

**Michigan Municipal Bond Authority
of the State of Michigan**
(a component unit of the
State of Michigan)

**Financial Report
with Supplemental Information
September 30, 2007**

Michigan Municipal Bond Authority of the State of Michigan

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Independent Auditor's Report

To the Michigan Municipal Bond Authority
Lansing, Michigan

and

Mr. Thomas H. McTavish, CPA
Auditor General
State of Michigan
Lansing, Michigan

We have audited each of the enterprise funds of Michigan Municipal Bond Authority, a component unit of the State of Michigan, as of and for the years ended September 30, 2007 and 2006, as listed in the table of contents, which comprise the accompanying basic financial statements. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Michigan Municipal Bond Authority at September 30, 2007 and 2006 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (unaudited) presented on pages 6 through 13 is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

To the Michigan Municipal Bond Authority
Lansing, Michigan

and

Mr. Thomas H. McTavish, CPA
Auditor General
State of Michigan
Lansing, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Michigan Municipal Bond Authority's basic financial statements. The accompanying other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2007 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, 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moran, PLLC

November 26, 2007

Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Michigan Municipal Bond Authority
Lansing, Michigan
and
Mr. Thomas H. McTavish, CPA
Auditor General
State of Michigan
Lansing, Michigan

We have audited each of the enterprise funds of Michigan Municipal Bond Authority (the “Authority”), a component unit of the State of Michigan, as of and for the year ended September 30, 2007, which comprise the accompanying basic financial statements, and have issued our report thereon dated November 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

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

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

Michigan Municipal Bond Authority
Lansing, Michigan
and
Mr. Thomas H. McTavish, CPA
Auditor General
State of Michigan
Lansing, Michigan

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

Compliance and Other Matters

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

This report is intended for the information of Michigan Municipal Bond Authority and the Auditor General of the State of Michigan and is not intended to be, and should not be, used by anyone other than these specified parties.

Plante & Moran, PLLC

November 26, 2007

Management's Discussion and Analysis (Unaudited)

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited)

Financial Position and Results of Operations

We are pleased to present the financial statements for Michigan Municipal Bond Authority (the "Authority"). The Authority is a nonprofit agency, established by the Shared Credit Rating Act, Public Act 227 of 1985. The Authority provides an alternative source of financing for infrastructure projects and low cost access to the public finance market for Michigan local units of government.

The Authority is a public body corporate within the Michigan Department of Treasury, Bureau of Bond Finance. The Authority is governed by a board of trustees, which provides overall governing direction for the Authority. The state treasurer serves as chairperson on the board of trustees. The governor, with the advice and consent of the state senate, appoints the members of the board of trustees.

The basis of the Authority's financing programs is the pooling of local government loans. The Authority sells a similar amount of debt in the regional and national public finance market and lends the monies received from the sale to the participating municipal borrowers. As borrowers make repayments to the Authority, the Authority in turn repays its bond or note holders. Any financing legally authorized may be issued through the Authority. The Authority consistently offers interest rates that compare favorably with Michigan and national pricing indices. Also, the Authority's reputation and name recognition in the capital markets create demand for the Authority's securities, translating to lower interest rates for borrowers. Each borrower pays a pro rata share of costs of issuance, typically resulting in lower costs than each borrower would pay individually. As the Authority can lower the interest rate and issuing costs for Michigan governments, the result is fewer tax dollars expended for debt by Michigan taxpayers. As borrowers make repayments, the Authority uses these funds to repay its bond or note holders. Each borrower is only responsible for its own loan.

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

The Authority offers a variety of programs to provide financing options to local units of government or schools needing loans. These programs include:

- The Local Government Loan Program provides competitive interest rates for 3- to 30-year loans. Typically, tax-exempt bonds or installment purchase contracts are issued under this program. All Michigan units of local government and public entities are eligible to apply.

Loans have included purchases of equipment, school buses, fire trucks, real property, energy conservation improvement, infrastructure needs, and refunding existing debt. Borrowers can pledge state aid as security for the loans and also have the option of using their own investment credit or bond insurance. The Authority issued bonds totaling \$120.3 million under this program in the fiscal year ended September 30, 2007. The Authority issued bonds totaling \$9.825 million, along with additional funds of the Authority, and refunded \$10.25 million of prior debt during the fiscal year ended September 30, 2006.

- The State Aid Note is a streamlined loan program to finance short-term operational cash flow needs for Michigan public schools.

The Authority facilitates the process by pooling the loans, soliciting bids, and obtaining the highest possible short-term rating (SP-1+), resulting in competitive interest rates and lower costs for the schools. This program began in 1987 and in fiscal year 2007, the Authority provided funds of over \$726 million during the fiscal year, providing loans to over 238 schools. In fiscal year 2006, financings totaled \$543.0 million, providing 233 new loans for school districts.

- State Revolving Fund and the Drinking Water Revolving Fund programs provide low-cost financing for municipal wastewater facilities and drinking water projects. The Authority jointly administers these programs with the Michigan Department of Environmental Quality, which determines qualified projects and annual funding priority. In fiscal year 2007, the Authority issued \$150 million in bonds to fund loans for the State Revolving Fund. The Authority did not issue any State Revolving Fund bonds during fiscal year 2006.
- Local Government Financing Program offers options and flexibility for borrowers through financing agreements that provide funds as needed. Qualified borrowers are able to apply for loans as needed. The Authority has partnered with a finance company to offer this program. The program is a pass-through financing for the Authority and, as such, the Authority does not reflect a liability for these loans in its financial statements.

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

- The Strategic Water Quality Initiatives Fund program provides loans and grants to municipalities for purposes such as septic system upgrades and replacements and other projects which are generally not eligible to be financed through the State Revolving Fund program. This program is managed by the Authority and the Department of Environmental Quality. During fiscal year 2007, \$20.8 million of SWQIF grants were paid out to municipalities. During fiscal year 2006, the Authority received \$42.8 million from the State of Michigan for the use of grants to municipalities seeking loan assistance from the State Revolving Fund or the SWQIF loan programs.
- The School Loan Revolving Fund was established in 2005 by amendments to the Shared Credit Rating Act for the purpose of funding qualified loans to school districts as approved by the State of Michigan. During fiscal year 2005, the fund received a \$30 million capital contribution from the State of Michigan, in addition to an assignment of loan repayment obligations totaling \$42.3 million on loans previously made from the School Bond Loan Fund.

During fiscal year 2006, the Fund received an additional \$101 million of capital contributions from the State of Michigan, in addition to the assignment of loan repayment obligations totaling \$166.0 million on loans previously made from the School Bond Loan Fund. Concurrently, the State terminated the previous assignment of loan repayment obligations of \$42.3 million. In exchange for the assignment of loan repayments, the Authority allocated \$44.5 million from the School Loan Revolving Fund to the State of Michigan School Aid Fund (SAF). The Authority issued bonds totaling \$85 million for the fiscal year ended September 30, 2006 and utilized the bond proceeds to pay the entire liability to the State of Michigan. These bonds were paid in their entirety from the proceeds of the 2007 bond issue.

During fiscal year 2007, the Authority issued \$500 million of federally taxable bonds. In addition to refunding the 2006 issue, the proceeds were used to fund additional loans and provide funds used to refund outstanding State of Michigan bonds in exchange for additional loan repayment assignments.

The enclosed basic financial statements present the Authority's assets and liabilities, revenue, expenses, and changes in fund equity, and cash flows. The following is a condensed summary of financial information for the fiscal years 2005, 2006, and 2007.

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Condensed financial information for the General Fund, State Revolving Fund, Strategic Water Quality Initiatives Fund, and School Loan Revolving Fund (in thousands):

| Net assets | 2007 | 2006 | 2005 |
|-----------------------------|---------------------|---------------------|---------------------|
| Cash and investments | \$ 1,921,422 | \$ 1,705,260 | \$ 1,712,418 |
| Accrued interest receivable | 196,402 | 177,990 | 146,912 |
| Revenue notes receivable | 710,624 | 536,370 | 830,905 |
| Bonds receivable | 669,279 | 681,133 | 766,143 |
| Loans receivable | 2,592,550 | 2,314,551 | 2,023,752 |
| Other receivables | 13,045 | 15,139 | 17,108 |
| Deferred charges | 27,129 | 24,539 | 29,565 |
| Total assets | 6,130,451 | 5,454,982 | 5,526,803 |
| Revenue notes payable | 711,478 | 537,382 | 832,625 |
| Bonds payable | 3,434,714 | 2,920,030 | 2,978,082 |
| Accrued interest payable | 112,216 | 124,203 | 136,304 |
| Other liabilities | 4,615 | 5,736 | 45,763 |
| Deferred revenue | 8,221 | 5,780 | 760 |
| Total liabilities | 4,271,244 | 3,593,131 | 3,993,534 |
| Total net assets | \$ 1,859,207 | \$ 1,861,851 | \$ 1,533,269 |

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Condensed financial information for the General Fund, State Revolving Fund, Strategic Water Quality Initiatives Fund, and School Loan Revolving Fund (in thousands):

| Operating Results | 2007 | 2006 | 2005 |
|--------------------------------|-------------------|-------------------|-------------------|
| Interest income | \$ 216,762 | \$ 196,366 | \$ 159,714 |
| Other income | 3,007 | 2,612 | 3,186 |
| Total income | 219,769 | 198,978 | 162,900 |
| Interest expense | 177,812 | 161,051 | 149,232 |
| Amortization expense | 5,226 | 7,183 | 6,517 |
| Administrative expense | 3,888 | 3,386 | 3,403 |
| Total expense | 186,926 | 171,620 | 159,152 |
| Operating income | 32,843 | 27,358 | 3,748 |
| Nonoperating revenue (expense) | (35,487) | 301,224 | 96,779 |
| Change in net assets | <u>\$ (2,644)</u> | <u>\$ 328,582</u> | <u>\$ 100,527</u> |

Financial Analysis

Loans receivable increased approximately \$278 million during 2007. This increase was primarily due to draws on loans by communities and municipalities participating in the State Revolving Funds of \$66 million and an additional assignment of \$222 million in loan repayments assigned to the School Loan Revolving Fund.

Total liabilities increased in 2007 as more bonds were issued by the Authority for its various programs. The decrease in total liabilities from September 30, 2005 to September 30, 2006 is due to fewer bonds and notes payable outstanding and less corresponding interest payable on those obligations. More detailed information on debt outstanding is shown in Notes 4 and 9 of the audited basic financial statements. Long-term debt represents approximately 80 percent of total liabilities. Funds for the Authority's debt payments come from the principal and interest repayments made by borrowers participating in the various loans/programs of the Authority.

