



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



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

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

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

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Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Financial Audit*

*Michigan Municipal Bond Authority*

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

*October 1, 2008 through September 30, 2009*

Report Number:  
 271-0281-10

Released:  
 December 2009

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

**Financial Statements:**

**Auditor's Report Issued**

We issued an unqualified opinion on the Michigan Municipal Bond Authority's financial statements.

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**Internal Control Over Financial Reporting and on Compliance and Other Matters**

In accordance with *Government Auditing Standards*, we will issue a report on our consideration of the Michigan Municipal Bond 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.

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**Background:**

The Michigan Municipal Bond Authority was created pursuant to Act 227 of the Michigan Public Acts of 1985 (the "Shared Credit Rating Act"), as amended. The Authority provides 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, in an orderly fashion, municipal debt. The Authority is empowered to borrow money and to issue its bonds and notes to provide funds for various municipal purposes, such as public improvement, deficit reduction, and other purposes.

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<http://audgen.michigan.gov>



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

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

December 30, 2009

Mr. Robert J. Kleine, Chair  
Michigan Municipal Bond Authority  
Richard H. Austin Building  
Lansing, Michigan

Dear Mr. Kleine:

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

This report contains our report summary, our independent auditor's report on the financial statements, the Authority management's discussion and analysis, the Authority's basic financial statements and supplemental financial schedules, and a glossary of acronyms and terms.

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

AUDITOR GENERAL



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# INDEPENDENT AUDITOR'S REPORT



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

## Independent Auditor's Report on the Financial Statements

Mr. Robert J. Kleine, Chair  
Michigan Municipal Bond Authority  
Richard H. Austin Building  
Lansing, Michigan

Dear Mr. Kleine:

We have audited the accompanying financial statements of the business-type activities and each major fund of the Michigan Municipal Bond Authority of the State of Michigan, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2009, which collectively comprise the Authority's basic financial statements as identified in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements for the fiscal year ended September 30, 2008 were audited by other auditors whose report dated November 25, 2008 expressed unqualified opinions on those statements.

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

As described in Note 1, the financial statements present only the Michigan Municipal Bond Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2009 and

September 30, 2008 and the changes in financial position and cash flows thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

The management's discussion and analysis on pages 11 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The supplemental financial schedules, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the Authority's basic financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

AUDITOR GENERAL

December 15, 2009

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## **Financial Position and Results of Operations**

The Michigan Municipal Bond Authority (the "Authority"), a nonprofit agency, was established by the Shared Credit Rating Act, Public Act 227 of 1985, as amended, to provide an alternative source of financing for infrastructure projects and low cost access to the public finance market. Bond and note financing is the primary source of funding for the Authority's loan programs. There are no State appropriations for the administration of the Authority's programs.

Executive Order 2002-12 transferred the administrative functions of the Authority including accounting responsibilities, internal control, and related oversight to the State Treasurer.

The basis of the Authority's financing programs is the pooling of local obligations. At specified times, the Authority negotiates the sale of securities and uses the proceeds to purchase bonds, notes, and installment purchase agreements from municipalities. Any financing legally authorized may be issued through the Authority. The Authority consistently offers interest rates that compare favorably with Michigan and national pricing indices. Also, the Authority's reputation and name recognition in the capital markets create demand for the Authority's securities, translating to lower interest rates for borrowers. Each borrower pays a pro rata share of costs of issuance, typically resulting in lower costs than each borrower would pay individually. As the Authority can lower the interest rate and issuing costs for Michigan governments, the result is fewer tax dollars expended for debt by Michigan taxpayers. As borrowers make repayments, the Authority repays its bond or note holders.

The major programs of the Authority are:

- State Revolving Fund Programs
- Local Government Loan Program
- School Loan Revolving Fund Program
- State Aid Revenue Note Program

The Authority's financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. The statement of net assets and the statement of revenues, expenses, and changes in net assets report the Authority's net assets as of September 30, 2009 and how they have changed since September 30, 2008. Net assets, the difference between the Authority's

assets and liabilities, is one way to measure the Authority's financial health or position. Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. The statement of cash flows shows how cash was received and used throughout the year to conduct the Authority's activities.

The following is a condensed summary of financial information (in thousands) for fiscal years 2008-09, 2007-08, and 2006-07.

Net assets	September 30		
	2009	2008	2007
Cash and Investments	\$2,027,042	\$2,053,481	\$1,921,422
Accrued Interest Receivable	128,246	131,411	128,867
Revenue Notes Receivable	1,081,367	686,589	710,624
Bonds Receivable	691,209	675,754	669,279
Loans Receivable	2,447,369	2,303,644	2,148,610
Other Receivables	615,378	560,820	524,518
Deferred Charges	34,163	27,803	27,129
<b>Total Assets</b>	<b>\$7,024,774</b>	<b>\$6,439,502</b>	<b>\$6,130,449</b>
Revenue Notes Payable	\$1,088,657	\$ 688,414	\$ 711,478
Bonds Payable	3,686,825	3,658,461	3,434,714
Accrued Interest Payable	116,988	112,767	112,216
Other Liabilities	8,948	5,023	4,615
Deferred Revenue		3,366	8,220
<b>Total Liabilities</b>	<b>\$4,901,418</b>	<b>\$4,468,031</b>	<b>\$4,271,243</b>
Unrestricted Net Assets	\$ 12,544	\$ 12,706	\$ 12,211
Restricted Net Assets	2,110,812	1,958,765	1,846,995
<b>Total Net Assets</b>	<b>\$2,123,356</b>	<b>\$1,971,471</b>	<b>\$1,859,206</b>

Operating Results	Fiscal Year Ended September 30		
	2009	2008	2007
Interest Income	\$ 202,442	\$ 226,533	\$ 216,763
Other Income	1,972	3,400	3,007
<b>Total Operating Revenues</b>	<b>\$ 204,414</b>	<b>\$ 229,933</b>	<b>\$ 219,770</b>
Interest and Arbitrage Expense	\$ 196,634	\$ 197,046	\$ 177,812
Amortization Expense	8,319	5,406	5,226
Administrative Expense	4,777	5,442	3,888
<b>Total Operating Expenses</b>	<b>\$ 209,730</b>	<b>\$ 207,894</b>	<b>\$ 186,926</b>
Operating Income	\$ (5,316)	\$ 22,039	\$ 32,844
Nonoperating Revenues (Expenses)	157,200	90,226	(35,488)
Change in Net Assets	\$ 151,884	\$ 112,265	\$ (2,644)

## **Financial Analysis**

### **Net Assets**

#### **Fiscal Year 2008-09**

Total assets increased 9.1% in fiscal year 2008-09 from \$6.440 billion at September 30, 2008 to \$7.025 billion at September 30, 2009. Total liabilities also increased from \$4.468 billion at September 30, 2008 to \$4.901 billion at September 30, 2009, for an increase of 9.7 %.

Cash and investments decreased 1.3%, from \$2.053 billion at September 30, 2008 to \$2.027 billion at September 30, 2009.

Revenue notes receivable\* increased 57.5% as a result of an increase in the total amount of notes issued for the State Aid Note Program administered by the Authority. During fiscal year 2008-09, the Authority issued \$1.12 billion in State aid revenue notes.

\* See glossary at end of report for definition.

Bonds receivable\* increased 2.3% from \$676 million at September 30, 2008 to \$691 million at September 30, 2009. The Authority had new issuances of \$109 million and repayments of \$95 million during fiscal year 2008-09.

Loans receivable represent amounts due from communities for State Revolving Fund loans and Public School Academy loans issued by the Authority. The increase from \$2.304 billion at September 30, 2008 to \$2.447 billion at September 30, 2009 is the result of funds disbursed through the State Revolving Fund.

Revenue notes payable increased from \$688 million at September 30, 2008 to \$1.089 billion at September 30, 2009 as the result of an increase in notes issued to provide cash flow financing to school districts in Michigan. Bonds payable also increased from \$3.658 billion at September 30, 2008 to \$3.687 billion at September 30, 2009. More detailed information on debt outstanding is shown in Notes 4 and 10 of the basic financial statements.

Total net assets increased 7.7% from \$1.971 billion at September 30, 2008 to \$2.123 billion at September 30, 2009.

### **Fiscal Year 2007-08**

Total assets increased 5% in fiscal year 2007-08 as a result of bonds issued and loan disbursements to State Revolving Fund borrowers. Total liabilities increased from \$4.27 billion at September 30, 2007 to \$4.47 billion at September 30, 2008. The increase was a result of more bonds being issued by the Authority for its various programs.

Cash and investments increased 6.9% as more bonds were issued and proceeds deposited to be used to fund Clean Water and Drinking Water State Revolving Funds loans. Loans receivable increased 7.2% due to the increase in loans in the State Revolving Funds.

Bonds payable increased 6.5% as the Authority issued \$1.589 billion in notes and bonds to provide loans to school districts and to refund prior bonds in the School Loan Revolving Fund.

\* See glossary at end of report for definition.



The Authority's net assets increased 6% from \$1.86 billion at September 30, 2007 to \$1.97 billion at September 30, 2008. Unrestricted net assets in the General Fund are reported as \$12.7 million at September 30, 2008, which is an increase from \$12.2 million in the previous fiscal year. Restricted net assets of the State Revolving Fund increased from \$1.67 billion at September 30, 2007 to \$1.79 billion at September 30, 2008. This increase is a result of federal capitalization grants used in the Water Pollution and Drinking Water Programs to fund construction projects. The School Loan Revolving Fund net assets of \$154.7 million at September 30, 2008 represent the increase in assigned loan repayments and the cash and investment increases from the sale of bonds which will be used to fund loans in fiscal year 2008-09.

### **Fiscal Year 2006-07**

Total assets increased 12.4% from \$5.45 billion at September 30, 2006 to \$6.13 billion at September 30, 2007. The increase in total assets was primarily due to an increase in cash and investments, loans receivable, and other receivables as a result of increased issuance of bonds and loan disbursements.

Liabilities increased from \$3.59 billion at September 30, 2006 to \$4.27 billion at September 30, 2007. The Authority issued \$1.57 billion of bonds in fiscal year 2006-07 and therefore bonds payable increased 17.6% in fiscal year 2006-07 as a result of the bonds issued or various Authority programs. More detailed information on debt outstanding is shown in Notes 4 and 10 of the audited basic financial statements.

Net assets of the Authority decreased from \$1.862 billion at September 30, 2006 to \$1.859 billion at September 30, 2007. The decrease of \$2.6 million is attributable to expenses in the School Loan Revolving Fund and the Strategic Water Quality Initiatives Fund.

