

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

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**Financial Report  
with Supplemental Information  
September 30, 2008**

# Michigan Municipal Bond Authority of the State of Michigan

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## Independent Auditor's Report

To the Michigan Municipal Bond Authority  
of the State of Michigan  
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 of the State of Michigan (the "Authority"), a component unit of the State of Michigan, as of and for the years ended September 30, 2008 and 2007, 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, 2008 and 2007 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  
of the State of Michigan  
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 of the State of Michigan'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 21, 2008 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 21, 2008

**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***

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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  
of the State of Michigan  
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 of the State of Michigan (the "Authority"), a component unit of the State of Michigan, as of and for the year ended September 30, 2008, which comprise the accompanying basic financial statements, and have issued our report thereon dated November 21, 2008. 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  
of the State of Michigan  
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*.

We noted a certain matter that we reported to the management of the Michigan Municipal Bond Authority in a separate letter dated November 21, 2008.

This report is intended for the information of Michigan Municipal Bond Authority of the State of Michigan 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 21, 2008

# **Management's Discussion and Analysis (Unaudited)**

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# **Michigan Municipal Bond Authority of the State of Michigan**

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## **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 of the State of Michigan (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. Executive Order 2002-12 transferred the administrative functions of the Authority including accounting responsibilities, internal controls, and related oversight to the state treasurer.

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

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## 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 \$77.4 million under this program in the fiscal year ended September 30, 2008. The Authority issued bonds totaling \$120.3 million under this program in the fiscal year ended September 30, 2007.

- The State Aid Note Program 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 2008, the Authority provided funds of over \$688 million, providing loans to over 232 schools. In fiscal year 2007, financings totaled \$726 million, providing 238 new loans for school districts.

- The 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 2008, the Authority issued \$278 million in bonds to fund loans for the State Revolving Fund. The Authority issued \$150 million in bonds to fund loans during fiscal year 2007.
- The 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

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

- The Strategic Water Quality Initiatives Fund (SWQIF) 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 2008, \$13 million of SWQIF grants and \$1.7 million of loans were disbursed to municipalities.
- The School Loan Revolving Fund (SLRF) is a self-sustaining fund that funds 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 the school districts on loans by the SLRF are deposited back into the fund for future use.

During fiscal year 2008, the Authority issued \$553 million of SLRF bonds. The bonds were used to refund the 2007 SLRF bonds and to provide new money for loans to school districts.

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, liabilities, revenue, expenses, changes in fund equity, and cash flows. The following is a condensed summary of financial information for the fiscal years 2006, 2007, and 2008.

# 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	2008	2007	2006
Cash and investments	\$ 2,053,481	\$ 1,921,422	\$ 1,705,260
Accrued interest receivable	131,411	128,867	177,990
Revenue notes receivable	686,589	710,624	536,370
Bonds receivable	675,754	669,279	681,133
Loans receivable	2,303,644	2,148,610	2,064,018
Other receivables	560,820	524,518	265,672
Deferred charges	27,803	27,129	24,539
<b>Total assets</b>	<b>6,439,502</b>	<b>6,130,449</b>	<b>5,454,982</b>
Revenue notes payable	688,414	711,478	537,382
Bonds payable	3,658,461	3,434,714	2,920,030
Accrued interest payable	112,767	112,216	124,203
Other liabilities	5,023	4,615	5,736
Deferred revenue	3,366	8,220	5,780
<b>Total liabilities</b>	<b>4,468,031</b>	<b>4,271,243</b>	<b>3,593,131</b>
Unrestricted net assets	12,706	12,211	11,563
Restricted net assets	1,958,765	1,846,995	1,850,288
<b>Total net assets</b>	<b>\$ 1,971,471</b>	<b>\$ 1,859,206</b>	<b>\$ 1,861,851</b>

# 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	2008	2007	2006
Interest income	\$ 226,533	\$ 216,763	\$ 196,366
Other income	3,400	3,007	2,612
Total income	229,933	219,770	198,978
Interest expense	197,046	177,812	161,051
Amortization expense	5,406	5,226	7,183
Administrative expense	5,442	3,888	3,386
Total expense	207,894	186,926	171,620
Operating income	22,039	32,844	27,358
Nonoperating revenue (expense)	90,226	(35,488)	301,224
Change in net assets	\$ 112,265	\$ (2,644)	\$ 328,582

### Financial Analysis

Total assets increased in fiscal year 2008 as a result of bonds issued and loan disbursements to State Revolving Fund borrowers. During fiscal year 2007, the increase in total assets was also due to the increased issuance of bonds and loan disbursements.

Liabilities increased in both 2008 and 2007 as a result of more bonds being issued by the Authority for its various programs. More detailed information on debt outstanding is shown in Notes 4 and 10 of the audited basic financial statements. 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**

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

Unrestricted assets in the General Fund are reported as \$12.7 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, 2008 are \$1.97 billion. The net assets of the Authority have increased from \$1.86 billion at the end of fiscal 2006.

### **Results of Operations for the Year Ended September 30, 2008 Compared to the Years Ended September 30, 2007 and 2006**

The Authority is funded by fees charged to its clients for issuance of bonds based on the total amount of the borrowing. The Authority's total operating income decreased this fiscal year. Overall operating income was \$22 million in fiscal year 2008 compared \$32.8 million in fiscal year 2007. The operating expenses for this fiscal year increased 11 percent. Because of higher costs of operations in 2008, the Authority had less operating profit compared to 2007.

Revenue from interest earnings represents 98.5 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, 2008 and 2007 total \$207.8 million and \$186.9 million, respectively. Interest expense on bonds was higher due to the increase in rates, especially variable rate debt. 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**

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

The Department of Treasury has oversight of all administrative functions of the Authority including budgeting and payroll. The indirect costs associated with these functions are allocated to the Authority based on predetermined percentages. The operating expenses for the Authority increased by 4 percent from the previous year. Because of the higher cost of operations, the Authority had less operating profit compared to 2007.

Nonoperating revenue decreased this year because of the market value fluctuation. The nonoperating revenues were \$234,422 and \$256,719 for 2008 and 2007, respectively. This resulted in a \$22,297 decrease in nonoperating revenues for 2008.

The Authority issued over \$1.1 billion in debt this past fiscal year with interest rates varying from 1.63 percent to 5.90 percent. The majority of clients for the new issues of the Authority this year were previous clients, who returned for financing. The offset to this aggressive issuance was that \$819 million of prior Authority bond issues were refunded.