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Unrestricted assets in the General Fund are reported as \$12.2 million, which is an increase from previous fiscal years. Restricted assets of the State Revolving Fund increased as a result of federal capitalization grants awarded to the Department of Environmental Quality (DEQ) and used in the Water Pollution and Drinking Water Programs to fund construction projects. The School Loan Revolving Fund net assets represent the increase in assigned loan repayments and the cash and investment increases from the sale of bonds which will be used to fund loans in the next fiscal year. Total net assets of the Authority at September 30, 2007 are \$1.86 billion. The net assets of the Authority have increased from \$1.53 billion at the end of fiscal 2005. This represents a 22 percent increase in two years.

Results of Operations for the Year Ended September 30, 2007 Compared to the Years Ended September 30, 2006 and 2005

Overall operating income of \$32.8 million in fiscal year 2007 is an increase compared to fiscal year 2006. The overall operating income has increased in each of the past three years. Earnings on investments and receivables contributed to the increase for all years. As the result of recent financings, the Authority has more funds invested that will be used in the future to fund loans and also pay debt service.

Revenue from interest earnings represents 98 percent of the Authority's total operating revenue. Other operating revenue consists of administrative fees and fees the Authority receives from its financing activities. Operating expenses reported at September 30, 2007 total \$187 million. For fiscal year 2007, the operating expenses increased due to an increase in interest expenses. However, as noted above, the interest income increased as well. The administrative expense as a percentage of total operating expenses increased in fiscal year 2007. At year end 2007, this percentage was 2.1 percent, which is comparable to the 1.9 percent for the previous fiscal year. Salaries and indirect administrative expenses are allocated to the Authority based on a predetermined percentage of total Bureau costs. The Authority processes the payment of certain administrative fees for the staff of the Department of Environmental Quality, the co-administrators of the State Revolving Fund. Funds for these administrative expenses are provided in part by a grant from the federal government.

Michigan Municipal Bond Authority of the State of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Contacting the Municipal Bond Authority

In addition to its audited basic financial statements, the Authority issues an annual statistical report as required by statute. Interested parties may obtain such reports by contacting the Authority. Information on the Authority can be found at www.michigan.gov/mmba.

The contact information for the Authority is:

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

Basic Financial Statements

Michigan Municipal Bond Authority of the State of Michigan

Statement of Net Assets

| | General Fund | | State Revolving Fund | | Business-type Activities | | | | Total | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|--|----------------------|----------------------------|-----------------------|-------------------------|-------------------------|
| | | | | | Strategic Water Quality Initiatives Fund | | School Loan Revolving Fund | | | |
| | September 30 | | September 30 | | September 30 | | September 30 | | September 30 | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Assets | | | | | | | | | | |
| Current Assets | | | | | | | | | | |
| Cash (Note 2) | \$ 109,768 | 144,872 | \$ 32,514 | \$ 2,538,181 | \$ - | 42,851,069 | \$ 67,795,227 | \$ 43,088,320 | \$ 67,937,509 | \$ 88,622,442 |
| Investments (Note 2) | 65,970,523 | 31,128,852 | 738,404,535 | 837,866,230 | 23,469,408 | 1,176,459 | 68,240,358 | 5,636,736 | 896,084,824 | 875,808,277 |
| Accrued interest receivable | 26,577,533 | 30,619,931 | 20,009,145 | 18,688,596 | 79,371 | 5,529 | 224,764 | 13,329 | 46,890,813 | 49,327,385 |
| Revenue notes receivable (Note 4) | 710,624,245 | 536,370,080 | - | - | - | - | - | - | 710,624,245 | 536,370,080 |
| Bonds receivable (Note 5) | 64,761,406 | 83,057,207 | - | - | - | - | - | - | 64,761,406 | 83,057,207 |
| Loans receivable: | | | | | | | | | | |
| State revolving (Note 6) | - | - | 123,724,452 | 111,947,346 | - | - | - | - | 123,724,452 | 111,947,346 |
| Public school (Note 7) | 10,299,980 | 10,541,983 | - | - | - | - | - | - | 10,299,980 | 10,541,983 |
| Strategic water quality initiatives (Note 8) | - | - | - | - | 170,000 | 130,000 | - | - | 170,000 | 130,000 |
| Receivable from State of Michigan | - | - | 2,100,076 | 2,123,124 | - | - | - | - | 2,100,076 | 2,123,124 |
| Other | 283,216 | 335,724 | 191,843 | 446,170 | - | - | - | - | 475,059 | 781,894 |
| Total current assets | 878,626,671 | 692,198,649 | 884,462,565 | 973,609,647 | 23,718,779 | 44,163,057 | 136,260,349 | 48,738,385 | 1,923,068,364 | 1,758,709,738 |
| Noncurrent Assets | | | | | | | | | | |
| Investments (Note 2) | - | - | 957,400,088 | 740,829,249 | - | - | - | - | 957,400,088 | 740,829,249 |
| Accrued interest receivable | 81,975,989 | 100,012,939 | - | - | - | - | 67,534,766 | 28,649,782 | 149,510,755 | 128,662,721 |
| Deferred charges - Net (Note 3) | 11,654,346 | 12,479,742 | 11,692,330 | 11,538,817 | - | - | 3,781,953 | 520,117 | 27,128,629 | 24,538,676 |
| Bonds receivable (Note 5) | 604,517,642 | 598,075,382 | - | - | - | - | - | - | 604,517,642 | 598,075,382 |
| Receivable from State of Michigan | - | - | 10,470,000 | 12,235,000 | - | - | - | - | 10,470,000 | 12,235,000 |
| Loans receivable: | | | | | | | | | | |
| State revolving (Note 6) | - | - | 1,777,881,844 | 1,724,127,547 | - | - | - | - | 1,777,881,844 | 1,724,127,547 |
| Public school (Note 7) | 233,232,149 | 243,532,129 | - | - | - | - | 443,939,327 | 221,883,002 | 677,171,476 | 465,415,131 |
| Strategic water quality initiatives (Note 8) | - | - | - | - | 3,301,948 | 2,388,779 | - | - | 3,301,948 | 2,388,779 |
| Total noncurrent assets | 931,380,126 | 954,100,192 | 2,757,444,262 | 2,488,730,613 | 3,301,948 | 2,388,779 | 515,256,046 | 251,052,901 | 4,207,382,382 | 3,696,272,485 |
| Total assets | <u>\$ 1,810,006,797</u> | <u>\$ 1,646,298,841</u> | <u>\$ 3,641,906,827</u> | <u>\$ 3,462,340,260</u> | <u>\$ 27,020,727</u> | <u>\$ 46,551,836</u> | <u>\$ 651,516,395</u> | <u>\$ 299,791,286</u> | <u>\$ 6,130,450,746</u> | <u>\$ 5,454,982,223</u> |

Michigan Municipal Bond Authority of the State of Michigan

Statement of Net Assets (Continued)

| | Business-type Activities | | | | | | | | | |
|---|--------------------------|-------------------------|-------------------------|-------------------------|--|----------------------|----------------------------|-----------------------|-------------------------|-------------------------|
| | General Fund | | State Revolving Fund | | Strategic Water Quality Initiatives Fund | | School Loan Revolving Fund | | Total | |
| | September 30 | | September 30 | | September 30 | | September 30 | | September 30 | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Liabilities and Net Assets | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | |
| Accounts payable and other liabilities | \$ 389,352 | 304,586 | \$ 3,814,709 | \$ 4,837,747 | \$ - | \$ - | \$ 225,800 | \$ 35,000 | \$ 4,429,861 | \$ 5,177,333 |
| Due to other governmental units | - | - | 159,435 | 441,050 | 26,102 | 117,943 | - | - | 185,537 | 558,993 |
| Accrued interest payable | 22,475,687 | 31,026,923 | 47,212,908 | 45,109,326 | - | - | 4,220,833 | 223,282 | 73,909,428 | 76,359,531 |
| Revenue notes payable (Note 4) | 711,477,667 | 537,381,822 | - | - | - | - | - | - | 711,477,667 | 537,381,822 |
| Deferred revenue | - | - | 8,220,651 | 5,780,500 | - | - | - | - | 8,220,651 | 5,780,500 |
| Bonds payable (Note 9) | 100,633,481 | 94,475,670 | 76,985,000 | 60,965,000 | - | - | - | 85,000,000 | 177,618,481 | 240,440,670 |
| Total current liabilities | 834,976,187 | 663,189,001 | 136,392,703 | 117,133,623 | 26,102 | 117,943 | 4,446,633 | 85,258,282 | 975,841,625 | 865,698,849 |
| Noncurrent Liabilities | | | | | | | | | | |
| Accrued interest payable | 38,306,905 | 47,843,176 | - | - | - | - | - | - | 38,306,905 | 47,843,176 |
| Bonds payable (Note 9) | 924,512,696 | 923,703,930 | 1,832,582,712 | 1,755,885,219 | - | - | 500,000,000 | - | 3,257,095,408 | 2,679,589,149 |
| Total noncurrent liabilities | 962,819,601 | 971,547,106 | 1,832,582,712 | 1,755,885,219 | - | - | 500,000,000 | - | 3,295,402,313 | 2,727,432,325 |
| Total liabilities | 1,797,795,788 | 1,634,736,107 | 1,968,975,415 | 1,873,018,842 | 26,102 | 117,943 | 504,446,633 | 85,258,282 | 4,271,243,938 | 3,593,131,174 |
| Net Assets | | | | | | | | | | |
| Unrestricted | 12,211,009 | 11,562,734 | - | - | - | - | - | - | 12,211,009 | 11,562,734 |
| Restricted (Note 1): | | | | | | | | | | |
| Water pollution and drinking water projects | - | - | 1,672,931,412 | 1,589,321,418 | - | - | - | - | 1,672,931,412 | 1,589,321,418 |
| Strategic Water Quality Initiatives Fund | - | - | - | - | 26,994,625 | 46,433,893 | - | - | 26,994,625 | 46,433,893 |
| School Loan Revolving Fund | - | - | - | - | - | - | 147,069,762 | 214,533,004 | 147,069,762 | 214,533,004 |
| Total net assets | 12,211,009 | 11,562,734 | 1,672,931,412 | 1,589,321,418 | 26,994,625 | 46,433,893 | 147,069,762 | 214,533,004 | 1,859,206,808 | 1,861,851,049 |
| Total liabilities and net assets | <u>\$ 1,810,006,797</u> | <u>\$ 1,646,298,841</u> | <u>\$ 3,641,906,827</u> | <u>\$ 3,462,340,260</u> | <u>\$ 27,020,727</u> | <u>\$ 46,551,836</u> | <u>\$ 651,516,395</u> | <u>\$ 299,791,286</u> | <u>\$ 6,130,450,746</u> | <u>\$ 5,454,982,223</u> |