### **Operating Results**

#### **Fiscal Year 2008-09**

Operating revenues were down in fiscal year 2008-09 due to a decrease in investment income because of lower cash and investment balances and lower interest rates. Investment income on investments including guaranteed investment contracts represents 99% of the operating revenues for the Authority. The Authority funds its administration through fees charged to its clients for issuance of bonds based on the total amount of the borrowing. Salaries and indirect administrative expenses are allocated to the Authority based on a predetermined percentage of total costs. The

Authority processes the payment of certain administrative fees for the staff of the Department of Environmental Quality, the co-administrators of the State Revolving Fund. Funds for these administrative expenses are provided in part by a grant from the federal government. Amortization of debt issuance costs increased 53.9% for fiscal year 2008-09 as a result of \$1.5 billion of new debt issues for the Authority. Issuance costs are amortized and expensed over the life of the bonds.

### **Fiscal Year 2007-08**

The Authority's total operating income decreased in fiscal year 2007-08. Overall operating income was \$22.0 million in fiscal year 2007-08 compared to \$32.8 million in fiscal year 2006-07. The operating expenses for this fiscal year increased 11%. Because of higher costs of operations in fiscal year 2007-08, the Authority had less operating profit compared to fiscal year 2006-07.

Revenue from interest income represented 98.5% of the Authority's total operating revenues in fiscal year 2007-08. Operating expenses reported at September 30, 2008 and September 30, 2007 totaled \$207.9 million and \$186.9 million, respectively. Interest expense on bonds in fiscal year 2007-08 was higher due to the increase in rates, especially variable rate debt.

The Authority issued over \$1.1 billion in new money debt in fiscal year 2007-08 with interest rates varying from 1.63% to 5.90%. The majority of clients for the new issues of the Authority were previous clients who returned for financing.

### **Fiscal Year 2006-07**

Operating revenues increased in fiscal year 2006-07 as earnings on investments and receivable contributed to the change. As a result of financings during fiscal year 2006-07, the Authority had more funds invested. Other operating revenue consisted of administrative fees and fees the Authority received from financing activities. The Authority's operating profit increased in fiscal year 2006-07. Earnings on investments and receivables contributed to the increase.

### **Contacting the Michigan Municipal Bond Authority**

Additional information about the Authority as well as annual statistical and audit reports can be found at [www.michigan.gov/mmba](http://www.michigan.gov/mmba).

The contact information for the Authority is:

Michigan Municipal Bond Authority  
Richard H. Austin Building  
430 W. Allegan  
Lansing, MI 48922  
Phone (517) 335-0994



# BASIC FINANCIAL STATEMENTS

MICHIGAN MUNICIPAL BOND AUTHORITY OF THE STATE OF MICHIGAN  
Statement of Net Assets

	Business-Type			
	General Fund		State Revolving Fund	
	September 30		September 30	
	2009	2008	2009	2008
<b>Assets</b>				
<b>Current Assets</b>				
Cash (Note 2)	\$ 11,578	\$ 12,341	\$ 14,675	\$ 63,235
Investments (Note 2)	8,820,578	10,716,937	847,550,600	845,947,923
Accrued interest receivable	43,670,646	36,623,534	12,737,520	17,510,760
Revenue notes receivable (Note 4)	1,081,367,452	686,588,915		
Bonds receivable (Note 5)	83,391,616	84,699,846		
Loans receivable:				
State revolving (Note 6)			156,414,959	138,034,971
Public school (Note 7)	12,884,855	11,467,403		
Strategic water quality initiatives (Note 8)				
Receivable from the State of Michigan	100,378			2,086,320
Other	241,679	332,295	140,731	167,019
<b>Total current assets</b>	<b>\$ 1,230,488,782</b>	<b>\$ 830,441,271</b>	<b>\$ 1,016,858,485</b>	<b>\$ 1,003,810,228</b>
<b>Noncurrent Assets</b>				
Investments (Note 2)	\$ 21,474,388	\$ 19,058,572	\$ 965,977,445	\$ 1,010,129,371
Accrued interest receivable	70,117,299	77,165,750		
Deferred charges - Net (Note 3)	19,674,002	13,516,966	13,069,610	12,634,625
Bonds receivable (Note 5)	607,817,501	591,054,273		
Receivable from the State of Michigan (Note 9)			8,670,000	8,670,000
Loans receivable:				
State revolving (Note 6)			2,062,422,069	1,927,442,752
Public school (Note 7)	208,879,890	221,764,746		
Strategic water quality initiatives (Note 8)				
<b>Total noncurrent assets</b>	<b>\$ 927,963,080</b>	<b>\$ 922,560,307</b>	<b>\$ 3,050,139,124</b>	<b>\$ 2,958,876,748</b>
<b>Total assets</b>	<b>\$ 2,158,451,862</b>	<b>\$ 1,753,001,578</b>	<b>\$ 4,066,997,609</b>	<b>\$ 3,962,686,976</b>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable and other liabilities	\$ 257,039	\$ 235,745	\$ 7,234,709	\$ 4,312,978
Due to other governmental units			1,022,758	203,360
Accrued interest payable	31,777,613	21,213,113	50,828,805	51,897,504
Revenue notes payable (Note 4)	1,088,657,291	688,413,842		
Deferred revenue				3,366,300
Bonds payable (Note 10)	96,156,962	96,285,855	90,840,000	87,110,000
<b>Total current liabilities</b>	<b>\$ 1,216,848,905</b>	<b>\$ 806,148,555</b>	<b>\$ 149,926,272</b>	<b>\$ 146,890,142</b>
<b>Noncurrent Liabilities</b>				
Accrued interest payable	\$ 31,709,645	\$ 37,177,740	\$	\$
Bonds payable (Note 10)	897,349,800	896,968,940	2,065,425,653	2,028,528,095
<b>Total noncurrent liabilities</b>	<b>\$ 929,059,445</b>	<b>\$ 934,146,680</b>	<b>\$ 2,065,425,653</b>	<b>\$ 2,028,528,095</b>
<b>Total liabilities</b>	<b>\$ 2,145,908,350</b>	<b>\$ 1,740,295,235</b>	<b>\$ 2,215,351,925</b>	<b>\$ 2,175,418,237</b>
<b>Net Assets</b>				
Unrestricted	\$ 12,543,512	\$ 12,706,343	\$	\$
Restricted (Note 1):				
Water pollution control and drinking water projects			1,851,645,684	1,787,268,739
Strategic Water Quality Initiatives Fund				
School Loan Revolving Fund				
<b>Total net assets</b>	<b>\$ 12,543,512</b>	<b>\$ 12,706,343</b>	<b>\$ 1,851,645,684</b>	<b>\$ 1,787,268,739</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,158,451,862</b>	<b>\$ 1,753,001,578</b>	<b>\$ 4,066,997,609</b>	<b>\$ 3,962,686,976</b>

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

Activities					
Strategic Water Quality Initiatives Fund		School Loan Revolving Fund		Total	
September 30		September 30		September 30	
2009	2008	2009	2008	2009	2008
\$	\$	\$	\$	\$	\$
8,002,506	11,842,190	83,718,901	68,230,256	83,745,154	68,305,832
146	14,367	36,251,496	87,480,576	900,625,180	955,987,626
		1,720,212	97,025	58,128,524	54,245,686
				1,081,367,452	686,588,915
				83,391,616	84,699,846
				156,414,959	138,034,971
				12,884,855	11,467,403
403,000	237,438			403,000	237,438
				100,378	2,086,320
				382,410	499,314
\$	\$	\$	\$	\$	\$
8,405,652	12,093,995	121,690,609	155,807,857	2,377,443,528	2,002,153,351
\$	\$	\$	\$	\$	\$
		55,220,000		1,042,671,833	1,029,187,943
				70,117,299	77,165,750
		1,419,182	1,651,635	34,162,794	27,803,226
				607,817,501	591,054,273
		606,225,184	549,564,115	614,895,184	558,234,115
				2,062,422,069	1,927,442,752
				208,879,890	221,764,746
6,363,865	4,696,753			6,363,865	4,696,753
\$	\$	\$	\$	\$	\$
6,363,865	4,696,753	662,864,366	551,215,750	4,647,330,435	4,437,349,558
\$	\$	\$	\$	\$	\$
14,769,517	16,790,748	784,554,975	707,023,607	7,024,773,963	6,439,502,909
\$	\$	\$	\$	\$	\$
		416,536	254,552	7,908,284	4,803,275
17,307	16,073			1,040,065	219,433
		2,671,880	2,478,583	85,278,298	75,589,200
				1,088,657,291	688,413,842
				0	3,366,300
			11,200,000	186,996,962	194,595,855
\$	\$	\$	\$	\$	\$
17,307	16,073	3,088,416	13,933,135	1,369,880,900	966,987,905
\$	\$	\$	\$	\$	\$
		537,051,920	538,367,984	3,499,827,373	3,463,865,019
\$	\$	\$	\$	\$	\$
		537,051,920	538,367,984	3,531,537,018	3,501,042,759
\$	\$	\$	\$	\$	\$
17,307	16,073	540,140,336	552,301,119	4,901,417,918	4,468,030,664
\$	\$	\$	\$	\$	\$
				12,543,512	12,706,343
				1,851,645,684	1,787,268,739
14,752,210	16,774,675			14,752,210	16,774,675
		244,414,639	154,722,488	244,414,639	154,722,488
\$	\$	\$	\$	\$	\$
14,752,210	16,774,675	244,414,639	154,722,488	2,123,356,045	1,971,472,245
\$	\$	\$	\$	\$	\$
14,769,517	16,790,748	784,554,975	707,023,607	7,024,773,963	6,439,502,909

MICHIGAN MUNICIPAL BOND AUTHORITY OF THE STATE OF MICHIGAN  
Statement of Revenues, Expenses, and Changes in Net Assets

	Business-Type					
	General Fund		State Revolving Fund		Strategic Water Quality Initiatives Fund	
	Fiscal Year Ended September 30		Fiscal Year Ended September 30		Fiscal Year Ended September 30	
	2009	2008	2009	2008	2009	2008
<b>Operating Revenues</b>						
Interest	\$ 69,788,415	\$ 77,226,297	\$ 100,297,281	\$ 120,409,466	\$ 126,530	\$ 474,168
Other (Note 11)	875,100	744,451	875,512	2,655,764		
Total operating revenues	\$ 70,663,515	\$ 77,970,748	\$ 101,172,793	\$ 123,065,230	\$ 126,530	\$ 474,168
<b>Operating Expenses</b>						
Interest and arbitrage expense	\$ 63,917,735	\$ 73,205,315	\$ 99,854,786	\$ 98,352,039		
Amortization of deferred charges	6,243,817	3,542,240	1,930,507	1,445,542		
Salaries, wages, and other administrative	664,794	727,859	2,402,589	3,248,518	81,079	125,132
Total operating expenses	\$ 70,826,346	\$ 77,475,414	\$ 104,187,882	\$ 103,046,099	\$ 81,079	\$ 125,132
<b>Operating Income</b>	\$ (162,831)	\$ 495,334	\$ (3,015,089)	\$ 20,019,131	\$ 45,451	\$ 349,036
<b>Nonoperating Revenues (Expenses)</b>						
Operating subsidies	\$	\$	\$ 88,604,071	\$ 94,318,196	\$	\$ 2,487,510
American Recovery and Reinvestment Act Principal Forgiveness (Note 1)			(21,212,037)			
Grant expenditures					(2,067,916)	(13,056,496)
Total nonoperating revenues (expenses)	\$	\$	\$ 67,392,034	\$ 94,318,196	\$ (2,067,916)	\$ (10,568,986)
<b>Change in Net Assets</b>	\$ (162,831)	\$ 495,334	\$ 64,376,945	\$ 114,337,327	\$ (2,022,465)	\$ (10,219,950)
<b>Net Assets - Beginning of fiscal year</b>	12,706,343	12,211,009	1,787,268,739	1,672,931,412	16,774,675	26,994,625
<b>Net Assets - End of fiscal year</b>	\$ 12,543,512	\$ 12,706,343	\$ 1,851,645,684	\$ 1,787,268,739	\$ 14,752,210	\$ 16,774,675

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



Activities

School Loan Revolving Fund		Total	
Fiscal Year Ended September 30		Fiscal Year Ended September 30	
2009	2008	2009	2008
\$ 32,229,994	\$ 28,423,659	\$ 202,442,220	\$ 226,533,590
221,657		1,972,269	3,400,215
\$ 32,451,651	\$ 28,423,659	\$ 204,414,489	\$ 229,933,805
\$ 32,861,226	\$ 25,488,403	\$ 196,633,747	\$ 197,045,757
144,401	418,534	8,318,725	5,406,316
1,629,304	1,340,276	4,777,766	5,441,785
\$ 34,634,931	\$ 27,247,213	\$ 209,730,238	\$ 207,893,858
\$ (2,183,280)	\$ 1,176,446	\$ (5,315,749)	\$ 22,039,947
\$ 91,875,431	\$ 6,476,280	\$ 180,479,502	\$ 103,281,986
		(21,212,037)	0
		(2,067,916)	(13,056,496)
\$ 91,875,431	\$ 6,476,280	\$ 157,199,549	\$ 90,225,490
\$ 89,692,151	\$ 7,652,726	\$ 151,883,800	\$ 112,265,437
154,722,488	147,069,762	1,971,472,245	1,859,206,808
\$ 244,414,639	\$ 154,722,488	\$ 2,123,356,045	\$ 1,971,472,245

MICHIGAN MUNICIPAL BOND AUTHORITY OF THE STATE OF MICHIGAN  
Statement of Cash Flows

	Business-Type					
	General Fund		State Revolving Fund		Strategic Water Quality Initiatives Fund	
	Fiscal Year Ended September 30		Fiscal Year Ended September 30		Fiscal Year Ended September 30	
	2009	2008	2009	2008	2009	2008
<b>Cash Flows from Operating Activities</b>						
Cash payments to employees and suppliers for goods and services	\$ (643,500)	\$ (881,466)	\$ (2,398,214)	\$ (2,892,929)	\$ (79,844)	\$ (135,161)
Other operating revenues	965,716	695,372	901,800	2,717,575	-	-
Net cash provided by (used in) operating activities	<u>\$ 322,216</u>	<u>\$ (186,094)</u>	<u>\$ (1,496,414)</u>	<u>\$ (175,354)</u>	<u>\$ (79,844)</u>	<u>\$ (135,161)</u>
<b>Cash Flows from Noncapital Financing Activities</b>						
Proceeds from sale of bonds and notes - Net	\$ 1,247,555,583	\$ 766,963,761	\$ 315,902,706	\$ 288,153,186	\$	\$
Payment of bond issue costs	(12,400,853)	(5,404,860)	(2,365,492)	(2,387,837)	-	-
Principal paid on bonds and notes	(847,331,399)	(810,783,481)	(275,538,626)	(76,985,000)	-	-
Extinguishment of debt	-	-	-	-	-	-
Interest paid on bonds and notes	(58,821,331)	(86,732,541)	(98,006,129)	(98,615,617)	-	-
Operating subsidies	-	-	85,237,771	89,463,845	-	2,487,510
American Recovery and Reinvestment Act Principal Forgiveness Grant expenditures	-	-	(21,212,037)	-	(2,067,916)	(13,056,496)
Proceeds from receivables/payables from the State of Michigan	100,378	-	2,086,320	1,813,756	-	-
Net cash provided by (used in) noncapital financing activities	<u>\$ 329,102,378</u>	<u>\$ (135,957,121)</u>	<u>\$ 6,104,513</u>	<u>\$ 201,442,333</u>	<u>\$ (2,067,916)</u>	<u>\$ (10,568,986)</u>
<b>Cash Flows from Investing Activities</b>						
Loans made to local governmental units/State of Michigan	\$ (1,249,446,959)	\$ (761,509,570)	\$ (290,464,788)	\$ (287,260,879)	\$ (2,150,675)	\$ (1,630,243)
Principal received on loan repayments	850,751,305	791,131,695	138,188,359	123,389,441	318,000	168,000
Interest received on loan repayments	69,100,726	68,105,390	48,456,660	42,369,040	106,633	69,438
Net (purchases of) proceeds from sale and maturities of investment securities	(519,457)	36,195,014	42,549,249	(160,272,671)	3,839,685	11,627,218
Interest and dividends on investments	689,028	2,123,259	56,613,861	80,538,811	34,118	469,734
Net cash provided by (used in) investing activities	<u>\$ (329,425,357)</u>	<u>\$ 136,045,788</u>	<u>\$ (4,656,659)</u>	<u>\$ (201,236,258)</u>	<u>\$ 2,147,761</u>	<u>\$ 10,704,147</u>
<b>Net Increase (Decrease) in Cash</b>	<u>\$ (763)</u>	<u>\$ (97,427)</u>	<u>\$ (48,560)</u>	<u>\$ 30,721</u>	<u>\$</u>	<u>\$</u>
<b>Cash - Beginning of fiscal year</b>	<u>12,341</u>	<u>109,768</u>	<u>63,235</u>	<u>32,514</u>	<u></u>	<u></u>
<b>Cash - End of fiscal year</b>	<u><u>\$ 11,578</u></u>	<u><u>\$ 12,341</u></u>	<u><u>\$ 14,675</u></u>	<u><u>\$ 63,235</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>
Reconciliation of operating income to net cash from operating activities:						
Operating income	\$ (162,831)	\$ 495,334	\$ (3,015,089)	\$ 20,019,131	\$ 45,451	\$ 349,036
Adjustments to reconcile operating income to net cash from operating activities:						
Interest income reported as cash flows from investing activities	(69,788,415)	(77,226,297)	(100,297,281)	(120,409,466)	(126,530)	(474,168)
Interest expense reported as cash flows from noncapital financing activities	63,917,735	73,205,315	99,854,786	98,352,039	-	-
Amortization of deferred charges	6,243,817	3,542,240	1,930,507	1,445,542	-	-
Changes in assets and liabilities:						
(Increase) decrease in receivables	90,616	(49,079)	26,288	(124,794)	-	-
Increase (decrease) in payables	21,294	(153,607)	4,375	542,194	1,235	(10,029)
Net cash provided by (used in) operating activities	<u><u>\$ 322,216</u></u>	<u><u>\$ (186,094)</u></u>	<u><u>\$ (1,496,414)</u></u>	<u><u>\$ (175,354)</u></u>	<u><u>\$ (79,844)</u></u>	<u><u>\$ (135,161)</u></u>

**Noncash from Investing Activities**

During fiscal year 2007-08, the State of Michigan assigned \$7,256,131 of additional future school bond loan principal repayments to the School Loan Revolving Fund and had \$23,408,418 of accrued interest.

During fiscal year 2008-09, the State of Michigan did not assign any additional future school bond loan principal repayments to the School Loan Revolving Fund and had \$29,781,658 of accrued interest.

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

Activities

School Loan Revolving Fund		Total	
Fiscal Year Ended September 30		Fiscal Year Ended September 30	
2009	2008	2009	2008
\$ (1,467,320)	\$ (1,311,524)	\$ (4,588,878)	\$ (5,221,080)
221,657		2,089,173	3,412,947
\$ (1,245,663)	\$ (1,311,524)	\$ (2,499,705)	\$ (1,808,133)
\$	\$ 549,567,984	\$ 1,563,458,289	\$ 1,604,684,931
88,052	(1,500,926)	(14,678,293)	(9,293,623)
(12,516,064)		(1,135,386,089)	(887,768,481)
	(500,000,000)		(500,000,000)
(32,667,929)	(24,017,943)	(189,495,389)	(209,366,101)
91,875,431		177,113,202	91,951,355
		(21,212,037)	
		(2,067,916)	(13,056,496)
		2,186,698	1,813,756
\$ 46,779,490	\$ 24,049,115	\$ 379,918,465	\$ 78,965,341
\$ (76,104,789)	\$ (61,553,742)	\$ (1,618,167,211)	\$ (1,111,954,434)
34,476,175	37,151,723	1,023,733,839	951,840,859
14,749,203	16,196,695	132,413,222	126,740,563
(3,990,920)	(19,240,218)	41,878,557	(131,690,657)
825,149	5,142,980	58,162,156	88,274,784
\$ (30,045,182)	\$ (22,302,562)	\$ (361,979,437)	\$ (76,788,885)
\$ 15,488,645	\$ 435,029	\$ 15,439,322	\$ 368,323
68,230,256	67,795,227	68,305,832	67,937,509
\$ 83,718,901	\$ 68,230,256	\$ 83,745,154	\$ 68,305,832
\$ (2,183,280)	\$ 1,176,446	\$ (5,315,749)	\$ 22,039,947
(32,229,994)	(28,423,659)	(202,442,220)	(226,533,590)
32,861,226	25,488,403	196,633,747	197,045,757
144,401	418,534	8,318,725	5,406,316
		116,904	(173,873)
161,984	28,752	188,888	407,310
\$ (1,245,663)	\$ (1,311,524)	\$ (2,499,705)	\$ (1,808,133)

## Notes to the Financial Statements

### Note 1 Significant Accounting Policies

The accounting policies of the Michigan Municipal Bond Authority of the State of Michigan conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

#### Reporting Entity

The Michigan Municipal Bond Authority of the State of Michigan (the "Authority"), a discretely presented component unit of the State of Michigan, was created pursuant to Act 227 of the Michigan Public Acts of 1985 (the "Shared Credit Rating Act"), as amended. The Authority provides 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, in an orderly fashion, municipal debt. The Authority is empowered to borrow money and to issue its bonds and notes to provide funds for various municipal purposes, such as public improvement, deficit reduction, and other purposes.