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

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

The contact information for the Authority is:

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

# **Basic Financial Statements**

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# Michigan Municipal Bond Authority of the State of Michigan

## Statement of Net Assets

	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	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>Assets</b>										
<b>Current Assets</b>										
Cash (Note 2)	\$ 12,341	\$ 109,768	\$ 63,235	\$ 32,514	\$ -	\$ -	\$ 68,230,256	\$ 67,795,227	\$ 68,305,832	\$ 67,937,509
Investments (Note 2)	10,716,937	65,970,523	845,947,923	738,404,535	11,842,190	23,469,408	87,480,576	68,240,358	955,987,626	896,084,824
Accrued interest receivable	36,623,534	26,577,533	17,510,760	20,009,145	14,367	79,371	97,025	224,764	54,245,686	46,890,813
Revenue notes receivable (Note 4)	686,588,915	710,624,245	-	-	-	-	-	-	686,588,915	710,624,245
Bonds receivable (Note 5)	84,699,846	64,761,406	-	-	-	-	-	-	84,699,846	64,761,406
Loans receivable:										
State revolving (Note 6)	-	-	138,034,971	123,724,452	-	-	-	-	138,034,971	123,724,452
Public school (Note 7)	11,467,403	10,299,980	-	-	-	-	-	-	11,467,403	10,299,980
Strategic water quality initiatives (Note 8)	-	-	-	-	237,438	170,000	-	-	237,438	170,000
Receivable from State of Michigan	-	-	2,086,320	2,100,076	-	-	-	-	2,086,320	2,100,076
Other	332,295	283,216	167,019	191,843	-	-	-	-	499,314	475,059
<b>Total current assets</b>	<b>830,441,271</b>	<b>878,626,671</b>	<b>1,003,810,228</b>	<b>884,462,565</b>	<b>12,093,995</b>	<b>23,718,779</b>	<b>155,807,857</b>	<b>136,260,349</b>	<b>2,002,153,351</b>	<b>1,923,068,364</b>
<b>Noncurrent Assets</b>										
Investments (Note 2)	19,058,572	-	1,010,129,371	957,400,088	-	-	-	-	1,029,187,943	957,400,088
Accrued interest receivable	77,165,750	81,975,989	-	-	-	-	-	-	77,165,750	81,975,989
Deferred charges - Net (Note 3)	13,516,966	11,654,346	12,634,625	11,692,330	-	-	1,651,635	3,781,953	27,803,226	27,128,629
Bonds receivable (Note 5)	591,054,273	604,517,642	-	-	-	-	-	-	591,054,273	604,517,642
Receivable from State of Michigan (Note 9)	-	-	8,670,000	10,470,000	-	-	549,564,115	511,474,093	558,234,115	521,944,093
Loans receivable:										
State revolving (Note 6)	-	-	1,927,442,752	1,777,881,844	-	-	-	-	1,927,442,752	1,777,881,844
Public school (Note 7)	221,764,746	233,232,149	-	-	-	-	-	-	221,764,746	233,232,149
Strategic water quality initiatives (Note 8)	-	-	-	-	4,696,753	3,301,948	-	-	4,696,753	3,301,948
<b>Total noncurrent assets</b>	<b>922,560,307</b>	<b>931,380,126</b>	<b>2,958,876,748</b>	<b>2,757,444,262</b>	<b>4,696,753</b>	<b>3,301,948</b>	<b>551,215,750</b>	<b>515,256,046</b>	<b>4,437,349,558</b>	<b>4,207,382,382</b>
<b>Total assets</b>	<b>\$ 1,753,001,578</b>	<b>\$ 1,810,006,797</b>	<b>\$ 3,962,686,976</b>	<b>\$ 3,641,906,827</b>	<b>\$ 16,790,748</b>	<b>\$ 27,020,727</b>	<b>\$ 707,023,607</b>	<b>\$ 651,516,395</b>	<b>\$ 6,439,502,909</b>	<b>\$ 6,130,450,746</b>

# 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 Fund		Initiatives		School Loan Revolving Fund		Total	
	September 30		September 30		September 30		September 30		September 30		September 30	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>Liabilities and Net Assets</b>												
<b>Current Liabilities</b>												
Accounts payable and other liabilities	\$ 235,745	\$ 389,352	\$ 4,312,978	\$ 3,814,709	\$ -	\$ -	\$ 254,552	\$ 225,800	\$ 4,803,275	\$ 4,429,861		
Due to other governmental units	-	-	203,360	159,435	16,073	26,102	-	-	219,433	185,537		
Accrued interest payable	21,213,113	22,475,687	51,897,504	47,212,908	-	-	2,478,583	4,220,833	75,589,200	73,909,428		
Revenue notes payable (Note 4)	688,413,842	711,477,667	-	-	-	-	-	-	688,413,842	711,477,667		
Deferred revenue	-	-	3,366,300	8,220,651	-	-	-	-	3,366,300	8,220,651		
Bonds payable (Note 10)	96,285,855	100,633,481	87,110,000	76,985,000	-	-	11,200,000	-	194,595,855	177,618,481		
Total current liabilities	806,148,555	834,976,187	146,890,142	136,392,703	16,073	26,102	13,933,135	4,446,633	966,987,905	975,841,625		
<b>Noncurrent Liabilities</b>												
Accrued interest payable	37,177,740	38,306,905	-	-	-	-	-	-	37,177,740	38,306,905		
Bonds payable (Note 10)	896,968,940	924,512,696	2,028,528,095	1,832,582,712	-	-	538,367,984	500,000,000	3,463,865,019	3,257,095,408		
Total noncurrent liabilities	934,146,680	962,819,601	2,028,528,095	1,832,582,712	-	-	538,367,984	500,000,000	3,501,042,759	3,295,402,313		
Total liabilities	1,740,295,235	1,797,795,788	2,175,418,237	1,968,975,415	16,073	26,102	552,301,119	504,446,633	4,468,030,664	4,271,243,938		
<b>Net Assets</b>												
Unrestricted	12,706,343	12,211,009	-	-	-	-	-	-	12,706,343	12,211,009		
Restricted (Note 1):												
Water pollution and drinking water projects	-	-	1,787,268,739	1,672,931,412	-	-	-	-	1,787,268,739	1,672,931,412		
Strategic Water Quality Initiatives Fund	-	-	-	-	16,774,675	26,994,625	-	-	16,774,675	26,994,625		
School Loan Revolving Fund	-	-	-	-	-	-	154,722,488	147,069,762	154,722,488	147,069,762		
Total net assets	12,706,343	12,211,009	1,787,268,739	1,672,931,412	16,774,675	26,994,625	154,722,488	147,069,762	1,971,472,245	1,859,206,808		
Total liabilities and net assets	<u>\$ 1,753,001,578</u>	<u>\$ 1,810,006,797</u>	<u>\$ 3,962,686,976</u>	<u>\$ 3,641,906,827</u>	<u>\$ 16,790,748</u>	<u>\$ 27,020,727</u>	<u>\$ 707,023,607</u>	<u>\$ 651,516,395</u>	<u>\$ 6,439,502,909</u>	<u>\$ 6,130,450,746</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	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>Operating Revenue</b>										
Interest	\$ 77,226,297	\$ 73,674,174	\$ 120,409,466	\$ 121,753,461	\$ 474,168	\$ 1,522,380	\$ 28,423,659	\$ 19,812,491	\$ 226,533,590	\$ 216,762,506
Other (Note 11)	744,451	866,228	2,655,764	2,140,363	-	-	-	-	3,400,215	3,006,591
Total operating revenue	77,970,748	74,540,402	123,065,230	123,893,824	474,168	1,522,380	28,423,659	19,812,491	229,933,805	219,769,097
<b>Operating Expenses</b>										
Interest expense	73,205,315	69,817,263	98,352,039	90,418,625	-	-	25,488,403	17,576,333	197,045,757	177,812,221
Amortization of deferred charges	3,542,240	3,433,524	1,445,542	1,329,331	-	-	418,534	462,849	5,406,316	5,225,704
Salaries, wages, and other administrative	727,859	641,340	3,248,518	2,539,173	125,132	203,760	1,340,276	503,472	5,441,785	3,887,745
Total operating expenses	77,475,414	73,892,127	103,046,099	94,287,129	125,132	203,760	27,247,213	18,542,654	207,893,858	186,925,670
<b>Operating Income</b>	495,334	648,275	20,019,131	29,606,695	349,036	1,318,620	1,176,446	1,269,837	22,039,947	32,843,427
<b>Nonoperating Revenue (Expenses)</b>										
Operating subsidies	-	-	94,318,196	54,003,299	2,487,510	-	6,476,280	-	103,281,986	54,003,299
Expenses to the State of Michigan	-	-	-	-	-	-	-	(68,733,079)	-	(68,733,079)
Grant expenditures	-	-	-	-	(13,056,496)	(20,757,888)	-	-	(13,056,496)	(20,757,888)
Total nonoperating revenue (expenses)	-	-	94,318,196	54,003,299	(10,568,986)	(20,757,888)	6,476,280	(68,733,079)	90,225,490	(35,487,668)
<b>Changes in Net Assets</b>	495,334	648,275	114,337,327	83,609,994	(10,219,950)	(19,439,268)	7,652,726	(67,463,242)	112,265,437	(2,644,241)
<b>Net Assets - Beginning of year</b>	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
<b>Net Assets - End of year</b>	<b>\$ 12,706,343</b>	<b>\$ 12,211,009</b>	<b>\$ 1,787,268,739</b>	<b>\$ 1,672,931,412</b>	<b>\$ 16,774,675</b>	<b>\$ 26,994,625</b>	<b>\$ 154,722,488</b>	<b>\$ 147,069,762</b>	<b>\$ 1,971,472,245</b>	<b>\$ 1,859,206,808</b>

# 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	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>Cash Flows from Operating Activities</b>										
Cash payments to employees and suppliers for goods and services	\$ (881,466)	\$ (641,340)	\$ (2,892,929)	\$ (3,402,279)	\$ (135,161)	\$ (295,601)	\$ (1,311,524)	\$ (312,672)	\$ (5,221,080)	\$ (4,651,892)
Other operating revenue	695,372	953,423	2,717,575	2,102,895	-	-	-	-	3,412,947	3,056,318
Net cash provided by (used in) operating activities	(186,094)	312,083	(175,354)	(1,299,384)	(135,161)	(295,601)	(1,311,524)	(312,672)	(1,808,133)	(1,595,574)
<b>Cash Flows from Noncapital Financing Activities</b>										
Proceeds from sale of bonds and notes - Net	766,963,761	924,532,539	288,153,186	158,019,521	-	-	549,567,984	500,000,000	1,604,684,931	1,582,552,060
Payment of bond issue costs	(5,404,860)	(3,862,390)	(2,387,837)	(1,482,844)	-	-	(1,500,926)	(3,724,685)	(9,293,623)	(9,069,919)
Principal paid on bonds and notes	(810,783,481)	(642,546,788)	(76,985,000)	(60,965,000)	-	-	-	-	(887,768,481)	(703,511,788)
Extinguishment of debt	-	(89,863,284)	-	-	-	-	(500,000,000)	(85,000,000)	(500,000,000)	(174,863,284)
Interest paid on bonds and notes	(86,732,541)	(95,907,772)	(98,615,617)	(92,801,823)	-	-	(24,017,943)	(13,578,782)	(209,366,101)	(202,288,377)
Operating subsidies	-	-	89,463,845	56,443,450	2,487,510	-	-	-	91,951,355	56,443,450
Payments to the State of Michigan	-	-	-	-	-	-	-	(280,229,905)	-	(280,229,905)
Grant expenditures	-	-	-	-	(13,056,496)	(20,757,888)	-	-	(13,056,496)	(20,757,888)
Proceeds from receivables/payables from State of Michigan	-	-	1,813,756	1,788,048	-	-	-	-	1,813,756	1,788,048
Net cash provided by (used in) noncapital financing activities	(135,957,121)	92,352,305	201,442,333	61,001,352	(10,568,986)	(20,757,888)	24,049,115	117,466,628	78,965,341	250,062,397
<b>Cash Flows from Investing Activities</b>										
Loans made to local government units/State of Michigan	(761,509,570)	(838,125,177)	(287,260,879)	(177,568,746)	(1,630,243)	(1,083,169)	(61,553,742)	(70,941,712)	(1,111,954,434)	(1,087,718,804)
Principal received on loan repayments	791,131,695	687,213,083	123,389,441	112,037,343	168,000	130,000	37,151,723	20,431,847	951,840,859	819,812,273
Interest received on loan repayments	68,105,390	88,196,837	42,369,040	41,595,985	69,438	-	16,196,695	18,869,958	126,740,563	148,662,780
Net (purchases of) proceeds from sale and maturities of investment securities	36,195,014	(34,841,671)	(160,272,671)	(117,109,144)	11,627,218	(22,292,949)	(19,240,218)	(62,603,622)	(131,690,657)	(236,847,386)
Interest and dividends on investments	2,123,259	4,857,436	80,538,811	78,836,927	469,734	1,448,538	5,142,980	1,796,480	88,274,784	86,939,381
Net cash provided by (used in) investing activities	136,045,788	(92,699,492)	(201,236,258)	(62,207,635)	10,704,147	(21,797,580)	(22,302,562)	(92,447,049)	(76,788,885)	(269,151,756)

# Michigan Municipal Bond Authority of the State of Michigan

## Statement of Cash Flows (Continued)

	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	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>Net Increase (Decrease) in Cash</b>	\$ (97,427)	\$ (35,104)	\$ 30,721	\$ (2,505,667)	\$ -	\$ (42,851,069)	\$ 435,029	\$ 24,706,907	\$ 368,323	\$ (20,684,933)
<b>Cash - Beginning of year</b>	109,768	144,872	32,514	2,538,181	-	42,851,069	67,795,227	43,088,320	67,937,509	88,622,442
<b>Cash - End of year</b>	<u>\$ 12,341</u>	<u>\$ 109,768</u>	<u>\$ 63,235</u>	<u>\$ 32,514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,230,256</u>	<u>\$ 67,795,227</u>	<u>\$ 68,305,832</u>	<u>\$ 67,937,509</u>
Reconciliation of operating income to net cash from operating activities:										
Operating income	\$ 495,334	\$ 648,275	\$ 20,019,131	\$ 29,606,695	\$ 349,036	\$ 1,318,620	\$ 1,176,446	\$ 1,269,837	\$ 22,039,947	\$ 32,843,427
Adjustments to reconcile operating income to net cash from operating activities:										
Interest income reported as cash flows from investing activities	(77,226,297)	(73,674,174)	(120,409,466)	(121,753,461)	(474,168)	(1,522,380)	(28,423,659)	(19,812,491)	(226,533,590)	(216,762,506)
Interest expense reported as cash flows from noncapital financing activities	73,205,315	69,817,263	98,352,039	90,418,625	-	-	25,488,403	17,576,333	197,045,757	177,812,221
Amortization of deferred charges	3,542,240	3,433,524	1,445,542	1,329,331	-	-	418,534	462,849	5,406,316	5,225,704
Changes in assets and liabilities:										
(Increase) decrease in receivables	(49,079)	52,508	(124,794)	404,079	-	-	-	-	(173,873)	456,587
Increase (decrease) in payables	(153,607)	34,687	542,194	(1,304,653)	(10,029)	(91,841)	28,752	190,800	407,310	(1,171,007)
Net cash provided by (used in) operating activities	<u>\$ (186,094)</u>	<u>\$ 312,083</u>	<u>\$ (175,354)</u>	<u>\$ (1,299,384)</u>	<u>\$ (135,161)</u>	<u>\$ (295,601)</u>	<u>\$ (1,311,524)</u>	<u>\$ (312,672)</u>	<u>\$ (1,808,133)</u>	<u>\$ (1,595,574)</u>

**Noncash Investing, Capital, and Financing Activities** - During 2007, the State of Michigan assigned \$208,766,447 of additional future school bond loan repayments to the School Loan Revolving Fund. During 2008, the State of Michigan assigned \$7,256,131 of additional future school bond loan repayments to the School Loan Revolving Fund and had \$23,408,418 of accrued interest.

# Michigan Municipal Bond Authority of the State of Michigan

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**Notes to Financial Statements  
September 30, 2008 and 2007**

## **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 of the State of Michigan (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. All administrative functions of the Authority including budgeting, procurement, personnel, and management functions are under the direction and supervision of the State Treasurer. In accordance with accounting principles generally accepted in the United States of America, there are no component units required to be included in this financial report.

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

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**Notes to Financial Statements  
September 30, 2008 and 2007**

## **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 years 1989 through 2008. 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 appropriated 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 SWQIF was created for the purpose of improving the quality of water in the state.

# Michigan Municipal Bond Authority of the State of Michigan

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**Notes to Financial Statements  
September 30, 2008 and 2007**

## **Note I - Significant Accounting Policies (Continued)**

The Strategic Water Quality Initiatives Grant Program was signed into law in December 2005. For the limited time of two years (2006 and 2007), the program offered \$40 million in grant funds. The grants were available for up to 90 percent of the planning, design, and user charge system development costs for prospective State Revolving Fund (SRF) and Strategic Water Quality Initiatives Fund (SWQIF) applicants. Recipients at the time were limited to \$1 million in grant assistance and are now required to proceed with construction of an SRF or SWQIF loan. If the applicants choose not to proceed with an SRF or SWQIF loan, the grant money must be repaid with interest.

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 awarded to 125 recipients seeking loan assistance from the State Revolving Fund (SRF) and/or the SWQIF loan programs.

**School Loan Revolving Fund** - The School Loan Revolving Fund (SLRF) is a self-sustaining fund that provides funding for 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 with SLRF funds 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.

### **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.

# Michigan Municipal Bond Authority of the State of Michigan

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**Notes to Financial Statements  
September 30, 2008 and 2007**

## **Note I - Significant Accounting Policies (Continued)**

### **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. The collateralized investment agreements are not transferable and are considered nonparticipating contracts. As such, investment agreements are carried at contract value. Gains and losses are 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 state appropriations 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, 2008 and 2007

### 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.

**Reclassifications** - Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

### Note 2 - Deposits and Investments

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

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
<u>2008</u>			
Deposits	\$ 68,305,832	\$ 13,013,138	\$ 81,318,970
Government money market funds	-	385,259,895	385,259,895
Investments	-	<u>1,586,902,536</u>	<u>1,586,902,536</u>
Total	<u>\$ 68,305,832</u>	<u>\$1,985,175,569</u>	<u>\$ 2,053,481,401</u>
<u>2007</u>			
Deposits	\$ 67,937,509	\$ 14,883,656	\$ 82,821,165
Government money market funds	-	337,221,535	337,221,535
Investments	-	<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>

# Michigan Municipal Bond Authority of the State of Michigan

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**Notes to Financial Statements  
September 30, 2008 and 2007**

## **Note 2 - Deposits and Investments (Continued)**

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. Eligible investments are also permitted in accordance with bond indentures. The Authority's deposits and investment policies are in accordance with state statutes.

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

### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. The Authority had \$81,318,970 and \$82,821,165 of bank deposits at September 30, 2008 and 2007, respectively. Of those balances, approximately \$68.2 million and \$67.8 million, respectively, was invested in the State of Michigan's Common Cash Pool. At September 30, 2008, common cash investments were not exposed to custodial credit risk. Deposits with trustee banks for each year were covered by federal depository insurance coverage for \$100,000. None of the outside trustee 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.

# Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements  
September 30, 2008 and 2007**

## **Note 2 - Deposits and Investments (Continued)**

### **Custodial Credit Risk of Investments**

Custodial credit risk is the risk that in the event of a bank failure, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority limits its custodial credit risk for investments by limiting investments to the types of securities allowed by statute and bond indentures and by prequalifying financial institutions with which the Authority does business. At September 30, the following investment securities were uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the Authority's name:

Type of Investment	Carrying Value		How Held
	2008	2007	
Government money market funds	\$ 385,259,895	\$ 276,330,515	Counterparty's trust dept.
Guaranteed investment contracts	1,022,349,932	748,191,558	Counterparty's trust dept.
U.S. government securities	450,749,608	501,513,717	Counterparty's trust dept.
Commercial paper	113,802,996	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. However, the Authority minimizes interest rate risk by structuring investment portfolios so that securities mature when needed thereby avoiding the necessity to sell securities to meet cash requirement needs.

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

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

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2008 and 2007

### Note 2 - Deposits 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	-	-	-

### Credit Risk

State law limits investments to government or government-backed securities and deposits and commercial paper to within the two highest classifications established by two nationally recognized statistical rating organizations. Furthermore, bond agreements limit the investment of funds to highly rated providers. The Authority has no other investment policy that would limit its investment choices. At September 30, 2008, the credit quality ratings of debt securities are as follows:

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

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2008 and 2007

### Note 2 - Deposits and Investments (Continued)

At September 30, 2007, the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
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	AI	S&P

At September 30, 2008, there was \$272 million of funds held by DEPFA Bank under the State Revolving Fund. DEPFA Bank has notified the trustee that its ratings have been reduced. The Authority is currently evaluating its options with respect to this investment agreement.

On September 15, 2008, Standard and Poor's reduced the rating of AIG which resulted in AIG providing additional collateral under the terms of its agreement. The additional collateral was received in October 2008.

### Note 3 - Deferred Charges

Deferred charges represent bond and note issuance costs as of September 30, 2008 and 2007. These costs are being amortized using the interest method over the life of the related notes and bonds. Accumulated amortization was \$27,070,491 and \$24,519,984 at September 30, 2008 and 2007, respectively.

### Note 4 - Revenue Notes Receivable and Payable

Pooled state aid anticipation notes receivable were \$686,588,915 and \$710,624,245 at September 30, 2008 and 2007, respectively. The notes receivable bear interest ranging from 1.63 percent to 1.70 percent during 2008 and at 3.68 percent during 2007. In addition, the yields on the notes receivable ranged from 1.801 percent to 3.956 percent during 2008 and 3.85 percent to 5.051 percent during 2007.

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2008 and 2007

### Note 4 - Revenue Notes Receivable and Payable (Continued)

Pooled state aid anticipation notes payable consisted of the following at September 30, 2008 and 2007:

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

Series	Interest		Maturity Date	Beginning as of	Additions	Deletions	Ending as of
	Rate (%)	Yield (%)		October 1, 2006			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, 2008 and 2007

### Note 5 - Bonds Receivable

Bonds receivable of the General Fund consist of receivables from governmental units to pay for the corresponding bonds payable disclosed in Note 10. The annual requirements for governmental units to repay bonds outstanding as of September 30, 2008, including both principal and interest, are as follows:

	Principal	Interest	Total
2009	\$ 84,699,846	\$ 36,909,199	\$ 121,609,045
2010	79,061,691	34,227,690	113,289,381
2011	73,922,316	31,813,578	105,735,894
2012	73,200,429	29,731,488	102,931,917
2013	74,163,615	27,690,110	101,853,725
2014-2018	168,611,168	101,584,252	270,195,420
2019-2023	58,975,860	25,741,753	84,717,613
2024-2028	32,586,364	7,631,695	40,218,059
2029-2033	20,878,707	2,095,884	22,974,591
2034 and thereafter	9,654,123	71,900	9,726,023
Total	<u>\$ 675,754,119</u>	<u>\$ 297,497,549</u>	<u>\$ 973,251,668</u>

The interest is recorded as revenue when earned.

### Note 6 - State Revolving Fund Loans Receivable

The State Revolving Fund has made commitments to municipalities to loan funds for construction of publicly owned water pollution control facilities and drinking water projects. Loans are made from the State Revolving Fund. These loans are primarily secured by limited or unlimited tax general obligations or 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	2008	2007
Clean Water Fund	\$ 3,154,241,737	\$ 1,693,840,346	\$ 1,569,721,313
Drinking Water Fund	519,168,242	371,637,377	331,884,983
Total	<u>\$ 3,673,409,979</u>	<u>\$ 2,065,477,723</u>	<u>\$ 1,901,606,296</u>

Scheduled repayments of \$138,034,971 are expected to be collected during fiscal year 2009.

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2008 and 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 10 are as follows:

	2008	2007
Public school academies	\$ 40,100,000	\$ 40,700,000
Detroit public schools	193,132,149	202,832,129
Total	<u>\$ 233,232,149</u>	<u>\$ 243,532,129</u>

The annual requirements for governmental units to repay loans outstanding as of September 30, 2008, including both principal and interest, are as follows:

	Principal	Interest	Total
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	15,841,678	10,730,600	26,572,278
2013	15,853,337	9,967,225	25,820,562
2014-2018	91,030,000	36,859,813	127,889,813
2019-2023	48,190,000	14,215,013	62,405,013
2024-2028	11,000,000	7,311,625	18,311,625
2029-2033	12,600,000	2,093,625	14,693,625
Total	<u>\$ 233,232,149</u>	<u>\$ 120,042,816</u>	<u>\$ 353,274,965</u>

### Note 8 - Strategic Water Quality Initiatives Loans Receivable

The Strategic Water Quality Initiatives Fund has made commitments to municipalities to loan funds for purposes such as septic system upgrades, replacements, and other projects which are generally not eligible to be financed through the State Revolving 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 were \$7,392,471 at September 30, 2008. Receivables were \$4,934,191 and \$3,471,948 at September 30, 2008 and 2007, respectively.

Scheduled repayments of \$237,438 are expected to be collected during fiscal year 2009.

# Michigan Municipal Bond Authority of the State of Michigan

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**Notes to Financial Statements  
September 30, 2008 and 2007**

## **Note 9 - Receivable from State of Michigan**

### **State Revolving Fund**

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

### **School Loan Revolving Fund**

The receivable from State of Michigan recorded in the School Loan Revolving Fund is collateralized by 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 through the School Loan Revolving Fund (SLRF). The receivable to pay for the corresponding bonds payable disclosed in Note 10 was \$549,564,115 and \$511,474,093 at September 30, 2008 and 2007, respectively.

During fiscal year 2008, the Authority implemented Governmental Accounting Standards Board Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which resulted in a reclassification of the SLRF loans receivable from governmental units of \$443,939,327 and the related accrued interest of \$67,534,766 to a receivable from the State of Michigan of \$511,474,093 at September 30, 2007.

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2008 and 2007

### Note 10 - Bonds Payable

#### General Fund

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

Series	Date of Issue	Original Issue	Amount Outstanding as of	
			2008	2007
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 2009 and 2015. Amounts outstanding were as follows:				
1986A, Group 4	February 19, 1987	\$ 6,300,000	\$ 40,000	\$ 45,000
1986A, Group 7	June 11, 1987	14,900,000	240,000	290,000
1986A, Group 19	March 23, 1989	18,275,000	175,000	245,000
Subtotal			455,000	580,000

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2008 and 2007

### Note 10 - Bonds Payable (Continued)

Series	Date of Issue	Original Issue	Amount Outstanding as of	
			2008	2007
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 2.49% to 7.30% and are due at various dates between 2009 and 2037. Amounts outstanding were as follows:				
1991B	April 11, 1991	\$ 4,120,000	\$ 30,000	\$ 40,000
1991C	June 27, 1991	56,140,074	10,760,843	12,521,680
1991D	August 29, 1991	141,183,756	324,770	653,067
1992A	March 26, 1992	57,640,000	-	110,000
1992D	September 3, 1992	9,635,000	95,000	115,000
1993A	April 6, 1993	6,705,000	-	60,000
1993B	July 13, 1993	30,925,000	1,915,000	3,250,000
1993C	June 17, 1993	2,275,000	215,000	345,000
1993D	August 26, 1993	16,385,000	420,000	625,000
1993E	December 16, 1993	5,880,000	-	175,000
1994B	March 30, 1994	13,080,000	495,000	560,000
1994C	May 24, 1994	50,610,000	3,110,000	4,915,000
1994D	May 19, 1994	4,975,000	210,000	240,000
1994E	August 25, 1994	2,455,000	10,000	15,000
1994F	October 13, 1994	6,935,000	500,000	570,000
1994G	December 21, 1994	72,149,737	8,848,865	9,248,212
1995A	June 22, 1995	15,205,000	225,000	250,000
1995B	December 14, 1995	20,800,000	-	755,000
1996A	September 20, 1996	5,755,000	85,000	110,000
1997A	April 29, 1997	7,705,000	1,300,000	1,525,000
1997B	August 14, 1997	17,375,000	4,705,000	5,255,000
1997C	October 30, 1997	16,335,000	3,865,000	4,990,000
1997D	December 22, 1997	9,300,000	1,000,000	4,105,000
1998A	June 16, 1998	16,100,000	5,290,000	5,990,000
1999A	February 9, 1999	10,910,000	3,085,000	3,615,000
1999B	April 28, 1999	38,605,000	17,565,000	19,515,000
1999C	June 24, 1999	16,685,000	9,240,000	10,045,000
1999D	November 17, 1999	8,255,000	2,485,000	2,845,000
2000A	May 17, 2000	10,815,000	5,645,000	6,325,000
2000B	November 28, 2000	5,905,000	4,770,000	4,970,000

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2008 and 2007

### Note 10 - Bonds Payable (Continued)

Series	Date of Issue	Original Issue	Amount Outstanding as of	
			September 30	
			2008	2007
2001A	March 29, 2001	\$ 9,055,000	\$ 7,700,000	\$ 8,050,000
2001B	July 12, 2001	10,065,000	5,425,000	5,990,000
2002A	July 1, 2002	30,060,000	20,665,000	21,765,000
2002B	November 1, 2002	16,790,000	13,375,000	13,980,000
2003A	April 7, 2003	3,980,000	2,635,000	2,920,000
2003B	September 30, 2003	19,665,000	15,760,000	16,745,000
2003C	September 30, 2003	160,000,000	114,160,000	130,145,000
2004A	February 18, 2004	41,155,000	28,670,000	32,175,000
2004B	May 13, 2004	26,830,000	9,350,000	11,935,000
2004C	December 16, 2004	9,985,000	5,630,000	7,160,000
2006A	May 10, 2007	9,825,000	9,295,000	9,570,000
2007A	March 29, 2007	21,875,000	21,230,000	21,875,000
2007B	August 3, 2007	98,435,000	78,035,000	98,435,000
2007C	December 19, 2007	31,080,000	30,555,000	-
2007D	December 28, 2007	19,335,000	19,310,000	-
2008A	June 26, 2008	27,000,000	27,000,000	-
	Subtotal		494,989,478	484,482,959

School Loan Revenue Bonds, original Series 1998, refunding Series 2003 A and Series 2007 A, issued to provide funds to local school districts and intermediate school districts in the state of Michigan. Funds are to be used by the schools for the purposes permitted by the State School Aid Act of 1979. The bonds have a pledge of revenue from state sources subject to annual state appropriation. The bonds bear interest rates varying from 5.22% to 5.25% and are due semi-annually on June 1 and December 1 with final maturity on June 1, 2015:

2003A	March 25, 2003	197,295,000	167,590,000	192,635,000
2007A	May 10, 2007	74,645,000	74,645,000	74,645,000
	Subtotal		242,235,000	267,280,000

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2008 and 2007

### Note 10 - Bonds Payable (Continued)

Series	Date of Issue	Original Issue	September 30	
			2008	2007
Series 2005B Revenue Bonds, School District of the City of Detroit. The bonds bear interest at 5% and are due annually on June 1, with final maturity on June 1, 2020:				
2005B	May 24, 2006	\$ 216,090,000	\$ 193,485,000	\$ 205,060,000
Long-term Public School Academy Program provides financing to public school academies that meet eligibility requirements. The Authority's bonds' actual interest rates are 7.25% to 8% and are due annually on October 1 with final maturity on October 1, 2031:				
Detroit Academy of Arts & Science Series 2001A	May 16, 2001	30,200,000	28,800,000	29,200,000
Detroit YMCA Service Learning Academy	May 16, 2001	12,100,000	11,300,000	11,500,000
Subtotal			40,100,000	40,700,000
Total bonds payable before net premium and deferred amount on refunding			971,264,478	998,102,959
Net premium on bonds payable			27,180,085	34,037,799
Deferred amount on refunding of bonds			(5,189,768)	(6,994,581)
Total bonds payable - General Fund			993,254,795	1,025,146,177
Less current portion			96,285,855	100,633,481
Long-term portion			<u>\$ 896,968,940</u>	<u>\$ 924,512,696</u>

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, 2008 and 2007

### Note 10 - Bonds Payable (Continued)

Changes in long-term debt are as follows:

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

	Beginning Balance October 1, 2006	Proceeds	Principal Payments	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	216,765,000	74,645,000	(24,160,000)	267,250,000	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
<b>Total</b>	<b>\$ 989,146,913</b>	<b>\$ 194,955,000</b>	<b>\$ (186,028,954)</b>	<b>\$ 998,072,959</b>	<b>\$ 100,633,481</b>

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2008 and 2007

### Note 10 - Bonds Payable (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 96,285,855	\$ 51,526,614	\$ 147,812,469
2010	92,356,962	48,102,455	140,459,417
2011	88,863,623	43,907,143	132,770,766
2012	89,975,898	39,993,801	129,969,699
2013	93,206,372	35,991,764	129,198,136
2014-2018	315,270,815	112,264,892	427,535,707
2019-2023	107,179,953	44,998,932	152,178,885
2024-2028	44,355,000	19,057,762	63,412,762
2029-2033	33,685,000	8,401,531	42,086,531
2034 and thereafter	<u>10,085,000</u>	<u>-</u>	<u>10,085,000</u>
Total	<u>\$ 971,264,478</u>	<u>\$ 404,244,894</u>	<u>\$ 1,375,509,372</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, 2008 and 2007

### Note 10 - 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	
			2008	2007
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 2009 and 2029:				
State Revolving Fund Revenue Bonds, Series 1996A	August 29, 1996	\$ 86,750,000	\$ 31,000,000	\$ 36,755,000
State Revolving Fund Revenue Bonds, Series 1997	July 1, 1997	132,500,000	11,245,000	16,425,000
Clean Water Revolving Fund Revenue Bonds, Series 1998	July 15, 1998	151,165,000	106,205,000	113,065,000
Clean Water Revolving Fund Revenue Bonds, Series 2001	August 23, 2001	222,800,000	186,620,000	195,990,000
Drinking Water Revolving Fund Revenue Bonds, Series 2001	August 23, 2001	23,825,000	19,910,000	20,920,000
Clean Water Revolving Fund Revenue Bonds, Series 2002A	August 22, 2002	188,000,000	166,125,000	173,605,000
Drinking Water Revolving Fund Revenue Bonds, Series 2002A	August 22, 2002	72,735,000	64,240,000	67,145,000
Clean Water Revolving Fund Revenue Bonds, Series 2002R	August 22, 2002	469,100,000	364,025,000	384,215,000
Drinking Water Revolving Fund Revenue Bonds, Series 2002R	August 22, 2002	109,145,000	84,350,000	88,940,000
Clean Water Revolving Fund Revenue Bonds, Series 2004A	April 21, 2004	286,605,000	275,790,000	286,605,000
Drinking Water Revolving Fund Revenue Bonds, Series 2004A	April 21, 2004	67,895,000	65,065,000	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	150,000,000
Clean Water Revolving Fund Revenue Bonds, Series 2007A	October 25, 2007	278,040,000	278,040,000	-
Subtotal			2,058,295,000	1,857,240,000
Premium on bonds payable			96,292,115	108,566,640
Deferred amount on refunding of bonds			(38,949,020)	(56,238,928)
Total bonds payable - State Revolving Fund			2,115,638,095	1,909,567,712
Less current portion			87,110,000	76,985,000
Long-term portion			<u>\$ 2,028,528,095</u>	<u>\$ 1,832,582,712</u>

# Michigan Municipal Bond Authority of the State of Michigan

## Notes to Financial Statements September 30, 2008 and 2007

### Note 10 - 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>2008</u>					
State Revolving Fund Revenue Bonds	\$ 1,857,240,000	\$ 278,040,000	\$ (76,985,000)	\$ 2,058,295,000	\$ 87,110,000
<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

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

	Principal	Interest	Total
2009	\$ 87,110,000	\$ 92,508,415	\$ 179,618,415
2010	96,485,000	88,420,185	184,905,185
2011	110,685,000	83,766,863	194,451,863
2012	114,295,000	78,709,831	193,004,831
2013	117,445,000	73,414,434	190,859,434
2014-2018	611,005,000	281,514,294	892,519,294
2019-2023	570,060,000	139,339,229	709,399,229
2024-2028	309,525,000	41,191,159	350,716,159
2029-2033	41,685,000	1,683,313	43,368,313
Total	\$2,058,295,000	\$ 880,547,723	\$2,938,842,723

# Michigan Municipal Bond Authority of the State of Michigan

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**Notes to Financial Statements  
September 30, 2008 and 2007**

## **Note 10 - Bonds Payable (Continued)**

### **School Loan Revolving Fund**

On March 19, 2008, the Authority issued \$553,000,000 of School Loan Revolving Fund (SLRF) Federally Taxable Bonds. The bonds were used to refund the \$500 million of outstanding 2007 SLRF bonds in their entirety and to fund future SLRF loans. The maturity date of the bonds is September 1, 2048. However, the Authority has the option to pay the amount before maturity and expects the bonds to be repaid before that date. At the time of issuance, there were four series of bonds, Series A-1, A-2, A-3, and A-4, with interest payable monthly at a variable rate determined on a weekly basis. The initial rate on these bonds was 5.75 percent. On April 23, 2008, Series A-4 was converted from weekly mode to term mode with the initial mandatory purchase date of November 5, 2008. As of September 30, 2008, the interest rate was 10.00 percent, which was the maximum rate under the bond indenture agreement.

The estimated fiscal year 2009 interest debt service requirement for the Series 2008 School Loan Revolving Fund is approximately \$48 million. Principal on the bonds is not due until the maturity date.

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

During fiscal year 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. These bonds were refunded with the proceeds from the 2008A series bonds. As of September 30, 2007, the interest rate was 5.50 percent.

# Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements  
September 30, 2008 and 2007**

## **Note 10 - Bonds Payable (Continued)**

### School Loan Revolving Fund (Continued)

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>2008</u>					
School Loan Revolving Fund Revenue Bonds	\$ 500,000,000	\$ 553,000,000	\$ (500,000,000)	\$ 553,000,000	\$ 11,200,000
Deferred amount on refunding of bonds				(3,432,016)	
Total bonds payable				\$ 549,567,984	
<u>2007</u>					
School Loan Revolving Fund Revenue Bonds	\$ 85,000,000	\$ 500,000,000	\$ (85,000,000)	\$ 500,000,000	\$ -

The annual expected debt service for the School Loan Revolving Fund bonds as of September 30, 2008, including both principal and interest, are as follows (the interest for future debt service requirements was estimated at the rate in effect at September 30, 2008):

	Principal	Interest	Total
2009	\$ 11,200,000	\$ 47,824,292	\$ 59,024,292
2010	4,200,000	46,928,443	51,128,443
2011	8,100,000	46,564,096	54,664,096
2012	13,800,000	46,026,562	59,826,562
2013	22,300,000	44,622,531	66,922,531
2014-2018	243,100,000	178,324,231	421,424,231
2019-2023	143,800,000	76,620,243	220,420,243
2024-2028	106,500,000	51,239,971	157,739,971
Total	\$ 553,000,000	\$ 538,150,369	\$ 1,091,150,369

# Michigan Municipal Bond Authority of the State of Michigan

**Notes to Financial Statements  
September 30, 2008 and 2007**

## **Note 10 - Bonds Payable (Continued)**

On November 18, 2008, the board passed a resolution authorizing the issuance of additional bonds, of which part of the proceeds will be used to refund the Series 2008 School Loan Revolving Fund bonds.

### **Defeased Debt**

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.

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 \$489,315,000 and \$617,808,284 at September 30, 2008 and 2007, respectively.

## **Note 11 - Other Income**

Other income consists of the following:

	<u>2008</u>	<u>2007</u>
Administrative fee from the Department of Environmental Quality to the State Revolving Fund	\$ 2,655,764	\$ 2,140,363
Other income	<u>744,451</u>	<u>866,228</u>
Total other income	<u>\$ 3,400,215</u>	<u>\$ 3,006,591</u>

# Michigan Municipal Bond Authority of the State of Michigan

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**Notes to Financial Statements  
September 30, 2008 and 2007**

## **Note 11 - Other Income (Continued)**

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

## **Note 12 - Risk Management**

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

## **Note 13 - Employee Benefits**

**Plan Descriptions** - The Michigan Municipal Bond Authority participates in the State of Michigan's defined benefit and defined contribution 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>.

**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 18.72 percent and 24 percent of payroll for the years ended September 30, 2008 and 2007, 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, 2008 and 2007. The contribution requirements of plan members and the Michigan Municipal Bond Authority are established and may be amended by the state legislature. The state legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for the plan.

# Michigan Municipal Bond Authority of the State of Michigan

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**Notes to Financial Statements  
September 30, 2008 and 2007**

## **Note 13 - Employee Benefits (Continued)**

**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.

## **Note 14 - Subsequent Event**

On October 7, 2008, the Authority issued \$5,856,895 of State Clean Water Match Bonds and \$2,269,300 of Drinking Water Match Bonds. The Bonds had a same day maturity.

## **Other Supplemental Information**

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# 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	
	2008	2007	2008	2007	2008	2007
<b>Assets</b>						
Cash	\$ 19,078	\$ 3,004	\$ 44,157	\$ 29,510	\$ 63,235	\$ 32,514
Investments	1,518,154,640	1,362,563,972	337,922,654	333,240,651	1,856,077,294	1,695,804,623
Accrued interest receivable	14,068,983	15,222,079	3,441,777	4,787,066	17,510,760	20,009,145
Deferred charges - Net	10,759,674	9,605,942	1,874,951	2,086,388	12,634,625	11,692,330
Receivable from State of Michigan	10,756,320	12,570,076	-	-	10,756,320	12,570,076
Loans receivable	1,693,840,346	1,569,721,312	371,637,377	331,884,984	2,065,477,723	1,901,606,296
Other receivables	66,320	84,206	100,699	107,637	167,019	191,843
Total assets	<b>\$ 3,247,665,361</b>	<b>\$ 2,969,770,591</b>	<b>\$ 715,021,615</b>	<b>\$ 672,136,236</b>	<b>\$ 3,962,686,976</b>	<b>\$ 3,641,906,827</b>
<b>Liabilities and Net Assets</b>						
<b>Liabilities</b>						
Accounts payable and other liabilities	\$ 3,938,711	\$ 3,590,074	\$ 374,267	\$ 224,635	\$ 4,312,978	\$ 3,814,709
Due to other governmental units	140,342	97,668	63,018	61,767	203,360	159,435
Accrued interest payable	44,008,356	39,074,730	7,889,148	8,138,178	51,897,504	47,212,908
Deferred revenue	-	-	3,366,300	8,220,651	3,366,300	8,220,651
Bonds payable	1,791,953,500	1,573,501,300	323,684,595	336,066,412	2,115,638,095	1,909,567,712
Total liabilities	1,840,040,909	1,616,263,772	335,377,328	352,711,643	2,175,418,237	1,968,975,415
<b>Net Assets - Restricted - Water pollution and drinking water projects</b>	<b>1,407,624,452</b>	<b>1,353,506,819</b>	<b>379,644,287</b>	<b>319,424,593</b>	<b>1,787,268,739</b>	<b>1,672,931,412</b>
Total liabilities and net assets	<b>\$ 3,247,665,361</b>	<b>\$ 2,969,770,591</b>	<b>\$ 715,021,615</b>	<b>\$ 672,136,236</b>	<b>\$ 3,962,686,976</b>	<b>\$ 3,641,906,827</b>

# 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	
	Year Ended September 30		Year Ended September 30		Year Ended September 30	
	2008	2007	2008	2007	2008	2007
<b>Operating Revenue</b>						
Interest	\$ 100,082,757	\$ 99,095,029	\$ 20,326,709	\$ 22,658,432	\$ 120,409,466	\$ 121,753,461
Other	2,474,848	1,926,693	180,916	213,670	2,655,764	2,140,363
Total operating revenue	102,557,605	101,021,722	20,507,625	22,872,102	123,065,230	123,893,824
<b>Operating Expenses</b>						
Interest expense	83,470,828	75,356,721	14,881,211	15,061,904	98,352,039	90,418,625
Amortization of deferred charges - Net	1,234,105	1,111,311	211,437	218,020	1,445,542	1,329,331
Salaries, wages, and other administrative	3,060,512	2,328,923	188,006	210,250	3,248,518	2,539,173
Total operating expenses	87,765,445	78,796,955	15,280,654	15,490,174	103,046,099	94,287,129
<b>Operating Income</b>	14,792,160	22,224,767	5,226,971	7,381,928	20,019,131	29,606,695
<b>Nonoperating Revenue</b> - Operating subsidies	39,325,473	36,287,786	54,992,723	17,715,513	94,318,196	54,003,299
<b>Changes in Net Assets</b>	54,117,633	58,512,553	60,219,694	25,097,441	114,337,327	83,609,994
<b>Net Assets</b> - Beginning of year	1,353,506,819	1,294,994,266	319,424,593	294,327,152	1,672,931,412	1,589,321,418
<b>Net Assets</b> - End of year	<u>\$ 1,407,624,452</u>	<u>\$ 1,353,506,819</u>	<u>\$ 379,644,287</u>	<u>\$ 319,424,593</u>	<u>\$ 1,787,268,739</u>	<u>\$ 1,672,931,412</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	
	2008	2007	2008	2007	2008	2007
<b>Cash Flows from Operating Activities</b>						
Cash payments to employees and suppliers for goods and services	\$ (2,711,865)	\$ (3,202,209)	\$ (181,064)	\$ (200,070)	\$ (2,892,929)	\$ (3,402,279)
Other operating revenue	2,535,408	1,890,640	182,167	212,255	2,717,575	2,102,895
Net cash (used in) provided by operating activities	(176,457)	(1,311,569)	1,103	12,185	(175,354)	(1,299,384)
<b>Cash Flows from Noncapital Financing Activities</b>						
Proceeds from sale of bonds and notes	288,153,186	158,019,521	-	-	288,153,186	158,019,521
Payment of bond issue costs	(2,387,837)	(1,482,844)	-	-	(2,387,837)	(1,482,844)
Principal paid on bonds and notes	(65,650,000)	(52,785,000)	(11,335,000)	(8,180,000)	(76,985,000)	(60,965,000)
Interest paid on bonds and notes	(82,588,188)	(76,323,567)	(16,027,429)	(16,478,256)	(98,615,617)	(92,801,823)
Operating subsidies	39,325,473	36,287,786	50,138,372	20,155,664	89,463,845	56,443,450
Proceeds from receivables from State of Michigan	1,813,756	1,788,048	-	-	1,813,756	1,788,048
Net cash provided by (used in) noncapital financing activities	178,666,390	65,503,944	22,775,943	(4,502,592)	201,442,333	61,001,352
<b>Cash Flows from Investing Activities</b>						
Loans made to local government units	(228,900,822)	(132,224,720)	(58,360,057)	(45,344,026)	(287,260,879)	(177,568,746)
Principal received on loan repayments	104,781,778	95,604,499	18,607,663	16,432,844	123,389,441	112,037,343
Interest received on loan repayments	37,194,400	36,421,345	5,174,640	5,174,640	42,369,040	41,595,985
Net (purchases) proceeds from sale and maturities of investment securities	(155,590,668)	(127,352,606)	(4,682,003)	10,243,462	(160,272,671)	(117,109,144)
Interest and dividends on investments	64,041,453	61,976,321	16,497,358	16,860,606	80,538,811	78,836,927
Net cash (used in) provided by investing activities	(178,473,859)	(65,575,161)	(22,762,399)	3,367,526	(201,236,258)	(62,207,635)

# 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	
	2008	2007	2008	2007	2008	2007
<b>Net Increase (Decrease) in Cash</b>	\$ 16,074	\$ (1,382,786)	\$ 14,647	\$ (1,122,881)	\$ 30,721	\$ (2,505,667)
<b>Cash - Beginning of year</b>	3,004	1,385,790	29,510	1,152,391	32,514	2,538,181
<b>Cash - End of year</b>	<b>\$ 19,078</b>	<b>\$ 3,004</b>	<b>\$ 44,157</b>	<b>\$ 29,510</b>	<b>\$ 63,235</b>	<b>\$ 32,514</b>
Reconciliation of operating income to net cash from operating activities:						
Operating income	\$ 14,792,160	\$ 22,224,767	\$ 5,226,971	\$ 7,381,928	\$ 20,019,131	\$ 29,606,695
Adjustments to reconcile operating income to net cash from operating activities:						
Interest income reported as cash flows from investing activities	(100,082,757)	(99,095,029)	(20,326,709)	(22,658,432)	(120,409,466)	(121,753,461)
Interest expense reported as cash flows from noncapital financing activities	83,470,828	75,356,721	14,881,211	15,061,904	98,352,039	90,418,625
Amortization of deferred charges	1,234,105	1,111,311	211,437	218,020	1,445,542	1,329,331
Changes in assets and liabilities:						
Decrease (increase) in receivables	17,896	244,147	(142,690)	159,932	(124,794)	404,079
Increase (decrease) in payables	391,311	(1,153,486)	150,883	(151,167)	542,194	(1,304,653)
<b>Net cash (used in) provided by operating activities</b>	<b>\$ (176,457)</b>	<b>\$ (1,311,569)</b>	<b>\$ 1,103</b>	<b>\$ 12,185</b>	<b>\$ (175,354)</b>	<b>\$ (1,299,384)</b>