Michigan Municipal Bond Authority of the State of Michigan

Statement of Revenue, Expenses, and Changes in Net Assets

| | General Fund | | State Revolving Fund | | Business-type Activities Strategic Water Quality Initiatives Fund | | School Loan Revolving Fund | | Total | |
|---|-------------------------|----------------------|-------------------------|-------------------------|---|----------------------|----------------------------|-----------------------|-------------------------|-------------------------|
| | Year Ended September 30 | | Year Ended September 30 | | Year Ended September 30 | | Year Ended September 30 | | Year Ended September 30 | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | | | | | | | | | | |
| Operating Revenue | | | | | | | | | | |
| Interest | \$ 73,674,174 | \$ 83,540,217 | \$ 121,753,461 | \$ 110,243,705 | \$ 1,522,380 | \$ 98,864 | \$ 19,812,491 | \$ 2,483,155 | \$ 216,762,506 | \$ 196,365,941 |
| Other (Note 10) | 866,228 | 358,038 | 2,140,363 | 2,044,890 | - | 208,641 | - | - | 3,006,591 | 2,611,569 |
| Total operating revenue | 74,540,402 | 83,898,255 | 123,893,824 | 112,288,595 | 1,522,380 | 307,505 | 19,812,491 | 2,483,155 | 219,769,097 | 198,977,510 |
| Operating Expenses | | | | | | | | | | |
| Interest expense | 69,817,263 | 73,479,998 | 90,418,625 | 87,326,800 | - | 20,518 | 17,576,333 | 223,282 | 177,812,221 | 161,050,598 |
| Amortization of deferred charges | 3,433,524 | 5,876,834 | 1,329,331 | 1,277,258 | - | 3,500 | 462,849 | 25,408 | 5,225,704 | 7,183,000 |
| Salaries, wages, and other administrative | 641,340 | 676,267 | 2,539,173 | 2,499,359 | 203,760 | 210,685 | 503,472 | - | 3,887,745 | 3,386,311 |
| Total operating expenses | 73,892,127 | 80,033,099 | 94,287,129 | 91,103,417 | 203,760 | 234,703 | 18,542,654 | 248,690 | 186,925,670 | 171,619,909 |
| Operating Income | 648,275 | 3,865,156 | 29,606,695 | 21,185,178 | 1,318,620 | 72,802 | 1,269,837 | 2,234,465 | 32,843,427 | 27,357,601 |
| Nonoperating Revenue (Expenses) | | | | | | | | | | |
| Operating subsidies | - | - | 54,003,299 | 73,770,932 | - | 46,361,091 | - | 181,092,159 | 54,003,299 | 301,224,182 |
| Expenses to the State of Michigan | - | - | - | - | - | - | (68,733,079) | - | (68,733,079) | - |
| Grant expenditures | - | - | - | - | (20,757,888) | - | - | - | (20,757,888) | - |
| Total nonoperating revenue (expenses) | - | - | 54,003,299 | 73,770,932 | (20,757,888) | 46,361,091 | (68,733,079) | 181,092,159 | (35,487,668) | 301,224,182 |
| Changes in Net Assets | 648,275 | 3,865,156 | 83,609,994 | 94,956,110 | (19,439,268) | 46,433,893 | (67,463,242) | 183,326,624 | (2,644,241) | 328,581,783 |
| Net Assets - Beginning of year | 11,562,734 | 7,697,578 | 1,589,321,418 | 1,494,365,308 | 46,433,893 | - | 214,533,004 | 31,206,380 | 1,861,851,049 | 1,533,269,266 |
| Net Assets - End of year | \$ 12,211,009 | \$ 11,562,734 | \$ 1,672,931,412 | \$ 1,589,321,418 | \$ 26,994,625 | \$ 46,433,893 | \$ 147,069,762 | \$ 214,533,004 | \$ 1,859,206,808 | \$ 1,861,851,049 |

Michigan Municipal Bond Authority of the State of Michigan

Statement of Cash Flows

| | Business-type Activities | | | | | | | | | |
|---|--------------------------|---------------|-------------------------|----------------|--|--------------|----------------------------|--------------|-------------------------|----------------|
| | General Fund | | State Revolving Fund | | Strategic Water Quality Initiatives Fund | | School Loan Revolving Fund | | Total | |
| | Year Ended September 30 | | Year Ended September 30 | | Year Ended September 30 | | Year Ended September 30 | | Year Ended September 30 | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Cash Flows from Operating Activities | | | | | | | | | | |
| Cash payments to employees and suppliers for goods and services | \$ (641,340) | \$ (676,267) | \$ (3,402,279) | \$ (1,831,360) | \$ (295,601) | \$ (104,129) | \$ (312,672) | \$ - | \$ (4,651,892) | \$ (2,611,756) |
| Other operating revenue | 953,423 | 272,768 | 2,102,895 | 2,061,802 | - | 208,641 | - | - | 3,056,318 | 2,543,211 |
| Net cash provided by (used in) operating activities | 312,083 | (403,499) | (1,299,384) | 230,442 | (295,601) | 104,512 | (312,672) | - | (1,595,574) | (68,545) |
| Cash Flows from Noncapital Financing Activities | | | | | | | | | | |
| Proceeds from sale of bonds and notes - Net | 924,532,539 | 557,408,763 | 158,019,521 | - | - | - | 500,000,000 | 85,000,000 | 1,582,552,060 | 642,408,763 |
| Payment of bond issue costs | (3,862,390) | (1,660,398) | (1,482,844) | - | - | - | (3,724,685) | (485,117) | (9,069,919) | (2,145,515) |
| Principal paid on bonds and notes | (642,546,788) | (904,822,468) | (60,965,000) | (58,815,000) | - | (2,393,642) | - | - | (703,511,788) | (966,031,110) |
| Extinguishment of debt | (89,863,284) | (10,250,000) | - | - | - | - | (85,000,000) | - | (174,863,284) | (10,250,000) |
| Interest paid on bonds and notes | (95,907,772) | (101,951,787) | (92,801,823) | (88,270,235) | - | (92,518) | (13,578,782) | - | (202,288,377) | (190,314,540) |
| Operating subsidies | - | - | 56,443,450 | 78,789,988 | - | 46,361,091 | - | 57,140,582 | 56,443,450 | 182,291,661 |
| Payments to the State of Michigan | - | - | - | - | - | - | (280,229,905) | - | (280,229,905) | - |
| Grant expenditures | - | - | - | - | (20,757,888) | - | - | - | (20,757,888) | - |
| Proceeds from (payments on) receivables/payables from State of Michigan | - | - | 1,788,048 | 1,752,076 | - | 243,057 | - | (41,100,000) | 1,788,048 | (39,104,867) |
| Net cash provided by (used in) noncapital financing activities | 92,352,305 | (461,275,890) | 61,001,352 | (66,543,171) | (20,757,888) | 44,117,988 | 117,466,628 | 100,555,465 | 250,062,397 | (383,145,608) |
| Cash Flows from Investing Activities | | | | | | | | | | |
| Loans made to local government units | (838,125,177) | (556,535,514) | (177,568,746) | (212,849,996) | (1,083,169) | (1,267,072) | (70,941,712) | (81,720,030) | (1,087,718,804) | (852,372,612) |
| Principal received on loan repayments | 687,213,083 | 939,475,410 | 112,037,343 | 101,956,872 | 130,000 | 85,000 | 20,431,847 | 156,091 | 819,812,273 | 1,041,673,373 |
| Interest received on loan repayments | 88,196,837 | 76,955,917 | 41,595,985 | 40,609,918 | - | - | 18,869,958 | (279,799) | 148,662,780 | 117,286,036 |
| Net (purchases of) proceeds from sale and maturities of investment securities | (34,841,671) | (3,145,263) | (117,109,144) | 74,824,111 | (22,292,949) | (284,428) | (62,603,622) | (5,636,736) | (236,847,386) | 65,757,684 |
| Interest and dividends on investments | 4,857,436 | 5,073,711 | 78,836,927 | 64,287,637 | 1,448,538 | 95,069 | 1,796,480 | 13,329 | 86,939,381 | 69,469,746 |
| Net cash provided by (used in) investing activities | (92,699,492) | 461,824,261 | (62,207,635) | 68,828,542 | (21,797,580) | (1,371,431) | (92,447,049) | (87,467,145) | (269,151,756) | 441,814,227 |

Michigan Municipal Bond Authority of the State of Michigan

Statement of Cash Flows (Continued)

| | Business-type Activities | | | | | | | | | |
|--|--------------------------|---------------------|-------------------------|---------------------|--|----------------------|----------------------------|----------------------|-------------------------|----------------------|
| | General Fund | | State Revolving Fund | | Strategic Water Quality Initiatives Fund | | School Loan Revolving Fund | | Total | |
| | Year Ended September 30 | | Year Ended September 30 | | Year Ended September 30 | | Year Ended September 30 | | Year Ended September 30 | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Net Increase (Decrease) in Cash | \$ (35,104) | \$ 144,872 | \$ (2,505,667) | \$ 2,515,813 | \$ (42,851,069) | \$ 42,851,069 | \$ 24,706,907 | \$ 13,088,320 | \$ (20,684,933) | \$ 58,600,074 |
| Cash - Beginning of year | 144,872 | - | 2,538,181 | 22,368 | 42,851,069 | - | 43,088,320 | 30,000,000 | 88,622,442 | 30,022,368 |
| Cash - End of year | \$ 109,768 | \$ 144,872 | \$ 32,514 | \$ 2,538,181 | \$ - | \$ 42,851,069 | \$ 67,795,227 | \$ 43,088,320 | \$ 67,937,509 | \$ 88,622,442 |
| Reconciliation of operating income to net cash from operating activities: | | | | | | | | | | |
| Operating income | \$ 648,275 | \$ 3,865,156 | \$ 29,606,695 | \$ 21,185,178 | \$ 1,318,620 | \$ 72,802 | \$ 1,269,837 | \$ 2,234,465 | \$ 32,843,427 | \$ 27,357,601 |
| Adjustments to reconcile operating income to net cash from operating activities: | | | | | | | | | | |
| Interest income reported as cash flows from investing activities | (73,674,174) | (83,540,217) | (121,753,461) | (110,243,705) | (1,522,380) | (98,864) | (19,812,491) | (2,483,155) | (216,762,506) | (196,365,941) |
| Interest expense reported as cash flows from noncapital financing activities | 69,817,263 | 73,479,998 | 90,418,625 | 87,326,800 | - | 20,518 | 17,576,333 | 223,282 | 177,812,221 | 161,050,598 |
| Amortization of deferred charges | 3,433,524 | 5,876,834 | 1,329,331 | 1,277,258 | - | 3,500 | 462,849 | 25,408 | 5,225,704 | 7,183,000 |
| Changes in assets and liabilities: | | | | | | | | | | |
| (Increase) decrease in receivables | 52,508 | (85,270) | 404,079 | (218,410) | - | - | - | - | 456,587 | (303,680) |
| Increase (decrease) in payables | 34,687 | - | (1,304,653) | 903,321 | (91,841) | 106,556 | 190,800 | - | (1,171,007) | 1,009,877 |
| Net cash provided by (used in) operating activities | \$ 312,083 | \$ (403,499) | \$ (1,299,384) | \$ 230,442 | \$ (295,601) | \$ 104,512 | \$ (312,672) | \$ - | \$ (1,595,574) | \$ (68,545) |

Noncash Investing, Capital, and Financing Activities - During 2006, the State of Michigan assigned \$166,257,957 of future school bond loan repayments to the School Loan Revolving Fund and terminated the previous assignment of loans of \$42,306,380. During 2007, the State of Michigan assigned \$208,766,447 of additional future school bond loan repayments to the School Loan Revolving Fund.

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2007 and 2006**

Note I - Significant Accounting Policies

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

Reporting Entity

Michigan Municipal Bond Authority (the "Authority"), a component unit of the State of Michigan, was created pursuant to Act 227 of the Michigan Public Acts of 1985 (the "Shared Rating Credit Act"), as amended. The Authority provides alternative sources of funding for government units within the State to undertake or continue public improvements by assisting those government units in financing and marketing, in an orderly fashion, municipal debt. The Authority is empowered to borrow money and to issue its bonds and notes to provide funds for various municipal purposes, such as public improvement, deficit reduction, and other purposes.

The Authority is governed by its own board of trustees, who are appointed by the governor of the State of Michigan, and functions as a separate and distinct corporate body from the State. 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. Certain nonprogrammatic administrative functions are provided by the State and paid by the Authority. In accordance with accounting principles generally accepted in the United States of America, there are no component units required to be included in this financial report.

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

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

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

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2007 and 2006**

Note I - Significant Accounting Policies (Continued)

The State Revolving Fund consists of the Clean Water Program and the Drinking Water Program. The State Revolving Fund provides reduced interest loans for the construction of water pollution control and drinking water projects. From 1989 through 1992, the Authority's State Revolving Fund operated as a direct loan program. Since 1992, the Authority has sold State Revolving Fund Revenue Bonds. It is from these bond issues that local units of government receive reimbursements for approved project costs up to the total amount of their loans.

The State of Michigan received federal capitalization grants from the U.S. EPA from fiscal year 1989 through 2007. The capitalization grants, in addition to released funds from the reserve accounts and the state-match funds, are deposited into the reserve accounts to provide coverage for the revenue bonds. In addition, interest earned on the investment of program funds is used to help meet the debt service obligations of the Authority. The State or other sources provide \$1,000,000 in matching funds for every \$5,000,000 in federal contributions. To be eligible for a loan, the project must be included on the State's project priority list and annual intended use plan. Federal contributions and state match are funded and recognized as operating subsidies, which are nonoperating revenues to the Authority, when amounts are earned. The Michigan Department of Environmental Quality (DEQ) receives up to 4.0 percent of the federal capitalization grant to reimburse a portion of salaries and administrative costs incurred for DEQ and the Authority. In addition, the State provides matching funds to cover a portion of salaries and administrative costs associated with the Clean Water Program. Administrative fees received from the Department of Environmental Quality to cover these expenses are recognized as other operating revenue in the accompanying statement of revenue, expenses, and changes in net assets.

Strategic Water Quality Initiatives Fund - Michigan Municipal Bond Authority and the Department of Environmental Quality serve as co-administrators of the Strategic Water Quality Initiatives Fund (SWQIF). The Strategic Water Quality Initiatives Fund provides low-interest loans that allow qualified municipalities to access financing for the construction of needed water pollution control facilities that cannot qualify for State Revolving Fund assistance.

The Fund was created by the passage of Proposal 2 by Michigan voters in November 2002, which authorized up to \$1 billion of State General Obligation Bonds for the purpose of improving the quality of water in the state.

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2007 and 2006**

Note I - Significant Accounting Policies (Continued)

The Strategic Water Quality Initiatives Grant Program was signed into law in December 2005. As with the revolving fund programs, the grant program is a cooperative effort between the Department of Environmental Quality and the Authority. In total, \$40 million of Strategic Water Quality Initiatives Fund monies have been authorized and committed to be used for grants to municipalities seeking loan assistance from the State Revolving Fund (SRF) and/or the SWQIF loan programs. A municipality may receive up to \$1 million in total grant assistance. A local match of 10 percent is required on all grant eligible costs. General obligation bonds were issued by the State of Michigan in September 2006 to fund grants and cover costs incurred by the Department of Environmental Quality and the Authority to administer the program. If certain conditions of the grant are not met, the grant must be repaid, with interest, to the SWQIF fund within 90 days of being informed to do so.

In October 2005, the State issued \$4 million of general obligation bonds and contributed the proceeds to the SWQIF to pay the principal and interest on the maturing 2004B bonds and to provide funds for new loans. In September 2006, the State issued \$47 million in General Obligation Bonds in connection with the Water Quality Program. The proceeds from these bonds were contributed to the SWQIF and will be used to fund the Grant Program as well as make new loans.

School Loan Revolving Fund - The School Loan Revolving Fund (SLRF) is a self-sustaining fund that makes loans to school districts to assist with making debt service payments on state qualified bonds issued under the School Bond Qualification and Loan Program. Any money repaid by school districts on loans made by the SLRF are deposited back into the fund for future use in funding new loans. The SLRF was established by 2005 PA 93 (Act 93). This fund is used to fund qualified loans to school districts as approved by the State and for other purposes as specified in the act including paying the costs of the Authority to administer the fund. Act 93 also authorized the Authority to purchase or accept, by assignment from the State, loan repayment obligations from a school district on a qualified loan made by the State pursuant to the School Loan Act. During fiscal year 2007, expenses to the State of Michigan relate to the exchange of loan assignments from the State of Michigan which includes \$208,766,447 of additional school bond loans net of payments to an escrow agent of \$275,999,253 on behalf of the State of Michigan for the refunding of debt and net of payments to the State of Michigan of \$1,500,274 for principal and interest on previously assigned loans.

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2007 and 2006**

Note I - Significant Accounting Policies (Continued)

Basis of Presentation

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

Basis of Accounting

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

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

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

Deferred Revenue - The State Revolving Fund deferred revenue reflects current money received that is to be used to match federal capitalization grants which provide loans to local units of government.

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

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

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2007 and 2006**

Note 1 - Significant Accounting Policies (Continued)

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

Note 2 - Deposit and Investments

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

| | <u>Cash</u> | <u>Investments</u> | <u>Total</u> |
|-------------------------------|----------------------|------------------------|-------------------------|
| <u>2007</u> | | | |
| Deposits | \$ 67,937,509 | \$ - | \$ 67,937,509 |
| Government money market funds | - | 352,105,191 | 352,105,191 |
| Investments | <u>-</u> | <u>1,501,379,721</u> | <u>1,501,379,721</u> |
| Total | <u>\$ 67,937,509</u> | <u>\$1,853,484,912</u> | <u>\$ 1,921,422,421</u> |
| <u>2006</u> | | | |
| Deposits | \$ 88,622,442 | \$ - | \$ 88,622,442 |
| Government money market funds | - | 276,330,515 | 276,330,515 |
| Investments | <u>-</u> | <u>1,340,307,011</u> | <u>1,340,307,011</u> |
| Total | <u>\$ 88,622,442</u> | <u>\$1,616,637,526</u> | <u>\$ 1,705,259,968</u> |

The Authority has designated five banks for the deposit of its funds. The investment policy in accordance with state statutes has authorized investment in bonds and securities of the United States government and its agencies, prime commercial paper, bank accounts, and CDs and allows the Authority to invest in accordance with bond indentures. The Authority's deposits and investment policies are in accordance with state statutes.

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2007 and 2006**

Note 2 - Deposit and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. The Authority had \$67,937,509 and \$88,622,442 of bank deposits at September 30, 2007 and 2006, respectively. For each year, \$100,000 was covered by federal depository insurance coverage and none of the deposits are covered by collateral held in the pledging bank's trust department in the Authority's name. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have an investment policy for custodial credit risk. At September 30, the following investment securities were uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the Authority's name:

| Type of Investment | Carrying Value | | How Held |
|---------------------------------|----------------|----------------|----------------------------|
| | 2007 | 2006 | |
| Government money market funds | \$ 352,105,191 | \$ 276,330,515 | Counterparty's trust dept. |
| Guaranteed investment contracts | 839,843,601 | 748,191,558 | Counterparty's trust dept. |
| U.S. government securities | 524,036,122 | 501,513,717 | Counterparty's trust dept. |
| Commercial paper | 137,499,998 | 90,601,736 | Counterparty's trust dept. |

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 2 - Deposit and Investments (Continued)

At September 30, 2007, the average maturities of investments are as follows:

| Type of Investment | Fair Value | Less than 1 Year | 1-5 Years | 6-10 Years | More Than 10 Years |
|---------------------------------|----------------|---------------------|------------|------------|-----------------------|
| Government money market funds | \$ 352,105,191 | \$ 352,105,191 | \$ - | \$ - | \$ - |
| Guaranteed investment contracts | 839,843,601 | - | 45,228,901 | 59,103,306 | 735,511,394 |
| U.S. government securities | 524,036,122 | 406,479,635 | 77,230,036 | 23,335,251 | 16,991,200 |
| Commercial paper | 137,499,998 | 137,499,998 | - | - | - |

At September 30, 2006, the average maturities of investments are as follows:

| Type of Investment | Fair Value | Less than 1 Year | 1-5 Years | 6-10 Years | More Than 10 Years |
|---------------------------------|----------------|---------------------|------------|------------|-----------------------|
| Government money market funds | \$ 276,330,515 | \$ 276,330,515 | \$ - | \$ - | \$ - |
| Guaranteed investment contracts | 748,191,558 | 143,916,236 | 75,059,961 | 19,785,519 | 509,429,842 |
| U.S. government securities | 501,513,717 | 364,959,790 | 79,593,522 | 29,946,465 | 27,013,940 |
| Commercial paper | 90,601,736 | 90,601,736 | - | - | - |

Credit Risk

The Authority has no investment policy that would limit its investment choices, except as noted in the state statute. At September 30, 2007, the credit quality ratings of debt securities are as follows:

| Investment | Fair Value | Rating | Rating Organization |
|---------------------------------|----------------|--------|---------------------|
| Government money market funds | \$ 352,105,191 | AAAm | S&P |
| Guaranteed investment contracts | 594,520,555 | AA | S&P |
| Guaranteed investment contracts | 69,700,533 | A- | S&P |
| Guaranteed investment contracts | 116,519,207 | AAA | S&P |
| Guaranteed investment contracts | 20,157,206 | AA+ | S&P |
| Guaranteed investment contracts | 38,946,100 | A | S&P |
| U.S. government securities | 524,036,122 | AAA | S&P |
| Commercial paper | 137,499,998 | A1 | S&P |

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 2 - Deposit and Investments (Continued)

At September 30, 2006, the credit quality ratings of debt securities are as follows:

| Investment | Fair Value | Rating | Rating Organization |
|---------------------------------|----------------|--------|---------------------|
| Government money market funds | \$ 276,330,515 | AAAm | S&P |
| Guaranteed investment contracts | 711,294,058 | AA- | S&P |
| Guaranteed investment contracts | 17,111,984 | AAA | S&P |
| Guaranteed investment contracts | 19,785,516 | AA+ | S&P |
| U.S. government securities | 501,513,717 | AAA | S&P |
| Commercial paper | 90,601,736 | AI | S&P |

Note 3 - Deferred Charges

Deferred charges represent bond and note issuance costs as of September 30, 2007 and 2006. These costs are being amortized using the interest method over the life of the related notes and bonds. Accumulated amortization was \$24,519,984 and \$26,612,197 at September 30, 2007 and 2006, respectively.

