MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
OF THE

MICHIGAN FINANCE AUTHORITY

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

Fiscal Year Ended September 30, 2013

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

271-0340-14

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

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:
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Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Michigan Finance Authority

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

Fiscal Year Ended September 30, 2013

Report Number:
271-0340-14

Released:
January 2014

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

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Internal Control Over Financial Reporting and on Compliance and Other Matters

In accordance with *Government Auditing Standards*, we will issue a report on our consideration of the Michigan Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

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Background:

The Michigan 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, and State Higher Education Facilities Commission). In addition, the authorization to finance the facilities of public and private schools, formerly under the Michigan Strategic Fund, and to issue bonds and notes on behalf of the State Land Bank Fast Track Authority was transferred to the Authority.

The Authority offers financing to public and private agencies providing essential services to the citizens of the State of Michigan, including municipalities; healthcare providers; 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

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General

STATE OF MICHIGAN
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

January 15, 2014

Mr. R. Kevin Clinton, State Treasurer and Chair
Michigan Finance Authority Board of Directors
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Clinton:

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 fiscal year ended September 30, 2013.

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

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

Sincerely,

Thomas H. McTavish, C.P.A.
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
and Other Reporting Required by *Government Auditing Standards*

Mr. R. Kevin Clinton, State Treasurer and Chair
Michigan Finance Authority Board of Directors
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Clinton:

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority as of September 30, 2013 and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements present only the Michigan Finance Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the Michigan Finance Authority adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the fiscal year ended September 30, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14 through 23 and the budgetary comparison information on pages 86 through 88 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

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

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General
December 19, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of the Michigan Finance Authority's (the Authority's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2013. Please read it with the Authority's financial statements, which follow this section.

HIGHLIGHTS

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

- During the fiscal year ended September 30, 2013, the Authority issued new and refunding debt of $1,401.6 million, of which $303.1 million was conduit debt obligations to provide capital financing for eligible borrowers that are not part of the Authority's financial reporting entity and, therefore, was not recorded as debt of the Authority.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The statement of net position and the statement of activities report information on all non-fiduciary activities of the Authority using the accrual basis of accounting. Authority

activities are distinguished between governmental and business-type activities. The current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

Both statements report two activities:

- *Governmental Activities* - The statements report information on all non-fiduciary and non-business-type activities of the Authority. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

- *Business-Type Activities* - The Authority charges fees to customers to help it cover the cost of services it provides. Program revenues include charges to users who directly benefit from the services, grants, and contributions that are restricted to meeting the requirements of a function.

Fund Financial Statements

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

- *Governmental Funds* - The Authority's major governmental funds include the General Fund, the Tobacco Settlement Debt Service Fund, and the Unemployment Obligation Assessment Debt Service Fund. These funds are reported using the modified accrual basis of accounting, which 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. These funds are reported using the full accrual basis of accounting, which provides short-term and long-term financial information about the activities of the Authority.

- *Fiduciary Fund* - The Authority's fiduciary fund is the Michigan Guaranty Agency Federal Fund that is used to account for funds received from various sources and held by the Authority on behalf of the U.S. Department of Education (USDOE). These funds are reported using the full accrual basis of accounting. The government-wide 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 Authority's General Fund financial statements. The required supplementary information includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at fiscal year-end.

Other Supplemental Information

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

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority's combined net position increased $800.3 million (80.6%) over the course of fiscal year 2012-13 operations. The net deficit position of the governmental activities decreased $407.8 million (10.1%) primarily from collections made for the unemployment obligation assessment. The net position of business-type activities increased by $392.6 million (12.9 %) during fiscal year 2012-13 because fewer bonds and notes were issued during the fiscal year as compared to principal payments, therefore reducing the overall bonds and notes payable balance.

The following statement of net position presents the Authority's assets, deferred outflows, liabilities, and deferred inflows as of September 30, 2013 and September 30, 2012:

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

	Governmental Activities		Business-Type Activities		Total Authority	
	2013	2012	2013	2012	2013	2012
Total assets	$ 446.1	$ 408.4	$9,375.6	$ 9,477.3	$ 9,821.7	$ 9,885.6
Deferred outflows of resources	$ 0.1	$ 0.0	$ 0.0	$ 0.0	$ 0.1	$ 0.0
Total liabilities	$ 4,076.0	$ 4,446.0	$5,938.0	$ 6,432.2	$10,014.0	$ 10,878.2
Deferred inflows of resources	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Net position:						
Unrestricted	$ (3,629.9)	$ (4,037.6)	$ 194.2	$ 155.1	$ (3,435.7)	$ (3,882.6)
Restricted	0.0	0.0	3,243.5	2,890.0	3,243.5	2,890.0
Total net position	$ (3,629.9)	$ (4,037.6)	$3,437.6	$ 3,045.1	$ (192.2)	$ (992.6)

The Authority's total assets decreased by $63.9 million (0.7%) during fiscal year 2012-13. The governmental activities total assets increased by $37.8 million (9.3%), primarily from an increase in the receivable from primary government for the collection of the unemployment obligation assessment revenue. The business-type activities total assets decreased by $101.7 million (1.1%) primarily from activity in receivables from loans, bonds, notes, and primary government.

The Authority's total liabilities decreased by $864.2 million (7.9%) during fiscal year 2012-13. The governmental activities liabilities decreased by $369.9 million (8.3%) primarily from using the funds received from LARA to pay down bonds related to the Unemployment Obligation Assessment Revenue Bonds during fiscal year 2012-13. The

business-type activities liabilities decreased by $494.2 million (7.7%) primarily from fulfilling debt service requirements during the fiscal year and because fewer bonds and notes were issued during the fiscal year as compared to principal payments, therefore reducing the overall bonds and notes payable balance.

The Authority's net position in unrestricted net assets of negative $3,435.7 million as of September 30, 2013 is the result of the Authority recording liabilities for the entire amount of outstanding bonds for its tobacco settlement bonds and unemployment obligation assessment bonds. The tobacco settlement bonds are payable from proceeds from the Authority's share of future Master Settlement Agreement (MSA) receipts, and the unemployment obligation assessment bonds are payable from future collections of the unemployment obligation assessment as collected by the Department of Licensing and Regulatory Affairs (LARA). However, accounting principles preclude the Authority from recording the anticipated receipt of these proceeds because the underlying economic events have not yet occurred.

The Authority's net position in restricted net assets of $3,243.5 million as of September 30, 2013 represents resources that can be used only in accordance with external restrictions or enabling legislation.

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

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

	Governmental Activities		Business-Type Activities		Total Authority	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	$ 542.9	$ 323.0	$ 236.8	$ 242.8	$ 779.7	$ 565.8
Operating grants and contributions	3.1	3.5	362.5	368.8	365.5	372.3
General revenues		1.0			0.0	1.0
Total revenues	$ 545.9	$ 327.5	$ 599.3	$ 611.6	$1,145.2	$ 939.1
Expenses						
Total expenses	138.1	3,418.4	206.8	255.6	344.9	3,674.0
Increase (Decrease) in net position	$ 407.8	$ (3,090.9)	$ 392.6	$ 355.9	$ 800.3	$(2,735.0)
Net position - Beginning of fiscal year	(4,037.6)	(946.8)	3,045.1	2,689.2	(992.6)	1,742.4
Net position - End of fiscal year	$ (3,629.9)	$ (4,037.6)	$3,437.6	$3,045.1	$ (192.2)	$ (992.6)

The Authority's total revenue for fiscal year 2012-13 increased by $206.2 million (22.0%) over the prior year, primarily as a result of an increase of $198.1 million in collections of the first full year of the unemployment obligation assessments.

The Authority's total expenses in fiscal year 2012-13 decreased by $3,329.1 million (90.6%) from fiscal year 2011-12 expenses, primarily from payments totaling $3,320.9 million to LARA for the unemployment obligation assessment bond proceeds that only occurred in fiscal year 2011-12 when the bonds were issued.

FINANCIAL ANALYSIS OF THE AUTHORITY'S MAJOR FUNDS

General Fund

The General Fund accounts for the administrative expenditures for the Tobacco Settlement Debt Service Fund and the Unemployment Obligation Assessment Debt

Service Fund. General Fund total assets increased by $0.2 million (8.6%), primarily because administrative fees exceeded administrative expenditures. Unspent administrative funds are restricted for future years' expenditures. General Fund total liabilities increased by $0.02 million (2.8%) as a result of a corresponding increase in deferred tobacco settlement revenue.

General Fund revenues decreased by $0.6 million (46.8%) primarily because of a one-time payment of $1.0 million received from the State of Michigan during fiscal year 2012-13 to fund future internal administrative expenditures related to the 2012 unemployment obligation assessment bonds. Other administrative expenditures decreased by $12.2 million (95.6%) and other financing sources decreased by $12.5 million (100%) from the prior year because of bond proceeds and related administrative expenditures for the 2012 unemployment obligation assessment bonds.

Tobacco Settlement Debt Service Fund

Tobacco Settlement Debt Service Fund total assets decreased by $0.3 million (0.2%) and total liabilities increased by $1.4 million (2.9%) during fiscal year 2012-13. The changes in assets and liabilities are affected by the deferred revenue and receivable for tobacco settlement claims expected to be received in fiscal year 2013-14. No bonds were issued in fiscal year 2012-13.

Tobacco settlement revenue (TSR) increased by $22.0 million (35.8%) primarily from the State's participation in a settlement with tobacco product manufacturers of the disputed 2003 Non-Participating Manufacturer's Adjustment within the MSA (see Note 12). All tobacco settlement collections are contingent upon actual tobacco product sales and are subject to various adjustments as outlined in the MSA. Expenditures increased by $22.4 million (34.3%) as a result of an increase in payments on the bonds that directly correlate to the additional revenues received.

Unemployment Obligation Assessment Debt Service Fund

Unemployment Obligation Assessment Debt Service Fund total assets increased by $35.8 million (15.5%), and the Fund had no liabilities on September 30, 2013. The increase in assets was primarily from unemployment obligation assessment collections, which will be used for future debt service requirements.

Unemployment Obligation Assessment Debt Service Fund revenues increased by $198.2 million (77.6%) primarily because fiscal year 2012-13 represented the first full year of collections of the unemployment obligation assessment. Expenditures in fiscal year 2012-13 decreased by $6,229.2 million (93.7%) from expenditures in fiscal year 2011-12 because of expenditures that occurred in only fiscal year 2011-12 when the unemployment obligation assessment bonds were issued. Expenditures recognized in fiscal year 2012-13 were solely for interest and principal on the long-term bond issuance.

Municipal Bond Fund

Municipal Bond Fund total assets increased by $63.5 million (0.8%) during fiscal year 2012-13. This increase is the net effect of a $149.2 million increase in the receivable from the primary government from additional loans assigned by the primary government to the Authority's School Loan Revolving Subfund; an increase of $51.0 million in cash and investments; and a $130.3 million decrease in notes, loans, and bonds receivable.

Municipal Bond Fund total liabilities decreased by $284.1 million (6.1%) during fiscal year 2012-13 from a reduction in bonds and notes payable.

Municipal Bond Fund operating revenue decreased by $42.0 million (18.4%) during fiscal year 2012-13. This decrease was primarily a result of a reduction in investment income. Operating expenses decreased by $25.0 million (13.9%) in fiscal year 2012-13 because of a decrease in interest expense on the bonds and notes payable.

Municipal Bond Fund nonoperating revenues increased by $37.7 million (13.6%) primarily as a result of an increase in operating subsidies in the State Revolving Subfund for U.S. Environmental Protection Agency capitalization grants.

Student Loan Fund

Student Loan Fund total assets decreased by $178.2 million (9.6%) resulting from a decrease in loans receivable of $169.6 million. Loans receivable decreased because new loans had not been originated since June 30, 2010, $1.8 million of loans receivable were written off because of loan defaults, and $193.2 million of student loan principal had been paid during the fiscal year.

Student Loan Fund total liabilities decreased by $216.0 million (12.7%) attributable to $99.5 million in mandatory redemptions of notes plus $279.6 million in optional redemptions of bonds less issuance of $180.0 million of refunding bonds for total net redemptions of $199.1 million. In addition, the net deferred charge on refunding decreased by $18.7 million because of amortization.

In fiscal year 2012-13, Student Loan Fund negative federal revenue of $13.6 million was composed of interest subsidy of $5.7 million on the subsidized loans that the USDOE pays the Student Loan Fund and a net payment of $19.3 million to the USDOE for special allowance that is principally an incentive paid to lenders in order that money market conditions and interest rates will not impede the issuance of student loans. However, 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. In fiscal year 2012-13, the Authority paid the USDOE $20.0 million because the Authority's yield on student loans was greater than the allowable yield noted in the aforementioned Acts (see Note 11).

The Student Loan Fund interest revenue decrease of $7.9 million (13.0%) was primarily attributable to the decrease of the student loan portfolio.

In fiscal year 2012-13, Student Loan Fund operating expenses decreased by $17.1 million (57.6%) primarily because of a $6.0 million decrease in interest expense and a $6.6 million decrease in student loan write-offs. The interest expense decrease of $6.0 million was primarily attributable to lower interest rates and the decreased balance of notes and bonds from redemptions.

Student Loan Fund interest expense of negative $8.8 million includes interest expense of $6.2 million reduced by the amortization of net deferred gains on refunded bonds of $15.0 million. The amortization of net deferred gains is primarily from bonds refunded with the Straight-A Funding Student Loan notes.

CONTACTING THE MICHIGAN FINANCE AUTHORITY

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

The contact information for the Authority is:

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BASIC FINANCIAL STATEMENTS

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MICHIGAN FINANCE AUTHORITY
Statement of Net Position
As of September 30, 2013

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current assets:			
Cash and cash equivalents (Note 3)	$	$ 847,519,215	$ 847,519,215
Receivable - Tobacco settlement revenue	51,047,641		51,047,641
Receivable from federal government		1,861,651	1,861,651
Receivable from primary government (Note 4)	71,492,837	1,105,000	72,597,837
Receivable from other funds		3,631,079	3,631,079
Interest receivable	789,216	67,655,913	68,445,129
Investments (Note 3)	238,094,268	1,110,025,621	1,348,119,890
Notes receivable (Note 5)		694,708,027	694,708,027
Loans receivable, net (Note 6)		370,616,892	370,616,892
Bonds receivable (Note 7)		113,339,270	113,339,270
Other current assets	227	696,450	696,677
Total current assets	$ 361,424,189	$ 3,211,159,119	$ 3,572,583,309
Noncurrent assets:			
Receivable from primary government (Note 4)	$	$ 1,175,478,349	$ 1,175,478,349
Interest receivable		14,621,217	14,621,217
Investments (Note 3)	69,589,125	780,300,879	849,890,004
Loans receivable, net (Note 6)		3,521,730,090	3,521,730,090
Bonds receivable (Note 7)		640,734,330	640,734,330
Deferred charges/financing costs, net	15,107,209	31,594,040	46,701,249
Total noncurrent assets	$ 84,696,334	$ 6,164,458,904	$ 6,249,155,238
Total assets	$ 446,120,523	$ 9,375,618,024	$ 9,821,738,547
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of hedging derivatives	$ 58,773	$	$ 58,773
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	$ 290,752	$ 6,860,113	$ 7,150,865
Bonds and notes payable, net (Note 8)	319,000,000	1,603,970,152	1,922,970,152
Interest payable	50,472,314	68,804,877	119,277,191
Compensated absences	3,836	124,127	127,963
Deferred revenue		2,766,671	2,766,671
Total current liabilities	$ 369,766,903	$ 1,682,525,940	$ 2,052,292,843
Noncurrent liabilities:			
Bonds and notes payable, net (Note 8)	$ 3,706,253,080	$ 4,219,761,800	$ 7,926,014,880
Arbitrage payable		34,953,461	34,953,461
Compensated absences	23,862	750,665	774,526
Total noncurrent liabilities	$ 3,706,276,942	$ 4,255,465,926	$ 7,961,742,867
Total liabilities	$ 4,076,043,844	$ 5,937,991,866	$ 10,014,035,710
DEFERRED INFLOWS OF RESOURCES			
Accumulated increase in fair value of hedging derivatives	$	$	$ 0
NET POSITION			
Restricted for (Note 1):			
Municipal Bond Fund	$	$ 3,192,168,411	$ 3,192,168,411
Student Loan Fund		7,029,929	7,029,929
Other purposes		44,262,097	44,262,097
Unrestricted (deficit) (Note 2)	(3,629,864,549)	194,165,721	(3,435,698,828)
Total net position	$ (3,629,864,549)	$ 3,437,626,158	$ (192,238,391)

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

MICHIGAN FINANCE AUTHORITY
Statement of Activities
For the Fiscal Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues
Governmental Activities:				
Tobacco Settlement	$ 76,564,845	$ 85,176,464	$ 2,679,628	$ 11,291,246
Unemployment Obligation	61,578,812	457,682,213	377,580	396,480,981
Total Governmental Activities	$ 138,143,658	$ 542,858,677	$ 3,057,208	$ 407,772,227
Business-Type Activities:				
Municipal Bond Fund	$ 175,214,865	$ 160,677,065	$ 362,367,035	$ 347,829,235
Student Loan Fund	12,634,982	50,316,931	118,940	37,800,889
Non-Major Funds	18,925,622	25,846,255	2,393	6,923,025
Total Business-Type Activities	$ 206,775,470	$ 236,840,251	$ 362,488,368	$ 392,553,149
Total Michigan Finance Authority	$ 344,919,128	$ 779,698,928	$ 365,545,576	$ 800,325,376

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

General Revenues Transfers	Changes in Net Position	Net Position Beginning of Fiscal Year	Net Position End of Fiscal Year
$	$ 11,291,246	$ (957,053,230)	$ (945,761,984)
	396,480,981	(3,080,583,546)	(2,684,102,565)
$ 0	$ 407,772,227	$ (4,037,636,777)	$ (3,629,864,549)
$ (179,578)	$ 347,649,656	$ 2,846,681,174	$ 3,194,330,829
	37,800,889	152,004,339	189,805,228
179,578	7,102,604	46,387,497	53,490,101
$ 0	$ 392,553,148	$ 3,045,073,010	$ 3,437,626,158
$ 0	$ 800,325,376	$ (992,563,767)	$ (192,238,391)

MICHIGAN FINANCE AUTHORITY
Governmental Funds
Balance Sheet
As of September 30, 2013

	Major Funds			
	General Fund	Tobacco Settlement Debt Service Fund	Unemployment Obligation Assessment Debt Service Fund	Totals
ASSETS				
Current assets:				
Receivable - Tobacco settlement revenue	$ 279,569	$ 50,768,072	$	$ 51,047,641
Receivable from primary government (Note 4)			62,389,888	62,389,888
Interest receivable		789,216		789,216
Investments (Note 3)	1,861,493	31,748,997	204,483,778	238,094,268
Other current assets			227	227
Total current assets	$ 2,141,062	$ 83,306,285	$ 266,873,893	$ 352,321,241
Noncurrent assets:				
Investments (Note 3)	$	$ 69,589,125	$	$ 69,589,125
Total noncurrent assets	$ 0	$ 69,589,125	$ 0	$ 69,589,125
Total assets	$ 2,141,062	$ 152,895,410	$ 266,873,893	$ 421,910,366
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	$ 290,752	$	$	$ 290,752
Deferred revenue (Note 1)	279,569	50,768,072		51,047,641
Total current liabilities	$ 570,322	$ 50,768,072	$ 0	$ 51,338,393
Total liabilities	$ 570,322	$ 50,768,072	$ 0	$ 51,338,393
FUND BALANCE				
Fund balance:				
Restricted for debt service	$	$ 102,127,338	$ 266,873,893	$ 369,001,232
Restricted for administrative expenditures	1,570,740			1,570,740
Total fund balance	$ 1,570,740	$ 102,127,338	$ 266,873,893	$ 370,571,972
Total liabilities and fund balance	$ 2,141,062	$ 152,895,410	$ 266,873,893	$ 421,910,366

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

MICHIGAN FINANCE AUTHORITY
For the Fiscal Year Ended September 30, 2013

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

Total fund balances for governmental funds	$ 370,571,972
Amounts reported for governmental activities in the statement of net position are different because:	
Receivable from the primary government for the unemployment obligation assessment revenue is recognized by the Authority when the primary government recognizes revenue and a liability to the Authority. The primary government recognizes additional revenue that is assessed for the statement of activities but is not available for governmental funds.	9,102,948
Valuation gains and losses on hedging derivatives are recognized in governmental funds when changes occur in market values, whereas they are deferred until the termination of the hedging derivative in the statement of net position.	58,773
Deferred charges/financing costs for bond issuance costs are expended in governmental funds when the bonds are issued, whereas they are capitalized and amortized over the life of the bonds in the statement of net position.	15,107,209
Interest payable on bonds is not due and payable in the current period and therefore is not reported in the governmental funds, whereas a liability is established for bond interest when incurred in the statement of net position.	(50,472,314)
Bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds, whereas a liability for the bonds is established when the bonds are issued in the statement of net position.	(4,025,253,080)
Deferred revenue is recorded in governmental funds for tobacco settlement revenue that has been earned but is not available, whereas revenue is recognized when earned in the statement of net position.	51,047,641
Compensated absences payable are not due and payable in the current period and therefore are not reported in the governmental funds, whereas a liability is established for absences when earned in the statement of net position.	(27,698)
Net position (deficit)	$ (3,629,864,549)

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

MICHIGAN FINANCE AUTHORITY
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended September 30, 2013

	Major Funds			
	General Fund	Tobacco Settlement Debt Service Fund	Unemployment Obligation Assessment Debt Service Fund	Totals
REVENUES				
Tobacco settlement revenue	$ 361,902	$ 83,377,071	$	$ 83,738,973
Unemployment obligation assessment revenue	319,812		453,377,031	453,696,842
Investment income	174	2,679,627	362,785	3,042,586
Other income	37,000			37,000
Total revenues	$ 718,888	$ 86,056,697	$ 453,739,815	$ 540,515,401
EXPENDITURES				
Interest and principal on bonds and notes	$	$ 87,759,541	$ 417,893,799	$ 505,653,340
Other administrative expenditures	565,498			565,498
Total expenditures	$ 565,498	$ 87,759,541	$ 417,893,799	$ 506,218,839
Excess of revenues over (under) expenditures	$ 153,389	$ (1,702,844)	$ 35,846,016	$ 34,296,562
Change in fund balance	$ 153,389	$ (1,702,844)	$ 35,846,016	$ 34,296,562
Fund balance - Beginning of fiscal year	1,417,351	103,830,182	231,027,877	336,275,410
Fund balance - End of fiscal year	$ 1,570,740	$ 102,127,338	$ 266,873,893	$ 370,571,972

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

MICHIGAN FINANCE AUTHORITY
For the Fiscal Year Ended September 30, 2013

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	$	34,296,562
Amounts reported for governmental activities in the statement of net position are different because:		
Tobacco settlement revenue is recognized by governmental funds when earned and available to provide current financial resources. Revenue is recognized when earned in the statement of activities, regardless of availability.		1,437,491
Unemployment obligation assessment revenue is recognized when the primary government recognizes revenue and an obligation to the Authority, which is when it is assessed and available to provide current financial resources for governmental funds and when assessed, regardless of availability, for the statement of activities.		3,948,371
Valuation gains and losses on hedging derivatives are recognized in governmental funds when changes occur in market values, whereas they are deferred until the termination of the hedging derivative in the statement of activities.		14,622
Bond proceeds and principal payments - Bond proceeds are current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Bond proceeds are increased/decreased for bond premiums/discounts when bonds are issued, whereas the premiums/discounts are amortized and expensed over the life of the bonds in the statement of activities.		
Repayment of bond principal		316,815,000
Amortization of bond premiums		66,884,480
Amortization of bond discounts		(308,105)
Bond interest is recognized as an expenditure when due and payable by governmental funds, whereas it is expensed when incurred for the statement of activities.		(13,175,300)
Bond issuance costs and loss on refunded bonds are recognized as expenditures in the year the governmental fund issues the bond, whereas these costs are amortized and expensed over the life of the bonds in the statement of activities.		
Amortization of deferred loss on refunding bonds		(257,655)
Amortization of deferred issuance costs		(1,878,167)
Compensated absences are recorded as expenditures in governmental funds when due and payable, whereas they are accrued and expensed when these absences are earned in the statement of activities.		(5,071)
Net change in net position	$	407,772,227

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

MICHIGAN FINANCE AUTHORITY
Proprietary Funds
Statement of Net Position
As of September 30, 2013

	Business-Type Activities			
	Major Funds			
	Municipal Bond Fund	Student Loan Fund	Non-Major Funds	Totals
ASSETS				
Current assets:				
Cash and cash equivalents (Note 3)	$ 314,105,568	$ 493,008,109	$ 40,405,538	$ 847,519,215
Receivable from federal government	180,239	1,267,376	414,036	1,861,651
Receivable from primary government (Note 4)	1,105,000			1,105,000
Receivable from other funds			3,631,079	3,631,079
Interest receivable	48,611,294	18,941,807	102,811	67,655,913
Investments (Note 3)	1,092,055,944		17,969,678	1,110,025,621
Notes receivable (Note 5)	657,721,726		36,986,301	694,708,027
Loans receivable, net (Note 6)	222,598,971	148,017,921		370,616,892
Bonds receivable (Note 7)	113,339,270			113,339,270
Other current assets	26,399	16,500	653,551	696,450
Total current assets	$ 2,449,744,412	$ 661,251,713	$ 100,162,994	$ 3,211,159,119
Noncurrent assets:				
Receivable from primary government (Note 4)	$ 1,175,478,349	$	$	$ 1,175,478,349
Interest receivable	14,621,217			14,621,217
Investments (Note 3)	779,800,879	500,000		780,300,879
Loans receivable, net (Note 6)	2,513,358,009	1,008,372,081		3,521,730,090
Bonds receivable (Note 7)	640,734,330			640,734,330
Deferred charges/financing costs, net	25,816,702	5,395,028	382,310	31,594,040
Total noncurrent assets	$ 5,149,809,486	$ 1,014,267,109	$ 382,310	$ 6,164,458,904
Total assets	$ 7,599,553,898	$ 1,675,518,822	$ 100,545,304	$ 9,375,618,024
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	$ 848,349	$ 6,009,250	$ 2,514	$ 6,860,113
Bonds and notes payable, net (Note 8)	974,451,000	583,184,152	46,335,000	1,603,970,152
Interest payable	68,522,129	242,087	40,661	68,804,877
Compensated absences		11,612	112,515	124,127
Deferred revenue	2,766,671			2,766,671
Total current liabilities	$ 1,046,588,149	$ 589,447,101	$ 46,490,690	$ 1,682,525,940
Noncurrent liabilities:				
Bonds and notes payable, net (Note 8)	$ 3,351,885,675	$ 867,876,125	$	$ 4,219,761,800
Arbitrage payable	6,749,243	28,204,218		34,953,461
Compensated absences		186,151	564,514	750,665
Total noncurrent liabilities	$ 3,358,634,918	$ 896,266,494	$ 564,514	$ 4,255,465,926
Total liabilities	$ 4,405,223,067	$ 1,485,713,595	$ 47,055,204	$ 5,937,991,866
NET POSITION				
Restricted (Note 1)	$ 3,192,168,411	$ 7,029,929	$ 44,262,097	$ 3,243,460,437
Unrestricted	2,162,419	182,775,299	9,228,003	194,165,721
Total net position	$ 3,194,330,830	$ 189,805,228	$ 53,490,100	$ 3,437,626,158

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

MICHIGAN FINANCE AUTHORITY
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended September 30, 2013

	Business-Type Activities			
	Major Funds			
	Municipal Bond Fund	Student Loan Fund	Non-Major Funds	Totals
OPERATING REVENUES				
Federal revenue, net of special allowance (Notes 1 and 11)	$ 693,476	$ (13,613,061)	$ 20,113,108	$ 7,193,523
Interest revenue	160,665,664	53,224,681	799,853	214,690,199
Investment income	25,117,058	118,940	2,393	25,238,391
Fees			3,348,300	3,348,300
Miscellaneous	11,401	10,705,310	1,500,507	12,217,219
Total operating revenues	$ 186,487,599	$ 50,435,871	$ 25,764,162	$ 262,687,632
OPERATING EXPENSES				
Arbitrage expense	$ 3,194,823	$ 4,202,488	$	$ 7,397,311
Interest expense (Note 8d.)	137,485,854	(8,773,995)	411,840	129,123,699
Amortization of deferred charges/financing costs	7,451,430	1,003,967	375,307	8,830,704
Bad debt expense		1,839,687		1,839,687
Other administrative expense	6,650,409	14,362,835	17,107,476	38,120,720
Total operating expenses	$ 154,782,516	$ 12,634,982	$ 17,894,622	$ 185,312,121
Operating income (loss)	$ 31,705,083	$ 37,800,889	$ 7,869,539	$ 77,375,511
NONOPERATING REVENUES (EXPENSES)				
Operating subsidies	$ 336,556,501	$	$	$ 336,556,501
American Recovery and Reinvestment Act principal forgiveness, net	4,278,798			4,278,798
Grant expense	(13,398,992)			(13,398,992)
Other	(11,312,155)		84,486	(11,227,669)
Total nonoperating revenues (expenses)	$ 316,124,151	$ 0	$ 84,486	$ 316,208,637
Income before transfers	$ 347,829,235	$ 37,800,889	$ 7,954,025	$ 393,584,149
TRANSFERS				
Transfers from other funds	$	$	$ 197,670	$ 197,670
Transfers to other funds	(179,578)		(1,049,092)	(1,228,670)
Total transfers	$ (179,578)	$ 0	$ (851,422)	$ (1,031,000)
Change in net position	$ 347,649,656	$ 37,800,889	$ 7,102,604	$ 392,553,149
Net position - Beginning of fiscal year	2,846,681,173	152,004,339	46,387,497	3,045,073,008
Net position - End of fiscal year	$ 3,194,330,830	$ 189,805,228	$ 53,490,100	$ 3,437,626,158

