STATE OF MICHIGAN
INDEX FOR
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 2000

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the State conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). The following is a summary of the significant policies:

A. Reporting Entity

For financial reporting purposes, the State of Michigan's reporting entity includes the "primary government" and "component units." The primary government includes all funds, account groups, departments and agencies, bureaus, boards, commissions, and those authorities which are considered an integral part of the primary government. The component units are legally separate governmental organizations for which the State's elected officials are financially accountable.

Financial accountability is defined in GASB Statement No. 14, The Financial Reporting Entity. The criteria for determining financial accountability include the following considerations: 1) appointment of a voting majority of an organization's governing authority and the ability of the primary government to either impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, or 2) an organization is fiscally dependent on the primary government.

Blended Component Units

The State Building Authority and the Michigan Underground Storage Tank Financial Assurance Finance Authority are legally separate organizations that have boards appointed by the primary government and provide services primarily to benefit the State. Therefore, they are reported as though they were part of the State's primary government using the blending method.

Discretely Presented Component Units

Most component units are reported in the combined financial statements in separate discrete columns, that are labeled as "Component Units." This separate reporting to the right of the "TOTALS PRIMARY GOVERNMENT (MEMORANDUM ONLY)" column emphasizes that these organizations are legally separate from the State's primary government. The primary government appoints the governing body of these entities. All of the component units are reported in a single column on the Combined Balance Sheet; the component units' operations are reported on the appropriate combined statement(s), depending on the primary activities of the component unit and the related measurement focus and basis of accounting (i.e., governmental, proprietary, or university component units).

The following component units, which the State is able to impose its will upon, use the modified accrual basis, and their operating results are presented with the governmental fund types on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances:

The Mackinac Bridge Authority accounts for the operation of the Mackinac Bridge.

The Michigan Higher Education Facilities Authority accounts for the administration of no commitment debt issued for the benefit of private institutions of higher education.

The Michigan Strategic Fund provides business enterprises with additional sources of financing.

The Michigan Higher Education Assistance Authority accounts for funds held on behalf of the U.S. Department of Education. A portion of this authority is accounted for using the accrual basis.

The following component units use accrual accounting and their operating results are presented with the proprietary fund types on the Combined Statement of Revenues, Expenses, and Changes in Retained Earnings and Fund Balances; and the Combined Statement of Cash Flows.

The State is able to impose its will upon these entities:

The Michigan State Hospital Finance Authority accounts for the administration of limited obligation debt issued for the benefit of hospitals.

The Michigan Education Trust offers contracts which, for actuarially determined amounts, provide plan participants with future tuition at institutions of higher education.

The Michigan Higher Education Student Loan Authority is a financing authority that makes loans to students or their parents.

The Michigan Higher Education Assistance Authority is the State guaranty agency under the Stafford Loan Program, the Supplemental Loans to Students Program, and the Parent Loan for Undergraduate Students Program. A portion of this authority is accounted for using the modified accrual basis.

The Michigan State Housing Development Authority finances loans for the construction of multi-family and single-family housing and home improvements.

The Michigan Municipal Bond Authority assists local units by pooling their borrowing activities. This authority is also responsible for assisting local units with their financing of water pollution control projects.

There is a financial burden/benefit relationship between these entities and the State:

The Mackinac Island State Park Commission operates the Mackinac Island and Michilimackinac State Parks.

The Michigan Economic Development Corporation manages programs to stimulate, coordinate, and advance economic development in the State.

The following entity's relationship with the State would be misleading if it were omitted from the State's reporting entity:

The State Bar of Michigan is a public body corporate whose membership consists of persons licensed to practice law.

Note 1 continued on next page.

Ten of the State's public universities are considered component units because they have boards appointed by the primary government. These universities all follow the American Institute of Certified Public Accountants Industry Audit Guide, Audits of Colleges and Universities (the AICPA Model). The universities' operating results are reflected in the Combined Statement of Changes in Fund Balances, and the Combined Statement of Current Funds Revenues, Expenditures, Transfers, and Changes in Fund Balances. These statements are unique to the AICPA model and only a "Component Units" column appears on these statements because the State has no institutions of higher education which are part of the primary government. The ten universities included in these statements are: 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. Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate. The State provides significant funding to support these institutions; however, under GASB Statement No. 14 criteria, they are considered fiscally independent special-purpose governments.

Availability of Financial Statements

All of the State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the various component units. To obtain their phone numbers, you may contact the Department of Management and Budget, Office of Financial Management, Financial Reporting Section at (517) 373-3029.

Related Organizations

The State's Insurance Commissioner is responsible for appointing the members of the boards of the Michigan Catastrophic Claims Association and the Michigan Property and Casualty Guaranty Association, but the State's accountability for these organizations does not extend beyond making the appointments.

Joint Ventures

As discussed in more detail in Note #7, the State participates in one joint venture. Its financial activities are not included in the State's financial statements, but the State's equity interest is recorded as an asset in the General Fixed Assets Account Group.

Jointly Governed Organizations

The State, the University of Michigan, Michigan State University, and Wayne State University appoint members of the board of the Michigan Public Health Institute (MPHI), a non-profit corporation. MPHI was established to plan, promote, and coordinate health services research with a public university or a consortium of public universities in the State. The State does not appoint a majority of the board, has no rights to the assets, and is not responsible for debts of MPHI. Therefore, the State's accountability for MPHI does not extend beyond making the appointments. During fiscal year 1999-2000, the State awarded contracts totaling $15.8 million to MPHI.

The International Bridge Authority of Michigan, previously reported as a joint venture, was abolished by P.A. 243 of 2000 because the bonds issued to finance the construction of the bridge were retired. During fiscal year 1999-2000, the Governor and St. Mary's River Bridge Company of Ontario, Canada signed a 40-year agreement creating the Joint International Bridge Authority (JIBA), a non-profit organization. The State does not appoint a majority of the board, has no rights to the assets, and is not responsible for debts of JIBA. Therefore, the State's accountability for JIBA does not extend beyond making the appointments.

B. Basis of Presentation

The financial statements for most primary government funds are based upon financial transactions as they are recorded in individual funds in the State's central accounting system. The amounts presented for the Michigan Unemployment Compensation Fund, the State Building Authority, the State Employees' Deferred Compensation Funds, the State Employees' Defined Contribution Retirement Fund, and the discretely presented component units are based upon audited financial statements and schedules issued by those agencies. The various primary government funds, including the blended State Building Authority, are combined into the various fund types described below. Note #2 provides details showing which funds are reported in each fund type.

GOVERNMENTAL FUND TYPES

General Fund: The General Fund is the State's primary operating fund. It is used to account for general purpose financial resources and those restricted revenues which are not required to be accounted for in separate funds.

Special Revenue Funds: This fund group includes operating fund activities financed by specific revenue sources that are legally restricted for specified purposes.

Debt Service Funds: This group accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Funds: Funds which account for the acquisition or construction of major State capital facilities financed by bond proceeds and commercial paper notes are reported in this fund group.

PROPRIETARY FUND TYPES

Enterprise Funds: This fund group includes funds whose operations and finances are accounted for in a manner similar to private business enterprises. For this group, it is the intent of the State that: (a) the costs (i.e., expenses, including depreciation) of providing goods or services to the general public be financed primarily by user charges; or (b) "net income" be periodically determined and used as appropriate for capital maintenance, management control, or determination of amounts to be transferred to other operating funds as required by statute.

Internal Service Funds: This group is similar to enterprise funds, except that the goods or services are provided primarily to other agencies or funds of the State, rather than to the general public.

Note 1 continued on next page.

FIDUCIARY FUND TYPES

Trust and Agency Funds: This group includes assets held by the State on behalf of outside parties, including other governments, or on behalf of other State funds. The group is subdivided into three subtypes: (a) pension trust funds, which are accounted for in a manner similar to proprietary funds; (b) expendable trust funds, which are accounted for in a manner similar to governmental funds; and (c) agency funds, where the State's responsibility is purely custodial in nature and for which asset and liability balances, but not operating results, are included in the general purpose financial statements.

ACCOUNT GROUPS

General Fixed Assets Group: This account group is used to account for fixed assets (i.e., land, buildings, and equipment) owned by the State, except for assets of proprietary fund types which are recorded directly in those funds. Equity interests in joint ventures are also recorded in this account group.

General Long-Term Obligations Group: This account group accounts for all of the long-term obligations of the State, except for those accounted for directly in a fund.

TOTALS PRIMARY GOVERNMENT (MEMORANDUM ONLY)

Amounts in the "TOTALS PRIMARY GOVERNMENT (MEMORANDUM ONLY)" columns represent summations of the primary government fund types and account groups and are presented only for analytical purposes. The summations include fund types and account groups that use different bases of accounting, interfund transactions that have not been eliminated, and the caption "amounts to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "TOTALS PRIMARY GOVERNMENT (MEMORANDUM ONLY)" columns are not comparable to a consolidation.

DISCRETELY PRESENTED COMPONENT UNITS

As detailed in part A of this note, component units other than the State Building Authority and the Michigan Underground Storage Tank Financial Assurance Finance Authority are discretely presented in the combined financial statements that correspond to the accounting model they use. Those that use the governmental and proprietary models follow the same practices of the fund types that are described above.

The universities, which follow the AICPA model, use different fund types and groupings. Current funds include the universities' general, designated, auxiliary activities, and expendable restricted funds. Current funds' operating results are reflected in the "Combined Statement of Current Funds Revenues, Expenditures, Transfers, and Changes in Fund Balances." Other university fund types include student loan, endowment, plant fund, and agency funds. All university fund activities are reflected in the Combined Statement of Changes in Fund Balances. In the State's financial report, only component unit totals are reported. Readers interested in fund detail for a component unit should obtain the separately issued financial statements for that agency.

C. Basis of Accounting

Modified Accrual

The governmental fund types, expendable trust funds, and agency funds are accounted for on the modified accrual basis of accounting. There are some departures from the modified accrual basis for statutory/budgetary purposes that have no effect on the funds' balance sheets. The nature of these departures is such that they only affect how operating results are reported. This is further explained in Note #3.

The modified accrual basis emphasizes the measurement of current financial resources and obligations (i.e., "financial flow" focus). Therefore, fund revenues and other financing sources are recorded when financial resources become "measurable and available" to finance expenditures of the current period; expenditures are recorded when fund liabilities are incurred, except for principal and interest on general long-term obligations.

Accrual

The proprietary fund types and the pension trust funds use the accrual basis of accounting. The accrual basis emphasizes the measurement of "net income," (i.e., "capital maintenance" focus). Using this basis, revenues are recognized when "earned" and expenses are recognized when "incurred." All financial resources and obligations of a fund, whether current or noncurrent, are recorded in the fund.

The primary effects of the differences in these bases are:

(1) For governmental fund types, most long-term liabilities are reported in the General Long-Term Obligations Account Group rather than as fund liabilities. The proceeds of long-term borrowings result in increases to fund balance because "other financing sources" are credited to the fund. Fund liabilities for both principal and interest related to general long-term obligations are recognized when they become "due and payable" (i.e., when normally liquidated with expendable available financial resources). For additional explanation of the accounting basis for long-term obligations, including claims and judgments, see Note #14.

(2) Fixed asset acquisitions are recorded as expenditures of governmental fund types in the year acquired. Such assets are capitalized in proprietary fund types, with depreciation expense recognized over the life of the asset.

(3) For governmental fund types, revenue which is not "available" is recorded as deferred revenue. Other noncurrent assets result in reservations of fund balance. Such deferrals and reserves are usually not reflected in proprietary type funds.

As allowed by GASB Statement No. 20, <u>Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting</u>, the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Note 1 continued on next page.

AICPA Model

As a general rule, the AICPA model followed by the discretely presented State university component units uses the accrual basis of accounting; however, the basis of presentation and fund groupings are unique. For "current funds" the measurement focus is the flow of financial resources related to the delivery of services. Plant funds are used to account for fixed assets and related depreciation and financing, and student loan, endowment and agency funds are used to report other noncurrent fund activities.

D. Fiscal Year-Ends

All funds and discretely presented component units are reported using fiscal years which end on September 30, except for the Michigan State Housing Development Authority and the ten State universities, which are reported using June 30 year-ends.

E. Assets, Liabilities, and Fund Equity

Cash and Cash Equivalents

On the Combined Statement of Cash Flows, the amount reported as "Cash and cash equivalents" is equal to the total of the amounts on the Combined Balance Sheet lines "Cash" and "Equity in common cash," less the amount of "Warrants outstanding."

Cash

Cash reported on the balance sheet consists of petty cash, undeposited receipts, deposits in transit to the common cash pool, and cash equivalents such as short-term investments with original maturities of less than three months used for cash management rather than investing activities.

Equity in Common Cash

The State Treasurer maintains centralized management of most State cash resources (not including component units). From the perspective of the various State funds, the pool functions as both a cash management pool and a demand deposit account. The operations and investments of the common cash pool are described in Note #5.

Taxes Receivable

Tax revenue is accrued to the extent that it is both measurable and available. Application of the measurability and availability criteria regarding taxes is described in Note #6.

Amounts Due From Federal Agencies

For most federally funded programs, revenue is accrued in the same period as related obligations are recorded. In certain programs financed entirely by the federal government, expenditures and related revenues are recognized only to the extent of billings received by fiscal year-end. This treatment, which is generally limited to certain programs within the Department of Education understates both assets and liabilities, and expenditures and revenues; however, there is no impact on fund balance.

Inventories

Inventories are valued at cost, primarily using the first-in, first-out flow method. Expenditures (governmental funds) and expenses (proprietary funds) are recognized using the consumption method (i.e., when used or sold).

Investments

Generally, investments are reported at fair value, consistent with the provisions of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury obligations are reported at amortized cost. Additional disclosures describing investments are provided in Note #8.

Security Lending Collateral

Securities on loan for cash collateral are reported in the balance sheet. Liabilities resulting from the security lending transactions are also reported. Additional disclosures describing security lending transactions are provided in Note #8.

Other Assets

Other assets include receivables, amounts held in escrow, and other types of assets not reported on other lines.

Property, Plant, and Equipment

General fixed assets and capitalizable improvements of governmental fund types are recorded in the General Fixed Assets Account Group at historical cost or, if donated, at the estimated fair market value at the date of acquisition. In assembling the General Fixed Assets Account Group for the first time in 1985, certain fixed asset costs were not available; historical costs of these assets at the dates of acquisitions have been estimated.

Infrastructure ("public domain") fixed assets such as undeveloped State owned land, roads, and bridges are not capitalized. Interest incurred during construction is not capitalized and depreciation is not recognized on general fixed assets.

Assets of proprietary funds are capitalized at cost upon acquisition. Interest incurred during construction is capitalized. Depreciation expense on buildings and equipment is recorded over the expected useful lives of the assets. Depreciation is calculated using the straight-line method, except for automotive equipment in the Motor Transport Fund (an internal service fund), which is depreciated using the 150% declining balance method.

Additional disclosures related to fixed assets and assets acquired through capital leases are provided in Notes #10 and #13, respectively.

Warrants Outstanding

Warrants outstanding represent drafts issued against the State Treasurer's common cash pool, which have not yet cleared. These are similar to outstanding checks; however, the issuing funds' balances in the pool are not reduced until warrants are redeemed.

Income Tax Refunds Payable

The amount of collected or accrued personal income tax revenues that will be refunded is estimated and accrued as a General Fund liability. Note #16 more fully describes this liability.

Deferred Revenue

Deferred revenue is recognized when cash, receivables, or other assets are received or recognized prior to their being earned or available.

Note 1 continued on next page.

Long-Term Liabilities

General long-term obligations which are not reported as fund liabilities are reported in the General Long-Term Obligations Account Group. The group, which is more fully described in Note #14, includes obligations related to the funds accounted for on the modified accrual basis for: general obligation and revenue dedicated bonds, capital leases, compensated absences, claims and judgments, workers' compensation, net pension obligations, claims against the Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA), and revenue bonds issued by the State Building Authority. Fund expenditures are recognized for these obligations in the period when they are "normally liquidated with available financial resources." For obligations other than claims and judgments, claims against MUSTFA, and capital leases, the expenditures are recognized as they become "due and payable." Note #14 explains the accounting for claims and judgments and claims against MUSTFA. Note #13 explains the accounting for capital leases.

Long-term liabilities of proprietary funds, agency funds, and discretely presented component units are recognized in the funds, except the portions of the State's workers' compensation liability for which fund distribution is not reasonably estimable. These long-term liabilities are more fully explained in Notes #13, #15, #17, and #18.

Fund Equity

Fund equity represents the difference between fund assets and fund liabilities. The governmental and fiduciary funds' fund equity is called "fund balance." For proprietary funds, equity attributable to accumulated earnings is referred to as "retained earnings."

Equity provided by other funds or governmental units for property, plant, and equipment or for original start-up costs for new funds is classified as "contributed capital." Note #22 explains the basis for the amounts which are reported as contributed capital.

Reservations

Fund balances for all governmental funds are classified as either reserved or unreserved. Reserved fund balances reflect either: 1) funds legally segregated for a specific use or 2) assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund. Details related to the make-up of reserved fund balances are reported in Note #24.

Fund balance reservations in the discretely presented component units column reflect the restricted funds of State universities. Retained earnings reservations in the discretely presented component units column primarily reflect amounts required to be set aside by bond agreements. These are described in Note #23.

F. Revenues, Expenditures, Encumbrances, Expenses, and Other Financing Sources and Uses

Revenues

Revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance.

Revenues of governmental funds that accrue to the State, independent of when expenditures are incurred by the State (such as taxes, licenses, and permits), are considered "available" if the payer incurs the obligation to the State before year-end and payment is received within 60 days of year-end, except for revenue related to delinquent taxes receivable which is recognized in the amount expected to be received within 12 months (see Note #6).

Revenues which the State earns by incurring obligations (such as matching federal grants) are generally recognized in the same period that the related obligations are recognized. Such accrued revenue is considered available even if it is not received within 60 days of year-end. This method provides improved reporting and control at the program level because it appropriately matches funding sources and uses.

Expenditures

Expenditures are reported by character: "Current," "Capital outlay," "Intergovernmental-revenue sharing," or "Debt service." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Tax expenditures, which represent income tax credit programs that are in substance grants, are also reported as current expenditures. These are described in more detail in Note #16.

Capital outlay includes expenditures for real property or infrastructure (e.g., highways). Intergovernmental-revenue sharing is used to account for the distribution of certain tax revenues which are shared with local units based upon statutory requirements. Debt service includes both interest and principal outlays related to bonds accounted for in the General Long-Term Obligations Account Group and payments on capitalized leases.

Encumbrances

Encumbrances are commitments related to unperformed (executory) contracts for goods or services. During the fiscal year, agencies may enter all types of encumbrances in the accounting system for spending control purposes. For year-end financial reporting purposes, encumbrances are recorded only to the extent that spending authority is allowed to be carried forward to the next year. The method of reflecting encumbrances in the statements is more fully described in Note #3.

Unless a statutory exception has been made, there are limits on the types of encumbrances that can be recorded as spending authority carry-forwards at year-end. Encumbrances are recorded only if the encumbrance is for an obligation that was entered into prior to September 16. Encumbrances for services are recorded only if the contract is for a nonrecurring item.

Encumbrance contracts for goods that specify delivery after September 30 are not recorded and encumbered amounts in excess of available line-item spending authority are not recognized.

Note 1 continued on next page.

Expenses
Expenses are classified as operating or nonoperating and are subclassified by object (e.g., salaries, depreciation, and purchases for resale).

Other Financing Sources
These additions to governmental fund balances include resources and financing provided by bond proceeds, capital leases, and operating transfers from other funds.

Other Financing Uses
These are reductions of governmental fund resources, normally resulting from operating transfers to other funds.

G. Interfund Transactions

Operating Transfers
Except as described below, transactions between primary government funds (including blended component units) are classified as operating transfers. These include most of the routine transfers of resources between funds, such as a transfer from a fund receiving revenue to the fund through which resources are to be expended. Transactions between the primary government and a discretely presented component unit are classified as operating transfers if they are in the nature of a subsidy or grant for general operations. The State's general operating appropriations and State Building Authority projects for the ten discretely presented university component units are reported in this manner.

Equity Transfers
Residual equity transfers, which are detailed in Note #22, are used to record capital contributions and other nonrecurring or nonroutine transfers of equity between funds and discretely presented component units.

Reimbursements
The reimbursement method reclassifies an expenditure/ expense from the fund originally making a disbursement to another fund to which the expenditure/expense is more properly attributable. For example, the State uses this method when the administrative costs of proprietary funds, discretely presented component units, or pension trust funds are appropriated in the General Fund.

Quasi - External Transactions
Certain interfund transactions are recorded as if they were occurring with an outside entity. This method is most commonly used to report revenues of the internal service funds, pension funds, and certain expendable trust funds. The paying funds report expenditures or expenses, depending upon fund type.

H. Future Changes in Accounting Standards

The Governmental Accounting Standards Board has issued Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions; Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; and Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities. These new accounting and reporting standards will impact the State's revenue and expenditure recognition; and assets, liabilities and fund equity reporting. The new standards will also require reformatting of the financial statements and the restating of beginning balances. The State intends to early implement these statements for fiscal year 2000-01, and due to the significance of the changes required, it is not possible to present pro-forma data prior to their implementation.

NOTE 2 – FUNDS AND COMPONENT UNITS BY CLASSIFICATION

The following table lists all of the funds and component units which make up the various fund types as of September 30, 2000. Operating funds which are subject to annual appropriation and for which statements comparing budget to actual are included in this report are identified by an "*". For each individual fund or component unit listed, the SOMCAFR page number of the first financial statement for that fund or component unit is shown in parenthesis.

PRIMARY GOVERNMENT:

General Fund*

Special Revenue Funds:

Transportation Related:
State Aeronautics Fund* (p. 80)
State Trunkline Fund* (p. 80)
Michigan Transportation Fund* (p. 80)
Comprehensive Transportation Fund* (p. 80)
Combined State Trunkline Fund Bond Proceeds Fund (p. 81)
Combined Comprehensive Transportation Bond Proceeds Fund (p. 81)

Conservation, Environment, and Recreation Related:
Game and Fish Protection Fund* (p. 92)
Michigan State Waterways Fund* (p. 92)
Marine Safety Fund* (p. 92)
Game and Fish Protection Trust Fund (p. 93)
State Park Improvement Fund* (p. 93)
Combined Recreation Bond Fund - Local Projects (p. 93)
Combined Environmental Protection Bond Fund (p. 93)
Michigan Natural Resources Trust Fund* (p. 93)
Michigan State Parks Endowment Fund* (p. 93)
Michigan Nongame Fish and Wildlife Fund* (p. 94)
Michigan Civilian Conservation Corps Endowment Fund* (p. 94)
Forest Development Fund* (p. 94)
Michigan Underground Storage Tank Financial Assurance Fund (p. 95)
Michigan Underground Storage Tank Financial Assurance Finance Authority (p. 95)
Bottle Deposits Fund (p. 95)

Regulatory and Administrative Related:
Michigan Employment Security Act - Administration Fund* (p. 106)
Safety Education and Training Fund* (p. 106)
Uninsured Employers' Security Fund (p. 106)
State Construction Code Fund* (p. 107)
Homeowner Construction Lien Recovery Fund* (p. 107)
State Casino Gaming Fund* (p. 107)

Other State Funds:
Counter-Cyclical Budget and Economic Stabilization Fund* (p. 116)
Michigan Veterans' Trust Fund* (p. 116)
School Aid Fund* (p. 116)
School Bond Loan Fund (p. 117)
Children's Trust Fund* (p. 117)
Michigan Merit Award Trust Fund* (p. 117)
Tobacco Settlement Trust Fund* (p. 117)

Debt Service Funds:

Combined State Trunkline Bond and Interest Redemption Fund (p. 126)
Combined Comprehensive Transportation Bond and Interest Redemption Fund (p. 126)
Recreation and Environmental Protection Bond Redemption Fund (p. 126)
School Loan Bond Redemption Fund (p. 127)
State Building Authority (p. 127)
Michigan Underground Storage Tank Financial Assurance Finance Authority (p. 127)

Capital Projects Funds:

Combined Recreation Bond Fund - State Projects (p. 132)
Advance Financing Funds (p. 132)
State Building Authority (p. 132)

Enterprise Funds:

Liquor Purchase Revolving Fund (p. 135)
State Lottery Fund (p. 135)

Internal Service Funds:

Correctional Industries Revolving Fund (p. 140)
Motor Transport Fund (p. 140)
Office Services Revolving Fund (p. 140)
Information Technology and Energy Fund (p. 141)
Risk Management Fund (p. 141)
State Sponsored Group Insurance Fund (p. 141)

Trust Funds:

Expendable Trust Funds:
Michigan Unemployment Compensation Fund (p. 150)
Michigan Employment Security Act Contingent Fund (p. 150)
Second Injury Fund (p. 150)
State Employees' Deferred Compensation Funds (p. 151)
Transportation Related Trust Funds (p. 151)
Miscellaneous Trust Accounts Fund (p. 151)

Pension Trust Funds:
Legislative Retirement Fund (p. 156)
State Police Retirement Fund (p. 156)
State Employees' Retirement Fund (p. 156)
Public School Employees' Retirement Fund (p. 157)
Judges' Retirement Fund (p. 157)
State Employees' Defined Contribution Retirement Fund (p. 157)

Agency Funds:

Financial Institutions Deposits Fund (p. 161)
Environmental Quality Deposits Fund (p. 161)
Insurance Carrier Deposits Fund (p. 161)
State Treasurer's Escrow and Paying Agent Fund (p. 162)
Child Support Collection Fund (p. 162)

Note 2 continued on next page.

DISCRETELY PRESENTED COMPONENT UNITS:

Governmental and Trust:

Mackinac Bridge Authority (p. 168)
Michigan Higher Education Facilities Authority (p. 168)
Michigan Strategic Fund (p. 169)
Michigan Higher Education Assistance Authority (p. 169)

Proprietary:

Michigan State Hospital Finance Authority (p. 174)
Michigan Education Trust (p. 174)
Michigan Higher Education Student Loan Authority (p. 174)
Michigan Higher Education Assistance Authority (p. 174)
Mackinac Island State Park Commission (p. 175)
Michigan State Housing Development Authority (p. 175)
Michigan Municipal Bond Authority (p. 175)
State Bar of Michigan (p. 175)
Michigan Economic Development Corporation (p. 175)

State Universities (1):

Central Michigan University (p. 182)
Eastern Michigan University (p. 182)
Ferris State University (p. 182)
Grand Valley State University (p. 182)
Lake Superior State University (p. 182)
Michigan Technological University (p. 183)
Northern Michigan University (p. 183)
Oakland University (p. 183)
Saginaw Valley State University (p. 183)
Western Michigan University (p. 183)

(1) Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate from the State. The State provides significant funding to support these institutions; however, under the GASB Statement No. 14 criteria, they are considered fiscally independent special-purpose governments.

NOTE 3 – BUDGETING AND BUDGETARY CONTROL

A. Major Constitutional and Statutory Provisions

Balanced Budget Requirements

Article 5 of the State Constitution mandates that the executive budget recommend spending limits for operating funds to the Legislature that are within available resources. Compliance with this is demonstrated in the executive budget and budget bills for each fiscal year.

Article 4 of the State Constitution mandates the Legislature to enact appropriations for each operating fund that does not exceed that fund's revenue estimates, including beginning unreserved fund balance.

Compliance with this requirement is demonstrated in schedules included in the annual appropriation acts, usually the "General Government" appropriation act. When it appears that revenue will fall below the estimates on which the appropriations are based, the Governor is required to recommend spending reductions as necessary to avoid a year-end deficit.

Local Spending Requirements

Article 9, Section 30 of the State Constitution requires that State spending to, or on behalf of, local units of government shall not fall below a specified percentage of total State spending. The percentage, recalculated effective with fiscal year 1992-93, is 48.97%.

Final calculations establishing the State's compliance with this Constitutional provision for fiscal year 1999-2000 are not yet complete. For fiscal year 1998-99, the most recent year for which final calculations are available, the proportion of total State spending paid to local units of government was determined to be 60.93%, reflecting payments that exceeded the minimum required by $ 2.7 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 1999-2000.

Revenue Limits

Article 9, Section 26, of the State Constitution restricts State revenues to a ceiling that is based upon revenues as a proportion of total personal income for the State. The base year ratio, determined in fiscal year 1978-79, in relation to calendar year 1977 personal income, is 9.49%. Both the constitutional language and implementing statutes provide for other adjustments to the revenue and personal income calculations. If revenues exceed the limit by 1% or more, the amount in excess must be refunded to personal income tax payers and payers of the State's single business tax. If the limit is exceeded by an amount less than 1%, the excess may be deposited into the State's Budget Stabilization Fund. The calculations determining the State's compliance with this Constitutional provision for fiscal year 1999-2000 are not 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.

Note 3 continued on next page.

Budget Stabilization Fund

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund") was created by P.A. 76 of 1977 to assist in stabilizing revenue and employment during periods of economic recession. In general, the law requires payments into the fund when real economic growth exceeds 2% and allows withdrawals from the fund when real economic growth is less than 0%. Funds can also be withdrawn when the State's unemployment rate exceeds 8% or upon appropriation to finance capital outlay or other projects, or for other purposes designated by the Legislature.

The following table summarizes the transactions for the fund for fiscal year 1999-2000 (in millions):

Beginning unreserved fund balance	$ 1,222.5
Interest income	74.0
Transfers from General Fund	100.0
Transfers to School Aid Fund	(32.0)
Transfers to State Trunkline Fund	(100.0)
Ending unreserved fund balance	$ 1,264.4

Transfers from the General Fund represent the transfer of $37.1 million pursuant to P.A. 124 of 1999, section 212, and P.A. 431 of 1984, section 352, as amended, and the transfer of $62.9 million, pursuant to P.A. 506 of 2000, section 203. The transfer to the School Aid Fund is for the purpose of paying money damages to school districts and intermediate school districts as required by P.A. 144 of 1997. The transfer to the State Trunkline Fund is for the purpose of funding a portion of the Build Michigan III program, pursuant to P.A. 189 of 2000, section 358.

B. Budgetary Control - Governmental Fund Types

A number of different budgetary control processes are used for the various funds and programs within funds. Annual legislative appropriations and revenue estimates are provided for most "operating" funds. These annually budgeted operating funds include the General Fund and 24 of the special revenue funds. (Note #2 identifies the annually budgeted operating funds.) The other funds do not have complete legally adopted budgets, but they are usually subject to some more limited form of budgetary control, such as financial plans or a limiting of expenditures to the amount of resources. The budget-to-actual comparative statements in this report reflect only the annually budgeted operating funds of the primary government with legally adopted budgets.

Revenues

General purpose (unrestricted) revenue estimates are provided in both the original executive budget and in original legislative appropriations in order to demonstrate compliance with constitutional provisions. The Department of Treasury is responsible for updating revenue projections. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

Spending

The level and method of control provided over spending varies between funds and programs. Appropriation line items may be by program, organization, project, object, or a mix of these. If a department wishes to transfer spending authority from one appropriated account to another, it must, generally, receive legislative approval. Expansion of total spending authority usually requires a supplemental appropriation. In the event that expenditures exceed authorization during a year, the department must request a supplemental appropriation (carry-back) for the amount overspent. Supplemental appropriations totaling $990.2 million were required to support additional spending for capital outlay, school aid funding and various other programs, including grants funded by the Clean Michigan Initiative funds. Unexpended authorization balances lapse at year-end unless carry-forward is authorized by statute or qualifying encumbrance carry-forwards have been recorded.

For programs financed from restricted revenues, spending authorizations are generally contingent upon recognition of the related revenue. If revenues fall short of estimates, related spending authorizations are reduced. If revenues exceed the estimate, supplemental appropriations are required before they can be spent.

Budgetary control of spending is maintained by the central accounting system at the appropriation line item account level. The large number of line items make it infeasible to include a detailed comparison of budget to actual in the State's Comprehensive Annual Financial Report. A separate report is published by the Department of Management and Budget detailing the disposition of authorizations at the line item spending account level, and is available upon request to the Office of Financial Management, Financial Reporting Section.

C. Statutory/Budgetary Presentation

In the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds, expenditures, operating transfers out, other financing uses, and encumbrances are combined and classified by department, rather than being reported by character and function as shown in the GAAP statements. This departmental classification is used to better reflect organizational responsibility and to be more consistent with the budgetary process. Generally accepted accounting principles require that the final legal budget be reflected in the "budget" column, therefore updated revenue estimates as of November 30, rather than the amounts shown in the original budget, are reported. The November 30 date is used because P.A. 431 of 1984, as amended, permits budget adjustments by the Legislature through 60 days after year-end.

The expenditures budget column represents original and supplemental appropriations, carry-forwards, carry-backs (i.e., current year appropriations for prior year overdrafts), approved transfers, executive order reductions, and timing differences. The timing differences result from unspent authorizations for multi-year projects, such as capital outlay and work projects, and from restricted revenues which had not yet been appropriated for expenditure in the current year. Such authorization balances remaining at year-end are removed from the budget column to provide an "annualized" budget. "Favorable variances" reflect restricted revenues which were appropriated and available for expenditure in the current year, and unused general purpose spending authority ("lapses"); "unfavorable variances" reflect budgetary overdrafts. If both favorable and unfavorable variances exist for a particular line, the amount shown is the net variance.

Appropriations include interagency expenditure reimbursement, where one agency provides funding to another agency within the same fund. The gross "budget" and "actual" amounts on this statement are adjusted to eliminate the duplication.

Note 3 continued on next page.

D. Statutory/Budgetary Reconciliation – General Fund and Special Revenue Funds

The statutory/budgetary basis presentation differs from generally accepted accounting principles (GAAP) in ways that do not affect ending fund balance.

Encumbrances

As explained in Note #1, the State records encumbrances at year-end only if they meet certain criteria. For budgetary reporting purposes, the recorded encumbrances are included with expenditures and operating transfers in the "Actual" columns because they are considered uses of spending authority in the year the State incurs an obligation. The "Budget" columns include encumbrance authorization balances carried over from the prior fiscal year because they provided spending authority in the current year. In the GAAP basis statements, encumbrances are not included as expenditures. The effect of this difference is reflected as a reconciling item on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds. The encumbrance of spending authority is recorded as a reservation of fund balance under both bases of accounting.

Capital Leases

For budgetary purposes, capitalizable lease expenditures are recognized when payments are due, rather than upon lease inception as required by GAAP. This difference does not affect fund balance because the "other financing sources" recorded under GAAP at lease inception are not recorded on the statutory/ budgetary basis.

E. Budgetary Overexpenditures

There were no net overexpenditures by General Fund departments. There were, however, the following line-item overexpenditures of State funds incurred during the year, which represent noncompliance with State budget laws (in millions):

General Fund	
Community Health	$ .5
Education	.7
Family Independence Agency	5.6
General Fund Total	$ 6.8

NOTE 4 – ACCOUNTING CHANGES AND RESTATEMENTS

A. Restatements

Federal regulations required the Michigan Higher Education Assistance Authority (MHEAA) to restate fiscal year 1998-99 revenues and expenses/expenditures for activities relating to loan collections. This resulted in an increase to revenue and expenditures of $39.3 million in the MHEAA fund utilizing the governmental fund model and a decrease in revenues and expenses in the fund utilizing the proprietary fund model.

Also, MHEAA reclassified contributed capital of $1.5 million into fund balance.

Activities relating to Urban Land Assembly loans are now reported by the Michigan Economic Development Corporation instead of the Michigan Strategic Fund. Prior year amounts have been restated to reflect an $8.3 million transfer of net assets.

B. Changes in Accounting Estimate

The State changed its methodology for estimating the liability for Medicaid inpatient hospital services provided but not paid for by year-end to better utilize actual claims data and historical trends, resulting in a more accurate estimate of the year-end liability. This change decreased General Fund accounts payable and current expenditures by $92.5 million and amounts due from federal agencies and federal revenues by $51.2 million compared to the amounts calculated using the previous year's accrual methodology. This change increased the General Fund unreserved fund balance by $41.4 million.

NOTE 5 – TREASURER'S COMMON CASH

A. General Accounting Policies

The State Treasurer manages the State's common cash pool, which is used by most State funds. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund; rather, each contributing fund's balance is treated as equity in the pool. Many funds, including pension funds, use their equity in the pool as a short-term investment vehicle. The Treasurer separately publishes the "Annual Report of the State Treasurer" which includes audited schedules of Common Cash Assets and Equities, Investment Portfolios of Specific Funds, and Investment Earnings.

In the State's Comprehensive Annual Financial Report, the common cash pool is not reported as a separate fund. Instead, each State fund's balance in the pool is reported on the Combined Balance Sheet line, "Equity in Common Cash."

All negative balances in the pool are reclassified at year-end as interfund liabilities. If the negative balance is considered long-term, the reclassification is recorded as an advance.

Note 5 continued on next page.

Statute or administrative policy determines whether a particular fund receives or pays interest on its balances in the pool. If a fund does not receive or pay interest, the General Fund receives or absorbs such amounts. Earnings on positive balances and charges on negative balances are allocated quarterly based upon the average daily balances of the various funds and the average investment earnings rate for the quarter. Accrued earnings of the pool are recorded as assets of the pool, with the accrual allocated to the various funds' equity in the pool. Interest revenues on positive balances and interest charges on negative balances are reflected as revenues or expenditures/expenses of each of the participating funds.

B. Investments and Deposits

The investment authority for the common cash pool is found in P.A. 105 of 1855, as amended. The State Treasurer may invest surplus funds belonging to the State in the bonds, notes, and other evidences of indebtedness of the United States Government, and its agencies; and in prime commercial paper. Certificates of deposit are permitted in financial institutions whose principal office is located in the State of Michigan.

The Treasurer invests excess cash in short-term investments, mostly prime commercial paper. The law does not prohibit the Treasurer from entering into repurchase agreements; however, the Treasurer did not use these agreements in managing the pool in 1999-2000.

Statutes provide for certain special State investment programs for which the General Fund is credited (charged) for earnings in excess of (under) those achieved by regular pool investments. There have been no principal losses because of these programs to date. The most significant program provides for emergency loans to local units of government. The Treasurer may loan not more than a combined total of $5 million in any one fiscal year to qualifying cities, villages, or townships in amounts as approved by the Emergency Financial Assistance Loan Board.

The Emergency Financial Assistance Loan Board was authorized to approve the lending of up to $159.9 million to Wayne County to finance the payment of certain obligations to the State. Under a loan agreement made in 1999-2000, the State loaned the County a total of $39.9 million. Loan repayments by the County are supported by provisions of the loan agreement and legislation that pledge the County's share of a portion of the State collected taxes on cigarettes. There were no repayments on the loans in fiscal year 1999-2000.

<u>Michigan Marina Dredging Loan Program</u>: P.A. 280 of 2000 provides for a program under which financial institutions may make low-interest loans to eligible marinas for dredging costs necessitated by low water levels to accommodate the use of the marina by recreational watercraft.

Under this program, the Michigan Department of Treasury and a financial institution may enter into an investment agreement under which the Department of Treasury will invest the State's common cash with the financial institution at an agreed upon interest rate (generally 1.5 percent per annum). The financial institution will then use the principal to make a low-interest loan to an eligible marina.

The public act specifies that the maximum amount of a Michigan marina-dredging loan is $75,000 per marina. The total amount of outstanding loan is statutorily limited to $20 million. The loan accrues at an interest rate of six percent and the loan term may not exceed seven years. Other details about the loan are available in the investment agreement. No investments were made in this program this fiscal year.

Assets and equities of the common cash pool as of September 30 were as follows (in millions):

ASSETS	
Cash on hand	$ .2
Demand deposits	159.0
Time deposits -- regular	50.6
Prime commercial paper -- at cost	5,193.0
Interest receivable	28.9
Emergency loans to local units -- at cost	40.5
Total assets	$ 5,472.2
EQUITIES	
Fund equities (net) in common cash (1):	
Primary government	$ 5,274.4
Discretely presented component units	197.8
Net fund equities	$ 5,472.2

(1) Negative equity balances in the pool are reclassified at year-end as interfund receivables and liabilities. Current balances are included with "Amounts due from other funds" and "Amounts due to other funds" and long-term amounts are classified as interfund advances. Note #20 summarizes interfund receivables and liabilities.

The following paragraphs provide disclosures about deposits and investments of the common cash pool, as required by GASB's Statement No. 3. Please see Note #8 for a description of the GASB custodial credit risk categories and for information about deposits and investments, which are not part of the common cash pool.

Deposits

At September 30, 2000, the carrying amount of deposits, including time and demand deposits, was $209.6 million. The deposits were reflected in the accounts of the banks at $209.6 million. Of the bank balance, $6.8 million was covered by federal depository insurance (GASB credit risk category 1), $201.2 million was collateralized with securities held by the State's agent in the State's name (GASB credit risk category 1), and $1.6 million of demand deposits which are uninsured and uncollateralized (GASB credit risk category 3). Compensating balances kept in demand deposit accounts to avoid service charges totaled $84.0 million at September 30, 2000.

Investments

Using the GASB categories of custodial credit risk, all of the investments (including prime commercial paper and emergency municipal loans) are in category 1. The emergency municipal loans are evidenced by notes held by the State in the State's name, so they fall in custodial credit risk category 1. At September 30, 2000, the fair value of prime commercial paper was $5.2 billion.

NOTE 6 – TAXES RECEIVABLE

In general, taxes receivable represent amounts due to the State at September 30 that were received by the State within approximately 60 days after that date. Sales, use, and income taxes are accrued to the extent that the related sales or wage payments occurred prior to October 1 and tax payments were received prior to December 1. Annual tax payments (i.e., those paid with an annual return, such as individual personal income taxes filed in April) have not been accrued because they are neither reasonably estimable nor available. Single business tax revenue is similarly accrued, with receipts received prior to December 1 (i.e., quarterly filings due November 30) recognized as revenue to the extent that the activities being taxed occurred prior to October 1. The State property tax is assessed by local units of government, as agents for the State. Taxes are due and payable at the same time as local unit taxes and are generally divided into a summer portion payable to the local units on the succeeding July 1 and a winter portion due December 31. The State accrues revenues received by the State or the local units on its behalf during October and November. Since the property taxes are levied and received by the local units, it is not feasible for the State to measure and record delinquent amounts receivable and, therefore, no delinquent amounts are recorded or reflected in the table below. The accrued telephone and telegraph taxes are due December 1 and were received at approximately that time. Delinquent taxes are recognized to the extent that they will be collected within 12 months, except for the Michigan Unemployment Compensation Fund (expendable trust) which only records taxes received within 60 days as receivables.

Taxes receivable (amounts expressed in millions), as of September 30, consisted of the following:

	FUND TYPES			
Tax	General	Special Revenue	Expendable Trust	Total
Sales & use	$ 284.6	$ 513.4	$ -	$ 798.0
Individual income	858.7	-	-	858.7
Single business	730.6	-	-	730.6
State education (property) tax	-	499.4	-	499.4
Telephone & telegraph	15.4	-	-	15.4
Motor fuel	-	190.6	-	190.6
Insurance - retaliatory	50.2	-	-	50.2
Estate & inheritance	48.0	-	-	48.0
Tobacco products	21.9	40.2	-	62.1
Unemployment	-	-	123.3	123.3
Other	21.1	50.6	-	71.7
Penalties and interest	901.0	.2	-	901.2
Gross taxes receivable	$ 2,931.5	$ 1,294.4	$ 123.3	$ 4,349.2
Less allowance for uncollectibles	1,579.0	334.2	-	1,913.2
Total taxes receivable (net)	$ 1,352.5	$ 960.2	$ 123.3	$ 2,436.0
As Reported on Balance Sheet				
Current taxes receivable	$ 1,285.5	$ 946.6	$ 123.3	$ 2,355.4
Noncurrent taxes receivable	67.0	13.6	-	80.6
Total taxes receivable (net)	$ 1,352.5	$ 960.2	$ 123.3	$ 2,436.0

NOTE 7 – JOINT VENTURES AND AFFILIATED FOUNDATIONS

A. Joint Ventures - Primary Government

The State is a participant in the joint venture described below. Joint ventures are not reflected as component units within this report because they do not meet the GAAP criteria for inclusion. Their separately issued financial statements may be obtained by directly contacting the applicable organizations. To obtain their phone numbers, you may contact the Department of Management and Budget, Office of Financial Management, Financial Reporting Section at (517) 373-3029.

The Great Lakes Protection Fund

(GLPF) is a not-for-profit corporation located in Chicago, Illinois. Its purpose is to finance and support research with respect to water quality of the Great Lakes. The eight states bordering the Great Lakes are eligible to become members if they make a required contribution to the endowment of the Fund.

Contribution requirements were established based upon water consumption and usage. Contributions to the Fund are permanently restricted and are not available for disbursement. Michigan is the largest contributor to the Fund, having made a contribution of $25 million, constituting approximately 31% of the total. Michigan made its required contribution by issuing the Fund a general obligation bond authorized as part of the State's environmental protection bond program. No additional contributions from Michigan will be required.

Two members on the GLPF's board of directors represent each of the participating seven member states. The states' respective governors select the board members. The Fund's financing and budgeting operations are controlled by the directors within requirements established by the Articles of Incorporation. Net earnings after operating expenses are divided into parts. One-third of the net earnings on total contributions is granted to the respective states in proportion to their contributions to the Fund, to be used for the purposes of the Fund. Two-thirds of the net earnings are available to the Fund to make other grants. The State's equity interest in the GLPF of $25 million is reflected in the General Fixed Assets Account Group.

B. Affiliated Foundations - Discretely Presented Component Units

Several of the State university component units are affiliated with independent corporate foundations that exist for the sole purpose of soliciting, collecting, and investing donations for the benefit of the universities. The operations and net assets of these foundations are not included in the financial statements of the universities due to their independence. At June 30, 2000, net assets held by these foundations totalled $293.6 million.

NOTE 8 – DEPOSITS AND INVESTMENTS

A. General Information

This note provides information for all deposits and investments except those of the Common Cash pool which are described in Note #5. GASB Statement No. 3 requires certain disclosures regarding policies and practices with respect to deposits, investments, and the custodial credit risk associated with them.

Deposits

In accordance with GASB Statement No. 3, deposits are classified into three categories of custodial credit risk, as follows:

Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3: Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name).

Investments

In accordance with GASB Statement No. 3, investments are also classified into three categories of custodial credit risk, as follows:

Category 1: Insured or registered, or securities held by the entity or its agent in the entity's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name. (This includes the portion of the carrying amount of any repurchase agreement that exceeds the fair value of the underlying securities.)

Certain types of investments are not categorized because they are not evidenced by securities that exist in physical or book entry form. Deposits classified as investments on the balance sheet are included in the investment tables following and are categorized using the deposit risk category definitions.

In accordance with GASB Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions, securities lent at year-end for cash collateral have not been categorized by custodial risk, while securities lent for securities collateral have been categorized.

B. Deposits and Investments - Primary Government

Deposits

In addition to equity in the Common Cash pool, some State funds maintain deposits with financial institutions. At year-end, the carrying amount of such deposits, excluding those classified as investments, was $(7.7) million, which was caused primarily by a net book cash overdraft in an account maintained by the Michigan Unemployment Compensation Fund. The deposits were reflected in the accounts of the banks at $5.9 million. Of the bank balance, $.2 million was covered by federal depository insurance or by collateral held by the State's agent in the State's name (GASB credit risk category #1), $4.4 million was covered by collateral held in the pledging bank's trust department in the State's name (GASB credit risk category #2), and $1.3 million was uninsured and uncollateralized (GASB credit risk category #3).

Investments

Investment authority for the State's pension funds is found in P.A. 314 of 1965, as amended. This act allows the State Treasurer, as investment fiduciary, to make diverse investments in stocks, corporate and government bonds and notes, mortgages, real estate, venture capital, and other investments. The act has prudence standards and requires that the assets of a retirement system shall be invested solely in the interest of the participants and beneficiaries and be made for the exclusive purpose of providing benefits to the participants and the participants' beneficiaries, and of defraying reasonable expenses of investing the assets of the State system.

The State Treasurer is also authorized to invest a limited amount of pension funds in futures contracts. Such investments were made in Standard & Poors 500 and Standard & Poors Midcap Index futures contracts during the year. Derivatives are used for a small amount of the pension trust fund portfolios to provide additional diversification. However, derivatives are not used for speculation and they are not used to leverage the investment portfolios. Less than 7% of the total pension trust funds portfolio has been invested from time to time in futures contracts and swap agreements. The swap agreements provide that the retirement systems will pay quarterly, over the term of the swap agreements, interest indexed to the three month London Interbank Offered Rate (Libor), adjusted for an interest rate spread, on the notional amount stated in the agreements. United States domestic Libor-based floating rate notes were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these rates. Swap agreements represent the largest category of derivatives used and total 6.1% of the total portfolio.

State statutes allow the pension funds or other State funds to participate in securities lending transactions, and the State Treasurer has authorized the agent bank to lend pension fund or other State fund securities to broker-dealers and banks pursuant to a form of loan agreement.

The investment authority for other State funds is found in their enabling statutes and/or their bond resolutions where applicable. Except as noted below, the investments of the non-pension funds are comprised mostly of United States government securities.

The State Building Authority makes diverse investments as allowed by State statute and/or bond resolutions.

Investments of the Michigan Unemployment Compensation Fund (MUCF) represent MUCF's interest in a U.S. Treasury trust fund managed by the Secretary of the Treasury pursuant to Title IX of the Social Security Act, which includes deposits from the unemployment compensation funds of various states. The MUCF is credited quarterly with trust fund investment earnings, as computed on a daily basis.

Note 8 continued on next page.

The deferred compensation plans are invested in mutual funds, U.S. Treasury strips, money market funds, and pooled investment funds. During fiscal year 1999-2000, the deferred compensation plans investment activities were managed by a private investment firm which invests as directed by members of the plan.

As a matter of administrative policy, the State Treasurer makes only limited use of investments in repurchase agreements. No such investments were outstanding at year-end.

The following table shows the carrying amounts and fair values of investments of the primary government by investment type and in total (in millions) at September 30:

	GASB Category					
	#1	#2	#3	Not Categorized	Total Carrying Value	Fair Value
Prime commercial paper	$ 2,185.8	$ -	$ 41.8	$ -	$ 2,227.6	$ 2,229.1
Short-term issues	224.8	-	-	-	224.8	226.1
Money market funds	-	-	-	207.1	207.1	207.1
Government securities	6,660.8	-	59.3	182.2	6,902.3	6,902.3
Investment agreements	17.5	-	-	-	17.5	17.5
Corporate bonds and notes	3,928.7	-	-	301.0	4,229.7	4,229.7
Equities	23,687.2	-	-	-	23,687.2	23,687.2
Mortgages	-	-	-	49.0	49.0	49.0
Real estate (1)	253.7	-	-	4,061.9	4,315.6	4,315.6
Venture capital and leveraged buyouts	653.0	-	-	7,535.5	8,188.6	8,188.6
International equities	3,324.9	-	-	-	3,324.9	3,324.9
U.S. Treasury (unemployment) trust fund	-	-	-	3,080.2	3,080.2	3,080.2
Mutual funds	-	-	-	1,903.4	1,903.4	1,903.4
Pooled investment contracts	-	-	-	1,622.5	1,622.5	1,622.5
Security Lending Transactions:						
Government securities	-	-	-	700.7	700.7	700.7
Corporate bonds and notes	-	-	-	19.7	19.7	19.7
Equities	-	-	-	197.4	197.4	197.4
Total Investments	$ 40,936.4	$ -	$ 101.1	$ 19,860.6	$ 60,898.1	$ 60,900.9

As Reported on Balance Sheet	
Current investments	$ 6,057.8
Noncurrent investments	54,840.3
Total Investments	$ 60,898.1

(1) Category 1 real estate represents Real Estate Investment Trusts (REITs) which are evidenced by securities.

The cash collateral received on security lending transactions is $.9 billion.

Pension trust fund investments represent 87% of the total investments of the primary government. Other large holders of investments were the State Lottery Fund, the State Employees' Deferred Compensation Funds, and the Michigan Unemployment Compensation Fund.

The carrying value of investment funds by type (including investments reported above as security lending transactions) for the pension trust funds are prime commercial paper of $2.2 billion, short-term issues of $224.8 million, money market funds of $46.7 million, government securities of $6.2 billion, corporate bonds and notes of $4.2 billion, preferred stock of $2 thousand, equities of $23.9 billion, mortgages of $49.0 million, real estate of $4.3 billion, venture capital and leveraged buyouts of $8.2 billion, international of $3.3 billion, mutual funds of $146.9 million, and pooled investment funds of $56.4 million. Additional detail regarding the carrying amount and fair value of pension funds is provided in Note #11.

The State Lottery Fund investments, $.8 billion, are all in the form of zero coupon U.S. Treasury bonds. As described more fully in Note #17, these investments are held to provide funding for deferred prize awards.

Note 8 continued on next page.

Investments for the State Employees' Deferred Compensation funds, $3.5 billion, are in the form of pooled investment funds, $1.4 billion, mutual funds, $1.8 billion, U.S. Treasury strips, $182.2 million, and money market funds, $160.4 million. Additional information on the State's deferred compensation plans is provided in Note #19.

Securities Lending Transactions

Under the authority of P.A. 314 of 1965, the State lends securities of the pension funds and the State Lottery Fund to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The custodian is not liable for any losses unless there is negligence or willful misconduct on its part. State statutes allow the Michigan Public School, Michigan State Employees, Michigan State Police, and Michigan Judges (retirement systems) to participate in securities lending transactions, and the retirement systems have, via a Securities Lending Authorization Agreement, authorized the agent bank to lend its securities to broker-dealers and banks pursuant to a form of loan agreement. During the fiscal year, the agent bank lent, at the direction of the retirement systems, the retirement systems' securities and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit issued by a person other than the borrower or an affiliate of the borrower as collateral. The agent bank did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The retirement systems did not impose any restrictions during the fiscal year on the amount of the loans that the agent bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the agent bank.

During the fiscal year, the retirement systems and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of September 30, 2000, such investment pool had an average duration of 75 days and an average weighted maturity of 490 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2000, the retirement systems had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the retirement systems as of September 30, 2000, were $1.3 billion and $1.2 billion respectively.

C. Deposits and Investments - Discretely Presented Component Units

Deposits

At year-end, the carrying amount of discretely presented component unit deposits, excluding those classified as investments, was $148.6 million. The deposits were reflected in the accounts of the banks at $161.7 million. Of the bank balance, $13.4 million was covered by federal depository insurance or by collateral held by the component unit's agent in the component unit's name (GASB credit risk category #1), $23.7 million was covered by collateral held in the pledging bank's trust department in the component unit's name (GASB credit risk category #2), $87.5 million was uninsured and uncollateralized (GASB credit risk category #3), and $37.1 million was held in money market funds which are not categorized.

Investments

The investment authority for most discretely presented component units is typically found in their enabling statutes and/or their bond resolutions where applicable. Those component units which are financing authorities generally may invest in government or government backed securities and deposits. The Michigan Education Trust's investments are subject to an investment agreement with the State Treasurer which allows the Treasurer, acting as agent, to make diverse investments including stocks, bonds, notes, and other investments. Investment policies for the State universities are typically set forth by their governing boards and include a broad range of investment types.

Note 8 continued on next page.

The following table shows the carrying amounts and fair values of investments of the discretely presented component units, including deposits classified as investments on the balance sheet, by investment type and in total (in millions):

	GASB Category					
	#1	#2	#3	Not Categorized	Total Carrying Value	Fair Value
Deposits(1):						
Time deposits	$ 7.2	$ -	$ 29.3	$ 4.9	$ 41.3	$ 41.3
Government money market accounts	-	-	-	57.6	57.6	57.6
Investments:						
Commercial paper	46.2	4.2	41.0	-	91.3	91.3
Short-term notes	-	1.8	17.4	10.8	30.0	30.0
Repurchase agreements	6.2	2.2	26.5	-	34.9	34.9
Government securities	839.4	234.0	53.5	-	1,126.9	1,126.9
Insured mortgage backed securities	128.3	-	15.8	-	144.1	144.1
Government backed securities	72.8	2.0	124.6	-	199.3	199.3
Investment agreements	-	-	-	305.6	305.6	305.6
Corporate bonds and notes	255.6	8.7	65.9	-	330.3	330.3
Preferred stock	25.2	-	-	.9	26.1	26.1
Equities	8.1	.2	-	49.5	57.8	57.8
Real estate	-	-	-	.9	.9	.9
Venture capital and leveraged buyouts	-	-	.1	12.0	12.1	12.1
Government money market funds	-	-	-	18.2	18.2	18.2
Mutual funds	-	-	-	214.9	214.9	214.9
Guaranteed investment contracts	-	-	-	951.5	951.5	951.5
Pooled investment funds	-	-	-	265.5	265.5	265.5
Total Investments	$ 1,388.9	$ 253.2	$ 374.1	$ 1,892.3	3,908.5	$ 3,908.5
Less Investments Reported as "Cash" on Balance Sheet					(553.1)	
Total Investments Per Balance Sheet					$ 3,355.4	
As Reported on Balance Sheet						
Current investments					$ 905.5	
Noncurrent investments					2,449.9	
Total Investments					$ 3,355.4	

(1) The deposits classified as investments in the above table were reflected in the accounts of the banks in amounts equal to their carrying value and are categorized using the deposit risk category definitions.

Interest Rate Exchange Agreements

Michigan Higher Education Student Loan Authority (MHESLA) has an outstanding interest rate exchange agreement with an outside party for a notional amount of $19.2 million. The agreement converts MHESLA's interest rate exposure on $19.2 million of its fixed rate bonds to a variable rate allowing improved matching yields on variable rate student loans. The agreement, which matures on September 1, 2002, exposes MHESLA to credit loss in the event of nonperformance by the other party.

Michigan State Housing Development Authority (MSHDA) has an outstanding interest rate exchange with outside parties for a notional amount totaling $93.0 million to hedge anticipated 2001 bond issues.

NOTE 9 – MORTGAGES AND LOANS RECEIVABLE - DISCRETELY PRESENTED COMPONENT UNITS

Mortgages and loans receivable reported by the discretely presented component units consist of the following (in millions):

	Mortgages and Loans Receivable (Gross)	Unamortized Discount/ Premium and Deferred Loan Origin-ation Fees	Allowance for Possible Losses	Mortgages and Loans Receivable (Net)
Governmental and Trust:				
Michigan Higher Education Assistance Authority	$ 2.3	$ -	$ (1.1)	$ 1.2
Proprietary:				
Michigan Higher Education Student Loan Authority	740.5	6.5	(2.2)	744.7
Michigan State Housing Development Authority	1,934.3	(12.2)	(30.5)	1,891.5
Michigan Economic Development Corporation	43.9	-	(23.1)	20.8
	$ 2,721.0	$ (5.7)	$ (56.9)	$ 2,658.4

The Michigan State Housing Development Authority had loan commitments outstanding at June 30, 2000, of $108.4 million. The Michigan Economic Development Corporation had loan and grant commitments outstanding at September 30, 2000, of $235.7 million.

The loans made by the Michigan Municipal Bond Authority are to local units of government, so those loans of $2.3 billion are reported on the "Amounts due from local units" lines on the Combined Balance Sheet.

NOTE 10 – PROPERTY, PLANT, AND EQUIPMENT

A. Primary Government

Proprietary Funds

Classification: The following table summarizes, by major class of asset, the recorded costs of fixed assets included in proprietary funds, as of September 30 (in millions):

Classification	Enterprise Funds	Internal Service Funds
Land	$ -	$ -
Buildings and Equipment	4.3	246.0
Construction in Progress	-	2.5
Total	4.3	248.5
Allowance for Depreciation	(3.8)	(146.1)
Net Property, Plant, and Equipment	$ .5	$ 102.5

Depreciation: Depreciation methods and useful life estimates used for buildings and equipment vary between the different funds. The estimated service lives of the respective assets range from 3 to 50 years for buildings and 2 to 25 years for equipment. Several funds in the proprietary and pension trust fund classes do not capitalize and depreciate their fixed assets if the asset costs are insignificant in comparison to total operating costs.

Note 10 continued on next page.

General Fixed Assets

Changes by Classification: The following table summarizes, by major class of asset, the changes in recorded costs for the General Fixed Assets Account Group (in millions). Increases and decreases in general fixed assets, which resulted from current fiscal year transactions, are reflected in the additions and deletions columns. The adjustments and reclassifications column includes amounts reclassified from construction in progress to land and buildings and various other adjustments.

Classification	Balance September 30, 1999	Additions	Deletions	Adjustments and Reclassifications	Balance September 30, 2000
Land	$ 265.0	$ 15.5	$ -	$ 1.0	$ 281.5
Buildings	2,272.7	145.3	40.2	63.2	2,441.1
Equipment	410.7	40.3	36.2	(45.8)	368.9
Construction in Progress	355.7	237.8	-	(38.4)	555.0
Equity Interests in Joint Ventures	30.4	-	5.4	-	25.0
Total General Fixed Assets	$ 3,334.5	$ 438.9	$ 81.8	$ (20.1)	$ 3,671.5

Funding Source: The following table summarizes the funding source of the investment in general fixed assets as of September 30 (in millions):

Fund	Investment
General Fund	$ 2,020.2
Special Revenue Funds:	
Transportation Related	214.6
Conservation, Environment, and Recreation Related	110.0
Regulatory and Administrative Related	34.3
Capital Projects Funds	1,292.4
Total Investment in General Fixed Assets	$ 3,671.5

Construction in Progress: As of September 30, 2000, the State had several construction projects in progress. The estimated cost, amount authorized, and amount expended for these projects totaled $1.1 billion, $786.2 million, and $555.0 million, respectively.

In addition to the projects noted above, the State has planned other construction projects which were unfunded as of September 30, 2000. The costs of these projects, as well as the unfunded portion of projects currently in progress, will be funded from future years' resources.

B. Discretely Presented Component Units

The following table summarizes the recorded costs of fixed assets reported by the discretely presented component units (in millions):

	Amount
State Universities:	
Land	$ 180.0
Buildings and Equipment	2,698.3
Construction in Progress	255.0
Total	3,133.4
Allowance for Depreciation	(1,147.0)
Total - State Universities	1,986.4
Other Discretely Presented Component Units	24.3
Total - Discretely Presented Component Units	$ 2,010.7

NOTE 11 – PENSION BENEFITS AND OTHER POSTEMPLOYMENT BENEFITS

A. Defined Benefit Pension Plans

The State of Michigan administers the following defined benefit pension plans:

Legislative Retirement System (LRS) - single employer
State Police Retirement System (SPRS) - single employer
State Employees' Retirement System (SERS) - single employer
Public School Employees' Retirement System (PSERS) - cost sharing multi-employer
Judges' Retirement System (JRS) - cost sharing multi-employer
Military Retirement Plan (MRP) - single employer

Each plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to plan members. Each plan, except MRP, is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing to the Department of Management and Budget, Office of Retirement Systems, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-6262.

As mandated by legislation, all new State of Michigan employees hired on or after March 31, 1997, are members of the defined contribution retirement plan as opposed to the LRS, SERS and JRS defined benefit plans. Employees hired before that date were given the option of remaining in the defined benefit plan or transferring to the defined contribution plan. The decision is irrevocable and transfers were completed by September 30, 1998. This was a one-time opportunity. With the passage of the legislation permitting the transfer, the LRS, SERS and JRS defined benefit plans became closed systems.

Plan Membership Data

	LRS	SPRS	SERS	PSERS	JRS	MRP
Current active:						
Vested	52	1,194	37,290	118,677	261	554
Nonvested	22	1,016	10,488	194,022	138	10,385
Retirees & beneficiaries receiving benefits	234	2,319	36,705	126,115	535	1,930
Terminated members with vested deferred benefits	71	41	7,556	8,045	17	810

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS

Basis of Accounting
The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Methods Used to Value Investments
Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Significant Investments
No investment of any of the pension plans comprises 5% or more of the net assets available for benefits. There are no significant investments made in securities issued by the State, nor are there any loans made from the pension plans to the State. Additional disclosures concerning investments are provided in Note #8 and, concerning State Treasurer's Common Cash, in Note #5.

FUNDING POLICY

The Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for each plan. Actual total contributions for pensions met or exceeded the contributions required by state law.

The statute requires a reconciliation of required contributions and actual contributions in the PSERS. P.A. 158 of 1992 provides that any overage or shortage must be paid in installments over five years.

The contributions for probate judges in the Judges' Retirement System are non-employer contributions to cost-sharing multiple-employer defined benefit pension systems.

The contributions to all other systems are employer contributions to single-employer defined benefit systems. However, the State does not make actuarially computed contributions to the Military Retirement Plan (MRP). MRP benefits, which are funded on the pay-as-you-go basis, are paid from the General Fund.

Note 11 continued on next page.

ANNUAL PENSION COST AND OTHER RELATED INFORMATION

*Current year contribution rates, annual pension cost, and related information for the current year for the State's single employer defined benefit plans are as follows:

	LRS	SPRS	SERS	MRP
Required contribution rates:				
State	-	18.87%	4.57%	-**
Plan Members	***	-	-	-
(Amounts are in millions)				
Annual Pension Cost and Net Pension Obligation:				
Annual required contribution	$ -	$ 24.27	$ 120.91	$ 2.95
Interest on net pension asset	(.17)	.97	(7.34)	.40
Adjustment to annual required contribution	.31	(.62)	7.50	(.41)
Annual pension cost	.14	24.62	121.07	2.95
Contributions made	-	22.11	121.82	2.20
Change in net pension asset/obligation	.14	2.51	(.75)	.74
Net pension (asset) obligation at beginning of fiscal year	(2.48)	12.19	(91.80)	5.05
Net pension (asset) obligation at end of fiscal year	$ (2.34)	$ 14.70	$ (92.55)	$ 5.79
Significant Actuarial Assumptions used include:				
Latest actuarial valuation date	9/30/00	9/30/00	9/30/00	9/30/99
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level percent open	Level percent closed	Level percent closed	Level dollar closed
Remaining amortization period	12 years	36 years	36 years	37 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	None, unfunded plan
Actuarial assumption:				
Investment rate of return	7%	8%	8%	8%
Projected salary increases	4%	4.7 - 84%	4 - 16%	4%
Includes inflation at	4%	4%	4%	4%
Cost-of-living adjustments	4% for members hired before 1/1/95	2%	3%	4% for special duty retirants

*For MRP, information provided is based on most recent biennial actuarial valuation.

**For MRP, there is no underlying payroll of participants. Except for five special duty members, retirants receive $600 in annual pension benefits. Accordingly, the annual required contribution from the State is determined as a dollar amount, not as a percentage of payroll.

***For participants prior to January 1, 1995, the required contribution rate is 9.0%. For participants after January 1, 1995, the required contribution rate is 7.0%. All contributions are made to the Health Insurance Fund, as described in Section C.

Note 11 continued on next page.

Contribution rates for the current year for the State's cost-sharing multiple-employer defined benefit plans are as follows:

	PSERS	JRS
Required contribution rates:		
State	6.48%	**
Plan Members	3.89*	6.07
Number of participating employers	715	174

*For those members who elect to participate in the "Member Investment Plan," the rate is 3.9%. Members hired after December 31, 1989, are required to participate in the "Member Investment Plan," and their contribution rate varies from 3.0 to 4.3% as salary increases.

**The State is required to contribute annually the greater of 3.5% of the aggregate annual compensation of State paid based salaries or required amount. However, the plan in the current year is fully funded; therefore, no contribution is required.

THREE YEAR HISTORICAL TREND INFORMATION

The following table provides a schedule of funding progress for the State's defined benefit plans:

(Amounts in millions)

	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded (Overfunded) AAL	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
LRS							
	9/30/00	$ 160.3	$ 128.5	$ (31.8)	124.7%	$ 4.3	(739.5)%
	9/30/99	146.1	127.1	(19.0)	115.0	4.2	(452.4)
	9/30/98	131.8	112.9	(18.9)	116.7	6.6	(286.4)
SPRS							
	9/30/00	1,113.1	1,040.7	(72.4)	107.0	116.6	(62.1)
	9/30/99	1,036.8	1,006.5	(30.3)	103.0	116.9	(25.9)
	9/30/98	974.4	962.5	(11.9)	101.2	108.2	(11.0)
SERS							
	9/30/00	10,336.8	9,473.8	(863.0)	109.1	2,253.8	(38.3)
	9/30/99	9,648.3	9,028.6	(619.7)	106.8	2,213.8	(28.0)
	9/30/98	9,109.0	8,497.0	(612.0)	107.2	2,108.0	(29.0)
PSERS							
	9/30/00	36,893.0	37,139.0	246.0	99.3	8,985.0	2.7
	9/30/99	34,095.0	34,348.0	253.0	99.3	8,644.0	2.9
	9/30/98	31,870.0	32,863.0	993.0	97.0	8,265.0	12.0
JRS							
	9/30/00	274.8	204.2	(70.6)	134.6	37.0	(190.7)
	9/30/99	320.9	243.5	(77.4)	131.8	49.6	(155.9)
	9/30/98	288.7	230.3	(58.4)	125.3	48.9	(119.4)
MRP*							
	9/30/99	-	33.5	33.5	-	.5	6,771.4
	9/30/97	-	30.3	30.3	-	.4	7,575.0

*Actuarial valuation performed biennially; September 30, 1999, is the most recent valuation date.

Note 11 continued on next page.

The following table provides a schedule of annual pension cost and net pension obligation for the State's single employer defined benefit plans (amounts in millions):

	Year	Annual Cost (APC)	Percentage Contributed	Net Pension Obligation (Asset)
LRS				
	1997-98	.1	1,814.7	(2.6)
	1998-99	.1	-	(2.5)
	1999-00	.1	-	(2.3)
SPRS				
	1997-98	20.6	97.3	10.7
	1998-99	23.0	93.7	12.2
	1999-00	24.6	89.8	14.7
SERS				
	1997-98	126.5	115.2	(82.2)
	1998-99	111.5	108.6	(91.8)
	1999-00	121.1	100.6	(92.6)
MRP				
	1997-98	2.5	78.7	4.7
	1998-99	2.5	84.4	5.0
	1999-00	3.0	74.6	5.8

The following table provides a schedule of annual required contributions for the State's cost-sharing multiple-employer defined benefit plans (amounts in millions):

	Fiscal Year	Annual Required Contribution (ARC)	Percentage of ARC Contributed
PSERS			
	1997-98	537.6	115.8
	1998-99	593.5	96.8
	1999-00	572.6	114.4
JRS			
	1997-98	5.0	4.9
	1998-99	1.3	4.6
	1999-00	-	-

REQUIRED SUPPLEMENTAL INFORMATION

GASB Statement No. 25 requires the disclosure of certain six-year historical trend information. This information, except for MRP, is available from the separately issued financial reports of the retirement systems. For MRP, this information is presented below.

Trend information is intended to help users assess the funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Schedule of funding progress for MRP

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/97	-	30.3	30.3	-	.4	7,575.0
9/30/99	-	33.5	33.5	-	.5	6,771.4

Information for prior years is not available. Actuarial valuation performed biennially. This schedule will be expanded until six years of information is presented.

Note 11 continued on next page.

Schedule of Employer Contributions for MRP:

Year ended September 30	Annual required contribution	Percentage contributed
2000	3.0	74.6
1999	2.5	84.4
1998	2.5	82.3
1997	2.3	85.0
1996	2.3	94.3
1995	2.3	94.3

Actuarial information for MRP is provided in the annual pension cost and other related information section.

B. Defined Contribution Pension Plans

State Employees' Defined Contribution Retirement Plan

The State Employees' Defined Contribution Retirement Plan (Plan) was established to provide benefits at retirement to employees of the State who were hired after March 31, 1997, and to those members of the State Employees' Retirement (defined benefit) System, Judges' Retirement System, and Legislative Retirement System who elected to transfer to this plan. The Plan is administered by the Department of Management and Budget. The State is required to contribute 4% of annual covered payroll. The State is also required to match employee contributions up to 3% of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the Legislature. Employer contributions to the plan for the year totaled $31.6 million. Employee contributions to the plan were $10.9 million.

The following investments represent 5% or more of net plan assets at September 30, 2000: SSGA Stable Value GIC Fund, $17.6 million; Yield Enhanced Short-Term Fund, $45.3 million; SSGA S&P 500 Index Fund, $25.8 million; Fidelity Magellan Fund, $32.3 million; Putnam Voyager, $32.1 million.

Effective September 30, 2000, a decision was made to transfer assets and coverage of members of the Michigan Judges' Retirement System to the State Employees' Defined Contribution Retirement Plan. The transfer in the amount of $76.9 million had not taken place as of September 30. The transfer did take place subsequent to year end.

Component Units

In addition to the Public School Employees' Retirement System (PSERS), the State university component units participate in the Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The TIAA-CREF is a defined contribution multiple-employer pension plan. The State university component units are required to contribute between 4% and 15% of annual covered payroll, as determined by each institution's employment agreements. The total contribution to the TIAA-CREF for all State university component units was $54.2 million for the year ending June 30, 2000.

Additional plan information may be found in the separately issued financial reports of the State university component units.

C. Other Postemployment Benefits

In addition to the pension benefits previously described in this note, State statutes require that the State provide certain postemployment benefits (OPEB) to many of its retired employees. Health, dental and vision benefits as well as life insurance coverage are provided to retirees of all pension plans except MRP. These benefits are funded on a pay-as-you-go basis, except for LRS life insurance coverage, as explained below.

The LRS life insurance benefits are paid on an advance-funded basis. The actuarial cost method and actuarial assumptions are the same as for the pension plan, as discussed in Section A. At September 30, 2000, the actuarial accrued liability for life insurance premiums was $8.3 million with net assets available for benefits of $14.0 million. The expense for life insurance premiums was $.1 million in fiscal year 1999-2000.

The net assets available for benefits relate to residual balances from funding provided in prior fiscal years. There were no material changes in the OPEB provisions during fiscal year 1999-2000.

Note 11 continued on next page.

Following is a brief summary of the other postemployment benefits as of September 30, 2000:

	LRS	SPRS	SERS	JRS	PSERS	TOTAL
Participants eligible for benefits	312	2,319	36,705	535	126,115	165,986
Contribution rates for current employees (% of payroll)	None	None	None	1.5%	None	
Percentage of pre-Medicare premiums paid by participants	None	5%	5%	5%	10%*	
Expense for year (in millions)	$2.8	$18.9	$208.6	$.5	$425.8	$656.6
Net assets available for benefits (in millions)	4.6	(1.3)	14.7	(.3)	133.3	150.9

*The schools that employ the plan's members pay the employer share of health costs. PSERS retirees pay the same share of health care costs required from Social Security retirees for part B Medicare coverage until Medicare coverage begins at age 65. Dental, vision, and hearing benefits are also extended to all retirees and their beneficiaries, for which retirees pay 10% of the health premiums.

NOTE 12 – COMPENSATED ABSENCES

A. Primary Government

Plan Descriptions

Employees accumulate annual leave (vacation) balances to a maximum ranging from 240 to 300 hours. They receive a 100% termination payment upon separation based upon their final rate of pay. Employee sick leave balances accumulate without limit. Termination payments are made only upon separation from State service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50% of the employee's sick leave accumulation times their last rate of pay. When separating for any other reason, employees are paid a percentage of their unused sick leave which increases from 0 to 50% depending upon the balance of their sick leave hours.

Accounting Policy

The State has accrued liabilities for compensated absences as required by the GASB. Annual leave is valued at 100% of the balance plus the State's share of social security and retirement contributions. Sick leave is valued, as explained above, at 0 to 50% plus the State's share of social security contributions. The pay rates in effect as of September 30, 2000, are used. Liabilities related to proprietary fund types are recorded in the funds. Liabilities related to governmental fund types are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end. The balance of the governmental fund liabilities are recorded in the General Long-Term Obligations Account Group.

The following table summarizes compensated absences liabilities of the primary government as of September 30 (in millions):

Fund Group	Annual	Sick	Total
Enterprise	$ 2.1	$ 2.5	$ 4.6
Internal Service	3.1	2.9	6.0
General Long-Term Obligations	244.3	218.1	462.3
Total - primary government	$ 249.4	$ 223.4	$ 472.9

B. Discretely Presented Component Units

Compensated absences liabilities of discretely presented component units totalled $48.2 million and are primarily related to State universities.

NOTE 13 – LEASES

The State leases various assets under noncancelable leasing arrangements. Leases, which constitute rental agreements, are classified as "operating" leases and the resulting expenditures are recognized as incurred over the lease term. Leases, which are, in substance, purchases are classified as "capital" leases and the resulting assets and liabilities are recorded at lease inception. For capital leases in governmental funds, "other financing sources" and "expenditures" are also recorded at lease inception. Lease payments are recorded as "debt service" expenditures. (As explained in Note #3, for budgetary purposes lease payments are only reported as expenditures when paid.)

Most leases have cancellation clauses with 1-6 month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable because the likelihood that such clauses will be exercised is considered remote.

Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that the option will be exercised. Some lease agreements include escalation clauses or other contingent rentals.

The State has entered into a few installment purchase agreements. Because the amounts involved are immaterial, and the accounting treatment is similar, such agreements are reported together with capital leases.

Leases that exist between the State and the State Building Authority are not recorded as leases for financial reporting purposes. For reporting purposes, the leases are eliminated and the liabilities of the Authority are included in the General Long-Term Obligations Account Group or reported as fund liabilities in the case of proprietary type funds. Future payments to the Authority are, therefore, not included in the schedules of lease commitments below. Note #14 provides information on the amount of the Authority's bonds outstanding and a schedule of debt service requirements.

A. Governmental Fund Types – Primary Government

Rental expenditures incurred under operating leases totalled $48.4 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totalled $19.6 million, $32.4 million, and $15.7 million, respectively.

A summary of the noncancelable operating and capital lease commitments to maturity follows (in millions):

		Capital Leases			
Year Ended September 30	Operating Leases	Principal	Interest	Executory Costs	Total
2001	$ 39.7	$ 15.3	$ 33.5	$ 15.2	$ 64.0
2002	31.6	22.1	25.2	14.8	62.2
2003	23.6	22.2	23.0	14.5	59.7
2004	19.4	22.7	20.8	14.2	57.7
2005	13.5	23.1	18.5	13.5	55.0
2006-2010	18.3	85.4	59.3	48.2	192.9
2011-2015	2.3	36.1	24.9	16.4	77.4
2016-2020	-	22.5	9.3	7.9	39.8
Thereafter	-	5.0	1.7	1.2	7.9
Total	$ 148.4	$ 254.5	$ 216.3	$ 145.9	$ 616.6

All of the above capital leases are related to governmental fund operations and the total $254.5 million of capital lease principal is recorded as part of the General Long-Term Obligations Account Group.

The historical cost of assets acquired under capital leases included in the General Fixed Assets Account Group at September 30 follows (in millions):

Buildings	$ 348.1
Equipment	2.7
Total	$ 350.7

Note 13 continued on next page.

B. Proprietary Fund Types - Primary Government

Rental expense incurred under operating leases totalled $36.7 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totalled $14.6 million, $1.3 million, and $0, respectively.

A summary of the noncancelable operating and capital lease commitments to maturity follows (in millions):

		Capital Leases			
Year Ended September 30	Operating Leases	Principal	Interest	Executory Costs	Total
2001	$ 1.3	$ 13.5	$ 1.2	$ -	$ 14.7
2002	.4	5.9	.5	-	6.4
2003	.3	3.0	.2	-	3.2
2004	.2	.8	.1	-	.9
2005	.1	.4	.1	-	.5
Thereafter	.3	-	.1	-	.1
Total	$ 2.5	$ 23.7	$ 2.2	$ -	$ 25.9

All of the above capital leases are related to proprietary fund operations and the capital lease principal is recorded as a liability in the respective funds as follows (in millions):

Internal Service Funds	$ 23.7
Total	$ 23.7

The assets acquired under capital leases are recorded as fund assets as follows (in millions):

	Internal Service Funds
Buildings	$ -
Equipment	74.4
Total	74.4
Accumulated Depreciation	(47.4)
Net Buildings and Equipment	$ 27.0

C. Discretely Presented Component Units

None of the State's component units have lease commitments which are material to the State's financial statements.

NOTE 14 – GENERAL LONG-TERM OBLIGATIONS

A. Bonded Debt

General Obligation Bonded Debt

Article 9, Section 15, of the State Constitution authorizes general obligation long-term borrowing, subject to approval by the Legislature and a majority of voters at a general election. In addition, debt may be incurred without voter approval for the purpose of providing loans to school districts. General obligation notes to provide temporary financing for such loans are recorded as liabilities in the School Bond Loan Fund, a special revenue fund. The $44.8 million of these notes outstanding at year-end are not included in the amounts shown in the tables below. General Fund appropriations are made to finance debt principal and interest requirements for all general obligation issues. General obligation bonds are backed by the full faith and credit of the State.

The State Constitution provides that the Legislature may also authorize the issuance of general obligation short-term notes, the principal amount of which may not exceed 15% of undedicated revenues received in the preceding year. The State Constitution also provides that such notes must be repaid within the fiscal year of the borrowing. No such borrowing occurred in fiscal year 2000.

Revenue Dedicated Bonded Debt

Long-term bonds have been issued periodically for specific purposes, with the stipulation that financing of debt requirements is to come strictly from designated revenue sources. The transportation related debt is payable solely out of funds restricted for transportation purposes by Article 9, Section 9, of the State Constitution. The State's general credit does not support such issues.

Revenue bonds and commercial paper notes have been issued by the Michigan Underground Storage Tank Financial Assurance Finance Authority to provide financing for the activities of the Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA). The bonds and notes are a limited obligation of the authority payable solely from dedicated revenues and do not represent a general obligation of the authority or the State.

Revenue bonds have been issued by the State Building Authority (SBA) to acquire and/or construct various facilities for use by the State or institutions of higher education. Revenue bonds have also been issued to finance equipment capital lease refinancings and acquisitions. Commercial paper notes have been issued to provide temporary financing for the various activities of the authority prior to bonding. The $348.1 million of commercial paper notes outstanding at year-end are recorded as liabilities in the authority's capital projects fund and are not included in the amounts shown in the tables below. Subsequent to September 30, 2000, SBA issued an additional $33.5 million of commercial paper notes. These bonds and notes are limited obligations of the authority and do not constitute general obligations of the authority or the State. The debt requirements of the bonds are financed through General Fund appropriations, excess bond proceeds, and investment earnings.

Note #15 provides disclosures regarding the bonds and notes payable recorded as liabilities of the discretely presented component units.

Note 14 continued on next page.

Bonds Issued and Outstanding

General obligation and revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30 (in millions) are as follows:

			MATURITIES		AVERAGE
GENERAL OBLIGATION BONDED DEBT	AMOUNTS ISSUED	OUTSTANDING 9/30/2000	FIRST YEAR	LAST YEAR	INTEREST RATE PERCENTAGE
Recreation and Environmental Protection:					
Series 1989 (1)	$ 75.0	$ 28.0	1991	2011	6.92
Series 1992 (1)	246.3	148.6	1993	2012	6.15
College Savings Bonds - Series 1992 Mini-bonds (1)	.5	.8	2012	2012	6.50
Series 1992 A (1)(2)	13.9	10.1	1994	2012	6.17
Series 1993 (1)(2)	16.7	13.5	1995	2013	5.00
Series 1995 (1)	234.3	232.8	1996	2019	5.28
Series 1998 (1)	90.0	83.4	1998	2017	4.80
Series 1999 A (3)	81.8	81.8	2004	2020	5.57
Series 1999 B (3)	15.1	15.1	2001	2003	6.75
School Loan Bonds:					
Series 1995	180.0	156.4	1996	2015	5.47
Series 1998	160.0	160.0	2000	2017	4.86
TOTAL GENERAL OBLIGATION BONDED DEBT	1,113.6	930.3			
REVENUE DEDICATED BONDED DEBT					
MUSTFA Related:					
Tax Dedicated Bonds:					
1996 - Revenue Bonds - Series 1	216.6	166.9	1997	2010	5.67
TOTAL REVENUE DEDICATED BONDED DEBT - MUSTFA RELATED	216.6	166.9			
Transportation Related:					
Tax Dedicated Bonds:					
Michigan Comprehensive Transportation:					
Series 1992 (Series A and Series B Refunding)	165.0	142.4	1996	2022	5.96
Series 1996 (Series A Refunding)	22.7	22.4	1998	2014	5.42
Series 1998 (Series A Refunding)	38.6	38.6	2004	2010	4.66
State Trunkline Fund Bonds:					
Series 1989 (Series A)	135.8	23.3	1994	2017	6.97
Series 1992 (Series A and Series B Refunding)	353.2	178.6	1999	2021	6.16
Series 1994 (Series A and Series B Refunding)	241.0	42.3	1994	2007	5.53
Series 1996 (Series A)	54.5	11.1	1997	2009	5.71
Series 1998 (Series A)	377.9	377.9	2005	2026	5.09
TOTAL REVENUE DEDICATED BONDED DEBT - TRANSPORTATION RELATED	1,388.7	836.7			
State Building Authority:					
1991 Revenue Bonds – Refunding Series I	296.0	210.6	1992	2021	6.26
1991 Revenue Bonds – Series II	197.8	140.8	1992	2021	6.26
1993 Revenue Bonds – Refunding Series I	491.5	320.9	1994	2016	4.58
1994 Series I Bonds	39.8	28.6	1995	2012	5.07
1994 Series II Bonds	29.1	22.6	1996	2011	4.62
1995 Series A Bonds	17.2	.9	1996	2002	4.41
1996 Series I Bonds	109.9	84.7	1997	2010	5.04
1997 Series I Bonds	144.8	121.2	1997	2010	5.18
1997 Series A Bonds	34.3	26.6	1997	2006	4.76
1997 Series B Bonds	42.9	12.3	1997	2001	4.51
1997 Series II Bonds	371.9	343.4	1997	2014	5.53
1998 Series I Bonds	109.5	104.1	1998	2014	4.84
1998 Series I Bonds Refunding	330.4	324.9	1999	2021	4.75
1999 Series I	85.7	84.3	1999	2016	4.54
TOTAL STATE BUILDING AUTHORITY BONDED DEBT	2,300.8	1,825.9			
TOTAL REVENUE DEDICATED BONDED DEBT	3,906.1	2,829.5			
TOTAL GENERAL OBLIGATION AND REVENUE DEDICATED BONDED DEBT	$ 5,019.7	$ 3,759.8			

Note 14 continued on next page.

(1) Public Act 327 of 1988 and P.A. 451 of 1994 authorized the issuance of bonds totaling $800 million. As of September 30, 2000, $626.6 million of such bonds had been issued, leaving remaining authorization of $173.4 million.

(2) The $13.9 million Series 1992A and the $16.7 million Series 1993, Recreation and Environmental Protection General Obligation Bonds, were used to provide a contribution of capital to the Michigan Municipal Bond Authority (a discretely presented component unit). An outside trustee for the authority is holding the bonds as an investment of the authority; no immediate cash proceeds were provided. The trustee receives the debt service payments on the bonds, which are negotiable instruments held to subsidize water pollution control financing provided by the authority.

(3) Public Act 284 of 1998 authorized the issuance of bonds totaling $675.0 million. As of September 30, 2000, $96.9 million of such bonds had been issued, leaving remaining authorization of $578.1 million.

(4) The State Building Authority issued an additional $193.7 million of revenue bonds subsequent to September 30, 2000.

Capital Appreciation Bonds

Capital appreciation and convertible capital appreciation bonds are recorded in the preceding table and section C at their accreted year-end book value. The tables which follow summarize capital appreciation bonds (in millions):

	ACCRETED BOOK VALUE	ULTIMATE MATURITY VALUE	MATURITY DATES
State Building Authority:			
1994 Series II	$ 21.4	$ 27.0	2000-2010
1997 Series II	28.6	43.3	2000-2013
General Obligation Bonds:			
Series 1989	28.3	40.5	2011
Series 1992	22.3	32.8	2012
College Savings Bonds - Series 1992 Mini-bonds	.8	1.8	2012
Series 1995	26.2	34.5	2001-2010
Revenue Dedicated – Transportation Related:			
State Trunkline - Series 1989 A	23.3	35.7	2004-2009
State Trunkline - Series 1992 A and B	57.4	97.7	2005-2012

Advance Refundings and Defeasances

The State has defeased certain bonds by placing the proceeds of new bonds (i.e., the "refunding" bonds in the table of bonds issued and outstanding) in irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not recorded as assets or liabilities in these statements and are not included in the other debt tables in this note.

The following table summarizes the defeased bonds outstanding at September 30 (in millions):

	AMOUNTS OUTSTANDING
Recreation and Environmental Protection:	
Series 1989	$ 2.5
Series 1992	43.8
Total	$ 46.3
Michigan Comprehensive Transportation:	
Series 1992 A	5.1
Total	$ 5.1
State Trunkline Fund Bonds:	
Series 1992 A (partial)	131.2
Series 1992 B (partial)	56.8
Series 1994 A (partial)	112.8
Series 1996 A (partial)	41.2
Total	$ 342.0

Note 14 continued on next page.

State Building Authority:	AMOUNTS OUTSTANDING
1982 Series III	$ 19.3
1986 Series II	1.5
1987 Series I	1.5
1987 Series II	4.7
1988 Series I	14.4
1988 Series II	14.8
1989 Series I	56.7
1990 Series I	74.2
1990 Series II	135.7
1992 Series I	145.5
1992 Series II A	32.9
Total	$ 501.2

Debt Service Requirements

The following table summarizes debt service requirements for outstanding bonds (in millions):

FISCAL YEARS ENDING	GENERAL OBLIGATION PRINCIPAL	GENERAL OBLIGATION INTEREST	MUSTFA AND TRANSPORTATION RELATED PRINCIPAL	MUSTFA AND TRANSPORTATION RELATED INTEREST	STATE BUILDING AUTHORITY PRINCIPAL	STATE BUILDING AUTHORITY INTEREST	TOTAL PRINCIPAL AND INTEREST
2001	$ 46.4	$ 45.1	$ 43.5	$ 49.2	$ 133.7	$ 93.1	$ 411.0
2002	48.6	43.0	45.9	46.9	117.8	87.4	389.6
2003	51.1	40.8	48.2	44.4	120.4	81.8	386.7
2004	50.8	38.6	50.9	41.9	124.8	75.4	382.4
2005	52.9	36.2	54.4	39.2	131.4	68.2	382.3
2006-2030	712.9	233.2	813.4	340.4	1,218.1	436.5	3,754.5
Total	$ 962.7	$ 436.9	$ 1,056.3	$ 562.0	$ 1,846.2	$ 842.4	$ 5,706.5

Interest to maturity for the State Building Authority will be significantly smaller than the amount shown in the above table because many of the bonds will be called prior to the final scheduled maturity date. The retirement of these bonds varies from project to project, as each bond issue is related to specific projects and any excess borrowing and accrued investment earnings are restricted to projects and debt service on the related bonds. State Building Authority debt service fund unreserved fund balances totalled $233.5 million at year-end. Most of this represents investments related to completed projects that will be used for debt service on the projects' bonds.

Some of the bonds of the State Building Authority carry variable interest rates and interest on these has been projected using an average interest rate.

B. Other General Long-Term Obligations

Capital Leases

Capitalized lease liabilities are described in more detail in Note #13. The leases are attributable to operations of the General Fund and two special revenue funds (the State Trunkline Fund and Michigan Employment Security Act – Administration Fund).

Compensated Absences

This liability is described in Note #12.

Claims and Judgments

In general, expenditures and fund liabilities are not recorded in governmental funds for claims and judgments until they are considered "due and payable" at September 30 and the related losses are certain. Liabilities for material claims and judgment losses are recorded in the General Long-Term Obligations Account Group when they are considered probable.

The liability recorded for claims and judgments includes projected amounts payable for workers' compensation claims by State employees and an allowance for litigation losses. The gross amount of workers' compensation liability, $289.4 million at September 30, 2000, has been recorded at its discounted present value of $195.0 million, using a discount rate of 8%. The present value of the current portion of this liability is $44.0 million. The Accident Fund Company billed State agencies for actual workers' compensation claims paid plus administrative fees, totalling $44.1 million in fiscal year 1999-2000.

The allowance for estimated liability for litigation losses, $874.7 million at September 30, 2000, includes amounts for litigation, such as damages in tort cases and refund claims in cases involving State taxes, where it is considered more than a reasonable possibility that a loss may be incurred. Where a range of potential loss exists, the amount recorded is based upon the expected minimum amount that will be lost if the State does, indeed, lose. The allowance also includes projections for highway related negligence cases based upon historical loss ratios. The State continues to vigorously contest all of these claims and the State may incur no liability in the individual cases involved.

Note 14 continued on next page.

Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the State losses exceed the projected minimums which have been recorded). The maximum potential loss on the allowance for estimated litigation losses is not considered reasonably measurable.

The reported estimated liability for litigation losses includes the Donald Durant, et al v State of Michigan, et al consolidated cases, which totalled $474.0 million, at September 30, 2000. This amount will, over time, be paid to each "non-Durant" school district for its underfunded state mandated program costs if certain requirements are met. See Note #28 for additional disclosure regarding the Durant case and other contingencies. Fund expenditures for workers' compensation and settled litigation with long-term repayment provisions are recognized on the "due and payable" basis. Other losses are recognized as fund liabilities in the year of settlement, except that cases settled shortly after year-end are recognized as fund liabilities using a sliding materiality scale that increases from recognizing all losses in early October to recording only settlements in excess of $1.5 million after November 30 (see Note #28).

Net Pension Obligation

This liability is described in Note #11.

Other Liabilities

The MUSTFA Fund, a special revenue fund, receives revenues dedicated to reimbursing owners/operators of underground storage tanks (UST) for costs incurred related to conducting corrective actions at sites where a release has occurred from an UST. The MUSTFA reimbursement fund was declared insolvent and received no additional claims after June 29, 1995. The revenue is still collected to pay off two main obligations of the MUSTFA Fund: the long-term liability for incurred claims recorded in the General Long-Term Obligations Account Group, and the debt and debt service charges associated with the financial borrowing mechanisms utilized to expedite reimbursement to eligible owners/operators.

The State Building Authority (SBA) issued $134.3 million of variable rate revenue notes with an average interest rate of 4.4% and a principal amount outstanding of $131.9 million. The notes have a final maturity date of October 15, 2034. The notes are subject to maturity at the option of SBA. Due to final maturity and redemption options of SBA, annual debt service requirements do not exist. However, SBA intends to refinance the obligation through October 15, 2034. The notes bear interest at a Weekly Rate, Commercial Paper Rate, or a Dutch Auction Rate.

C. Changes in General Long-Term Obligations

Changes in general long-term obligations for the year ended September 30 are summarized as follows (in millions):

	GENERAL OBLIGATION DEBT	REVENUE DEDICATED DEBT- MUSTFA AND TRANSPORTATION RELATED	REVENUE DEDICATED DEBT - STATE BUILDING AUTHORITY	TOTAL BONDED DEBT
Bonded Debt:				
Balance - Beginning	$ 869.8	$ 1,039.5	$ 1,945.1	$ 3,854.4
New bond issues	96.9	-	-	96.9
Accretion on capital appreciation bonds	1.5	4.9	2.5	8.9
Bond principal retirements	(37.9)	(40.9)	(121.7)	(200.4)
	$ 930.3	$ 1,003.6	$ 1,825.9	$ 3,759.8

	CAPITAL LEASE OBLIGATIONS	COMPENSATED ABSENCES LIABILITIES	CLAIMS AND JUDGMENTS	NET PENSION OBLIGATIONS	MISC. OBLIGATIONS	TOTAL OTHER OBLIGATIONS
Other Obligations:						
Balance - Beginning	$ 252.5	$ 445.3	$ 884.6	$ 17.2	$ 6.2	$ 1,605.9
Adjustment to beginning balance	-	-	(10.0)	-	-	(10.0)
Change in estimated liabilities	-	17.0	195.1	3.3	127.5	342.9
Capital lease additions	22.3	-	-	-	-	22.3
Capital lease payments and deletions	(20.4)	-	-	-	-	(20.4)
Balance - Ending	$ 254.5	$ 462.3	$ 1,069.7	$ 20.5	$ 133.7	$ 1,940.7

NOTE 15 – BONDS AND NOTES PAYABLE - DISCRETELY PRESENTED COMPONENT UNITS

A. Bonds and Notes Payable

Bonds Payable

All of the bonds payable of the discretely presented component units are legal obligations of the component units and they are not general obligations of the State. The following table summarizes debt service requirements of the discretely presented component units (in millions):

Fiscal Year	Principal	Interest	Total
2000-2001	$ 242.9	$ 308.9	$ 551.8
2001-2002	270.7	305.6	576.4
2002-2003	238.6	292.9	531.5
2003-2004	244.7	283.0	527.8
2004-2005	231.5	272.5	504.0
Total five years	1,228.5	1,462.9	2,691.5
2005-2037	4,302.9	2,804.5	7,107.4
		$ 4,267.4	$ 9,798.8
Less:			
Unamortized discount	(.6)		
Total principal	$ 5,530.8		

Included in the table above is $223.1 million of demand bonds comprised of the Michigan Higher Education Student Loan Authority, $96.4 million, and the Michigan State Housing Development Authority, $126.7 million. Defeased bonds outstanding of the Mackinac Island State Park Commission, Michigan State Housing Development Authority, Michigan Municipal Bond Authority (MMBA), and eight of the State universities are not reflected in the table above.

Subsequent to September 30, 2000, the following discretely presented component units issued bonds (in millions):

	Amount
Michigan Higher Education Facilities Authority	$ 38.2
Michigan State Hospital Finance Authority	320.0
Michigan State Housing Development Authority	132.2
Michigan Municipal Bond Authority	5.9
Eastern Michigan University	12.8
Grand Valley State University	36.5
	$ 545.6

Disclosures regarding these bonds and transactions are available in the separately issued reports of the various organizations.

Notes Payable

MMBA has short-term notes outstanding of $507.6 million as of September 30, 2000.

B. Unrecorded Limited Obligation Debt

Certain State financing authorities have issued limited obligation revenue bonds which are not recorded as liabilities in these statements because the borrowings are, in substance, debts of other entities. The State has no obligation for this debt. Typically, these borrowings are repayable only from the repayment of loans, unloaned proceeds and related interest earnings, and any collateral which may be provided.

The Michigan Higher Education Facilities Authority (MHEFA) issues limited obligation bonds to finance loans to private nonprofit institutions of higher education for capital improvements. As of September 30, MHEFA had bonds outstanding of $266.0 million. Of the above amount, $37.2 million of bonds have been defeased in substance, leaving a remaining undefeased balance of $228.8 million.

The Michigan Strategic Fund (MSF) issues industrial development revenue bonds ($5.2 billion for the period January 1, 1979 through September 30, 2000) which are not recorded as liabilities. Total taxable bonds issued by MSF for the period October 1, 1997 through September 30, 2000 was $.8 million, which are not recorded as liabilities. These borrowings are, in substance, debts of other entities and financial transactions are handled by outside trustees.

The Michigan State Hospital Finance Authority (MSHFA) has issued $4.9 billion of no commitment bonds as of September 30, 2000. Of the above amount, $1.1 billion have been defeased in substance. Economic gains and accounting gains and losses upon in substance defeasance inure to the benefit of the facility for which the bonds were issued and accordingly are not reflected in the Authority's financial statements. Subsequent to September 30, 2000, the Authority issued similar limited obligation bonds totaling $10.0 million.

The Michigan State Housing Development Authority (MSHDA) has been authorized to issue up to $800 million of limited obligation bonds to finance multi-family housing projects. At June 30, limited obligation bonds had been issued totaling $392.1 million, of which eight issues totaling $70.2 million had been retired.

NOTE 16 – INCOME TAX REFUNDS AND TAX EXPENDITURES

A. Income Tax Credits

The Michigan Income Tax Act provides for several types of tax credits. Some credits are accounted for as revenue reductions for financial reporting purposes while others are reported as expenditures. Revenue reductions are reported for those income tax credits which are limited by the amount of an individual's tax liability before considering such credits. To the extent these nonrefundable credits will generate future year payments, they are accrued as income tax refund liabilities together with estimated overwithholdings.

Expenditures are reported for those credits which can be received even if they exceed the individual's tax liability. For these refundable credits, the substance of the transaction is that the State is making a grant payment using the income tax system as a filing and payment mechanism. The amount of credit received is not a part of the determination of tax liability. The State's property tax, home heating, and senior citizens' prescription drugs credits are the primary credits that fall into this category. Expenditures for these credits are recognized in the year the tax returns are filed and recipients claim the credits.

The following table shows the amounts of the various credits reported as General Fund "tax expenditures" on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances (in millions).

Property tax credits:		
General homestead	$	235.5
Senior citizens		221.4
Farmland preservation		17.1
Other property tax credits		10.7
Subtotal – property tax credits		484.7
Home heating (excluding federal share)		1.4
Senior citizens' prescription drugs		15.9
Total tax expenditures	$	502.1

B. Income Tax Refunds Payable

The $625.6 million reported as a General Fund liability on the "Income Tax Refunds Payable" line on the Combined Balance Sheet includes: projected refund estimates for overwithholding and tax credits reported as revenue reductions; actual refunds made in October and November; and, accruals for known income tax litigation losses.

NOTE 17 – LOTTERY PRIZE AWARDS PAYABLE

The State Lottery Fund makes long-term prize awards for certain games, most notably the lotto games. Liabilities related to these deferred prize awards are recorded at their present value using discount rates ranging from 5.5% to 8.5%. The liquidation of these liabilities is provided for by investment in U.S. Treasury deep discount bonds and in the State's common cash pool.

Liabilities for future payments for prize awards are summarized as follows (in millions):

Twelve months ending September 30:		
2000	$	155.2
2001		110.1
2002		109.8
2003		109.4
2004		103.0
2005 through 2009		378.5
2010 through 2014		165.7
Later years		63.1
Total		1,194.9
Less unamortized discount		(371.0)
Total at present value	$	823.8

Public Act 239 of 1972 required that, as nearly as practicable, 45% of gross ticket revenue shall be allocated for prize awards. Effective December 17, 1998, P.A. 393 of 1998 requires as nearly as practicable until January 1, 2003, that not less than 45% of gross ticket revenue shall be allocated for prize awards. On or after January 1, 2003, 45% of gross ticket revenue shall be allocated for prize awards.

Public Act 95 of 1996 allows the State Lottery to participate in joint enterprises (such as multi-state lotteries) with other sovereignties. Prize awards from joint enterprises shall be the percentage of total annual revenue accrued from that game as prescribed by the joint enterprise participation agreement. More detailed information on the State Lottery Fund is available in the fund's separately issued audited financial statements, which are prepared semiannually.

NOTE 18 – OTHER LONG-TERM LIABILITIES

Discretely Presented Component Units

Michigan Education Trust (MET)

The MET offers contracts which, for actuarially determined amounts, provide future tuition at State institutions of higher education. Contract provisions also allow the benefits to be used at private or out-of-state institutions, with the amount provided being based upon rates charged by the State's public institutions of higher education. The tuition payments are made by MET as a separate legal entity and these contracts are not considered obligations of the State. The Legislature is not obligated to provide appropriations should losses occur and the statutes and contracts provide for refunds to the participants if MET becomes actuarially unsound. Liabilities have been recorded on the balance sheet for the actuarial present value of future tuition benefit obligations.

The 1988, 1989, and 1990 enrollments are known as Plans B and C. Enrollments after November 1995 are known as Plan D.

The actuarial report on the status of MET Plans B and C, as of September 30, 2000, shows the actuarial present value of future tuition obligations to be $552.3 million, as compared to the actuarially determined market value of assets available of $711.2 million. The actuarial assumptions used include: a projected tuition increase rate of 5.81% for the years through 2006 and 7.30% for subsequent years; and a discount rate of 6.20%.

The actuarial report on the status of MET Plan D, as of September 30, 2000, shows the actuarial present value of future tuition obligations to be $80.6 million, as compared to the actuarially determined market value of assets available of $87.2 million. The actuarial assumptions used include: a projected tuition increase rate of 5.81% for the years through 2006 and 7.30% for subsequent years; and a discount rate of 6.83%.

During 2000, MET changed the balance sheet presentation of the tuition benefit obligation by increasing the liability to include the present value of future contract payments expected to be collected from installment contract purchasers. There was no effect on net income or retained earnings as a result of the reclassification. This valuation method resulted in the recognition of a tuition benefit expense credit in the fiscal year ending September 30, 2000.

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan, and, thus, the investment income realized by MET is not currently subject to federal income tax. On August 20, 1996, the Small Business Job Protection Act of 1996 (the "1996 Tax Act") was signed into law which included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified state tuition programs." A qualified state tuition program is generally exempt from income tax, but is subject to unrelated business income tax. MET has no unrelated business income. Distributions made in excess of contributions (whether to the refund designee, beneficiary, or to a college on behalf of the beneficiary) are taxable income to the beneficiary or the refund designee. The Internal Revenue Service (IRS) was expected to release regulations in 2000, which would have clarified the 1996 federal legislation for qualified state tuition programs. In May 1997, MET submitted a request for ruling to the IRS for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling which confirms that MET is in compliance with the Act.

NOTE 19 – DEFERRED COMPENSATION PLANS

The State offers its employees (excluding university employees) two deferred compensation plans to allow a portion of their salary to be deferred until future years. The Department of Civil Service administered these plans, labeled 457 and 401k after sections of the Internal Revenue Code, until October 1, 1996, when the State Treasurer assumed responsibility for administering the funds in compliance with P.A. 96 of 1996. On July 1, 1997, the day-to-day administration of both plans was contracted out to a third-party administrator. Executive Order 1999-7 transferred administration of the plans from the Department of Treasury to the Department of Management and Budget. However, the State Treasurer continues to oversee investment options. The 457 plan and the 401k plan are combined for reporting purposes under the heading of "State Employees' Deferred Compensation Funds."

The State makes no contribution to the 457 plan, but makes matching contributions to the 401k plan as part of certain employees' compensation packages. To expand investment options, three investment tiers were developed and made available to participants on July 1, 1997. Participants invest their contributions and accumulated earnings by selecting mutual funds in one or more of the investment tiers. Employees may, at any time, transfer accumulated balances and future contributions among mutual funds in the investment tiers.

The 401k plan includes loan provisions. Loans to participants are recorded as assets. The 457 plan does not include loan provisions.

Employee contributions are recognized as revenue; benefits are recognized as expenditures when paid. Investment earnings, net of administrative charges, are credited to the participants proportionally based upon their balances in the plan. Investments are stated at fair value and the net of realized and unrealized gains and losses are shown as miscellaneous revenue.

Fund balance represents net assets available for plan benefits. Total fund balance for the 457 plan and the 401k plan at September 30, 2000 were $2.3 and $1.2 billion, respectively.

NOTE 20 – INTERFUND RECEIVABLES AND PAYABLES

A. Primary Government

In the following table, the most significant interfund receivable and payable balances are listed by individual fund. Other funds' balances are shown in total for each fund type. Interfund receivables and payables are not eliminated and are presented in the same fund when funds are combined. On the balance sheet, the current portions of these balances are presented as "Amounts due from other funds" and "Amounts due to other funds" and noncurrent items are classified as "advances." The balances of interfund receivables and payables as of September 30 were (in millions):

	INTERFUND RECEIVABLES		INTERFUND PAYABLES	
	Current	Noncurrent	Current	Noncurrent
GOVERNMENTAL FUND TYPES				
General Fund	$ 28.7	$ 9.4	$ 22.1	$ -
Special Revenue Funds:				
State Trunkline Fund	42.3	28.9	6.1	28.9
Michigan Transportation Fund	-	-	47.9	-
Comprehensive Transportation Fund	10.6	-	-	-
Michigan Employment Security Act – Administration Fund	-	-	2.9	-
State Casino Gaming Fund	-	-	.8	-
Other Special Revenue Funds	.1	-	.6	-
Total Special Revenue Funds	53.0	28.9	58.3	28.9
Capital Projects Funds:				
Advance Financing Funds	129.5	-	22.2	-
State Building Authority	-	-	129.5	-
Total Capital Projects Funds	129.5	-	151.7	-
PROPRIETARY FUND TYPES				
Enterprise Funds	-	-	.1	-
Internal Service Funds:				
Correctional Industries Revolving Fund	-	-	.1	8.2
Motor Transport Fund	-	-	10.3	-
Office Services Revolving Fund	-	-	4.6	-
Information Technology and Energy Fund	-	-	6.9	-
State Sponsored Group Insurance Fund	33.4	-	-	-
Total Internal Service Funds	33.4	-	22.0	8.2
FIDUCIARY FUND TYPES				
Trust and Agency Funds:				
Transportation Related Trust Funds	-	-	3.3	-
State Employees' Retirement Fund	10.8	-	-	-
Judges' Retirement Fund	-	-	76.9	-
State Employees' Defined Contribution Retirement Fund	76.9	-	-	-
Other Trust and Agency Funds	2.6	-	.4	1.2
Total Trust and Agency Funds	90.3	-	80.7	1.2
Total Interfund Receivables and Payables - All Funds	$ 334.9	$ 38.3	$ 334.9	$ 38.3

B. Discretely Presented Component Units

Receivables and related liabilities between the primary government and the discretely presented component units, as well as operating transfers in and out, do not agree because the Michigan State Housing Development Authority and the ten State universities have a June 30 fiscal year-end.

NOTE 21 – INTERFUND COMMITMENTS

A. Mackinac Bridge Authority

The Mackinac Bridge Authority, a discretely presented component unit, has over the years received $75.3 million of subsidies, including $12.3 million for operations and $63.0 million for debt service. These subsidies were provided by the State Trunkline and Michigan Transportation funds, respectively, both of which are special revenue funds.

State statutes require that the Authority continue charging bridge tolls and begin repaying the State funds for the subsidies provided. These repayments are to continue until such time as the subsidies have been completely returned. The Authority has not recorded a liability and the State funds have not recorded receivables for these subsidies because: the reimbursements are contingent upon future net revenues, there is no repayment schedule, and the repayment commitment is long-term and budgetary in nature. Repayments may be authorized by the Authority, after consideration of the Authority's annual needs for its operations and planned repairs and improvements.

As of September 30, 2000, the Authority has repaid a total of $9.3 million of the advance from the Michigan Transportation Fund, leaving a balance of $53.8 million. No repayments have been made on the advance from the State Trunkline Fund.

NOTE 22 – EQUITY TRANSFERS AND CHANGES IN CONTRIBUTED CAPITAL

A. Equity Transfers

The General Fund received an equity transfer of $21.7 million from the Uninsured Employers' Security Fund, a special revenue fund, during fiscal year 1999-2000. This transfer was made to close the fund in accordance with P.A. 357 of 1996. Sufficient equity in common cash was retained to cover the remaining liabilities.

The General Fund made a total of $17.4 million in equity transfers to component units during fiscal year 1999-2000. Equity transfers of $11.7 million and $5.7 million were made to the Michigan Municipal Bond Authority, a discretely presented component unit, to provide revolving loan capital for the Water Pollution Control Loan Program and for state matching of federal funds.

Equity transfers totaling $.2 million were made from two different Self-Insured Disability Funds within the Miscellaneous Trust Accounts Fund, an expendable trust fund, to the Self-Insurers' Security Fund within the Miscellaneous Trust Accounts Fund. These equity transfers were made to comply with court orders to close the Self-Insured Disability Funds.

B. Changes in Contributed Capital

The following table summarizes contributed capital transactions made during the year (in millions):

	Primary Government				Component Units		
	Correctional Industries Revolving Fund	Motor Transport Fund	Office Services Fund	Total	Michigan Municipal Bond Authority	Michigan Economic Development Corporation	Total
Beginning balance - restated	$ 1.5	$ 8.4	$ -	$ 10.0	$ 756.3	$ 170.8	$ 927.1
Contributed capital additions	-	-	.8	.8	-	-	-
Equity transfers from primary government	-	-	-	-	17.4	-	17.4
Federal grants	-	-	-	-	136.1	-	136.1
Ending balance	$ 1.5	$ 8.4	$ .8	$ 10.8	$ 909.7	$ 170.8	$ 1,080.5

Contributed capital was first recorded by the State as of the beginning of the 1986-87 fiscal year. The amounts contributed prior to 1986-87 are not reasonably determinable, except for the amounts related to the Motor Transport Fund. Contributions received in other funds prior to 1986-87 are reflected as retained earnings.

NOTE 23 – RETAINED EARNINGS

A. Designations – Primary Government

Retained earnings of $54.3 million in the State Sponsored Group Insurance Fund, an internal service fund, which is described in Note #27, has been designated for future catastrophic losses.

B. Reservations – Discretely Presented Component Units

Certain amounts of retained earnings of the discretely presented component units are reserved based upon restrictions placed upon the use of funds by external parties. The amounts as of September 30 are as follows (in millions):

Michigan Higher Education Student Loan Authority	$ 9.4
Mackinac Island State Park Commission	4.3
Michigan State Housing Development Authority	195.5
Total	$ 209.1

C. Fund Deficits

All proprietary type funds and discretely presented component units have positive retained earnings balances as of September 30, 2000.

NOTE 24 – FUND BALANCES

A. Reservations - Primary Government

The line entitled "Reserved fund balance" on the Combined Balance Sheet at September 30 consists of the following (in millions):

	General	Special Revenue	Capital Projects	Pension Trust	Total
Budgetary carry-forwards:					
Encumbrances	$ 154.2	$ 113.3	$ -	$ -	$ 267.5
Restricted revenues	757.3	333.5	-	-	1,090.8
Multi-year projects (capital outlay and work projects)	611.6	412.9	-	-	1,024.5
Construction	-	-	11.3	-	11.3
Debt service		35.9			35.9
Revolving loan programs	5.0	29.5	-	-	34.5
Funds held as permanent investments	-	429.2	-	-	429.2
Noncurrent assets	361.4	30.8	-	-	392.3
Pension benefits	-	-	-	53,607.2	53,607.2
Postemployment health-care benefits	-	-	-	150.9	150.9
Total Reserved Fund Balances	$ 1,889.5	$ 1,385.1	$ 11.3	$ 53,758.2	$ 57,044.1

Budgetary carry-forwards represent unused spending authorization which continues to be available in the new year. Restricted revenue carry-forwards include revenues restricted by law for specified purposes. The largest restricted revenue carry-forwards in the General Fund are related to Medicaid Benefits Trust, $239.2 million, and local government revenue sharing, $203.9 million. Beginning in 1996, encumbrances in multi-year projects are recorded on the balance sheet in the reserve for encumbrances. Similar amounts in previous years had not been specifically identified, and were thus included in the broader reserve for multi-year projects. The $611.6 million of multi-year projects in the General Fund includes $331.0 million of capital outlay and $280.6 million of work project authorizations. Such amounts are reserved because the funds are legally segregated for a specific purpose.

Note 24 continued on next page.

Construction and debt service reserves represent amounts which are restricted for State Trunkline Fund's debt service and State Building Authority projects that are in process.

Reserves for revolving loan programs represent fund balance which has been appropriated for the purpose of making loans that will encourage economic development in the State. Repayments on such loans are authorized to be used to make new loans.

Funds held as permanent investments represent amounts that have been legally restricted for the purpose of providing a long-term source of investment income. These investments can include either specific investments held for the fund or portions of the fund's share of the common cash pool.

Reserves are recorded for noncurrent assets if they do not represent current financial resources available for appropriation. No reservation is recorded for noncurrent assets if doing so would result in a duplicate reduction of unreserved fund balance. This occurs if the noncurrent assets have already been reserved for some other reason or if they are related to revenues that have been deferred because of not being "available."

The State does not record any reservations in expendable trust funds because the balances are all considered available for the purposes of the various funds. Also, no reservations of fund balances are recorded in single purpose special revenue and debt service funds. From the overall State perspective, the unreserved fund balances of funds other than the General Fund are restricted by the nature of the fund type and they are not available for general State purposes.

B. Reservations - Component Units

The line entitled "Reserved fund balance" on the Combined Balance Sheet consists entirely of reserves for restricted funds of State universities totaling $230.6 million.

C. Fund Deficits

Except for the funds described below, all governmental and fiduciary funds have positive ending unreserved fund balances.

The Michigan Underground Storage Tank Financial Assurance Fund, a special revenue fund, had an unreserved fund deficit of $35.8 million. The deficit was caused by appropriations and payment of claims which exceeded revenue to date.

The Michigan Underground Storage Tank Financial Assurance Finance Authority, a special revenue fund, had an unreserved fund deficit of $173 thousand. The deficit was caused by the issuance of short-term notes to provide temporary financing for the activities of the MUSTFA Fund.

The State Casino Gaming Fund, a special revenue fund, had an unreserved fund deficit of $9.0 million. The deficit was caused by the issuance of a short-term advance to provide temporary financing of start-up costs. The advance will be repaid as the temporary casinos become operational.

The Michigan Veteran's Trust Fund, a special revenue fund, had an unreserved fund deficit of $171 thousand. The deficit was caused by the decline in the value of the investment portfolio.

The School Bond Loan Fund, a special revenue fund, had an unreserved fund deficit of $13.9 million. This deficit was the result of issuance of bond anticipation notes for which bonds had not been issued by year-end.

The Advance Financing Funds, a capital projects fund, had an unreserved fund deficit of $59.1 million. The deficit was caused by expenditures for projects for which bonds have not yet been issued and for expenditures incurred to improve State-owned sites which have not been sold.

The State Building Authority, a capital projects fund, had an unreserved fund deficit of $469.1 million. The deficit was primarily caused by the issuance of commercial paper.

NOTE 25 – SEGMENT INFORMATION FOR ENTERPRISE FUNDS

During the fiscal year, the State operated two enterprise funds. The Liquor Purchase Revolving Fund accounts for the State's activities in the distribution of liquor at the wholesale level. The fund is also used to account for certain liquor taxes that generate revenue for other State activities. Nonoperating activity includes $10.0 million in tax revenues. Public Act 431 of 1984 requires that the net income of the fund be transferred to the General Fund. Appropriation acts have also been passed to authorize transfers from the fund as a funding source for other specified purposes.

The State Lottery Fund accounts for the State lottery games and regulation of bingo and charity games. Profits from the lottery are transferred to the School Aid Fund and profits from regulation of bingo and charity games are transferred to the General Fund.

Segment information for the fiscal year ended September 30 (in millions) is as follows:

	LIQUOR PURCHASE REVOLVING FUND	STATE LOTTERY FUND	TOTAL
Operating Revenues	$ 567.3	$ 1,736.5	$ 2,303.8
Operating Expenses (Including Depreciation)	458.4	1,122.6	1,581.1
Depreciation Expense	.1	.5	.6
Operating Income (Loss)	108.9	613.9	722.7
Nonoperating Revenues (Expenses)	18.5	.7	19.2
Operating Transfers To Other Funds:			
Statutory Net Income Transfer	(119.7)	(626.5)	(746.2)
Administrative General Fund Costs	(7.7)	-	(7.7)
Total Operating Transfers To Other Funds	(127.4)	(626.5)	(753.9)
Net Income (Loss)	-	(12.0)	(12.0)
Unrealized Gain (Loss) on Investments	-	(12.0)	(12.0)
Net Working Capital	8.7	7.1	15.8
Property, Plant, and Equipment	-	.5	.5
Total Assets	64.6	1,117.2	1,181.9
Long-Term Liabilities	2.0	674.3	676.3
Total Equity (Deficit)	6.7	50.9	57.6

NOTE 26 – CONDENSED FINANCIAL STATEMENTS - DISCRETELY PRESENTED COMPONENT UNITS

The following tables present condensed financial statements for the "major" discretely presented component units. Major component units are those which are relatively most significant as compared to the other component units or that have an especially significant relationship to the primary government.

BALANCE SHEETS (in millions)

	Governmental Component Units	Michigan Education Trust	Michigan Higher Education Student Loan Authority	Michigan State Housing Development Authority	Michigan Municipal Bond Authority
ASSETS					
Current Assets:					
Amounts due from component units	$ .1	$ -	$ -	$ -	$ -
Amounts due from primary government	.3	.5	.2	-	.6
Other current assets	119.2	56.3	219.3	498.9	1,131.6
Noncurrent Assets:					
Advances to primary government/ component units	-	-	-	-	-
Mortgages and loans receivable	1.2	-	665.0	1,846.1	-
Investments	5.4	729.7	78.6	449.0	848.4
Property, plant, and equipment	7.3	-	-	-	-
Other noncurrent assets	-	11.8	10.7	4.8	1,759.7
Total Assets	$ 133.5	$ 798.4	$ 973.8	$ 2,798.9	$ 3,740.3
LIABILITIES, FUND EQUITY, AND OTHER CREDITS					
Current Liabilities:					
Amounts due to component units	$ 12.4	$ -	$ -	$ -	$ -
Amounts due to primary government	.9	-	-	1.8	-
Other current liabilities	16.4	49.5	49.0	142.7	664.4
Long-Term Liabilities:					
Bonds and notes payable	-	-	796.9	1,916.0	1,971.7
Other long-term liabilities	32.6	583.5	30.9	357.7	84.9
Total Liabilities	62.4	633.0	876.8	2,418.3	2,721.0
Fund Equity and Other Credits:					
Investment in general fixed assets	7.3	-	-	-	-
Contributed capital	-	-	-	-	909.7
Retained earnings	-	165.5	97.0	380.6	109.5
Fund balances	63.8	-	-	-	-
Total Fund Equity and Other Credits	71.1	165.5	97.0	380.6	1,019.2
Total Liabilities, Fund Equity, and Other Credits	$ 133.5	$ 798.4	$ 973.8	$ 2,798.9	$ 3,740.3

Note 26 continued on next page.

Other Proprietary Component Units	Central Michigan University	Grand Valley State University	Western Michigan University	Other Universities	Totals
$ 8.3	$ -	$ .1	$ -	$ .2	$ 8.7
1.1	15.9	24.5	21.6	80.3	145.0
260.7	88.8	46.0	145.8	184.7	2,751.3
-	-	-	-	.4	.4
16.4	7.9	8.3	6.4	45.9	2,597.1
102.8	43.2	65.3	9.9	117.4	2,449.9
17.0	211.9	239.1	398.1	1,137.3	2,010.7
-	-	.5	5.1	3.0	1,795.7
$ 406.4	$ 367.6	$ 383.7	$ 586.9	$ 1,569.3	$ 11,758.8
$ -	$ -	$ -	$ -	$ -	$ 12.4
.1	.6	.1	-	2.1	5.6
26.8	27.8	35.4	56.9	142.6	1,211.5
7.1	94.5	46.9	196.5	318.1	5,347.8
18.0	3.0	3.3	13.8	32.0	1,159.7
52.1	125.8	85.7	267.2	494.9	7,737.0
-	114.2	130.9	272.6	825.4	1,350.4
170.8	-	-	-	-	1,080.5
183.5	-	-	-	-	936.1
-	127.5	167.1	47.2	249.0	654.7
354.3	241.8	298.1	319.8	1,074.4	4,021.7
$ 406.4	$ 367.6	$ 383.7	$ 586.9	$ 1,569.3	$ 11,758.8

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (in millions)

	Mackinac Bridge Authority	Michigan Higher Education Facilities Authority	Michigan Strategic Fund	Michigan Higher Education Assistance Authority	Total
REVENUES					
From federal agencies	$ -	$ -	$ 54.1	$ -	$ 54.1
From services	-	.1	-	95.5	95.6
From licenses and permits	10.7	-	-	-	10.7
Miscellaneous	1.6	-	10.5	-	12.2
Total Revenues	12.3	.1	64.7	95.5	172.6
EXPENDITURES					
Current	14.4	.1	55.0	93.3	162.8
Total Expenditures	14.4	.1	55.0	93.3	162.8
Excess of Revenues over (under) Expenditures	(2.2)	-	9.6	2.3	9.8
OTHER FINANCING SOURCES (USES)					
Operating transfers from primary government	-	-	165.3	-	165.3
Operating transfers to component units	-	-	(174.9)	-	(174.9)
Operating transfers to primary government	(.3)	-	-	-	(.3)
Total Other Financing Sources (Uses)	(.3)	-	(9.6)	-	(9.9)
Excess (Deficiency) of revenues and Expenditures	(2.4)	-	-	2.3	(.1)
Fund Balance – Beginning of fiscal year - restated	26.9	.3	.1	36.6	63.9
Equity Transfers	-	-	-	-	-
Fund Balances – End of fiscal year	$ 24.5	$ .3	$ .1	$ 38.9	$ 63.8

Note 26 continued on next page.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY (in millions)

	Michigan Education Trust	Michigan Higher Education Student Loan Authority	Michigan State Housing Development Authority	Michigan Municipal Bond Authority	Other Proprietary Component Units	Total
OPERATING REVENUES						
Operating revenues	$ -	$ -	$ -	$ -	$ 27.6	$ 27.6
Interest income	47.0	50.5	142.3	152.1	2.1	394.0
Investment revenue (net)	(6.8)	11.0	30.0	-	12.8	47.0
Federal revenues	-	9.0	6.6	-	4.0	19.6
Other miscellaneous	.1	-	11.0	4.5	4.5	20.1
Total Operating Revenues	40.3	70.5	189.9	156.6	50.9	508.2
OPERATING EXPENSES						
Depreciation and amortization expense	-	.9	-	3.2	.3	4.4
Other operating expenses	(23.8)	60.3	152.4	131.8	73.6	394.2
Total Operating Expenses	(23.8)	61.1	152.4	135.0	73.9	398.6
Operating Income (Loss)	64.2	9.4	37.5	21.5	(23.0)	109.6
NONOPERATING REVENUES (EXPENSES)						
Federal grant revenue	-	-	80.8	-	4.1	84.9
Other	-	-	(92.1)	-	(73.3)	(165.4)
Total Nonoperating Revenues (Expenses)	-	-	(11.3)	-	(69.2)	(80.5)
OPERATING TRANSFERS						
Operating transfers from component units	-	-	-	-	174.9	174.9
Operating transfers from primary government	-	-	-	-	1.9	1.9
Operating transfers to component units	-	-	-	-	(.7)	(.7)
Total Operating Transfers in (Out)	-	-	-	-	176.2	176.2
Net Income (Loss)	64.2	9.4	26.2	21.5	84.0	205.3
Total Fund Equity – Beginning of fiscal year - restated	101.3	87.7	354.4	87.9	99.5	730.8
Total Fund Equity – End of fiscal year	$ 165.4	$ 97.0	$ 380.6	$ 109.5	$ 183.5	$ 936.1

Note 26 continued on next page.

STATEMENTS OF CHANGES IN FUND BALANCE (in millions)

	Central Michigan University	Grand Valley State University	Western Michigan University	Other Universities	Total
Total revenues and other additions	$ 271.5	$ 216.4	$ 346.0	$ 831.2	$ 1,665.1
Total expenditures and other deductions	342.5	242.3	467.1	1,117.8	2,169.7
Operating transfers from primary government	86.3	76.5	118.1	388.2	669.1
Net increase (decrease) for the year	15.3	50.6	(3.0)	101.6	164.5
Total Fund Equity and Other Credits - Beginning of fiscal year – restated	226.4	247.5	322.8	972.9	1,769.5
Total Fund Equity and Other Credits - End of fiscal year	$ 241.8	$ 298.1	$ 319.8	$ 1,074.4	$ 1,934.0

STATEMENTS OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS AND CHANGES IN FUND BALANCES (in millions)

	Central Michigan University	Grand Valley State University	Western Michigan University	Other Universities	Total
Revenues	$ 235.3	$ 175.8	$ 308.7	$ 602.5	$ 1,322.3
Expenditures	298.4	211.3	405.9	875.8	1,791.4
Mandatory transfers (in) out	7.4	7.5	9.1	24.5	48.5
Operating transfers from primary government	(80.5)	(54.7)	(116.5)	(323.6)	(575.3)
Other transfers (in) out	11.7	12.1	16.1	25.3	65.2
Total Expenditures and Transfers	237.1	176.3	314.5	601.9	1,329.7
Revenues over Expenditures and Transfers	(1.7)	(.5)	(5.9)	.7	(7.4)
Fund Balances – Beginning of fiscal year - restated	28.9	34.1	57.4	93.6	214.1
Change in restricted revenue held for future expenditures	.7	(13.1)	1.6	2.6	(8.2)
Fund Balances – End of fiscal year	$ 27.9	$ 20.5	$ 53.1	$ 96.9	$ 198.4

NOTE 27 – RISK MANAGEMENT

A. Primary Government

General

The State has elected not to purchase commercial insurance for many of the risks of losses to which it is exposed. The State is self-insured for most general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability, and workers' compensation and unemployment compensation claims. Areas of risk where some level of insurance coverage is purchased include: aircraft liability, property and loss of rents insurance that may be required by bond or lease agreements, portions of the State employee insurance benefits program, certain State artifacts, builder's risk coverage, boiler and machinery coverage, and employee bonding. Settled claims have not exceeded commercial coverage in any of the past seven fiscal years.

The State has established two internal service funds, which are described below, to account for certain aspects of the risk management program. Fund expenditures for these types of risks are recognized in the paying funds in a manner similar to purchased commercial insurance. For other uninsured losses not covered by an internal service fund program, the State recognizes fund liabilities in the fund incurring the loss when it is probable that a loss has occurred and the amount can be reasonably estimated. As explained more fully in Note #14, losses for workers' compensation and certain types of litigation losses have been recognized as liabilities in the General Long-Term Obligations Account Group, with expenditures recognized when due and payable.

For unemployment claims, the Unemployment Agency (UA) bills the State for the actual amount of claims paid to former State employees. The State accrues liabilities for unemployment compensation only to the extent of the amount paid by UA through September 30. During the 1999-2000 fiscal year, expenditures for payments to former State employees (not including university employees) totalled $4.4 million. The potential liability for future payments has not been estimated.

The State's two internal service funds, which account for certain areas of risk management, follow accounting standards established by the Governmental Accounting Standards Board. This results in a reporting which is very similar to that used in the private insurance industry. The various component programs within the two funds may incur deficits during a given year, but each program's surplus, retained earnings balance, or deficit is considered in calculating future charges or benefit levels.

Risk Management Fund

This fund was established during fiscal year 1989-90 to account for insurance management activities implemented within the Department of Management and Budget. The automotive liability and administrative functions are accounted for as operating activities of this fund. Expenses and liabilities for claims, including incurred but not reported or not processed claims, have been recorded in the amount of $8.0 million. This includes a long-term portion, which is recorded at $5.5 million.

Changes in the Risk Management Fund's claims liability for automobile liability for the fiscal years ending September 30, 2000 and 1999 are as follows (in millions):

	2000	1999
Balance - beginning	$ 6.9	$ 5.6
Current year claims and Changes in estimates	1.8	5.2
Claim payments	(.8)	(4.0)
Balance - ending	$ 8.0	$ 6.9

State Sponsored Group Insurance Fund

The Department of Management and Budget uses this fund to account for employee and retiree insurance benefit programs, which are largely self-funded. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, based on preliminary estimates from the plan administrators, have been recorded as liabilities in the amount of $184.0 million. This includes a long-term portion which is recorded at a discounted present value of $89.3 million using a discount rate of 10.5% (first 15 years of disability), 9.0% (next 5 years), and 6.0% thereafter. Claims incurred in past years were discounted using rates as follows in the calculation of incurred but not reported claims: 1993 and 1994 used a rate of 6.0%, 1995 used a rate of 6.25%, 1996 and 1997 used a rate of 5.75%, and 1998 through 2000 used a rate of 5.25%.

Payments to the State Sponsored Group Insurance Fund are based on estimates of amounts needed to pay prior and current year claims. In addition, a portion of the fund's retained earnings has been designated for catastrophic losses. The risk management designation represents the level of reserves that should be maintained to ease large fluctuations in premium levels in years of unexpected excessive claims. That designation was $54.3 million at September 30, 2000. Retained earnings totaled $12.9 million at September 30, 2000. Therefore, if excessive claims were realized, the fund would not have sufficient retained earnings to satisfy these losses.

Changes in the State Sponsored Group Insurance Fund's claims liability for employee and retiree insurance benefit programs for the fiscal years ending September 30, 2000 and 1999 are as follows (in millions):

	2000	1999
Balance - beginning	$ 173.7	$ 166.4
Current year claims and changes in estimates	494.6	485.6
Claim payments	(484.3)	(478.3)
Balance - ending	$ 184.0	$ 173.7

Note 27 continued on next page.

B. Discretely Presented Component Units

State Universities

The State university component units participate with the other Michigan public universities in the Michigan Universities Self-Insurance Corporation (MUSIC), which provides indemnity to its members against comprehensive general liability, errors and omissions losses, and property damage commonly covered by insurance. Loss coverages for comprehensive general liability and property are structured on a three-layer basis with each member retaining a portion of its losses, MUSIC covering the second layer, and commercial carriers covering the third layer. For all policy years through June 30, 1993, errors and omissions coverage was structured on a two-layer basis with no excess insurance provided. Effective July 1, 1993, MUSIC obtained excess insurance coverage from commercial carriers covering the third layer. For automobile liability there is no member retention. Comprehensive general liability, property and automobile liability coverage is provided on an occurrence basis; errors and omissions coverage is provided on a claims made basis.

The universities made initial capital contributions and make premium payments to cover administrative costs, the cost of obtaining excess insurance coverage, and claims for risk retained by the facility. Premiums to facility participants are adjusted based on the difference between actual claims and the amount of claims originally estimated for a year. Liabilities for estimated losses retained by the universities under MUSIC have been established in the operating funds of the universities.

NOTE 28 – CONTINGENCIES AND COMMITMENTS

A. Primary Government

Litigation

The State accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. In the event that a significant, probable, and reasonably estimable loss is not settled prior to the preparation of these statements, the obligation is recorded as a general long-term liability or fund liability, depending on the fund type (see Note #14).

The State is a party to various legal proceedings seeking damages, injunctive, or other relief. In addition to routine litigation, certain of these proceedings could, if unfavorably resolved from the point of view of the State, substantially affect State programs or finances. These lawsuits involve programs generally in the areas of corrections, tax collection, commerce and budgetary reductions to school districts and governmental units, and court funding. Relief sought includes damages in tort cases generally, alleviation of prison overcrowding, improvement of prison medical and mental health care, and refund claims under State taxes. The State is also a party to various legal proceedings which, if resolved in the State's favor, would result in contingency gains to the State's General Fund balance, but without material effect upon fund balance. The ultimate dispositions and consequences of all of these proceedings are not presently determinable, but such ultimate dispositions and consequences of any single proceeding or all legal proceedings collectively should not themselves, except as listed below, in the opinion of the Attorney General of the State and the Department of Management and Budget, have a material adverse effect on the State's financial position.

10th Judicial Circuit et al v State of Michigan et al: On August 22, 1994, the Ingham Circuit and Probate Courts, together with the 55th District Court, filed suits in the Court of Claims and Ingham County Circuit Court against the State of Michigan and Ingham County entitled, 30th Judicial Circuit et al v Governor et al for declaratory and injunctive relief, and for damages, due to the alleged failure of the State Court Administrative Office to properly calculate Ingham County's reimbursement under MCL 600.9947; MSA 27A.9947, the court funding statute. The 30th Judicial Circuit et al v Governor et al case has been dismissed by stipulation of the parties because the plaintiffs are raising the same claims as members of a class action captioned as 10th Judicial Circuit et al v State of Michigan et al (Saginaw Circuit Court No. 94-2936-AA-1/Court of Claims No. 94-15534-CM). Plaintiffs assert that the amount in controversy exceeds \$5 million. The case is currently pending final class certification.

Durant v State of Michigan (Durant II): In a decision rendered October 19, 1999, the Court of Appeals held that the State School Aid Act complied with the State's obligations under Article 9, § 29 of the Michigan Constitution to fund the State-mandated portions of the special education, special education transportation, and school lunch programs at the levels required by the Headlee Amendment.

The Court of Appeals further held that certain sections of the State School Aid Act violated Article 9, § 11 of the Michigan Constitution. Article 9, § 11 of the Michigan Constitution provides, in part, that beginning in the 1995-96 state fiscal year, and each fiscal year thereafter, the State shall guarantee that the total state and local per pupil revenue for school operating purposes for each local school district shall not be less than the 1994-95 total state and local per pupil revenues for school operating purposes. The Court held that under Article 9, § 11, the Legislature must appropriate the State portion of the per pupil revenue for school operating purposes to local school districts as unrestricted school aid. Thus, the Court held that to the extent the Legislature appropriated restricted funds to pay for special education and special education transportation from funds that were guaranteed to local school districts as unrestricted aid, the amendments to the State School Aid Act violated Article 9, § 11.

The Court of Appeals denied plaintiffs' request for mandamus, injunctive relief, and monetary damages and, as described above, granted declaratory relief only. The Court also held that plaintiffs may petition for costs and reasonable attorney fees as allowed by Article 9, § 32 of the Michigan Constitution. Under the court rules, the parties had until November 9, 1999 to appeal the decision to the Supreme Court or to move for

Note 28 continued on next page.

rehearing in the Court of Appeals. Neither party appealed the decision nor moved for rehearing. Plaintiffs' petition for costs and attorney fees was granted by the Court of Appeals on January 14, 2000 in the amount of approximately $.4 million. On February 4, 2000 the State filed an application for leave to appeal and motion for peremptory reversal of the January 14, 2000 Court of Appeals order in the Supreme Court. On June 20, 2000, the Supreme Court denied the State's appeal and on August 22, 2000, denied the State's motion for reconsideration. Therefore, in October 2000, payments were made to plaintiff school districts reflecting their share of the $400,000 in attorney fees. This case was dismissed on November 27, 2000.

Durant et al v State of Michigan et al (DURANT III): On November 15, 2000, more than 365 Michigan school districts and individuals filed two suits in the Michigan Court of Appeals. The first suit, Durant et al v State et al, asserts that the current State School Aid Act, P.A. 297 of 2000, violates Michigan Constitution, Article 9, §§ 25-34 (the "Headlee Amendment"), because it allegedly transfers per pupil revenue guaranteed to school districts under Const 1963, Article 9, § 11, for unrestricted school operating purposes, in order to satisfy the State's independent funding obligation to those school districts under Article 9, § 29. The plaintiffs in Durant III are seeking a monetary remedy, including approximately $1.7 billion for the 1999-2000 through 2002-03 school years for the State's alleged underfunding of special education programs and services, including special education transportation services. The Durant III plaintiffs are also requesting a declaratory judgment that the State, through P.A. 297 of 2000, is violating Article 9, § 11, and Article 9, § 29. The Durant III plaintiffs further seek orders declaring that the State has failed, through P.A. 297 of 2000, to meet its constitutional duty to fund services and activities provided by the plaintiff school districts during school years 1999-2000 through 2002-03 in the same proportion by which they were funded when the Headlee Amendment became effective, and that the State has reduced the State-financed proportion of necessary costs incurred by the plaintiff school districts for special education services for the 1999-2000 through 2002-03 school years below that provided by the State when the Headlee Amendment became effective. The Durant III plaintiffs also seek an injunction permanently enjoining the State from making any future reductions below the levels of funding provided when the Headlee Amendment became effective to pay for the cost of the activities and services required of them by State law. They also seek attorneys fees and costs of litigation.

The second suit, Adair et al v State et al ("Adair"), asserts that the State has, by operation of law, increased the level of various specified activities and services beyond that which was required by State law as of December 23, 1978 and, after December 23, 1978, added various specified new activities or services by State law, including mandatory increases in student instruction time, without providing funding for these new activities and services, all in violation of the Headlee Amendment. The Adair plaintiffs are seeking an unspecified money judgment equal to the reduction in the State financed proportion of necessary costs incurred by the plaintiff school districts for each school year from 1997-98 through the date of any judgment and for attorneys fees and litigation costs. The Adair plaintiffs also seek a declaratory judgment that the State has failed to meet its funding responsibility under the Headlee Amendment to provide the plaintiff school districts with revenues sufficient to pay for the necessary increased costs for activities and services first required by State law after December 23, 1978, and to pay for increases in the level of required activities and services beyond that which was required by State law as of December 23, 1978.

Loss Contingencies

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The receipt of federal grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations. Substantially all federal grants are subject to either federal single audits or financial and compliance audits by grantor agencies. Questioned costs as a result of these audits may become disallowances after the appropriate review of federal agencies. Material disallowances are recognized as either fund liabilities or liabilities of the General Long-Term Obligations Account Group when the loss becomes probable and reasonably estimable. As of September 30, 2000, the State estimates that additional disallowances of recognized revenue will not be material to the general purpose financial statements.

The Department of Community Health (DCH) administers the School Based Outreach Services Program, which provides certain health services to school-aged children. DCH receives federal reimbursements from the U.S. Department of Health and Human Services for the direct services provided and for related administrative costs of this program. On August 31, 2000, the U.S. Health Care Financing Administration (HCFA) disallowed $103.6 million in federal financial participation for the costs related to Medicaid administrative activities claimed by DCH under their Medicaid School Based Outreach Services program. The disallowed amount represents claims for Medicaid administrative activities for the quarters ended September 1998, September 1999, and December 1999. The State has formally appealed the disallowance and expects it to be reversed.

Federal sanctions that may result in a loss to the State include $40.6 million for the Food Stamp program and $38.6 million for the Child Support Enforcement System.

The Wayne County Friend of the Court notified the State that they may have misdirected payments to FIA. Any potential reimbursement for these payments cannot be reasonably estimated.

Gain Contingencies

Certain contingent receivables related to the Family Independence Agency are not recorded as assets in these statements. Amounts recoverable from Family Independence Agency grant recipients for grant overpayments or from responsible third parties are recorded as receivables only if the amount is reasonably measurable, expected to be received within 12 months, and not contingent upon future grants or the completion of major collection efforts by the State. If recoveries are accrued and the program involves federal participation, a liability for the federal share of the recovery is also accrued. The unrecorded amount of potential recoveries which are ultimately collectible cannot be reasonably determined.

In November 1998, the Attorney General joined 45 other states and five territories in a settlement with the nation's largest tobacco manufacturers. The settlement includes base payments to states totaling $220.6 billion over the next 25 years, and continues in perpetuity. Michigan's share of the settlement is expected to be $8.5 billion over the next 25 years, and $348.3 million thereafter, adjusted for inflation and other factors. The State also received $2.2 million, representing costs incurred to litigate the case. While Michigan's share of the base payments will not change over time, the amount of the annual payment is subject to a number of modifications

Note 28 continued on next page.

including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in the payments (volume adjustments, for example). The net effect of these adjustments on future payments is unclear, therefore only receivables and deferred revenues which can be reasonably estimated have been recorded for the future payments.

Construction Projects

As of September 30, 2000, several construction projects were in progress, with several others in the planning stages. A more detailed discussion of construction commitments is included in the construction in progress disclosures (Note #10).

The Department of Transportation has entered into construction contracts that will be paid with transportation related funds. As of September 30, 2000, the balances remaining in these contracts equaled $500.2 million.

Contingent Liability for Local School District Bonds

Public Act 108 of 1961, as amended, resulted in a contingent liability for the bonds of any school district which are "qualified" by the Superintendent of Public Instruction. Every qualified school district is required to borrow and the State is required to lend to it any amount necessary for the school district to avoid a default on its qualified bonds. In the event that funds are not available in the School Bond Loan Fund in adequate amounts to make such a loan, the State is required to make such loans from the General Fund. As of December 31, 2000, the principal amount of qualified bonds outstanding was $9.8 billion. Total debt service requirements on these bonds including interest will approximate $858.9 million in 2001. The amount of loans by the State (related to local school district bonds qualified under this program), outstanding to local school districts as of September 30, 2000, is $346.6 million. Interest due on these loans as of September 30, 2000, is $59.4 million.

Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA) Projects

The MUSTFA Fund, a special revenue fund, receives revenues dedicated to reimbursing owners/operators of underground storage tanks (UST) for costs incurred related to conducting corrective actions at sites where a release has occurred from an UST. The MUSTFA reimbursement fund was declared insolvent and received no additional claims after June 29, 1995. The revenue is still collected to pay off two main obligations of the MUSTFA Fund: the long-term liability for incurred claims recorded in the General Long-Term Obligations Account Group, which is discussed in Note 14, and the debt and debt service charges associated with the financial borrowing mechanisms utilized to expedite reimbursement to eligible owners/operators.

B. Discretely Presented Component Units

Student Loan Guarantees

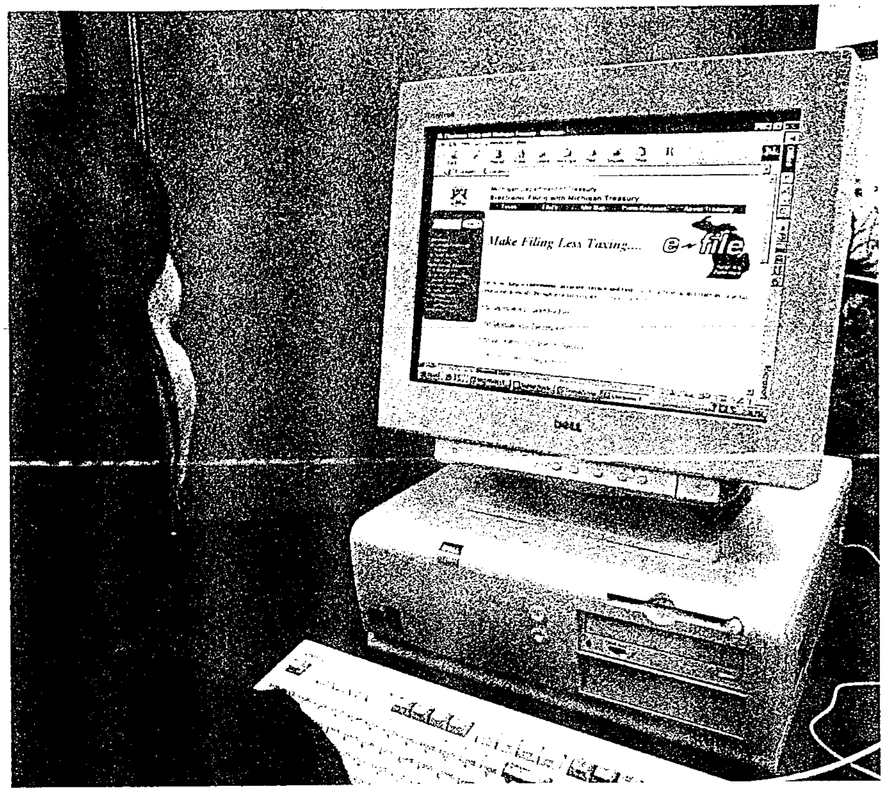
The Michigan Higher Education Assistance Authority (MHEAA) is contingently liable for loans made to students by financial institutions that qualify for guaranty. The State of Michigan, other than MHEAA, is not liable for these loans. MHEAA's default ratio is currently below 5% for the fiscal year ended September 30, 2000. As a result, the federal government's reinsurance rate for defaults for the fiscal year ended September 30, 2000, is 100% for loans made prior to October 1, 1993, and 98% for loans made on or after October 1, 1993 to September 30, 1998. In the event of future adverse default experience, MHEAA could be liable for up to 25% of defaulted loans. Management does not expect that all guaranteed loans could default in one year. For loans made on or after October 1, 1999 the reinsurance rate will be 98%. In the event of future adverse default experience, MHEAA could be liable for up to 25% of such defaulted loans. Accordingly, MHEAA's expected maximum contingent liability is less than 25% of outstanding guaranteed loans; however, the maximum contingent liability at September 30, 2000, is $632.6 million.

MHEAA entered into commitment agreements with all lenders that provide, among other things, that MHEAA will maintain cash and marketable securities. MHEAA was in compliance with this requirement as of September 30, 2000, at an amount sufficient to guarantee loans in accordance with the Higher Education Act of 1965, as amended.

NOTE 29 – SUBSEQUENT EVENTS

A. Long-Term Borrowing

In November 2000, the State issued environmental protection bonds totaling $60.0 million. The bonds were part of the $800 million general obligation bond package authorized by the voters in 1988. The proceeds will be used to clean up sites of toxic and other environmental contamination.



With Department of Treasury's e-File program, Michigan residents can file their taxes on-line from any computer with internet access. This streamlined service provides quicker filing and faster refunds. The web address is: www.treas.state.mi.us/mitax/indvtax/efile.htm

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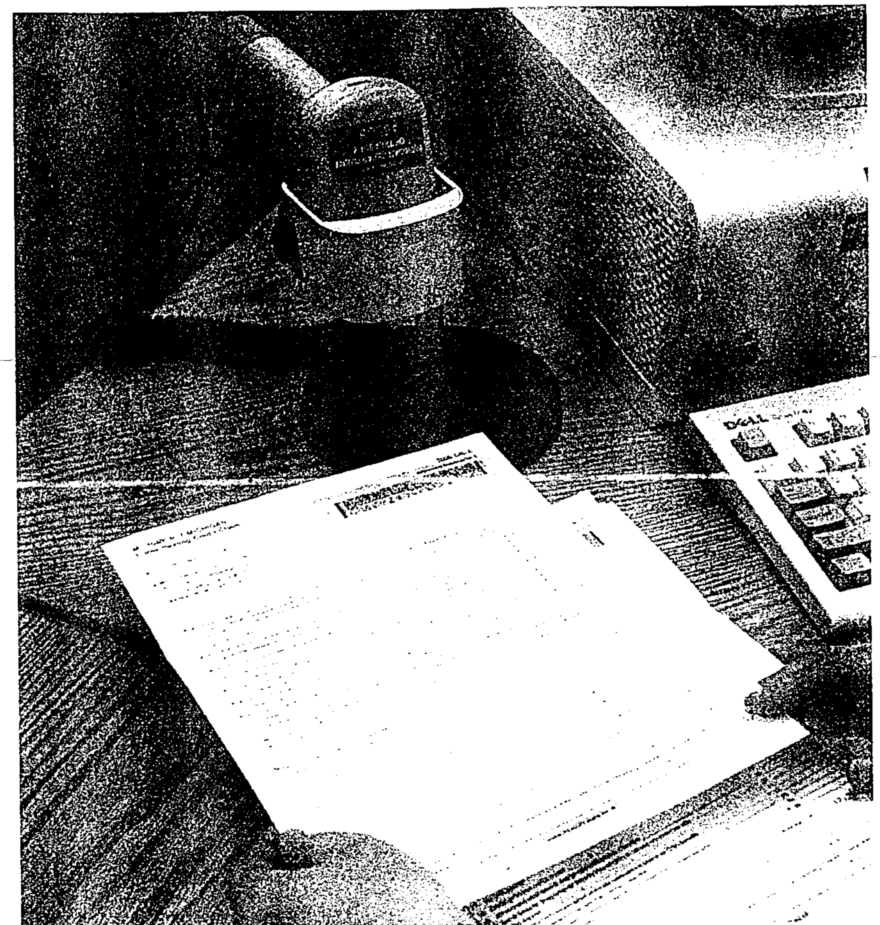

With 2-dimensional barcodes on certain income tax forms, customer service is improved and tax dollars are saved. Barcode scanning also reduces errors and shortens processing time.

two