



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:

<http://audgen.michigan.gov>



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Michigan Finance Authority

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

October 1, 2009 through September 30, 2010

Report Number:
271-0340-11

Released:
February 2011

A financial audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial schedules and/or financial statements. This financial audit of the Michigan Finance 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 Finance Authority's financial statements.

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Internal Control Over Financial Reporting

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

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**Noncompliance and Other Matters
Material to the Financial Statements**

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

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Background:

The Michigan Finance Authority (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, 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 offers financing to public and private agencies providing essential services to the citizens of the State of Michigan, including municipalities; healthcare providers; loans to college students; higher education; and public, private, and charter schools.

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



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

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

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

February 8, 2011

Mr. Andy Dillon, State Treasurer and Chair
Michigan Finance Authority Board of Directors
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Dillon:

This is our report on the financial audit of the Michigan Finance Authority, a discretely presented component unit of the State of Michigan, for the period October 1, 2009 through September 30, 2010.

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, the Authority's required supplementary information, and the Authority's supplemental financial statements and 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 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. Andy Dillon, State Treasurer and Chair
Michigan Finance Authority Board of Directors
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Dillon:

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, 2010, 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.

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 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, 2010 and the changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In 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, 2010 and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2011 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 and budgetary comparison schedules and corresponding notes are not required parts of the basic financial statements but are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental financial statements and 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 basic 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

February 3, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (Unaudited)

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, 2010. Please read it with the Authority's financial statements, which follow this section.

HIGHLIGHTS

- The Michigan Finance Authority (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, 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.
- As of September 30, 2010, the Authority's assets exceeded its liabilities by \$1.445 billion.
- During the fiscal year ended September 30, 2010, the Authority issued new and refunding debt of \$4.041 billion, of which \$1.432 billion was conduit financing for eligible borrowers and therefore was not recorded as debt of the Authority.
- During the fiscal year ended September 30, 2010, the Authority made new loans to students of approximately \$1.6 million.
- During the fiscal year ended September 30, 2010, the Authority purchased \$1.517 billion in local municipality bonds and notes.

- Revenues of \$646.3 million supported expenses of \$514.5 million during fiscal year 2010. As a result, the Authority's total net assets increased by \$131.8 million (10.0%).

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 level financial statements, 3) fiduciary financial statements, and 4) notes to the financial statements.

Government-Wide Financial Statements

The statement of net assets 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 assets presents the Authority's assets and liabilities, with the difference between the two reported as net assets. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 all or most of the certain services it provides. Program revenues include charges to users who directly benefit from the services and grants and contributions that are restricted to meeting the requirements of a function.

Fund Financial Statements (Reporting the Authority's Major Funds)

The fund financial statements provide detailed information about the major individual funds and supplemental 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 keep track of 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 approaches:

- *Governmental Funds* - The Authority's major governmental funds include the Tobacco Settlement Special Revenue and Debt Service Funds. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.
- *Proprietary Funds* - The Authority's major proprietary funds include the Municipal Bond Fund and the Student Loan Fund. The proprietary funds offer short-term and long-term financial information about the activities the Authority operates like a business. Proprietary funds utilize accrual accounting.
- *Fiduciary Funds* - The Authority's fiduciary fund is the Michigan Guarantee Agency's 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. These funds are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the Authority to finance its operations.

Additional Required Supplementary Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the governmental fund - Tobacco Settlement 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 includes combining financial statements and schedules for non-major proprietary funds and subfunds of major proprietary funds. These funds

are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority's combined net assets increased \$131.8 million (10.0%) over the course of fiscal year 2010's operations. The net deficit of the governmental activities increased \$4.7 million (.5%) and business-type activities net assets had an increase of \$136.5 million (6.1%) during fiscal year 2010. Fiscal year 2009 information was developed from a combination of the individual authorities' 2009 financial statements.

Statement of Net Assets
For the Fiscal Years Ended September 30
(In Millions)

	Governmental Activities		Business-type Activities		Total Authority	
	2010	2009	2010	2009	2010	2009
Total assets	\$ 164.9	\$ 161.8	\$ 9,907.3	\$ 9,447.2	\$10,072.2	\$ 9,609.0
Total liabilities	\$ 1,099.5	\$ 1,091.7	\$ 7,527.9	\$ 7,204.3	\$ 8,627.4	\$ 8,296.0
Net assets:						
Unrestricted	\$ (934.6)	\$ (929.9)	\$ 100.5	\$ 103.4	\$ (834.1)	\$ (826.5)
Restricted	0	0	2,278.9	2,139.5	2,278.9	2,139.5
Total net assets	<u>\$ (934.6)</u>	<u>\$ (929.9)</u>	<u>\$ 2,379.4</u>	<u>\$ 2,242.9</u>	<u>\$ 1,444.8</u>	<u>\$ 1,313.0</u>

The Authority's total assets increased by \$463.2 million during fiscal year 2010. The governmental activities remained virtually the same; however, the business-type activities increased by \$460.1 million as a result of increases in loans and receivables from purchases by the Authority of public school and municipal notes and bonds.

The Authority's total liabilities increased by \$331.4 million during fiscal year 2010. The governmental activities liabilities increased by \$7.8 million due to the accretion of capital appreciation bonds. The business-type activities liabilities increased by \$323.6 million as a result of new bond issuances.

The largest component of the Authority's net assets, at \$2.279 billion as of September 30, 2010, reflects its restricted net assets. These represent resources that are subject to external restrictions or enabling legislation on how they can be used.

Unrestricted net assets are the next largest component, comprising of a negative \$834.1 million of the total as of September 30, 2010. These represent the result of the Authority recording liabilities for the entire amount of outstanding bonds. The bonds are payable from proceeds from the Authority's share of future Master Settlement Agreement receipts; however, accounting principles preclude the Authority from recording anticipated receipt of those proceeds because the underlying economic event has not yet occurred.

The following condensed financial information was derived from the government-wide statement of activities and reflects how the Authority's net assets changed during the fiscal year.

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

	Governmental Activities		Business-type Activities		Total Authority	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues						
Charges for services	\$ 66.8	\$ 66.1	\$ 251.6	\$ 239.6	\$ 318.4	\$ 305.7
Operating grants	0	0	324.4	235.5	324.4	235.5
General revenues						
Unrestricted investment and interest earnings	3.1	0	.4	1.9	3.5	1.9
Total revenues	<u>\$ 69.9</u>	<u>\$ 66.1</u>	<u>\$ 576.4</u>	<u>\$ 477.0</u>	<u>\$ 646.3</u>	<u>\$ 543.1</u>
Expenses						
Total expenses	<u>\$ 74.6</u>	<u>\$ 74.1</u>	<u>\$ 439.9</u>	<u>\$ 330.8</u>	<u>\$ 514.5</u>	<u>\$ 404.9</u>
Increase (decrease) in net assets	\$ (4.7)	\$ (8.0)	\$ 136.5	\$ 146.2	\$ 131.8	\$ 138.2
Net assets - Beginning of fiscal year	<u>(929.9)</u>	<u>(921.9)</u>	<u>2,242.9</u>	<u>2,096.7</u>	<u>1,313.0</u>	<u>1,174.8</u>
Net assets - End of fiscal year	<u><u>\$ (934.6)</u></u>	<u><u>\$(929.9)</u></u>	<u><u>\$2,379.4</u></u>	<u><u>\$2,242.9</u></u>	<u><u>\$1,444.8</u></u>	<u><u>\$1,313.0</u></u>

The Authority's total revenue increased by \$103.2 million during fiscal year 2010. The business-type activities accounted for \$99.4 million of the increases mainly due to increases of \$88.9 million of operating grants revenue from American Recovery and Reinvestment Act of 2009 (ARRA) grants received during fiscal year 2010.

The Authority's total expenses increased by \$109.6 million during fiscal year 2010. The business-type activities accounted for \$109.1 million of the increase mainly due to the increases in the disbursement of ARRA grant funds to local municipalities for qualified projects.

FINANCIAL ANALYSIS OF THE AUTHORITY'S MAJOR FUNDS

Tobacco Settlement Special Revenue Fund

Total assets increased by \$3.4 million during fiscal year 2010 mainly as a result of an increase in a receivable from the primary government as a result of a settlement of a disputed amount from previous years. Total liabilities increased by \$2.7 million as a result of the accretion of capital appreciation bonds. No bonds were issued in fiscal year 2010.

The Tobacco Settlement Special Revenue Fund revenues increased by \$24.1 million primarily as a result of the increased revenue from tobacco sales. The funds expenditures and other financing uses decreased by \$1.5 million as a result of reduction in debt service requirements.

Municipal Bond Fund

Total liabilities increased by \$174.9 million during fiscal year 2010 as a result of new bond issuances of \$171.0 million. Proceeds from the new debt, along with the \$126.6 million excess of revenues over expenses (change in net assets) allowed for total assets of the Municipal Bond Fund to increase by \$301.4 million during fiscal year 2010. The increase in net assets consisted primarily of increases in receivables of \$92.0 million of revenue notes to local municipalities and \$72.3 million in loans to school districts. Also, investments increased by \$54.6 million as a result of proceeds from a Clean Water Program bond issue made during fiscal year 2010. Further, the receivable from the primary government increased by \$53.0 million as a result of an increase in loans made under the School Loan Revolving Fund Program. In addition, cash and cash equivalents increased by \$35.5 million as a result of guaranteed investment contract earnings received on September 30, 2010 and an increase in loan repayments in the School Loan Revolving Subfund.

Operating income of the Municipal Bond Fund increased by \$10.5 million during fiscal year 2010. This increase was due primarily to the net effects of a \$28.8 million increase in operating revenue from favorable interest rates and a \$13.0 million increase in

operating expenses as a result of additional debt requirements. Non-operating revenue increased by \$89.5 million (49.6%) as a result of additional operating subsidy from the State of Michigan for the ARRA loan funding program. Non-operating expenses increased by \$127.4 million (600.6%) during fiscal year 2009-10. This represents the increase in operating grants to municipalities for principal forgiveness on debt financed with ARRA funds. This program was first utilized in May 2009 and has significantly grown in fiscal year 2010.

Student Loan Fund

The Student Loan Fund's total assets increased by \$147.1 million resulting from an increase of \$354.4 million in the cash and cash equivalents and a decrease in loans receivable of \$187.1 million during fiscal year 2010. The cash and cash equivalents increase was attributable to note proceeds pending pay down of additional bonds in the upcoming fiscal year.

The Student Loan Fund's total liabilities increased by approximately \$142.0 million during fiscal year 2010. The increase is primarily attributable to the issuance of a \$1.0 billion note to Straight-A Funding, LLC of which approximately \$835.5 million of proceeds were utilized to redeem auction rate bonds in the Series 17 Trust Indenture. Additionally, fixed rate bonds in the amount of \$73.2 million matured during the year.

Student Loan Fund total revenues decreased by \$15.5 million (16.1%) during fiscal year 2010 mainly due to decreases in variable interest rates on student loans and lower government subsidies. Student Loan Fund total expenses also decreased by \$28.3 million (38.2%) again primarily due to a reduction in variable rate debt service requirements.

ECONOMIC CONDITION AND OUTLOOK

By the end of 2009 and continuing into 2010, the capital markets had improved in a manner that allowed the Authority to execute bond refunding and restructuring transactions. Liquidity returned to the markets in limited supply and credit spreads returned to levels closer to the historical norms. Many of the Authority's programs have benefitted from these positive trends.

Although this trend of improvement in the municipal debt market is expected to continue, it is unlikely that the cost and availability of credit will return to pre-2008 levels. Restructuring transactions related to certain Michigan Finance Authority programs will

continue to be evaluated. Additionally, the overall economic environment in Michigan, including a relatively high unemployment rate and the continuing imbalance between the State's revenues and expenditures, may necessitate additional financing transactions.

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:

Michigan Finance Authority
Richard H. Austin Building
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Lansing, MI 48922
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BASIC FINANCIAL STATEMENTS

MICHIGAN FINANCE AUTHORITY
Statement of Net Assets
As of September 30, 2010

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 19,903	\$ 750,699,832	\$ 750,719,735
Receivable - Tobacco revenue	50,288,480		50,288,480
Receivable from federal government		676,497	676,497
Receivable from primary government (Note 4)	2,970,559	2,306,185	5,276,744
Receivable from other funds		3,408,856	3,408,856
Interest receivable	777,411	106,827,696	107,605,107
Investments (Note 3)	32,599,545	764,364,221	796,963,766
Notes receivable (Note 5)		1,215,319,712	1,215,319,712
Loans receivable (Note 6)		380,628,253	380,628,253
Bonds receivable (Note 7)		92,982,124	92,982,124
Other current assets	251,468	2,582,173	2,833,641
Total current assets	<u>\$ 86,907,366</u>	<u>\$ 3,319,795,549</u>	<u>\$ 3,406,702,915</u>
Noncurrent assets:			
Investments (Note 3)	\$ 70,601,532	\$ 1,239,267,076	\$ 1,309,868,608
Loans receivable (Note 6)		3,970,198,209	3,970,198,209
Bonds receivable (Note 7)		600,164,438	600,164,438
Receivable from primary government (Note 4)		666,004,859	666,004,859
Interest receivable		65,993,117	65,993,117
Deferred charges/financing costs - Net	7,393,669	45,926,762	53,320,431
Total noncurrent assets	<u>\$ 77,995,201</u>	<u>\$ 6,587,554,461</u>	<u>\$ 6,665,549,662</u>
Total assets	<u>\$ 164,902,567</u>	<u>\$ 9,907,350,009</u>	<u>\$ 10,072,252,576</u>
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	\$	\$ 11,433,279	\$ 11,433,279
Bonds and notes payable (Note 8)	7,475,000	1,585,315,918	1,592,790,918
Interest payable	20,386,133	91,788,469	112,174,602
Arbitrage payable		9,375,701	9,375,701
Deferred revenue		104,175	104,175
Compensated absences	5,143	142,185	147,328
Total current liabilities	<u>\$ 27,866,276</u>	<u>\$ 1,698,159,727</u>	<u>\$ 1,726,026,003</u>
Noncurrent liabilities:			
Bonds and notes payable (Note 8)	\$ 1,071,595,007	\$ 5,777,316,602	\$ 6,848,911,609
Interest payable		29,851,307	29,851,307
Arbitrage payable		21,328,801	21,328,801
Compensated absences	28,450	1,264,394	1,292,844
Total noncurrent liabilities	<u>\$ 1,071,623,457</u>	<u>\$ 5,829,761,104</u>	<u>\$ 6,901,384,561</u>
Total liabilities	<u>\$ 1,099,489,732</u>	<u>\$ 7,527,920,831</u>	<u>\$ 8,627,410,564</u>
NET ASSETS			
Unrestricted (deficit) (Note 2)	\$ (934,587,165)	\$ 100,527,493	\$ (834,059,672)
Restricted (Note 1)		2,278,901,688	2,278,901,688
Total net assets	<u>\$ (934,587,165)</u>	<u>\$ 2,379,429,181</u>	<u>\$ 1,444,842,016</u>
Total liabilities and fund balance/net assets	<u>\$ 164,902,567</u>	<u>\$ 9,907,350,012</u>	<u>\$ 10,072,252,579</u>

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

MICHIGAN FINANCE AUTHORITY
Statement of Activities
As of September 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Tobacco Settlement Funds	\$ 74,601,941	\$ 66,808,438	\$	\$ (7,793,503)
Total Governmental Activities	\$ 74,601,941	\$ 66,808,438	\$ 0	\$ (7,793,503)
Business-Type Activities:				
Municipal Bond Fund	\$ 371,377,998	\$ 176,958,700	\$ 320,949,278	\$ 126,529,980
Student Loan Fund	46,082,852	51,098,084		5,015,232
Non-Major Funds	22,408,595	23,540,158	3,452,321	4,583,883
Total Business-Type Activities	\$ 439,869,445	\$ 251,596,941	\$ 324,401,599	\$ 136,129,095
Total Michigan Finance Authority	\$ 514,471,386	\$ 318,405,379	\$ 324,401,599	\$ 128,335,592

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

<u>General Revenues</u> <u>Interest and</u> <u>Investment Earnings (Loss)</u>	<u>Changes in</u> <u>Net Assets</u>	<u>Net Assets</u> <u>Beginning of</u> <u>Fiscal Year (Note 1)</u>	<u>Net Assets</u> <u>End of Fiscal Year</u>
\$ 3,138,281	\$ (4,655,222)	\$ (929,931,943)	\$ (934,587,165)
<u>\$ 3,138,281</u>	<u>\$ (4,655,222)</u>	<u>\$ (929,931,943)</u>	<u>\$ (934,587,165)</u>
\$	\$ 126,529,980	\$ 2,123,356,045	\$ 2,249,886,025
56,524	5,071,756	96,488,400	101,560,156
333,612	4,917,495	23,065,505	27,983,000
<u>\$ 390,136</u>	<u>\$ 136,519,231</u>	<u>\$ 2,242,909,950</u>	<u>\$ 2,379,429,181</u>
<u>\$ 3,528,417</u>	<u>\$ 131,864,008</u>	<u>\$ 1,312,978,007</u>	<u>\$ 1,444,842,015</u>

MICHIGAN FINANCE AUTHORITY
Governmental Funds
Balance Sheet
As of September 30, 2010

	<u>Major Fund Tobacco Settlement</u>		<u>Totals</u>
	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	
ASSETS			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 19,903	\$	\$ 19,903
Receivable - Tobacco revenue	50,288,480		50,288,480
Receivable from primary government (Note 4)	2,970,559		2,970,559
Interest receivable	777,411		777,411
Investments (Note 3)	32,599,545		32,599,545
Total current assets	<u>\$ 86,655,898</u>	<u>\$ 0</u>	<u>\$ 86,655,898</u>
Noncurrent assets:			
Investments (Note 3)	\$ 70,601,532	\$	\$ 70,601,532
Total noncurrent assets	<u>\$ 70,601,532</u>	<u>\$ 0</u>	<u>\$ 70,601,532</u>
Total assets	<u>\$ 157,257,430</u>	<u>\$ 0</u>	<u>\$ 157,257,430</u>
LIABILITIES			
Current liabilities:			
Deferred revenue (Note 1)	\$ 53,259,039	\$	\$ 53,259,039
Total current liabilities	<u>\$ 53,259,039</u>	<u>\$ 0</u>	<u>\$ 53,259,039</u>
Total liabilities	<u>\$ 53,259,039</u>	<u>\$ 0</u>	<u>\$ 53,259,039</u>
FUND BALANCE			
Fund balance:			
Unreserved	\$ 103,998,391	\$	\$ 103,998,391
Total fund balance	<u>\$ 103,998,391</u>	<u>\$ 0</u>	<u>\$ 103,998,391</u>
Total liabilities and fund balance	<u>\$ 157,257,430</u>	<u>\$ 0</u>	<u>\$ 157,257,430</u>

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

MICHIGAN FINANCE AUTHORITY
As of September 30, 2010

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

Total Fund Balances for Governmental Funds	\$ 103,998,391
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Deferred bond issuance costs are expended in governmental funds whereas they are capitalized and amortized for net assets.	7,645,137
Accrued interest payable on bonds is not recorded by governmental funds.	(20,386,133)
Cost of issuance payable is not recorded by governmental funds.	0
Bonds payable are not reported in governmental funds until they are due and payable.	(1,079,070,007)
Tobacco revenue receivable in April 2011 is not recognized as earned revenue by governmental funds and recorded as deferred revenue. For purposes of net assets, this is recognized as revenue earned.	50,288,480
Receivable from primary government is not recognized by governmental funds as earned revenue and is recorded as deferred revenue. For purposes of net assets, this is recognized as revenue.	2,970,559
Compensated absences payable is not recorded by governmental funds.	<u>(33,592)</u>
Net assets (deficit)	<u><u>\$ (934,587,165)</u></u>

MICHIGAN FINANCE AUTHORITY
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
As of September 30, 2010

	Major Fund Tobacco Settlement Fund		Totals
	Special Revenue Fund	Debt Service Fund	
Operating Revenues			
Tobacco revenue	\$ 64,062,071	\$	\$ 64,062,071
Investment income	3,138,281		3,138,281
Total operating revenues	<u>\$ 67,200,352</u>	<u>\$ 0</u>	<u>\$ 67,200,352</u>
Operating Expenditures			
Interest and principal on bonds and notes	\$	\$ 66,361,020	\$ 66,361,020
Other administrative expenditures	192,638		192,638
Total operating expenditures	<u>\$ 192,638</u>	<u>\$ 66,361,020</u>	<u>\$ 66,553,658</u>
Operating income (loss)	<u>\$ 67,007,714</u>	<u>\$ (66,361,020)</u>	<u>\$ 646,694</u>
Other Financing Sources (Uses)			
Transfers from other funds	\$	\$ 66,361,020	\$ 66,361,020
Transfers to other funds	(66,361,020)		(66,361,020)
Total other financing sources/(uses)	<u>\$ (66,361,020)</u>	<u>\$ 66,361,020</u>	<u>\$ 0</u>
Change in Fund Balance	\$ 646,694	\$ 0	\$ 646,694
Fund Balance - Beginning of fiscal year (Note 1)	<u>\$ 103,351,697</u>	<u>\$ 0</u>	<u>\$ 103,351,697</u>
Fund Balance - End of fiscal year	<u><u>\$ 103,998,391</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 103,998,391</u></u>

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

MICHIGAN FINANCE AUTHORITY
Fiscal Year Ended September 30, 2010

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	\$ 646,694
Tobacco revenue receivable is not recognized as earned revenue, until deemed available by governmental funds and recorded as deferred revenue. For purposes of net assets, the receivable is recognized as revenue earned.	2,746,367
Bond issuance costs and discounts/premiums on bonds are recognized and expended in the year the governmental fund issues the bond; however, these costs are amortized over the life of the bonds on the Statement of Activities.	
Amortization of discount on bonds issued	(300,233)
Amortization of deferred bond issuance costs	(252,568)
Bond principal payments are recognized as expenditure by governmental funds. For purposes of net assets, this is not recognized as an expenditure.	4,865,000
Bond interest expense accrual - Governmental funds do not recognize bond interest expense accruals. For purposes of net assets, this is recognized as an expense. The adjustment is the change in accrual during the year.	(12,360,439)
Compensated absences expense is not recorded by governmental funds but is reported as an expense for purposes of net assets.	<u>(43)</u>
Net Change in Net Assets	<u><u>\$ (4,655,222)</u></u>

MICHIGAN FINANCE AUTHORITY

Proprietary Fund
Statement of Net Assets
As of September 30, 2010

	Business-Type Activities			
	Major Funds			Totals
	Municipal Bond Fund	Student Loan Fund	Non-Major Funds	
ASSETS				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 119,229,551	\$ 602,478,601	\$ 28,991,680	\$ 750,699,832
Receivable from federal government	49,245		627,252	676,497
Receivable from primary government (Note 4)	1,951,600	354,585		2,306,185
Receivable from other funds	752,750	428,486	2,227,620	3,408,856
Interest receivable	54,760,348	51,402,857	664,491	106,827,696
Investments (Note 3)	761,183,064		3,181,157	764,364,221
Notes receivable (Note 5)	1,173,348,670		41,971,042	1,215,319,712
Loans receivable (Note 6)	184,617,942	196,010,311		380,628,253
Bonds receivable (Note 7)	92,982,124			92,982,124
Other current assets		1,835,718	746,455	2,582,173
Total current assets	<u>\$ 2,388,875,293</u>	<u>\$ 852,510,558</u>	<u>\$ 78,409,697</u>	<u>\$ 3,319,795,549</u>
Noncurrent assets:				
Investments (Note 3)	\$ 1,236,715,776	\$ 500,000	\$ 2,051,300	\$ 1,239,267,076
Loans receivable (Note 6)	2,335,021,014	1,635,177,195		3,970,198,209
Bonds receivable (Note 7)	600,164,438			600,164,438
Receivable from primary government (Note 4)	666,004,859			666,004,859
Interest receivable	65,993,117			65,993,117
Deferred charges/financing costs - Net	33,398,501	12,176,178	352,083	45,926,762
Total noncurrent assets	<u>\$ 4,937,297,705</u>	<u>\$ 1,647,853,373</u>	<u>\$ 2,403,383</u>	<u>\$ 6,587,554,461</u>
Total assets	<u>\$ 7,326,172,998</u>	<u>\$ 2,500,363,931</u>	<u>\$ 80,813,080</u>	<u>\$ 9,907,350,009</u>
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	\$ 1,328,369	\$ 9,990,673	\$ 114,237	\$ 11,433,279
Bonds and notes payable (Note 8)	1,399,290,941	134,474,977	51,550,000	1,585,315,918
Interest payable	89,185,474	2,459,831	143,164	91,788,469
Arbitrage payable	9,273,132	102,569		9,375,701
Deferred revenue			104,175	104,175
Compensated absences	28,336	18,096	95,753	142,185
Total current liabilities	<u>\$ 1,499,106,252</u>	<u>\$ 147,046,146</u>	<u>\$ 52,007,329</u>	<u>\$ 1,698,159,727</u>
Noncurrent liabilities:				
Bonds and notes payable (Note 8)	\$ 3,547,193,847	\$ 2,230,122,755		\$ 5,777,316,602
Interest payable	29,851,307			29,851,307
Arbitrage payable		21,328,801		21,328,801
Compensated absences	135,570	306,073	822,751	1,264,394
Total noncurrent liabilities	<u>\$ 3,577,180,724</u>	<u>\$ 2,251,757,629</u>	<u>\$ 822,751</u>	<u>\$ 5,829,761,104</u>
Total liabilities	<u>\$ 5,076,286,976</u>	<u>\$ 2,398,803,775</u>	<u>\$ 52,830,080</u>	<u>\$ 7,527,920,831</u>
NET ASSETS				
Unrestricted	\$ 12,078,603	\$ 90,149,331	\$ (1,700,441)	\$ 100,527,493
Restricted (Note 1)	2,237,807,422	11,410,825	29,683,441	2,278,901,688
Total net assets	<u>\$ 2,249,886,025</u>	<u>\$ 101,560,156</u>	<u>\$ 27,983,000</u>	<u>\$ 2,379,429,181</u>
Total liabilities and net assets	<u>\$ 7,326,173,001</u>	<u>\$ 2,500,363,931</u>	<u>\$ 80,813,080</u>	<u>\$ 9,907,350,012</u>

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

MICHIGAN FINANCE AUTHORITY
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Assets
As of September 30, 2010

	Business-Type Activities			Totals
	Major Funds			
	Municipal Bond Fund	Student Loan Fund	Non-Major Funds	
Operating Revenues				
Federal revenue (Note 11)	\$ 163,914	\$	\$ 18,940,989	\$ 19,104,903
Interest revenue	176,246,946	81,097,787	1,456,986	258,801,718
Investment income	50,808,013	56,524	73,144	50,937,681
Fees	670,554		3,651,606	4,322,160
Miscellaneous (Note 11)	41,200	(29,999,703)	2,942,898	(27,015,605)
Total operating revenues	<u>\$ 227,930,627</u>	<u>\$ 51,154,608</u>	<u>\$ 27,065,622</u>	<u>\$ 306,150,857</u>
Operating Expenses				
Arbitrage expense	\$ 3,281,814	\$ (1,279,120)	\$	\$ 2,002,694
Interest expense	199,053,059	24,371,972	1,218,018	224,643,049
Amortization on deferred charges/financing costs	14,532,149	1,466,682	189,221	16,188,052
Grants to public school academies			3,452,321	3,452,321
Other administrative expense	5,904,574	21,523,318	17,348,823	44,776,715
Total operating expenses	<u>\$ 222,771,596</u>	<u>\$ 46,082,852</u>	<u>\$ 22,208,383</u>	<u>\$ 291,062,831</u>
Operating income (loss)	<u>\$ 5,159,031</u>	<u>\$ 5,071,756</u>	<u>\$ 4,857,239</u>	<u>\$ 15,088,026</u>
Nonoperating Revenues (Expenses)				
Operating subsidies	\$ 269,977,351	\$	\$	\$ 269,977,351
American Recovery and Reinvestment Act Principal Forgiveness	(148,606,402)			(148,606,402)
Other			60,256	60,256
Total nonoperating revenues (expenses)	<u>\$ 121,370,949</u>	<u>\$ 0</u>	<u>\$ 60,256</u>	<u>\$ 121,431,205</u>
Other Financing Sources (Uses)				
Transfers from other funds	\$	\$ 177,751	\$	\$ 177,751
Transfers to other funds		(177,751)		(177,751)
Total other financing sources (uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Change in net assets	\$ 126,529,980	\$ 5,071,756	\$ 4,917,495	\$ 136,519,231
Net assets - Beginning of fiscal year (Note 1)	2,123,356,045	96,488,400	23,065,505	2,242,909,950
Net assets - End of fiscal year	<u>\$ 2,249,886,025</u>	<u>\$ 101,560,156</u>	<u>\$ 27,983,000</u>	<u>\$ 2,379,429,181</u>

MICHIGAN FINANCE AUTHORITY
Proprietary Fund - Statement of Cash Flows
As of September 30, 2010

	Major			Totals
	Municipal Bond Fund	Student Loan Fund	Non - Major Funds	
Cash Flows From Operating Activities				
Bonds, notes, and loan receivable made	\$ (1,619,700,809)	\$ 53,718	\$ (50,101,042)	\$ (1,669,748,133)
Principal received on bonds, notes, and loans	1,418,592,735	223,615,248	49,366,000	1,691,573,983
Interest received on bonds, notes, and loans	162,572,167	52,326,035	1,705,686	216,603,888
Cash payments to employees and suppliers for goods and services	(8,502,216)	(16,905,846)	(17,016,384)	(42,424,446)
Cash payments to grantees			(3,452,321)	(3,452,321)
Other operating revenues	1,603,548	(31,042,729)	21,881,582	(7,557,599)
Net cash provided by (used in) operating activities	\$ (45,434,576)	\$ 228,046,426	\$ 2,383,522	\$ 184,995,372
Cash Flows From Noncapital Financing Activities				
Proceeds from sale of bonds and notes - Net	\$ 1,497,609,281	\$ 1,013,098,231	\$ 59,740,000	\$ 2,570,447,512
Payment of bond issue costs	(12,755,729)	(2,329,670)	(541,304)	(15,626,703)
Principal paid on bonds and notes	(1,322,181,232)	(859,010,356)	(49,597,250)	(2,230,788,838)
Interest paid on bonds and notes	(202,432,036)	(28,976,224)	(1,479,261)	(232,887,521)
Operating subsidies	269,913,267			269,913,267
American Recovery and Reinvestment Act Principal Forgiveness expenditures	(148,542,318)			(148,542,318)
Other			(130,212)	(130,212)
Net cash provided by (used in) noncapital financing activities	\$ 81,611,232	\$ 122,781,981	\$ 7,991,973	\$ 212,385,186
Cash Flows From Investing Activities				
Net (purchases of) proceeds from sale and maturities of investment securities	\$ (54,601,827)	\$ 3,511,129	\$ 7,611,773	\$ (43,478,925)
Interest and dividends on investments	53,909,568	64,561	175,178	54,149,307
Net cash provided by (used in) investing activities	\$ (692,259)	\$ 3,575,690	\$ 7,786,951	\$ 10,670,382
Net Increase (Decrease) in Cash	\$ 35,484,397	\$ 354,404,098	\$ 18,162,446	\$ 408,050,940
Cash and Cash Equivalents - Beginning of fiscal year (Note 1)	83,745,154	248,074,503	10,829,234	342,648,891
Cash and Cash Equivalents - End of fiscal year	<u>\$ 119,229,551</u>	<u>\$ 602,478,601</u>	<u>\$ 28,991,680</u>	<u>\$ 750,699,832</u>
Reconciliation of operating income to net cash from operating activities				
Operating income (loss)	\$ 5,159,031	\$ 5,071,756	\$ 4,857,239	\$ 15,088,026
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment Income	(50,808,013)	(56,524)	(73,144)	(52,394,667)
Depreciation			15,963	15,963
Interest Expense	199,053,056	24,371,972	1,218,018	224,643,046
Amortization of deferred charges	14,532,149	1,466,682	189,221	16,188,052
Changes in assets and liabilities:				
(Increase) decrease in other receivables	3,994,996	13,340,278	71,592	17,406,866
Increase (decrease) in other payables	1,807,859	(3,197,791)	(3,160,325)	(4,550,256)
(Increase) decrease in bonds, notes, and loans receivable	(219,173,655)	187,050,053	(735,041)	(31,401,658)
Net cash provided by (used in) operating activities	\$ (45,434,576)	\$ 228,046,426	\$ 2,383,522	\$ 184,995,372

MICHIGAN FINANCE AUTHORITY
 Fiduciary Fund - Private Purpose Trust
 Statement of Fiduciary Net Assets
As of September 30, 2010

	Michigan Guaranty Agency Federal Fund
ASSETS	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 10,749,468
Receivable from federal government	24,150,835
Receivable from primary government	1,606
Interest receivable	703
Investments	1,460,990
Other current assets	34,510
Total current assets	\$ 36,398,112
 Total assets	 \$ 36,398,112
LIABILITIES	
Current liabilities:	
Accounts payable and other liabilities	\$ 6,745,155
Student loan claims payable	14,182,714
Total current liabilities	\$ 20,927,869
 Total liabilities	 \$ 20,927,869
NET ASSETS	
Net assets held in trust	15,470,243
 Total liabilities and net assets held in trust	 \$ 36,398,112

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 Assets
As of September 30, 2010

	Michigan Guaranty Agency Federal Fund
Additions:	
Federal revenue	\$ 137,570,887
Loans recovered, repurchased, and rehabilitated	61,384,370
Investment income	(71,822)
Fees	3,304,119
Total Additions	\$ 202,187,554
Deductions:	
Student loan claims paid to lenders	\$ 144,269,021
Payments to federal government	59,430,014
Other expense	2,371,597
Total Deductions	\$ 206,070,632
Net Increase (Decrease)	\$ (3,883,078)
Net assets - Beginning of fiscal year (Note 1)	19,353,321
Net assets - End of fiscal year	\$ 15,470,243

Notes to 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 as applicable to governmental units. The following is a summary of the significant accounting policies.

Change in Reporting Entity

The Michigan Finance 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, 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 change in reporting entity requires the change to be retrospectively applied to the financial statements to show financial information for the new reporting entity for those periods. The beginning fund balance/net assets have been presented as if the consolidation of public finance authorities had occurred as of October 1, 2009. In addition, the Authority reclassified certain activities on its statement of cash flows from prior years to ensure consistency amongst its programs.

The Authority is governed by its own Board of Directors, comprised 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. 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.

The Authority is empowered to borrow money and to issue its 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 nonpublic-nonprofit institutions of higher education; governmental units; and eligible health care 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. The Authority's Michigan Guaranty Agency was formed for the purpose of guaranteeing loans to qualified students and parents of qualified students made through approved financial institutions.

The accompanying financial statements report the financial position and the changes in financial position and cash flows of the Authority, a discretely presented component unit of the State of Michigan, as of September 30, 2010 and for the fiscal year then ended. 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. The financial statements of the Authority are included in the *State of Michigan Comprehensive Annual Financial Report*.

The Authority's Programs and Operations

The Authority's Tobacco Settlement Fund (previously 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. The Authority issued bonds secured by a pledge of a percentage of the State of Michigan's tobacco settlement receipts, and deposited the bond proceeds in

the State of Michigan's School Aid Fund, General Fund, and the 21st Century Jobs Trust Fund.

The Authority's Municipal Bond Fund (previously 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, the State Revolving Subfund, the Strategic Water Quality Initiatives Subfund, and the School Loan Revolving Subfund.

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.

The Department of Treasury and the Michigan Department of Natural Resources and Environment (DNRE) each serve as co-administrators of the Clean Water Program and Drinking Water Program within the State Revolving Subfund, and the Strategic Water Quality Initiatives Subfund. The Authority provides reduced interest loans for the construction of water pollution control and drinking water projects. The programs can operate as a direct loan program or can provide assistance through the sale of Authority bonds.

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 are deposited back into the revolving fund for future use in funding new loans.

The Authority's Student Loan Fund (previously 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 Michigan private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education.

The Authority's Michigan Guaranty Agency (MGA) (previously reported under the Michigan Higher Education Assistance Authority) was formed for the purpose of guaranteeing loans to qualified students and parents of qualified

students made through approved financial institutions. MGA's Federal Fund accounts for funds and property received from various sources and held by the Authority on behalf of the U.S. Department of Education (USDOE).

The Authority's Public School Academy Facilities Fund (previously the Michigan Public Education Facilities Authority) was authorized by Executive 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.

The Authority's Healthcare Finance Fund (previously the Michigan State Hospital Finance Authority), was organized under Act 38, P.A. 1969, as amended, to facilitate the ability of eligible health care providers and facilities (the "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 (HELP) 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.

The Authority's Higher Education Facilities Fund (previously 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 nonpublic, nonprofit institutions of higher education within the State for capital improvements.

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 governmental and business-type activities reporting requirements of GASB Statement No. 34, which provide a comprehensive one-line look at the Authority's financial activities.

Government-Wide Financial Statements

The Authority's statement of net assets and statement of activities report information on all non-fiduciary activities of the Authority. 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 revenues charged to external parties for goods or services. The statement of net assets presents the Authority's non-fiduciary assets and liabilities, with the difference reported as net assets. The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Program revenues include charges to users who directly benefit from the services and 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 revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. 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 Tobacco Settlement Special Revenue and Debt Service Funds. The Authority's major proprietary funds include the Municipal Bond Fund and Student Loan Fund. The non-major proprietary funds include the Michigan Guaranty Agency - Operating Fund, Higher Education Facilities Fund, Public School Academy Facilities Fund, and Healthcare Finance Fund. The Authority's fiduciary fund is the Michigan Guaranty Agency's Federal Fund.

Measurement Focus and Basis of Accounting

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, 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.

The Authority follows the accounting rules promulgated by GASB. In addition, 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.

Major Account Classifications: Assets, Liabilities, and Net Assets/Fund Balance

Cash - Cash and cash equivalents include deposits with financial institutions, including non-negotiable certificates of deposit, and equity in common cash maintained by the State Treasurer. In addition, the Student Loan Fund, the Non-Major Funds, and the MGA - Federal Fund include highly liquid short-term investments with original maturities of less than 3 months used for cash management rather than investing activities as cash equivalents.

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 repurchase agreements, which are reported using cost-based measures because they are nonparticipating interest-earning investment contracts.

Tobacco Revenue Receivable - is revenue earned as a result of the sale by the State of a portion of its future tobacco settlement revenue. The receivable is recognized as revenue in the government-wide financial statement but is deferred in the governmental fund special revenue financial statement.

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.

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.

Bonds Receivable - Bonds receivable consist of the value of bonds purchased from governmental units that will generate regular principal and interest payments over the life of the bond.

Deferred Charges/Financing Costs - Deferred charges represent bond and note issuance costs as of September 30, 2010. These costs are being amortized using the interest method over the life of the related notes and bonds.

Capital Assets - Purchases by the Authority for use in its operations that meet the requirements of the State of Michigan's capitalization policy are capitalized in accordance with GASB Statement No. 34. For the fiscal year ended September 30, 2010, the Authority had no capitalized equipment purchases. Costs incurred for computer software developed or obtained for internal use are capitalized and amortized over its useful life of 12 years. Costs incurred for office equipment are capitalized and depreciated over the equipment's useful life of five years.

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

Notes Payable - State aid anticipation notes are payable by the Authority, through designated trustees, solely from funds received from each participating public school in payment of the Authority's note 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.

Bonds Payable - The Authority issues bonds to provide funding for its various programs. In the government-wide and proprietary fund statements, bond premiums, discounts, and issuance costs 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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 which may be retained by the Authority is limited to the bond yield plus an allowable spread. Reserves are maintained for estimated future payments of excess loan and investment income. Payments of excess investment or loan income are required to be made to the federal government on a periodic basis during the term and at final maturity of the related bond issue.