The Authority is governed by its own Board of Trustees, comprised of seven members, consisting of the State Treasurer as chairperson and six appointees of the Governor with the advice and consent of the State Senate. The Board provides overall governing direction for the Authority. 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. All administrative functions of the Authority including budgeting, procurement, personnel, and management functions are under the direction and supervision of the State Treasurer. In accordance with accounting principles generally accepted in the United States of America, there are no component units required to be included in this financial report.

The accompanying financial statements present only the Michigan Municipal Bond Authority. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position and cash flows of the State of Michigan or its component units in conformity with accounting principles generally accepted in the United States of America.

For accountability purposes, the accounts of the Authority are organized into four distinct funds, each of which is considered a separate accounting entity:

General Fund - The General Fund is the main operating fund for the Authority and accounts for all of the activities that are not accounted for in the State Revolving Fund (SRF), the Strategic Water Quality Initiatives Fund (SWQIF), and the School Loan Revolving Fund (SLRF).

State Revolving Fund - The Michigan Municipal Bond Authority and the Michigan Department of Environmental Quality (DEQ) serve as co-administrators of the State Revolving Fund.

The SRF consists of the Clean Water Program and the Drinking Water Program. The SRF provides reduced interest loans for the construction of water pollution control and drinking water projects. From 1989 through 1992, the SRF operated as a direct loan program which loaned federal and State funds directly to program participants. Since 1992, the Authority has issued SRF revenue bonds or notes. Project costs of the local units of government are reimbursed from the bond or note issues.

The State of Michigan received federal capitalization grants from the U.S. Environmental Protection Agency from fiscal years 1988-89 through 2008-09. Federal capitalization grant funds require a 20% match contribution from the State or program fund sources. The federal and State funds create the capital pool from which the low-interest loans can be made. To be eligible for a loan, the project must be included on DEQ's project priority list and annual intended use plan. Federal contributions and appropriated State match are funded and recognized as operating subsidies, which are nonoperating revenues to the Authority, when amounts are earned. A percentage of the federal capitalization grant can be used to reimburse salaries and other administrative costs incurred for DEQ and the Authority. In addition, State matching funds may be used to cover a portion of salaries and administrative costs associated with the Clean Water Program. Federal funds received to reimburse the Authority's expenses are recognized as other operating revenue in the accompanying statement of revenues, expenses, and changes in net assets.

The "American Recovery and Reinvestment Act of 2009" (ARRA) was signed into law by President Obama on February 17, 2009. The bill contained federal funding for Clean Water State Revolving Funds and Drinking Water Revolving Funds administered by the states. Michigan was awarded \$168,509,000 for the Clean Water Program and \$67,454,000 for the Drinking Water Program. These funds will provide the local units of government principal forgiveness for 40% of a project's cost. The Authority reported operating subsidies and nonoperating expenses totaling \$21,212,037 in its statement of revenues, expenses and changes in net assets.

Strategic Water Quality Initiatives Fund - The Michigan Municipal Bond Authority and DEQ serve as co-administrators of the Strategic Water Quality Initiatives Fund (SWQIF). The SWQIF provides low-interest loans that allow qualified municipalities to access financing for the construction of needed water pollution control facilities that cannot qualify for SRF assistance. Like the SRF, the SWQIF can operate as a direct loan program or can provide assistance through the sale of bonds.

School Loan Revolving Fund - The School Loan Revolving Fund (SLRF) was established by Public Act 93 of 2005. Under the SLRF, loans are made to school districts to assist in paying debt service on qualified bonds issued by school districts for capital improvement projects. Qualification of these bonds is obtained through the State's School Bond Qualification and Loan Program and requires a local election being approved by school district voters. The SLRF is a self-sustaining fund. Any money repaid by school districts on loans made with SLRF funds are deposited back into the SLRF for future use in funding new loans.

#### Basis of Presentation

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

### Basis of Accounting

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

Cash - Cash and cash equivalents include deposits with financial institutions, equity in common cash maintained by the State Treasurer, and other highly liquid short-term investments with original maturities of less than 3 months used for cash management rather than investing activities. As of September 30, 2009, the Authority did not consider any short-term investments to be used for cash management and classified all of them as investments.

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 the following: commercial paper and U.S. Treasury notes, which are reported at amortized cost; State of Michigan general obligations bonds, which are reported at par value; and collateralized investment agreements, which are reported at contract value because they are not transferable and are considered nonparticipating contracts. Gains and losses are included in the statement of revenues, expenses, and changes in net assets.

Accounts Payable and Other Liabilities - Federal income tax regulations for certain debt issues require the Authority to rebate to the federal government the interest earned on invested debt proceeds in excess of interest paid. The Authority has recorded an estimated arbitrage liability, which is included in accounts payable and other liabilities. Final amounts will be required to be forwarded to the federal government at a future date. The Authority has funds designated to pay the potential liability.

Deferred Revenue - The SRF deferred revenue reflects State appropriations received that are to be used to match federal capitalization grants which provide loans to local units of government.

Restricted Net Assets - The State Revolving Fund, Strategic Water Quality Initiatives Fund, and the School Loan Revolving Fund restricted net assets are for the construction of water pollution control and drinking water projects, sewage system improvements, and for qualified loans to school districts.

Revenues/Expenses - Operating revenues and expenses generally result from providing services. All other revenues and expenses are reported as nonoperating.

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

Note 2 Deposits and Investments

Cash and investments held by the Authority at September 30 were as follows:

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
<u>2009</u>			
Deposits	\$83,745,154	\$	\$ 83,745,154
Government money market funds		473,163,094	473,163,094
Investments		1,470,133,919	1,470,133,919
	<u>\$83,745,154</u>	<u>\$1,943,297,013</u>	<u>\$2,027,042,167</u>
<u>2008</u>			
Deposits	\$68,305,832	\$ 13,013,138	\$ 81,318,970
Government money market funds		385,259,895	385,259,895
Investments		1,586,902,536	1,586,902,536
	<u>\$68,305,832</u>	<u>\$1,985,175,569</u>	<u>\$2,053,481,401</u>



The Authority has designated three banks for the deposit of its funds. The investment policy in accordance with State statutes has authorized investment in bonds and securities of the United States government and its agencies, prime commercial paper, bank accounts, and certificates of deposit. Eligible investments are also permitted in accordance with bond indentures. The Authority's deposits and investment policies are in accordance with State statutes.

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. The Authority had \$83,745,154 and \$81,318,970 of bank deposits at September 30, 2009 and September 30, 2008, respectively. Of those balances, approximately \$83.7 million and \$68.2 million, respectively, was invested in the State of Michigan's common cash pool. The common cash balance for the School Loan Revolving Fund averaged \$58.1 million during fiscal year 2008-09.

The Authority's deposits, including the State of Michigan's equity in common cash, are handled by the State Treasurer. The State Treasurer's policy 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, 2009, and September 30, 2008, 99.9% and 99.9%, respectively, of the State's common cash was either covered by federal depository insurance or collateralized with securities held in the State's name by the State's agent. Additional details on this policy are described in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

Deposits with trustee banks of \$26,253 and \$75,576 were covered by federal depository insurance coverage for \$250,000 and \$100,000 at September 30, 2009 and September 30, 2008, respectively. The Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that in the event of a bank failure, 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. The Authority limits its custodial credit risk for investments by limiting investments to the types of securities allowed by statute and bond indentures and by prequalifying financial institutions with which the Authority does business. At September 30, the following investment securities were uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the Authority's name:

Type of Investment	Carrying Value		How Held
	2009	2008	
Government money market funds	\$473,163,094	\$ 385,259,895	Counterparty's trust department
Guaranteed investment contracts	\$907,890,226	\$1,022,349,932	Counterparty's trust department
Government securities	\$405,830,833	\$ 450,749,608	Counterparty's trust department
Commercial paper	\$156,412,861	\$ 113,802,996	Counterparty's trust department

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. However, the Authority minimizes interest rate risk by structuring investment portfolios so that securities mature when needed, thereby avoiding the necessity to sell securities to meet cash requirement needs.