Note 4 - Revenue Notes Payable and Receivable

Pooled state aid anticipation notes payable consisted of the following at September 30, 2007 and 2006:

| Series | Interest | | Maturity Date | Beginning as of October 1, | | | Ending as of |
|--------|----------|-----------|-----------------|-------------------------------|-----------------------|-------------------------|-----------------------|
| | Rate (%) | Yield (%) | | 2006 | Additions | Deletions | September 30, 2007 |
| 2007A | 4.50 | 3.60 | August 18, 2007 | \$ - | \$ 14,288,760 | \$ (14,288,760) | \$ - |
| 2007B1 | 4.50 | 3.68 | August 20, 2007 | - | 199,362,620 | (177,472) | 199,185,148 |
| 2007B2 | 4.50 | 3.68 | August 20, 2007 | - | 512,748,967 | (456,448) | 512,292,519 |
| 2006B1 | 4.00 | 2.87 | August 19, 2006 | 59,153,541 | - | (59,153,541) | - |
| 2006B2 | 4.00 | 2.92 | August 19, 2006 | 478,228,281 | - | (478,228,281) | - |
| Total | | | | <u>\$ 537,381,822</u> | <u>\$ 726,400,347</u> | <u>\$ (552,304,502)</u> | <u>\$ 711,477,667</u> |

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 4 - Revenue Notes Payable and Receivable (Continued)

| Series | Interest | | Maturity Date | Beginning as of | Additions | Deletions | Ending as of |
|---------------|----------|-----------|-----------------|-----------------------|-----------------------|-------------------------|-----------------------|
| | Rate (%) | Yield (%) | | October 1, 2005 | | | September 30, 2006 |
| 2006A | 4.50 | 3.60 | August 18, 2006 | \$ - | \$ 9,340,000 | \$ (9,340,000) | \$ - |
| 2006B1 | 4.50 | 3.68 | August 20, 2007 | - | 59,206,983 | (53,442) | 59,153,541 |
| 2006B2 | 4.50 | 3.68 | August 20, 2007 | - | 478,660,336 | (432,055) | 478,228,281 |
| 2005A Detroit | 3.75 | 2.55 | March 22, 2006 | 160,384,064 | - | (160,384,064) | - |
| 2005B1 | 4.00 | 2.87 | August 19, 2006 | 76,423,174 | - | (76,423,174) | - |
| 2005B2 | 4.00 | 2.92 | August 19, 2006 | 449,839,235 | - | (449,839,235) | - |
| 2005C Detroit | 4.25 | 3.03 | August 19, 2006 | 145,978,045 | - | (145,978,045) | - |
| Total | | | | <u>\$ 832,624,518</u> | <u>\$ 547,207,319</u> | <u>\$ (842,450,015)</u> | <u>\$ 537,381,822</u> |

Pooled state aid anticipation notes receivable were \$710,624,245 and \$536,370,080 at September 30, 2007 and 2006, respectively. The notes receivable bear interest at 3.68 percent during 2007 and ranging from 3.60 percent to 3.68 percent during 2006. In addition, the yields on the notes receivable range from 3.85 percent to 5.051 percent during 2007 and 3.922 percent to 5.413 percent during 2006.

Note 5 - Bonds Receivable

Bonds receivable of the General Fund consist of receivables from governmental units to pay for the corresponding bonds payable disclosed in Note 9. The annual requirements for governmental units to repay bonds outstanding as of September 30, 2007, including both principal and interest, are as follows:

| | Principal | Interest | Total |
|---------------------|-----------------------|-----------------------|-----------------------|
| 2008 | \$ 64,761,406 | \$ 24,246,014 | \$ 89,007,420 |
| 2009 | 83,415,455 | 34,822,282 | 118,237,737 |
| 2010 | 77,469,913 | 32,194,938 | 109,664,851 |
| 2011 | 72,232,246 | 29,835,024 | 102,067,270 |
| 2012 | 71,497,120 | 27,810,859 | 99,307,979 |
| 2013-2017 | 215,126,997 | 111,114,378 | 326,241,375 |
| 2018-2022 | 55,395,158 | 26,026,520 | 81,421,678 |
| 2023-2027 | 18,241,219 | 4,901,727 | 23,142,946 |
| 2028-2032 | 8,526,910 | 1,633,538 | 10,160,448 |
| 2033 and thereafter | 2,612,624 | 188,700 | 2,801,324 |
| Total | <u>\$ 669,279,048</u> | <u>\$ 292,773,980</u> | <u>\$ 962,053,028</u> |

The interest is recorded as revenue when earned.

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 6 - State Revolving Fund Loans Receivable

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

| | Total Committed | 2007 | 2006 |
|---------------------|-------------------------|-------------------------|-------------------------|
| Clean Water Fund | \$ 2,791,656,818 | \$ 1,569,721,313 | \$ 1,533,101,091 |
| Drinking Water Fund | 475,690,869 | 331,884,983 | 302,973,802 |
| Total | <u>\$ 3,267,347,687</u> | <u>\$ 1,901,606,296</u> | <u>\$ 1,836,074,893</u> |

Scheduled repayments of \$123,724,452 are expected to be collected during fiscal year 2007.

Note 7 - Public School Loans Receivable

General Fund

Loans receivable of the General Fund consisting of receivables from governmental units to pay for the corresponding bonds payable disclosed in Note 9 are as follows: Public School Academies - \$40,700,000 and Detroit Public Schools - \$202,832,129. The annual requirements for governmental units to repay loans outstanding as of September 30, 2007, including both principal and interest, are as follows:

| | Principal | Interest | Total |
|-----------|-----------------------|-----------------------|-----------------------|
| 2008 | \$ 10,299,980 | \$ 15,625,665 | \$ 25,925,645 |
| 2009 | 11,467,403 | 14,395,987 | 25,863,390 |
| 2010 | 12,884,855 | 13,012,578 | 25,897,433 |
| 2011 | 14,364,876 | 11,456,350 | 25,821,226 |
| 2012 | 15,841,679 | 10,730,600 | 26,572,279 |
| 2013-2017 | 86,823,336 | 41,319,775 | 128,143,111 |
| 2018-2022 | 66,450,000 | 17,779,400 | 84,229,400 |
| 2023-2027 | 10,300,000 | 8,156,125 | 18,456,125 |
| 2028-2032 | 15,100,000 | 3,192,000 | 18,292,000 |
| Total | <u>\$ 243,532,129</u> | <u>\$ 135,668,480</u> | <u>\$ 379,200,609</u> |

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 7 - Public School Loans Receivable (Continued)

School Loan Revolving Fund

The loans receivable of the School Loan Revolving Fund are from two different sources - school districts that previously borrowed from the School Bond Loan Fund (SBLF) which is a separate unit of the State of Michigan, and school districts that have borrowed directly from the School Loan Revolving Fund (SLRF). Changes in the loan balances for the years ending September 30 are as follows:

| | Beginning Balance October 1, 2006 | New Loans Funded/Assigned | Previous Assignments Terminated | Principal Payments | Ending Balance September 30, 2007 |
|--------------------------------|---|------------------------------|---------------------------------------|------------------------|--|
| SLRF loans funded | \$ 81,538,533 | \$ 70,941,714 | \$ - | \$ (2,737,050) | \$ 149,743,197 |
| SBLF loans assigned from State | 140,344,469 | 311,890,929 | (140,344,469) | (17,694,799) | 294,196,130 |
| Total | <u>\$ 221,883,002</u> | <u>\$ 382,832,643</u> | <u>\$ (140,344,469)</u> | <u>\$ (20,431,849)</u> | <u>\$ 443,939,327</u> |

| | Beginning Balance October 1, 2005 | New Loans Funded/Assigned | Previous Assignments Terminated | Principal Payments | Ending Balance September 30, 2006 |
|--------------------------------|---|------------------------------|---------------------------------------|-----------------------|--|
| SLRF loans funded | \$ - | \$ 81,694,622 | \$ - | \$ (156,089) | \$ 81,538,533 |
| SBLF loans assigned from State | 42,306,380 | 140,344,469 | (42,306,380) | - | 140,344,469 |
| Total | <u>\$ 42,306,380</u> | <u>\$ 222,039,091</u> | <u>\$ (42,306,380)</u> | <u>\$ (156,089)</u> | <u>\$ 221,883,002</u> |

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 8 - Strategic Water Quality Initiatives Loans Receivable

The Strategic Water Quality Initiatives Fund has made commitments to municipalities to loan funds for purposes such as septic system upgrades, replacements, and other projects which are generally not eligible to be financed through the State Revolving Loan Fund Program. Loans are made from the Strategic Water Quality Initiatives Fund. These loans are primarily secured by limited or unlimited tax general obligations or system revenue, and some are additionally secured by revenue-sharing pledge agreements and/or reserve funds. Amounts committed and receivables consisted of the following at September 30:

| | Total Commitments | Receivable | |
|-----------------------------|----------------------|---------------------|---------------------|
| | | 2007 | 2006 |
| City of Ann Arbor | \$ 3,610,000 | \$ 3,204,637 | \$ 2,380,165 |
| Charter Township of Clinton | 270,000 | 162,471 | 138,614 |
| City of Davison | 2,690,000 | 104,840 | - |
| Total | <u>\$ 6,570,000</u> | <u>\$ 3,471,948</u> | <u>\$ 2,518,779</u> |

Scheduled repayments of \$170,000 are expected to be collected during fiscal year 2007.

Note 9 - Bonds Payable

General Fund

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

| Series | Date of Issue | Original Issue | Amount Outstanding as of September 30 | |
|---|-------------------|----------------|--|-----------|
| | | | 2007 | 2006 |
| Local Government Loan Program Revenue Bonds, Series 1986A, issued to provide funds to assist Michigan governmental units in the orderly financing of public improvements and for other municipal purposes on more favorable terms than might otherwise be obtained by such governmental units. The bonds bear interest at rates ranging from 7.125% to 8.625% and are due at various dates between 2008 and 2015. Amounts outstanding were as follows: | | | | |
| 1986A, Group 4 | February 19, 1987 | \$ 6,300,000 | \$ 45,000 | \$ 50,000 |
| 1986A, Group 7 | June 11, 1987 | 14,900,000 | 290,000 | 335,000 |
| 1986A, Group 8 | August 6, 1987 | 36,900,000 | - | 5,000 |
| 1986A, Group 19 | March 23, 1989 | 18,275,000 | 245,000 | 315,000 |
| Subtotal | | | 580,000 | 705,000 |

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 9 - Bonds Payable (Continued)

| Series | Date of Issue | Original Issue | Amount Outstanding as of | |
|---|--------------------|----------------|--------------------------|---------------|
| | | | 2007 | 2006 |
| <p>Local Government Loan Program Revenue Bonds (Resolution 1989) were issued to provide funds to assist Michigan governmental units in the orderly financing of public improvements, deficit financing, and other municipal purposes, secured by the revenue pledged, including the Municipal Obligations issued to the Authority and the funds held in reserve accounts. The bonds bear interest at rates ranging from 2.00% to 7.20% and are due at various dates between 2008 and 2034. Amounts outstanding were as follows:</p> | | | | |
| 1991A | February 28, 1991 | \$ 106,234,562 | \$ - | \$ 34,174,941 |
| 1991B | April 11, 1991 | 4,120,000 | 40,000 | 50,000 |
| 1991C | June 27, 1991 | 56,140,074 | 12,521,680 | 14,340,275 |
| 1991D | August 29, 1991 | 141,183,756 | 653,067 | 1,070,575 |
| 1992A | March 26, 1992 | 57,640,000 | 110,000 | 220,000 |
| 1992D | September 3, 1992 | 9,635,000 | 115,000 | 135,000 |
| 1993A | April 6, 1993 | 6,705,000 | 60,000 | 435,000 |
| 1993B | July 13, 1993 | 30,925,000 | 3,250,000 | 4,685,000 |
| 1993C | June 17, 1993 | 2,275,000 | 345,000 | 475,000 |
| 1993D | August 26, 1993 | 16,385,000 | 625,000 | 815,000 |
| 1993E | December 16, 1993 | 5,880,000 | 175,000 | 340,000 |
| 1994A | April 14, 1994 | 105,935,000 | - | 58,405,000 |
| 1994B | March 30, 1994 | 13,080,000 | 560,000 | 615,000 |
| 1994C | May 24, 1994 | 50,610,000 | 4,915,000 | 6,735,000 |
| 1994D | May 19, 1994 | 4,975,000 | 240,000 | 275,000 |
| 1994E | August 25, 1994 | 2,455,000 | 15,000 | 20,000 |
| 1994F | October 13, 1994 | 6,935,000 | 570,000 | 630,000 |
| 1994G | December 21, 1994 | 72,149,737 | 9,248,212 | 9,586,122 |
| 1995A | June 22, 1995 | 15,205,000 | 250,000 | 280,000 |
| 1995B | December 14, 1995 | 20,800,000 | 755,000 | 11,570,000 |
| 1996A | September 20, 1996 | 5,755,000 | 110,000 | 135,000 |
| 1997A | April 29, 1997 | 7,705,000 | 1,525,000 | 3,785,000 |
| 1997B | August 14, 1997 | 17,375,000 | 5,255,000 | 6,140,000 |
| 1997C | October 30, 1997 | 16,335,000 | 4,990,000 | 6,175,000 |
| 1997D | December 22, 1997 | 9,300,000 | 4,105,000 | 4,315,000 |
| 1998A | June 16, 1998 | 16,100,000 | 5,990,000 | 6,665,000 |
| 1999A | February 9, 1999 | 10,910,000 | 3,615,000 | 4,310,000 |
| 1999B | April 28, 1999 | 38,605,000 | 19,515,000 | 21,380,000 |
| 1999C | June 24, 1999 | 16,685,000 | 10,045,000 | 11,010,000 |
| 1999D | November 17, 1999 | 8,255,000 | 2,845,000 | 3,195,000 |
| 2000A | May 17, 2000 | 10,815,000 | 6,325,000 | 6,970,000 |
| 2000B | November 28, 2000 | 5,905,000 | 4,970,000 | 5,160,000 |

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 9 - Bonds Payable (Continued)

| Series | Date of Issue | Original Issue | Amount Outstanding as of | |
|--------|--------------------|----------------|--------------------------|--------------|
| | | | 2007 | 2006 |
| 2001A | March 29, 2001 | \$ 9,055,000 | \$ 8,050,000 | \$ 8,370,000 |
| 2001B | July 12, 2001 | 10,065,000 | 5,990,000 | 6,525,000 |
| 2002A | July 1, 2002 | 30,060,000 | 21,765,000 | 23,035,000 |
| 2002B | November 1, 2002 | 16,790,000 | 13,980,000 | 14,675,000 |
| 2003A | April 7, 2003 | 3,980,000 | 2,920,000 | 3,195,000 |
| 2003B | September 30, 2003 | 19,665,000 | 16,745,000 | 17,700,000 |
| 2003C | September 30, 2003 | 160,000,000 | 130,145,000 | 145,365,000 |
| 2004A | February 18, 2004 | 41,155,000 | 32,175,000 | 35,705,000 |
| 2004B | May 13, 2004 | 26,830,000 | 11,935,000 | 17,140,000 |
| 2004C | December 16, 2004 | 9,985,000 | 7,160,000 | 8,655,000 |
| 2006A | May 10, 2007 | 9,825,000 | 9,570,000 | 9,825,000 |
| 2007A | March 29, 2007 | 21,875,000 | 21,875,000 | - |
| 2007B | August 3, 2007 | 98,435,000 | 98,435,000 | - |
| | Subtotal | | 484,482,959 | 514,286,913 |

School Loan Revenue Bonds, original Series 1998, refunding Series 2003 A and B and Series 2007 A, issued to provide funds to local school districts and intermediate school districts in the state of Michigan. Funds are to be used by the schools for the purposes permitted by the State School Aid Act of 1979. The bonds have a pledge of revenue from state sources subject to annual state appropriation. The bonds bear interest rates varying from 2.71% to 5.25% and are due semi-annually on June 1 and December 1 with final maturity on June 1, 2015:

| | | | | |
|-------|----------------|-------------|-------------|-------------|
| 2003A | March 25, 2003 | 197,295,000 | 192,635,000 | 197,295,000 |
| 2003B | March 25, 2003 | 30,300,000 | - | 19,500,000 |
| 2007A | May 10, 2007 | 74,645,000 | 74,645,000 | - |
| | Subtotal | | 267,280,000 | 216,795,000 |

Series 2006B Revenue Bonds, School District of the City of Detroit. The bonds bear interest at 5% and are due annually on June 1, with final maturity on June 1, 2020:

| | | | | |
|-------|--------------|-------------|-------------|-------------|
| 2006B | May 24, 2006 | 216,090,000 | 205,060,000 | 216,090,000 |
|-------|--------------|-------------|-------------|-------------|

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 9 - Bonds Payable (Continued)

| Series | Date of Issue | Original Issue | Amount Outstanding as of September 30 | |
|---|---------------|----------------|--|----------------|
| | | | 2007 | 2006 |
| <p>Long-term Public School Academy Program provides financing to public school academies that meet eligibility requirements. The Authority's bonds' actual interest rates are 7.25% to 8% and are due annually on October 1 with final maturity on October 1, 2031:</p> | | | | |
| Detroit Academy of Arts & Science Series 2001A | May 16, 2001 | \$ 30,200,000 | \$ 29,200,000 | \$ 29,600,000 |
| Detroit YMCA Service Learning Academy | May 16, 2001 | 12,100,000 | 11,500,000 | 11,700,000 |
| Subtotal | | | 40,700,000 | 41,300,000 |
| Total bonds payable before net premium and deferred amount on refunding | | | 998,102,959 | 989,176,913 |
| Net premium on bonds payable | | | 34,037,799 | 37,765,000 |
| Deferred amount on refunding of bonds | | | (6,994,581) | (8,762,313) |
| Total bonds payable - General Fund | | | 1,025,146,177 | 1,018,179,600 |
| Less current portion | | | 100,633,481 | 94,475,670 |
| Long-term portion | | | \$ 924,512,696 | \$ 923,703,930 |

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

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

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 9 - Bonds Payable (Continued)

Changes in long-term debt are as follows:

| | Beginning Balance October 1, 2006 | Proceeds | Principal Payments/ Extinguishments | Ending Balance September 30, 2007 | Due Within One Year |
|---------------------------------|---|-----------------------|---|--|------------------------|
| Local Government Loan Program | | | | | |
| Revenue Bonds, Series 1986A | \$ 705,000 | \$ - | \$ (125,000) | \$ 580,000 | \$ 125,000 |
| Local Government Loan Program | | | | | |
| Revenue Bonds (Resolution 1989) | 514,286,913 | 120,310,000 | (150,113,954) | 484,482,959 | 63,288,481 |
| School Loan Revenue Bonds | 216,795,000 | 74,645,000 | (24,160,000) | 267,280,000 | 25,045,000 |
| Long-term Public School: | | | | | |
| Academy Bonds | 41,300,000 | - | (600,000) | 40,700,000 | 600,000 |
| Public School Bonds | 216,090,000 | - | (11,030,000) | 205,060,000 | 11,575,000 |
| Total | \$ 989,176,913 | \$ 194,955,000 | \$ (186,028,954) | \$ 998,102,959 | \$ 100,633,481 |

| | Beginning Balance October 1, 2005 | Proceeds | Principal Payments | Ending Balance September 30, 2006 | Due Within One Year |
|---------------------------------|---|---------------------|------------------------|--|------------------------|
| Local Government Loan Program | | | | | |
| Revenue Bonds, Series 1986A | \$ 830,000 | \$ - | \$ (125,000) | \$ 705,000 | \$ 125,000 |
| Local Government Loan Program | | | | | |
| Revenue Bonds (Resolution 1989) | 575,808,827 | 9,825,000 | (71,346,914) | 514,286,913 | 71,855,670 |
| School Loan Revenue Bonds | 227,595,000 | - | (10,800,000) | 216,795,000 | 10,865,000 |
| Long-term Public School: | | | | | |
| Academy Bonds | 41,800,000 | - | (500,000) | 41,300,000 | 600,000 |
| Public School Bonds | 216,090,000 | - | - | 216,090,000 | 11,030,000 |
| Total | \$ 1,062,123,827 | \$ 9,825,000 | \$ (82,771,914) | \$ 989,176,913 | \$ 94,475,670 |

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 9 - Bonds Payable (Continued)

The annual requirements for the General Fund to service debt outstanding as of September 30, 2007, including both principal and interest, are as follows:

| | Principal | Interest | Total |
|---------------------|-----------------------|-----------------------|-------------------------|
| 2008 | \$ 100,633,481 | \$ 53,311,123 | \$ 153,944,604 |
| 2009 | 94,910,856 | 49,050,262 | 143,961,118 |
| 2010 | 90,626,962 | 44,880,894 | 135,507,856 |
| 2011 | 87,058,623 | 40,753,221 | 127,811,844 |
| 2012 | 88,150,898 | 36,910,858 | 125,061,756 |
| 2013-2017 | 359,982,023 | 117,889,543 | 477,871,566 |
| 2018-2022 | 121,725,116 | 43,855,946 | 165,581,062 |
| 2023-2027 | 28,835,000 | 13,106,152 | 41,941,152 |
| 2028-2032 | 23,575,000 | 4,825,538 | 28,400,538 |
| 2033 and thereafter | 2,605,000 | 188,700 | 2,793,700 |
| Total | <u>\$ 998,102,959</u> | <u>\$ 404,772,237</u> | <u>\$ 1,402,875,196</u> |

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

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 9 - Bonds Payable (Continued)

State Revolving Fund

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

| Series | Date of Issue | Original Issue | Amount Outstanding as of September 30 | |
|---|------------------|----------------|--|------------------|
| | | | 2007 | 2006 |
| State Revolving Fund Revenue Bonds are used to provide low-interest loans to municipalities. The bonds bear interest at rates ranging from 2.0% to 6.0% and are due at various dates between 2008 and 2028: | | | | |
| State Revolving Fund Revenue Bonds, Series 1996A | August 29, 1996 | \$ 86,750,000 | \$ 36,755,000 | \$ 42,340,000 |
| State Revolving Fund Revenue Bonds, Series 1997 | July 1, 1997 | 132,500,000 | 16,425,000 | 21,335,000 |
| Clean Water Revolving Fund Revenue Bonds, Series 1998 | July 15, 1998 | 151,165,000 | 113,065,000 | 119,770,000 |
| Clean Water Revolving Fund Revenue Bonds, Series 2001 | August 23, 2001 | 222,800,000 | 195,990,000 | 205,125,000 |
| Drinking Water Revolving Fund Revenue Bonds, Series 2001 | August 23, 2001 | 23,825,000 | 20,920,000 | 21,910,000 |
| Clean Water Revolving Fund Revenue Bonds, Series 2002A | August 22, 2002 | 188,000,000 | 173,605,000 | 180,895,000 |
| Drinking Water Revolving Fund Revenue Bonds, Series 2002A | August 22, 2002 | 72,735,000 | 67,145,000 | 69,975,000 |
| Clean Water Revolving Fund Revenue Bonds, Series 2002R | August 22, 2002 | 469,100,000 | 384,215,000 | 403,375,000 |
| Drinking Water Revolving Fund Revenue Bonds, Series 2002R | August 22, 2002 | 109,145,000 | 88,940,000 | 93,300,000 |
| Clean Water Revolving Fund Revenue Bonds, Series 2004A | April 21, 2004 | 286,605,000 | 286,605,000 | 286,605,000 |
| Drinking Water Revolving Fund Revenue Bonds, Series 2004A | April 21, 2004 | 67,895,000 | 67,895,000 | 67,895,000 |
| Clean Water Revolving Fund Revenue Bonds, Series 2006A | July 26, 2006 | 103,630,000 | 103,630,000 | 103,630,000 |
| Drinking Water Revolving Fund Revenue Bonds, Series 2006A | July 26, 2006 | 79,480,000 | 79,480,000 | 79,480,000 |
| Clean Water Revolving Fund Revenue Bonds, Series 2006R | July 26, 2006 | 72,570,000 | 72,570,000 | 72,570,000 |
| Clean Water Revolving Fund Revenue Bonds, Series 2006 | November 2, 2006 | 150,000,000 | 150,000,000 | - |
| Subtotal | | | 1,857,240,000 | 1,768,205,000 |
| Premium on bonds payable | | | 108,566,640 | 100,547,119 |
| Deferred amount on refunding of bonds | | | (56,238,928) | (51,901,900) |
| Total bonds payable - State Revolving Fund | | | 1,909,567,712 | 1,816,850,219 |
| Less current portion | | | 76,985,000 | 60,965,000 |
| Long-term portion | | | \$ 1,832,582,712 | \$ 1,755,885,219 |

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 9 - Bonds Payable (Continued)

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

Changes in long-term debt are as follows:

| | Beginning Balance October 1 | Proceeds | Principal Payments/ Extinguishments | Ending Balance September 30 | Due Within One Year |
|---------------------------------------|-----------------------------------|----------------|---|-----------------------------------|------------------------|
| <u>2007</u> | | | | | |
| State Revolving Fund Revenue Bonds | \$ 1,768,205,000 | \$ 150,000,000 | \$ (60,965,000) | \$ 1,857,240,000 | \$ 76,985,000 |
| <u>2006</u> | | | | | |
| State Revolving Fund Revenue Bonds | \$ 1,827,020,000 | \$ - | \$ (58,815,000) | \$ 1,768,205,000 | \$ 60,965,000 |

The annual requirements for the State Revolving Fund to service debt outstanding as of September 30, 2007, including both principal and interest, are as follows:

| | Principal | Interest | Total |
|-----------|------------------|----------------|------------------|
| 2008 | \$ 76,985,000 | \$ 92,478,169 | \$ 169,463,169 |
| 2009 | 87,110,000 | 88,367,121 | 175,477,121 |
| 2010 | 96,485,000 | 83,793,141 | 180,278,141 |
| 2011 | 98,985,000 | 78,894,569 | 177,879,569 |
| 2012 | 102,475,000 | 73,829,088 | 176,304,088 |
| 2013-2017 | 541,915,000 | 286,552,600 | 828,467,600 |
| 2018-2022 | 542,000,000 | 143,325,913 | 685,325,913 |
| 2023-2027 | 282,035,000 | 37,706,038 | 319,741,038 |
| 2028-2029 | 29,250,000 | 1,091,813 | 30,341,813 |
| Total | \$ 1,857,240,000 | \$ 886,038,452 | \$ 2,743,278,452 |

Michigan Municipal Bond Authority of the State of Michigan

Notes to Financial Statements September 30, 2007 and 2006

Note 9 - Bonds Payable (Continued)

School Loan Revolving Fund

During fiscal year 2007, the School Loan Revolving Fund issued \$500,000,000 of federally taxable bonds. The bonds were used to refund the 2006 SLRF bonds in their entirety and to fund future SLRF loans. The maturity date of the bonds is March 1, 2047; however, the Bond Authority has the option to pay the amount before maturity and expects the bonds to be repaid on March 1, 2020. Interest is payable semiannually at a variable rate determined by a monthly interest rate auction held by the broker of the bonds. As of September 30, 2007, the interest rate is approximately 5.50 percent. The ending principal balance was \$500,000,000 at September 30, 2007.

The annual requirements for the School Loan Revolving Fund to service debt outstanding as of September 30, 2007, including both principal and interest, are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|-----------------------|-----------------------|-----------------------|
| 2008 | \$ - | \$ 27,958,333 | \$ 27,958,333 |
| 2009 | 13,190,000 | 27,511,159 | 40,701,159 |
| 2010 | 19,310,000 | 26,603,593 | 45,913,593 |
| 2011 | 9,495,000 | 25,802,703 | 35,297,703 |
| 2012 | 15,355,000 | 25,178,467 | 40,533,467 |
| 2013-2017 | 262,485,000 | 95,007,896 | 357,492,896 |
| 2018-2022 | 180,165,000 | 11,275,935 | 191,440,935 |
| Total | <u>\$ 500,000,000</u> | <u>\$ 239,338,086</u> | <u>\$ 739,338,086</u> |

During fiscal year 2006, the School Loan Revolving Fund issued \$85,000,000 of federally taxable bonds, due September 14, 2007. Interest is payable at 5.64 percent in quarterly installments. The ending principal balance was \$85,000,000 at September 30, 2006. These bonds were paid in their entirety by the issuance of the 2007 SLRF bonds.

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2007 and 2006**

Note 9 - Bonds Payable (Continued)

Defeased Debt

During fiscal year 2007, the General Fund issued \$98,435,000 of Local Government Loan Program Revenue Bonds, Series 2007B with an average coupon rate of 5.07 percent. The proceeds were used to refund the 1991A and 1994A LGLP bonds and partially refund the 1995B LGLP Bonds in the amount of \$89,863,284 with an average interest rate of 6.42 percent. There is an economic gain of approximately \$5 million to the Authority. The deferred amount on refunding is the difference between the reacquisition price of \$101,653,154 and the carrying amount of the old debt of \$101,877,288. The deferred accounting loss on refunding of \$224,134 will be amortized using the effective interest method over the life of the new bonds. As a result, the bonds payable and receivable have been removed from the General Fund. The advance refunding decreased total debt service receipts and payments over the next 11 years by approximately \$6.2 million.

During fiscal year 2006, the General Fund issued \$9,825,000 of Local Government Loan Program Revenue Bonds, Series 2006A with an average coupon rate of 4.73 percent. The proceeds were used to partially refund various Local Government Loan Program Revenue Bonds in the amount of \$10,250,000 with an average interest rate of 5.52 percent. There is an economic gain of \$420,491 to the Authority. The deferred amount on refunding is the difference between the reacquisition price of \$10,027,630 carrying amount of the old debt of \$10,134,843. The deferred accounting gain on refunding of \$107,213 will be amortized using the effective interest method over the life of the new bonds. As a result, the bonds payable and receivable have been removed from the General Fund. The advance refunding decreased total debt service receipts and payments over the next 13 years by approximately \$1.2 million.

In prior years, the General and State Revolving Funds defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. The amount of bonds outstanding considered defeased is \$617,808,284 and \$544,620,000 at September 30, 2007 and 2006, respectively.

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2007 and 2006**

Note 10 - Other Income

Other income consists of the following:

| | 2007 | 2006 |
|--|---------------------|---------------------|
| Administrative fee from the Department of Environmental Quality to the State Revolving Fund | \$ 2,140,363 | \$ 2,044,890 |
| Other income | <u>866,228</u> | <u>566,679</u> |
| Total other income | <u>\$ 3,006,591</u> | <u>\$ 2,611,569</u> |

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

Note 11 - Risk Management

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

Note 12 - Employee Benefits

Plan Descriptions - The Michigan Municipal Bond Authority participates in the State of Michigan's defined benefit and defined contribution plans that cover most state employees, as well as related component units such as the Michigan Municipal Bond Authority. The defined benefit plan provides retirement, disability, death benefits, and annual cost of living adjustments to plan members. The system issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report is available on the State of Michigan website at <http://www.michigan.gov/ors>.

Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements
September 30, 2007 and 2006**

Note 12 - Employee Benefits (Continued)

Funding Policy - Plan members are not required to make contributions; the Michigan Municipal Bond Authority is required to contribute at an actuarially determined rate for the defined benefit plan of 24 percent and 21.8 percent of payroll for the years ended September 30, 2007 and 2006, respectively. The defined benefit contributions to the plan were equal to the required contributions for each year. The Michigan Municipal Bond Authority is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent for the years ended September 30, 2007 and 2006. The contribution requirements of plan members and the Michigan Municipal Bond Authority are established and may be amended by the state legislature. The state legislature establishes the extent to which employer and employees are required to make contributions and establishes the benefit provisions for the plan.

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

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new standard will be applicable in fiscal year 2008.

Note 13 - Subsequent Event

Subsequent to September 30, 2007, the Authority issued \$278,040,000 of State Revolving Fund Clean Water Bonds, 2007 Series.

Other Supplemental Information

Michigan Municipal Bond Authority of the State of Michigan

State Revolving Fund Combining Schedule of Net Assets

| | Clean Water Program | | Drinking Water Program | | Total | |
|--|-------------------------|-------------------------|------------------------|-----------------------|-------------------------|-------------------------|
| | September 30 | | September 30 | | September 30 | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Assets | | | | | | |
| Cash | \$ 3,004 | \$ 1,385,790 | \$ 29,510 | \$ 1,152,391 | \$ 32,514 | \$ 2,538,181 |
| Investments | 1,362,563,972 | 1,235,211,366 | 333,240,651 | 343,484,113 | 1,695,804,623 | 1,578,695,479 |
| Accrued interest receivable | 15,222,079 | 14,524,716 | 4,787,066 | 4,163,880 | 20,009,145 | 18,688,596 |
| Deferred charges - Net | 9,605,942 | 9,234,409 | 2,086,388 | 2,304,408 | 11,692,330 | 11,538,817 |
| Receivable from State of Michigan | 12,570,076 | 14,358,124 | - | - | 12,570,076 | 14,358,124 |
| Loans receivable | 1,569,721,312 | 1,533,101,091 | 331,884,984 | 302,973,802 | 1,901,606,296 | 1,836,074,893 |
| Other receivables | 84,206 | 328,353 | 107,637 | 117,817 | 191,843 | 446,170 |
| Total assets | \$ 2,969,770,591 | \$ 2,808,143,849 | \$ 672,136,236 | \$ 654,196,411 | \$ 3,641,906,827 | \$ 3,462,340,260 |
| Liabilities and Net Assets | | | | | | |
| Liabilities | | | | | | |
| Accounts payable and other liabilities | \$ 3,590,074 | \$ 4,463,360 | \$ 224,635 | \$ 374,387 | \$ 3,814,709 | \$ 4,837,747 |
| Due to other governmental units | 97,668 | 377,868 | 61,767 | 63,182 | 159,435 | 441,050 |
| Accrued interest payable | 39,074,730 | 36,769,134 | 8,138,178 | 8,340,192 | 47,212,908 | 45,109,326 |
| Deferred revenue | - | - | 8,220,651 | 5,780,500 | 8,220,651 | 5,780,500 |
| Bonds payable | 1,573,501,300 | 1,471,539,221 | 336,066,412 | 345,310,998 | 1,909,567,712 | 1,816,850,219 |
| Total liabilities | 1,616,263,772 | 1,513,149,583 | 352,711,643 | 359,869,259 | 1,968,975,415 | 1,873,018,842 |
| Net Assets - Restricted - Water pollution and drinking water projects | 1,353,506,819 | 1,294,994,266 | 319,424,593 | 294,327,152 | 1,672,931,412 | 1,589,321,418 |
| Total liabilities and net assets | \$ 2,969,770,591 | \$ 2,808,143,849 | \$ 672,136,236 | \$ 654,196,411 | \$ 3,641,906,827 | \$ 3,462,340,260 |

Michigan Municipal Bond Authority of the State of Michigan

State Revolving Fund Combining Schedule of Revenue, Expenses, and Changes in Net Assets

| | Clean Water Program | | Drinking Water Program | | Total | |
|---|-------------------------|-------------------------|------------------------|-----------------------|-------------------------|-------------------------|
| | September 30 | | September 30 | | September 30 | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Operating Revenue | | | | | | |
| Interest | \$ 99,095,029 | \$ 88,706,140 | \$ 22,658,432 | \$ 21,537,565 | \$ 121,753,461 | \$ 110,243,705 |
| Other | 1,926,693 | 1,865,770 | 213,670 | 179,120 | 2,140,363 | 2,044,890 |
| Total operating revenue | 101,021,722 | 90,571,910 | 22,872,102 | 21,716,685 | 123,893,824 | 112,288,595 |
| Operating Expenses | | | | | | |
| Interest expense | 75,356,721 | 71,444,767 | 15,061,904 | 15,882,033 | 90,418,625 | 87,326,800 |
| Amortization of deferred charges - Net | 1,111,311 | 1,053,965 | 218,020 | 223,293 | 1,329,331 | 1,277,258 |
| Salaries, wages, and other administrative | 2,328,923 | 2,286,016 | 210,250 | 213,343 | 2,539,173 | 2,499,359 |
| Total operating expenses | 78,796,955 | 74,784,748 | 15,490,174 | 16,318,669 | 94,287,129 | 91,103,417 |
| Operating Income | 22,224,767 | 15,787,162 | 7,381,928 | 5,398,016 | 29,606,695 | 21,185,178 |
| Nonoperating Revenue - Operating subsidies | 36,287,786 | 56,814,741 | 17,715,513 | 16,956,191 | 54,003,299 | 73,770,932 |
| Changes in Net Assets | 58,512,553 | 72,601,903 | 25,097,441 | 22,354,207 | 83,609,994 | 94,956,110 |
| Net Assets - Beginning of year | 1,294,994,266 | 1,222,392,363 | 294,327,152 | 271,972,945 | 1,589,321,418 | 1,494,365,308 |
| Net Assets - End of year | <u>\$ 1,353,506,819</u> | <u>\$ 1,294,994,266</u> | <u>\$ 319,424,593</u> | <u>\$ 294,327,152</u> | <u>\$ 1,672,931,412</u> | <u>\$ 1,589,321,418</u> |

Michigan Municipal Bond Authority of the State of Michigan

State Revolving Fund Combining Schedule of Cash Flows

| | Clean Water Program | | Drinking Water Program | | Total | |
|--|-------------------------|----------------|-------------------------|--------------|-------------------------|----------------|
| | Year Ended September 30 | | Year Ended September 30 | | Year Ended September 30 | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Cash Flows from Operating Activities | | | | | | |
| Cash payments to employees and suppliers for goods and services | \$ (3,202,209) | \$ (1,690,761) | \$ (200,070) | \$ (140,599) | \$ (3,402,279) | \$ (1,831,360) |
| Other operating revenue | 1,890,640 | 1,889,031 | 212,255 | 172,771 | 2,102,895 | 2,061,802 |
| Net cash provided by (used in) operating activities | (1,311,569) | 198,270 | 12,185 | 32,172 | (1,299,384) | 230,442 |
| Cash Flows from Noncapital Financing Activities | | | | | | |
| Proceeds from sale of bonds and notes | 158,019,521 | - | - | - | 158,019,521 | - |
| Payment of bond issue costs | (1,482,844) | - | - | - | (1,482,844) | - |
| Principal paid on bonds and notes | (52,785,000) | (50,930,000) | (8,180,000) | (7,885,000) | (60,965,000) | (58,815,000) |
| Interest paid on bonds and notes | (76,323,567) | (72,601,608) | (16,478,256) | (15,668,627) | (92,801,823) | (88,270,235) |
| Operating subsidies | 36,287,786 | 56,814,741 | 20,155,664 | 21,975,247 | 56,443,450 | 78,789,988 |
| Proceeds from receivables from State of Michigan | 1,788,048 | 1,752,076 | - | - | 1,788,048 | 1,752,076 |
| Net cash provided by (used in) noncapital financing activities | 65,503,944 | (64,964,791) | (4,502,592) | (1,578,380) | 61,001,352 | (66,543,171) |
| Cash Flows from Investing Activities | | | | | | |
| Loans made to local government units | (132,224,720) | (172,552,221) | (45,344,026) | (40,297,775) | (177,568,746) | (212,849,996) |
| Principal received on loan repayments | 95,604,499 | 88,032,076 | 16,432,844 | 13,924,796 | 112,037,343 | 101,956,872 |
| Interest received on loan repayments | 36,421,345 | 35,435,278 | 5,174,640 | 5,174,640 | 41,595,985 | 40,609,918 |
| Net (purchases) proceeds from sale and maturities of investment securities | (127,352,606) | 65,840,729 | 10,243,462 | 8,983,382 | (117,109,144) | 74,824,111 |
| Interest and dividends on investments | 61,976,321 | 49,394,011 | 16,860,606 | 14,893,626 | 78,836,927 | 64,287,637 |
| Net cash provided by (used in) investing activities | (65,575,161) | 66,149,873 | 3,367,526 | 2,678,669 | (62,207,635) | 68,828,542 |

Michigan Municipal Bond Authority of the State of Michigan

State Revolving Fund Combining Schedule of Cash Flows (Continued)

| | Clean Water Program | | Drinking Water Program | | Total | |
|--|------------------------------|----------------------------|-------------------------|----------------------------|------------------------------|----------------------------|
| | Year Ended September 30 | | Year Ended September 30 | | Year Ended September 30 | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Net Increase (Decrease) in Cash | \$ (1,382,786) | \$ 1,383,352 | \$ (1,122,881) | \$ 1,132,461 | \$ (2,505,667) | \$ 2,515,813 |
| Cash - Beginning of year | <u>1,385,790</u> | <u>2,438</u> | <u>1,152,391</u> | <u>19,930</u> | <u>2,538,181</u> | <u>22,368</u> |
| Cash - End of year | <u>\$ 3,004</u> | <u>\$ 1,385,790</u> | <u>\$ 29,510</u> | <u>\$ 1,152,391</u> | <u>\$ 32,514</u> | <u>\$ 2,538,181</u> |
| Reconciliation of operating income to net cash from operating activities: | | | | | | |
| Operating income | \$ 22,224,767 | \$ 15,787,162 | \$ 7,381,928 | \$ 5,398,016 | \$ 29,606,695 | \$ 21,185,178 |
| Adjustments to reconcile operating income to net cash from operating activities: | | | | | | |
| Interest income reported as cash flows from investing activities | (99,095,029) | (88,706,140) | (22,658,432) | (21,537,565) | (121,753,461) | (110,243,705) |
| Interest expense reported as cash flows from noncapital financing activities | 75,356,721 | 71,444,767 | 15,061,904 | 15,882,033 | 90,418,625 | 87,326,800 |
| Amortization of deferred charges | 1,111,311 | 1,053,965 | 218,020 | 223,293 | 1,329,331 | 1,277,258 |
| Changes in assets and liabilities: | | | | | | |
| (Increase) decrease in receivables | 244,147 | (14,103) | 159,932 | (204,307) | 404,079 | (218,410) |
| Increase (decrease) in payables | (1,153,486) | 632,619 | (151,167) | 270,702 | (1,304,653) | 903,321 |
| Net cash provided by (used in) operating activities | <u>\$ (1,311,569)</u> | <u>\$ 198,270</u> | <u>\$ 12,185</u> | <u>\$ 32,172</u> | <u>\$ (1,299,384)</u> | <u>\$ 230,442</u> |