Deferred Revenue - The Authority records deferred revenue when revenue is unearned or unavailable in governmental fund statements primarily for the tobacco revenue receivable. The Authority deferred revenues for a federal capitalization grant which has been received, but funds were not yet allocated to assist in funding school projects in the Public School Academy Facilities Fund. As funds are used, the Authority recognizes the revenue.

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. Each fund within the Authority is allocated a portion of the Authority's costs.

Net Assets/Fund Balance - The difference between fund assets and liabilities is net assets on the government-wide, proprietary fund, and fiduciary fund financial statements. The difference between fund assets and liabilities is fund

balance on the governmental fund financial statement. Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balance reflects funds legally segregated for a specific purpose or assets, which by their nature, are not available for appropriations. Unreserved fund balances reflect the balance available for appropriation for the general purposes of the fund.

Restricted Net Assets - 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 assets are for the construction of water pollution control and drinking water projects, sewage system improvements, and qualified loans to school districts.

Major Account Classifications: Revenues and Expenses/Expenditures; Additions/Deletions

Governmental Fund

Revenues are primarily from tobacco revenue purchased from the State of Michigan. Expenditures are primarily debt service principal and interest on outstanding bonds.

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 unit bonds; and guaranteeing qualified student loans.

Operating Revenues

The principal operating revenues of the Authority are federal grants, interest earned on loans, investment revenue, and charges to customers for financing services. Federal revenue is for subsidized student loan interest, defaulted student loans, guaranty loan activity fees, and grants for the credit enhancement for charter school facilities.

Fees are generated from student loan default and default aversion services and repurchased, rehabilitated, and consolidated loan services. The federal default fee is equal to 1% of the principal amount of the loan and is accounted for in the MGA - Federal Fund. The default aversion fee is for aversion activities on delinquent loans at the time lenders request default aversion assistance and is equal to 1.0% of principal and interest on the loan and is paid from the MGA - Federal Fund to the MGA Operating Fund in the non-major funds. Repurchased, rehabilitated, and consolidated loan fees are received for collection costs and recorded in the MGA - Operating Fund.

Operating Expenses

Operating expenses of the Authority include the interest expense on bonds and notes, cost of financing services, federal grants, expenses related to servicing loans, and administrative expenses.

Nonoperating Revenues/Expenses

Nonoperating revenues include the American Recovery and Reinvestment Act of 2009 (ARRA) federal grants, 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. The Authority reported operating subsidies of \$270.0 million and nonoperating expenses of \$148.6 million in its proprietary fund statement of revenues, expenses, and changes in net assets.

Fiduciary Fund

Additions include federal funds, recovery of funds from potentially defaulted loans, and repurchased loans or loans that have been rehabilitated. Deductions included loan claims from financial institutions for loans where the student defaulted and the unpaid loans have been acquired by MGA, and payments to the federal government for recovered, repurchased, or rehabilitated loans where the claim was already paid.

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 Deficit Net Asset Balance

The Authority is reporting a net asset deficit balance of \$934.6 million at September 30, 2010 in the governmental activities entity-wide statement of net assets. The payments to be received for the Tobacco Settlement Fund under the Master Settlement Agreement (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 ensured.

Under accounting principles generally accepted in the United States of America, such contingent amounts cannot be recognized as a receivable or revenue until the actual tobacco sales have occurred and the settlement payment amount is measurable and available. However, the Authority's bond issuance is recorded as a liability on the entity-wide financial statements resulting in a net deficit.

Note 3 Deposits and Investments

Deposits and investments held by the Authority at September 30, 2010 were as follows:

	Governmental Activities <u>Government Funds</u>	Business-Type Activities <u>Proprietary Funds</u>	Fiduciary Activities <u>Fiduciary Funds</u>	<u>Total</u>
Deposits	\$ 19,903	\$ 161,010,085	\$ 649,175	\$ 161,679,163
Investments	\$103,201,077	\$2,593,321,044	\$11,561,283	\$2,708,083,404

State statutes authorize the allowable investments for the various funds identified below. In addition, permissible investments are also defined in bond indentures.

Governmental Activities - Tobacco Settlement Fund

The Authority is authorized by State statutes to invest any money of the Tobacco Settlement Fund, at the Authority's discretion, in any obligations it determines as proper. The Authority's bond indenture restricts the Authority to investments rated A-1 or higher by Standard & Poor's, P-1 by Moody's Investors Services, and F1 by Fitch Ratings.

Business-Type Activities

- Municipal Bond Fund

The Authority is authorized 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 Indentures for the various programs within the Municipal Bond Fund may define additional eligible investments.

- Student Loan Fund

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

- Non-major Funds

- Michigan Guaranty Agency - Operating Fund

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

- Higher Education Facilities Fund

The Authority is authorized to invest in obligations of, or guaranteed by, the State of Michigan or the U.S. government certificates of deposit.

- Public School Academy Facilities Fund

The Authority is authorized 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 define additional eligible investments.

- Healthcare Finance Fund

The Authority is authorized to invest in obligations of, or guaranteed by, the State of Michigan or the U.S. government, certificates of deposit, commercial paper, U.S. government repurchase agreements, bankers' acceptances, mutual funds, and other obligations approved by the State Treasurer.

Fiduciary Fund - Michigan Guaranty Agency Federal Fund

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

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

Custodial Credit Risk of 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 \$161.7 million in deposits at September 30, 2010. Of this balance, \$94.5 million was invested in the State of Michigan's common cash pool and \$67.2 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 deposits, and special State investment programs. At September 30, 2010, the common cash pool held the majority of its funds in depository accounts (82%) and prime commercial paper (15%). 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, 2010, 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 or P-1 at purchase and places requirements and restrictions on the borrower. Additional details on the common cash pool

policies and risk disclosures are described in the *State of Michigan Comprehensive Annual Financial Report*.

The Authority does not have a policy for controlling custodial credit risk at depository institutions. Of the \$65.1 million deposited in financial institutions, \$1.3 million was insured by the Federal Depository Insurance Corporation (FDIC), \$4.8 million was collateralized, and \$59.0 million was uninsured and uncollateralized and therefore exposed to custodial credit risk at September 30, 2010; however, the Authority mitigates this risk by holding funds in trust accounts with qualified institutions and ensuring the funds were on hand only for a short period of time before they were reinvested or used for program purposes, e.g., debt service on bonds.

Custodial Credit Risk of Investments - Custodial credit risk 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, 2010, 13.5% of the Authority's investments were exposed to custodial credit risk because they were held by the counterparty:

<u>Type of Investment</u>	<u>Amount</u>
<u>Business-Type Activities</u>	
U.S. Treasury Bills	\$ 182,988,713
U.S. Treasury Notes	\$ 5,232,457
Commercial Paper	\$ 178,853,936

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 makes investments in accordance with applicable statutory and bond indenture provisions. Key factors when making up-front and ongoing investment decisions include the preservation of principal and making sure the terms of the investment conform

with the cash flow requirements for making debt service payments to bondholders when due.

At September 30, 2010, 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
<u>Governmental Activities</u>					
Government Money Market Funds	\$ 32,599,545	\$ 32,599,545			
Repurchase Agreements	\$ 37,801,532				\$ 37,801,532
Municipal Bonds	\$ 32,800,000				\$ 32,800,000
<u>Business-Type Activities</u>					
Government Money Market Funds	\$ 966,428,960	\$966,428,960			
Repurchase Agreements	\$1,125,035,371		\$22,003,839	\$52,901,361	\$1,050,130,172
U.S. Treasury Bills	\$ 182,988,713	\$182,988,713			
U.S. Treasury State and Local Government Series	\$ 79,561,607	\$ 22,601,202	\$24,042,893	\$32,917,512	
U.S. Treasury Notes	\$ 5,232,457	\$ 3,181,157	\$ 2,051,299		
Commercial Paper State of Michigan General Obligation Bonds	\$ 178,853,936	\$178,853,936		\$55,220,000	
<u>Fiduciary Activities</u>					
Government Money Market Funds	\$ 10,100,293	\$ 10,100,293			
U.S. Treasury Bills	\$ 1,460,990	\$ 1,460,990			

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 to control credit risk is defined by State statute and bond indentures that identify permissible investments. Investments are required to be in the top three rating categories provided by Standard & Poor's, Moody's Investors Service, or Fitch Ratings and require minimum levels of specific collateral, at least 102%, for repurchase

agreements. At September 30, 2010, the credit quality ratings of debt securities were as follows:

Investment	Fair Value	Rating	Rating Organization
<u>Governmental Activities</u>			
Government Money Market Funds	\$ 6,266,446	AAAm-G	S&P
Government Money Market Funds	\$ 26,333,099	AAAm	S&P
Repurchase Agreement	\$ 37,801,532	BBB	S&P
Municipal Bonds	\$ 32,800,000	AA-	S&P
<u>Business-Type Activities</u>			
Government Money Market Funds	\$224,523,095	AAAm-G	S&P
Government Money Market Funds	\$741,905,865	AAAm	S&P
Repurchase Agreement	\$201,903,472	A+	S&P
Repurchase Agreement	\$428,036,235	A	S&P
Repurchase Agreement	\$ 20,018,763	A+	S&P
Repurchase Agreement	\$ 500,000	Aaa	Moody's
Repurchase Agreement	\$189,875,837	BBB	S&P
Repurchase Agreement	\$101,062,684	A+	S&P
Repurchase Agreement	\$131,237,020	AA-	S&P
Repurchase Agreement	\$ 52,401,361	A3	Moody's
State of Michigan General Obligation Bonds	\$ 55,220,000	Aa3	Moody's
Commercial Paper	\$178,853,936	A1	S&P
<u>Fiduciary Activities</u>			
Government Money Market Funds	\$ 10,100,293	AAAm	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. The Authority has taken steps to mitigate concentration of credit risk by requiring investments to be in the top three rating categories provided by Standard & Poor's, Moody's Investors Service, or Fitch Ratings and requiring minimum levels of specific collateral, at least 102%, for repurchase agreements. At September 30, 2010, 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
<u>Governmental Activities</u>		
Municipal Bonds	\$ 32,800,000	32%
Repurchase Agreement - Hypo Public Finance Bank/Depfa	\$ 37,801,532	37%
<u>Business-Type Activities</u>		
Repurchase Agreement - Societe Generale	\$201,903,472	10%
Repurchase Agreement - Citigroup Global Markets	\$428,036,235	21%
Repurchase Agreement - Hypo Public Finance Bank/Depfa	\$189,875,837	10%
Repurchase Agreement - FSA Capital Management	\$101,062,684	5%
Repurchase Agreement - JP Morgan	\$131,237,020	7%
Commercial Paper - Abbey National	\$118,915,552	6%

Note 4 Receivable From Primary Government

a. Governmental Activities and Tobacco Settlement Fund

Tobacco Settlement Receivable, 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 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 tobacco settlement revenue that is received by the State that is required under the terms of the MSA and that is payable to the State beginning in 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.

As of September 30, 2010, the State of Michigan is currently in litigation over the application and interpretation of the market share adjustment and diligent enforcement provisions of the MSA. At best, the State of Michigan will avoid any reduction of its tobacco payments. At worst, an entire year's payment can be eliminated through application of the market share adjustment. The net effect of these adjustments on future payments is unclear; therefore, only receivables and deferred revenues that can be reasonably estimated have been recorded for future payments.

b. Business-Type Activities

Municipal Bond Fund - State Revolving Subfund

The receivable from the State of Michigan recorded in the Municipal Bond Fund - State Revolving Subfund relates to amounts owed to the Authority for bonds issued by the State in 1992 and 1993 and placed into State Revolving Subfund reserves to secure bonds issued under that program. The receivable to pay for the corresponding bonds payable disclosed in Note 8 was \$6.9 million at September 30, 2010.

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 two different sources: school districts that previously borrowed from the School Bond Loan Fund, which is a special revenue fund of the State of Michigan, and school districts that have borrowed through the School Loan Revolving Subfund. The receivable to pay for the corresponding bonds payable disclosed in Note 8 was \$661.0 million at September 30, 2010.

Note 5 Notes Receivable

a. Municipal Bond Fund

The Authority originated loans to public schools to meet cash flow needs for spending purposes from the proceeds of its State aid anticipation notes. Collections of the receivable for the notes outstanding are used to

pay for the corresponding notes payable disclosed in Note 8. The balance of notes receivable was \$1,173.3 million at September 30, 2010. The notes receivable bore interest ranging from .4% to 5.0% during fiscal year 2009-10.

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

The Authority originated loans to public school academies to meet cash flow needs for operating purposes from the proceeds of its State aid anticipation notes. Collections of the receivable for the notes outstanding are used to pay for the corresponding notes payable disclosed in Note 8. The balance of notes receivable was \$42.0 million at September 30, 2010. The notes receivable bore interest ranging from 3.04% to 3.98% during fiscal year 2009-10.

Note 6 Loans Receivable

a. Municipal Bond Fund - Local Municipalities Subfund

The loans receivable consist of \$38.8 million from public school academies and \$170.1 million from Detroit Public Schools for fiscal year 2009-10. Collections of the receivable for the loans outstanding are used to pay for the corresponding bonds payable disclosed in Note 8. Scheduled repayments of \$14.1 million are expected to be collected during fiscal year 2010-11.