At September 30, 2009, the average maturities of investments were as follows:

Type of Investment	Fair Value	Less than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Government money market funds	\$473,163,094	\$473,163,094			
Guaranteed investment contracts	\$907,890,226		\$19,519,122	\$ 1,955,266	\$886,415,838
Government securities	\$405,830,833	\$271,049,226	\$43,459,764	\$41,992,013	\$ 49,329,830
Commercial paper	\$156,412,861	\$156,412,861			

At September 30, 2008, the average maturities of investments were as follows:

Type of Investment	Fair Value	Less than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Government money market funds	\$ 385,259,895	\$385,259,895			
Guaranteed investment contracts	\$1,022,349,932	\$ 91,721,036	\$19,349,625	\$ 1,471,661	\$909,807,610
Government securities	\$ 450,749,608	\$352,190,561	\$62,457,204	\$24,502,013	\$ 11,599,830
Commercial paper	\$ 113,802,996	\$113,802,996			

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments at the time of purchase to government or government-backed securities and deposits within the top four major grades and commercial paper within the two highest classifications established by two nationally recognized statistical rating organizations. Furthermore, bond agreements limit the investment of funds to highly rated providers. The Authority has no other investment policy that would limit its investment choices. At September 30, 2009, the credit quality ratings of debt securities were as follows:

Investment	Fair Value	Rating	Rating Organization
Government money market funds	\$ 277,614,548	AAAm-G	S&P
Government money market funds	\$ 195,548,546	AAAm	S&P
Guaranteed investment contracts	\$ 19,519,122	A+	S&P
Guaranteed investment contracts	\$ 1,955,266	BBB	S&P
Guaranteed investment contracts	\$ 159,717,461	A	S&P
Guaranteed investment contracts	\$ 214,243,184	A+	S&P
Guaranteed investment contracts	\$ 17,089,561	Aaa	Moody's
Guaranteed investment contracts	\$ 180,485,646	BBB	S&P
Guaranteed investment contracts	\$ 110,586,319	AAA	S&P
Guaranteed investment contracts	\$ 142,899,258	AA-	S&P
Guaranteed investment contracts	\$ 61,385,409	BBB+	S&P
Government securities	\$ 252,051,786	AAA	S&P
Government securities	\$ 98,559,047	Unrated	
Government securities	\$ 55,220,000	AA-	S&P
Commercial paper	\$ 126,407,360	A1+	S&P
Commercial paper	\$ 30,005,501	A1	S&P

At September 30, 2008, the credit quality ratings of debt securities were as follows:

Investment	Fair Value	Rating	Rating Organization
Government money market funds	\$ 385,259,895	AAAm	S&P
Guaranteed investment contracts	\$ 243,584,372	AA-	S&P
Guaranteed investment contracts	\$ 166,477,962	AA-	S&P
Guaranteed investment contracts	\$ 1,471,661	A+	S&P
Guaranteed investment contracts	\$ 17,098,561	A	S&P
Guaranteed investment contracts	\$ 272,206,681	BBB	S&P
Guaranteed investment contracts	\$ 106,845,454	AAA	S&P
Guaranteed investment contracts	\$ 148,772,062	AA	S&P
Guaranteed investment contracts	\$ 65,893,179	A-	S&P
Government securities	\$ 450,749,608	AAA	S&P
Commercial paper	\$ 113,802,996	A1	S&P

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 does not have a policy limiting the dollar value of investments with a single issuer.

At September 30, 2009, the Authority had investments in the following issuers for more than 5% of the Authority's total investments:

Name of Issuer	Fair Value	Percent of Investments
Citigroup Global Markets GIC	\$ 159,717,461	8.22%
Societe Generale GIC	\$ 214,243,184	11.02%
Depfa Bank GIC	\$ 180,485,646	9.29%
FSA Capital Management GIC	\$ 110,586,319	5.69%
JPMorgan Chase & Co GIC	\$ 142,899,258	7.35%
GE Capital	\$ 126,407,360	6.50%

At September 30, 2008, the Authority had investments in the following issuers for more than 5% of the Authority's total investments:

Name of Issuer	Fair Value	Percent of Investments
Citigroup Global Markets GIC	\$ 166,477,962	8.44%
Societe Generale GIC	\$ 243,584,372	12.35%
Depfa Bank GIC	\$ 272,206,681	13.80%
FSA Capital Management GIC	\$ 106,845,454	5.42%
JPMorgan Chase & Co GIC	\$ 148,772,062	7.54%

**Note 3 Deferred Charges**

Deferred charges represent bond and note issuance costs as of September 30, 2009 and September 30, 2008. These costs are being amortized using the interest method over the life of the related notes and bonds. Accumulated amortization was \$32,189,126 and \$27,070,491 at September 30, 2009 and September 30, 2008, respectively.

**Note 4 Revenue Notes Receivable and Payable**

Pooled State aid anticipation notes receivable were \$1,081,367,452 and \$686,588,915 at September 30, 2009 and September 30, 2008, respectively. The notes receivable bore interest ranging from .85% to 9.50% during fiscal year 2008-09 and ranging from 1.63% to 1.70% during fiscal year 2007-08. In addition, the yields on the notes receivable ranged from 1.63% to 10.15% during fiscal year 2008-09 and 1.801% to 3.956% during fiscal year 2007-08.

Pooled State aid and tax anticipation notes payable consisted of the following  
at September 30, 2009 and September 30, 2008:

Series	Interest Rate (%)	Yield (%)	Maturity Date	Beginning as of October 1, 2008	Additions	Deletions	Ending as of September 30, 2009
2008A1	3.00	1.63	August 20, 2009	\$202,015,385	\$	\$(202,015,385)	\$
2008A2	3.00	1.70	August 20, 2009	486,398,457		(486,398,457)	
2008B	3.00	1.20	August 20, 2009		22,989,106	(22,989,106)	
2009A	1.75	0.60	August 20, 2009		19,662,823	(19,662,823)	
2009B	6.00	4.75	January 20, 2010		168,189,019		168,189,019
2009C-1	2.50	0.85	August 20, 2010		276,076,480		276,076,480
2009C-2	3.00	1.40	August 20, 2010		227,201,658		227,201,658
2009C-3	2.50	0.85	August 20, 2010		169,190,134		169,190,134
2009D	9.50	9.50	August 20, 2010		230,000,000		230,000,000
2009A TAN	6.30	6.00	December 20, 2009		18,000,000		18,000,000
<b>Total</b>				<b>\$688,413,842</b>	<b>\$1,131,309,220</b>	<b>\$(731,065,771)</b>	<b>\$1,088,657,291</b>

  

Series	Interest Rate (%)	Yield (%)	Maturity Date	Beginning as of October 1, 2007	Additions	Deletions	Ending as of September 30, 2008
2007B1	4.50	3.68	August 20, 2007	\$199,185,148	\$	\$(199,185,148)	\$
2007B2	4.50	3.68	August 20, 2007	512,292,519		(512,292,519)	
2008A1	3.00	1.63	August 20, 2009		202,015,385		202,015,385
2008A2	3.00	1.70	August 20, 2009		486,398,457		486,398,457
<b>Total</b>				<b>\$711,477,667</b>	<b>\$ 688,413,842</b>	<b>\$(711,477,667)</b>	<b>\$ 688,413,842</b>

**Note 5 Bonds Receivable**

Bonds receivable of the General Fund consist of receivables from governmental units to pay for the corresponding bonds payable disclosed in Note 10. The annual requirements for governmental units to repay bonds outstanding as of September 30, 2009, including both principal and interest, were as follows:

	Principal	Interest	Total
2010	\$ 83,391,616	\$ 39,613,884	\$ 123,005,500
2011	87,017,992	37,529,576	124,547,568
2012	85,856,597	34,839,048	120,695,645
2013	85,449,122	32,208,861	117,657,983
2014	73,744,747	41,195,870	114,940,617
2015 - 2019	144,419,133	88,148,280	232,567,413
2020 - 2024	74,573,204	28,123,606	102,696,810
2025 - 2029	31,106,322	10,296,728	41,403,050
2030 - 2034	18,107,048	4,001,178	22,108,226
2035 and thereafter	7,543,336	858,530	8,401,866
<b>Total</b>	<b>\$691,209,117</b>	<b>\$316,815,561</b>	<b>\$1,008,024,678</b>

The interest is recorded as revenue when earned.

Note 6 State Revolving Fund Loans Receivable

The State Revolving Fund has made commitments to municipalities to loan funds for construction of publicly owned water pollution control facilities and drinking water projects. Loans are made from the State Revolving Fund. These loans are primarily secured by limited or unlimited tax general obligations or local government system revenue, and some are additionally secured by revenue-sharing pledge agreements and/or reserve funds. Amounts committed and receivables consisted of the following at September 30:

	Total	Receivables	
	Committed	2009	2008
Clean Water Program	\$3,118,269,404	\$1,834,524,435	\$1,693,840,346
Drinking Water Program	543,116,839	384,312,594	371,637,377
Total	\$3,661,386,243	\$2,218,837,028	\$2,065,477,723

Scheduled repayments of \$156,414,959 are expected to be collected during fiscal year 2009-10.

Note 7 Public School Loans Receivable

Loans receivable of the General Fund consisting of receivables from governmental units to pay for the corresponding bonds payable disclosed in Note 10 were as follows at September 30:

	2009	2008
Public school academies	\$ 39,500,000	\$ 40,100,000
Detroit public schools	182,264,745	193,132,149
Total	\$221,764,745	\$233,232,149

The annual requirements for governmental units to repay loans outstanding as of September 30, 2009, including both principal and interest, were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 12,884,855	\$ 13,012,578	\$ 25,897,433
2011	14,364,876	11,456,350	25,821,226
2012	15,112,887	10,730,600	25,843,487
2013	15,794,796	9,967,225	25,762,021
2014	16,710,550	9,159,263	25,869,813
2015 - 2019	96,184,409	32,147,025	128,331,434
2020 - 2024	28,912,372	11,568,663	40,481,034
2025 - 2029	12,000,000	6,399,750	18,399,750
2030 - 2034	9,800,000	1,205,375	11,005,375
Total	<u>\$221,764,745</u>	<u>\$105,646,829</u>	<u>\$327,411,573</u>

Note 8 Strategic Water Quality Initiatives Loans Receivable

The Strategic Water Quality Initiatives Fund has made commitments to municipalities to loan funds for purposes such as septic system upgrades, replacements, and other projects which are generally not eligible to be financed through the State Revolving Fund Program. Loans are made from the Strategic Water Quality Initiatives Fund. These loans are primarily secured by 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 \$10,236,428 at September 30, 2009. Receivables were \$6,766,865 and \$4,934,191 at September 30, 2009 and September 30, 2008, respectively.

Scheduled repayments of \$403,000 are expected to be collected during fiscal year 2009-10.

Note 9 Receivable from the State of Michigan

State Revolving Fund

The receivable from the State of Michigan recorded in the State Revolving Fund relates to amounts owed to the Authority for bonds issued by the State in 1992 and 1993 and placed into State Revolving Fund reserves to secure bonds issued under that program.



School Loan Revolving Fund

The receivable from the State of Michigan recorded in the School Loan Revolving Fund (SLRF) is collateralized by two different sources - school districts that previously borrowed from the School Bond Loan Fund (SBLF), which is a special revenue fund of the State of Michigan, and school districts that have borrowed through the SLRF. The receivable to pay for the corresponding bonds payable disclosed in Note 10 was \$606,225,184 and \$549,564,115 at September 30, 2009 and September 30, 2008, respectively.

Note 10 Bonds Payable

General Fund

Bonds payable of the General Fund consisted of the following at September 30:

Series	Date of Issue	Original Issue	Amount Outstanding as of	
			September 30	
			2009	2008
Local Government Loan Program Revenue Bonds, Series 1986A, issued to provide funds to assist Michigan governmental units in the orderly financing of public improvements and for other municipal purposes on more favorable terms than might otherwise be obtained by such governmental units. The bonds bear interest at rates ranging from 7.125% to 8.625% and are due at various dates between 2010 and 2015. Amounts outstanding were as follows:				
1986A, Group 4	February 19, 1987	\$ 6,300,000	\$ 35,000	\$ 40,000
1986A, Group 7	June 11, 1987	\$14,900,000	185,000	240,000
1986A, Group 19	March 23, 1989	\$18,275,000	110,000	175,000
Subtotal			\$330,000	\$455,000

Series	Date of Issue	Original Issue	Amount Outstanding as of September 30	
			2009	2008
<p>Local Government Loan Program Revenue Bonds (Resolution 1989) were issued to provide funds to assist Michigan governmental units in the orderly financing of public improvements, deficit financing, and other municipal purposes, secured by the revenue pledged, including the Municipal Obligations issued to the Authority and the funds held in reserve accounts. The bonds bear interest at rates ranging from 2.00% to 8.00% and are due at various dates between 2009 and 2037. Amounts outstanding were as follows:</p>				
1991B	April 11, 1991	\$ 4,120,000	\$ 20,000	\$ 30,000
1991C	June 27, 1991	\$ 56,140,074	9,070,434	10,760,843
1991D	August 29, 1991	\$141,183,756	156,204	324,770
1992D	September 3, 1992	\$ 9,635,000	75,000	95,000
1993B	July 13, 1993	\$ 30,925,000	620,000	1,915,000
1993C	June 17, 1993	\$ 2,275,000	125,000	215,000
1993D	August 26, 1993	\$ 16,385,000	345,000	420,000
1994B	March 30, 1994	\$ 13,080,000	425,000	495,000
1994C	May 24, 1994	\$ 50,610,000	1,465,000	3,110,000
1994D	May 19, 1994	\$ 4,975,000	180,000	210,000
1994E	August 25, 1994	\$ 2,455,000	0	10,000
1994F	October 13, 1994	\$ 6,935,000	430,000	500,000
1994G	December 21, 1994	\$ 72,149,737	8,401,984	8,848,865
1995A	June 22, 1995	\$ 15,205,000	200,000	225,000
1996A	September 20, 1996	\$ 5,755,000	60,000	85,000
1997A	April 29, 1997	\$ 7,705,000	1,060,000	1,300,000
1997B	August 14, 1997	\$ 17,375,000	3,800,000	4,705,000
1997C	October 30, 1997	\$ 16,335,000	3,015,000	3,865,000
1997D	December 22, 1997	\$ 9,300,000	1,000,000	1,000,000
1998A	June 16, 1998	\$ 16,100,000	1,540,000	5,290,000
1999A	February 9, 1999	\$ 10,910,000	2,530,000	3,085,000
1999B	April 28, 1999	\$ 38,605,000	15,530,000	17,565,000

Series	Date of Issue	Original Issue	Amount Outstanding as of September 30	
			2009	2008
1999C	June 24, 1999	\$ 16,685,000	1,595,000	9,240,000
1999D	November 17, 1999	\$ 8,255,000	2,115,000	2,485,000
2000A	May 17, 2000	\$ 10,815,000	4,945,000	5,645,000
2000B	November 28, 2000	\$ 5,905,000	4,540,000	4,770,000
2001A	March 29, 2001	\$ 9,055,000	7,300,000	7,700,000
2001B	July 12, 2001	\$ 10,065,000	4,840,000	5,425,000
2002A	July 1, 2002	\$ 30,060,000	19,480,000	20,665,000
2002B	November 1, 2002	\$ 16,790,000	12,750,000	13,375,000
2003A	April 7, 2003	\$ 3,980,000	2,345,000	2,635,000
2003B	September 30, 2003	\$ 19,665,000	14,750,000	15,760,000
2003C	September 30, 2003	\$160,000,000	97,375,000	114,160,000
2004A	February 18, 2004	\$ 41,155,000	25,225,000	28,670,000
2004B	May 13, 2004	\$ 26,830,000	6,660,000	9,350,000
2004C	December 16, 2004	\$ 9,985,000	4,055,000	5,630,000
2006A	May 10, 2007	\$ 9,825,000	8,620,000	9,295,000
2007A	March 29, 2007	\$ 21,875,000	20,525,000	21,230,000
2007B	August 3, 2007	\$ 98,435,000	64,975,000	78,035,000
2007C	December 19, 2007	\$ 31,080,000	30,020,000	30,555,000
2007D	December 28, 2007	\$ 19,335,000	18,195,000	19,310,000
2008A	June 26, 2008	\$ 27,000,000	27,000,000	27,000,000
2009A	March 18, 2009	\$ 28,430,000	28,430,000	0
2009B	March 31, 2009	\$ 34,020,000	34,020,000	0
2009C	September 23, 2009	\$ 45,795,000	45,795,000	0
Subtotal			\$535,603,622	\$494,989,478

Series	Date of Issue	Original Issue	Amount Outstanding as of September 30	
			2009	2008
<p>School Loan Revenue Bonds, original Series 1998, refunding Series 2003 A and Series 2007 A, issued to provide funds to local school districts and intermediate school districts in the State of Michigan. Funds are to be used by the schools for the purposes permitted by the State School Aid Act of 1979. The bonds have a pledge of revenue from State sources subject to annual State appropriation. The bonds bear interest rates varying from 5.22% to 5.25% and are due semiannually on June 1 and December 1 with final maturity on June 1, 2015:</p>				
2003A	March 25, 2003	\$197,295,000	\$141,245,000	\$167,590,000
2007A	May 10, 2007	\$ 74,645,000	74,645,000	74,645,000
Subtotal			<u>\$215,890,000</u>	<u>\$242,235,000</u>
<p>Series 2005B Revenue Bonds, School District of the City of Detroit. The bonds bear interest at 5% and are due annually on June 1, with final maturity on June 1, 2020:</p>				
2005B	May 24, 2006	\$216,090,000	<u>\$181,330,000</u>	<u>\$193,485,000</u>

Series	Date of Issue	Original Issue	Amount Outstanding as of September 30	
			2009	2008
The Long-Term Public School Academy Program provides financing to public school academies that meet eligibility requirements. The Authority's bonds' actual interest rates are 7.25% to 8% and are due annually on October 1 with final maturity on October 1, 2031:				
Detroit Academy of Arts & Science Series				
2001A	May 16, 2001	\$ 30,200,000	\$ 28,400,000	\$ 28,800,000
Detroit YMCA Service Learning Academy				
	May 16, 2001	\$ 12,100,000	11,100,000	11,300,000
Subtotal			\$ 39,500,000	\$ 40,100,000
Total bonds payable before net premium and deferred amount on refunding			\$972,653,622	\$971,264,478
Net premium on bonds payable			24,501,198	27,180,085
Deferred amount on refunding of bonds			(3,648,058)	(5,189,768)
Total bonds payable - General Fund			\$993,506,762	\$993,254,795
Less current portion			96,156,962	96,285,855
Long-term portion			\$897,349,800	\$896,968,940

The deferred amount on General Fund refunding will be amortized using the effective-interest method over the life of the new bonds.

Substantially all of the General Fund bonds have secondary security including bond insurance and a pledge of revenue from State sources distributed to governmental units.

Changes in long-term debt were as follows:

	Beginning Balance October 1, 2008	Proceeds	Principal Payments/ Extinguishments	Ending Balance September 30, 2009	Due Within One Year
Local Government Loan Program Revenue Bonds, Series 1986A	\$ 455,000	\$	\$ (125,000)	\$ 330,000	\$ 135,000
Local Government Loan Program Revenue Bonds (Resolution 1989)	494,989,478	108,245,000	(67,630,855)	535,603,622	54,836,962
School Loan Revenue Bonds	242,235,000		(26,345,000)	215,890,000	27,720,000
Long-Term Public School:					
Academy Bonds	40,100,000		(600,000)	39,500,000	700,000
Public School Bonds	193,485,000		(12,155,000)	181,330,000	12,765,000
<b>Total</b>	<b>\$971,264,478</b>	<b>\$108,245,000</b>	<b>\$(106,855,855)</b>	<b>\$972,653,622</b>	<b>\$96,156,962</b>

  

	Beginning Balance October 1, 2007	Proceeds	Principal Payments/ Extinguishments	Ending Balance September 30, 2008	Due Within One Year
Local Government Loan Program Revenue Bonds, Series 1986A	\$ 580,000	\$	\$ (125,000)	\$ 455,000	\$ 125,000
Local Government Loan Program Revenue Bonds (Resolution 1989)	484,482,959	77,415,000	(66,908,481)	494,989,478	57,060,855
School Loan Revenue Bonds	267,280,000		(25,045,000)	242,235,000	26,345,000
Long-Term Public School:					
Academy Bonds	40,700,000		(600,000)	40,100,000	600,000
Public School Bonds	205,060,000		(11,575,000)	193,485,000	12,155,000
<b>Total</b>	<b>\$998,102,959</b>	<b>\$77,415,000</b>	<b>\$(104,253,481)</b>	<b>\$971,264,478</b>	<b>\$96,285,855</b>

The annual requirements for the General Fund to service debt outstanding as of September 30, 2009, including both principal and interest, were as follows:

	Principal	Interest	Total
2010	\$ 96,156,962	\$ 52,324,008	\$ 148,480,970
2011	101,478,623	48,457,823	149,936,446
2012	102,270,898	43,947,225	146,218,123
2013	103,816,372	39,369,612	143,185,984
2014	128,890,283	34,648,354	163,538,637
2015 - 2019	257,314,423	104,372,293	361,686,716
2020 - 2024	103,691,061	39,783,369	143,474,430
2025 - 2029	43,275,000	16,696,478	59,971,478
2030 - 2034	28,090,000	5,206,553	33,296,553
2035 - Thereafter	7,670,000	858,530	8,528,530
<b>Total</b>	<b>\$972,653,622</b>	<b>\$385,664,245</b>	<b>\$1,358,317,867</b>

Bond maturities, less accreted interest on capital appreciation bonds, approximate the related receivables from governmental units as disclosed in Notes 5 and 7.

State Revolving Fund

Bonds payable of the State Revolving Fund consisted of the following at September 30:

Series	Date of Issue	Original Issue	Amount Outstanding as of September 30	
			2009	2008
State Revolving Fund Revenue Bonds are used to provide low-interest loans to municipalities. The bonds bear interest at rates ranging from 2.0% to 8.0% and are due at various dates between 2010 and 2029:				
State Revolving Fund Revenue Bonds, Series 1996A	August 29, 1996	\$ 86,750,000	\$ 0	\$ 31,000,000
State Revolving Fund Revenue Bonds, Series 1997	July 1, 1997	\$132,500,000	5,755,000	11,245,000
Clean Water Revolving Fund Revenue Bonds, Series 1998A	July 15, 1998	\$151,165,000	99,175,000	106,205,000
Clean Water Revolving Fund Revenue Bonds, Series 2001A	August 23, 2001	\$222,800,000	177,030,000	186,620,000
Drinking Water Revolving Fund Revenue Bonds, Series 2001A	August 23, 2001	\$ 23,825,000	18,875,000	19,910,000
Clean Water Revolving Fund Revenue Bonds, Series 2002A	August 22, 2002	\$188,000,000	158,430,000	166,125,000
Drinking Water Revolving Fund Revenue Bonds, Series 2002A	August 22, 2002	\$ 72,735,000	61,255,000	64,240,000
Clean Water Revolving Fund Revenue Bonds, Series 2002R	August 22, 2002	\$469,100,000	342,565,000	364,025,000
Drinking Water Revolving Fund Revenue Bonds, Series 2002R	August 22, 2002	\$109,145,000	79,545,000	84,350,000
Clean Water Revolving Fund Revenue Bonds, Series 2004A	April 21, 2004	\$286,605,000	264,665,000	275,790,000
Drinking Water Revolving Fund Revenue Bonds, Series 2004A	April 21, 2004	\$ 67,895,000	62,245,000	65,065,000
Clean Water Revolving Fund Revenue Bonds, Series 2005A	July 26, 2005	\$103,630,000	99,495,000	103,630,000
Drinking Water Revolving Fund Revenue Bonds, Series 2005A	July 26, 2005	\$ 79,480,000	76,290,000	79,480,000
Clean Water Revolving Fund Revenue Bonds, Series 2005R	July 26, 2005	\$ 72,570,000	72,570,000	72,570,000
Clean Water Revolving Fund Revenue Bonds, Series 2006	November 2, 2006	\$150,000,000	150,000,000	150,000,000

Series	Date of Issue	Original Issue	Amount Outstanding as of	
			2009	2008
Clean Water Revolving Fund Revenue Bonds, Series 2007A	October 25, 2007	\$278,040,000	278,040,000	278,040,000
Clean Water Revolving Fund Revenue Bonds, Series 2008A	December 18, 2008	\$150,000,000	0	0
Clean Water Revolving Fund Revenue Bonds, Series 2009A	June 30, 2009	\$150,805,000	150,805,000	
Subtotal			\$ 2,096,740,000	\$2,058,295,000
Premium on bonds payable			91,640,702	96,292,115
Deferred amount on refunding of bonds			(32,115,049)	(38,949,020)
Total bonds payable - State Revolving Fund			\$ 2,156,265,653	\$2,115,638,095
Less current portion			90,840,000	87,110,000
Long-term portion			\$ 2,065,425,653	\$2,028,528,095

The deferred amount on refunding will be amortized using the effective-interest method over the life of the new bonds.

Changes in long-term debt are as follows:

	Beginning Balance October 1	Proceeds	Principal Payments/ Extinguishments	Ending Balance September 30	Due Within One Year
<u>2009</u>					
State Revolving Fund Revenue Bonds	\$2,058,295,000	\$300,805,000	\$(262,360,000)	\$2,096,740,000	\$90,840,000
<u>2008</u>					
State Revolving Fund Revenue Bonds	\$1,857,240,000	\$278,040,000	\$ (76,985,000)	\$2,058,295,000	\$87,110,000



The annual requirements for the State Revolving Fund to service debt outstanding as of September 30, 2008, including both principal and interest, were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 90,840,000	\$101,109,741	\$ 191,949,741
2011	109,060,000	97,933,776	206,993,776
2012	114,335,000	92,547,596	206,882,596
2013	118,810,000	86,797,878	205,607,878
2014	122,660,000	80,679,906	203,339,906
2015 - 2019	647,690,000	305,626,928	953,316,928
2020 - 2024	568,385,000	143,611,551	711,996,551
2025 - 2029	297,800,000	36,935,197	334,735,197
2030 - 2034	27,160,000	637,038	27,797,038
Total	<u>\$2,096,740,000</u>	<u>\$945,879,611</u>	<u>\$3,042,619,611</u>

#### School Loan Revolving Fund

On March 19, 2008, the Authority issued \$553,000,000 of School Loan Revolving Fund (SLRF) Federally Taxable Bonds. The bonds were used to refund the \$500 million of outstanding 2007 SLRF bonds in their entirety and to fund future SLRF loans. The maturity date of the bonds is September 1, 2048. However, the Authority has the option to pay the amount before maturity and expects the bonds to be repaid before that date. At the time of issuance, there were four series of bonds, Series A-1, A-2, A-3, and A-4, with interest payable monthly at a variable rate determined on a weekly basis. The initial rate on these bonds was 5.75%. On April 23, 2008, Series A-4 was converted from weekly mode to term mode with the initial mandatory purchase date of November 5, 2008. As of September 30, 2009, the interest rate was 7.50%, which was the maximum rate under the bond indenture agreement.

The estimated fiscal year 2009-10 interest debt service requirement for the Series 2008 School Loan Revolving Fund is approximately \$41 million. Principal on the bonds is not due until the maturity date.

Due to the infusion of new money into the program in conjunction with the issuance of the 2007 refunding bonds, the economic gain or loss is undeterminable.

During fiscal year 2006-07, the School Loan Revolving Fund issued \$500,000,000 of federally taxable bonds. The bonds were used to refund the 2006 SLRF bonds in their entirety and to fund future SLRF loans. These bonds were refunded with the proceeds from the 2008A series bonds. As of September 30, 2007, the interest rate was 5.50%.

Changes in long-term debt are as follows:

	Beginning Balance October 1	Proceeds	Principal Payments/ Extinguishments	Ending Balance September 30	Due Within One Year
<u>2009</u>					
School Loan Revolving Fund Revenue Bonds	\$553,000,000	\$	\$ (12,840,000)	\$540,160,000	\$ 0
Deferred amount on refunding of bonds				(3,108,080)	
Total bonds payable				\$537,051,920	
<u>2008</u>					
School Loan Revolving Fund Revenue Bonds	\$500,000,000	\$553,000,000	\$(500,000,000)	\$553,000,000	\$11,200,000
Deferred amount on refunding of bonds				(3,432,016)	
Total bonds payable				\$549,567,984	

The annual expected debt service for the School Loan Revolving Fund bonds as of September 30, 2009, including both principal and interest, was as follows (the interest for future debt service requirements was estimated at the rate in effect at September 30, 2009):

	Principal	Interest	Total
2010	\$ 0	\$ 41,074,667	\$ 41,074,667
2011	0	41,074,667	41,074,667
2012	0	41,187,200	41,187,200
2013	0	41,074,667	41,074,667
2014	0	41,074,667	41,074,667
2015 - 2019	0	205,485,867	205,485,867
2020 - 2024	0	205,598,400	205,598,400
2025 - 2029	0	205,485,867	205,485,867
2030 - 2034	0	205,485,867	205,485,867
2035 - 2039	0	205,485,867	205,485,867
2040 - 2044	0	205,598,400	205,598,400
2045 - 2048	540,160,000	164,411,200	704,571,200
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Total	\$540,160,000	\$1,603,037,336	\$2,143,197,336
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On November 18, 2008, the Authority's Board of Trustees passed a resolution authorizing the issuance of additional bonds, of which part of the proceeds will be used to refund the Series 2008 School Loan Revolving Fund bonds.

#### Defeased Debt

In prior years, the General Fund and the State Revolving Fund defeased 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. 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 is \$457,850,000 and \$489,315,000 at September 30, 2009 and September 30, 2008, respectively.

Note 11 Other Income

Other income consists of the following for the fiscal years ended September 30:

	<u>2009</u>	<u>2008</u>
Administrative fee from the Department of Environmental Quality to the State Revolving Fund	\$ 875,512	\$2,655,764
Other income	<u>1,096,757</u>	<u>744,451</u>
Total other income	<u>\$1,972,269</u>	<u>\$3,400,215</u>

The State Revolving Fund processes requests for reimbursement of costs from various federal grants awarded to the Department of Environmental Quality (DEQ). The State Revolving Fund does not record these reimbursements relating to DEQ's program as revenues or expenses. These federal funds, processed on behalf of DEQ, are reflected in DEQ's accounting records.

Note 12 Risk Management

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

Note 13 Employee Benefits

Plan Descriptions - The Michigan Municipal Bond 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 Michigan Municipal Bond Authority. The defined benefit and defined contribution pension plans are part of the State Employees' Retirement System administered by the Department of Management and Budget, Office of Retirement Services. Participants in each plan are eligible for retirement, healthcare, disability, and death benefits upon meeting certain vesting requirements. The State Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State's website at <http://www.michigan.gov/ors>. The financial report for the defined contribution plan may be obtained by writing to the Department of

Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

Funding Policy - For the defined benefit plan, the Michigan Municipal Bond Authority is required to contribute at an actuarially determined rate of 30.64% and 30.12% of payroll for pension and other postemployment benefits for the fiscal years ended September 30, 2009 and September 30, 2008, respectively. Defined benefit plan members are not required to make contributions. For the defined contribution plan, the Michigan Municipal Bond Authority is required to contribute 4.0% of payroll with an additional match of up to 3.0% for the fiscal years ended September 30, 2009 and September 30, 2008. The Authority transferred approximately \$15,600 to the State for its employer contribution in fiscal year 2008-09. Employee contributions to the plan were not significant. The contribution requirements of plan members and the Michigan Municipal Bond Authority are established and may be amended by the State Legislature. The State Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for the plan.