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

MICHIGAN FINANCE AUTHORITY
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2013

	Business-Type Activities			
	Major Funds			
	Municipal Bond Fund	Student Loan Fund	Non-Major Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Bonds, notes, and loans receivable made	$ (1,091,272,698)	$	$ (45,347,701)	$ (1,136,620,399)
Principal received on bonds, notes, and loans	1,099,550,586	193,199,156	42,298,426	1,335,048,168
Interest received on bonds, notes, and loans	157,254,225	42,412,401	774,936	200,441,562
Cash payments to employees and suppliers for goods and services	(11,790,877)	(16,755,206)	(19,195,271)	(47,741,354)
Other operating revenues	748,695	(19,026,959)	25,166,067	6,887,802
Net cash provided by (used in) operating activities	$ 154,489,932	$ 199,829,393	$ 3,696,456	$ 358,015,781
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from sale of bonds and notes, net	$ 677,154,022	$ 180,000,000	$ 48,435,000	$ 905,589,022
Payment of bond issue costs	(2,819,797)	(969,655)	(447,979)	(4,237,432)
Principal paid on bonds and notes	(924,116,372)	(371,899,158)	(42,650,000)	(1,338,665,529)
Interest paid on bonds and notes	(173,156,065)	(6,611,077)	(416,664)	(180,183,806)
Operating subsidies	316,150,894			316,150,894
American Recovery and Reinvestment Act principal forgiveness expense	727,036			727,036
Grant expense	(20,432,349)			(20,432,349)
Other	(184,946)		(820,433)	(1,005,379)
Net cash provided by (used in) noncapital financing activities	$ (126,677,577)	$ (199,479,890)	$ 4,099,925	$ (322,057,543)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (purchases of) proceeds from sale and maturities of investment securities	$ 32,885,471	$ 9,791,476	$ 3,333,747	$ 46,010,694
Interest and dividends on investments	32,445,581	123,067	493,089	33,061,738
Net cash provided by (used in) investing activities	$ 65,331,052	$ 9,914,543	$ 3,826,836	$ 79,072,431
Net increase (decrease) in cash	$ 93,143,406	$ 10,264,046	$ 11,623,217	$ 115,030,669
Cash and cash equivalents - Beginning of fiscal year	220,962,162	482,744,064	28,782,321	732,488,546
Cash and cash equivalents - End of fiscal year	$ 314,105,568	$ 493,008,109	$ 40,405,538	$ 847,519,215
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES				
Operating income (loss)	$ 31,705,083	$ 37,800,889	$ 7,869,539	$ 77,375,511
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income	(25,117,058)	(118,940)	(2,393)	(25,238,391)
Other income	(7,801)	(7,207,078)	(4,200)	(7,219,080)
Interest expense	137,485,854	(8,773,995)	411,840	129,123,699
Amortization (accrual) of deferred charges	7,451,430	890,387	375,307	8,717,124
Changes in assets and liabilities:				
(Increase) Decrease in other receivables	(127,233,003)	5,397,751	(1,956,849)	(123,792,101)
Increase (Decrease) in other payables	(1,997,190)	2,217,332	104,513	324,656
(Increase) Decrease in bonds, notes, and loans receivable	132,202,616	169,623,047	(3,070,301)	298,755,362
Transfers				
Transfer to federal fund			(31,000)	(31,000)
Net cash provided by (used in) operating activities	$ 154,489,932	$ 199,829,393	$ 3,696,456	$ 358,015,781

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

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MICHIGAN FINANCE AUTHORITY
Fiduciary Fund - Private Purpose Trust
Statement of Fiduciary Net Position
As of September 30, 2013

		Michigan Guaranty Agency Federal Fund
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3)	$	8,199,144
Receivable from federal government		7,334,505
Interest receivable		65
Total current assets	$	15,533,714
Total assets	$	15,533,714
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities	$	4,449,194
Payable to other funds		3,147,130
Student loan claims payable		3,618,118
Total current liabilities	$	11,214,442
Total liabilities	$	11,214,442
NET POSITION		
Net position held in trust (Notes 1b.(5) and 1d.(1))	$	4,319,272

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

MICHIGAN FINANCE AUTHORITY
Fiduciary Fund - Private Purpose Trust
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended September 30, 2013

		Michigan Guaranty Agency Federal Fund
Additions:		
Federal revenue	$	124,179,759
Loans recovered, repurchased, and rehabilitated		70,617,818
Investment income		1,723
Fees		1,269,583
Transfer from Michigan Guaranty Agency - Operating Fund		1,031,000
Total additions	$	197,099,883
Deductions:		
Student loan claims paid to lenders	$	132,931,236
Payments to federal government		69,089,827
Other expense		319,055
Total deductions	$	202,340,118
Net increase (decrease)	$	(5,240,236)
Net position - Beginning of fiscal year		9,559,507
Net position - End of fiscal year	$	4,319,272

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

Note 1 Significant Accounting Policies

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

a. Reporting Entity

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

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

The Authority is not empowered to create, in any fashion, debt or liabilities on behalf of the State or to pledge the full faith and credit of the State;

however, the Authority may borrow money and issue bonds and notes to provide sources of funding for loans to governmental units and school districts. In addition, the Authority may issue bonds and notes to provide sources of funding for private or nonpublic, nonprofit institutions of higher education; governmental units; and eligible healthcare providers and facilities and to undertake or continue public and capital improvements by assisting governmental units in financing and marketing municipal debt and tax-exempt bonds.

The Authority is also empowered to complement and supplement the student loan efforts of Michigan private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education. Effective June 30, 2010, the Authority is no longer originating or acquiring loans. The Authority's Michigan Guaranty Agency was formed for the purpose of guaranteeing loans made to qualified students and parents of qualified students through approved financial institutions.

The accompanying financial statements report the net financial position and the changes in net financial position and, where applicable, cash flows of the Authority, a discretely presented component unit of the State of Michigan, as of September 30, 2013 and for the fiscal year then ended. Accordingly, they do not purport to, and do not, present fairly the net financial position and the changes in net financial position and cash flows of the State of Michigan or its component units in conformity with GAAP. The financial statements of the Authority are included in the *State of Michigan Comprehensive Annual Financial Report*.

b. Authority Programs

(1) The Authority's Tobacco Settlement Debt Service Fund (formerly known as the Michigan Tobacco Settlement Finance Authority) was authorized by the provisions of Act 226, P.A. 2005, and amended by Act 18, P.A. 2007. The purpose of the Act is to provide for the sale by the State and the purchase by the Authority of all or a portion of tobacco settlement assets and to authorize the issuance of bonds.

The Authority issued bonds secured by a pledge of a percentage of the State of Michigan's tobacco settlement revenue (TSR) and deposited the bond proceeds in the State of Michigan's General Fund, School Aid Fund, and 21st Century Jobs Trust Fund.

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

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

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

(b) The Department of Treasury and the Department of Environmental Quality 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.

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

(4) The Authority's Student Loan Fund (formerly known as the Michigan Higher Education Student Loan Authority) was created and organized under Act 222, P.A. 1975, as amended, to complement and supplement the student loan efforts of private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education.

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

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

generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

c. Other Authority Operations

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

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

(3) The Michigan Strategic Fund was organized under Act 270, P.A. 1984, as amended, to issue tax-exempt bonds and lend the proceeds to private schools to finance facilities. All Michigan Strategic Fund program bonds are limited obligations of the Authority and are not obligations of the State and, therefore, are not presented

in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

d. Basis of Presentation

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

(1) Government-Wide Financial Statements

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

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

e. Measurement Focus and Basis of Accounting

The Authority follows the accounting rules promulgated by GASB. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

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

(1) Cash and Cash Equivalents - The Authority's cash and cash equivalents include deposits with financial institutions and equity in common cash maintained by the State Treasurer. In addition, the Student Loan Fund, Public School Academy Facilities Fund, Michigan Guaranty Agency - Operating Fund, and Michigan Guaranty Agency Federal Fund include as cash equivalents highly liquid short-term investments, with original maturities of three months or less, used for cash management rather than investing activities.

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

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

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

The receivable recorded in the Unemployment Obligation Assessment Debt Service Fund represents amounts owed to the Authority for obligation assessment collections made by LARA but not yet transferred to the Authority. The receivable is recognized as

revenue in the government-wide financial statements as well as the debt service fund financial statements because the cash will be received within 60 days after year-end.

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

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

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

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

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

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

(9) Deferred Charges/Financing Costs - Deferred charges represent bond and note issuance costs as of September 30, 2013. These costs are being amortized using the interest method over the life of the related bonds and notes.

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

(11) Bonds Payable - The Authority issues bonds to provide funding for its various programs. In the government-wide and proprietary fund financial statements, bond premiums, 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 financial 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. Bond issuance costs are reported as debt service expenditures.

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

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

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

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

(16) Deferred Revenue - The Authority records deferred revenue when revenue is unearned or unavailable in governmental fund financial statements primarily for the TSR receivable.

(17) Net Position/Fund Balance - The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is net position on the government-wide, proprietary fund, and fiduciary fund financial statements. The difference between fund assets and liabilities is fund balance on the governmental fund

financial statements. Fund balances for the Authority's governmental funds are classified as restricted in the fund financial statements. Restricted fund balance reflects funds that have constraints placed on the use of the resources through enabling legislation or bond covenants.

(18) Restricted Net Position - Substantially all of the assets of the Authority are pledged for payment against the various bond indentures. The State Revolving Subfund, Strategic Water Quality Initiatives Subfund, and School Loan Revolving Subfund restricted net positions are for the construction of water pollution control and drinking water projects, sewage system improvements, and qualified loans to school districts.

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

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

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

The Authority's primary operations include issuing bonds, providing and acquiring loans, purchasing local unit bonds, and guaranteeing qualified student loans. The operating revenues and expenses and

the nonoperating revenues and expenses from the Authority's primary operations include:

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

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

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

(3) Fiduciary Fund - Additions include federal funds and recovery of funds from potentially defaulted loans, repurchased loans, or rehabilitated loans. Deductions include loan claims from financial institutions for loans on which the student defaulted and the unpaid loans have been acquired by the Michigan Guaranty Agency and payments to the federal government for recovered, repurchased, or rehabilitated loans for which the claim was already paid.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported

amounts of revenues and expenses during the period. Actual results could differ from those estimates. The Authority estimates the arbitrage liability. In addition, the use of estimates by the Authority is also disclosed in Note 6d. for Student Loan Fund receivables and Note 12a. for contingencies related to the tobacco settlement revenue.

i. Accounting and Reporting Change

During the fiscal year, the Authority adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This pronouncement provided guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of net position and related disclosures. Because GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, provided for the reporting of deferred outflows of resources and deferred inflows of resources for changes in fair value of qualified hedging derivatives, the accumulated decrease in fair value of hedging derivatives was reclassified on the statement of net position to be shown as a deferred outflow rather than in the other noncurrent assets category presented in the prior report.

Note 2 Deficit Net Position

The Authority is reporting a deficit net position of $3,629.9 million at September 30, 2013 on the government-wide statement of net position within governmental activities. Both the Tobacco Settlement and the Unemployment Obligation activities reported a deficit net position of $945.8 million and $2,684.1 million at September 30, 2013, respectively.

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

The payments to be received by the Unemployment Obligation Assessment Debt Service Fund represent collections from Michigan businesses received by LARA for the unemployment obligation assessment. Although the Authority expects to receive projected amounts under the inter-agency agreement with

LARA, accounting principles preclude the Authority from recording the anticipated receipt of these proceeds because the underlying economic event has not yet occurred. However, the Authority's bonds are recorded as a liability on the entity-wide financial statements, resulting in a net deficit in the Authority's governmental activities.

Note 3 Deposits and Investments

Deposits and investments held by the Authority at September 30, 2013 were as follows:

	Governmental Activities Governmental Funds	Business-Type Activities Proprietary Funds	Fiduciary Fund	Total
Deposits	$ 0	$ 335,395,888	$ 25,000	$ 335,420,888
Investments	$ 307,683,393	$ 2,400,534,057	$ 7,851,394	$ 2,716,068,844

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

(1) Governmental Activities

(a) General Fund

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

(b) Tobacco Settlement Debt Service Fund

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

(c) Unemployment Obligation Assessment Debt Service Fund

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

(2) Business-Type Activities

(a) Municipal Bond Fund

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

(b) Student Loan Fund

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

(c) Michigan Guaranty Agency - Operating Fund

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

(d) Michigan Finance Authority - Operating Fund

Cash and investments applicable to operations from the Local Municipalities Subfund, Public School Academy Facilities Fund, Healthcare Finance Fund, and Higher Education Facilities Fund

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

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

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

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

(1) Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Authority's deposits may not be recovered. The Authority had $335.4 million in deposits at September 30, 2013. Of

this balance, $312.1 million was invested in the State of Michigan's common cash pool and $23.3 million was the carrying value of cash in financial institutions.

The common cash pool is managed by the State Treasurer and is authorized to invest surplus funds in depository accounts at financial institutions; bonds, notes, and other U.S. government debt; prime commercial paper; certificates of deposit; and special State investment programs. At September 30, 2013, the common cash pool held the majority of its funds in depository accounts (64%) and prime commercial paper (34%). 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, 2013, 100% of the State's common cash depository accounts were either covered by federal depository insurance or collateralized with securities held in the State's name by the State's agent. The State Treasurer's policy requires prime commercial paper to be rated "A-1" by S&P or "P-1" by Moody's or higher at purchase and places requirements and restrictions on the borrower.