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 local municipalities 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 for the Clean Water Program were \$3.2 billion and as of September 30, 2010, loans of \$1.9 billion were outstanding. Amounts committed for the Drinking Water Program were \$594.9 million and as of September 30, 2010, loans of \$392.6 million were outstanding. Scheduled repayments of \$169.8 million are expected to be collected during fiscal year 2010-11.

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 septic system upgrades, replacements, and other projects which 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 \$13.8 million as of September 30, 2010, and receivables outstanding were \$7.6 million. Scheduled repayments of \$465,000 are expected to be collected during fiscal year 2010-11.

d. Student Loan Fund

Loans include educational loans made under the Federal Family Education Loan Program (FFELP) to students (Stafford Loans), to parents of dependent undergraduates (PLUS Loans*), and to borrowers consolidating certain student loans (Consolidation Loans). These loans are insured. Loans also include education loans made under the Authority's Michigan Alternative Student Loan (MI-LOAN) Program, which are not 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.

Stafford Loans - Stafford Loans may be subsidized or unsubsidized. Interest is paid on subsidized Stafford Loans during the enrolled and grace periods by the U.S. Department of Education (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 3.1% depending on the status and/or date of disbursement of the loan.

* See glossary at end of report for definition.

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

PLUS 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%, dependent upon when borrowers obtained their first PLUS Loans.

MI-LOAN - Under the Authority's MI-LOAN Program, loans are made to assist students in meeting the costs of education at a degree-granting college or university located in Michigan. Borrowers or eligible co-signers must meet standards of credit established by the Authority. As of September 30, 2010, MI-LOAN Program balances outstanding were \$255.1 million. The MI-LOAN Program's fixed interest rate was at 6.95% for creditworthy borrowers and the variable rate was 1.72% at September 30, 2010. Repayment begins within 60 days of the disbursement and extends over a maximum period of 25 years.

Allowance - The Authority's Stafford, PLUS, SLS, and Consolidation Loans are guaranteed primarily by the Authority's MGA 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, 2010, the Authority recorded an allowance for the FFELP loans of \$1.4 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, 2010, the allowance for the MI-LOAN Program loans was \$3.1 million.

Reserve Fees - The MI-LOAN Program loan origination fees, called reserve fees, are received and retained by the Authority for all MI-LOAN Program loans. The MI-LOAN Program reserve fee is 3.5% and is

capitalized and amortized as an adjustment to interest income over the life of the loan. For fiscal year 2009-10, \$1.1 million of reserve fees were amortized.

Unamortized Premiums - Also included in the loans receivable are premiums paid to the financial institutions for loans purchased. These premiums are amortized over the remaining life of the loans as a reduction to interest income. For fiscal year 2009-10, \$7.8 million of premiums were amortized.

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

Components	2010
Loans receivable	\$1,845,669,843
Allowance for loan loss	(27,221,329)
Loan origination fees receivable	(839,481)
MI-LOAN Program reserve fees	8,815,158
Unamortized premiums paid	4,763,314
Net loans receivable	\$1,831,187,505

Status of Student Loan Programs - On February 15, 2008, origination of new MI-LOAN Program loans was suspended. On April 21, 2008, the Authority suspended its origination and acquisition of new FFELP loans through its Michigan Student Loan Program and State Secondary Market, respectively. The Michigan Student Loan Program originations of FFELP loans resumed in August 2009 utilizing unencumbered Authority funds and continued through June 30, 2010. Over the course of this eleven-month period, \$1.6 million of student loans were originated and subsequently sold to the USDOE under the terms of the Ensuring Continued Access to Student Loans Act (ECASLA) Loan Purchase Commitment Program. 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 FFELP loans after June 30, 2010.

Note 7 Bonds Receivable

Bonds receivable consists of receivables from governmental units to pay corresponding Authority bonds as disclosed in Note 8. During the fiscal year, the Authority purchased local governmental units municipal bonds for \$86.3 million from the proceeds of the Authorities bond issuance. The annual requirements for governmental units to repay their bonds to the Authority as of September 30, 2010, including principal and interest were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 92,982,124	\$ 40,418,163	\$133,400,287
2012	92,582,081	37,779,861	130,361,942
2013	92,956,012	34,925,968	127,881,980
2014	78,599,553	43,683,986	122,283,539
2015	56,764,506	39,093,062	95,857,568
2016 - 2020	135,621,125	70,591,459	206,212,584
2021 - 2025	83,795,000	22,772,884	106,567,884
2026 - 2030	38,330,000	7,068,315	45,398,315
2031 - 2035	15,800,000	1,285,792	17,085,792
2036 and thereafter	5,590,000	67,767	5,657,767
	<u>\$693,020,401</u>	<u>\$297,687,257</u>	<u>\$990,707,658</u>
Amortized premium	126,161		126,161
Total	<u><u>\$693,146,562</u></u>	<u><u>\$297,687,257</u></u>	<u><u>\$990,833,819</u></u>

Note 8 Bonds and Notes Payable

a. Bonds and notes payable consisted of the following at September 30, 2010:

Series	Date of Issue	Original Issue	Interest Rate Percentage*	Maturity Dates	Amounts Outstanding as of September 30, 2010
Tobacco Settlement Asset-Backed Bonds:					
Series 2006A - Serial	May 17, 2006	\$ 363,115,000	7.31%	June 1, 2034	\$ 344,065,000
Series 2007A - Serial	August 20, 2007	\$ 480,125,000	5.125% to 6.00%	June 1, 2047	\$ 479,290,000
Series 2007B - Capital appreciation	August 20, 2007	\$ 35,649,948	7.25%	June 1, 2052	\$ 865,290,000
Series 2007C - Capital appreciation	August 20, 2007	\$ 7,216,749	7.5%	June 1, 2052	\$ 195,100,000
Series 2008A - Serial	July 7, 2008	\$ 114,860,000	6.88%	June 1, 2024	\$ 114,860,000
Series 2008B - Capital appreciation	July 7, 2008	\$ 29,874,650	8.5%	June 1, 2046	\$ 700,625,000
Series 2008C - Capital appreciation	July 7, 2008	\$ 57,673,814	8.88%	June 1, 2058	\$ 4,395,870,000
Municipal State Aid & Tax Anticipation Notes					
2010B	April 5, 2010	\$ 256,000,000	5.0%	March 21, 2011	\$ 256,000,000
2010C-2	April 15, 2010	\$ 6,650,000	2.5%	November 22, 2010	\$ 6,650,000
2010D-1	August 20, 2010	\$ 255,345,000	2.0%	August 19, 2011	\$ 255,345,000
2010D-2	August 20, 2010	\$ 246,545,000	2.0%	August 22, 2011	\$ 246,545,000
2010D-3	August 20, 2010	\$ 201,720,000	2.0%	August 22, 2011	\$ 201,720,000
2010E	August 20, 2010	\$ 187,145,000	4.75%	August 22, 2011	\$ 187,145,000
2010A TAN	February 26, 2010	\$ 9,000,000	Variable	December 20, 2010	\$ 9,000,000
2010B TAN	April 27, 2010	\$ 8,000,000	Variable	December 20, 2010	\$ 8,000,000
Local Government Loan Program Revenue Bonds					
Series 1986A	February 1987 to March 1989	\$ 39,475,000	7.125% - 8.625%	November 1, 2013	\$ 185,000
1991B	April 11, 1991	\$ 4,120,000	5.0% to 7.25%	November 1, 2010	\$ 10,000
1991C	June 27, 1991	\$ 56,140,074	6.2% to 7.3%	June 15, 2015	\$ 7,434,099
1991D	August 29, 1991	\$ 141,183,756	4.6% to 7.1%	May 15, 2011	\$ 13,903
1992D	September 3, 1992	\$ 9,635,000	5.6% to 6.75%	May 1, 2012	\$ 50,000
1993B	July 13, 1993	\$ 30,925,000	4.2% to 5.7%	May 1, 2017	\$ 530,000
1993C	June 17, 1993	\$ 2,275,000	4.7% to 5.9%	August 1, 2013	\$ 95,000
1993D	August 26, 1993	\$ 16,385,000	4.35% to 5.8%	May 1, 2013	\$ 265,000
1994B	March 30, 1994	\$ 13,080,000	4.7% to 5.8%	November 1, 2013	\$ 350,000
1994C	May 24, 1994	\$ 50,610,000	3.15% to 6.0%	November 1, 2010	\$ 725,000
1994F	October 13, 1994	\$ 6,935,000	4.95% to 6.65%	November 1, 2013	\$ 350,000
1994G	December 21, 1994	\$ 72,149,737	4.45% to 7.125%	May 1, 2020	\$ 7,913,659
1995A	June 22, 1995	\$ 15,205,000	4.3% to 6.0%	November 1, 2014	\$ 170,000
1996A	September 20, 1996	\$ 5,755,000	4.5% to 5.8%	August 1, 2011	\$ 30,000
1997A	April 29, 1997	\$ 7,705,000	4.1% to 5.875%	November 1, 2016	\$ 810,000
1997B	August 14, 1997	\$ 17,375,000	4.0% to 5.5%	November 1, 2027	\$ 3,190,000
1997C	October 30, 1997	\$ 16,335,000	3.9% to 5.55%	November 1, 2020	\$ 1,880,000
1997D	December 22, 1997	\$ 9,300,000	3.75% to 5.3%	November 1, 2015	\$ 1,000,000
1998A	June 16, 1998	\$ 16,100,000	3.8% to 5.2%	November 1, 2019	\$ 1,415,000
1999A	February 9, 1999	\$ 10,910,000	3.0% to 5.2%	November 1, 2021	\$ 1,340,000
1999B	April 28, 1999	\$ 38,605,000	3.05% to 4.85%	November 1, 2016	\$ 13,595,000
1999C	June 24, 1999	\$ 16,685,000	3.4% to 5.375%	November 1, 2028	\$ 1,485,000
1999D	November 17, 1999	\$ 8,255,000	4.0% to 6.125%	November 1, 2020	\$ 1,955,000
2000A	May 17, 2000	\$ 10,815,000	4.45% to 6.0%	November 1, 2020	\$ 4,190,000
2000B	November 28, 2000	\$ 5,905,000	4.35% to 5.75%	November 1, 2025	\$ 4,305,000
2001A	March 29, 2001	\$ 9,055,000	3.5% to 5.375%	November 1, 2020	\$ 6,850,000
2001B	July 12, 2001	\$ 10,065,000	2.8% to 5.15%	November 1, 2020	\$ 4,235,000
2002A	July 1, 2002	\$ 30,060,000	2.5% to 5.0%	November 1, 2029	\$ 18,355,000
2002B	November 1, 2002	\$ 16,790,000	2.0% to 5.0%	November 1, 2032	\$ 12,100,000
2003A	April 7, 2003	\$ 3,980,000	2.0% to 4.3%	May 1, 2016	\$ 2,045,000
2003B	September 30, 2003	\$ 19,665,000	2.0% to 6.0%	November 1, 2023	\$ 13,710,000
2003C	September 30, 2003	\$ 160,000,000	4.0% to 5.0%	May 1, 2014	\$ 79,755,000
2004A	February 18, 2004	\$ 41,155,000	2.0% to 6.0%	May 1, 2034	\$ 21,655,000
2004B	May 13, 2004	\$ 26,830,000	2.0% to 5.0%	November 1, 2024	\$ 6,015,000
2004C	December 16, 2004	\$ 9,985,000	2.5% to 4.25%	May 1, 2014	\$ 2,425,000
2006A	May 10, 2007	\$ 9,825,000	4.0% to 5.0%	May 1, 2019	\$ 7,720,000
2007A	March 29, 2007	\$ 21,875,000	3.625% to 5.0%	May 1, 2029	\$ 19,755,000
2007B	August 3, 2007	\$ 98,435,000	4.25% to 5.75%	December 1, 2034	\$ 54,665,000
2007C	December 19, 2007	\$ 31,080,000	3.5% to 5.0%	May 1, 2031	\$ 29,470,000
2007D	December 28, 2007	\$ 19,335,000	4.0% to 5.0%	November 1, 2032	\$ 17,080,000

Series	Date of Issue	Original Issue	Interest Rate Percentage*	Maturity Dates	Amounts Outstanding as of September 30, 2010
2008A	June 26, 2008	\$ 27,000,000	Variable	November 1, 2037	\$ 26,685,000
2009A	March 18, 2009	\$ 28,430,000	3.125% to 7.0%	May 1, 2024	\$ 28,430,000
2009B	March 31, 2009	\$ 34,020,000	3.125% to 7.0%	November 1, 2028	\$ 34,020,000
2009C	September 23, 2009	\$ 45,795,000	3.0% to 5.0%	May 1, 2024	\$ 41,250,000
2010A	March 31, 2010	\$ 27,005,000	2.0% to 5.0%	May 1, 2022	\$ 27,005,000
2010B	May 18, 2010	\$ 38,245,000	1.1% to 6.7%	May 1, 2027	\$ 38,245,000
2010C	May 25, 2010	\$ 6,710,000	5.05 to 6.55%	May 1, 2030	\$ 6,710,000
2010D	September 30, 2010	\$ 14,290,000	2.25 to 5.0%	June 1, 2030	\$ 14,290,000

School Loan Revenue Bonds:

Series 2003A	March 25, 2003	\$ 197,295,000	2.71 to 5.25%	June 1, 2013	\$ 113,525,000
Series 2007A	May 10, 2007	\$ 74,645,000	5.22 to 5.25%	June 1, 2015	\$ 74,645,000
Series 2005B	May 24, 2005	\$ 216,090,000	5%	June 1, 2020	\$ 168,565,000
Detroit Academy of Arts & Sciences Series 2001A	May 16 2001	\$ 30,020,000	7.25 to 8.0%	October 1, 2031	\$ 27,900,000
Detroit YMCA Service Learning Academy	May 16 2001	\$ 12,100,000	7.25 to 8.0%	October 1, 2031	\$ 10,900,000

State Revolving Subfund:

Clean Water Revolving Fund Revenue Bonds, Series 1998A	July 15, 1998	\$ 151,165,000	2.0% - 8.0%	October 1, 2020	\$ 12,895,000
Clean Water Revolving Fund Revenue Bonds, Series 2001A	August 23, 2001	\$ 222,800,000	2.0% - 8.0%	October 1, 2023	\$ 167,190,000
Drinking Water Revolving Fund Revenue Bonds, Series 2001A	August 23, 2001	\$ 23,825,000	2.0% - 8.0%	October 1, 2023	\$ 17,815,000
Clean Water Revolving Fund Revenue Bonds, Series 2002A	August 22, 2002	\$ 188,000,000	2.0% - 8.0%	October 1, 2024	\$ 150,515,000
Drinking Water Revolving Fund Revenue Bonds, Series 2002A	August 22, 2002	\$ 72,735,000	2.0% - 8.0%	October 1, 2024	\$ 58,185,000
Clean Water Revolving Fund Revenue Bonds, Series 2002R	August 22, 2002	\$ 469,100,000	2.0% - 8.0%	October 1, 2021	\$ 319,595,000
Drinking Water Revolving Fund Revenue Bonds, Series 2002R	August 22, 2002	\$ 109,145,000	2.0% - 8.0%	October 1, 2021	\$ 74,475,000
Clean Water Revolving Fund Revenue Bonds, Series 2004A	April 21, 2004	\$ 286,605,000	2.0% - 8.0%	October 1, 2026	\$ 253,215,000
Drinking Water Revolving Fund Revenue Bonds, Series 2004A	April 21, 2004	\$ 67,895,000	2.0% - 8.0%	October 1, 2026	\$ 59,430,000
Clean Water Revolving Fund Revenue Bonds, Series 2005A	July 26, 2005	\$ 103,630,000	2.0% - 8.0%	October 1, 2027	\$ 95,265,000
Drinking Water Revolving Fund Revenue Bonds, Series 2005A	July 26, 2005	\$ 79,480,000	2.0% - 8.0%	October 1, 2027	\$ 73,075,000
Clean Water Revolving Fund Revenue Bonds, Series 2005R	July 26, 2005	\$ 72,570,000	2.0% - 8.0%	October 1, 2020	\$ 72,570,000
Clean Water Revolving Fund Revenue Bonds, Series 2006	November 2, 2006	\$ 150,000,000	2.0% - 8.0%	October 1, 2028	\$ 143,760,000
Clean Water Revolving Fund Revenue Bonds, Series 2007A	October 25, 2007	\$ 278,040,000	2.0% - 8.0%	October 1, 2029	\$ 278,040,000
Clean Water Revolving Fund Revenue Bonds, Series 2009A	June 30, 2009	\$ 150,805,000	2.0% - 8.0%	October 1, 2029	\$ 150,805,000
Clean Water Revolving Fund Revenue Bonds, Series 2010A	March 18, 2010	\$ 178,740,000	2.0% - 8.0%	October 1, 2030	\$ 178,740,000
Clean Water Revolving Fund Revenue Bonds, Series 2010R	March 18, 2010	\$ 67,420,000	2.0% - 8.0%	October 1, 2020	\$ 67,420,000

School Loan Revolving Fund:

Federally Taxable Bonds SLRF Revenue Bonds	March 19, 2008	\$ 553,000,000	Variable 4.25%	September 1, 2048	\$ 535,160,000
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Student Loan Bonds:

Student Loan and Refunding Revenue Bonds, Series XII-B	December 21, 1988	\$ 56,400,000	4.882%	October 1, 2013	\$ 56,400,000
Student Loan Refunding Revenue Bonds, Series XII-N	September 26, 1996	\$ 14,050,000	0.706%	September 1, 2025	\$ 7,500,000
Student Loan Revenue Bonds, Series XII-R	July 28, 1999	\$ 80,000,000	0.7225%	March 1, 2029	\$ 80,000,000
Student Loan Revenue Bonds, Series XII-U,	July 27, 2000	\$ 53,300,000	0.454%	September 1, 2030	\$ 53,300,000
Student Loan Revenue Bonds, Series XII-Z2-3	July 15, 2003	\$ 120,000,000	0.466%	September 1, 2033	\$ 120,000,000
Student Loan Revenue Bonds, Series XVII-A,	June 2, 1997	\$ 15,000,000	5.75%	June 1, 2013	\$ 3,900,000
Student Loan Revenue Bonds, Series XVII-B,	July 8, 1998	\$ 25,000,000	5.40%	June 1, 2018	\$ 16,980,000
Student Loan Refunding Revenue Bonds, Series XVII-D	March 22, 2001	\$ 700,000	5.0%	June 1, 2013	\$ 700,000
Student Loan Revenue Bonds, Series XVII-E	March 22, 2001	\$ 31,110,000	5.40% to 5.50%	June 1, 2025	\$ 31,055,000
Student Loan Revenue Bonds, Series XVII-G	July 16, 2002	\$ 30,000,000	5.20% to 5.45%	September 1, 2026	\$ 29,750,000
Student Loan Revenue Bonds with Refunding Revenue Bonds, Series XVII-H3-H6	July 16, 2002	\$ 295,000,000	0.75%	March 1, 2037	\$ 140,200,000
Student Loan Revenue Bonds, Series XVII-I	October 16, 2003	\$ 30,000,000	3.95 to 5.20%	March 1, 2024	\$ 22,980,000
Student Loan Revenue Bonds, Series XVII-KI-K7	July 14, 2004	\$ 508,350,000	0.743%	March 1, 2039	\$ 207,900,000
Student Loan Revenue Bonds and Refunding Revenue Bonds, Series XVII-L	July 14, 2004	\$ 25,000,000	0.729%	March 1, 2039	\$ 50,000
Student Loan Refunding Revenue Bonds, Series XVII-M	July 13, 2005	\$ 115,100,000	0.712%	September 1, 2036	\$ 104,450,000
Student Loan Revenue Bonds, Series XVII-N	July 13, 2005	\$ 485,000,000	0.73%	March 1, 2040	\$ 294,900,000
Student Loan Revenue and Refunding Revenue Bonds, Series XVII-O	July 13, 2005	\$ 25,000,000	0.689%	March 1, 2040	\$ 850,000
Student Loan Revenue Bonds, Series XVII-P	October 13, 2005	\$ 41,125,000	4.50% to 4.88%	March 1, 2030	\$ 37,290,000
Student Loan Revenue Bonds, Series XVII-Q	July 26, 2006	\$ 50,550,000	4.75% to 5.00%	March 1, 2031	\$ 47,505,000
Student Loan Refunding Revenue Bonds, Senior Lien Series 20-A payable	September 26, 2007	\$ 64,500,000	0.52%	September 1, 2042	\$ 64,500,000
Student Loan Refunding Revenue Bonds, Subordinate Lien Series 20-B	September 26, 2007	\$ 2,000,000	0.65%	September 1, 2042	\$ 2,000,000

Series	Date of Issue	Original Issue	Interest Rate Percentage*	Maturity Dates	Amounts Outstanding as of September 30, 2010
<u>Student Loan Notes:</u>					
Straight-A Funding, LLC Deferred Interest Variable Funding Note	June 29, 2010	\$ 1,013,098,231	0.33%	January 19, 2014	\$ 990,150,837
<u>Public School Academy Facilities Notes:</u>					
2010B-1	July 14, 2010	\$ 10,730,000	1.74%	July 20, 2011	\$ 10,730,000
2010B-2	July 14, 2010	\$ 2,525,000	2.61%	July 20, 2011	\$ 2,525,000
2010C-1	July 20, 2010	\$ 25,600,000	1.74%	July 20, 2011	\$ 25,600,000
2010C-2	July 20, 2010	\$ 12,695,000	2.61%	July 20, 2011	\$ 12,695,000

* Interest rates are reported as either ranges for serial and term bonds or effective rates for variable rate bonds.

b. Annual debt service requirements for the Authority to service bond debt outstanding as of September 30, 2010, including both principal and interest, are as follows (in millions):

Fiscal Year	Tobacco Settlement Fund		Municipal Bond Fund - Local Municipalities Subfund		Municipal Bond Fund - State Revolving Subfund	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 7.5	\$ 61.2	\$ 1,278.1	\$ 87.6	\$ 110.6	\$ 106.2
2012	8.6	60.7	109.2	46.9	118.3	100.5
2013	9.8	60.1	111.4	42.1	124.1	94.6
2014	11.2	59.5	133.8	37.1	128.2	88.2
2015	12.6	58.8	90.9	31.4	132.5	81.6
2016 - 2020	83.4	280.1	236.1	97.9	688.2	304.5
2021 - 2025	220.6	239.1	92.7	32.7	554.7	140.6
2026 - 2030	142.3	170.0	51.2	12.5	302.8	34.9
2031 - 2035	167.7	114.0	22.6	1.8	13.7	0.3
2036 - 2040	93.4	71.8	5.6	0.1		
2041 - 2045	124.3	40.2				
2046 - 2050	757.4	5.1				
2051 - 2055	1,060.4					
2056 - 2060	4,395.9					
Total	\$ 7,095.1	\$ 1,220.6	\$ 2,131.7	\$ 390.1	\$ 2,173.0	\$ 951.4
Unamortized premium			30.7		108.7	
Unamortized discounts	(17.8)		(0.4)			
Deferred amount on refunding	(1.2)		(2.3)		(27.3)	
Unamortized accretion for capital appreciation bonds	(5,997.1)					
Total	\$ 1,079.0	\$ 1,220.6	\$ 2,159.7	\$ 390.1	\$ 2,254.4	\$ 951.4

c. Changes in long-term debt for the fiscal year ended September 30, 2010 are as follows:

	Beginning Balance	Additions	Reductions
Municipal State Aid and Tax Anticipation Notes	\$ 1,078,540,000	\$ 1,203,945,000	\$ (1,112,080,000)
Local Government Loan Program Revenue Bonds	535,933,622	86,250,000	(56,426,962)
School Loan Revenue Bond	436,720,000		(41,185,000)
State Revolving Fund	2,096,740,000	246,160,000	(169,910,000)
School Loan Revolving Fund	540,160,000		(5,000,000)
Student Loan Bonds	2,221,245,000		(899,035,000)
Student Loan Notes		1,013,098,231	(22,947,394)
Public School Academy Facilities Notes	41,477,622	59,740,000	(49,667,622)
Tobacco Settlement Asset-Backed Bonds	7,099,965,000		(4,865,000)
Total bonds and notes payable	\$ 14,050,781,244	\$ 2,609,193,231	\$ (2,361,116,978)

Municipal Bond Fund -
School Loan Revolving

Subfund		Student Loan Fund		Non-Major Funds		Totals	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$	\$ 26.7	\$ 134.5	\$ 23.3	\$ 51.6	\$ 0.7	\$ 1582.2	\$ 305.7
	27.2	133.5	23.3			369.5	258.6
	27.1	138.1	23.3			383.4	247.2
	27.1	646.1	17.8			919.3	229.8
	27.1		16.9			236.0	215.8
	135.8	83.0	76.7			1,090.6	894.9
	135.7	46.2	59.6			914.2	607.7
	135.7	175.7	45.5			672.0	398.6
	135.7	203.1	30.2			407.0	282.0
	135.8	685.9	19.0			784.9	226.7
	135.7	66.5	0.4			190.8	176.3
535.2	81.5					1,292.6	86.6
						1,060.4	0
						4,395.9	0
\$ 535.2	\$ 1,031.3	\$ 2,312.4	\$ 336.0	\$ 51.6	\$ 0.7	\$ 14298.9	\$ 3,930.0
						139.4	
						(18.2)	
(2.8)		52.2				18.7	
						(5,997.1)	
\$ 532.4	\$ 1,031.3	\$ 2,364.6	\$ 336.0	\$ 51.6	\$ 0.7	\$ 8,441.7	\$ 3,930.0

Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
\$ 1,170,405,000	\$ 1,170,405,000	\$
565,756,660	76,268,623	489,488,037
395,535,000	31,435,000	364,100,000
2,172,990,000	110,625,000	2,062,365,000
535,160,000		535,160,000
1,322,210,000	1,000,000	1,321,210,000
990,150,837	133,474,977	856,675,860
51,550,000	51,550,000	
7,095,100,000	7,475,000	7,087,625,000
\$ 14,298,857,497	\$ 1,582,233,600	\$ 12,716,623,897

d. Refinancing

In June 2010, the Authority borrowed \$1.013 billion, as evidenced by a note with Straight-A Funding, LLC, to refinance certain of its outstanding student loan bonds. The Straight A Conduit Program was an Asset Backed Commercial Paper Conduit (ABCP) created by federal legislation titled Ensuring Continued Access to Student Loans Act (ECASLA) and enhanced by a loan put feature with the USDOE and short-term liquidity from the Federal Financing Bank, if necessary. FFELP loans originated during the period from October 1, 2003 to June 30, 2009 were eligible collateral for the Straight A Conduit Program, but the advance rate for the note was 97% of the principal value of the pledged loans.

As of September 30, 2010, the Authority used the proceeds from the Straight A note to redeem \$835.5 million of student loan bonds and had redeemed another \$105.1 million by the end of the 2010 calendar year. The Authority anticipates additional redemptions in fiscal year 2010-11.

e. Defeased Bonds

In prior years, the Authority defeased certain municipal bond fund 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 \$198,360,000 at September 30, 2010.

Note 9 Unrecorded Limited Obligation Debt

The Authority has issued limited obligation bonds which are not recorded as liabilities in these statements because the borrowings are, in substance, debts of other entities. The Authority has no obligation for this debt. Typically, these borrowings are repayable only from the repayment of loans, unloaned proceeds, and related interest earnings.

The Authority issues limited obligation bonds to finance loans to private nonprofit institutions of higher education, qualified public educational facilities, and hospitals for capital improvements and are accounted for in the non-major 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, 2010 were as follows:

	Higher Education Facilities Fund	Public School Academy Facilities Fund	Healthcare Finance Fund	Michigan Strategic Fund	Total
Defeased	\$ 26,385,000	\$	\$ 518,755,000	\$	\$ 545,140,000
Undefeased	604,713,351	162,010,000	5,745,832,999	89,865,000	6,602,421,350
Total Outstanding	<u>\$631,098,351</u>	<u>\$162,010,000</u>	<u>\$6,264,587,999</u>	<u>\$89,865,000</u>	<u>\$7,147,561,350</u>

Note 10 Employee Benefits

Plan Descriptions - The Michigan Finance 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 Finance Authority. The defined benefit and defined contribution pension plans are part of the State Employees' Retirement System administered by the Office of Retirement Services, Department of Technology, Management & Budget. 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 Office of Retirement Services, Department of Technology, Management & Budget, 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 Finance Authority was required to contribute at an actuarially determined rate of 33.26% of payroll for pension and other postemployment benefits for fiscal year 2009-10.

Defined benefit plan members are not required to make contributions. For the defined contribution plan, the Michigan Finance Authority was required to contribute 4.0% of payroll with an additional match of up to 3.0% for fiscal year 2009-10. The Authority transferred \$107,337 to the State for its employer contribution in fiscal year 2009-10. Employee contributions to the plan were not significant. The contribution requirements of plan members and the Michigan Finance 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 - The Michigan Finance 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.

Note 11 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 the subsidized Stafford Loans for the period during which the borrowers are enrolled at an institution of higher education and during a six- to nine-month period after the borrowers have graduated or left school. Additionally, federal legislation provides for a special allowance that is principally an incentive payment made in order that money market conditions and interest rates will not impede the issuance of student loans. The federal government pays the special allowance, which adjusts the Authority's yield on student loans to a rate related to the average of a 91-day U.S. Treasury bill yield during the quarter or, for loans disbursed on or after January 1, 2000, a rate related to the average three-month commercial paper yield. 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.

(2) Non-Major Fund - Public School Academy Facilities Fund

In fiscal year 2006-07, the Fund received federal funds for the federal Credit Enhancement for Charter School Facilities grant. The entire grant has been drawn and at September 30, 2010, there remained \$104,175 of grant funds not committed.

(3) Non-Major Fund - Michigan Guaranty Agency (MGA) - Operating Fund

The MGA - 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. Loan processing and issuance fees are based on the net guarantee amount, less cancellations, multiplied by 0.40%. Also, the MGA - 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% and, for loans rehabilitated, MGA receives 18.5% of principal and 100% of interest and collection costs.

b. Fiduciary Funds, Michigan Guaranty Agency (MGA) - Federal Fund

The MGA - Federal Fund includes federal revenue to reimburse the Authority for default 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 "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 default ratio. The federal revenue is reported as an addition in the fiduciary fund. The federal government has defined the default ratio to be the default 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 default ratio for the fiscal year ended September 30, 2010 is 3.54%.

Note 12 Related Party Transactions

The Authority is charged by various State agencies and departments for certain collection activities and accounting, auditing, legal, and cash management services. These fees were \$980,808 for the fiscal year ended September 30, 2010. The costs are allocated to the various funds of the Authority. The Municipal Bond Fund - State Revolving subfund is jointly administered by the Department of Treasury and DNRE. The subfund paid \$3.0 million in administrative costs to DNRE during the fiscal year.

Note 13 Contingencies

Michigan Guaranty Agency (MGA) - Federal Fund

MGA is contingently liable for loans made by financial institutions that qualify for guaranty. The default ratio for loans guaranteed by the Authority is below 5% for fiscal year 2009-10. As a result, the federal government's reinsurance rate for defaults for fiscal year 2009-10 is 100% for loans made prior to October 1, 1993, 98% for loans made from October 1, 1993 to September 30, 1998, and 95% for loans made on or after October 1, 1998. In the event of future adverse default experience, MGA could be liable for up to 25% of defaulted loans. While management believes that MGA's expected maximum contingent liability is less than 25% of outstanding guaranteed loans, the maximum contingent liability at 25% is \$956.2 million as of September 30, 2010. Management does not expect that all guaranteed loans could default in one year.

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 loans in accordance with the Higher Education Act of 1965, as amended. MGA was in compliance with this requirement as of September 30, 2010.

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

On December 15, 2010, the Authority issued bonds totaling \$535.0 million. Additionally, on December 16, 2010, the Authority issued bonds totaling \$100.0 million. Also, on December 22, 2010, the Authority issued notes totaling \$11.0 million. All three issues were made within the Municipal Bond Fund.

REQUIRED SUPPLEMENTARY INFORMATION

MICHIGAN FINANCE AUTHORITY
Tobacco Settlement Special Revenue Fund
Budgetary Comparison Schedule
Fiscal Year Ended September 30, 2010

<u>Statutory/Budgetary Basis</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Beginning budgetary fund balance	\$ 103,351,697	\$ 103,351,697	\$ 0
Resources (inflows)			
Bonds and Notes Issued	\$	\$	\$ 0
Miscellaneous	3,138,281	3,138,281	0
Tobacco Revenue	64,062,071	64,062,071	0
Transfers in			
Total revenue inflows	<u>\$ 67,200,352</u>	<u>\$ 67,200,352</u>	<u>\$ 0</u>
Amount available for appropriation	<u>\$ 170,552,049</u>	<u>\$ 170,552,049</u>	<u>\$ 0</u>
Charges to appropriations (outflows)	<u>\$ 170,552,049</u>	<u>\$ 66,553,658</u>	<u>\$ 103,998,391</u>
Total charges to appropriations	<u>\$ 170,552,049</u>	<u>\$ 66,553,658</u>	<u>\$ 103,998,391</u>
Reconciling items:			
Change in noncurrent assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net reconciling items	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Ending budgetary fund balance	<u><u>\$ 0</u></u>	<u><u>\$ 103,998,391</u></u>	<u><u>\$ 0</u></u>

See accompanying notes to required supplementary information.

MICHIGAN FINANCE AUTHORITY
Tobacco Settlement Special Revenue Fund
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation
Fiscal Year Ended September 30, 2010

Sources/inflows of resources

Actual amount (budgetary basis) available for appropriation from the budgetary comparison schedule	\$ 170,552,049
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	<u>103,351,697</u>
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$ 67,200,352</u>

Uses/outflows of resources

Actual amounts (budgetary basis) total charges to appropriations from the budgetary comparison schedule	\$ 192,638
Differences - Budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>66,361,020</u>
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$ 66,553,658</u>

Notes to Required Supplementary Information

Note 1 Statutory/Budgetary Presentation

The Tobacco Settlement Special Revenue Fund appropriations are established annually by the Legislature and the Michigan Finance Authority Board.

The budgetary comparison schedule presents the final appropriated budgets for fiscal year 2009-10, as well as the actual revenues and other sources (inflows), expenditures and encumbrances (outflows), and fund balance stated on the budgetary basis. Neither the Authority nor the Legislature estimates 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 Assets
As of September 30, 2010

	Michigan Guaranty Agency - Operating Fund	Higher Education Facilities Fund	Public School Academy Facilities Fund	Health Care Finance Fund	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 13,681,498	\$ 597,081	\$ 13,891,572	\$ 821,529	\$ 28,991,680
Receivable from federal government	627,252				627,252
Receivable from other funds	2,224,080	306	371	2,863	2,227,620
Interest receivable	416,465		234,963	13,063	664,491
Investments				3,181,157	3,181,157
Notes receivable			41,971,042		41,971,042
Other current assets		43,949	53,278	649,228	746,455
Total current assets	<u>\$ 16,949,295</u>	<u>\$ 641,336</u>	<u>\$ 56,151,227</u>	<u>\$ 4,667,839</u>	<u>\$ 78,409,697</u>
Noncurrent assets:					
Investments	\$	\$	\$	\$ 2,051,300	\$ 2,051,300
Deferred charges/financing costs - Net			352,083		352,083
Total noncurrent assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 352,083</u>	<u>\$ 2,051,300</u>	<u>\$ 2,403,383</u>
Total assets	<u>\$ 16,949,295</u>	<u>\$ 641,336</u>	<u>\$ 56,503,309</u>	<u>\$ 6,719,139</u>	<u>\$ 80,813,080</u>
LIABILITIES					
Current liabilities:					
Accounts payable and other liabilities	\$ 109,555	\$	\$ 4,682	\$	\$ 114,237
Bonds and notes payable			51,550,000		51,550,000
Interest payable			143,164		143,164
Deferred revenue			104,175		104,175
Compensated absences	57,240	4,454	4,775	29,284	95,753
Total current liabilities	<u>\$ 166,795</u>	<u>\$ 4,454</u>	<u>\$ 51,806,796</u>	<u>\$ 29,284</u>	<u>\$ 52,007,329</u>
Noncurrent liabilities:					
Compensated absences	\$ 642,079	\$ 20,282	\$ 22,898	\$ 137,492	\$ 822,751
Total noncurrent liabilities	<u>\$ 642,079</u>	<u>\$ 20,282</u>	<u>\$ 22,898</u>	<u>\$ 137,492</u>	<u>\$ 822,751</u>
Total liabilities	<u>\$ 808,874</u>	<u>\$ 24,736</u>	<u>\$ 51,829,694</u>	<u>\$ 166,776</u>	<u>\$ 52,830,080</u>
NET ASSETS					
Unrestricted	\$	\$ 616,601	\$ (8,869,405)	\$ 6,552,363	\$ (1,700,441)
Restricted	16,140,421		13,543,020		29,683,441
Total net assets	<u>\$ 16,140,421</u>	<u>\$ 616,601</u>	<u>\$ 4,673,615</u>	<u>\$ 6,552,363</u>	<u>\$ 27,983,000</u>
Total liabilities and net assets	<u>\$ 16,949,295</u>	<u>\$ 641,336</u>	<u>\$ 56,503,309</u>	<u>\$ 6,719,139</u>	<u>\$ 80,813,080</u>

MICHIGAN FINANCE AUTHORITY
 Non-Major Funds - Combining Statement of Revenues, Expenses, and Changes in Net Assets
 As of September 30, 2010

	Michigan Guaranty Agency - Operating Fund	Higher Education Facilities Fund	Public School Academy Facilities Fund	Health Care Finance Fund	Totals
Operating Revenues					
Federal revenue:					
Loan recoveries	\$ 3,562,428	\$	\$	\$	\$ 3,562,428
Loans repurchased and rehabilitated	8,108,030				8,108,030
Account maintenance	2,437,063				2,437,063
Loan processing and issuance	1,381,147				1,381,147
Credit enhancement for school facilities			3,452,321		3,452,321
Interest revenue			1,456,986		1,456,986
Investment income		1,472	22,372	49,300	73,144
Fees:					
Default aversion	2,332,971				2,332,971
Authority		171,681	226,607	920,347	1,318,635
Miscellaneous	2,942,898				2,942,898
Total operating revenues	<u>\$ 20,764,537</u>	<u>\$ 173,153</u>	<u>\$ 5,158,285</u>	<u>\$ 969,647</u>	<u>\$ 27,065,622</u>
Operating Expenses					
Interest and principal on bonds and notes	\$	\$	\$ 1,218,018	\$	\$ 1,218,018
Amortization on deferred charges/financing costs			189,221		189,221
Grants to charter schools			3,452,321		3,452,321
Other administrative expense	15,693,317	115,633	568,462	971,410	17,348,823
Total operating expenses	<u>\$ 15,693,317</u>	<u>\$ 115,633</u>	<u>\$ 5,428,023</u>	<u>\$ 971,410</u>	<u>\$ 22,208,383</u>
Operating income (loss)	<u>\$ 5,071,220</u>	<u>\$ 57,520</u>	<u>\$ (269,738)</u>	<u>\$ (1,763)</u>	<u>\$ 4,857,239</u>
Nonoperating Revenues (Expenses)					
Other	<u>\$ 60,256</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 60,256</u>
Total nonoperating revenues (expenses)	<u>\$ 60,256</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 60,256</u>
Change in Net Assets	<u>\$ 5,131,476</u>	<u>\$ 57,520</u>	<u>\$ (269,738)</u>	<u>\$ (1,763)</u>	<u>\$ 4,917,495</u>
Net assets - Beginning of fiscal year (Note 1)	<u>11,008,945</u>	<u>559,081</u>	<u>4,943,353</u>	<u>6,554,126</u>	<u>23,065,505</u>
Net assets - End of fiscal year	<u><u>\$ 16,140,421</u></u>	<u><u>\$ 616,601</u></u>	<u><u>\$ 4,673,615</u></u>	<u><u>\$ 6,552,363</u></u>	<u><u>\$ 27,983,000</u></u>

SUPPLEMENTAL FINANCIAL SCHEDULES

MICHIGAN FINANCE AUTHORITY
Municipal Bond Fund - Supplemental Schedule of Net Assets
As of September 30, 2010

	Local Municipalities	State Revolving Subfund	
	Subfund	Clean Water Program	Drinking Water Program
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 77,242	\$ 23,906,895	\$ 1,786,652
Receivable from federal government			49,245
Receivable from primary government		1,875,000	76,600
Receivable from other funds	191,689		561,061
Interest receivable	43,404,025	7,816,972	1,993,571
Investments	8,854,609	487,870,762	217,744,596
Notes receivable	1,173,348,670		
Loans receivable	14,364,876	144,747,288	25,040,778
Bonds receivable	92,982,124		
Total current assets	<u>\$ 1,333,223,235</u>	<u>\$ 666,216,917</u>	<u>\$ 247,252,503</u>
Noncurrent assets:			
Investments	\$ 22,003,839	\$ 1,036,404,854	\$ 123,087,083
Loans receivable	194,515,014	1,765,792,766	367,597,358
Bonds receivable	600,164,438		
Receivable from primary government		4,960,000	
Interest receivable	65,993,117		
Deferred charges/financing costs - Net	18,772,201	11,874,430	1,477,452
Total noncurrent assets	<u>\$ 901,448,609</u>	<u>\$ 2,819,032,050</u>	<u>\$ 492,161,893</u>
Total assets	<u>\$ 2,234,671,844</u>	<u>\$ 3,485,248,967</u>	<u>\$ 739,414,397</u>
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	\$ 117,448	\$ 1,138,401	\$ 49,079
Bonds and notes payable	1,288,665,941	94,970,000	15,655,000
Interest payable	32,746,065	47,362,896	7,243,590
Arbitrage payable		8,967,073	306,059
Compensated absences	28,336		
Total current liabilities	<u>\$ 1,321,557,790</u>	<u>\$ 152,438,370</u>	<u>\$ 23,253,728</u>
Noncurrent liabilities:			
Bonds and notes payable	\$ 871,048,574	\$ 1,867,812,165	\$ 275,964,145
Interest payable	29,851,307		
Compensated absences	135,570		
Total noncurrent liabilities	<u>\$ 901,035,451</u>	<u>\$ 1,867,812,165</u>	<u>\$ 275,964,145</u>
Total liabilities	<u>\$ 2,222,593,241</u>	<u>\$ 2,020,250,535</u>	<u>\$ 299,217,873</u>
NET ASSETS			
Unrestricted	\$ 12,078,603	\$	\$
Restricted:			
Water pollution control and drinking water projects		1,464,998,432	440,196,524
Strategic Water Quality Initiatives Fund			
School Loan Revolving Fund			
Total net assets	<u>\$ 12,078,603</u>	<u>\$ 1,464,998,432</u>	<u>\$ 440,196,524</u>
Total liabilities and net assets	<u>\$ 2,234,671,844</u>	<u>\$ 3,485,248,967</u>	<u>\$ 739,414,397</u>

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
\$	\$ 93,458,762	\$ 119,229,551
		49,245
		1,951,600
		752,750
185	1,545,595	54,760,348
7,394,765	39,318,331	761,183,064
		1,173,348,670
465,000		184,617,942
		92,982,124
<u>\$ 7,859,950</u>	<u>\$ 134,322,688</u>	<u>\$ 2,388,875,293</u>
\$	\$ 55,220,000	\$ 1,236,715,776
7,115,876		2,335,021,014
		600,164,438
	661,044,859	666,004,859
		65,993,117
	1,274,418	33,398,501
<u>\$ 7,115,876</u>	<u>\$ 717,539,277</u>	<u>\$ 4,937,297,705</u>
<u>\$ 14,975,826</u>	<u>\$ 851,861,965</u>	<u>\$ 7,326,172,998</u>
\$ 23,441	\$	\$ 1,328,369
		1,399,290,941
	1,832,923	89,185,474
		9,273,132
		28,336
<u>\$ 23,441</u>	<u>\$ 1,832,923</u>	<u>\$ 1,499,106,252</u>
\$	\$ 532,368,963	\$ 3,547,193,847
		29,851,307
		135,570
<u>\$ 0</u>	<u>\$ 532,368,963</u>	<u>\$ 3,577,180,724</u>
<u>\$ 23,441</u>	<u>\$ 534,201,886</u>	<u>\$ 5,076,286,976</u>
\$	\$	\$ 12,078,603
		1,905,194,956
14,952,387		14,952,387
	317,660,079	317,660,079
<u>\$ 14,952,387</u>	<u>\$ 317,660,079</u>	<u>\$ 2,249,886,025</u>
<u>\$ 14,975,828</u>	<u>\$ 851,861,965</u>	<u>\$ 7,326,173,001</u>

MICHIGAN FINANCE AUTHORITY

Municipal Bond Fund - Supplemental Schedule of Revenues, Expenses, and Changes in Net Assets
As of September 30, 2010

	Local Municipalities	State Revolving Subfund	
	Subfund	Clean Water Program	Drinking Water Program
Operating Revenues			
Federal revenue	\$	\$	\$ 163,914
Interest revenue	94,362,333	42,091,452	9,126,704
Investment income	639,388	39,854,689	6,377,666
Fees	670,554		
Miscellaneous			41,200
Total operating revenues	<u>\$ 95,672,275</u>	<u>\$ 81,946,141</u>	<u>\$ 15,709,484</u>
Operating Expenses			
Arbitrage expense	\$	\$ 3,579,127	\$ (297,313)
Interest expense	82,650,426	83,648,586	13,503,088
Amortization on deferred charges/financing costs	12,824,833	1,368,187	194,364
Other administrative expense	661,925	3,017,334	164,245
Total operating expenses	<u>\$ 96,137,184</u>	<u>\$ 91,613,234</u>	<u>\$ 13,564,384</u>
Operating income (loss)	<u>\$ (464,909)</u>	<u>\$ (9,667,093)</u>	<u>\$ 2,145,100</u>
Nonoperating Revenues (Expenses)			
Operating subsidies	\$	\$ 149,244,270	\$ 60,433,397
American Recovery and Reinvestment Act principal forgiveness		(115,877,045)	(32,729,357)
Total nonoperating revenues (expenses)	<u>\$ 0</u>	<u>\$ 33,367,225</u>	<u>\$ 27,704,040</u>
Change in Net Assets	<u>\$ (464,909)</u>	<u>\$ 23,700,132</u>	<u>\$ 29,849,140</u>
Net assets - Beginning of fiscal year	<u>12,543,512</u>	<u>1,441,298,300</u>	<u>410,347,384</u>
Net assets - End of fiscal year	<u>\$ 12,078,603</u>	<u>\$ 1,464,998,432</u>	<u>\$ 440,196,524</u>

This schedule continued on next page.

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
\$	\$	\$ 163,914
181,213	30,485,244	176,246,946
616	3,935,654	50,808,013
		670,554
		41,200
<u>\$ 181,829</u>	<u>\$ 34,420,898</u>	<u>\$ 227,930,627</u>
\$	\$	\$ 3,281,814
	19,250,959	199,053,059
	144,765	14,532,149
45,736	2,015,334	5,904,574
<u>\$ 45,736</u>	<u>\$ 21,411,058</u>	<u>\$ 222,771,596</u>
<u>\$ 136,093</u>	<u>\$ 13,009,840</u>	<u>\$ 5,159,031</u>
\$ 64,084	\$ 60,235,600	\$ 269,977,351
		(148,606,402)
<u>\$ 64,084</u>	<u>\$ 60,235,600</u>	<u>\$ 121,370,949</u>
\$ 200,177	\$ 73,245,440	\$ 126,529,980
14,752,210	244,414,639	2,123,356,045
<u>\$ 14,952,387</u>	<u>\$ 317,660,079</u>	<u>\$ 2,249,886,025</u>

MICHIGAN FINANCE AUTHORITY
Student Loan Fund - Supplemental Schedule of Net Assets
As of September 30, 2010

	<u>Operating Subfund</u>	<u>Bond Subfund</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 26,268,459	\$ 576,210,142	\$ 602,478,601
Receivable from primary government	354,585		354,585
Receivable from other funds	428,486		428,486
Interest receivable	193,369	51,209,488	51,402,857
Loans receivable	1,359,801	194,650,510	196,010,311
Other current assets		1,835,718	1,835,718
Total current assets	<u>\$ 28,604,700</u>	<u>\$ 823,905,858</u>	<u>\$ 852,510,558</u>
Noncurrent assets:			
Investments	\$	\$ 500,000	\$ 500,000
Loans receivable	11,343,869	1,623,833,326	1,635,177,195
Deferred charges/financing costs - Net		12,176,178	12,176,178
Total noncurrent assets	<u>\$ 11,343,869</u>	<u>\$ 1,636,509,504</u>	<u>\$ 1,647,853,373</u>
Total assets	<u>\$ 39,948,569</u>	<u>\$ 2,460,415,362</u>	<u>\$ 2,500,363,931</u>
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	\$ 28,750	\$ 9,961,923	\$ 9,990,673
Bonds and notes payable		134,474,977	134,474,977
Interest payable		2,459,831	2,459,831
Arbitrage payable		102,569	102,569
Compensated absences	18,096		18,096
Total current liabilities	<u>\$ 46,846</u>	<u>\$ 146,999,300</u>	<u>\$ 147,046,146</u>
Noncurrent liabilities:			
Bonds and notes payable	\$	\$ 2,230,122,755	\$ 2,230,122,755
Arbitrage payable		21,328,801	21,328,801
Compensated absences	306,073		306,073
Total noncurrent liabilities	<u>\$ 306,073</u>	<u>\$ 2,251,451,556</u>	<u>\$ 2,251,757,629</u>
Total liabilities	<u>\$ 352,919</u>	<u>\$ 2,398,450,856</u>	<u>\$ 2,398,803,775</u>
NET ASSETS			
Unrestricted	\$ 28,184,825	\$ 61,964,506	\$ 90,149,331
Restricted	11,410,825		11,410,825
Total net assets	<u>\$ 39,595,650</u>	<u>\$ 61,964,506</u>	<u>\$ 101,560,156</u>
Total liabilities and net assets	<u>\$ 39,948,569</u>	<u>\$ 2,460,415,362</u>	<u>\$ 2,500,363,931</u>

MICHIGAN FINANCE AUTHORITY

Student Loan Fund - Supplemental Schedule of Revenues, Expenses, and Changes in Net Assets
As of September 30, 2010

	<u>Operating Subfund</u>	<u>Bond Subfund</u>	<u>Totals</u>
Operating Revenues			
Interest revenue	\$ 515,674	\$ 80,582,113	\$ 81,097,787
Investment income	3,480	53,044	56,524
Miscellaneous	53,525	(30,053,228)	(29,999,703)
Total operating revenues	<u>\$ 572,679</u>	<u>\$ 50,581,929</u>	<u>\$ 51,154,608</u>
Operating Expenses			
Arbitrage expense	\$	\$ (1,279,120)	\$ (1,279,120)
Interest expense		24,371,972	24,371,972
Amortization on deferred charges/financing costs		1,466,682	1,466,682
Other administrative expense	241,398	21,281,920	21,523,318
Total operating expenses	<u>\$ 241,398</u>	<u>\$ 45,841,454</u>	<u>\$ 46,082,852</u>
Operating income (loss)	<u>\$ 331,281</u>	<u>\$ 4,740,475</u>	<u>\$ 5,071,756</u>
Other Financing Sources (Uses)			
Transfers from other funds	177,751		177,751
Transfers to other funds		(177,751)	(177,751)
Total other financing sources/(uses)	<u>\$ 177,751</u>	<u>\$ (177,751)</u>	<u>\$ 0</u>
Change in Net Assets	<u>\$ 509,032</u>	<u>\$ 4,562,724</u>	<u>\$ 5,071,756</u>
Net assets - Beginning of fiscal year	<u>39,086,618</u>	<u>57,401,782</u>	<u>96,488,400</u>
Net assets - End of fiscal year	<u>\$ 39,595,650</u>	<u>\$ 61,964,506</u>	<u>\$ 101,560,156</u>

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND COMPLIANCE



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

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

Mr. Andy Dillon, State Treasurer and Chair
Michigan Finance Authority Board of Directors
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Dillon:

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, 2010, as identified in the table of contents, and have issued our report thereon dated February 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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 financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Compliance and Other Matters

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

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

AUDITOR GENERAL

February 3, 2011

GLOSSARY

Glossary of Acronyms and Terms

ARRA	American Recovery and Reinvestment Act of 2009.
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.
DNRE	Department of Natural Resources and Environment.
FFELP	Federal Family Education Loan Program.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
GAAP	accounting principles generally accepted in the United States of America.
GASB	Governmental Accounting Standards Board.
HELP	Healthcare Equipment Loan Program.
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 deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.
MGA	Michigan Guaranty Agency.
MI-LOAN	Michigan Alternative Student Loan.
MSA	Master Settlement Agreement.
PLUS Loans	Loans made to parents of dependent undergraduates.
S&P	Standard & Poor's.
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.
unqualified opinion	An auditor's opinion in which the auditor states that: <ul style="list-style-type: none"> 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

- 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.

USDOE

U.S. Department of Education.