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



SUPPLEMENTAL  
FINANCIAL SCHEDULES

MICHIGAN MUNICIPAL BOND AUTHORITY OF THE STATE OF MICHIGAN  
State Revolving Fund - Combining Schedule of Net Assets

	Clean Water Program		Drinking Water Program		Total	
	September 30		September 30		September 30	
	2009	2008	2009	2008	2009	2008
<b>Assets</b>						
Cash	\$ 58	\$ 19,078	\$ 14,617	\$ 44,157	\$ 14,675	\$ 63,235
Investments	1,474,814,574	1,518,154,640	338,713,471	337,922,654	1,813,528,045	1,856,077,294
Accrued interest receivable	11,335,001	14,068,983	1,402,519	3,441,777	12,737,520	17,510,760
Deferred charges - Net	11,397,794	10,759,674	1,671,816	1,874,951	13,069,610	12,634,625
Receivable from the State of Michigan	8,670,000	10,756,320			8,670,000	10,756,320
Loans receivable	1,834,524,434	1,693,840,346	384,312,594	371,637,377	2,218,837,028	2,065,477,723
Other receivables		66,320	140,731	100,699	140,731	167,019
<b>Total assets</b>	<b>\$ 3,340,741,861</b>	<b>\$ 3,247,665,361</b>	<b>\$ 726,255,748</b>	<b>\$ 715,021,615</b>	<b>\$ 4,066,997,609</b>	<b>\$ 3,962,686,976</b>
<b>Liabilities and Net Assets</b>						
<b>Liabilities</b>						
Accounts payable and other liabilities	\$ 6,810,476	\$ 3,938,711	\$ 424,233	\$ 374,267	\$ 7,234,709	\$ 4,312,978
Due to other governmental units	947,076	140,342	75,682	63,018	1,022,758	203,360
Accrued interest payable	43,253,589	44,008,356	7,575,216	7,889,148	50,828,805	51,897,504
Deferred revenue				3,366,300	0	3,366,300
Bonds payable	1,848,432,415	1,791,953,500	307,833,238	323,684,595	2,156,265,653	2,115,638,095
<b>Total liabilities</b>	<b>\$ 1,899,443,556</b>	<b>\$ 1,840,040,909</b>	<b>\$ 315,908,369</b>	<b>\$ 335,377,328</b>	<b>\$ 2,215,351,925</b>	<b>\$ 2,175,418,237</b>
<b>Net Assets</b>						
Restricted - Water pollution control and drinking water projects	1,441,298,305	1,407,624,452	410,347,379	379,644,287	1,851,645,684	1,787,268,739
<b>Total liabilities and net assets</b>	<b>\$ 3,340,741,861</b>	<b>\$ 3,247,665,361</b>	<b>\$ 726,255,748</b>	<b>\$ 715,021,615</b>	<b>\$ 4,066,997,609</b>	<b>\$ 3,962,686,976</b>



**MICHIGAN MUNICIPAL BOND AUTHORITY OF THE STATE OF MICHIGAN**  
 State Revolving Fund - Combining Schedule of Revenues, Expenses, and Changes in Net Assets

	Clean Water Program		Drinking Water Program		Total	
	Fiscal Year Ended September 30		Fiscal Year Ended September 30		Fiscal Year Ended September 30	
	2009	2008	2009	2008	2009	2008
<b>Operating Revenues</b>						
Interest	\$ 83,654,630	\$ 100,082,757	\$ 16,642,651	\$ 20,326,709	\$ 100,297,281	\$ 120,409,466
Other	523,960	2,474,848	351,552	180,916	875,512	2,655,764
Total operating revenues	\$ 84,178,590	\$ 102,557,605	\$ 16,994,203	\$ 20,507,625	\$ 101,172,793	\$ 123,065,230
<b>Operating Expenses</b>						
Interest and arbitrage expense	\$ 85,671,888	\$ 83,470,828	\$ 14,182,898	\$ 14,881,211	\$ 99,854,786	\$ 98,352,039
Amortization of deferred charges - Net	1,727,373	1,234,105	203,134	211,437	1,930,507	1,445,542
Salaries, wages, and other administrative	2,074,239	3,060,512	328,350	188,006	2,402,589	3,248,518
Total operating expenses	\$ 89,473,500	\$ 87,765,445	\$ 14,714,382	\$ 15,280,654	\$ 104,187,882	\$ 103,046,099
<b>Operating Income</b>	\$ (5,294,910)	\$ 14,792,160	\$ 2,279,821	\$ 5,226,971	\$ (3,015,089)	\$ 20,019,131
<b>Nonoperating Revenues</b>						
Operating subsidies	\$ 55,060,683	\$ 39,325,473	\$ 33,543,388	\$ 54,992,723	\$ 88,604,071	\$ 94,318,196
American Recovery and Reinvestment Act Principal Forgiveness (Note 1)	(16,091,925)		(5,120,112)		(21,212,037)	
Total nonoperating revenues (expenses)	\$ 38,968,758	\$ 39,325,473	\$ 28,423,276	\$ 54,992,723	\$ 67,392,034	\$ 94,318,196
<b>Change in Net Assets</b>	\$ 33,673,848	\$ 54,117,633	\$ 30,703,097	\$ 60,219,694	\$ 64,376,945	\$ 114,337,327
<b>Net Assets - Beginning of fiscal year</b>	1,407,624,452	1,353,506,819	379,644,287	319,424,593	1,787,268,739	1,672,931,412
<b>Net Assets - End of fiscal year</b>	\$ 1,441,298,300	\$ 1,407,624,452	\$ 410,347,384	\$ 379,644,287	\$ 1,851,645,684	\$ 1,787,268,739

MICHIGAN MUNICIPAL BOND AUTHORITY OF THE STATE OF MICHIGAN  
State Revolving Fund - Combining Schedule of Cash Flows

	Clean Water Program		Drinking Water Program		Total	
	Fiscal Year Ended September 30		Fiscal Year Ended September 30		Fiscal Year Ended September 30	
	2009	2008	2009	2008	2009	2008
<b>Cash Flows from Operating Activities</b>						
Cash payments to employees and suppliers for goods and services	\$ (2,070,995)	\$ (2,711,865)	\$ (327,219)	\$ (181,064)	\$ (2,398,214)	\$ (2,892,929)
Other operating revenues	590,280	2,535,408	311,520	182,167	901,800	2,717,575
Net cash provided by (used in) operating activities	\$ (1,480,715)	\$ (176,457)	\$ (15,699)	\$ 1,103	\$ (1,496,414)	\$ (175,354)
<b>Cash Flows from Noncapital Financing Activities</b>						
Proceeds from sale of bonds and notes	\$ 315,012,652	\$ 288,153,186	\$ 890,054	\$	\$ 315,902,706	\$ 288,153,186
Payment of bond issue costs	(2,365,492)	(2,387,837)			(2,365,492)	(2,387,837)
Principal paid on bonds and notes	(258,797,215)	(65,650,000)	(16,741,411)	(11,335,000)	(275,538,626)	(76,985,000)
Interest paid on bonds and notes	(83,558,132)	(82,588,188)	(14,447,997)	(16,027,429)	(98,006,129)	(98,615,617)
Operating subsidies	55,060,683	39,325,473	30,177,088	50,138,372	85,237,771	89,463,845
American Recovery and Reinvestment Act Principal Forgiveness	(16,091,925)		(5,120,112)		(21,212,037)	
Proceeds from receivables/payables from the State of Michigan	2,086,320	1,813,756			2,086,320	1,813,756
Net cash provided by (used in) noncapital financing activities	\$ 11,346,891	\$ 178,666,390	\$ (5,242,378)	\$ 22,775,943	\$ 6,104,513	\$ 201,442,333
<b>Cash Flows from Investing Activities</b>						
Loans made to local governmental units/State of Michigan	\$ (255,935,674)	\$ (228,900,822)	\$ (34,529,114)	\$ (58,360,057)	\$ (290,464,788)	\$ (287,260,879)
Principal received on loan repayments	116,321,802	104,781,778	21,866,557	18,607,663	138,188,359	123,389,441
Interest received on loan repayments	39,317,750	37,194,400	9,138,910	5,174,640	48,456,660	42,369,040
Net (purchases of) proceeds from sale and maturities of investment securities	43,340,064	(155,590,668)	(790,815)	(4,682,003)	42,549,249	(160,272,671)
Interest and dividends on investments	47,070,864	64,041,453	9,542,997	16,497,358	56,613,861	80,538,811
Net cash provided by (used in) investing activities	\$ (9,885,194)	\$ (178,473,859)	\$ 5,228,535	\$ (22,762,399)	\$ (4,656,659)	\$ (201,236,258)
<b>Net Increase (Decrease) in Cash</b>	\$ (19,018)	\$ 16,074	\$ (29,542)	\$ 14,647	\$ (48,560)	\$ 30,721
<b>Cash - Beginning of fiscal year</b>	19,078	3,004	44,157	29,510	63,235	32,514
<b>Cash - End of fiscal year</b>	\$ 60	\$ 19,078	\$ 14,615	\$ 44,157	\$ 14,675	\$ 63,235
<b>Reconciliation of operating income to net cash from operating activities:</b>						
Operating income	\$ (5,294,910)	\$ 14,792,160	\$ 2,279,821	\$ 5,226,971	\$ (3,015,089)	\$ 20,019,131
Adjustments to reconcile operating income to net cash from operating activities:						
Interest income reported as cash flows from investing activities	(83,654,630)	(100,082,757)	(16,642,651)	(20,326,709)	(100,297,281)	(120,409,466)
Interest expense reported as cash flows from noncapital financing activities	85,671,888	83,470,828	14,182,898	14,881,211	99,854,786	98,352,039
Amortization of deferred charges	1,727,373	1,234,105	203,134	211,437	1,930,507	1,445,542
Changes in assets and liabilities:						
Decrease (increase) in receivables	66,320	17,896	(40,032)	(142,690)	26,288	(124,794)
Increase (decrease) in payables	3,244	391,311	1,131	150,883	4,375	542,194
Net cash provided by (used in) operating activities	\$ (1,480,715)	\$ (176,457)	\$ (15,699)	\$ 1,103	\$ (1,496,414)	\$ (175,354)

# GLOSSARY

## Glossary of Acronyms and Terms

bonds receivable	Receivables from governmental units to pay for the corresponding local government loan program revenue bonds issued to provide funds to assist those governmental units in the orderly financing of public improvements and for other municipal purposes.
control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
DEQ	Department of Environmental Quality.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
GASB	Governmental Accounting Standards Board.
GIC	guaranteed investment contract.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in

	financial position or cash flows in conformity with the disclosed basis of accounting.
material weakness in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.
revenue notes receivable	Receivables from public schools and governmental units to pay for the corresponding State aid anticipation and tax anticipation notes issued to provide financing for short-term operational cash flow needs.
S&P	Standard & Poor's.
significant deficiency in internal control over financial reporting	A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected.
SLRF	School Loan Revolving Fund.
SRF	State Revolving Fund.
SWQIF	Strategic Water Quality Initiatives Fund.
unqualified opinion	An auditor's opinion in which the auditor states that: <ul style="list-style-type: none"> <li>a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or</li> </ul>

- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves.