The Authority does not have a policy for controlling custodial credit risk. Of the $23.3 million deposited in financial institutions, $1.2 million was insured by the Federal Depository Insurance Corporation or the National Credit Union Administration, $16.2 million was collateralized, and $5.9 million was uninsured and uncollateralized and therefore exposed to custodial credit risk at September 30, 2013.

(2) Custodial Credit Risk for Investments - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit

risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. The Authority does not have a policy for controlling custodial credit risk. At September 30, 2013, commercial paper of $10.6 million from business-type activities (0.4% of the Authority's investments) was exposed to custodial credit risk because it was uninsured, not registered, and held by the counterparty.

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

At September 30, 2013, the average maturities of investments were as follows:

Type of Investment	Fair Value	Investment Maturities: Less Than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years
Governmental Activities					
Government money market funds	$ 161,607,079	$ 161,607,079	$	$	$
Repurchase agreements	37,801,532			37,801,532	
State of Illinois general obligation bonds	33,183,451	1,395,858	31,787,593		
U.S. Treasury bills	75,091,331	75,091,331			
Total Governmental Activities	$ 307,683,393	$ 238,094,268	$ 31,787,593	$ 37,801,532	$ 0
Business-Type Activities					
Government money market funds	$ 1,570,047,108	$ 1,570,047,108	$	$	$
Repurchase agreements	562,558,859	21,442,240	500,000	39,524,234	501,092,385
Commercial paper	10,570,000	10,570,000			
U.S. Treasury bonds	5,000	5,000			
U.S. Treasury state and local government series	40,326,451	4,224,608	24,502,013	11,599,830	
U.S. government agency securities	151,108,529	13,944,222	58,784,283	64,777,371	13,602,654
State of Michigan general obligation bonds	65,918,110		20,614,239	45,303,871	
Total Business-Type Activities	$ 2,400,534,057	$ 1,620,233,177	$ 104,400,535	$ 161,205,306	$ 514,695,039
Fiduciary Activities					
Government money market funds	$ 7,851,394	$ 7,851,394			

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

At September 30, 2013, the credit quality ratings of debt securities, excluding U.S. government securities of $115.4 million which are not considered to have credit risk, were as follows:

Type of Investment	Fair Value	Rating	Rating Organization
Governmental Activities			
Governmental money market funds	$ 161,607,079	AAAm	S&P
Repurchase agreement	37,801,532	BBB	S&P
State of Illinois general obligation bonds	33,183,451	A-	S&P
Total Governmental Activities	$ 232,592,062		
Business-Type Activities			
Governmental money market funds	$ 1,570,047,108	AAAm	S&P
Repurchase agreement	130,758,811	A	S&P
Repurchase agreement	172,486,774	BBB	S&P
Repurchase agreement	109,894,385	Aa3	Moody's
Repurchase agreement	39,524,234	Aa1	Moody's
Repurchase agreement	21,442,240	A-	S&P
Repurchase agreement	500,000	Baa1	Moody's
Repurchase agreement	87,952,415	AA-	S&P
Commercial paper	10,570,000	A-1+	S&P
U.S. government agency securities	151,108,529	AA+	S&P
State of Michigan general obligation bonds	65,918,110	AA-	S&P
Total Business-Type Activities	$ 2,360,202,606		
Fiduciary Fund			
Governmental money market funds	$ 7,851,394	AAAm	S&P

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

At September 30, 2013, the Authority had investments of 5% or more of the Authority's total investments by fund activity type in the following issuers, excluding investments issued or explicitly guaranteed by the U.S. government and mutual funds, which are excluded from this requirement by GASB:

Type of Investment/Name of Issuer	Fair Value	Percent of Investments
Governmental Activities		
Repurchase agreement - Hypo Public Finance Bank/Depfa	$ 37,801,532	12%
State of Illinois general obligation bonds	$ 33,183,451	11%
Business-Type Activities		
Repurchase agreement - Citigroup Global Markets	$130,758,811	5%
Repurchase agreement - Hypo Public Finance Bank/Depfa	$172,486,774	7%
Repurchase agreement - JP Morgan	$109,894,385	5%
U.S. government agency securities - Federal Home Loan Mortgage Corporation	$108,543,685	5%

Note 4 Receivable From Primary Government

The receivable from primary government of $1,248.1 million consisted of the following at September 30, 2013:

a. Unemployment Obligation Assessment Debt Service Fund

The receivable from primary government recorded in the Unemployment Obligation Assessment Debt Service Fund relates to amounts owed to the Authority for obligation assessment collections received by LARA but not yet transferred to the Authority. The receivable to pay for the corresponding bonds payable disclosed in Note 8 was $62.4 million at September 30, 2013.

The statement of net position for the governmental activities reported a receivable from the primary government totaling $71.5 million. This additional receivable of $9.1 million when compared to the Unemployment Obligation Assessment Debt Service Fund receivable represents amounts recognized as earned under the economic resources measurement focus

and the accrual basis of accounting in the statement of net position. The Unemployment Obligation Assessment Debt Service Fund utilizes the current financial resources measurement focus and the modified accrual basis of accounting, which does not provide for recognition of the $9.1 million in revenue because it is not available within the first 60 days after the balance sheet date.

b. 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 $1.1 million at September 30, 2013.

c. 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 restricted subfund of the State of Michigan's General Fund, and school districts that have borrowed through the School Loan Revolving Subfund. The receivable to pay for the corresponding bonds payable disclosed in Note 8 was $1,175.5 million at September 30, 2013.

Note 5 Notes Receivable

The notes receivable of $694.7 million consisted of the following at September 30, 2013:

a. Municipal Bond Fund

The Authority originated loans to public schools to meet the schools' immediate cash flow needs for spending purposes from the proceeds of its State aid and tax anticipation notes. Collections of the receivable for the notes outstanding are used to pay for the corresponding notes payable disclosed in Note 8. The balance of notes receivable was $657.7 million at September 30, 2013. The notes receivable bore interest ranging from 0.43% to 4.375% during fiscal year 2012-13.

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

The Authority originated loans to public school academies to meet the academies' immediate cash flow needs for operating purposes from the proceeds of its public school academy facilities notes. Collections of the receivable for the notes outstanding are used to pay for the corresponding notes payable disclosed in Note 8. The balance of notes receivable was $37.0 million at September 30, 2013. The notes receivable bore interest ranging from 1.95% to 3.30% during fiscal year 2012-13.

Note 6 Loans Receivable, Net

Net loans receivable of $3,892.3 million consisted of the following at September 30, 2013:

a. Municipal Bond Fund - Local Municipalities Subfund

The loans receivable consist of $26.2 million from public school academies, $340.3 million from Detroit Public Schools, and $18.9 million from Ypsilanti Community Schools for fiscal year 2012-13. Collections of the receivable for the loans outstanding are used to pay for the corresponding bonds payable disclosed in Note 8. Scheduled repayments of $38.5 million are expected to be collected during fiscal year 2013-14.

b. Municipal Bond Fund - State Revolving Subfund

The State Revolving Subfund has made commitments to municipalities to loan funds for construction of publicly owned water pollution control facilities and drinking water projects. These loans are primarily secured by system revenues of local municipalities, limited tax general obligation pledges, revenue-sharing pledge agreements, unlimited tax general obligations, and/or reserve funds. Amounts committed for the Clean Water Program were $3,712.9 million and, as of September 30, 2013, loans of $1,934.6 million were outstanding. Amounts committed for the Drinking Water Program were $661.8 million and, as of September 30, 2013, loans of $401.8 million were outstanding. Scheduled repayments of $183.2 million are expected to be collected during fiscal year 2013-14.

c. Municipal Bond Fund - Strategic Water Quality Initiatives Subfund

The Strategic Water Quality Initiatives Subfund has made commitments to municipalities to loan funds for purposes, such as footing drain disconnects and septic system upgrades, that are generally not eligible to be financed through the State Revolving Subfund. These loans are primarily secured by local municipalities' limited or unlimited tax general obligations or system revenue, and some are additionally secured by revenue-sharing pledge agreements and/or reserve funds. Amounts committed were $22.5 million as of September 30, 2013, and receivables outstanding were $14.2 million. Scheduled repayments of $1.0 million are expected to be collected during fiscal year 2013-14.

d. Student Loan Fund

Loans include educational loans made under the Federal Family Education Loan (FFEL) Program to students (Stafford Loans), to parents of dependent undergraduates (PLUS Loans), and to borrowers consolidating certain student loans (Consolidation Loans). These loans are federally insured. The terms of federal loans, which vary, generally provide for repayment in monthly installments of principal and interest over a period of up to 10 years. Loans also include education loans made under the Authority's Michigan Alternative Student Loan (MI-LOAN) Program, which are not federally insured. The following are descriptions of the loans and adjustments that comprise the net loans receivable of $1,156.4 million:

(1) Stafford Loans - Stafford Loans may be subsidized or unsubsidized. Interest is paid on subsidized Stafford Loans during the enrolled and grace periods by the USDOE, whereas borrowers must either pay interest from the time of the loan or capitalize the interest until repayment begins on unsubsidized Stafford Loans. Stafford Loans may bear fixed or variable rate interest with fixed rates ranging primarily from 5.6% to 6.8% and variable rates equivalent to the annual average U.S. Treasury bill rate, plus a factor of up to 3.25% depending on the status and/or date of disbursement of the loan.

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

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

(4) MI-LOAN Program Loans - Under the Authority's MI-LOAN Program, loans are made to assist students in meeting the costs of education at a degree-granting college or university located in Michigan. Borrowers or eligible co-signers must meet standards of credit established by the Authority. As of September 30, 2013, the MI-LOAN Program balance outstanding was $183.0 million. The MI-LOAN Program's fixed interest rate loans ranged from 5.95% to 9.50%. The MI-LOAN Program's variable interest rate was 1.65% at September 30, 2013. Repayment begins within 60 days of the disbursement and extends over a maximum period of 25 years.

(5) Allowance - The Authority's Stafford Loans, PLUS Loans, and Consolidation Loans are guaranteed primarily by the Authority's Michigan Guaranty Agency and by Great Lakes Higher Education Guaranty Corporation and reinsured by the USDOE. Historically, the Authority has recorded an allowance to estimate the unguaranteed portion of future loan defaults. As of September 30, 2013, the Authority's recorded allowance for FFEL Program loans was $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, 2013, the Authority's recorded allowance for the MI-LOAN Program loans was $4.9 million.

(6) 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 recognized as an increase to interest income over the life of the loan. For fiscal year 2012-13, $0.9 million of reserve fees was realized.

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

Components	2012-13
Loans receivable	$1,192,462,688
Cumulative loan loss and projected loss for fiscal year 2013-14	(46,894,417)
Loan origination fees receivable	(839,481)
MI-LOAN Program reserve fees less the unamortized deferred reserve fees	11,661,212
Loans receivable, net	$1,156,390,002

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

Note 7 Bonds Receivable

Bonds receivable consist 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 $17.3 million from the proceeds of the Authority's bond issuance. The annual

requirements for governmental units to repay their bonds to the Authority as of September 30, 2013, including principal and interest, were as follows:

Fiscal Years Ending	Principal	Interest	Total
2014	$ 88,019,270	$ 54,099,344	$ 142,118,614
2015	73,185,147	49,046,072	122,231,219
2016	48,085,000	29,134,688	77,219,688
2017	43,550,000	27,220,965	70,770,965
2018	41,915,000	25,473,958	67,388,958
2019 - 2023	182,790,000	101,562,788	284,352,788
2024 - 2028	125,165,000	61,576,213	186,741,213
2029 - 2033	109,620,000	29,504,607	139,124,607
2034 - 2038	42,405,000	5,151,727	47,556,727
2039 and thereafter	2,885,000	290,981	3,175,981
Total unadjusted bonds and interest	$ 757,619,417	$383,061,343	$ 1,140,680,760
Amortized premium/discounts	5,074,089		5,074,089
Unamortized accretion for capital appreciation bonds	(8,619,906)		(8,619,906)
Total	$ 754,073,600	$383,061,343	$ 1,137,134,943

Note 8 Bonds and Notes Payable, Net

a. Net bonds and notes payable of $9,849.0 million consisted of the following at September 30, 2013:

Series	Date of Issue	Original Issue	Interest Rate Percentage (a)	Maturity Dates	Amounts Outstanding as of September 30, 2013
Tobacco Settlement Debt Service Fund					
Tobacco Settlement Asset-Backed Bonds:					
Series 2006A - Serial	May 17, 2006	$ 363,115,000	7.31%	June 1, 2034	$ 318,870,000
Series 2007A - Serial	August 20, 2007	$ 480,125,000	5.125% to 6%	June 1, 2047	467,210,000
Series 2007B - Capital appreciation (b)	August 20, 2007	$ 35,649,948	7.25%	June 1, 2052	865,290,000
Series 2007C - Capital appreciation (b)	August 20, 2007	$ 7,216,749	7.5%	June 1, 2052	195,100,000
Series 2008A - Serial	July 7, 2008	$ 114,860,000	6.875%	June 1, 2024	114,860,000
Series 2008B - Capital appreciation (b)	July 7, 2008	$ 29,874,650	8.5%	June 1, 2046	700,625,000
Series 2008C - Capital appreciation (b)	July 7, 2008	$ 57,673,814	8.875%	June 1, 2058	4,395,870,000
Total Tobacco Settlement Asset-Backed Bonds					**$ 7,057,825,000**
Unemployment Obligation Assessment Debt Service Fund					
Unemployment Obligation Assessment Revenue Bonds:					
Series 2012A	June 27, 2012	$ 1,462,490,000	2% to 5%	July 1, 2019	$ 1,291,480,000
Series 2012B	June 27, 2012	$ 1,204,645,000	5%	July 1, 2023	1,204,645,000
Series 2012C	June 27, 2012	$ 250,000,000	Variable 0.08% (c)	July 1, 2024	131,500,000
Total Unemployment Obligation Assessment Revenue Bonds					**$ 2,627,625,000**
Municipal Bond Fund - Local Municipalities Subfund					
Municipal State Aid and Tax Anticipation Notes:					
Series 2013B-1	August 20, 2013	$ 220,188,000	0.43%	August 20, 2014	$ 220,188,000
Series 2013B-2	August 20, 2013	$ 189,342,000	1.1%	August 20, 2014	189,342,000
Series 2013B-3	August 20, 2013	$ 154,916,000	1.38%	August 20, 2014	154,916,000
Series 2013C	August 27, 2013	$ 92,000,000	4.4%	August 20, 2014	92,000,000
Series 2013B TAN	April 29, 2013	$ 2,855,000	Variable 5% (d)	October 15, 2013	2,855,000
Local Government Loan Program Revenue Bonds:					
Series 1986A	February 1987 to March 1989	$ 39,475,000	7.6%	November 1, 2013	10,000
Series 1991C - Capital appreciation (b)	June 27, 1991	$ 35,615,074	7.3%	June 15, 2015	15,220,000
Series 1993B	July 13, 1993	$ 30,925,000	5.7%	May 1, 2017	215,000
Series 1994B	March 30, 1994	$ 13,080,000	5.8%	November 1, 2013	95,000
Series 1994F	October 13, 1994	$ 6,935,000	6.7%	November 1, 2013	100,000
Series 1994G	December 21, 1994	$ 64,770,000	7.1%	November 1, 2013	250,000
Series 1994G - Capital appreciation (b)	December 21, 1994	$ 7,379,737	6.9% to 7.1%	May 1, 2020	29,045,000
Series 1995A	June 22, 1995	$ 15,205,000	6%	November 1, 2014	75,000
Series 1997A	April 29, 1997	$ 7,705,000	5.9%	November 1, 2016	220,000
Series 1997C	October 30, 1997	$ 16,335,000	5.2% to 5.55%	November 1, 2020	1,000,000
Series 1997D	December 22, 1997	$ 9,300,000	5.2% to 5.3%	November 1, 2015	600,000
Series 1998A	June 16, 1998	$ 16,100,000	5.1% to 5.2%	November 1, 2019	1,000,000
Series 1999A	February 9, 1999	$ 10,910,000	4.8%	November 1, 2013	205,000
Series 1999B	April 28, 1999	$ 38,605,000	4.7% to 4.85%	November 1, 2016	7,480,000
Series 1999C	June 24, 1999	$ 16,685,000	5.15% to 5.375%	November 1, 2019	340,000
Series 1999D	November 17, 1999	$ 8,255,000	5.6% to 6%	November 1, 2020	1,270,000
Series 2000A	May 17, 2000	$ 10,815,000	5.6% to 6%	November 1, 2020	1,555,000
Series 2000B	November 28, 2000	$ 5,905,000	5.2% to 5.625%	November 1, 2025	2,125,000
Series 2001B	July 12, 2001	$ 10,065,000	4.65% to 4.85%	November 1, 2015	1,305,000
Series 2002A	July 1, 2002	$ 30,060,000	4.125% to 5%	November 1, 2029	1,225,000
Series 2002B	November 1, 2002	$ 16,790,000	3.75% to 5%	November 1, 2032	10,015,000
Series 2003B	September 30, 2003	$ 19,665,000	3.8% to 6%	November 1, 2023	10,845,000
Series 2003C	September 30, 2003	$ 160,000,000	5%	May 1, 2014	21,420,000
Series 2004A	February 18, 2004	$ 41,155,000	3.5% to 6%	May 1, 2034	12,010,000
Series 2004B	May 13, 2004	$ 26,830,000	4% to 5%	November 1, 2024	3,960,000
Series 2004C	December 16, 2004	$ 9,985,000	4% to 4.25%	May 1, 2014	260,000
Series 2006A	May 10, 2007	$ 9,825,000	4.3% to 5%	May 1, 2019	4,820,000
Series 2007A	March 29, 2007	$ 21,875,000	4% to 5%	May 1, 2029	16,530,000
Series 2007B	August 3, 2007	$ 98,435,000	4.25% to 5.75%	December 1, 2034	43,155,000
Series 2007C	December 19, 2007	$ 31,080,000	3.5% to 5%	May 1, 2031	27,230,000
Series 2007D	December 28, 2007	$ 19,335,000	4% to 5%	November 1, 2032	13,590,000
Series 2008A	June 26, 2008	$ 27,000,000	Variable 0.32% (c)	November 1, 2037	25,575,000
Series 2009A	March 18, 2009	$ 28,430,000	4% to 5.75%	May 1, 2024	28,430,000
Series 2009B	March 31, 2009	$ 34,020,000	4% to 7%	November 1, 2028	20,130,000
Series 2009C	September 23, 2009	$ 45,795,000	3% to 5%	May 1, 2024	17,230,000
Series 2010A	March 31, 2010	$ 27,005,000	3% to 5%	May 1, 2022	16,195,000
Series 2010B	May 18, 2010	$ 38,245,000	3.6% to 6.7%	May 1, 2027	35,220,000
Series 2010C	May 25, 2010	$ 6,710,000	5.05% to 6.55%	May 1, 2030	6,710,000
Series 2010D	September 30, 2010	$ 14,290,000	3% to 5%	June 1, 2030	6,420,000
Series 2010E	December 16, 2010	$ 100,000,000	5.129% to 8.369%	November 1, 2035	100,000,000
Series 2011A	March 3, 2011	$ 31,565,000	3.5% to 6.375%	November 1, 2025	28,085,000
Series 2011B	April 13, 2011	$ 8,000,000	3.5% to 6%	November 1, 2035	7,815,000
Series 2011C	May 3, 2011	$ 7,710,000	6.2% to 6.5%	May 1, 2026	7,710,000

Series	Date of Issue	Original Issue	Interest Rate Percentage (a)	Maturity Dates	Amounts Outstanding as of September 30, 2013
Series 2011D	June 29, 2011	$ 8,975,000	2% to 5%	May 1, 2020	$ 8,775,000
Series 2011E	September 20, 2011	$ 1,775,000	2% to 4.75%	May 1, 2026	1,610,000
Series 2011F	October 28, 2011	$ 14,960,000	3% to 5.25%	October 1, 2041	14,805,000
Series 2012B	August 8, 2012	$ 18,880,000	3% to 4%	November 1, 2028	18,610,000
Series 2012C	August 23, 2012	$ 129,520,000	3% to 5%	November 1, 2032	129,520,000
Series 2012D	October 18, 2012	$ 7,950,000	3% to 4%	May 1, 2032	7,950,000
Series 2013A	May 14, 2013	$ 9,370,000	2% to 4%	May 1, 2033	9,370,000
School Loan Revenue Bonds:					
Series 2003A	March 25, 2003	$ 197,295,000	5.3%	December 1, 2013	21,305,000
Series 2007A	May 10, 2007	$ 74,645,000	5.222% to 5.252%	June 1, 2015	74,645,000
Series 2011	October 13, 2011	$ 238,100,000	5% to 5.5%	June 1, 2021	205,175,000
Series 2012	May 17, 2012	$ 134,585,000	4.674% to 5%	June 1, 2020	120,285,000
Series 2013	August 20, 2013	$ 18,615,000	3% to 5%	August 1, 2026	18,615,000
Series 2001A, Detroit Academy of Arts & Sciences	May 16, 2001	$ 30,020,000	7.9% to 8.0%	October 1, 2031	26,200,000
Total Municipal Bond Fund - Local Municipalities Subfund					**$ 1,842,856,000**
Municipal Bond Fund - State Revolving Subfund:					
Series 1998A, Clean Water Revolving Fund Revenue Bonds	July 15, 1998	$ 151,165,000	4.75% to 5.25%	October 1, 2020	$ 7,565,000
Series 2002R, Clean Water Revolving Fund Revenue Bonds	August 22, 2002	$ 469,100,000	5.5%	October 1, 2016	117,710,000
Series 2002R, Drinking Water Revolving Fund Revenue Bonds	August 22, 2002	$ 109,145,000	5.5%	October 1, 2016	26,910,000
Series 2004A, Clean Water Revolving Fund Revenue Bonds	April 21, 2004	$ 286,605,000	4.75% to 5%	October 1, 2026	46,285,000
Series 2004A, Drinking Water Revolving Fund Revenue Bonds	April 21, 2004	$ 67,895,000	5% to 5.25%	October 1, 2026	11,365,000
Series 2005A, Clean Water Revolving Fund Revenue Bonds	July 26, 2005	$ 103,630,000	4.75% to 5%	October 1, 2027	81,915,000
Series 2005A, Drinking Water Revolving Fund Revenue Bonds	July 26, 2005	$ 79,480,000	4.75% to 5%	October 1, 2027	63,150,000
Series 2005R, Clean Water Revolving Fund Revenue Bonds	July 26, 2005	$ 72,570,000	5.0%	October 1, 2020	56,510,000
Series 2006A, Clean Water Revolving Fund Revenue Bonds	November 2, 2006	$ 150,000,000	4.2% to 5%	October 1, 2028	124,290,000
Series 2007A, Clean Water Revolving Fund Revenue Bonds	October 25, 2007	$ 278,040,000	4.25% to 5%	October 1, 2029	242,610,000
Series 2009A, Clean Water Revolving Fund Revenue Bonds	June 30, 2009	$ 150,805,000	3% to 5%	October 1, 2029	136,230,000
Series 2010A, Clean Water Revolving Fund Revenue Bonds	March 18, 2010	$ 178,740,000	2.25% to 5%	October 1, 2030	168,460,000
Series 2010R, Clean Water Revolving Fund Revenue Bonds	March 18, 2010	$ 67,420,000	5%	October 1, 2020	49,555,000
Series 2011R, Clean Water Revolving Fund Revenue Bonds	November 3, 2011	$ 225,860,000	5.0%	October 1, 2024	209,685,000
Series 2011R, Drinking Water Revolving Fund Revenue Bonds	November 3, 2011	$ 56,860,000	2% to 5%	October 1, 2024	52,710,000
Series 2012A, Clean Water Revolving Fund Revenue Bonds	April 26, 2012	$ 131,410,000	3% to 5%	October 1, 2032	131,410,000
Series 2012R, Clean Water Revolving Fund Revenue Bonds	July 10, 2012	$ 89,595,000	5%	October 1, 2021	89,595,000
Series 2012R, Drinking Water Revolving Fund Revenue Bonds	July 10, 2012	$ 16,755,000	5.0%	October 1, 2020	16,755,000
Series 2013R, Clean Water Revolving Fund Revenue Bonds	February 20, 2013	$ 137,745,000	2% to 5%	October 1, 2026	137,745,000
Series 2013R, Drinking Water Revolving Fund Revenue Bonds	February 20, 2013	$ 31,110,000	1% to 5%	October 1, 2026	31,110,000
Total Municipal Bond Fund - State Revolving Subfund					**$ 1,801,565,000**
Municipal Bond Fund - School Loan Revolving Subfund:					
Series 2010A, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	$ 150,000,000	Variable 0.16% (c)	September 1, 2050	$ 150,000,000
Series 2010B, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	$ 150,000,000	Variable 0.15% (c)	September 1, 2050	150,000,000
Series 2010C, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	$ 150,000,000	Variable 0.15% (c)	September 1, 2050	150,000,000
Series 2010D, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	$ 85,000,000	4.996% to 6.496%	September 1, 2025	85,000,000
Total Municipal Bond Fund - School Loan Revolving Subfund					**$ 535,000,000**
Student Loan Fund					
Student Loan Bonds:					
Series XVII-H5-H6, Student Loan Revenue Bonds and Refunding Revenue Bonds	July 16, 2002	$ 295,000,000	Variable 0.384% (e)	March 1, 2037	$ 123,000,000
Series XVII-K5-K7, Student Loan Revenue Bonds	July 14, 2004	$ 508,350,000	Variable 0.398% (e)	March 1, 2039	206,850,000
Series XVII-L, Student Loan Revenue Bonds and Refunding Revenue Bonds	July 14, 2004	$ 25,000,000	Variable 0.280% (e)	March 1, 2039	50,000
Series XVII-M1-M2, Student Loan Refunding Revenue Bonds	July 13, 2005	$ 115,100,000	Variable 0.386% (e)	September 1, 2036	80,050,000
Series XVII-N1-N4, Student Loan Revenue Bonds	July 13, 2005	$ 485,000,000	Variable 0.371% (e)	March 1, 2040	282,000,000
Series 22-A, Student Loan Refunding Revenue Bonds	September 25, 2013	$ 180,000,000	Variable 0.080% (c)	September 1, 2042	180,000,000
Student Loan Notes:					
Straight-A Funding, LLC Deferred Interest Variable Funding Note	June 29, 2010	$ 1,013,098,231	Variable 0.120% (d)	January 19, 2014	578,704,134
Total Student Loan Fund					**$ 1,450,654,134**
Non-Major Funds					
Public School Academy Facilities Notes:					
Series 2013B-1	August 20, 2013	$ 40,145,000	1.18%	August 20, 2014	$ 40,145,000
Series 2013B-2	August 20, 2013	$ 6,190,000	1.82%	August 20, 2014	6,190,000
Total Non-Major Funds					**$ 46,335,000**

(a) Interest rates are reported as either ranges for serial and term bonds and notes for outstanding amounts as of September 30, 2013 or the September 30, 2013 effective rates for variable rate bonds and notes. The student loan variable rate bonds with multiple issues within a series are reported as September 30, 2013 effective rates weighted based on amounts outstanding.

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

(c) Interest rate changes every 7 days.

(d) Interest rate changes monthly.

(e) Interest rate changes every 35 days.

b. Annual debt service requirements for the Authority to service bond and note debt outstanding as of September 30, 2013, including both principal and interest, are as follows (in millions):

Fiscal Years Ending	Tobacco Settlement Debt Service Fund		Unemployment Obligation Assessment Debt Service Fund		Municipal Bond Fund - Local Municipalities Subfund		Municipal Bond Fund - State Revolving Subfund	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 11.2	$ 58.7	$ 176.3	$ 122.9	$ 822.9	$ 66.8	$ 126.2	$ 85.9
2015	12.6	58.0	188.2	114.2	129.5	50.9	131.4	79.5
2016	14.1	57.2	204.1	104.8	90.0	45.0	130.2	73.0
2017	15.8	56.3	221.9	94.6	87.6	41.0	133.5	66.4
2018	16.7	55.3	240.6	83.5	88.2	37.0	129.7	59.9
2019 - 2023	137.2	258.8	1,465.0	214.8	321.9	124.6	607.4	204.0
2024 - 2028	199.4	189.1	131.5	0.1	138.8	67.4	393.0	80.9
2029 - 2033	173.4	134.7			118.7	31.0	150.3	12.0
2034 - 2038	98.6	83.2			42.4	5.2		
2039 - 2043	111.8	54.0			2.9	0.3		
2044 - 2048	810.8	16.8						
2049 - 2053	1,060.4							
2054 - 2058	4,395.9							
Total unadjusted bonds and interest	$ 7,057.8	$ 1,022.0	$ 2,627.6	$ 734.9	$ 1,842.9	$ 469.3	$ 1,801.6	$ 661.5
Unamortized premium			310.9		29.1		155.7	
Unamortized discounts	(16.9)				(0.3)			
Deferred amount on refunding	(1.1)		(0.2)		1.8		(27.4)	
Unamortized accretion for capital appreciation bonds	(5,952.9)				(8.6)			
Total	$ 1,086.9	$ 1,022.0	$ 2,938.3	$ 734.9	$ 1,864.9	$ 469.3	$ 1,929.9	$ 661.5

c. Changes in long-term debt for the fiscal year ended September 30, 2013 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Tobacco Settlement Asset-Backed Bonds	$ 7,085,130,000	$	$ (27,305,000)	$ 7,057,825,000
Unemployment Obligation Assessment Revenue Bonds	2,917,135,000		(289,510,000)	2,627,625,000
Local Municipalities Subfund State Aid and Tax Anticipation Notes	663,325,000	665,301,000	(669,325,000)	659,301,000
Local Municipalities Subfund Local Government Loan Program Bonds	773,275,000	17,320,000	(73,265,000)	717,330,000
Local Municipalities Subfund School Loan Revenue Bonds	514,750,000	18,615,000	(67,140,000)	466,225,000
State Revolving Subfund	1,963,495,000	168,855,000	(330,785,000)	1,801,565,000
School Loan Revolving Subfund	535,000,000			535,000,000
Student Loan Bonds	971,525,000	180,000,000	(279,575,000)	871,950,000
Student Loan Notes	678,235,370		(99,531,236)	578,704,134
Public School Academy Facilities Notes	40,550,000	48,435,000	(42,650,000)	46,335,000
Total bonds and notes payable	$ 16,142,420,370	$ 1,098,526,000	$ (1,879,086,236)	$ 15,361,860,134

Municipal Bond Fund - School Loan Revolving Subfund		Student Loan Fund		Non-Major Funds		Totals	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
$	$ 5.8	$ 578.7	$ 3.0	$ 46.3	$ 0.4	$ 1,761.7	$ 343.4
	5.8		2.8			461.6	311.2
	5.8		2.8			438.3	288.6
	5.8		2.8			458.8	266.9
3.0	5.8		2.8			478.2	244.3
60.0	24.2		14.0			2,591.4	840.5
22.0	5.6	11.0	13.9			895.7	356.9
	3.5	186.5	13.3			628.9	194.5
	3.5	159.6	11.5			300.5	103.4
	3.5	514.9	2.1			629.6	59.8
	3.5					810.8	20.3
450.0	1.4					1,510.4	1.4
						4,395.9	0.0
$ 535.0	$ 74.3	$ 1,450.7	$ 68.9	$ 46.3	$ 0.4	$ 15,361.9	$ 3,031.3
						495.7	
						(17.1)	
(3.4)		0.4				(29.9)	
						(5,961.5)	
$ 531.6	$ 74.3	$ 1,451.1	$ 68.9	$ 46.3	$ 0.4	$ 9,849.0	$ 3,031.3

Amounts Due Within One Year	Amounts Due Thereafter
$ 11,210,000	$ 7,046,615,000
176,290,000	2,451,335,000
659,301,000	
69,035,000	648,295,000
94,585,000	371,640,000
126,210,000	1,675,355,000
	535,000,000
	871,950,000
578,704,134	
46,335,000	
$ 1,761,670,134	$ 13,600,190,000

d. Refinancing

In June 2010, the Authority borrowed $1,013 million, 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 created by the Ensuring Continued Access to Student Loans Act (ECASLA) federal legislation and enhanced by a loan put feature with the USDOE and short-term liquidity from the Federal Financing Bank, if necessary. FFEL Program loans originated during the period October 1, 2003 through 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, 2013, the Authority used the proceeds from the Straight-A Funding Student Loan notes to redeem $109.5 million of student loan bonds in fiscal year 2011-12, $99.3 million of student loan bonds in fiscal year 2010-11, and $693.8 million of student loan bonds in fiscal year 2009-10. The Authority has $104.5 million of Straight-A Funding Student Loan note proceeds remaining as of September 30, 2013. The Authority did not use any proceeds to redeem bonds in fiscal year 2012-13 but anticipates possible use of proceeds for additional redemptions throughout fiscal year 2013-14.

The interest expense of negative $8.8 million reported in the Student Loan Fund includes interest expense of $6.2 million reduced by the amortization of net deferred gains on refunded bonds of $15.0 million, which is primarily attributable to the amortization of the deferred gain on bonds refunded with the Straight-A Funding Student Loan notes.

e. Refunded Bonds

(1) State Revolving Fund

On February 20, 2013, the Authority issued $168.9 million in State Revolving Fund Revenue Bonds, composed of two series: $137.7 million in Clean Water Revolving Fund Subordinate Refunding Bonds, Series 2013, and $31.1 million in Drinking Water Revolving Fund Subordinate Refunding Bonds, Series 2013. The Bonds

refunded a $170.6 million portion of the outstanding Clean Water Revolving Fund Revenue Bonds, Series 2004, and a $39.4 million portion of Drinking Water Revolving Fund Revenue Bonds, Series 2004. The Bonds were sold with a true interest cost of 1.91%, reducing total debt service payments over the next 13 years by $69.2 million and garnering a net present value savings of $34.4 million, or approximately 16.37% of the refunded bonds. The proceeds were placed into an escrow account and will be used to redeem the Clean Water and Drinking Water Series 2004 Bonds on October 1, 2014.

(2) Student Loan Fund

On September 25, 2013, the Authority issued $180 million in Student Loan Revenue Refunding Bonds, Series 22-A. The Bonds refunded a $154 million portion of the outstanding Student Loan Revenue Bonds, Series XII, and a $26 million portion of the outstanding Student Loan Revenue Bonds, Series 20. The Bonds were sold as weekly variable rate with a State Street Bank and Trust letter of credit. Although it is expected that the refunding will result in a reduction of debt service and net present value savings, the variable interest rate precludes the calculation of the exact reduction in total debt service payments and net present value savings. The proceeds were placed into two escrow accounts and were used to redeem the Series XII and Series 20 Bonds on October 10, 2013.

f. Defeased Bonds

The Authority has defeased certain Municipal Bond Fund and Student Loan 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 was $369.2 million at September 30, 2013.

g. Demand Bonds

(1) Unemployment Obligation Assessment Revenue Bonds

Included in current liabilities is $131.5 million of Unemployment Obligation Assessment Revenue Bonds, Series 2012C, with a nominal maturity of July 1, 2024. The bonds were issued in the amount of $250.0 million on June 27, 2012 to refinance the original 2011 short-term unemployment bond series.

The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest from the immediately preceding interest payment date on 7 days' notice and delivery to the remarketing agent (Citigroup Global Markets), the tender agent, and the trustee. The remarketing agent is authorized to offer for sale and use its best efforts to sell any bonds which are remarketed pursuant to the supplemental indenture. The interest rate on the bonds is reset weekly at the rate determined by the remarketing agent to be the minimum interest rate which would enable the remarketing agent to sell all of the bonds on the effective date at a price equal to the principal amount. The fee for the remarketing agent is 0.02% of the outstanding balance.

Under an irrevocable letter of credit issued by Citibank, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letter of credit is valid through July 1, 2014, on which date it is expected that all of the bonds will have been redeemed. If the bonds are outstanding at the expiration of the letter of credit and a new letter is not obtained, the bonds will be subject to a termout interest rate equal to the London Interbank Offered Rate (LIBOR) index rate plus 7.50%. All amounts drawn on the letter of credit must be paid on the earlier of the expiration date or the remarketing, prepayment, redemption, or defeasance of the bonds. As of September 30, 2013, the only draws on the letter have been for two optional redemptions of bonds in the total amount of $118.5 million. The letter of credit bank is paid a fee of 0.07% of the outstanding balance on the bonds.

(2) School Loan Revolving Fund

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

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

Under irrevocable letters of credit issued by Bank of America, N.A. (Series 2010A), PNC Bank, National Association (Series 2010B), and Bank of Montreal (Series 2010C), the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letters of credit are valid through December 12, 2016. If not previously extended, the letters automatically terminate. All amounts drawn on the letters of credit must be paid on the earliest of the 90th day following the draw, the conversion date, the redemption of bonds, the date of the sale of bank bonds, the regularly scheduled quarterly interest payment date, or the replacement of the letters. As of September 30, 2013, there have not been any draws on the letters of credit. The banks issuing the letters of credit are paid a fee based on a pricing matrix which takes into account the unenhanced ratings of the bonds. At the current ratings, the fee is 1.00% of the outstanding balance on the bonds through December 13, 2013 and 0.65% of the outstanding balance thereafter.

(3) Local Government Loan Program

Included in current liabilities is $25.6 million of Local Government Loan Program Revenue Bonds (City of Highland Park Local Payments Bonds), Series 2008A, with a nominal maturity of November 1, 2037. The bonds were issued in the amount of $27.0 million on June 26, 2008 to make a loan to the City of Highland Park to fund the city's unfunded contribution to the Michigan Municipal Employees Retirement System.

The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest to the date of purchase on 7 days' notice and delivery to the remarketing agent (Fifth Third Securities, Inc.) and the trustee. The remarketing agent is authorized to offer for sale and use its best efforts to sell any bonds which are remarketed pursuant to the supplemental indenture. The interest rate on the bonds is reset weekly at the rate determined by the remarketing agent to be the minimum interest rate which would enable the remarketing agent to sell all of the bonds on the effective date at the principal amount. The fee for the remarketing agent is 0.125% of the outstanding balance.

Under an irrevocable letter of credit issued by Fifth Third Bank, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letter of credit is valid through September 15, 2014, at which point all the bonds will be due and payable unless the letter has been extended or replaced. All amounts drawn on the letter of credit must be paid on the same day as the draw. If the amounts are not repaid, they accrue interest at the prime rate plus 3.00%, payable monthly. As of September 30, 2013, the only draws on the letter have been fully reimbursed draws for scheduled monthly payments. The bank issuing the letter of credit is paid a fee of 5.25% of the outstanding balance on the bonds.

(4) Student Loan

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

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

Under an irrevocable letter of credit issued by State Street Bank and Trust, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letter of credit is valid through September 25, 2018. If not previously extended, the letter automatically terminates on this date. All amounts drawn on the letters of credit must be paid on the earliest of the date of remarketing of Bank Bonds, the date the Bank Bonds become due, 180 days after the drawing, replacement of the letter, the termination date, or the immediately succeeding interest payment date. As of September 30, 2013, there have not been any draws on the letter of credit. The bank issuing the letter of credit is paid a fee of 0.60% of the outstanding balance on the bonds.

Note 9 Conduit Debt Obligations

The Authority has issued limited obligation bonds to provide capital financing for eligible borrowers that are not part of the Authority's financial reporting entity. Therefore, the conduit debt obligations are not recorded as liabilities of

the Authority and the Authority has no obligation for this debt. Typically, these borrowings are repayable only from the repayment of loans, undisbursed proceeds, and related interest earnings.

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

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

The total outstanding limited obligation bonds and defeased and undefeased portions as of September 30, 2013 were as follows:

	Higher Education Facilities Fund	Public School Academy Facilities Fund	Healthcare Finance Fund	Michigan Strategic Fund	Total
Defeased	$ 23,665,000	$	$ 302,000,000	$	$ 325,665,000
Undefeased	586,227,054	258,315,000	5,298,092,110	87,700,000	6,230,334,164
Total outstanding	$609,892,054	$258,315,000	$5,600,092,110	$87,700,000	$6,555,999,164

Note 10 Employee Benefits

a. Plan Descriptions - The Authority participates in the State of Michigan's defined benefit and defined contribution pension plans that cover most State employees, as well as related component units such as the Authority. The defined benefit and defined contribution pension plans are part of the Michigan State Employees' Retirement System administered by the Office of Retirement Services, Department of Technology,

Management, and Budget. Participants in each plan are eligible for retirement, healthcare, disability, and death benefits upon meeting certain vesting requirements. The Michigan State Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State's Web site at <http://www.michigan.gov/ors>. The financial report for the defined contribution plan may be obtained by writing to the Office of Retirement Services, Department of Technology, Management, and Budget, P.O. Box 30171, Lansing, Michigan 48909-7671.

b. Funding Policy - The State funds pension and other postemployment benefits on a prefunded basis. For the defined benefit plan, the Authority was required to contribute 5.39% of payroll for the employer portion of the defined benefit pension. Employees participating in the defined benefit plan were required to contribute 4% of their compensation for pension benefits. For the defined contribution plan, the Authority was required to contribute 4.0% of payroll with an additional match of up to 3.0%. Employees in the defined contribution plan are not required to contribute to the plan but may contribute up to the Internal Revenue Service allowed maximum. The Authority was required to contribute 42.15% of payroll for the employer cost of other postemployment benefits. The Authority transferred $0.1 million, $0.1 million, and $1.6 million to the State for its employer contribution for the defined benefit plan, defined contribution plan, and other postemployment benefits, respectively, in fiscal year 2012-13. The contribution requirements of plan members and the Authority are established and may be amended by the State Legislature. The State Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for the plans.

c. Postemployment Benefits - The Authority participates in the State of Michigan's postemployment benefits. State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The State pays 80% of the cost of health insurance for

retired employees that were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before January 1, 2012, the State pays between 30% and 80% of the cost of health insurance depending upon years of service. Employees hired on or after January 1, 2012 will not be eligible for any retiree health insurance coverage but will receive a personal healthcare fund where they will contribute up to 2% of their compensation into a 401(k) or 457 account, earning a matching 2% employer contribution. Also, the employee will receive a credit into a health reimbursement account at termination of employment if he or she has at least 10 years of service at termination. The credit will be $2,000 for participants who are at least 60 years old or $1,000 for participants who are less than 60 years old at termination.

Note 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 subsidized Stafford Loans for the period during which the borrowers are enrolled at an institution of higher education and during a six- to nine-month period after the borrowers have graduated or left school. The interest subsidy for fiscal year 2012-13 totaled $5.7 million. In addition, 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 USDOE pays the special allowance, which adjusts the Authority's yield on student loans to a rate related to the average of a one month London Interbank Offered Rate (LIBOR) yield during the quarter or, for loans disbursed on or after January 1, 2000, a rate related to the average three-month commercial paper yield. The positive special allowance received for fiscal year 2012-13 was $0.7 million. For loans first disbursed on or after October 1, 2007, the College Cost Reduction and Access Act reduced the special allowance factors and the Deficit Reduction Act of 2005 required that, if the resulting special allowance calculation was negative, the

negative special allowance must be paid to the USDOE. The negative special allowance paid for fiscal year 2012-13 totaled $20.0 million.

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

The Michigan Guaranty Agency - Operating Fund receives federal funds for fees related to defaulted student loans. The account maintenance fee is 0.06% of the original principal amount of outstanding loans for administering the accounts. Also, the Michigan Guaranty Agency - Operating Fund receives federal funds for its share of retention on loan recoveries and loans rehabilitated. For loan recoveries, the retention rate is 16.0%, and for loans rehabilitated, the Michigan Guaranty Authority (MGA) receives 18.5% of principal and 100% of interest and collection costs.

b. Fiduciary Fund - Michigan Guaranty Agency Federal Fund

The Michigan Guaranty Agency Federal Fund includes federal revenue to reimburse the Authority for defaulted loan claims acquired from financial institutions. Defaulted loans consist of loans in which the student defaulted and the unpaid loan has been acquired from the financial institution by MGA and is recorded as a deduction within loan claims in the fiduciary fund. The federal government reimburses MGA between 75% and 100% of defaulted loans based on when the loan was guaranteed and MGA's trigger default rate. The federal revenue is reported as an addition in the fiduciary fund. The federal government has defined the trigger default rate to be the defaulted loan claims presented to the federal government during the federal fiscal year ended September 30, divided by loans in repayment at the beginning of the federal fiscal year, plus certain other adjustments. The trigger default rate for the fiscal year ended September 30, 2013 was 3.02%.

Note 12 Contingencies

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

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

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

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

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

settlement makes the MSA current, eliminating approximately 10 years of disputed payment withholdings.

b. Fiduciary Fund - Michigan Guaranty Agency Federal Fund

MGA is contingently liable for loans made by financial institutions that qualify for guaranty. The trigger default rate for loans guaranteed by the Authority was below 5% for fiscal year 2012-13. As a result, the federal government's reinsurance rate for defaults for fiscal year 2012-13 was 100% for loans made prior to October 1, 1993; 98% for loans made from October 1, 1993 through September 30, 1998; and 95% for loans made on or after October 1, 1998. In the event of future adverse default experience in which the trigger default rate exceeds 9%, the federal government's reinsurance rate could be as low as 75%; therefore, MGA could be liable for up to 25% of defaulted loans. Although management believes that MGA's expected maximum contingent liability is less than 25% of outstanding guaranteed loans, the maximum contingent liability at 25% was $622.0 million as of September 30, 2013. 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 outstanding loans in accordance with the Higher Education Act of 1965, as amended. MGA was in compliance with this requirement as of September 30, 2013.

Note 13 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 14 Subsequent Events

a. Municipal Bond Fund

On October 2, 2013 and December 13, 2013, the Authority issued Local Government Loan Program Revenue Bonds of $30.0 million and $60.0 million, respectively, within the Municipal Bond Fund - Local Municipalities Subfund.

b. Limited Obligation Bonds

On October 10, 2013 and October 30, 2013, the Authority issued limited obligation bonds of $13.7 million and $390.1 million, respectively, within the Healthcare Finance Fund.

c. Student Loan Fund

On November 21, 2013, the Authority issued $556.2 million of notes under Series 23-A to prepay the Straight-A Funding Student Loan notes. The Authority transferred $41.0 million from the Student Loan Operating Fund to Debt Service Reserve of Series 23-A to complete the transaction.

REQUIRED SUPPLEMENTARY INFORMATION

MICHIGAN FINANCE AUTHORITY
Governmental General Fund
Budgetary Comparison Schedule
For the Fiscal Year Ended September 30, 2013

Statutory/Budgetary Basis	Final Budget	Actual	Variance With Final Budget
Beginning budgetary fund balance	$ 1,417,351	$ 1,417,351	$ 0
Resources (inflows)			
Tobacco settlement revenue	$ 361,902	$ 361,902	$ 0
Unemployment obligation assessment revenue	319,812	319,812	0
Miscellaneous	37,174	37,174	0
Total resources (inflows)	$ 718,888	$ 718,888	$ 0
Amount available for uses (outflows)	$ 2,136,239	$ 2,136,239	$ 0
Uses (outflows)	$ 565,498	$ 565,498	$ 0
Total uses (outflows)	$ 565,498	$ 565,498	$ 0
Ending budgetary fund balance	$ 1,570,740	$ 1,570,740	$ 0

See accompanying note to required supplementary information.

MICHIGAN FINANCE AUTHORITY
Governmental General Fund
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation
For the Fiscal Year Ended September 30, 2013

Sources/inflows of resources		
Actual amount (budgetary basis) available for uses (outflows) from the budgetary comparison schedule	$	2,136,239
Differences - Budget to GAAP:		
Budgetary fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes		(1,417,351)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance	$	718,888
Uses/outflows of resources		
Actual amount (budgetary basis) total uses (outflows) from the budgetary comparison schedule	$	565,498
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance	$	565,498

Note 1 Statutory/Budgetary Presentation

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

The budgetary comparison schedule presents the final budget for fiscal year 2012-13, as well as the actual revenues and other sources (inflows), expenditures (outflows), and fund balance stated on the budgetary basis. The Authority does not estimate revenue for budget purposes, and the Authority is allowed to spend the collected revenue without restrictions. Therefore, the actual revenue reflects the budgeted revenue. There were no changes from the original budget to the final budget.

SUPPLEMENTAL FINANCIAL STATEMENTS

MICHIGAN FINANCE AUTHORITY
Non-Major Funds - Combining Statement of Net Position
As of September 30, 2013

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
ASSETS				
Current assets:				
Cash and cash equivalents	$ 31,206,538	$ 291,000	$ 8,908,000	$ 40,405,538
Receivable from federal government	414,036			414,036
Receivable from other funds	3,147,130	483,949		3,631,079
Interest receivable	12,578		90,233	102,811
Investments	1,037,716	16,919,713	12,248	17,969,678
Notes receivable			36,986,301	36,986,301
Other current assets		653,551		653,551
Total current assets	$ 35,817,998	$ 18,348,213	$ 45,996,782	$ 100,162,994
Noncurrent assets:				
Deferred charges/financing costs, net	$	$	$ 382,310	$ 382,310
Total noncurrent assets	$ 0	$ 0	$ 382,310	$ 382,310
Total assets	$ 35,817,998	$ 18,348,213	$ 46,379,092	$ 100,545,304
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	$	$	$ 2,514	$ 2,514
Bonds and notes payable, net			46,335,000	46,335,000
Interest payable			40,661	40,661
Compensated absences	61,551	50,964		112,515
Total current liabilities	$ 61,551	$ 50,964	$ 46,378,175	$ 46,490,690
Noncurrent liabilities:				
Compensated absences	$ 402,350	$ 162,164	$	$ 564,514
Total noncurrent liabilities	$ 402,350	$ 162,164	$ 0	$ 564,514
Total liabilities	$ 463,901	$ 213,128	$ 46,378,175	$ 47,055,204
NET POSITION				
Restricted	$ 35,354,098	$	$ 8,908,000	$ 44,262,097
Unrestricted		18,135,085	(8,907,083)	9,228,003
Total net position	$ 35,354,098	$ 18,135,085	$ 917	$ 53,490,100

MICHIGAN FINANCE AUTHORITY

Non-Major Funds - Combining Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended September 30, 2013

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
OPERATING REVENUES				
Federal revenue:				
Loan recoveries	$ 3,455,812	$	$	$ 3,455,812
Loans repurchased and rehabilitated	14,869,638			14,869,638
Account maintenance	1,787,658			1,787,658
Interest revenue			799,853	799,853
Investment income		2,026	367	2,393
Fees:				
Default aversion	304,968			304,968
Authority		3,043,332		3,043,332
Miscellaneous	1,496,307		4,200	1,500,507
Total operating revenues	$ 21,914,384	$ 3,045,357	$ 804,421	$ 25,764,162
OPERATING EXPENSES				
Interest and principal on bonds and notes	$	$	$ 411,840	$ 411,840
Amortization on deferred charges/financing costs			375,307	375,307
Other administrative expense	15,123,847	1,858,799	124,830	17,107,476
Total operating expenses	$ 15,123,847	$ 1,858,799	$ 911,976	$ 17,894,622
Operating income (loss)	$ 6,790,537	$ 1,186,558	$ (107,556)	$ 7,869,539
NONOPERATING REVENUES (EXPENSES)				
Other	$ 84,486	$	$	$ 84,486
Total nonoperating revenues (expenses)	$ 84,486	$ 0	$ 0	$ 84,486
Income (loss) before transfers	$ 6,875,023	$ 1,186,558	$ (107,556)	$ 7,954,025
TRANSFERS				
Transfers from other funds	$	$ 197,670	$	$ 197,670
Transfers to other funds	(1,031,000)		(18,092)	(1,049,092)
Total transfers	$ (1,031,000)	$ 197,670	$ (18,092)	$ (851,422)
Change in net position	$ 5,844,023	$ 1,384,229	$ (125,648)	$ 7,102,604
Net position - Beginning of fiscal year	29,510,075	16,750,857	126,565	46,387,497
Net position - End of fiscal year	$ 35,354,098	$ 18,135,085	$ 917	$ 53,490,100

MICHIGAN FINANCE AUTHORITY
Non-Major Funds - Combining Statement of Cash Flows
For the Fiscal Year Ended September 30, 2013

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Bonds, notes, and loans receivable made	$	$	$ (45,347,701)	$ (45,347,701)
Principal received on bonds, notes, and loans			42,298,426	42,298,426
Interest received on bonds, notes, and loans			774,936	774,936
Cash payments to employees and suppliers for goods and services	(16,700,315)	(2,370,126)	(124,830)	(19,195,271)
Other operating revenues	21,712,168	3,453,898		25,166,067
Net cash provided by (used in) operating activities	$ 5,011,853	$ 1,083,773	$ (2,399,169)	$ 3,696,456
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from sale of bonds and notes, net	$	$	$ 48,435,000	$ 48,435,000
Payment of bond issue costs			(447,979)	(447,979)
Principal paid on bonds and notes			(42,650,000)	(42,650,000)
Interest paid on bonds and notes			(416,664)	(416,664)
Other	(1,000,011)	197,670	(18,092)	(820,433)
Net cash provided by (used in) noncapital financing activities	$ (1,000,011)	$ 197,670	$ 4,902,265	$ 4,099,925
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (purchases of) proceeds from sale and maturities of investment securities	$ 5,004,492	$ (1,669,293)	$ (1,452)	$ 3,333,747
Interest and dividends on investments	490,696	2,026	367	493,089
Net cash provided by (used in) investing activities	$ 5,495,188	$ (1,667,267)	$ (1,085)	$ 3,826,836
Net increase (decrease) in cash	$ 9,507,030	$ (385,824)	$ 2,502,011	$ 11,623,217
Cash and cash equivalents - Beginning of fiscal year	21,699,508	676,824	6,405,989	28,782,321
Cash and cash equivalents - End of fiscal year	$ 31,206,538	$ 291,000	$ 8,908,000	$ 40,405,538
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES				
Operating income (loss)	$ 6,790,537	$ 1,186,558	$ (107,556)	$ 7,869,539
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income		(2,026)	(367)	(2,393)
Other income			(4,200)	(4,200)
Interest expense			411,840	411,840
Amortization of deferred charges			375,307	375,307
Changes in assets and liabilities:				
(Increase) Decrease in other receivables	(1,879,574)	(73,383)	(3,892)	(1,956,849)
Increase (Decrease) in other payables	131,890	(27,377)		104,513
(Increase) Decrease in bonds, notes, and loans receivable			(3,070,301)	(3,070,301)
Transfers				
Transfer to federal fund	(31,000)			(31,000)
Net cash provided by (used in) operating activities	$ 5,011,853	$ 1,083,773	$ (2,399,169)	$ 3,696,456

SUPPLEMENTAL FINANCIAL SCHEDULES

MICHIGAN FINANCE AUTHORITY
Municipal Bond Fund - Combining Supplemental Schedule of Net Position
As of September 30, 2013

	Local Municipalities Subfund	State Revolving Subfund	
		Clean Water Program	Drinking Water Program
ASSETS			
Current assets:			
Cash and cash equivalents	$	$ 4,382,073	$ 19,301
Receivable from federal government		110,098	70,141
Receivable from primary government		1,105,000	
Interest receivable	42,090,404	4,352,346	624,150
Investments	24,580,313	765,393,312	259,885,012
Notes receivable	657,721,726		
Loans receivable, net	38,467,192	153,820,210	29,356,569
Bonds receivable	113,339,270		
Other current assets			26,399
Total current assets	$ 876,198,905	$ 929,163,039	$ 289,981,573
Noncurrent assets:			
Receivable from primary government	$	$	$
Interest receivable	14,621,217		
Investments		622,660,981	91,221,789
Loans receivable, net	346,862,256	1,780,774,851	372,485,105
Bonds receivable	640,734,330		
Deferred charges/financing costs, net	12,341,820	9,942,486	1,211,120
Total noncurrent assets	$ 1,014,559,623	$ 2,413,378,318	$ 464,918,014
Total assets	$ 1,890,758,528	$ 3,342,541,357	$ 754,899,587
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	$ 170,201	$ 157,870	$ 56,141
Bonds and notes payable, net	848,241,000	108,760,000	17,450,000
Interest payable	23,551,034	39,501,492	4,987,428
Deferred revenue			2,766,671
Total current liabilities	$ 871,962,235	$ 148,419,362	$ 25,260,240
Noncurrent liabilities:			
Bonds and notes payable, net	$ 1,016,633,874	$ 1,605,285,408	$ 198,357,807
Arbitrage payable		6,024,914	724,329
Total noncurrent liabilities	$ 1,016,633,874	$ 1,611,310,323	$ 199,082,136
Total liabilities	$ 1,888,596,108	$ 1,759,729,685	$ 224,342,376
NET POSITION			
Restricted for:			
Water pollution control and drinking water projects	$	$ 1,582,811,672	$ 530,557,211
Strategic Water Quality Initiatives Fund			
School Loan Revolving Fund			
Unrestricted	2,162,419		
Total net position	$ 2,162,419	$ 1,582,811,672	$ 530,557,211

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
$	$ 309,704,195	$ 314,105,568
		180,239
		1,105,000
	1,544,394	48,611,294
10,659,091	31,538,215	1,092,055,944
		657,721,726
955,000		222,598,971
		113,339,270
		26,399
$ 11,614,091	$ 342,786,804	$ 2,449,744,412
$	$ 1,175,478,349	$ 1,175,478,349
		14,621,217
	65,918,110	779,800,879
13,235,797		2,513,358,009
		640,734,330
	2,321,276	25,816,702
$ 13,235,797	$ 1,243,717,734	$ 5,149,809,486
$ 24,849,888	$ 1,586,504,538	$ 7,599,553,898
$ 40,799	$ 423,338	$ 848,349
		974,451,000
	482,175	68,522,129
		2,766,671
$ 40,799	$ 905,513	$ 1,046,588,149
$	$ 531,608,586	$ 3,351,885,675
		6,749,243
$ 0	$ 531,608,586	$ 3,358,634,918
$ 40,799	$ 532,514,099	$ 4,405,223,067
$	$	$ 2,113,368,883
24,809,089		24,809,089
	1,053,990,439	1,053,990,439
		2,162,419
$ 24,809,089	$ 1,053,990,439	$ 3,194,330,830

MICHIGAN FINANCE AUTHORITY

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

For the Fiscal Year Ended September 30, 2013

	Local Municipalities Subfund	State Revolving Subfund	
		Clean Water Program	Drinking Water Program
OPERATING REVENUES			
Federal revenue	$	$ 418,833	$ 274,643
Interest revenue	70,191,145	43,446,301	9,828,678
Investment income	602,521	22,562,309	2,543,708
Miscellaneous	7,801		3,600
Total operating revenues	$ 70,801,468	$ 66,427,444	$ 12,650,629
OPERATING EXPENSES			
Arbitrage expense	$	$ 2,948,214	$ 246,610
Interest expense	63,997,075	60,220,772	7,109,712
Amortization on deferred charges/financing costs	5,466,275	1,591,480	246,982
Other administrative expense		1,095,724	350,955
Total operating expenses	$ 69,463,350	$ 65,856,189	$ 7,954,260
Operating income (loss)	$ 1,338,117	$ 571,255	$ 4,696,369
NONOPERATING REVENUES (EXPENSES)			
Operating subsidies	$	$ 93,809,269	$ 21,414,796
American Recovery and Reinvestment Act principal forgiveness, net		4,244,871	33,927
Grant expense			
Other		(4,565,002)	(6,747,153)
Total nonoperating revenues (expenses)	$ 0	$ 93,489,138	$ 14,701,570
Income (loss) before transfers	$ 1,338,117	$ 94,060,393	$ 19,397,939
TRANSFERS			
Transfers from other funds	$	$	$
Transfers to other funds	(179,578)		
Total transfers	$ (179,578)	$ 0	$ 0
Change in net position	$ 1,158,539	$ 94,060,393	$ 19,397,939
Net position - Beginning of fiscal year	1,003,880	1,488,751,279	511,159,271
Net position - End of fiscal year	$ 2,162,419	$ 1,582,811,672	$ 530,557,211

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
$	$	$ 693,476
314,586	36,884,953	160,665,664
575	(592,055)	25,117,058
		11,401
$ 315,161	$ 36,292,898	$ 186,487,599
$	$	$ 3,194,823
	6,158,295	137,485,854
	146,693	7,451,430
41,374	5,162,356	6,650,409
$ 41,374	$ 11,467,344	$ 154,782,516
$ 273,787	$ 24,825,554	$ 31,705,083
$	$ 221,332,436	$ 336,556,501
		4,278,798
(13,398,992)		(13,398,992)
		(11,312,155)
$ (13,398,992)	$ 221,332,436	$ 316,124,151
$ (13,125,205)	$ 246,157,990	$ 347,829,235
$	$	$ 0
		(179,578)
$ 0	$ 0	$ (179,578)
$ (13,125,205)	$ 246,157,990	$ 347,649,656
37,934,294	807,832,449	2,846,681,174
$ 24,809,089	$ 1,053,990,439	$ 3,194,330,830

MICHIGAN FINANCE AUTHORITY
Municipal Bond Fund - Combining Supplemental Schedule of Cash Flows
For the Fiscal Year Ended September 30, 2013

	Local Municipalities Subfund	State Revolving Subfund	
		Clean Water Program	Drinking Water Program
CASH FLOWS FROM OPERATING ACTIVITIES			
Bonds, notes, and loans receivable made	$ (700,210,619)	$ (143,777,340)	$ (19,102,382)
Principal received on bonds, notes, and loans	809,630,780	152,582,741	32,448,098
Interest received on bonds, notes, and loans	73,217,553	43,446,301	9,828,678
Cash payments to employees and suppliers for goods and services		(6,089,423)	(294,191)
Other operating revenues		441,877	306,818
Net cash provided by (used in) operating activities	$ 182,637,714	$ 46,604,157	$ 23,187,021
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from sale of bonds and notes, net	$ 701,212,493	$ (18,780,264)	$ (5,278,208)
Payment of bond issue costs	(1,912,193)	(749,545)	(158,060)
Principal paid on bonds and notes	(803,316,372)	(104,395,000)	(16,405,000)
Interest paid on bonds and notes	(79,609,204)	(77,853,351)	(9,737,410)
Operating subsidies		93,434,660	23,828,770
American Recovery and Reinvestment Act principal forgiveness expense		374,339	352,697
Grant expense		(320,131)	(6,713,226)
Other	(184,946)		
Net cash provided by (used in) noncapital financing activities	$ (183,810,221)	$ (108,289,291)	$ (14,110,437)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchases of) proceeds from sale and maturities of investment securities	$ (365,893)	$ 38,653,854	$ (12,329,929)
Interest and dividends on investments	593,135	24,643,828	3,230,040
Net cash provided by (used in) investing activities	$ 227,242	$ 63,297,682	$ (9,099,888)
Net increase (decrease) in cash	$ (945,265)	$ 1,612,548	$ (23,304)
Cash and cash equivalents - Beginning of fiscal year	945,265	2,769,525	42,605
Cash and cash equivalents - End of fiscal year	$ 0	$ 4,382,073	$ 19,301
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss)	$ 1,338,117	$ 571,255	$ 4,696,369
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Investment income	(602,521)	(22,562,309)	(2,543,708)
Other income	(7,801)		
Interest expense	63,997,075	60,220,772	7,109,712
Amortization of deferred charges	5,466,275	1,591,480	246,982
Changes in assets and liabilities:			
(Increase) Decrease in other receivables	(582,971)	1,968,044	80,119
Increase (Decrease) in other payables		(2,045,485)	251,830
(Increase) Decrease in bonds, notes, and loans receivable	113,029,540	6,860,401	13,345,716
Net cash provided by (used in) operating activities	$ 182,637,714	$ 46,604,157	$ 23,187,021

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
$ (1,748,041)	$ (226,434,316)	$ (1,091,272,698)
715,000	104,173,967	1,099,550,586
314,586	30,447,107	157,254,225
(129,689)	(5,277,575)	(11,790,877)
		748,695
$ (848,143)	$ (97,090,817)	$ 154,489,932
$	$	$ 677,154,022
		(2,819,797)
		(924,116,372)
	(5,956,100)	(173,156,065)
	198,887,464	316,150,894
		727,036
(13,398,992)		(20,432,349)
		(184,946)
$ (13,398,992)	$ 192,931,364	$ (126,677,577)
$ 10,463,221	$ (3,535,782)	$ 32,885,471
575	3,978,003	32,445,581
$ 10,463,796	$ 442,221	$ 65,331,052
$ (3,783,340)	$ 96,282,768	$ 93,143,406
3,783,340	213,421,427	220,962,162
$ 0	$ 309,704,195	$ 314,105,568
$ 273,787	$ 24,825,554	$ 31,705,083
(575)	592,055	(25,117,058)
		(7,801)
	6,158,295	137,485,854
	146,693	7,451,430
	(128,698,196)	(127,233,003)
(88,315)	(115,219)	(1,997,190)
(1,033,041)		132,202,616
$ (848,143)	$ (97,090,817)	$ 154,489,932

MICHIGAN FINANCE AUTHORITY
Student Loan Fund - Combining Supplemental Schedule of Net Position
As of September 30, 2013

	Operating Subfund	Bond Subfund	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	$ 67,118,313	$ 425,889,797	$ 493,008,109
Receivable from federal government	1,851	1,265,525	1,267,376
Interfund receivable	386,441		386,441
Interest receivable	307,483	18,634,324	18,941,807
Loans receivable, net	1,807,023	146,210,898	148,017,921
Other current assets		16,500	16,500
Total current assets	$ 69,621,111	$ 592,017,044	$ 661,638,154
Noncurrent assets:			
Investments	$	$ 500,000	$ 500,000
Loans receivable, net	12,310,341	996,061,740	1,008,372,081
Deferred charges/financing costs, net		5,395,028	5,395,028
Total noncurrent assets	$ 12,310,341	$ 1,001,956,768	$ 1,014,267,109
Total assets	$ 81,931,452	$ 1,593,973,812	$ 1,675,905,263
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	$ 106,317	$ 5,902,933	$ 6,009,250
Bonds and notes payable, net		583,184,152	583,184,152
Interfund payable		386,441	386,441
Interest payable		242,087	242,087
Compensated absences	11,612		11,612
Total current liabilities	$ 117,929	$ 589,715,613	$ 589,833,542
Noncurrent liabilities:			
Bonds and notes payable, net	$	$ 867,876,125	$ 867,876,125
Arbitrage payable		28,204,218	28,204,218
Compensated absences	186,151		186,151
Total noncurrent liabilities	$ 186,151	$ 896,080,343	$ 896,266,494
Total liabilities	$ 304,080	$ 1,485,795,956	$ 1,486,100,036
NET POSITION			
Restricted	$ 7,029,929	$	$ 7,029,929
Unrestricted	74,597,443	108,177,856	182,775,299
Total net position	$ 81,627,372	$ 108,177,856	$ 189,805,228

MICHIGAN FINANCE AUTHORITY

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

For the Fiscal Year Ended September 30, 2013

	Operating Subfund	Bond Subfund	Totals
OPERATING REVENUES			
Federal revenue, net of special allowance	$ (369)	$ (13,612,692)	$ (13,613,061)
Interest revenue	243,353	52,981,328	53,224,681
Investment income	19,711	99,229	118,940
Miscellaneous	86,031	10,619,279	10,705,310
Total operating revenues	$ 348,726	$ 50,087,145	$ 50,435,871
OPERATING EXPENSES			
Arbitrage expense	$	$ 4,202,488	$ 4,202,488
Interest expense		(8,773,995)	(8,773,995)
Amortization on deferred charges/financing costs		1,003,967	1,003,967
Bad debt expense	(5,203)	1,844,890	1,839,687
Other administrative expense	324,113	14,038,723	14,362,835
Total operating expenses	$ 318,910	$ 12,316,073	$ 12,634,982
Operating income (loss)	$ 29,817	$ 37,771,072	$ 37,800,889
TRANSFERS			
Transfers from other funds	$ 41,968,286	$	$ 41,968,286
Transfers to other funds		(41,968,286)	(41,968,286)
Total transfers	$ 41,968,286	$ (41,968,286)	$ 0
Change in net position	$ 41,998,103	$ (4,197,214)	$ 37,800,889
Net position - Beginning of fiscal year	39,629,269	112,375,070	152,004,339
Net position - End of fiscal year	$ 81,627,372	$ 108,177,856	$ 189,805,228

MICHIGAN FINANCE AUTHORITY
Student Loan Fund - Combining Supplemental Schedule of Cash Flows
For the Fiscal Year Ended September 30, 2013

	Operating Fund	Bond Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Principal received on bonds, notes, and loans	$ 893,117	$ 192,306,039	$ 193,199,156
Interest received on bonds, notes, and loans	179,528	42,232,874	42,412,401
Cash payments to employees and suppliers for goods and services	(312,121)	(16,443,085)	(16,755,206)
Other operating revenues	4,313	(19,031,273)	(19,026,959)
Net cash provided by (used in) operating activities	$ 764,838	$ 199,064,555	$ 199,829,393
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from sale of bonds and notes - Net	$	$ 180,000,000	$ 180,000,000
Payment of bond issue costs		(969,655)	(969,655)
Principal paid on bonds and notes		(371,899,158)	(371,899,158)
Interest paid on bonds and notes		(6,611,077)	(6,611,077)
Other - Equity transfers	36,188,145	(36,188,145)	0
Net cash provided by (used in) noncapital financing activities	$ 36,188,145	$ (235,668,035)	$ (199,479,890)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchases of) proceeds from sale and maturities of investment securities	$ 9,791,476	$	$ 9,791,476
Interest and dividends on investments	19,549	103,518	123,067
Net cash provided by (used in) investing activities	$ 9,811,025	$ 103,518	$ 9,914,543
Net increase (decrease) in cash	$ 46,764,008	$ (36,499,962)	$ 10,264,046
Cash and cash equivalents - Beginning of fiscal year	20,354,305	462,389,759	482,744,064
Cash and cash equivalents - End of fiscal year	$ 67,118,313	$ 425,889,797	$ 493,008,109
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss)	$ 29,817	$ 37,771,072	$ 37,800,889
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Investment income	(19,711)	(99,229)	(118,940)
Other income		(7,207,078)	(7,207,078)
Interest expense		(8,773,995)	(8,773,995)
Amortization (accrual) of deferred charges		890,387	890,387
Changes in assets and liabilities:			
(Increase) Decrease in other receivables	(356,610)	5,754,361	5,397,751
Increase (Decrease) in other payables	62,722	2,154,611	2,217,332
(Increase) Decrease in bonds, notes, and loans receivable	(4,731,521)	174,354,568	169,623,047
Transfers			
Interfund transfers	5,780,141	(5,780,141)	0
Net cash provided by (used in) operating activities	$ 764,838	$ 199,064,555	$ 199,829,393

GLOSSARY

American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
Authority	Michigan Finance Authority.
Consolidation Loans	Loans made to borrowers consolidating certain student loans.
deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
FFEL Program	Federal Family Education Loan Program.
financial audit	An audit that is designed to provide reasonable assurance about whether the basic financial statements of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
Fitch Ratings (Fitch)	A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt investments.
generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.

in-relation-to opinion	An opinion expressed by the auditor on supplementary information based on auditing procedures applied in the audit of the basic financial statements and certain additional procedures and considering materiality of the basic financial statements taken as a whole.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
LARA	Department of Licensing and Regulatory Affairs.
major fund	A significant governmental or enterprise fund, based on specific size criteria. A government's main operating fund (the general fund or its equivalent) is always considered a major fund. Government officials may also designate other governmental and enterprise funds as major funds when deemed important to financial statement users (for example, because of public interest or consistency).
material misstatement	A misstatement in the basic financial statements that causes the statements to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis.
MGA	Michigan Guaranty Agency.
MI-LOAN	Michigan Alternative Student Loan.

Moody's Investors Service, Inc. (Moody's)	A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt instruments.
MSA	Master Settlement Agreement.
PLUS Loans	Loans made to parents of dependent undergraduates.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Stafford Loans	Educational loans made under the FFEL Program to students.
Standard & Poor's (S&P)	A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt instruments.
TSR	tobacco settlement revenue.
unmodified opinion	The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the basic financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
USDOE	U.S. Department of Education.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL