost if purchased within one year of maturity, and repurchase agreements, which are reported using cost-based measures because they are nonparticipating interest-earning investment contracts.

Deposits and investments held by the Authority at September 30, 2014 were as follows:

	Governmental Activities Governmental Funds	Business-Type Activities Proprietary Funds	Fiduciary Fund	Total
Deposits	$ 0	$ 351,993,871	$ 6,902,212	$ 358,896,083
Investments	$ 306,110,641	$ 2,061,760,558	$ 0	$ 2,367,871,199

a. State statutes, board resolutions, and bond indentures authorize allowable investments for the various funds. The permissible investments for the various funds include:

(1) Governmental Activities

(a) General Fund

The Authority is authorized by State statute to invest any money, at the Authority's discretion, in any obligations it determines to be proper.

(b) Tobacco Settlement Debt Service Fund

The Authority is authorized by State statute to invest any money, at the Authority's discretion, in any obligations it determines to be proper. The Authority's bond indenture restricts the Authority to investments rated "A-1" or higher by Standard & Poor's (S&P), "P-1" by Moody's Investors Service, Inc. (Moody's), and "F1" by Fitch Ratings (Fitch).

(c) Unemployment Obligation Assessment Debt Service Fund

The Authority is authorized by State statute to invest any money, at the Authority's discretion, in any obligations it determines to be proper. In addition, the Master Bond Indenture specifies eligible investments.

(2) Business-Type Activities

(a) Municipal Bond Fund

The Authority is authorized by State statute to direct and manage its investments within the provisions of law applicable to State funds or resolutions authorizing bonds or notes. In addition, the Master Bond and Note Indentures for the various programs within the Municipal Bond Fund further define eligible investments.

(b) Student Loan Fund

The Authority is authorized by State statute to invest in obligations of, or guaranteed by, the U.S. government or the State of Michigan; U.S. government or federal agency obligation repurchase agreements; mutual funds; common trust funds; bankers' acceptances; certificates of deposit; savings and deposit accounts; and commercial paper.

(c) Michigan Guaranty Agency - Operating Fund

The Authority is authorized by board resolution to invest in obligations of, or guaranteed by, the U.S. government; U.S. government or federal agency obligation repurchase agreements; mutual funds; common trust funds; bankers' acceptances; certificates of deposit; savings and deposit accounts; and commercial paper.

(d) Michigan Finance Authority - Operating Fund

Cash and investments applicable to operations from the Local Municipalities Subfund, Public School Academy Facilities Fund, Healthcare Finance Fund, and Higher Education Facilities Fund are consolidated into the Michigan Finance Authority - Operating Fund. State statutes for these funds authorize the allowable investments. The authorized investments for the Local Municipalities Subfund are identified under the Municipal Bond Fund in part (2)(a) of this note, and the authorized investments for the Public School Academy Facilities Fund are identified in part (2)(e) of this note. The authorized investments for the Healthcare Finance Fund are obligations of, or guaranteed by, the U.S. government or the State of Michigan; certificates of deposit; commercial paper; U.S. government repurchase agreements; mutual funds; bankers' acceptances; and other obligations approved by the State Treasurer. The authorized investments for the Higher Education Facilities Fund are obligations of, or guaranteed by, the U.S. government or the State of Michigan and certificates of deposit.

(e) Public School Academy Facilities Fund

The Authority is authorized by State statute to invest within the provisions of law applicable to State funds or resolutions authorizing bonds or notes. In addition, the Master Bond and Note Indentures may further define eligible investments.

(3) Fiduciary Fund - Michigan Guaranty Agency Federal Fund

Section 422A(b) of the Higher Education Act permits the Authority to invest in obligations issued or guaranteed by the United States or a state or in other similarly low-risk securities selected by the guaranty agency with the approval of the Secretary. The Authority is authorized by board resolution to invest in obligations of, or guaranteed by, the U.S. government; U.S. government or federal agency obligation repurchase agreements; mutual funds; common trust funds; bankers' acceptances; certificates of deposit; savings and deposit accounts; and commercial paper.

b. The Authority's cash and investments are subject to several types of risk:

(1) Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Authority's deposits may not be recovered. The Authority had $358.9 million in deposits at September 30, 2014. Of this balance, $266.6 million was invested in the State of Michigan's common cash pool and $92.3 million was the carrying value of cash in financial institutions.

The common cash pool is managed by the State Treasurer and is authorized to invest surplus funds in depository accounts at financial institutions; bonds, notes, and other U.S. government debt; prime commercial paper; certificates of deposit; and special State investment programs. At September 30, 2014, the common cash pool held the majority of its funds in depository accounts (53%) and prime commercial paper (45%). The State Treasurer's policy for common cash depository accounts requires financial institutions to secure State funds with collateral, to be organized under federal or State law, and to maintain an office in Michigan. The policy also restricts deposits to a maximum of 50% of the financial institution's net worth. As of September 30, 2014, 100% of the State's common cash depository accounts were either covered by federal depository insurance or collateralized with securities held in the State's name by the State's agent. The State Treasurer's policy requires prime commercial paper to be rated "A-1" by S&P or "P-1" by Moody's or higher at purchase and places requirements and restrictions on the borrower.

The Authority does not have a policy for controlling custodial credit risk. Of the $92.3 million deposited in financial institutions, $1.0 million was insured by the Federal Depository Insurance Corporation or the National Credit Union Administration, $27.6 million was collateralized, and $63.7 million was uninsured and uncollateralized and, therefore, exposed to custodial credit risk at September 30, 2014.

(2) Custodial Credit Risk for Investments - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. The Authority does not have a policy for controlling custodial credit risk. At September 30, 2014, commercial paper of $4.1 million from business-type activities (0.2% of the Authority's investments) was exposed to custodial credit risk because it was uninsured, not registered, and held by the counterparty.

(3) 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 does not have a policy for controlling interest rate risk. The Authority's investment objective is the preservation of capital while managing the cash flow requirements for making debt service payments to bondholders and paying other obligations as required. Investment timing for managing cash flow requirements is relative to the rates in securities at the time each investment decision is required to be made. To the extent possible, the Authority considers laddering investment maturities to meet cash flow requirements. Other than to keep all funds not required for immediate use in cash, there is no practical method to mitigate interest rate risk to hedge the rise of interest rates. Also, the Authority makes investments in accordance with applicable statutory and bond indenture provisions.

At September 30, 2014, the average maturities of investments were as follows:

		Investment Maturities			
Type of Investment	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Governmental Activities					
Government money market funds	$ 160,531,521	$ 160,531,521	$	$	$
Repurchase agreements	37,801,532			37,801,532	
State of Illinois general obligation bonds	32,687,806	12,845,170	19,842,636		
U.S. Treasury bills	75,089,782	75,089,782			
Total Governmental Activities	$ 306,110,641	$ 248,466,473	$ 19,842,636	$ 37,801,532	$ 0
Business-Type Activities					
Government money market funds	$ 1,305,782,599	$ 1,305,782,599	$	$	$
Repurchase agreements	509,333,343			34,535,825	474,797,518
Commercial paper	4,145,000	4,145,000			
U.S. Treasury state and local government series	36,101,843	4,431,557	20,070,456	11,599,830	
U.S. government agency securities	140,883,355	14,361,802	46,034,295	80,487,258	
State of Michigan general obligation bonds	65,514,418		20,049,487	45,464,931	
Total Business-Type Activities	$ 2,061,760,558	$ 1,328,720,958	$ 86,154,238	$ 172,087,844	$ 474,797,518

(4) Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's policy limits funds to $150 million with any single issuer, except when the investments are collateralized; requires investments to be in the top three rating categories provided by S&P, Moody's, or Fitch; requires minimum levels of 102% of specific collateral for repurchase agreements; and allows exceptions to these requirements only with executive management approval.

At September 30, 2014, the credit quality ratings of debt securities, excluding U.S. government securities of $111.2 million which are not considered to have credit risk, were as follows:

Type of Investment	Fair Value	Rating	Rating Organization
Governmental Activities			
Governmental money market funds	$ 160,531,521	AAAm	S&P
Repurchase agreement	37,801,532	BBB	S&P
State of Illinois general obligation bonds	32,687,806	A-	S&P
Total Governmental Activities	$ 231,020,859		
Business-Type Activities			
Governmental money market funds	$ 1,305,782,599	AAAm	S&P
Repurchase agreement	123,281,404	A	S&P
Repurchase agreement	164,599,777	BBB	S&P
Repurchase agreement	103,454,421	Aa3	Moody's
Repurchase agreement	34,535,825	Aa1	Moody's
Repurchase agreement	83,461,916	AA	S&P
Commercial paper	4,145,000	A-1+	S&P
U.S. government agency securities	140,883,355	AA+	S&P
State of Michigan general obligation bonds	65,514,418	AA	S&P
Total Business-Type Activities	$ 2,025,658,715		

(5) Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investments with a single issuer. The Authority's policy limits funds to $150 million with any single issuer, except when the investments are collateralized; requires investments to be in the top three rating categories provided by S&P, Moody's, or Fitch; requires minimum levels of 102% of specific collateral for repurchase agreements; and allows exceptions to these requirements only with executive management approval.

At September 30, 2014, the Authority had investments of 5% or more of the Authority's total investments by fund activity type in the following issuers, excluding investments issued or explicitly guaranteed by the

U.S. government and mutual funds, which are excluded from this requirement by GASB:

Type of Investment/Name of Issuer	Fair Value	Percent of Investments
Governmental Activities		
Repurchase agreement - Hypo Public Finance Bank/Depfa	$ 37,801,532	12%
State of Illinois general obligation bonds	$ 32,687,806	11%
Business-Type Activities		
Repurchase agreement - Citigroup Global Markets	$123,281,404	6%
Repurchase agreement - Hypo Public Finance Bank/Depfa	$164,599,777	8%
Repurchase agreement - JP Morgan	$103,454,421	5%
U.S. government agency securities - Federal Home Loan Mortgage Corporation	$100,936,396	5%

Note 5 Receivable From Primary Government

The receivable from primary government of $1.5 billion consisted of the following at September 30, 2014:

a. Unemployment Obligation Assessment Debt Service Fund

The receivable from primary government recorded in the Unemployment Obligation Assessment Debt Service Fund relates to amounts owed to the Authority for obligation assessment collections received by LARA but not yet transferred to the Authority. The receivable to pay for the corresponding bonds payable disclosed in Note 9 was $54.9 million at September 30, 2014.

The statement of net position for the governmental activities reported a receivable from the primary government totaling $67.4 million. This additional receivable of $12.4 million when compared to the Unemployment Obligation Assessment Debt Service Fund receivable represents amounts recognized as earned under the economic resources measurement focus and the accrual basis of accounting in the statement of net position. The Unemployment Obligation Assessment Debt Service Fund utilizes the current financial resources measurement focus and the modified accrual basis of accounting, which does not provide for recognition of the $12.4 million in revenue because it is not available within the first 60 days after the balance sheet date.

b. Municipal Bond Fund - School Loan Revolving Subfund

The receivable from the State of Michigan recorded in the Municipal Bond Fund - School Loan Revolving Subfund is collateralized by loans to: school districts that previously borrowed from the School Bond Loan Fund, which is a restricted subfund of the State of Michigan's General Fund, and school districts that have borrowed through the School Loan Revolving Subfund. The receivable to pay for the corresponding bonds payable disclosed in Note 9 was $1.5 billion at September 30, 2014.

Note 6 Notes Receivable

The notes receivable of $713.4 million consisted of the following at September 30, 2014:

a. Municipal Bond Fund

The Authority originated loans to public schools to meet the schools' immediate cash flow needs for spending purposes from the proceeds of its State aid and tax anticipation notes. Collections of the receivable for the notes outstanding are used to pay for the corresponding notes payable disclosed in Note 9. The balance of notes receivable was $672.4 million at September 30, 2014. The notes receivable bore interest ranging from 0.42% to 3.75% during fiscal year 2014.

b. Non-Major Fund - Public School Academy Facilities Fund

The Authority originated loans to public school academies to meet the academies' immediate cash flow needs for operating purposes from the proceeds of its public school academy facilities notes. Collections of the receivable for the notes outstanding are used to pay for the corresponding notes payable disclosed in Note 9. The balance of notes receivable was $41.0 million at September 30, 2014. The notes receivable bore interest ranging from 2.80% to 3.30% during fiscal year 2014.

Note 7 Loans Receivable, Net

Net loans receivable of $3.7 billion consisted of the following at September 30, 2014:

a. Municipal Bond Fund - Local Municipalities Subfund

The loans receivable consist of $301.6 million from Detroit Public Schools and $18.8 million from Ypsilanti Community Schools for fiscal year 2014.

Collections of the receivable for the loans outstanding are used to pay for the corresponding bonds payable disclosed in Note 9. Scheduled repayments of $40.3 million are expected to be collected during fiscal year 2015.

b. Municipal Bond Fund - State Revolving Subfund

The State Revolving Subfund has made commitments to municipalities to loan funds for construction of publicly owned water pollution control facilities and drinking water projects. These loans are primarily secured by system revenues of local municipalities, limited tax general obligation pledges, revenue-sharing pledge agreements, unlimited tax general obligations, and/or reserve funds. As of September 30, 2014, amounts committed for the Clean Water Program were $3.8 billion and loans of $1.9 billion were outstanding. As of September 30, 2014, amounts committed for the Drinking Water Program were $700.8 million and loans of $405.5 million were outstanding. Scheduled repayments of $188.7 million are expected to be collected during fiscal year 2015.

c. Municipal Bond Fund - Strategic Water Quality Initiatives Subfund

The Strategic Water Quality Initiatives Subfund has made commitments to municipalities to loan funds for purposes, such as footing drain disconnects and septic system upgrades, that are generally not eligible to be financed through the State Revolving Subfund. These loans are primarily secured by local municipalities' limited or unlimited tax general obligations or system revenue, and some are additionally secured by revenue-sharing pledge agreements and/or reserve funds. Amounts committed were $22.2 million as of September 30, 2014, and receivables outstanding were $14.7 million. Scheduled repayments of $1.0 million are expected to be collected during fiscal year 2015.

d. Student Loan Fund

Loans include educational loans made under the Federal Family Education Loan (FFEL) Program to students (Stafford Loans), to parents of dependent undergraduates (PLUS Loans), and to borrowers consolidating certain student loans (Consolidation Loans). These loans are federally insured. The terms of federal loans, which vary, generally provide for repayment in monthly installments of principal and interest over a period of up to 10 years. Loans also include education loans made under the Authority's

MI-LOAN Program, which are not federally insured. The following are descriptions of the loans and adjustments that comprise the net loans receivable of $1.0 billion:

(1) 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 of up to 3.25% depending on the status and/or date of disbursement of the loan.

(2) PLUS 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 Loans varied annually each July 1, based on 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%, depending on when borrowers obtained their first PLUS Loans.

(3) 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%.

(4) MI-LOAN Program Loans - 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. As of September 30, 2014, the MI-LOAN Program balance outstanding was $164.5 million. The MI-LOAN Program's fixed interest rate loans ranged from 5.95% to 9.50%. The MI-LOAN Program's variable interest rate was 1.60% at September 30, 2014. Repayment begins within 60 days of the disbursement and extends over a maximum period of 25 years.

(5) Allowance - The Authority's Stafford Loans, PLUS Loans, and Consolidation Loans are guaranteed primarily by the Authority's Michigan Guaranty Agency and by Great Lakes Higher Education

Guaranty Corporation and reinsured by the USDOE. Historically, the Authority has recorded an allowance to estimate the unguaranteed portion of future loan defaults. As of September 30, 2014, the Authority's recorded allowance for FFEL Program loans was $0.8 million.

MI-LOAN Program loans are not guaranteed or reinsured; therefore, the Authority estimates future loan defaults and records an allowance for the estimate. As of September 30, 2014, the Authority's recorded allowance for the MI-LOAN Program loans was $0.5 million.

(6) Reserve Fees - The MI-LOAN Program loan origination fees, called reserve fees, were received and retained by the Authority for all MI-LOAN Program loans. The MI-LOAN Program reserve fee was 3.5% and was capitalized and recognized as an increase to interest income over the life of the loan. No reserve fees were realized in fiscal year 2014 because the unamortized reserve fees of $2.2 million was restated to realize the revenue in the beginning net position of the financial statements pursuant to GASB 65.

(7) Status of Student Loan Programs - On February 15, 2008, origination of new MI-LOAN Program loans was suspended. Also, the U.S. Congress enacted legislation in the form of the Health Care and Education Reconciliation Act of 2010 on March 30, 2010 that eliminated the authorization to originate FFEL Program loans after June 30, 2010.

Note 8 Bonds Receivable

Bonds receivable consist of receivables from governmental units to pay corresponding Authority bonds as disclosed in Note 9. During the fiscal year, the Authority purchased local governmental units' municipal bonds for $2.1 billion from the proceeds of the Authority's bond issuance. The annual requirements for governmental units to repay their bonds to the Authority as of September 30, 2014, including principal and interest, were as follows:

Fiscal Years Ending	Principal	Interest	Total
2015	$ 142,537,837	$ 131,697,385	$ 274,235,222
2016	124,680,000	125,656,300	250,336,300
2017	123,205,000	119,943,367	243,148,367
2018	136,565,000	114,230,916	250,795,916
2019	104,300,000	107,825,568	212,125,568
2020 - 2024	593,225,000	458,694,473	1,051,919,473
2025 - 2029	531,200,000	308,140,443	839,340,443
2030 - 2034	530,045,000	174,352,347	704,397,347
2035 - 2039	151,175,000	71,853,825	223,028,825
2040 and thereafter	215,515,000	33,003,831	248,518,831
Total unadjusted bonds and interest	$ 2,652,447,837	$ 1,645,398,456	$ 4,297,846,293
Amortized premium/discounts	131,994,379		131,994,379
Unamortized accretion for capital appreciation bonds	(6,225,405)		(6,225,405)
Total	$ 2,778,216,811	$ 1,645,398,456	$ 4,423,615,267

Note 9 Bonds and Notes Payable, Net

a. Net bonds and notes payable of $10,972.8 million consisted of the following at September 30, 2014:

Series	Date of Issue	Original Issue	Interest Rate Percentage (a)	Maturity Dates	Amounts Outstanding as of September 30, 2014
Tobacco Settlement Debt Service Fund					
Tobacco Settlement Asset-Backed Bonds:					
Series 2006A - Serial	May 17, 2006	$ 363,115,000	7.31%	June 1, 2034	$ 314,280,000
Series 2007A - Serial	August 20, 2007	$ 480,125,000	5.125% to 6%	June 1, 2047	466,740,000
Series 2007B - Capital appreciation (b)	August 20, 2007	$ 35,649,948	7.25%	June 1, 2052	865,290,000
Series 2007C - Capital appreciation (b)	August 20, 2007	$ 7,216,749	7.5%	June 1, 2052	195,100,000
Series 2008A - Serial	July 7, 2008	$ 114,860,000	6.875%	June 1, 2024	114,860,000
Series 2008B - Capital appreciation (b)	July 7, 2008	$ 29,874,650	8.5%	June 1, 2046	700,625,000
Series 2008C - Capital appreciation (b)	July 7, 2008	$ 57,673,814	8.875%	June 1, 2058	4,395,870,000
Total Tobacco Settlement Asset-Backed Bonds					**$ 7,052,765,000**
Unemployment Obligation Assessment Debt Service Fund					
Unemployment Obligation Assessment Revenue Bonds:					
Series 2012A	June 27, 2012	$ 1,462,490,000	3% to 5%	July 1, 2019	$ 1,115,190,000
Series 2012B	June 27, 2012	$ 1,204,645,000	5%	July 1, 2023	1,169,995,000
Total Unemployment Obligation Assessment Revenue Bonds					**$ 2,285,185,000**
Municipal Bond Fund - Local Municipalities Subfund					
Municipal State Aid and Tax Anticipation Notes:					
2014B-1 - ABC	August 20, 2014	$ 218,079,000	0.42%	August 20, 2015	$ 218,079,000
2014B-1-D	August 20, 2014	$ 25,800,000	0.62%	August 20, 2015	25,800,000
2014B-2	August 20, 2014	$ 170,618,800	1.05%	August 20, 2015	170,618,800
2014B-3	August 20, 2014	$ 139,597,200	1.24%	August 20, 2015	139,597,200
2014D	August 20, 2014	$ 6,700,000	3.00%	August 20, 2015	6,700,000
2014E	August 29, 2014	$ 107,800,000	2.85%	August 20, 2015	107,800,000
2014A TAN School	January 23, 2014	$ 13,894,000	3.50%	January 23, 2015	6,009,000
2014A TAN County	May 28, 2014	$ 75,000,000	1.52%	October 1, 2014	41,267,185
2014B TAN	February 26, 2014	$ 3,600,000	3.71%	February 2, 2015	185,000
Local Government Loan Program Revenue Bonds:					
Series 1991C - Capital appreciation (b)	June 27, 1991	$ 35,615,074	7.3%	June 15, 2015	7,760,000
Series 1993B	July 13, 1993	$ 30,925,000	5.7%	May 1, 2017	155,000
Series 1994G - Capital appreciation (b)	December 21, 1994	$ 7,379,737	6.9% to 7.1%	May 1, 2020	27,900,000
Series 1995A	June 22, 1995	$ 15,205,000	6%	November 1, 2014	40,000
Series 1997A	April 29, 1997	$ 7,705,000	5.875%	November 1, 2016	170,000
Series 1997C	October 30, 1997	$ 16,335,000	5.3% to 5.55%	November 1, 2020	790,000
Series 1997D	December 22, 1997	$ 9,300,000	5.25% to 5.3%	November 1, 2015	400,000
Series 1998A	June 16, 1998	$ 16,100,000	5.2%	November 1, 2019	845,000
Series 1999B	April 28, 1999	$ 38,605,000	4.75% to 4.85%	November 1, 2016	5,425,000
Series 1999C	June 24, 1999	$ 16,685,000	5.2% to 5.375%	November 1, 2019	300,000
Series 2000A	May 17, 2000	$ 10,815,000	5.7% to 6%	November 1, 2020	1,100,000
Series 2000B	November 28, 2000	$ 5,905,000	5.25% to 5.625%	November 1, 2025	1,910,000
Series 2001B	July 12, 2001	$ 10,065,000	4.75% to 4.85%	November 1, 2015	890,000
Series 2002A	July 1, 2002	$ 30,060,000	4.3% to 5%	November 1, 2029	1,045,000
Series 2002B	November 1, 2002	$ 16,790,000	4% to 5%	November 1, 2032	9,455,000
Series 2003B	September 30, 2003	$ 19,665,000	4% to 6%	November 1, 2023	10,050,000
Series 2004A	February 18, 2004	$ 41,155,000	3.625% to 6%	May 1, 2034	9,750,000
Series 2004B	May 13, 2004	$ 26,830,000	4% to 5%	November 1, 2024	3,410,000
Series 2006A	May 10, 2007	$ 9,825,000	4.3% to 5%	May 1, 2019	3,770,000
Series 2007A	March 29, 2007	$ 21,875,000	4% to 5%	May 1, 2029	15,350,000
Series 2007B	August 3, 2007	$ 98,435,000	4.25% to 5.75%	December 1, 2034	38,920,000
Series 2007C	December 19, 2007	$ 31,080,000	3.5% to 5%	May 1, 2031	26,100,000
Series 2007D	December 28, 2007	$ 19,335,000	4% to 5%	November 1, 2032	12,415,000
Series 2009A	March 18, 2009	$ 28,430,000	4% to 5.75%	May 1, 2024	28,430,000
Series 2009B	March 31, 2009	$ 34,020,000	4.25% to 7%	November 1, 2028	15,110,000
Series 2009C	September 23, 2009	$ 45,795,000	4% to 5%	May 1, 2024	12,240,000
Series 2010A	March 31, 2010	$ 27,005,000	3.5% to 5%	May 1, 2022	13,140,000
Series 2010B	May 18, 2010	$ 38,245,000	4.125% to 6.7%	May 1, 2027	33,860,000
Series 2010C	May 25, 2010	$ 6,710,000	5.05% to 6.55%	May 1, 2030	6,710,000
Series 2010D	September 30, 2010	$ 14,290,000	3% to 5%	June 1, 2030	5,795,000
Series 2010E	December 16, 2010	$ 100,000,000	5.129% to 8.369%	November 1, 2035	100,000,000
Series 2011A	March 3, 2011	$ 31,565,000	4.25% to 6.375%	November 1, 2025	24,975,000
Series 2011B	April 13, 2011	$ 8,000,000	3.5% to 6%	November 1, 2035	7,620,000
Series 2011C	May 3, 2011	$ 7,710,000	6.2% to 6.5%	May 1, 2026	7,710,000
Series 2011D	June 29, 2011	$ 8,975,000	2.5% to 5%	May 1, 2020	8,675,000
Series 2011E	September 20, 2011	$ 1,775,000	2.25% to 4.75%	May 1, 2026	1,505,000
Series 2011F	October 28, 2011	$ 14,960,000	4% to 5.25%	October 1, 2041	14,675,000
Series 2012B	August 8, 2012	$ 18,880,000	2% to 4%	November 1, 2028	16,870,000
Series 2012C	August 23, 2012	$ 129,520,000	3% to 5%	November 1, 2032	129,520,000
Series 2012D	October 18, 2012	$ 7,950,000	3% to 4%	May 1, 2032	7,640,000
Series 2013A	May 14, 2013	$ 9,370,000	2% to 4%	May 1, 2033	9,025,000
Series 2013C	October 2, 2013	$ 30,000,000	4% to 5.25%	October 1, 2043	30,000,000
Series 2014B	July 2, 2014	$ 184,960,000	3% to 5%	July 1, 2044	184,960,000
Series 2014C	September 4, 2014	$ 935,860,000	2% to 5%	July 1, 2044	935,860,000
Series 2014D	September 4, 2014	$ 854,850,000	2% to 5%	July 1, 2037	854,850,000

Series	Date of Issue	Original Issue	Interest Rate Percentage (a)	Maturity Dates	Amounts Outstanding as of September 30, 2014
School Loan Revenue Bonds:					
Series 2014E	September 25, 2014	$ 4,070,000	5.15%	May 1, 2021	$ 4,070,000
Series 2007A	May 10, 2007	$ 74,645,000	5.252%	June 1, 2015	38,270,000
Series 2011	October 13, 2011	$ 238,100,000	5% to 5.5%	June 1, 2021	183,805,000
Series 2012	May 17, 2012	$ 134,585,000	4% to 5%	June 1, 2020	105,450,000
Series 2013	August 20, 2013	$ 18,615,000	2% to 5%	August 1, 2026	18,615,000
Total Municipal Bond Fund - Local Municipalities Subfund					**$ 3,693,386,185**
Municipal Bond Fund - State Revolving Subfund:					
Series 1998A, Clean Water Revolving Fund Revenue Bonds	July 15, 1998	$ 151,165,000	4.75% to 5.25%	October 1, 2020	$ 6,030,000
Series 2002R, Clean Water Revolving Fund Revenue Bonds	August 22, 2002	$ 469,100,000	5.5%	October 1, 2016	87,835,000
Series 2002R, Drinking Water Revolving Fund Revenue Bonds	August 22, 2002	$ 109,145,000	5.5%	October 1, 2016	20,680,000
Series 2004A, Clean Water Revolving Fund Revenue Bonds	April 21, 2004	$ 286,605,000	4.75% to 5%	October 1, 2026	33,460,000
Series 2004A, Drinking Water Revolving Fund Revenue Bonds	April 21, 2004	$ 67,895,000	5% to 5.25%	October 1, 2026	8,330,000
Series 2005A, Clean Water Revolving Fund Revenue Bonds	July 26, 2005	$ 103,630,000	4.75% to 5%	October 1, 2027	77,280,000
Series 2005A, Drinking Water Revolving Fund Revenue Bonds	July 26, 2005	$ 79,480,000	4.75% to 5%	October 1, 2027	59,680,000
Series 2005R, Clean Water Revolving Fund Revenue Bonds	July 26, 2005	$ 72,570,000	5%	October 1, 2020	50,590,000
Series 2006A, Clean Water Revolving Fund Revenue Bonds	November 2, 2006	$ 150,000,000	4.2% to 5%	October 1, 2028	117,610,000
Series 2007A, Clean Water Revolving Fund Revenue Bonds	October 25, 2007	$ 278,040,000	4.25% to 5%	October 1, 2029	230,460,000
Series 2009A, Clean Water Revolving Fund Revenue Bonds	June 30, 2009	$ 150,805,000	3% to 5%	October 1, 2029	130,595,000
Series 2010A, Clean Water Revolving Fund Revenue Bonds	March 18, 2010	$ 178,740,000	2.25% to 5%	October 1, 2030	162,355,000
Series 2010R, Clean Water Revolving Fund Revenue Bonds	March 18, 2010	$ 67,420,000	5%	October 1, 2020	43,740,000
Series 2011R, Clean Water Revolving Fund Revenue Bonds	November 3, 2011	$ 225,860,000	5%	October 1, 2024	194,790,000
Series 2011R, Drinking Water Revolving Fund Revenue Bonds	November 3, 2011	$ 56,860,000	3% to 5%	October 1, 2024	48,670,000
Series 2012A, Clean Water Revolving Fund Revenue Bonds	April 26, 2012	$ 131,410,000	3% to 5%	October 1, 2032	131,410,000
Series 2012R, Clean Water Revolving Fund Revenue Bonds	July 10, 2012	$ 89,595,000	5%	October 1, 2021	89,595,000
Series 2012R, Drinking Water Revolving Fund Revenue Bonds	July 10, 2012	$ 16,755,000	5%	October 1, 2020	16,755,000
Series 2013R, Clean Water Revolving Fund Revenue Bonds	February 20, 2013	$ 137,745,000	3% to 5%	October 1, 2026	135,055,000
Series 2013R, Drinking Water Revolving Fund Revenue Bonds	February 20, 2013	$ 31,110,000	5%	October 1, 2026	30,435,000
Total Municipal Bond Fund - State Revolving Subfund					**$ 1,675,355,000**
Municipal Bond Fund - School Loan Revolving Subfund:					
Series 2010A, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	$ 150,000,000	Variable 0.11% (d)	September 1, 2050	$ 150,000,000
Series 2010B, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	$ 150,000,000	Variable 0.11% (d)	September 1, 2050	150,000,000
Series 2010C, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	$ 150,000,000	Variable 0.12% (d)	September 1, 2050	150,000,000
Series 2010D, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	$ 85,000,000	4.996% to 6.496%	September 1, 2025	85,000,000
Series 2014A, Federally Taxable Bonds SLRF Revenue Bonds	April 10, 2014	$ 150,000,000	Variable 0.09% (d)	September 1, 2053	150,000,000
Total Municipal Bond Fund - School Loan Revolving Subfund					**$ 685,000,000**
Student Loan Fund					
Student Loan Bonds:					
Series 22-A, Student Loan Revenue Refunding Bonds	September 25, 2013	$ 180,000,000	Variable 0.070% (d)	September 1, 2042	153,500,000
Series 23-A, Student Loan Revenue Refunding Bonds	November 21, 2013	$ 556,200,000	Variable 1.004% (c)	June 1, 2015	504,640,000
Student Loan Notes:					
Series 24-A, Student Loan Bond Anticipation Refunding Notes	August 14, 2014	$ 292,000,000	Variable 1.0536% (e)	August 14, 2015	292,000,000
Total Student Loan Fund					**$ 950,140,000**
Non-Major Funds					
Public School Academy Facilities Notes:					
Series 2014C-1	August 20, 2014	$ 36,305,000	1.07%	August 20, 2015	$ 36,305,000
Series 2014C-2	August 20, 2014	$ 9,275,000	1.64%	August 20, 2015	9,275,000
Total Non-Major Funds					**$ 45,580,000**

(a) Interest rates are reported as either ranges for serial and term bonds and notes for outstanding amounts as of September 30, 2014 or the September 30, 2014 effective rates for variable rate bonds and notes.

(b) Capital appreciation bonds are reported at ultimate maturity value.

(c) Interest rate changes every business day based on the LIBOR daily floating rate plus 85 basis points.

(d) Interest rate changes every 7 days based on a market rate determined by the assigned remarketing agent.

(e) Interest rate changes monthly based on the LIBOR 30-day floating rate plus 90 basis points.

b. Annual debt service requirements for the Authority to service bond and note debt outstanding as of September 30, 2014, including both principal and interest, are as follows (in millions):

Fiscal Years Ending	Tobacco Settlement Debt Service Fund Principal	Tobacco Settlement Debt Service Fund Interest	Unemployment Obligation Assessment Debt Service Fund Principal	Unemployment Obligation Assessment Debt Service Fund Interest	Municipal Bond Fund - Local Municipalities Subfund Principal	Municipal Bond Fund - Local Municipalities Subfund Interest
2015	$ 12.6	$ 58.3	$ 188.2	$ 112.4	$ 914.3	$ 139.2
2016	14.1	57.5	204.1	103.0	165.9	139.6
2017	15.8	56.6	222.0	92.7	166.4	131.8
2018	16.7	55.6	240.6	81.6	181.9	124.0
2019	17.9	54.6	260.3	69.5	152.1	115.2
2020 - 2024	220.7	251.0	1,170.0	136.1	681.0	466.7
2025 - 2029	133.5	176.0			535.1	308.4
2030 - 2034	174.5	123.4			530.0	174.4
2035 - 2039	87.8	77.1			151.2	71.9
2040 - 2044	118.3	47.3			215.5	33.0
2045 - 2049	784.6	10.2				
2050 - 2054	1,060.4					
2055 - 2059	4,395.9					
Total unadjusted bonds and interest	$7,052.8	$ 967.6	$2,285.2	$ 595.4	$3,693.4	$1,704.1
Unamortized premium			244.0		168.1	
Unamortized discounts	(16.6)				(0.3)	
Unamortized accretion for capital appreciation bonds	(5,935.5)				(6.2)	
Total	$1,100.7	$ 967.6	$2,529.2	$ 595.4	$3,855.0	$1,704.1

c. Changes in long-term debt for the fiscal year ended September 30, 2014 are as follows:

	Beginning Balance	Additions	Reductions
Tobacco Settlement Asset-Backed Bonds	$ 7,057,825,000	$	$ (5,060,000)
Unemployment Obligation Assessment Revenue Bonds	2,627,625,000		(342,440,000)
Local Municipalities Subfund State Aid and Tax Anticipation Notes	659,301,000	763,389,000	(706,633,815)
Local Municipalities Subfund Local Government Loan Program Bonds	717,330,000	2,069,740,000	(155,880,000)
Local Municipalities Subfund School Loan Revenue Bonds	466,225,000		(120,085,000)
State Revolving Subfund	1,801,565,000	26,251,000	(152,461,000)
School Loan Revolving Subfund	535,000,000	150,000,000	
Student Loan Bonds	871,950,000	556,200,000	(770,010,000)
Student Loan Notes	578,704,134	292,000,000	(578,704,134)
Public School Academy Facilities Notes	46,335,000	45,580,000	(46,335,000)
Total bonds and notes payable	$ 15,361,860,134	$ 3,903,160,000	$ (2,877,608,949)

Municipal Bond Fund - State Revolving Subfund		Municipal Bond Fund - School Loan Revolving Subfund		Student Loan Fund		Non-Major Funds		Totals	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
$ 131.4	$ 79.5	$	$ 5.8	$ 796.6	$ 7.0	$ 45.6	$ 0.3	$ 2,088.6	$ 402.5
130.2	73.0		5.8		0.1			514.2	379.0
133.5	66.4		5.8		0.1			537.7	353.5
129.7	59.9	3.0	5.8		0.1			571.9	327.0
132.6	53.4	4.0	5.6		0.1			566.8	298.4
573.1	174.9	68.0	20.4		0.5			2,712.7	1,049.7
351.7	62.6	10.0	3.9	30.0	0.5			1,060.4	551.4
93.3	6.1		3.3	97.5	0.3			895.4	307.4
			3.3		0.1			239.0	152.3
			3.3	26.0	0.1			359.8	83.6
			3.3					784.6	13.5
		600.0	1.1					1,660.4	1.1
								4,395.9	0.0
$1,675.4	$ 575.6	$ 685.0	$ 67.3	$ 950.1	$ 8.9	$ 45.6	$ 0.3	$ 16,387.4	$ 3,919.3
131.9								544.0	
								(16.8)	
								(5,941.8)	
$1,807.2	$ 575.6	$ 685.0	$ 67.3	$ 950.1	$ 8.9	$ 45.6	$ 0.3	$ 10,972.8	$ 3,919.3

Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
$ 7,052,765,000	$ 12,560,000	$ 7,040,205,000
2,285,185,000	188,190,000	2,096,995,000
716,056,185	716,056,185	
2,631,190,000	121,290,000	2,509,900,000
346,140,000	76,930,000	269,210,000
1,675,355,000	131,370,000	1,543,985,000
685,000,000		685,000,000
658,140,000	504,640,000	153,500,000
292,000,000	292,000,000	
45,580,000	45,580,000	
$ 16,387,411,185	$ 2,088,616,185	$ 14,298,795,000

d. Refunded Bonds and Notes

(1) Student Loan Fund

On November 21, 2013, the Authority issued $556.2 million in Student Loan Revenue Refunding Bonds, Series 23-A. The Bonds, along with other available funds, refunded the entire $571.7 million outstanding Straight-A Funding Student Loan note dated June 29, 2010. The Bank of America, N.A. directly purchased the Bonds with a variable interest rate that is reset daily and is equal to the London Interbank Offered Rate (LIBOR) daily floating rate plus 1.29%. The first amendment to the first supplemental indenture reduced the 1.29% to 0.99% as of June 5, 2014 and to 0.85% as of July 28, 2014. The refunding was implemented to repay the Straight-A Funding Student Loan note prior to its mandatory final prepayment date of November 21, 2013. Although it is expected that the refunding will result in a reduction of debt service and net present value savings, the variable interest rate precludes the calculation of the exact reduction in total debt service payments and net present value savings. The proceeds were used to immediately pay the balance on the Straight-A Funding Student Loan note.

On August 14, 2014, the Authority issued $292.0 million in Student Loan Bond Anticipation Refunding Notes, Series 24-A. The Notes, along with other available funds, were used to refund the entire $691.8 million outstanding Student Loan Series XVII Bonds. The Bank of America, N.A. directly purchased the Notes with a variable interest rate that is reset monthly and is equal to the LIBOR 30-day floating rate plus 0.90%. The refunding was implemented because Series XVII Bonds were illiquid auction rate securities accruing interest at the maximum applicable percentage. Although it is expected that the refunding will result in a reduction of debt service and net present value savings, the variable interest rate precludes the calculation of the exact reduction in total debt service payments and net present value savings. The proceeds were deposited in an escrow account to redeem Series XVII Bonds on August 29, 2014.

(2) Local Government Loan Program

On July 2, 2014, the Authority issued $185.0 million in Local Government Loan Program Revenue Bonds, Series 2014B (Public Lighting Authority Local Project Bonds). The proceeds of the Bonds were used, in part, to refund the entire $60.0 million outstanding Local Government Loan Program Revenue Bonds, Series 2013D (Public Lighting Authority Local Project Bonds). The Bonds were sold with a true interest cost of 4.53%. The refunding was carried out to obtain long-term low fixed interest rates, eliminating the interest rate risk associated with the variable rate Series 2013D Bonds. It is not possible to determine the exact reduction in total debt service payments and net present value savings because the interest rate on the Series 2013D Bonds was a variable rate. The refunding portion of the proceeds was used to retire Series 2013D Bonds on the closing date, July 2, 2014.

e. Defeased Bonds

The Authority has defeased certain Municipal Bond Fund bonds by depositing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. The amount of bonds outstanding considered defeased was $210.0 million at September 30, 2014.

f. Demand Bonds

(1) School Loan Revolving Fund

Included in noncurrent liabilities is $450.0 million of School Loan Revolving Fund Revenue and Refunding Bonds, Series 2010A, 2010B, and 2010C, with a nominal maturity of September 1, 2033. The bonds were issued in the amount of $450.0 million ($150.0 million for each of A, B, and C) on December 15, 2010 to refund prior bonds and to make qualified loans to school districts.

The bonds are subject to purchase on the demand of the holder at a price equal to the purchase price on 5 days' notice and delivery to the tender agent. The remarketing agents (Merrill Lynch, Pierce, Fenner & Smith Incorporated - Series 2010A, PNC Capital Markets LLC - Series 2010B, and BMO Capital Markets GKST, Inc. - Series 2010C) are authorized to offer for sale and use their best efforts to sell any bonds that are remarketed pursuant to the supplemental indenture. The interest rate on the bonds is reset weekly at the rate determined by the remarketing agents to be the minimum interest rate that would enable the remarketing agents to sell all of the bonds on the effective date at a price equal to the principal amount. The fee for the remarketing agents is 0.085% of the outstanding balance.

Under irrevocable letters of credit issued by the Bank of America, N.A. (Series 2010A), PNC Bank, National Association (Series 2010B), and Bank of Montreal (Series 2010C), the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letters of credit are valid through December 12, 2016. If not previously extended, the letters automatically terminate. All amounts drawn on the letters of credit must be paid on the earliest of the 90th day following the draw, the conversion date, the redemption of bonds, the date of the sale of bank bonds, the regularly scheduled quarterly interest payment date, or the replacement of the letters. As of September 30, 2014, there have not been any draws on the letters of credit. The banks issuing the letters of credit are paid a fee based on a pricing matrix that takes into account the unenhanced ratings of the bonds. At the current ratings, the fee is 0.65% of the outstanding balance.

Also included in long-term debt is $150.0 million of Federally Taxable Bonds School Loan Revolving Fund Revenue Bonds, Series 2014A, with a nominal maturity of September 1, 2053. The bonds were issued in the amount of $150.0 million on April 10, 2014 to make qualified loans to school districts.

The bonds are subject to purchase on the demand of the holder at a price equal to the purchase price on 5 days' notice and delivery to the tender agent. The remarketing agent (J.P. Morgan Securities LLC) is authorized to offer for sale and use its best efforts to sell any bonds that are remarketed pursuant to the supplemental indenture. The interest rate on the bonds is reset weekly at the rate determined by the remarketing agent to be the minimum interest rate that would enable the remarketing agent to sell all of the bonds on the effective date at a price equal to the principal amount. The fee for the remarketing agent is 0.085% of the outstanding balance.

Under an irrevocable transferrable letter of credit issued by JPMorgan Chase Bank, N.A., the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letter of credit is valid through December 12, 2016. If not previously extended, the letter automatically terminates. All amounts drawn on the letter of credit must be paid on the earliest of the 90th day following the draw, the conversion date, the redemption of bonds, the date of the sale of bank bonds, the regularly scheduled quarterly interest payment date, and the replacement of the letter. As of September 30, 2014, there have not been any draws on the letter of credit. The letter of credit bank is paid a fee based on a pricing matrix that takes into account the unenhanced ratings of the bonds. At the current ratings, the fee is 0.65% of the outstanding balance.

(2) Student Loan

Included in noncurrent liabilities is $153.5 million of Student Loan Revenue Refunding Bonds, Series 22-A, with a nominal maturity of September 1, 2042. The bonds were issued in the amount of $180.0 million on September 25, 2013 to refund outstanding portions of prior Student Loan Revenue Bonds and Refunding Revenue Bonds.

The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on 7 days' notice and delivery to the remarketing agent (Morgan Stanley & Co., LLC) and the tender agent. The remarketing agent is authorized to offer for sale and use its best efforts to sell any bonds that are remarketed pursuant to the supplemental indenture. The interest rate on the bonds is reset weekly at the rate determined by the remarketing agent to be the minimum interest rate that would enable the remarketing agent to sell all of the bonds on the effective date at a price equal to the principal amount plus accrued interest. The fee for the remarketing agent is 0.10% of the outstanding balance.

Under an irrevocable letter of credit issued by State Street Bank and Trust, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letter of credit is valid through September 25, 2018. If not previously extended, the letter automatically terminates on this date. All amounts drawn on the letter of credit must be paid on the earliest of the date of remarketing of the bank bonds, the date the bank bonds become due, 180 days after the drawing, replacement of the letter, the termination date, or the immediately succeeding interest payment date. As of September 30, 2014, there have not been any draws on the letter of credit. The bank issuing the letter of credit is paid a fee of 0.60% of the outstanding balance on the bonds.

Note 10 Conduit Debt Obligations

The Authority has issued limited obligation bonds to provide capital financing for eligible borrowers that are not part of the Authority's financial reporting entity. Typically, these borrowings are repayable only from the borrowers repayment of loans, undisbursed proceeds, and related interest earnings and the Authority has no obligation for this debt. Therefore, the conduit debt obligations are not recorded as liabilities of the Authority.

The Authority issues limited obligation bonds to finance loans to private or nonpublic, nonprofit institutions of higher education, qualified public or private educational facilities, and healthcare providers for capital improvements. The Authority issued limited obligation bonds through the Higher Education Facilities Fund, Public School Academy Facilities Fund, Healthcare Finance Fund, and Michigan Strategic Fund.

The Authority has defeased, in substance, certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Economic gains and accounting gains and losses upon in-substance defeasance inure to the benefit of the facility for which the bonds were issued and, accordingly, are not reflected in the Authority's financial statements.

The total outstanding limited obligation bonds and defeased and undefeased portions as of September 30, 2014 were as follows:

	Higher Education Facilities Fund	Public School Academy Facilities Fund	Healthcare Finance Fund	Michigan Strategic Fund	Total
Defeased	$ 18,270,000	$	$ 197,670,000	$	$ 215,940,000
Undefeased	541,627,291	253,220,000	5,682,566,321	87,025,874	6,564,439,486
Total outstanding	$559,897,291	$253,220,000	$5,880,236,321	$87,025,874	$6,780,379,486

Note 11 Employee Benefits

a. Plan Descriptions - The Authority participates in the State of Michigan's defined benefit and defined contribution pension plans that cover most State employees, as well as related component units such as the Authority. The defined benefit and defined contribution pension plans are part of the Michigan State Employees' Retirement System administered by the Office of Retirement Services, Department of Technology, Management, and Budget. Participants in each plan are eligible for retirement, healthcare, disability, and death benefits upon meeting certain vesting requirements. The Michigan 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 Web site at <http://www.michigan.gov/ors>. The financial report for the defined contribution plan may be obtained by writing to the Office of Retirement Services, Department of Technology, Management, and Budget, P.O. Box 30171, Lansing, Michigan 48909-7671.

b. Funding Policy - The State funds pension and other postemployment benefits on a prefunded basis. For the defined benefit plan, the Authority was required to contribute 3.26% of payroll for the employer portion of the defined benefit pension. Employees participating in the defined benefit plan were required to contribute 4% of their compensation for pension benefits. For the defined contribution plan, the Authority was required to contribute 4.0% of payroll with an additional match of up to 3.0%. Employees in the defined contribution plan are not required to contribute to the plan but may contribute up to the Internal Revenue Service allowed maximum. The Authority was required to contribute 46.97% of payroll for the employer cost of other postemployment benefits. The Authority transferred $55,000, $140,000, and $1.8 million to the State for its employer contribution for the defined benefit plan, defined contribution plan, and other postemployment benefits, respectively, in fiscal year 2014. 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 plans.

c. Postemployment Benefits - The Authority participates in the State of Michigan's postemployment benefits. State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The State pays 80% of the cost of health insurance for retired employees that were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before January 1, 2012, the State pays between 30% and 80% of the cost of health insurance depending upon years of service. Employees hired on or after January 1, 2012 will not be eligible for any retiree health insurance coverage but will receive a personal healthcare fund where they will contribute up to 2% of their compensation into a 401(k) or 457 account, earning a matching 2% employer contribution. Also, the employee will receive a credit into a health reimbursement account at termination of employment if he or she has at least 10 years of service at termination. The credit will be $2,000 for participants who are at least 60 years old or $1,000 for participants who are less than 60 years old at termination.

Note 12 Revenue From Federal Government

a. Business-Type Activities and Proprietary Funds

(1) Student Loan Fund

The USDOE pays the Student Loan Fund an interest subsidy on 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. The interest subsidy for fiscal year 2014 totaled $4.4 million. In addition, federal legislation provides for a special allowance that is principally an incentive payment made so that money market conditions and interest rates will not impede the issuance of student loans. The USDOE pays the special allowance, which adjusts the Authority's yield on student loans to a rate related to the average of a one-month LIBOR yield during the quarter or, for loans disbursed on or after January 1, 2000, a rate related to the average three-month commercial paper yield. The positive special allowance received for fiscal year 2014 was $0.6 million. 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. The negative special allowance paid for fiscal year 2014 totaled $17.6 million.

(2) Non-Major Fund - Michigan Guaranty Agency - Operating Fund

The Michigan Guaranty Agency - Operating Fund receives federal funds for fees related to defaulted student loans. The account maintenance fee is 0.06% of the original principal amount of outstanding loans for administering the accounts. In addition, the Michigan Guaranty Agency - Operating Fund receives federal funds for its share of retention on loan recoveries and loans rehabilitated. For loan recoveries the retention rate is 16.0%. For loans rehabilitated, the MGA received 18.5% of principal through June 30, 2014 and 0% thereafter plus 100% of interest and collection costs.

b. Fiduciary Fund - Michigan Guaranty Agency Federal Fund

The Michigan Guaranty Agency Federal Fund includes federal revenue to reimburse the Authority for defaulted loan claims acquired from financial institutions. Defaulted loans consist of loans in which the student defaulted and the unpaid loan has been acquired from the financial institution by MGA and is recorded as a deduction within loan claims in the fiduciary fund. The federal government reimburses MGA between 75% and 100% of defaulted loans based on when the loan was guaranteed and MGA's trigger default rate. The federal revenue is reported as an addition in the fiduciary fund. The federal government has defined the trigger default rate to be the defaulted loan claims presented to the federal government during the federal fiscal year ended September 30, divided by loans in repayment at the beginning of the federal fiscal year, plus certain other adjustments. The trigger default rate for the fiscal year ended September 30, 2014 was 2.66%.

Note 13 Contingencies

a. Governmental Activities and Tobacco Settlement Fund - Master Settlement Agreement (MSA) and Purchase Agreement

In November 1998, an MSA was entered into by 46 states, 6 other U.S. jurisdictions, and 4 major tobacco companies. The MSA sets forth the schedule and calculations of payments to be made by the tobacco companies to the states. These payments are subject to various adjustments and offsets, some of which could be material.

In calendar years 2006 and 2007, the Michigan Tobacco Settlement Finance Authority and the State entered into purchase agreements to purchase the right, title, and interest in and to 13.34% and 10.77%, respectively, of all TSR that is received by the State that is required under the terms of the MSA and that is payable to the State beginning in calendar years 2008 and 2010, respectively.

Future tobacco settlement collections are contingent upon future tobacco product sales and are subject to various adjustments as outlined in the MSA. Because of the uncertainty of the factors affecting tobacco product sales and the various adjustments, the Authority estimates the amount of tobacco settlement payment that will be received in April of each year based on tobacco product sales from the prior calendar year.

In December 2012, the State of Michigan along with several other states signed a term sheet intending to settle litigation over the application and interpretation of the market share adjustment and diligent enforcement provisions of the MSA. As a result of the settlement, the uncertainty regarding the State's disputed payment account and whether the State was diligently enforcing its collection legislation pursuant to the MSA during years 2003 through 2012 has been substantially eliminated. The State of Michigan will avoid any further reduction of its tobacco payments for those years, and the State's share of those funds has been released. The settlement provides a more definitive framework for avoiding any similar disputes for subsequent years, but there is the potential for additional disputes concerning diligent enforcement. The settlement makes the MSA current, eliminating approximately 10 years of disputed payment withholdings.

b. Fiduciary Fund - Michigan Guaranty Agency Federal Fund

MGA is contingently liable for loans made by financial institutions that qualify for guaranty. The trigger default rate for loans guaranteed by the Authority was below 5% for fiscal year 2014. As a result, the federal government's reinsurance rate for defaults for fiscal year 2014 was 100% for loans made prior to October 1, 1993; 98% for loans made from October 1, 1993 through September 30, 1998; and 95% for loans made on or after October 1, 1998. In the event of future adverse default experience in which the trigger default rate exceeds 9%, the federal government's reinsurance rate could be as low as 75%; therefore, MGA could be liable for up to 25% of defaulted loans. Although management believes that MGA's expected maximum contingent liability is less than 25% of outstanding guaranteed loans, the maximum contingent liability at 25% was $562.6 million as of September 30, 2014. Management does not expect that all guaranteed loans could default in one year.

The difference between the amounts paid to lenders and the subsequent reinsurance from the federal government results in a net deduction for the federal fund. Although management does not expect all future defaults to occur during the next fiscal year, a loan loss provision liability that is an estimate of all future net loss is subject to accrual under GAAP (see Note 2). The total loan loss provision liability was $9.5 million as of September 30, 2014.

MGA has entered into commitment agreements with all lenders that provide, among other things, that MGA will maintain cash and marketable securities at an amount sufficient to guarantee outstanding loans in accordance with the Higher Education Act of 1965, as amended. MGA was in compliance with this requirement as of September 30, 2014.

Note 14 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 is self-insured and provides coverage to the Authority for these potential losses. Additional information on risk management can be found in the footnotes of the *State of Michigan Comprehensive Annual Financial Report.*

Note 15 Subsequent Events

a. Municipal Bond Fund

The Authority issued bonds totaling $61.6 million and $40.0 million on October 9, 2014 and on October 23, 2014, respectively, for the State Revolving Fund Clean Water Bonds. On October 9, 2014, the Authority issued bonds totaling $42.7 million for the State Revolving Fund Drinking Water Bonds. The bond issues were within the Municipal Bond Fund for the purpose of (i) advance refunding of the Authority's outstanding Clean Water Revolving Fund Revenue Bonds, Series 2005A and Drinking Water Revolving Fund Revenue Bonds, Series 2005A, and (ii) advance refunding of the Authority's outstanding Clean Water Revolving Fund Revenue Bonds, Series 2005R.

On October 30, 2014 and December 10, 2014, the Authority issued Local Government Loan Program Revenue Bonds of $295.4 million and $562.6 million, respectively, within the Municipal Bond Fund - Local Municipalities Subfund.

On December 4, 2014, the Authority issued Tax Anticipation Revenue Notes of $13.7 million within the Municipal Bond Fund - Local Municipalities Subfund.

b. Limited Obligation Bonds

On October 20, 2014 and December 3, 2014, the Authority issued limited obligation bonds of $65.6 million and $19.4 million, respectively, within the Higher Education Facilities Fund.

On November 3, 2014, the Authority issued limited obligation bonds of $5.8 million within the Michigan Strategic Fund.

On November 13, 2014 and December 18, 2014, the Authority issued limited obligation bonds of $148.9 million and $170.6 million, respectively, within the Healthcare Finance Fund.

c. Student Loan Fund

On December 4, 2014, the Authority issued $168.0 million of bonds under Series 25-A to prepay $158.8 million of the Series 24-A, Student Loan Bond Anticipation Refunding Notes.

REQUIRED SUPPLEMENTARY INFORMATION

MICHIGAN FINANCE AUTHORITY

Governmental General Fund

Budgetary Comparison Schedule

For the Fiscal Year Ended September 30, 2014

Statutory/Budgetary Basis	Final Budget	Actual	Variance With Final Budget
Beginning budgetary fund balance	$ 1,570,740	$ 1,570,740	$ 0
Resources (inflows)			
Tobacco settlement revenue	$ 372,759	$ 372,759	$ 0
Miscellaneous	73	73	0
Total resources (inflows)	$ 372,832	$ 372,832	$ 0
Amount available for uses (outflows)	$ 1,943,572	$ 1,943,572	$ 0
Uses (outflows)	$ 414,181	$ 414,181	$ 0
Total uses (outflows)	$ 414,181	$ 414,181	$ 0
Ending budgetary fund balance	$ 1,529,391	$ 1,529,391	$ 0

See accompanying note to required supplementary information.

MICHIGAN FINANCE AUTHORITY
Governmental General Fund
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation
For the Fiscal Year Ended September 30, 2014

Sources/inflows of resources		
Actual amount (budgetary basis) available for uses (outflows) from the budgetary comparison schedule	$	1,943,572
Differences - Budget to GAAP:		
Budgetary fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes		(1,570,740)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance	$	372,832
Uses/outflows of resources		
Actual amount (budgetary basis) total uses (outflows) from the budgetary comparison schedule	$	414,181
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance	$	414,181

Note 1 Statutory/Budgetary Presentation

The Tobacco Settlement Debt Service Fund enabling legislation, Act 226, P.A. 2005, and the Unemployment Obligation Assessment Debt Service Fund enabling legislation, Act 267, P.A. 2011, provide for the Authority to engage the services of financial advisors and experts, legal counsel, placement agents, underwriters, appraisers and other advisors, consultants, and fiduciaries as may be necessary to effectuate the purposes of the acts. The Michigan Finance Authority bond official financial statements establish authorization to pay applicable administrative expenditures.

The budgetary comparison schedule presents the final budget for fiscal year 2014, as well as the actual revenues and other sources (inflows), expenditures (outflows), and fund balance stated on the budgetary basis. The Authority does not estimate revenue for budget purposes, and the Authority is allowed to spend the collected revenue without restrictions. Therefore, the actual revenue reflects the budgeted revenue. There were no changes from the original budget to the final budget.

SUPPLEMENTAL FINANCIAL STATEMENTS

MICHIGAN FINANCE AUTHORITY
Non-Major Funds - Combining Statement of Net Position
As of September 30, 2014

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
ASSETS				
Current assets:				
Cash and cash equivalents	$ 40,717,621	$ 296,603	$ 4,104,618	$ 45,118,842
Receivable from federal government	414,036			414,036
Receivable from other funds	3,034,386	505,292		3,539,678
Interest receivable	105		90,196	90,301
Investments		16,721,642	6,831	16,728,473
Notes receivable			41,028,773	41,028,773
Other current assets		644,287		644,287
Total current assets	$ 44,166,148	$ 18,167,824	$ 45,230,418	$ 107,564,390
Total assets	$ 44,166,148	$ 18,167,824	$ 45,230,418	$ 107,564,390
DEFERRED OUTFLOWS OF RESOURCES	$	$	$	$ 0
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	$	$	$ 1,500	$ 1,500
Bonds and notes payable, net			45,580,000	45,580,000
Interest payable			37,486	37,486
Compensated absences	62,640	50,964		113,604
Total current liabilities	$ 62,640	$ 50,964	$ 45,618,986	$ 45,732,590
Noncurrent liabilities:				
Compensated absences	$ 442,004	$ 104,324	$	$ 546,328
Total noncurrent liabilities	$ 442,004	$ 104,324	$ 0	$ 546,328
Total liabilities	$ 504,644	$ 155,288	$ 45,618,986	$ 46,278,918
DEFERRED INFLOWS OF RESOURCES	$	$	$	$ 0
NET POSITION				
Restricted	$ 43,661,504	$	$ 4,104,618	$ 47,766,122
Unrestricted		18,012,536	(4,493,187)	13,519,349
Total net position	$ 43,661,504	$ 18,012,536	$ (388,569)	$ 61,285,471

MICHIGAN FINANCE AUTHORITY
Non-Major Funds - Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended September 30, 2014

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
OPERATING REVENUES				
Federal revenue:				
Loan recoveries	$ 3,277,045	$	$	$ 3,277,045
Loans repurchased and rehabilitated	16,627,955			16,627,955
Account maintenance	1,535,881			1,535,881
Interest revenue			794,457	794,457
Investment income		1,929	429	2,358
Fees:				
Default aversion	64,845			64,845
Authority		1,505,340		1,505,340
Miscellaneous	1,493,019		2,514	1,495,533
Total operating revenues	$ 22,998,745	$ 1,507,269	$ 797,400	$ 25,303,414
OPERATING EXPENSES				
Interest expense	$	$	$ 354,841	$ 354,841
Debt issuance costs			441,696	441,696
Other administrative expense	14,379,023	1,888,609		16,267,632
Total operating expenses	$ 14,379,023	$ 1,888,609	$ 796,537	$ 17,064,169
Operating income (loss)	$ 8,619,722	$ (381,340)	$ 863	$ 8,239,245
NONOPERATING REVENUES (EXPENSES)				
Other	$ 37,684	$	$	$ 37,684
Total nonoperating revenues (expenses)	$ 37,684	$ 0	$ 0	$ 37,684
Income (loss) before transfers	$ 8,657,406	$ (381,340)	$ 863	$ 8,276,929
TRANSFERS				
Transfers from other funds	$	$ 258,791	$	$ 258,791
Transfers to other funds	(350,000)		(8,039)	(358,039)
Total transfers	$ (350,000)	$ 258,791	$ (8,039)	$ (99,248)
Change in net position	$ 8,307,406	$ (122,549)	$ (7,176)	$ 8,177,681
Net position - Beginning of fiscal year - Restated (Note 2)	35,354,098	18,135,085	(381,393)	53,107,790
Net position - End of fiscal year	$ 43,661,504	$ 18,012,536	$ (388,569)	$ 61,285,471

MICHIGAN FINANCE AUTHORITY
Non-Major Funds - Combining Statement of Cash Flows
For the Fiscal Year Ended September 30, 2014

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Bonds, notes, and loans receivable made	$	$	$ (49,936,472)	$ (49,936,472)
Principal received on bonds, notes, and loans			45,894,000	45,894,000
Interest received on bonds, notes, and loans			794,495	794,495
Cash payments to employees and suppliers for goods and services	(15,635,152)	(2,451,740)		(18,086,892)
Other operating revenues	24,408,954	1,998,553		26,407,507
Net cash provided by (used in) operating activities	$ 8,773,802	$ (453,187)	$ (3,247,977)	$ 5,072,638
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from sale of bonds and notes, net	$	$	$ 45,580,000	$ 45,580,000
Payment of debt issuance costs			(440,196)	(440,196)
Principal paid on bonds and notes			(46,335,000)	(46,335,000)
Interest paid on bonds and notes			(358,016)	(358,016)
Other	(350,000)	258,791	(8,039)	(99,248)
Net cash provided by (used in) noncapital financing activities	$ (350,000)	$ 258,791	$ (1,561,251)	$ (1,652,460)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (purchases of) proceeds from sale and maturities of investment securities	$ 1,037,716	$ 198,071	$ 5,417	$ 1,241,204
Interest and dividends on investments	49,565	1,929	429	51,923
Net cash provided by (used in) investing activities	$ 1,087,281	$ 200,000	$ 5,846	$ 1,293,127
Net increase (decrease) in cash	$ 9,511,083	$ 5,604	$ (4,803,382)	$ 4,713,305
Cash and cash equivalents - Beginning of fiscal year	31,206,538	291,000	8,908,000	40,405,538
Cash and cash equivalents - End of fiscal year	$ 40,717,621	$ 296,603	$ 4,104,618	$ 45,118,842
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES				
Operating income (loss)	$ 8,619,722	$ (381,340)	$ 863	$ 8,239,245
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income		(1,929)	(429)	(2,358)
Other income	593		(2,513)	(1,920)
Interest expense			354,841	354,841
Amortization of deferred charges			441,696	441,696
Changes in assets and liabilities:				
(Increase) Decrease in other receivables	112,744	(12,078)	37	100,703
Increase (Decrease) in other payables	40,743	(57,840)		(17,097)
(Increase) Decrease in bonds, notes, and loans receivable			(4,042,472)	(4,042,472)
Net cash provided by (used in) operating activities	$ 8,773,802	$ (453,187)	$ (3,247,977)	$ 5,072,638

SUPPLEMENTAL FINANCIAL SCHEDULES

MICHIGAN FINANCE AUTHORITY
Municipal Bond Fund - Combining Supplemental Schedule of Net Position
As of September 30, 2014

	Local Municipalities Subfund	State Revolving Subfund	
		Clean Water Program	Drinking Water Program
ASSETS			
Current assets:			
Cash and cash equivalents	$ 42,294,576	$ 2,266,357	$ 612,926
Receivable from federal government		118,900	96,414
Interest receivable	44,512,938	1,655,978	7,183
Investments	6,078,587	762,924,117	274,313,765
Notes receivable	672,364,712		
Loans receivable, net	40,295,671	157,377,115	31,340,419
Bonds receivable	142,537,837		
Total current assets	$ 948,084,321	$ 924,342,467	$ 306,370,707
Noncurrent assets:			
Receivable from primary government	$	$	$
Investments		582,046,808	85,478,374
Loans receivable, net	280,154,573	1,754,122,662	374,157,843
Bonds receivable	2,635,678,973		
Total noncurrent assets	$ 2,915,833,546	$ 2,336,169,470	$ 459,636,217
Total assets	$ 3,863,917,867	$ 3,260,511,937	$ 766,006,924
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	$ 295,539	$ 17,370,542	$ 4,085,088
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	$ 3,559,378	$ 180,480	$ 70,364
Bonds and notes payable, net	914,276,185	114,020,000	17,350,000
Interest payable	29,170,678	36,813,432	4,576,812
Arbitrage payable		874,978	362,084
Total current liabilities	$ 947,006,241	$ 151,888,890	$ 22,359,260
Noncurrent liabilities:			
Bonds and notes payable, net	$ 2,940,734,350	$ 1,492,980,557	$ 182,883,073
Arbitrage payable		3,988,040	40,232
Total noncurrent liabilities	$ 2,940,734,350	$ 1,496,968,597	$ 182,923,305
Total liabilities	$ 3,887,740,591	$ 1,648,857,487	$ 205,282,565
DEFERRED INFLOWS OF RESOURCES			
Deferred gain on refunding	$ 2,503,264	$ 57,152	$
NET POSITION			
Restricted for:			
Local Municipalities Fund	$ 42,185,818	$	$
Water pollution control and drinking water projects		1,628,967,841	564,809,448
Strategic Water Quality Initiatives Fund			
School Loan Revolving Fund			
Unrestricted	(68,216,267)		
Total net position	$ (26,030,449)	$ 1,628,967,841	$ 564,809,448

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
$	$ 265,173,084	$ 310,346,943
		215,314
	1,544,394	47,720,493
91,597,227	41,194,181	1,176,107,877
		672,364,712
980,000		229,993,205
		142,537,837
$ 92,577,227	$ 307,911,659	$ 2,579,286,381
$	$ 1,452,290,776	$ 1,452,290,776
	65,514,418	733,039,600
13,738,155		2,422,173,233
		2,635,678,973
$ 13,738,155	$ 1,517,805,194	$ 7,243,182,582
$ 106,315,382	$ 1,825,716,853	$ 9,822,468,963
$	$ 3,177,094	$ 24,928,263
$ 41,531	$ 637,225	$ 4,488,978
		1,045,646,185
	479,425	71,040,347
		1,237,062
$ 41,531	$ 1,116,650	$ 1,122,412,572
$	$ 685,000,000	$ 5,301,597,980
		4,028,272
$ 0	$ 685,000,000	$ 5,305,626,252
$ 41,531	$ 686,116,650	$ 6,428,038,824
$	$	$ 2,560,416
$	$	$ 42,185,818
		2,193,777,288
106,273,851		106,273,851
	1,142,777,297	1,142,777,297
		(68,216,267)
$ 106,273,851	$ 1,142,777,297	$ 3,416,797,988

MICHIGAN FINANCE AUTHORITY

Municipal Bond Fund - Combining Supplemental Schedule of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended September 30, 2014

	Local Municipalities Subfund	State Revolving Subfund	
		Clean Water Program	Drinking Water Program
OPERATING REVENUES			
Federal revenue	$	$ 380,872	$ 254,666
Interest revenue	76,552,290	43,359,279	9,548,713
Investment income	311,956	27,417,653	3,724,396
Miscellaneous	16,499		
Total operating revenues	$ 76,880,745	$ 71,157,804	$ 13,527,775
OPERATING EXPENSES			
Arbitrage expense	$	$ (1,161,896)	$ (322,013)
Interest expense	71,244,960	58,028,600	6,943,793
Debt issuance costs	21,236,081		
Other administrative expense		937,242	257,913
Total operating expenses	$ 92,481,041	$ 57,803,946	$ 6,879,693
Operating income (loss)	$ (15,600,296)	$ 13,353,858	$ 6,648,082
NONOPERATING REVENUES (EXPENSES)			
Operating subsidies	$	$ 44,972,151	$ 40,983,825
American Recovery and Reinvestment Act principal forgiveness, net		703,730	119,199
Program principal forgiveness, net		(2,931,084)	(12,287,749)
Grant expense			
Total nonoperating revenues (expenses)	$ 0	$ 42,744,797	$ 28,815,275
Income (loss) before transfers	$ (15,600,296)	$ 56,098,655	$ 35,463,357
TRANSFERS			
Transfers from other funds	$	$	$
Transfers to other funds	(250,752)		
Total transfers	$ (250,752)	$ 0	$ 0
Change in net position	$ (15,851,048)	$ 56,098,655	$ 35,463,357
Net position - Beginning of fiscal year - Restated (Note 2)	(10,179,401)	1,572,869,186	529,346,091
Net position - End of fiscal year	$ (26,030,449)	$ 1,628,967,841	$ 564,809,448

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
$	$	$ 635,538
338,206	45,781,790	175,580,278
527	3,533,669	34,988,201
	6,370	22,869
$ 338,733	$ 49,321,829	$ 211,226,886
$	$	$ (1,483,909)
	5,966,920	142,184,273
	904,353	22,140,434
43,090	4,438,577	5,676,822
$ 43,090	$ 11,309,850	$ 168,517,620
$ 295,643	$ 38,011,979	$ 42,709,266
$ 93,000,000	$ 53,096,156	$ 232,052,132
		822,929
		(15,218,833)
(11,830,881)		(11,830,881)
$ 81,169,119	$ 53,096,156	$ 205,825,347
$ 81,464,762	$ 91,108,135	$ 248,534,613
$	$	$ 0
		(250,752)
$ 0	$ 0	$ (250,752)
$ 81,464,762	$ 91,108,135	$ 248,283,861
24,809,089	1,051,669,162	3,168,514,127
$ 106,273,851	$ 1,142,777,297	$ 3,416,797,988

MICHIGAN FINANCE AUTHORITY
Municipal Bond Fund - Combining Supplemental Schedule of Cash Flows
For the Fiscal Year Ended September 30, 2014

	Local Municipalities Subfund	State Revolving Subfund	
		Clean Water Program	Drinking Water Program
CASH FLOWS FROM OPERATING ACTIVITIES			
Bonds, notes, and loans receivable made	$ (2,915,713,873)	$ (130,778,947)	$ (32,908,157)
Principal received on bonds, notes, and loans	913,202,871	154,979,231	29,251,569
Interest received on bonds, notes, and loans	89,326,077	43,359,279	9,548,713
Cash payments to employees and suppliers for goods and services		(914,631)	(242,690)
Other operating revenues		371,799	253,792
Net cash provided by (used in) operating activities	$ (1,913,184,925)	$ 67,016,731	$ 5,903,227
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from sale of bonds and notes, net	$ 2,969,039,201	$	$
Payment of debt issuance costs	(7,737,676)		
Principal paid on bonds and notes	(950,289,098)	(108,760,000)	(17,450,000)
Interest paid on bonds and notes	(74,472,545)	(76,314,903)	(9,564,231)
Operating subsidies		44,972,421	38,217,154
American Recovery and Reinvestment Act principal forgiveness expense		703,730	119,199
Grant expense		(2,931,084)	(12,287,749)
Other	(245,013)		
Net cash provided by (used in) noncapital financing activities	$ 1,936,294,869	$ (142,329,836)	$ (965,627)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchases of) proceeds from sale and maturities of investment securities	$ 18,501,725	$ 46,801,740	$ (7,769,133)
Interest and dividends on investments	682,907	26,395,649	3,425,159
Net cash provided by (used in) investing activities	$ 19,184,632	$ 73,197,389	$ (4,343,974)
Net increase (decrease) in cash	$ 42,294,576	$ (2,115,716)	$ 593,626
Cash and cash equivalents - Beginning of fiscal year		4,382,073	19,301
Cash and cash equivalents - End of fiscal year	$ 42,294,576	$ 2,266,357	$ 612,926
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss)	$ (15,600,296)	$ 13,353,858	$ 6,648,082
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Investment income	(311,956)	(27,417,653)	(3,724,396)
Other income	(16,499)		
Interest expense	71,244,960	58,028,600	6,943,793
Amortization of deferred charges	21,236,081		
Changes in assets and liabilities:			
(Increase) Decrease in other receivables	8,308,567	1,095,928	126
Increase (Decrease) in other payables		(1,139,286)	(307,790)
(Increase) Decrease in bonds, notes, and loans receivable	(1,998,045,782)	23,095,284	(3,656,588)
Net cash provided by (used in) operating activities	$ (1,913,184,925)	$ 67,016,731	$ 5,903,227

This schedule continued on next page.

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
$ (1,472,358)	$ (238,177,196)	$ (3,319,050,531)
945,000	45,720,479	1,144,099,150
338,206	14,522,236	157,094,511
(42,358)	(4,224,691)	(5,424,370)
		625,591
$ (231,510)	$ (182,159,172)	$ (2,022,655,649)
$	$ 149,680,621	$ 3,118,719,822
	(578,605)	(8,316,281)
		(1,076,499,098)
	(5,755,350)	(166,107,029)
93,000,000		176,189,575
		822,929
(11,830,881)		(27,049,714)
		(245,013)
$ 81,169,119	$ 143,346,666	$ 2,017,515,191
$ (80,938,136)	$ (9,655,966)	$ (33,059,770)
527	3,937,361	34,441,603
$ (80,937,609)	$ (5,718,605)	$ 1,381,833
$	$ (44,531,111)	$ (3,758,624)
	309,704,195	314,105,568
$ 0	$ 265,173,084	$ 310,346,943
$ 295,643	$ 38,011,979	$ 42,709,266
(527)	(3,533,669)	(34,988,201)
	(6,370)	(22,869)
	5,966,920	142,184,273
	904,353	22,140,434
	(223,716,272)	(214,311,651)
732	213,887	(1,232,457)
(527,358)		(1,979,134,444)
$ (231,510)	$ (182,159,172)	$ (2,022,655,649)

MICHIGAN FINANCE AUTHORITY
Student Loan Fund - Combining Supplemental Schedule of Net Position
As of September 30, 2014

	Operating Subfund	Bond Subfund	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	$ 62,070,644	$ 71,979,368	$ 134,050,012
Receivable from federal government		1,013,308	1,013,308
Interfund receivable	194,635		194,635
Interest receivable	61,151	16,761,833	16,822,984
Loans receivable, net	966,745	117,614,192	118,580,937
Other current assets		5,917	5,917
Total current assets	$ 63,293,175	$ 207,374,618	$ 270,667,793
Noncurrent assets:			
Loans receivable, net	$ 7,367,265	$ 896,301,255	$ 903,668,520
Total noncurrent assets	$ 7,367,265	$ 896,301,255	$ 903,668,520
Total assets	$ 70,660,440	$ 1,103,675,873	$ 1,174,336,313
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	$	$ 3,284,953	$ 3,284,953
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	$ 15,197	$ 5,075,821	$ 5,091,018
Bonds and notes payable, net		796,640,000	796,640,000
Interfund payable		194,635	194,635
Interest payable		827,303	827,303
Compensated absences	12,802		12,802
Total current liabilities	$ 27,999	$ 802,737,759	$ 802,765,758
Noncurrent liabilities:			
Bonds and notes payable, net	$	$ 153,500,000	$ 153,500,000
Arbitrage payable		26,432,965	26,432,965
Compensated absences	167,292		167,292
Total noncurrent liabilities	$ 167,292	$ 179,932,965	$ 180,100,257
Total liabilities	$ 195,291	$ 982,670,724	$ 982,866,015
DEFERRED INFLOWS OF RESOURCES			
Deferred gain on refunding	$	$	$ 0
NET POSITION			
Restricted			0
Unrestricted	$ 70,465,149	$ 124,290,102	$ 194,755,251
Total net position	$ 70,465,149	$ 124,290,102	$ 194,755,251

MICHIGAN FINANCE AUTHORITY

Student Loan Fund - Combining Supplemental Schedule of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended September 30, 2014

	Operating Subfund	Bond Subfund	Totals
OPERATING REVENUES			
Federal revenue, net of special allowance	$ 354	$ (12,669,873)	$ (12,669,519)
Interest revenue	203,158	46,851,867	47,055,025
Investment income	4,650	(39,264)	(34,614)
Miscellaneous	152,269	5,114,653	5,266,922
Total operating revenues	$ 360,431	$ 39,257,383	$ 39,617,814
OPERATING EXPENSES			
Arbitrage expense	$	$ (1,771,253)	$ (1,771,253)
Interest expense		5,476,571	5,476,571
Debt issuance costs		2,914,510	2,914,510
Bad debt expense		1,954,714	1,954,714
Other administrative expense	11,723,124	11,140,164	22,863,288
Total operating expenses	$ 11,723,124	$ 19,714,706	$ 31,437,830
Operating income (loss)	$ (11,362,693)	$ 19,542,677	$ 8,179,984
TRANSFERS			
Transfers from other funds	$ 122,063	$	$ 122,063
Transfers to other funds		(122,063)	(122,063)
Total transfers	$ 122,063	$ (122,063)	$ 0
Change in net position	$ (11,240,630)	$ 19,420,614	$ 8,179,984
Net position - Beginning of fiscal year - Restated (Note 2)	81,705,779	104,869,488	186,575,267
Net position - End of fiscal year	$ 70,465,149	$ 124,290,102	$ 194,755,251

MICHIGAN FINANCE AUTHORITY
Student Loan Fund - Combining Supplemental Schedule of Cash Flows
For the Fiscal Year Ended September 30, 2014

	Operating Fund	Bond Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Principal received on bonds, notes, and loans	$ 362,101	$ 157,505,166	$ 157,867,267
Interest received on bonds, notes, and loans	174,614	36,866,110	37,040,724
Cash payments to employees and suppliers for goods and services	(11,780,299)	(14,029,595)	(25,809,894)
Other operating revenues	121,709	(16,627,441)	(16,505,732)
Net cash provided by (used in) operating activities	$ (11,121,875)	$ 163,714,240	$ 152,592,365
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from sale of bonds and notes, net	$	$ 848,200,000	$ 848,200,000
Payment of debt issuance costs		(2,938,340)	(2,938,340)
Principal paid on bonds and notes		(1,348,706,634)	(1,348,706,634)
Interest paid on bonds and notes		(8,582,450)	(8,582,450)
Other - Equity transfers	6,069,647	(6,069,647)	0
Net cash provided by (used in) noncapital financing activities	$ 6,069,647	$ (518,097,071)	$ (512,027,424)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchases of) proceeds from sale and maturities of investment securities	$	$ 500,000	$ 500,000
Interest and dividends on investments	4,559	(27,598)	(23,039)
Net cash provided by (used in) investing activities	$ 4,559	$ 472,402	$ 476,961
Net increase (decrease) in cash	$ (5,047,669)	$ (353,910,429)	$ (358,958,098)
Cash and cash equivalents - Beginning of fiscal year	67,118,313	425,889,797	493,008,109
Cash and cash equivalents - End of fiscal year	$ 62,070,644	$ 71,979,368	$ 134,050,012
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss)	$ (11,362,693)	$ 19,542,677	$ 8,179,984
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Investment income	(4,650)	39,264	34,614
Other income		(7,500)	(7,500)
Interest expense		5,476,571	5,476,571
Amortization (accrual) of deferred charges		2,938,340	2,938,340
Changes in assets and liabilities:			
(Increase) Decrease in other receivables	440,079	1,931,819	2,371,898
Increase (Decrease) in other payables	(108,789)	(2,598,365)	(2,707,154)
(Increase) Decrease in bonds, notes, and loans receivable	5,861,761	130,443,851	136,305,612
Transfers			
Interfund transfers	(5,947,584)	5,947,584	0
Net cash provided by (used in) operating activities	$ (11,121,875)	$ 163,714,240	$ 152,592,365

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

Office of the Auditor General

Doug A. Ringler, CPA, CIA
Auditor General

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

Mr. R. Kevin Clinton, State Treasurer and Chair
Michigan Finance Authority Board of Directors
Mary G. Martin, CPA, CIA, Director, Bureau of State and Authority Finance
Michigan Finance Authority
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Clinton and Ms. Martin:

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority (the Authority), a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2014 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free from 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

Doug Ringler

Doug Ringler
Auditor General
December 22, 2014

GLOSSARY

Glossary of Abbreviations and Terms

American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 11th United States Congress in February 2009.
Authority	Michigan Finance Authority.
Consolidation Loans	Loans made to borrowers consolidating certain student loans.
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 and correct, misstatements on a timely basis.
FFEL Program	Federal Family Education Loan Program.
financial audit	An audit that is designed to provide reasonable assurance about whether the basic financial statements of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
Fitch Ratings (Fitch)	A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt investments.
GASB 65	GASB Statement No. 65. *Items Previously Reported as Assets and Liabilities.*
generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."

Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
in-relation-to opinion	An opinion expressed by the auditor on supplementary information based on auditing procedures applied in the audit of the basic financial statements and certain additional procedures and considering materiality of the basic financial statements taken as a whole.
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.
LARA	Department of Licensing and Regulatory Affairs.
LIBOR	London Interbank Offered Rate.
major fund	A significant governmental or enterprise fund, based on specific size criteria. A government's main operating fund (the general fund or its equivalent) is always considered a major fund. Government officials may also designate other governmental and enterprise funds as major funds when deemed important to financial statement users (for example, because of public interest or consistency).
material misstatement	A misstatement in the basic financial statements that causes the statements to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.

material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the basic financial statements will not be prevented, or detected and corrected, on a timely basis.
MGA	Michigan Guaranty Agency.
MI-LOAN	Michigan Alternative Student Loan.
modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
Moody's Investors Service, Inc. (Moody's)	A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt instruments.
MSA	Master Settlement Agreement.
PLUS Loans	Loans made to parents of dependent undergraduates.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Stafford Loans	Educational loans made under the FFEL Program to students.
Standard & Poor's (S&P)	A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt instruments.
TSR	tobacco settlement revenue.

unmodified opinion	The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the basic financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
USDOE	U.S. Department of Education.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL