

State of Michigan

Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2000



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STATE OF MICHIGAN
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED SEPTEMBER 30, 2000
 TABLE OF CONTENTS

	Page
I. INTRODUCTORY SECTION	
Title Page	i
Table of Contents	ii
Letter of Transmittal	iv
Certificate of Achievement	xii
State Organizational Structure	xiii
Principal State Officials	xiv
II. FINANCIAL SECTION	
Independent Auditor's Report	2
General Purpose Financial Statements	
Combined Balance Sheet - All Fund Types, Account Groups, and Discretely Presented Component Units	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types, Expendable Trust Funds, and Discretely Presented Component Units	6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds	8
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings and Fund Balances - Proprietary Fund Types, Similar Trust Funds, and Discretely Presented Component Units	11
Combined Statement of Cash Flows - Proprietary Fund Types and Discretely Presented Component Units	12
Combined Statement of Changes in Plan Net Assets - Pension Trust Funds	15
Combined Statement of Changes in Fund Balances - State Universities	16
Combined Statement of Current Funds Revenues, Expenditures, Transfers, and Changes in Fund Balances - State Universities	17
Index for Notes to Financial Statements	19
Notes to Financial Statements	20
Supplemental Financial Data - Combining Financial Statements	
Special Revenue Funds - By Classification:	
Combining balance sheet	72
Combining statement of revenues, expenditures, and changes in fund balances	74
Combining schedule of revenues, expenditures, and changes in fund balances - budget and actual	76
Special Revenue Funds - Transportation Related:	
Combining balance sheet	80
Combining statement of revenues, expenditures, and changes in fund balances	82
Combining schedule of revenues, expenditures, and changes in fund balances - budget and actual	84
Special Revenue Funds - Conservation, Environment, and Recreation Related:	
Combining balance sheet	92
Combining statement of revenues, expenditures, and changes in fund balances	96
Combining schedule of revenues, expenditures, and changes in fund balances - budget and actual	100
Special Revenue Funds - Regulatory and Administrative Related:	
Combining balance sheet	106
Combining statement of revenues, expenditures, and changes in fund balances	108
Combining schedule of revenues, expenditures, and changes in fund balances - budget and actual	110
Special Revenue Funds - Other State Funds:	
Combining balance sheet	116
Combining statement of revenues, expenditures, and changes in fund balances	118
Combining schedule of revenues, expenditures, and changes in fund balances - budget and actual	120
Debt Service Funds:	
Combining balance sheet	126
Combining statement of revenues, expenditures, and changes in fund balances	128

STATE OF MICHIGAN
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED SEPTEMBER 30, 2000
 TABLE OF CONTENTS (Continued)

	Page
Supplemental Financial Data - Combining Financial Statements (Continued)	
Capital Projects Funds:	
Combining balance sheet.....	132
Combining statement of revenues, expenditures, and changes in fund balances.....	133
Enterprise Funds:	
Combining balance sheet.....	135
Combining statement of revenues, expenses, and changes in retained earnings.....	136
Combining statement of cash flows.....	137
Internal Service Funds:	
Combining balance sheet.....	140
Combining statement of revenues, expenses, and changes in retained earnings.....	142
Combining statement of cash flows.....	144
Trust and Agency Funds - By Classification:	
Combining balance sheet.....	147
Expendable Trust Funds:	
Combining balance sheet.....	150
Combining statement of revenues, expenditures, and changes in fund balances.....	152
Pension Trust Funds:	
Combining statement of plan net assets	156
Combining statement of changes in plan net assets.....	158
Agency Funds:	
Combining statement of changes in assets and liabilities.....	161
Component Units - By Type:	
Combining balance sheet.....	165
Component Units - Governmental and Trust:	
Combining balance sheet.....	168
Combining statement of revenues, expenditures, and changes in fund balances.....	170
Component Units - Proprietary:	
Combining balance sheet.....	174
Combining statement of revenues, expenses, and changes in retained earnings.....	176
Combining statement of cash flows.....	178
Component Units - State Universities:	
Combining balance sheet.....	182
Combining statement of changes in fund balances	184
Combining statement of current funds revenues, expenditures, transfers, and changes in fund balances.....	186
Supplemental Financial Data - Schedules	
Schedule of general fixed assets account group by function	193
Schedule of changes in general fixed assets by function.....	193
Combined schedule of revenue and other financing sources - General and Special Revenue Funds.....	194
Schedule of revenue and other financing sources - General Fund	196
Source and disposition of General Fund authorizations.....	198
Source and disposition of General Fund/General Purpose authorizations	200
III. STATISTICAL SECTION	
Statistical Data	
Revenue, bond proceeds, and capital lease acquisitions - General and Special Revenue Funds.....	208
Schedule of expenditures by function - General and Special Revenue Funds - State Funds.....	210
Ratio of annual debt service expenditures for general obligation bonded debt to total General Fund expenditures and transfers.....	212
Net general obligation bonded debt per capita	213
State Building Authority bonded debt per capita	215
Debt service coverage - Comprehensive Transportation Fund related bonds.....	216
Debt service coverage - State Trunkline Fund related bonds	218
Economic and Social Data.....	222
Index of Funds and Component Units.....	224

Statements and schedules are rounded to thousands of dollars. Because of this, they may not add to the totals.

STATE OF MICHIGAN



JOHN ENGLER, Governor

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MARY A. LANNOYE, State Budget Director

March 29, 2001

The Honorable John Engler, Governor
Members of the Legislature
People of the State of Michigan

As required by Article 9, Section 21, of the State Constitution and Section 494, Public Act 431 of 1984, as amended, we are pleased to submit the *State of Michigan Comprehensive Annual Financial Report* (SOMCAFR) for the fiscal year ended September 30, 2000.

INTRODUCTION TO THE REPORT

Responsibility: The Office of the State Budget (OSB), Office of Financial Management (OFM), prepares the SOMCAFR and is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including disclosures. To the best of our knowledge and belief, the information contained in the SOMCAFR is accurate in all material respects and reported in a manner which fairly presents the financial position and results of operations of the State primary government and component units for which it is financially accountable. All disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial affairs have been included.

Adherence to Generally Accepted Accounting Principles: As required by State statute, the financial statements contained in the SOMCAFR have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports, and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

Method of Presentation: The term "Comprehensive Annual Financial Report" (CAFR) collectively refers to all of the financial information and data presented in this report. The SOMCAFR is divided into three major sections: introductory, financial, and statistical. The introductory section includes this letter, the State's organization chart, and the list of principal officials. The financial section includes: the "General Purpose Financial Statements," which present combined financial information in eight principal financial statements for the State primary government and its blended and discretely presented component units, together with footnotes to the General Purpose Financial Statements; the independent auditor's report on the General Purpose Financial Statements; and the supplemental financial data section, which includes the combining financial statements and schedules. The statistical section includes such items as trend information, information on debt levels, and other selected economic and statistical data.

Reporting Entity: The State of Michigan reporting entity reflected in the SOMCAFR, which is described more fully in Note 1 to the financial statements, conforms with the requirements of GASB Statement No. 14, The Financial Reporting Entity. The accounting and reporting principles contained in Statement No. 14 are based primarily on the fundamental concept that publicly elected officials are accountable to their constituents. Further, Statement No. 14 provides that the financial statements should emphasize the *primary government* and permit financial statement users to distinguish between the primary government and its *component units*.

The SOMCAFR includes all the funds and account groups of the State primary government, which includes the Executive Branch departments and agencies, the Legislature, and the State portion of the court system. Also included are two "blended" component units, which in substance are part of the primary government; they are the State Building Authority and the Michigan Underground Storage Tank Financial Assurance Finance Authority. The SOMCAFR also includes financial information for certain legally separate governmental organizations for which the State is *financially accountable*. Financial accountability may exist if the primary government has the legal authority to appoint a voting majority of the separate organization's governing board. These types of component units are presented "discretely" (i.e., separate and distinct from the primary government) in the SOMCAFR and include:



Mackinac Bridge Authority
Michigan Strategic Fund
Michigan State Hospital Finance Authority
Michigan Higher Education Student Loan Authority
Michigan State Housing Development Authority
State Bar of Michigan

Michigan Higher Education Facilities Authority
Michigan Higher Education Assistance Authority
Michigan Education Trust
Mackinac Island State Park Commission
Michigan Municipal Bond Authority
Michigan Economic Development Corporation

This group of discretely presented component units is further subdivided between *governmental and trust*, and *proprietary* types, depending on the primary characteristics of their operations. In addition, pursuant to GASB Statement No. 14, the SOMCAFR includes financial statements for the State's ten public universities, which have governing boards that are appointed by the Governor. They include: Central Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, Saginaw Valley State University, and Western Michigan University.

Organizations which receive substantial financing from the State, but which do not meet the GAAP criteria for inclusion in the State's reporting entity, include: public universities which have governing boards that are elected at statewide public elections (Michigan State University, the University of Michigan, and Wayne State University); community colleges, which in Michigan are considered to be a part of general or special purpose local units of government; and the portions of the court system which are considered to be local units of government.

ECONOMIC CONDITION AND OUTLOOK

The economy performed exceptionally well in 2000 as the current economic expansion became the longest in United States history. By the end of 2000, numerous economic data pointed toward slower economic growth. In 2000, real gross domestic product grew an estimated 5.0%, marking the fourth consecutive year that it exceeded 4.0%. The economy is expected to grow 2.5% in 2001, a more moderate pace compared with recent years. Car and light truck sales rose to a projected 17.2 million units in 2000, but is estimated to fall to 15.9 million units in 2001.

Michigan's December 2000 unemployment rate marked the 69th consecutive month that Michigan's jobless rate was less than the national rate. Michigan's 2000 annual average unemployment rate of 3.4% was the lowest since 1966. The Michigan wage and salary income growth is expected to slow from 5.8% in 2000 to 3.1% in 2001 then expected to rebound to 5.6% in 2002. Inflation is expected to remain moderate at 2.8% in 2001 and rise slightly to 2.9% in 2002. Employment is expected to decline by 14,000 jobs in 2001 with an increase of 45,000 anticipated for 2002.

MAJOR INITIATIVES AND FUTURE PROJECTS

During 2000, Michigan's efforts to improve its bond rating were met with overwhelming success. In September 2000, Standard and Poor's upgraded Michigan's bond rating to AAA, making it the largest of the 10 states which carry the agency's top rating. In addition Moody's Investor Services upgraded Michigan's rating to Aaa, Moody's highest rating.

In January 2001, Michigan was named as one of three states in *Governing* magazine's Government Performance Project, a study of state government management practices, receiving an overall grade of "A-." The study, conducted through a partnership with the Maxwell School of Citizenship and Public Affairs at Syracuse University, graded the states on their financial and capital management, personnel practices, performance standards, and information technology systems. In 1999, Michigan received a "B-."

Education Remains a Top Priority: The Administration continues its strong support for financing K-12 education and reducing the equity gap in per pupil funding. In fiscal year 2000, for the third consecutive year, the state spent more on K-12 education than was spent for all other expenditures financed from the General Fund general purpose revenues.

One of the most important features of the school finance reform passed by the voters in March 1994 was the commitment to reduce inequities in per pupil spending. Prior to passage of this referendum, only 52 of Michigan's 555 school districts were spending more than \$6,500 per pupil. By fiscal year 2003, no district will receive foundation allowances of less than \$6,700 per pupil. The Administration continues to place great emphasis on academic achievement by setting high expectations and rewarding excellence. The Golden Apple Award is a new academic competition that rewards local elementary school personnel for student achievement on the Michigan Education Assessment Program.

Transportation Infrastructure Investments: Recently the State Transportation Commission finalized the list of projects being funded by the Build Michigan III program. The Michigan Department of Transportation (MDOT), in cooperation with the Michigan Economic Development Corporation, has developed a Statewide road infrastructure strategy designed to meet current economic development needs, reduce congestion, and improve safety along freeways, local roads, and state trunklines. Many of the projects have been drawn from the research portion of the five-year road and bridge construction project plan. Projects funded under Build Michigan III total more than \$970 million.

Welfare Reform: Michigan's aggressive actions to reform welfare and make families independent from public assistance continue to be successful. From September 1992 to November 2000, the Family Independence Program (FIP, formerly AFDC) caseload has declined by more than 155,000 cases or 70%. In November 2000, only 66,672 Michigan families collected FIP benefits.

Michigan's Project Zero is aimed at encouraging and supporting employment. The goal is to reduce to "zero" the percent of non-working target FIP families. Between September 1997 and November 2000, 81 of the 103 project sites have reached zero at least once. Some counties have maintained zero status for as many as 24 consecutive months. Community organizations provide childcare, transportation, family support and counseling services to Project Zero customers.

Economic Redevelopment: With passage of the Clean Michigan Bond Initiative in November 1998, \$335 million has been targeted to prepare sites for economic redevelopment. Re-use of "brownfield" sites, properties where perceived or actual environmental contamination is a barrier to redevelopment, allows sites to be used for new development. The initiative also includes funding for sites that pose an imminent and substantial endangerment to human health or the environment, and for local units of government that own landfills which are eligible for federal clean-up reimbursement cost-share grants.

Financial Management System Improvements: As 2001 begins, OSB is continuing its joint efforts with all State departments to upgrade and improve its financial management systems.

The State is moving aggressively into the world of e-commerce. Three projects are underway to further improve the State's processes for conducting business. The State currently pays its vendors with approximately 11.7 million paper checks each year. The Electronic Funds Transfer (EFT) Project will expand the use of EFTs as the preferred method of vendor payment, significantly reducing the number of paper checks issued. On December 10, 2000, the State implemented the first phase of this project. OSB will work with departments to expand the use of EFTs to automate vendor payments. Second, e-Invoice is a pilot project involving Consumers Energy and the Department of State Police, which automates the receipt of vendor invoices through the use of Electronic Data Interchange (EDI). That portion of the project was completed in July 2000. The State is expanding the project to include other departments and another vendor (Detroit Edison). Third, e-Michigan, a comprehensive, long-term project to develop a seamless interface for the global marketplace to access all applications of Michigan State government is now in the planning phases. e-Michigan will involve all agencies of government working together to ensure public access through the internet to more easily conduct business and obtain information about Michigan and its government.

OSB, the Department of Civil Service, and the Office of the State Employer are leading an effort, involving all State agencies, to replace the State's existing human resources systems with a fully integrated system for all three branches of government. The mission of the Human Resources Management Network (HRMN) Project is to implement a comprehensive, state-of-the-art human resources system that meets evolving user needs in an efficient, timely, and cost effective manner. Implementation of phase I is expected by April 12, 2001. Phase II of the project will implement new self-service applications to provide all State employees with online access to personnel information such as benefits, dependent information, emergency contacts, and pay history.

During fiscal year 2000-2001 OSB intends to implement GASB Statement No. 34. This GASB statement is considered the most significant change ever in governmental reporting. It requires the State to produce statements which show all activity in one statement, explain budget activity more clearly, show infrastructure and debt, and move closer to private sector reporting.

FINANCIAL INFORMATION

Internal Control Structure: OSB is responsible for the overall operation of the State's central accounting system and for establishing and maintaining the State's internal controls structure. All financial transactions of the State primary government are recorded in the central accounting system, except for the Michigan Unemployment Compensation Fund, the State Employees' Deferred Compensation Funds, and the State Employees' Defined Contribution Retirement Fund. Many of the essential control features are decentralized, such as the preparation and entry of expenditure transactions into the central accounting system. Consequently, OSB relies upon the controls in place at the various State departments and agencies. The Management and Budget Act (Sections 18.1483 - 18.1489 of the *Michigan Compiled Laws*) requires that the head of each principal department shall establish and maintain an internal accounting and administrative control system. The Act also requires that the heads of each principal department shall report biennially on any material inadequacy or weakness discovered in connection with the evaluation of their system. In December 1999, OSB's Office of Financial Management issued "*Evaluation of Internal Controls - A General Framework and System of Reporting*." This document, developed in consultation with the Office of the Auditor General, provides the required guidance associated with the evaluation of internal controls in Michigan State government.

The Management and Budget Act requires each principal department to appoint an internal auditor and maintain adequate internal control systems. Each department is also required to periodically report to the Governor on the adequacy of its internal accounting and administrative control systems and, if any material weaknesses exist, to provide corrective action plans and time schedules for addressing such weaknesses. This reporting is required on or before May 1 of each odd numbered year, effective as of the preceding October 1.

The "discretely" presented component units generally operate outside the State's central accounting system and are responsible for establishing and maintaining their own separate internal control structures.

Budgetary Reporting and Control: For the State primary government operating funds (i.e., the General Fund and annually appropriated special revenue funds), Public Act 431 of 1984, as amended, requires the State to adhere to GAAP in budgeting projected revenues and expenditures and calculating fund balance for budgetary purposes. The Act also prohibits the State from budgeting for an ending fund balance deficit in an operating fund. If an actual deficit is incurred, the Constitution and P.A. 431 require that it be addressed in the subsequent year's budget. If accounting principles change, P.A. 431 requires the State to also implement such changes in its budgetary process.

The budgetary "basis of accounting" used by the State primary government departs from GAAP only in ways that do not affect unreserved fund balance, and that do not impact most revenue and expenditure line items. Appropriations for nearly all line items, therefore, are made on a basis consistent with GAAP, which makes it possible for the State to use the central accounting system for both budgetary control and financial reporting purposes. The two variances between GAAP and the budgetary basis of accounting are: (1) the use of encumbrances for budgetary control purposes (which GAAP does not require), and (2) the timing of recording expenditures and liabilities for capital lease commitments on a "pay as you go" basis for budgetary purposes, rather than at lease inception as required by GAAP. Compliance with the final updated budget for the annually budgeted operating funds of the State primary government is demonstrated in the budget to actual comparative statements, notes, and related supplementary schedules in the SOMCAFR.

Revenue and Spending Limitation Requirements: Under the State Constitution, total State revenues are limited to a percentage of total Michigan personal income. If the limit is exceeded by an amount less than 1%, the excess may be transferred to the Budget Stabilization Fund. If revenues exceed the limit by 1% or more, the amount in excess must be refunded to payers of personal income and single business taxes. The calculations necessary to determine the State's compliance with this requirement for fiscal year 1999-2000 are not considered final. The State estimates that total State revenues subject to the limitation will exceed the limit by \$158.2 million for fiscal year 1999-2000, which is less than 1% of the limitation.

The State Constitution also requires that spending to local units of government be maintained at not less than a specified level of total State spending, originally determined to be 41.61% for the base fiscal year 1978-79. The originally determined percentage was recalculated, effective fiscal year 1992-93, reflecting the terms of a legal settlement agreement. The recalculated base year percentage is 48.97%. The calculations necessary to determine the State's compliance with this requirement for fiscal year 1999-2000 are not yet final; however, based upon preliminary calculations, the State has substantially exceeded the minimum required spending to local units of government for fiscal year 1999-2000.

The State's status, with regard to these Constitutional provisions, is discussed more fully in Note 3 to the financial statements.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

General Governmental Functions: For the purposes of the following two tables and related discussions in this letter, the "General Governmental Functions" are considered to be the activities of the General Fund and the special revenue funds of the State primary government. These are the State funds that are used to account for the activities most traditionally thought of as being a normal part of State government operations.

The two tables report only direct revenues and expenditures and, therefore, do not include "other financing sources and uses."

Revenues (in millions):

<u>Revenue Source</u>	<u>1999-2000 Amount</u>	<u>Percent of Total</u>	<u>Change From 1998-99</u>	<u>Percentage Change</u>
Personal Income Tax	\$ 7,646.3	22.4%	\$ 252.3	3.4%
Sales Tax	6,277.5	18.4	375.8	6.4
Single Business Tax	2,324.9	6.8	(35.6)	(1.5)
State Education (Property) Tax	1,381.4	4.0	107.9	8.5
Other Taxes	5,235.4	15.3	206.2	4.1
Federal Revenues	8,571.6	25.1	668.9	8.5
Special Medicaid Reimbursements	1,059.3	3.1	368.5	53.4
Other Revenues	1,709.4	5.0	259.2	17.9
Total	\$ 34,205.9	100.0%	\$ 2,203.3	6.9%

The table above does not include other financing sources, the most significant of which are: State Lottery Fund profits of \$618.5 million and Budget Stabilization Fund transfers of \$32.0 million to the School Aid Fund; Liquor Purchase Revolving Fund profits of \$119.7 million transferred to the General Fund; and Budget Stabilization Fund transfers of \$100.0 million to the State Trunkline Fund. In addition, transfers of \$100.0 million were made from the General Fund to the Budget Stabilization Fund, in accordance with Public Act 124 of 1999 and Public Act 506 of 2000.

The State's personal income tax will experience a gradually reduced rate in the coming years, and the single business tax will experience a slow-paced phase-out. Beginning January 1, 1999, the single business tax rate will be reduced by .1% each January 1 if the Budget Stabilization Fund has a fund balance greater than \$250 million. Beginning January 1, 2000, the personal income tax will also be reduced by .1% per year until the rate reaches 3.9%. There were no significant structural changes in the State's sales taxes during fiscal year 1999-2000. The increases in tax revenues over the prior year primarily reflect growth in the underlying activity from the State's continuing strong economy.

Other taxes include: use taxes, \$1.4 billion; motor vehicle and fuel taxes, \$1.8 billion; liquor and tobacco taxes, \$736.9 million; and miscellaneous sources, \$1.3 billion.

Federal revenues include financial assistance received from the U.S. Department of Health and Human Services, which provides a significant portion of the financing for health and welfare programs; such financial assistance amounted to approximately \$5.6 billion and approximately 66% of total federal revenues for fiscal year 1999-2000. Increases in revenues from federal agencies resulted primarily from Medicaid, Temporary Aid for Needy Families (within the Family Independence Agency), and Department of Education programs.

Special Medicaid reimbursements includes Medicaid Benefits Trust Fund monies, which were created within Public Act 489 of 2000. The Act states that the Medicaid Benefits Trust Fund shall consist of unexpended state restricted revenues and local revenues received by the Department of Community Health as a result of additional Medicaid special financing payments above the level assumed in the appropriations for the fiscal years of 2000, 2001, and 2002. Of the increase in special Medicaid reimbursements, \$239.2 million related to this activity.

Other revenues include local, \$173.9 million; services, \$110.3 million; licenses and permits, 393.0 million; investment income, \$250.7 million; tobacco settlement proceeds, \$244.6 million; child support recoveries, \$46.6 million; and other miscellaneous sources, \$490.3 million. The increase in other revenues resulted from increases in tobacco settlement monies of \$137.2 million and additional investment income of \$115.2 million.

Expenditures (in millions):

Current, Capital Outlay, and Intergovernmental Expenditures by Function	1999-2000 Amount	Percent of Total	Change From 1998-99	Percentage Change
Current:				
General government	\$ 1,071.6	3.3%	\$ (1.1)	(.1)%
Education	12,436.8	38.0	609.6	5.2
Family independence services	3,336.8	10.2	107.4	3.3
Public safety & corrections	1,983.0	6.1	74.1	3.9
Conservation, environment, recreation, & agriculture	564.7	1.7	81.8	16.9
Labor, commerce & regulatory	740.7	2.3	20.6	2.9
Health services	7,692.4	23.5	591.6	8.3
Transportation	1,663.3	5.1	18.2	1.1
Tax expenditures	502.1	1.5	16.0	3.3
Capital outlay (including highways)	1,196.2	3.7	51.6	4.5
Intergovernmental – revenue sharing	1,494.0	4.6	83.6	5.9
Debt service - capital lease payments	52.0	.2	(7.3)	(12.3)
Total Current, Capital Outlay, and Intergovernmental Expenditures	<u>\$ 32,733.7</u>	<u>100.0%</u>	<u>\$ 1,646.2</u>	<u>5.3%</u>

The table above does not include \$608.2 million in distributions to the 10 State universities, which are considered discretely presented component units of the State. These transactions are reported as operating transfers in the SOMCAFR.

General government expenditures include operations of the Legislature, the Judiciary, and Executive Branch functions within the Departments of Management and Budget, Attorney General, Civil Rights, Civil Service, State, and Treasury.

Education expenditures continue to increase as support for public education continues. Total funding for education increased \$609.6 million from the prior year, resulting from an increase in foundation allowances, \$413.5 million; an increase in amounts transferred to colleges and universities to ensure parity, \$62.4 million; and distribution of grants associated with the Merit Award Program, \$97.5 million.

Family independence service expenditures, and associated federal revenues, increased primarily from day care and adoption subsidy services.

Tax expenditures represent refundable income tax credit programs, including the homestead property tax credit and the senior citizen property tax credit, which accounted for \$487.7 million of the total tax expenditures of \$502.1 million.

The largest component of capital outlay expenditures is related to State Trunkline highway expenditures, which amounted to \$1.1 billion, an increase of approximately \$106.9 million compared to the prior year. This increase resulted from a significant program to improve Michigan's roads and bridges.

General Fund Highlights: A major objective of the Administration has been to improve financial management by eliminating the chronic overspending and overestimation of revenues that had occurred in the 1980s. This year's results reflect the success of this approach; no department had net budgetary overexpenditures for fiscal year 1999-2000.

General Fund revenues and other financing sources (including restricted sources, operating transfers in, and capital lease acquisitions) totaled approximately \$21.5 billion for the fiscal year. Expenditures and other financing uses totaled approximately \$20.9 billion. Fund balance reserves for budgetary carry-forwards, noncurrent assets and revolving loans (discussed more fully in Note 24) increased approximately \$313.6 million from \$1.6 billion to \$1.9 billion. The unreserved fund balance of the General Fund was \$211.8 million at fiscal year-end, after reflecting a \$100.0 million transfer to the Budget Stabilization Fund.

Proprietary Fund Operations: The State accounts for the wholesale distribution of alcoholic beverages through the Liquor Purchase Revolving Fund. Statutory net income, \$119.7 million, and funding for administrative costs, \$7.7 million, were transferred to the General Fund during fiscal year 1999-2000.

State Lottery Fund operating revenues decreased \$31.4 million to \$1.7 billion. Net income from lottery operations (after prizes and other costs) transferred to the School Aid Fund decreased \$2.6 million to \$618.5 million.

Pension Plans: The State Constitution requires the State to provide current funding of plan benefits for the State's defined benefit pension plans. Statutes provide for the amortization of unfunded prior service costs. In two of the four plans for which the State is responsible for providing funding, the enabling statutes for the plans contain provisions under which a shortfall in the legally required contributions will be corrected in succeeding fiscal years.

The State Employees' Retirement System (SERS) is the largest of the defined benefit plans for which the State is responsible for providing funding. Total assets of SERS at September 30, 2000 were \$11.4 billion, with net assets held in trust for pension and postemployment health-care benefits totaling \$11.3 billion. Additional disclosures relating to the State's pension funds are provided in Note 11 to the financial statements.

Debt Management: New general obligation bonds issues totaled \$96.9 million in fiscal year 1999-2000. The Clean Michigan Initiative Program Bonds issuance represented a part of the \$675 million general obligation bond package authorized by the voters in 1998.

Revenue dedicated bonded debt, including that of the State Building Authority, decreased by \$155.1 million to \$2.8 billion during 1999-2000.

Additional disclosures about the State's general long-term obligations are provided in Note 14 to the financial statements.

Cash Management: As discussed more fully in Note 5 to the financial statements, the State Treasurer maintains the State's common cash pool, which is used by most State funds for short-term investment and to provide centralized control over disbursements. The total amount of pooled cash, which is primarily invested in prime commercial paper, amounted to \$5.4 billion at September 30, 2000, an increase of approximately \$1.2 billion from \$4.2 billion at September 30, 1999.

The State Constitution provides that the Legislature may authorize the issuance of short-term general obligation notes to assist in managing cash flows. Such borrowings are limited by the Constitution to 15% of undedicated State revenue. The Constitution also requires that such borrowings be repaid before year-end. No such borrowings occurred during the fiscal year.

HIGHLIGHTS - COMPONENT UNIT OPERATIONS

Except for the State Building Authority and the Michigan Underground Storage Tank Financial Assurance Finance Authority, which are "blended" directly with the fund types of the State primary government (refer also to the section describing the State reporting entity), all of the component units are presented discretely in the SOMCAFR. Condensed financial statements for all of the discretely presented component units, with total assets amounting to \$11.8 billion, are presented in Note 26.

Selected highlights for certain State proprietary type component units follow:

The largest such component unit is the Michigan State Housing Development Authority, which provides financing for various types of housing programs. The authority had total assets of \$2.8 billion and bonds payable of \$2.0 billion outstanding as of June 30, 2000.

The Michigan Education Trust (MET) was established to provide a means for parents and other individuals to finance future tuition costs at State public colleges and universities. As of September 30, 2000, MET had total assets, valued at market, of \$798.4 million. Additional information about MET's financial operations, including the actuarial assumptions used in valuing the obligation for future tuition costs, is included in Note 18.

The Michigan Municipal Bond Authority (MMBA) was created to permit local units of government the opportunity to pool their bond sales used to finance local projects. In addition, MMBA operates the State Water Pollution Control Fund which is used to account for a program created to provide local governments financing for local water pollution control projects. MMBA had total assets of \$3.7 billion and bonds and notes payable of \$2.6 billion outstanding as of September 30, 2000.

OTHER INFORMATION

Risk Management: Risk management was established within the Department of Management and Budget in 1987 to improve the State's risk control policies and procedures. The unit's activities include analysis of and control over insurance coverage and risk exposure, and planning and implementing a statewide safety and health policy and program. The State is self-insured for many types of general liability and property losses. Additional disclosures on the State's risk management activities are provided in Note 27.

Audits: The principal auditor of the State's reporting entity is the legislative Office of the Auditor General (OAG). The OAG's audit of the SOMCAFR was conducted in accordance with generally accepted auditing standards (GAAS), and its independent auditor's report precedes the General Purpose Financial Statements. In addition to the annual audit of the State's SOMCAFR, the OAG also performs periodic financial and performance audits of the various State departments, agencies, and institutions of higher education. The OAG engages outside public accounting firms periodically, particularly for the audits of separately issued component unit financial statements (such as the Michigan State Housing Development Authority), the larger pension funds, and the Michigan Unemployment Compensation Fund. The Auditor General also has primary responsibility for conducting audits under the federal Single Audit Act of 1984. Pursuant to Michigan Public Act 251 of 1986, these audits are conducted biennially for applicable State departments, agencies, and component unit authorities, and result in separately issued audit reports.

Certificate of Achievement: The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Michigan for its SOMCAFR for the year ended September 30, 1999. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

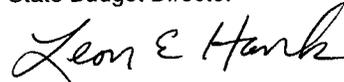
A Certificate of Achievement is valid for a period of one year only. The State has received a Certificate of Achievement for the last thirteen consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA for review.

Acknowledgments: Publication of this report results from the dedicated management and staff of the Financial Control Division, Office of Financial Management; the chief financial officers, chief accountants, internal auditors, and their staffs from all 18 departments; and the management and staff of the Office of the Auditor General; who continue to strive for improvements that will make Michigan a national leader in quality and efficiency for financial reporting. We sincerely appreciate the dedicated efforts of all of these individuals.

Sincerely,



Mary A. Lannoye
State Budget Director



Leon E. Hank, CPA
Director, Office of Financial Management



Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 1999

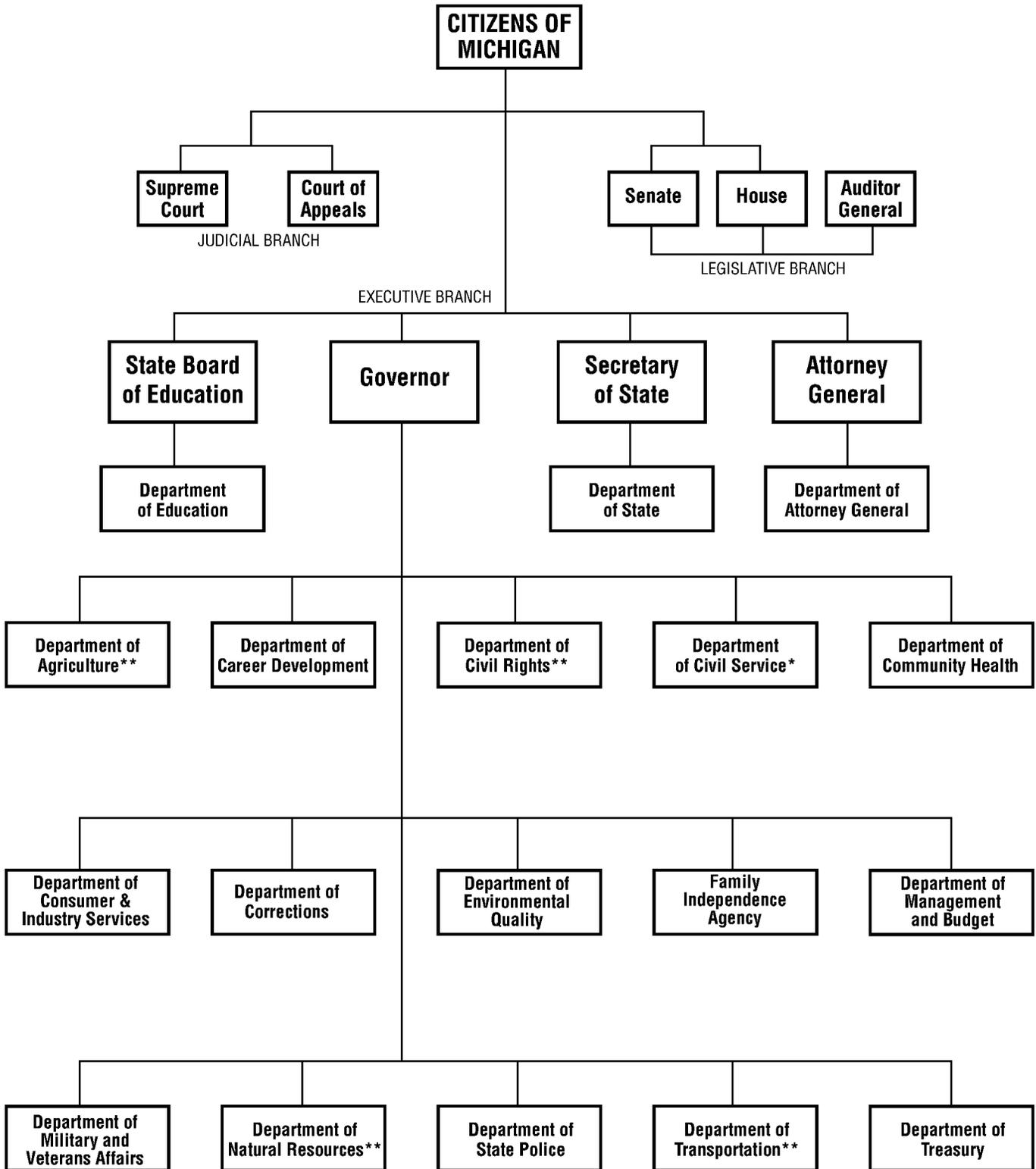
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Anne Spray Kinney
President

Jeffrey L. Esser
Executive Director

**STATE OF MICHIGAN
ORGANIZATIONAL STRUCTURE
SEPTEMBER 30, 2000**



* Has Commission appointed by Governor

** Has Commission appointed by Governor, confirmed by Senate

STATE OF MICHIGAN
PRINCIPAL STATE OFFICIALS

JUDICIAL BRANCH

Supreme Court Justices
Honorable Maura D. Corrigan, Chief Justice
Honorable Michael F. Cavanagh, Justice
Honorable Marilyn Kelly, Justice
Honorable Stephen J. Markman, Justice
Honorable Clifford W. Taylor, Justice
Honorable Elizabeth A. Weaver, Justice
Honorable Robert P. Young, Jr., Justice

LEGISLATIVE BRANCH

Honorable Dick Posthumus
President of the Senate

Honorable Rick V. Johnson
Speaker of the House of Representatives

Thomas H. McTavish
Legislative Auditor General

EXECUTIVE BRANCH

Honorable John Engler, Governor

Honorable Jennifer M. Granholm, Attorney General

Honorable Candice S. Miller, Secretary of State

State Board of Education
Honorable John Engler (Ex Officio)
John Austin
Sharon L. Gire
Marianne Yared McGuire
Herbert S. Moyer
Kathleen N. Straus
Michael D. Warren, Jr.
Eileen L. Weiser
Sharon A. Wise
Arthur E. Ellis, Superintendent of Public Instruction

Michigan Commission of Agriculture
Douglas E. Darling
James E. Maitland
William Pridgeon
Jordan B. Tatter
Nora M. Viau
Dan Wyant, Director, Department of Agriculture

Barbara Bolin, Director
Department of Career Development

Civil Rights Commission
Bishop George Brown
Albert Calille
Evelyn L. Crane
Yahya Mossa-Basha
Valerie P. Simmons
Gary Torgow
Francisco J. Villarruel
Vacant
Nanette Lee Reynolds, Director, Department of Civil Rights

Civil Service Commission
Robert P. Hunter
Susan Grimes Munsell
James Pitz
Vacant
John F. Lopez, Director, Department of Civil Service

James K. Haveman, Jr., Director
Department of Community Health

Kathleen M. Wilbur, Director
Department of Consumer and Industry Services

Bill Martin, Director, Department of Corrections

Russell J. Harding, Director
Department of Environmental Quality

Douglas E. Howard, Director
Family Independence Agency

Duane Berger, Acting Director
Department of Management and Budget

Mary A. Lannoye, State Budget Director
Department of Management and Budget

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs

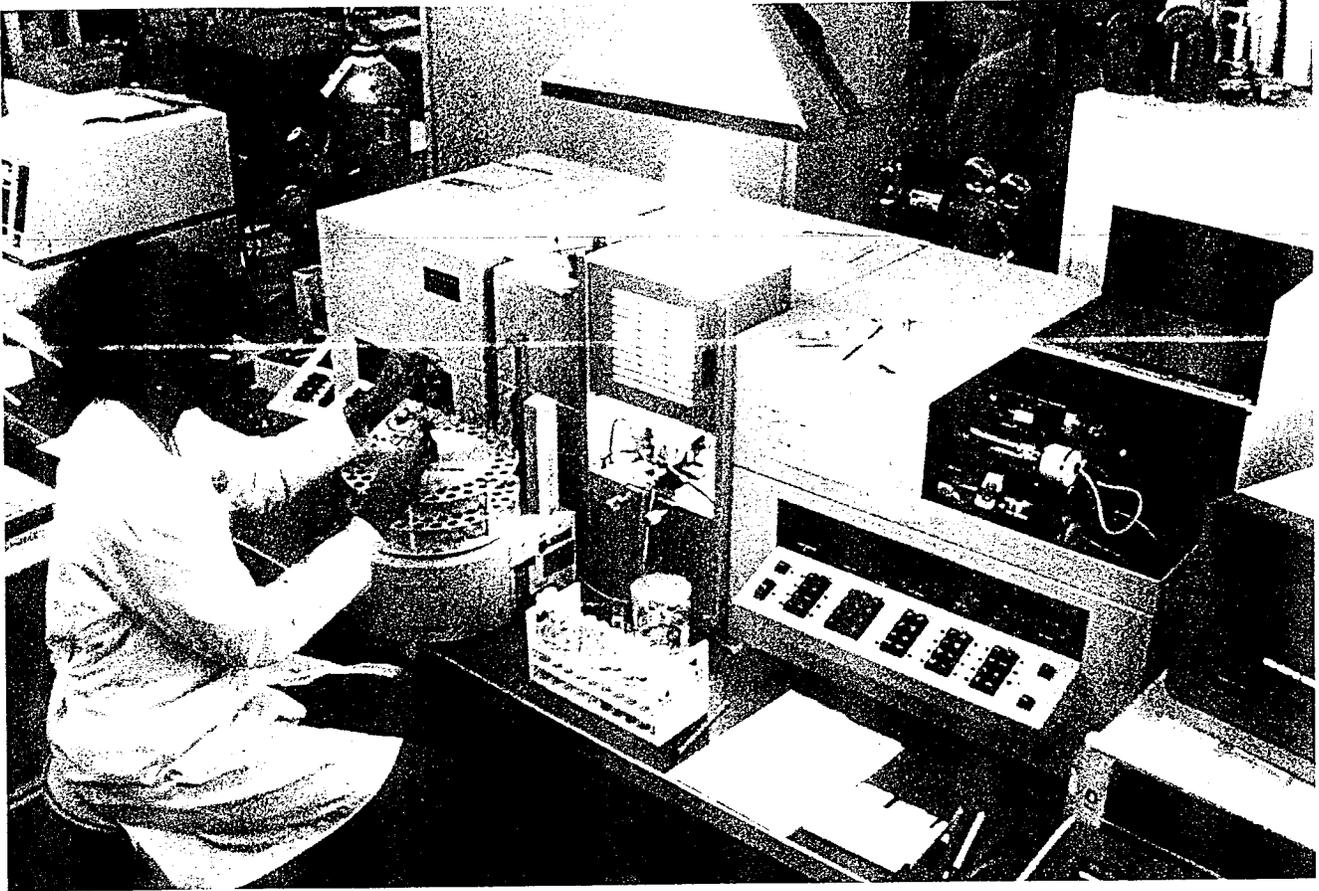
Natural Resources Commission
Jerry C. Bartnik
Keith J. Charters
Nancy A. Douglas
L. Thornton Edwards, Jr.
Paul J. Eisele
Bob Garner
William U. Parfet
K. L. Cool, Director, Department of Natural Resources

Col. Michael D. Robinson, Director
Department of State Police

Transportation Commission
Betty Jean Awrey
John W. Garside
Jack L. Gingrass
Lowell B. Jackson
Barton W. LaBelle
Ted B. Wahby
Gregory J. Rosine, Director, Department of Transportation

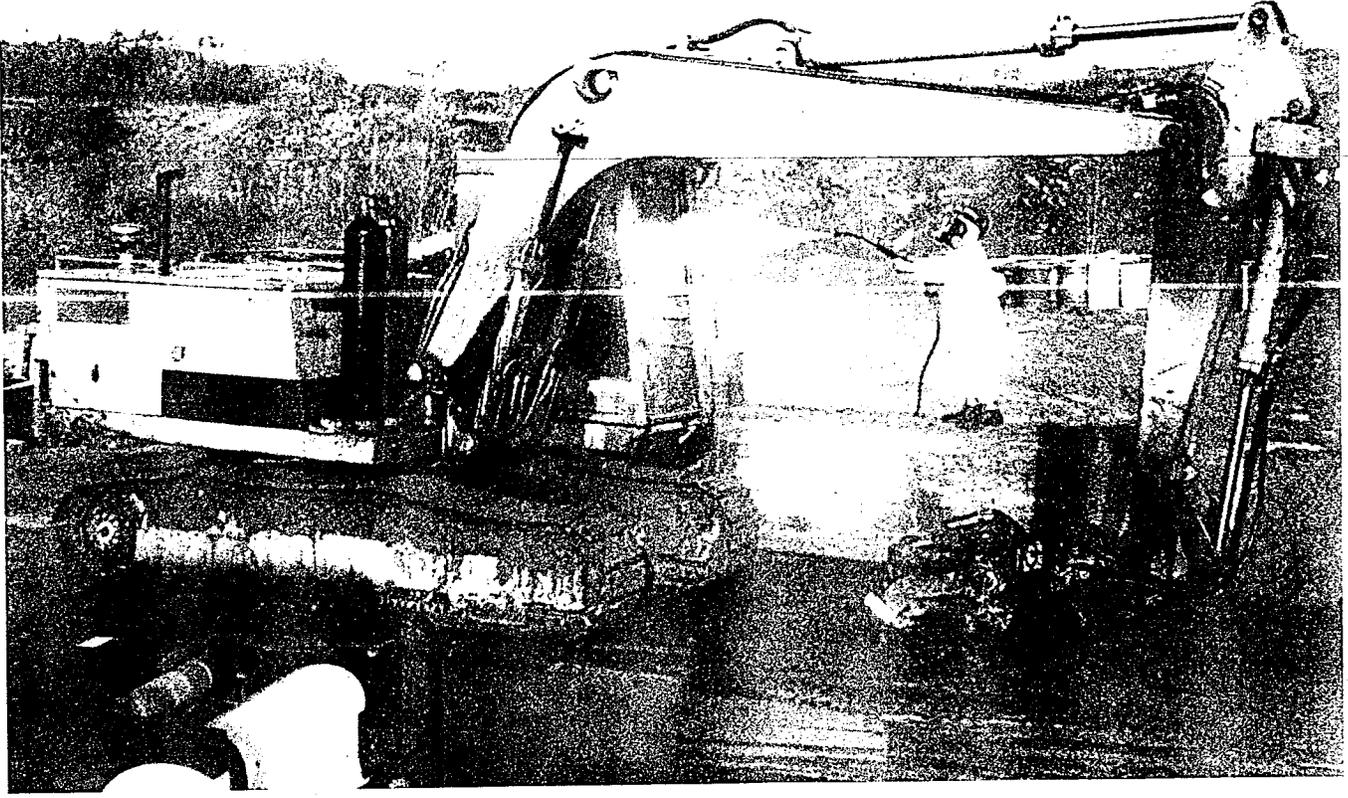
Mark A. Murray, State Treasurer

OK
BR
1



A technician at the DEQ's Lansing laboratory uses a flame atomic absorption spectrometer to analyze a site sample for metal compounds. (Photo of lab technician)

OK
OK
2



~~2~~ Contamination is removed from a cleanup site so that the property is returned to Michigan's stringent environmental and public health standards. ~~(Photo of backhoe)~~

II FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT GENERAL PURPOSE FINANCIAL STATEMENTS



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

Independent Auditor's Report

The Honorable John M. Engler, Governor
Members of the Legislature

March 29, 2001

We have audited the accompanying general purpose financial statements of the State of Michigan, principally as of September 30, 2000 and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Michigan Employment Security Act - Administration Fund, State Building Authority - debt service fund, State Building Authority - capital projects fund, State Lottery Fund, State Sponsored Group Insurance Fund, Michigan Unemployment Compensation Fund, Michigan Employment Security Act Contingent Fund, State Employees' Deferred Compensation Funds, State Police Retirement Fund, State Employees' Retirement Fund, Public School Employees' Retirement Fund, Judges' Retirement Fund, State Employees' Defined Contribution Retirement Fund, Mackinac Bridge Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Assistance Authority - discretely presented trust component unit, Michigan State Hospital Finance Authority, Michigan Education Trust, Michigan Higher Education Student Loan Authority, Michigan Higher Education Assistance Authority - discretely presented proprietary component unit, Mackinac Island State Park Commission, Michigan State Housing Development Authority, Michigan Municipal Bond Authority, State Bar of Michigan, and the discretely presented State universities (Central Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, Saginaw Valley State University, and Western Michigan University). Those financial statements reflect total assets and revenues constituting 0.3% and 1.1% of the assets and revenues, respectively, of the special revenue funds; 78.5% and 90.0% of the assets and revenues, respectively, of the debt service funds; 9.7% and 15.4% of the assets and revenues, respectively, of the capital projects funds; 94.5% and 75.4% of the assets and operating revenues, respectively, of the enterprise funds; 57.1% and 71.0% of the assets and operating revenues, respectively, of the internal service funds; 47.1% and 82.9% of the assets and revenues, respectively, of the expendable trust funds; 99.7% and 99.7% of the assets and total additions to plan assets, respectively, of the pension trust funds; 84.8% and 62.5% of the assets and revenues of the discretely presented governmental and trust component units; 95.8% and 96.7% of the assets and operating revenues, respectively, of the discretely presented proprietary component units; 100.0% of the discretely presented State universities; 1.1% of the general fixed assets account group; and 34.4% of the general long-term obligations account group. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these component units and funds, is based solely upon the reports of the other auditors.



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL

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

The Honorable John M. Engler, Governor
Members of the Legislature
Page 2

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our report and the reports of other auditors, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of Michigan, principally as of September 30, 2000, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and schedules listed in the foregoing table of contents, which are also the responsibility of the State's management, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Michigan. This information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and in the audits performed by other auditors and, in our opinion, based on our audit and the reports of other auditors, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole.

The introductory and statistical sections listed in the table of contents were not audited by us and, accordingly, we express no opinion on them.

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish".

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

STATE OF MICHIGAN
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
 SEPTEMBER 30, 2000
 (In Thousands)

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
ASSETS				
Current Assets:				
Cash	\$ 6,863	\$ 282	\$ 5,871	\$ -
Equity in Common Cash (Note 5)	1,481,078	3,243,445	6,941	16,638
Taxes, interest, and penalties receivable (Note 6)	1,285,455	946,622	-	-
Amounts due from other funds (Note 20)	28,710	53,009	-	129,502
Amounts due from component units	1,702	911	-	18,551
Amounts due from primary government	-	-	-	-
Amounts due from federal agencies	838,972	159,845	-	5,458
Amounts due from local units	488,929	45,823	-	2,711
Inventories	26,248	7,032	-	-
Investments (Note 8)	-	104	216,560	20,180
Securities lending collateral (Note 8)	-	-	-	-
Other current assets	349,958	130,246	1,943	17,013
Total Current Assets	<u>4,507,914</u>	<u>4,587,320</u>	<u>231,314</u>	<u>210,054</u>
Taxes, interest, and penalties receivable (Note 6)	67,030	13,587	-	-
Advances to other funds (Note 20)	9,395	28,942	-	-
Advances to component units	-	-	-	-
Amounts due from federal agencies	-	1,352	-	-
Amounts due from local units	410,347	39,437	-	-
Mortgages and loans receivable (Note 9)	-	-	-	-
Investments (Note 8)	-	195,530	67,739	-
Property, plant and equipment (Note 10)	-	-	-	-
Other noncurrent assets	3,102	7,487	-	-
Amount available for retirement of bonds	-	-	-	-
Amount to be provided for bond retirement	-	-	-	-
Amounts to be provided for other long-term obligations	-	-	-	-
Total Assets	<u>\$ 4,997,789</u>	<u>\$ 4,873,654</u>	<u>\$ 299,054</u>	<u>\$ 210,054</u>
LIABILITIES, FUND EQUITY, AND OTHER CREDITS				
Current Liabilities:				
Warrants outstanding	\$ 151,412	\$ 32,205	\$ -	\$ 834
Accounts payable and other liabilities	1,876,290	838,749	7,223	187,414
Income tax refunds payable (Note 16)	625,552	-	-	-
Amounts due to other funds (Note 20)	22,122	58,292	8	151,697
Amounts due to component units	2,228	136	-	-
Amounts due to primary government	-	-	-	-
Bonds and notes payable (Note 15)	-	44,813	-	348,070
Interest payable	-	-	-	324
Deferred revenue	90,183	95,406	-	24,017
Obligations under security lending	-	-	-	-
Total Current Liabilities	<u>2,767,788</u>	<u>1,069,601</u>	<u>7,231</u>	<u>712,356</u>
Long-Term Liabilities:				
Advances from other funds (Note 20)	-	28,942	-	-
Prize awards payable (Note 17)	-	-	-	-
Deferred revenue	128,668	31,820	-	-
Bonds and notes payable (Notes 14 and 15)	-	-	-	-
Other long-term liabilities (Notes 14, 18, and 19)	-	-	-	-
Total Liabilities	<u>2,896,456</u>	<u>1,130,363</u>	<u>7,231</u>	<u>712,356</u>
Fund Equity and Other Credits:				
Investment in general fixed assets	-	-	-	-
Contributed capital (Note 22)	-	-	-	-
Reserved retained earnings (Note 23)	-	-	-	-
Unreserved retained earnings (Note 23)	-	-	-	-
Reserved fund balance (Note 24)	1,889,523	1,385,127	-	11,290
Unreserved fund balance (deficit) (Note 24)	211,810	2,358,165	291,822	(513,593)
Total Fund Equity and Other Credits	<u>2,101,333</u>	<u>3,743,291</u>	<u>291,822</u>	<u>(502,302)</u>
Total Liabilities, Fund Equity, and Other Credits	<u>\$ 4,997,789</u>	<u>\$ 4,873,654</u>	<u>\$ 299,054</u>	<u>\$ 210,054</u>

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

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTALS	COMPONENT UNITS
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	PRIMARY GOVERNMENT (MEMORANDUM ONLY)	
\$ 3	\$ 68	\$ 6,113	\$ -	\$ -	\$ 19,200	\$ 611,191
63,826	94,438	368,031	-	-	5,274,398	197,798
-	-	123,304	-	-	2,355,381	-
-	33,358	90,286	-	-	334,866	-
-	-	171	-	-	21,335	8,692
-	-	-	-	-	-	145,040
-	-	24,421	-	-	1,028,697	30,506
-	-	25,401	-	-	562,864	640,851
5,228	18,414	-	-	-	56,922	16,395
107,278	-	5,713,647	-	-	6,057,769	905,526
232,628	-	694,418	-	-	927,046	-
54,824	26,588	877,606	-	-	1,458,178	349,072
463,788	172,866	7,923,398	-	-	18,096,655	2,905,070
-	-	-	-	-	80,617	-
-	-	-	-	-	38,336	-
-	-	-	-	-	-	416
-	-	-	-	-	1,352	-
-	-	-	-	-	449,784	1,617,092
-	-	-	-	-	-	2,597,073
717,632	-	53,859,412	-	-	54,840,314	2,449,869
450	102,453	-	3,671,468	-	3,774,372	2,010,670
-	83,870	408,243	-	-	502,701	178,579
-	-	-	-	291,822	291,822	-
-	-	-	-	3,467,949	3,467,949	-
-	-	-	-	1,940,656	1,940,656	-
<u>\$ 1,181,870</u>	<u>\$ 359,189</u>	<u>\$ 62,191,053</u>	<u>\$ 3,671,468</u>	<u>\$ 5,700,427</u>	<u>\$ 83,484,557</u>	<u>\$ 11,758,769</u>
\$ 3,743	\$ 8,008	\$ 14,834	\$ -	\$ -	\$ 211,036	\$ -
211,502	133,889	264,778	-	-	3,519,846	305,647
-	-	-	-	-	625,552	-
131	21,950	80,664	-	-	334,866	-
-	-	-	-	-	2,364	12,428
-	-	-	-	-	-	5,623
-	6,881	-	-	-	399,764	751,169
-	-	-	-	-	324	82,745
2	1,715	15,887	-	-	227,210	71,925
232,628	-	694,418	-	-	927,046	-
448,007	172,443	1,070,581	-	-	6,248,009	1,229,538
-	8,210	1,184	-	-	38,336	-
672,505	-	-	-	-	672,505	-
-	-	58	-	-	160,546	-
-	-	-	-	3,759,771	3,759,771	5,347,805
3,806	110,493	483,634	-	1,940,656	2,538,588	1,159,700
1,124,318	291,146	1,555,458	-	5,700,427	13,417,755	7,737,043
-	-	-	3,671,468	-	3,671,468	1,350,439
-	10,786	-	-	-	10,786	1,080,515
-	-	-	-	-	-	209,115
57,552	57,257	-	-	-	114,809	727,000
-	-	53,758,162	-	-	57,044,103	230,556
-	-	6,877,432	-	-	9,225,636	424,100
57,552	68,043	60,635,595	3,671,468	-	70,066,802	4,021,725
<u>\$ 1,181,870</u>	<u>\$ 359,189</u>	<u>\$ 62,191,053</u>	<u>\$ 3,671,468</u>	<u>\$ 5,700,427</u>	<u>\$ 83,484,557</u>	<u>\$ 11,758,769</u>

STATE OF MICHIGAN
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS, AND DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED SEPTEMBER 30, 2000
 (In Thousands)

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	DEBT SERVICE
REVENUES			
Taxes	\$ 11,635,216	\$ 11,230,253	\$ -
From federal agencies	7,515,197	1,056,428	-
From local agencies	128,073	45,808	-
From services	109,597	697	-
From licenses and permits	223,051	169,955	-
Special Medicaid reimbursements	1,059,343	-	-
Miscellaneous	429,176	603,071	22,364
Total Revenues	<u>21,099,653</u>	<u>13,106,214</u>	<u>22,364</u>
EXPENDITURES			
Current:			
General government	1,045,672	25,971	105
Education	2,280,839	10,155,972	1,112
Family independence services	3,334,440	2,394	-
Public safety and corrections	1,978,509	4,492	-
Conservation, environment, recreation, and agriculture	344,591	220,147	-
Labor, commerce, and regulatory	555,754	184,933	-
Health services	7,682,009	10,345	-
Transportation	-	1,663,318	-
Tax expenditures (Note 16)	502,100	-	-
Capital outlay	73,574	1,122,637	-
Intergovernmental-revenue sharing	1,494,016	-	-
Debt service:			
Bond principal retirement	-	-	199,820
Bond interest and fiscal charges	-	-	202,434
Capital lease payments (Note 13)	50,894	1,133	-
Total Expenditures	<u>19,342,398</u>	<u>13,391,344</u>	<u>403,470</u>
Excess of Revenues over (under) Expenditures	<u>1,757,255</u>	<u>(285,130)</u>	<u>(381,106)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from bond and bond anticipation note issues	-	82,099	-
Capital lease acquisitions	21,915	415	-
Operating transfers from other funds	342,325	2,288,491	430,307
Operating transfers from component units	104	250	-
Operating transfers from primary government	-	-	-
Operating transfers to other funds	(873,664)	(1,387,294)	(4,351)
Operating transfers to component units	(726,864)	(50,163)	-
Operating transfers to primary government	-	-	-
Total Other Financing Sources (Uses)	<u>(1,236,184)</u>	<u>933,797</u>	<u>425,956</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	521,072	648,667	44,850
Fund Balances - Beginning of fiscal year - restated (Note 4)	<u>1,575,960</u>	<u>3,116,279</u>	<u>246,973</u>
Equity transfers from other funds (Note 22)	21,655	-	-
Equity transfers to other funds (Note 22)	-	(21,655)	-
Equity transfers to component units (Note 22)	(17,354)	-	-
Fund Balances - End of fiscal year	<u>\$ 2,101,333</u>	<u>\$ 3,743,291</u>	<u>\$ 291,822</u>

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

<u>GOVERNMENTAL FUND TYPE</u>	<u>FIDUCIARY FUND TYPE</u>	<u>TOTALS PRIMARY GOVERNMENT (MEMORANDUM ONLY)</u>	<u>COMPONENT UNITS</u>
<u>CAPITAL PROJECTS</u>	<u>EXPENDABLE TRUST</u>		
\$ -	\$ 1,051,046	\$ 23,916,515	\$ -
9,835	182,207	8,763,668	54,130
-	46,504	220,386	-
-	-	110,294	95,617
-	-	393,006	10,679
-	-	1,059,343	-
8,743	956,385	2,019,740	12,152
<u>18,578</u>	<u>2,236,143</u>	<u>36,482,952</u>	<u>172,579</u>
145	219,182	1,291,074	-
72,264	19	12,510,206	93,338
-	-	3,336,835	-
-	32,204	2,015,205	-
-	-	564,738	-
-	942,161	1,682,848	55,049
-	3,122	7,695,476	-
-	224,493	1,887,811	14,426
-	-	502,100	-
231,647	-	1,427,858	-
-	-	1,494,016	-
-	-	199,820	-
-	-	202,434	-
-	-	52,027	-
<u>304,056</u>	<u>1,421,180</u>	<u>34,862,448</u>	<u>162,813</u>
<u>(285,478)</u>	<u>814,962</u>	<u>1,620,504</u>	<u>9,766</u>
149,016	-	231,115	-
-	-	22,330	-
77,209	11,371	3,149,703	-
-	-	354	-
-	-	-	165,333
(60,214)	(69,979)	(2,395,501)	-
(127,662)	-	(904,689)	(174,941)
-	-	-	(250)
<u>38,350</u>	<u>(58,608)</u>	<u>103,312</u>	<u>(9,858)</u>
(247,128)	756,355	1,723,815	(92)
<u>(255,175)</u>	<u>6,121,078</u>	<u>10,805,115</u>	<u>63,886</u>
-	219	21,874	-
-	(219)	(21,874)	-
-	-	(17,354)	-
<u>\$ (502,302)</u>	<u>\$ 6,877,432</u>	<u>\$ 12,511,577</u>	<u>\$ 63,794</u>

STATE OF MICHIGAN
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL AND SPECIAL REVENUE FUNDS**
FISCAL YEAR ENDED SEPTEMBER 30, 2000
(In Thousands)

Statutory/Budgetary Basis	GENERAL FUND		VARIANCE FAVORABLE (UNFAVORABLE)
	BUDGET	ACTUAL	
REVENUES AND OTHER SOURCES			
Taxes	\$ 11,636,149	\$ 11,635,216	\$ (933)
From federal agencies	7,580,876	7,515,197	(65,679)
From local agencies	128,073	128,073	-
From services	109,597	109,597	-
From licenses and permits	223,051	223,051	-
Special Medicaid reimbursements	1,059,343	1,059,343	-
Miscellaneous	459,630	429,176	(30,454)
Operating transfers in	342,430	342,429	(1)
Total Revenues and Other Sources	<u>21,539,150</u>	<u>21,442,082</u>	<u>(97,067)</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Legislative Branch	160,269	159,605	665
Judicial Branch	225,852	225,196	656
Executive Branch:			
Agriculture	92,217	92,186	30
Attorney General	53,176	52,963	213
Career Development	338,448	338,038	410
Civil Rights	15,216	14,837	379
Civil Service	40,146	40,099	47
Colleges and Universities Grants	2,033,125	2,031,661	1,464
Community Health	8,291,030	8,211,724	79,306
Consumer and Industry Services	230,530	228,298	2,232
Corrections	1,572,525	1,570,247	2,278
Education	1,280,445	1,280,087	358
Environmental Quality	183,125	181,594	1,530
Executive Office	5,528	5,412	116
Family Independence Agency	3,389,665	3,389,320	345
Management and Budget	806,080	769,059	37,022
Military and Veterans Affairs	92,895	91,001	1,894
Natural Resources	125,167	125,041	126
State	170,727	169,380	1,346
State Police	371,829	369,865	1,965
Transportation	14,351	14,351	-
Treasury	2,349,841	2,336,505	13,335
Intrafund expenditure reimbursements	(621,250)	(621,250)	-
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>21,220,937</u>	<u>21,075,220</u>	<u>145,717</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 318,212</u>	<u>366,862</u>	<u>\$ 48,650</u>
Reconciling Items (Note 3):			
Encumbrances at September 30		154,209	
Funds not annually budgeted		-	
Net Reconciling Items		<u>154,209</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>521,072</u>	
FUND BALANCES			
Beginning balances		1,575,960	
Equity transfers from other funds		21,655	
Equity transfers to other funds		(17,354)	
Ending balances (GAAP Basis)		<u>\$ 2,101,333</u>	

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

SPECIAL REVENUE FUNDS			TOTALS		
			(MEMORANDUM ONLY)		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$ 11,170,434	\$ 11,170,434	\$ -	\$ 22,806,582	\$ 22,805,649	\$ (933)
1,035,320	1,035,320	-	8,616,196	8,550,517	(65,679)
45,569	45,680	111	173,643	173,753	111
697	697	-	110,294	110,294	-
169,955	169,955	-	393,006	393,006	-
-	-	-	1,059,343	1,059,343	-
543,402	544,755	1,353	1,003,032	973,931	(29,101)
2,148,489	2,274,289	125,800	2,490,920	2,616,719	125,799
15,113,866	15,241,129	127,263	36,653,016	36,683,212	30,196
-	-	-	160,269	159,605	665
-	-	-	225,852	225,196	656
-	-	-	92,217	92,186	30
-	-	-	53,176	52,963	213
65,189	65,189	-	403,637	403,227	410
-	-	-	15,216	14,837	379
-	-	-	40,146	40,099	47
100,634	97,465	3,169	2,133,759	2,129,127	4,632
43,374	10,374	33,000	8,334,404	8,222,098	112,306
130,933	130,124	809	361,463	358,422	3,041
-	-	-	1,572,525	1,570,247	2,278
10,073,776	10,072,649	1,127	11,354,221	11,352,736	1,485
-	-	-	183,125	181,594	1,530
-	-	-	5,528	5,412	116
3,047	2,415	631	3,392,712	3,391,735	977
182,000	182,000	-	988,080	951,059	37,022
4,742	4,519	224	97,637	95,520	2,118
227,681	207,776	19,904	352,847	332,817	20,031
-	-	-	170,727	169,380	1,346
-	-	-	371,829	369,865	1,965
4,036,052	3,881,624	154,428	4,050,403	3,895,975	154,428
30,139	28,443	1,696	2,379,980	2,364,948	15,032
-	-	-	(621,250)	(621,250)	-
14,897,567	14,682,578	214,989	36,118,504	35,757,799	360,706
\$ 216,299	558,551	\$ 342,252	\$ 534,511	925,413	\$ 390,902
	108,423			262,633	
	(18,307)			(18,307)	
	90,116			244,326	
	648,667			1,169,739	
	3,116,279			4,692,239	
	-			21,655	
	(21,655)			(39,008)	
	\$ 3,743,291			\$ 5,844,624	



STATE OF MICHIGAN
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS AND FUND BALANCES
PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS, AND DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED SEPTEMBER 30, 2000
 (In Thousands)

	PROPRIETARY FUND TYPES		TOTALS	COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	PRIMARY GOVERNMENT (MEMORANDUM ONLY)	
OPERATING REVENUES				
Operating revenues	\$ 2,303,799	\$ 977,421	\$ 3,281,220	\$ 27,582
Interest income	-	-	-	394,030
Investment revenue (net)	-	-	-	47,009
Miscellaneous	-	-	-	39,627
Total Operating Revenues	2,303,799	977,421	3,281,220	508,249
OPERATING EXPENSES				
Salaries, wages, and other administrative	245,257	166,617	411,874	107,374
Interest expense	23	-	23	287,912
Depreciation	552	33,373	33,926	317
Purchases for resale	413,924	40,522	454,446	379
Purchases for prison industries	-	16,723	16,723	-
Lottery prize awards	920,800	-	920,800	-
Premiums and claims	-	654,811	654,811	-
Other operating expenses	521	57,424	57,945	2,632
Total Operating Expenses	1,581,078	969,471	2,550,549	398,613
Operating Income (Loss)	722,721	7,950	730,670	109,635
NONOPERATING REVENUES (EXPENSES)				
Specific tax on spirits	9,991	-	9,991	-
Federal grant revenue	-	-	-	84,913
Interest revenue	13,907	-	13,907	595
Investment revenue (expense) - net	73,745	-	73,745	-
Other nonoperating revenues	2,827	-	2,827	1,825
Nonoperating grants	-	-	-	(167,062)
Amortization of prize award obligation discount	(67,061)	-	(67,061)	-
Interest expense	(14,224)	(1,598)	(15,821)	(213)
Other nonoperating expenses	-	(103)	(103)	(566)
Total Nonoperating Revenues (Expenses)	19,186	(1,701)	17,485	(80,508)
Income (Loss) Before Operating Transfers	741,906	6,249	748,155	29,127
OPERATING TRANSFERS				
Operating transfers from component units	-	-	-	174,941
Operating transfers from primary government	-	-	-	1,948
Operating transfers to other funds	(753,885)	(317)	(754,202)	-
Operating transfers to component units	-	-	-	(723)
Total Operating Transfers In (Out)	(753,885)	(317)	(754,202)	176,166
Net Income (Loss)	(11,979)	5,932	(6,047)	205,293
Retained Earnings and Fund Balances - Beginning of fiscal year - restated (Note 4)	69,531	51,325	120,856	730,822
Retained Earnings and Fund Balances - End of fiscal year	<u>\$ 57,552</u>	<u>\$ 57,257</u>	<u>\$ 114,809</u>	<u>\$ 936,116</u>

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

STATE OF MICHIGAN
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FISCAL YEAR ENDED SEPTEMBER 30, 2000
(In Thousands)

	ENTERPRISE	INTERNAL SERVICE	TOTALS PRIMARY GOVERNMENT (MEMORANDUM ONLY)	COMPONENT UNITS
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 722,721	\$ 7,950	\$ 730,670	\$ 109,635
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	552	33,373	33,926	317
Amortization of prepaid expenses	-	93	93	-
Amortization of deferred items (net)	-	-	-	4,089
Interest (nonprogram) and investment income	-	-	-	(153,209)
Interest expense	-	-	-	287,912
Other adjustments	6	-	6	8,203
Changes in assets and liabilities:				
Amounts due from other funds	-	12,208	12,208	-
Amounts due from component units	-	-	-	71,038
Amounts due from primary government	-	-	-	161
Amounts due from federal agencies	-	20	20	(2,527)
Amounts due from local units	-	-	-	(269,850)
Inventories	2,862	(1,803)	1,059	(15)
Mortgages and loans receivable (program loans)	-	-	-	(107,151)
Other assets	(8,850)	(9,058)	(17,909)	(16,730)
Accounts payable and other liabilities	(278,572)	17,420	(261,152)	35,787
Amounts due to other funds	53	(14,092)	(14,038)	1,394
Amounts due to component units	-	-	-	(2,846)
Amounts due to primary government	-	-	-	(295)
Deferred revenue	(3)	128	125	1,524
Tuition benefit obligation (nonaccretion portion)	-	-	-	(50,827)
Net cash provided (used) by operating activities	<u>\$ 438,769</u>	<u>\$ 46,239</u>	<u>\$ 485,007</u>	<u>\$ (83,392)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Other nonoperating revenues	\$ -	\$ -	\$ -	\$ 1,468
Proceeds from sale of bonds and notes	-	-	-	1,146,566
Principal repayments on bonds and notes	-	-	-	(817,082)
Interest paid	-	-	-	(272,036)
Loans or loan repayments to other funds	-	(2,000)	(2,000)	-
Specific tax on spirits	9,991	-	9,991	-
Grants received from federal government	-	-	-	221,017
Nonoperating grants	-	-	-	(167,062)
Other nonoperating expenses	-	-	-	(566)
Operating transfers from component units	-	-	-	174,941
Operating transfers from primary government	-	-	-	1,948
Operating transfers to other funds	(753,885)	(317)	(754,202)	-
Operating transfers to component units	-	-	-	(723)
Equity transfers from primary government	-	-	-	17,354
Other noncapital financing provided	-	-	-	75
Other noncapital financing used	-	-	-	(1,058)
Net cash provided (used) by noncapital financing activities	<u>\$ (743,894)</u>	<u>\$ (2,317)</u>	<u>\$ (746,211)</u>	<u>\$ 304,843</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of bonds and notes	\$ -	\$ -	\$ -	\$ 6,359
Acquisition and construction of capital assets	(105)	(13,812)	(13,917)	(9,574)
Principal paid on bond and loan maturities	-	(10,677)	(10,677)	(3,607)
Interest paid on revenue bonds	-	(279)	(279)	(167)
Capital lease payments (including imputed interest expense)	-	(5,234)	(5,234)	-
Proceeds from sale of property, plant, and equipment	3,475	1,053	4,528	-
Net cash provided (used) by capital and related financing activities	<u>\$ 3,370</u>	<u>\$ (28,949)</u>	<u>\$ (25,579)</u>	<u>\$ (6,989)</u>

	ENTERPRISE	INTERNAL SERVICE	TOTALS PRIMARY GOVERNMENT (MEMORANDUM ONLY)	COMPONENT UNITS
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment securities	\$ (111,742)	\$ -	\$ (111,742)	\$ (1,258,616)
Proceeds from sale and maturities of investment securities	381,093	-	381,093	967,724
Interest and dividends on investments	13,917	-	13,917	131,158
Proceeds from securities lending activities	15,160	-	15,160	-
Expenses from securities lending activities	(14,224)	-	(14,224)	-
Net cash provided (used) by investing activities	<u>\$ 284,203</u>	<u>\$ -</u>	<u>\$ 284,203</u>	<u>\$ (159,734)</u>
Net cash provided (used) - all activities	\$ (17,552)	\$ 14,972	\$ (2,579)	\$ 54,728
Cash and cash equivalents at beginning of year - restated	<u>77,638</u>	<u>71,526</u>	<u>149,165</u>	<u>567,153</u>
Cash and cash equivalents at end of year	<u>\$ 60,087</u>	<u>\$ 86,499</u>	<u>\$ 146,585</u>	<u>\$ 621,882</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS				
Per balance sheet classifications:				
Cash	\$ 3	\$ 68	\$ 71	\$ 424,084
Equity in common cash	63,826	94,438	158,265	197,798
Warrants outstanding	(3,743)	(8,008)	(11,751)	-
Cash and cash equivalents at end of year	<u>\$ 60,087</u>	<u>\$ 86,499</u>	<u>\$ 146,585</u>	<u>\$ 621,882</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Cost of capital assets acquisitions financed by capital leases	\$ -	\$ 17,941	\$ 17,941	\$ -
Capital lease liabilities entered into during the year	-	(17,941)	\$ (17,941)	-
Contributed fixed assets	-	809	809	-
Gain (loss) on disposal of capital assets	-	(103)	(103)	-
Total noncash investing, capital, and financing activities	<u>\$ -</u>	<u>\$ 706</u>	<u>\$ 706</u>	<u>\$ -</u>

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



STATE OF MICHIGAN
COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2000
(In Thousands)

	<u>TOTAL PENSION TRUST FUNDS</u>
Additions:	
Contributions:	
From members	\$ 380,547
From employers	1,444,895
From other plans	<u>77,074</u>
Total contributions	1,902,516
Investment income:	
Net appreciation (depreciation) in fair value of investments	4,972,005
Interest, dividends, and other	1,459,631
Securities lending income	<u>73,569</u>
Total investment income (loss)	6,505,205
Less investment expense:	
Investment activity expense	69,727
Securities lending expense	<u>68,821</u>
Net investment income (loss)	6,366,657
Miscellaneous income	<u>1,548</u>
Total additions	<u>8,270,720</u>
Deductions:	
Benefits paid to participants or beneficiaries	2,285,450
Medical, dental, and life insurance for retirants	656,601
Refunds and transfers to other systems	96,762
Administrative expense	<u>60,285</u>
Total deductions	<u>3,099,098</u>
Net increase (decrease)	5,171,622
Net plan assets held in trust for pension and postemployment health-care benefits - Beginning of fiscal year (Note 11)	<u>48,586,540</u>
Net plan assets held in trust for pension and postemployment health-care benefits - End of fiscal year	<u>\$ 53,758,162</u>
Reconciliation of net increase in assets:	
Net increase (decrease) in assets held in trust for pension benefits	\$ 5,196,571
Net increase (decrease) in assets held in trust for postemployment benefits	<u>(24,949)</u>
Total net increase (decrease)	<u>\$ 5,171,622</u>

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

STATE OF MICHIGAN
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
STATE UNIVERSITIES
 FISCAL YEAR ENDED JUNE 30, 2000
 (In Thousands)

	<u>TOTAL COMPONENT UNITS</u>
REVENUES AND OTHER ADDITIONS	
Unrestricted current fund revenues	\$ 946,535
Government grants and contracts - restricted	316,534
Private gifts, grants, and contracts - restricted	83,314
Investment income - restricted	15,974
Realized gains on investments - restricted	2,043
Realized gains on investments - unrestricted	2,827
Interest on loans receivable	2,215
Expended for plant facilities	250,706
Retirement of indebtedness	30,012
Other sources - restricted	11,292
Other sources - unrestricted	<u>3,662</u>
Total revenues and other additions	<u>1,665,113</u>
EXPENDITURES AND OTHER DEDUCTIONS	
Educational and general expenditures	1,476,799
Auxiliary enterprises expenditures	272,558
Indirect costs recovered	7,485
Refunded to grantors	12
Loan cancellations and write-offs	1,197
Administrative and collection costs	1,212
Expended for plant facilities	249,521
Retirement of indebtedness	30,012
Interest on indebtedness	29,911
Disposal of plant facilities	2,119
Depreciation	<u>98,915</u>
Total expenditures and other deductions	<u>2,169,742</u>
TRANSFERS	
Operating transfers from primary government	<u>669,103</u>
Net increase (decrease) for the year	<u>164,474</u>
Total Fund Equity and Other Credits - Beginning of fiscal year	<u>1,769,540</u>
Total Fund Equity and Other Credits - End of fiscal year	<u>\$ 1,934,014</u>

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

STATE OF MICHIGAN
**COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS
AND CHANGES IN FUND BALANCES**
STATE UNIVERSITIES
FISCAL YEAR ENDED JUNE 30, 2000
(In Thousands)

	<u>TOTAL COMPONENT UNITS</u>
REVENUES	
Tuition and fees	\$ 543,128
Governmental contracts and grants	313,639
Private gifts, grants and contracts	93,264
Indirect cost recoveries (deduct)	908
Endowment income	4,215
Other investment income	19,078
Sales and services of educational activities	60,882
Sales and services of auxiliary activities, net	280,082
Other sources	<u>7,115</u>
TOTAL REVENUES	<u>1,322,310</u>
EXPENDITURES	
Instruction	548,233
Research	47,166
Public service	57,570
Academic support	137,308
Student services	107,195
Institutional support	161,185
Operation and maintenance of plant	124,580
Scholarships and fellowships	345,723
Auxiliary activities	<u>262,431</u>
TOTAL EXPENDITURES	<u>1,791,390</u>
MANDATORY TRANSFERS (IN) OUT	
Student services-loan fund matching grant	358
Debt service	47,949
Research and other matching grants	<u>215</u>
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	<u>1,839,913</u>
OTHER TRANSFERS AND (ADDITIONS) DEDUCTIONS	
Operating transfers from primary government	(575,346)
OTHER TRANSFERS (IN) OUT	
Capital improvements	40,422
Other	<u>24,741</u>
TOTAL EXPENDITURES AND TRANSFERS	<u>1,329,731</u>
REVENUES OVER (UNDER) EXPENDITURES AND TRANSFERS	(7,420)
Fund Balances - Beginning of fiscal year	214,057
Change in restricted revenue held for future expenditures	<u>(8,243)</u>
Fund Balances - End of fiscal year	<u>\$ 198,394</u>

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

