



State of Michigan
Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2003

JENNIFER M. GRANHOLM
Governor

MARY A. LANNOYE
State Budget Director
Office of the State Budget

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Director
Office of Financial Management

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Michigan

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STATE OF MICHIGAN

JENNIFER M. GRANHOLM
GOVERNOR

OFFICE OF THE STATE BUDGET
LANSING

MARY A. LANNOYE
DIRECTOR

December 23, 2003

The Honorable Jennifer M. Granholm, Governor
Members of the Legislature
People of the State of Michigan

As required by Article 9, Section 21, of the State Constitution and Section 494, Public Act 431 of 1984, as amended, we are pleased to submit the *State of Michigan Comprehensive Annual Financial Report* (SOMCAFR) for the fiscal year ended September 30, 2003.

INTRODUCTION TO THE REPORT

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

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

Report: The SOMCAFR is divided into three major sections: introductory, financial, and statistical:

- The introductory section includes this letter, the State's organization chart, and the list of principal officials.
- The financial section includes: the independent auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A) which provide an introduction, overview, and analysis to the Basic Financial Statements; the Basic Financial Statements, which present the

government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds, and component units, together with footnotes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and the supplemental financial data which includes the combining financial statements and schedules.

- The statistical section includes such items as trend information, information on debt levels, and other selected economic and statistical data.

Internal Control Structure: The Office of the State Budget is responsible for the overall operation of the State's central accounting system and for establishing and maintaining the State's internal control structure. All financial transactions of the State primary government are recorded in the central accounting system, except for the Michigan Unemployment Compensation Funds, the State Employees' Deferred Compensation Funds, the State Employees' Defined Contribution Retirement Fund, and the Michigan Education Savings Program. Many of the essential control features are decentralized, such as the preparation and entry of expenditure transactions into the central accounting system. Consequently, the Office of the State Budget relies upon the controls in place at the various State departments and agencies. The Management and Budget Act (Section 18.1483 – 18.1489 of the *Michigan Compiled Laws*) requires the head of each principal department to establish and maintain an internal accounting and administrative control system. The Act also requires the heads of each principal department to report biennially on any material inadequacy or weakness discovered in connection with the evaluation of their system. The *"Evaluation of Internal Controls – A General Framework and System of Reporting"*, developed in consultation with the Office of the Auditor General, provides the required guidance associated with the evaluation of internal controls in Michigan State government. The framework for internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

The Management and Budget Act requires each principal department to appoint an internal auditor and to maintain adequate internal control systems. Each department is also required to periodically report to the Governor on the

adequacy of its internal accounting and administrative control systems and, if any material weaknesses exist, to provide corrective action plans and time schedules for addressing such weaknesses. This reporting is required on or before May 1 of each odd numbered year, effective as of the preceding October 1.

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

Independent Auditors: The Office of the Auditor General (OAG) is the principal auditor of the SOMCAFR. The OAG also relies on the opinions of outside public accounting firms, particularly for component unit financial statements (such as the Michigan State Housing Development Authority and 10 of the State's universities), the larger pension and other employee benefit trust funds, and the Unemployment Compensation funds. The purpose of the OAG's audit is to provide reasonable assurance that the Basic Financial Statements for the fiscal year ended September 30, 2003 are free of material misstatements. The OAG concluded that the Basic Financial Statements for the fiscal year ended September 30, 2003 are fairly presented in accordance with GAAP and issued unqualified opinions.

In addition to the annual audit of the SOMCAFR, the OAG also performs periodic financial statement and performance audits of the various State departments, agencies, and institutions of higher education. The Auditor General also has primary responsibility for conducting audits under the federal Single Audit Act of 1984. Pursuant to Michigan Public Act 251 of 1986, these audits are conducted biennially for applicable State departments, agencies and component unit authorities, and result in separately issued audit reports.

Management's Discussion and Analysis (MD&A): GASB Statement No. 34 requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

Reporting Entity: The State of Michigan reporting entity reflected in the SOMCAFR, which is described more fully in Note 1 to the basic financial statements, conforms with the requirements of GASB Statement No. 14, **The Financial Reporting Entity**. The accounting and reporting principles contained in Statement No. 14 are based primarily on the fundamental concept that publicly elected officials are accountable to their constituents. Further, Statement No. 14 provides that the financial statements should emphasize the *primary government* and permit financial statement users to distinguish between the primary government and its *component units*. Consequently, the transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the discretely presented component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

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

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

Revenue and Spending Limitation Requirements: Under the State Constitution, total State revenues are limited to a percentage of total Michigan personal income. If the limit is exceeded by an amount less than 1%, the excess may be transferred to the Budget Stabilization Fund. If revenues exceed the limit by 1% or more, the amount in excess must be refunded to payers of personal income and single business taxes. The calculations necessary to determine the State's compliance with this requirement for fiscal year 2002-2003 are not final. For fiscal year 2001-2002, the most recent year for which final calculations are available, total State revenues subject to this limitation were less than the limit by approximately \$3.9 billion. The State expects that total State revenues subject to the limitation will not exceed the limit for fiscal year 2002-2003.

The State Constitution also requires that spending to local units of government be maintained at not less than a specified level of total State spending, originally determined to be 41.61% for the base fiscal year 1978-79. The originally determined percentage was recalculated, effective fiscal year 1992-93, reflecting the terms of a legal settlement agreement. The recalculated base year percentage is 48.97%. The calculations necessary to determine the State's compliance with this requirement for fiscal year 2002-2003 are not final. For fiscal year 2001-2002, 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 64.3%, reflecting payments that exceeded the minimum required by \$3.8 billion. The State expects that payments to local units of

government will exceed the minimum requirement for fiscal year 2002-2003.

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

ECONOMIC CONDITIONS AND OUTLOOK

Two years after the 2001 recession ended, the U.S. economy appears to have finally gained traction. While the buildup to war in Iraq slowed the U.S. economy, it has gained considerably since the end of major hostilities. The Conference Board's index of leading economic indicators has risen nearly every month since mid 2003. Similarly, the Institute for Supply Management's (ISM) indices signaled strengthening not only in the services sector but in the hard-hit manufacturing sector as well.

Until recently, the economic recovery had been missing two key elements: business investment growth and an employment recovery. By the end of 2003, these two previously missing elements appeared to be emerging. Between the first quarter of 2001 and first quarter of 2003, business investment had declined every quarter. However, business investment reported solid growth in the second quarter of 2003 and rapid growth in the third quarter. While moderating in the fourth quarter, investment is estimated to have reported its third straight quarter of growth.

Similarly, several recent indicators suggest that the U.S. jobs market, which has lagged nearly every other post-World War II recovery, may be on the mend. Wage and salary employment has risen four straight months through November. Initial unemployment claims have fallen below the 400,000 level and are trending downward. Over the past three months, the average hourly workweek has risen. While manufacturing employment continues to decline, those declines have moderated. Finally, ISM employment indices are now signaling increased hiring in both the manufacturing and services sectors.

2003 Michigan Economic Review: Michigan's economy has been disproportionately hit by the U.S. slowdown. The decline in Michigan wage and salary employment from its peak has been three times more severe than the national decline from its peak. In 2003, Michigan wage and salary employment declined by an estimated 1.1 percent, marking the third straight year of employment declines. Michigan's unemployment rate rose to an estimated 7.1 percent. Michigan wages and salaries income reported mild growth, compared with essentially flat growth in 2002. Personal income grew slightly faster in 2003 than in 2002.

The Department of Treasury and House and Senate Fiscal Agencies met on October 23, 2003, and reached a consensus for the 2003 and 2004 revenue and economic forecasts. The following summarizes the consensus economic forecast for 2004.

2004 U.S. Consensus Economic Outlook: Real GDP growth is forecast to grow 3.7 percent in 2004. The need to replace increasingly obsolete machinery, greater business optimism, higher profits and the December 2004 expiration of federal tax bonus depreciation will boost investment. Continued apprehension about the labor market will constrain consumption while low interest rates and stronger

income growth will help support consumer spending. With federal government spending moderating and state and local government declining slightly, government spending growth is expected to slow substantially in 2004.

Buoyed by continued incentive programs, light vehicle sales are forecast to remain nearly unchanged with projected 2003 sales of 16.5 million units and 16.6 million units in 2004. This compares with 16.7 million unit sales in 2002. Inflation will remain moderate throughout the forecast horizon. As measured by the consumer price index (CPI), consumer prices are expected to rise 2.3 percent in 2003 and 2.2 percent in 2004. Interest rates are forecast to remain low. The U.S. unemployment rate is expected to average 6.1 percent in both 2003 and 2004.

2004 Michigan Consensus Economic Outlook: While U.S. employment is forecast to rise beginning in the current quarter, Michigan employment is forecast to remain flat in the last quarter of 2003 and then rise only modestly over the balance of the forecast horizon. Continued weakness in manufacturing employment will constrain Michigan employment growth. Michigan wage and salary employment is forecast to rise by about 15,000 jobs each of the first three quarters of 2004 before rising by 21,000 jobs in the fourth quarter.

For 2003, employment is estimated to have declined 49,000 (1.1 percent) – the third straight annual Michigan employment decline. With modest growth in 2004, 2004 employment is forecast to average .6 percent higher than 2003 employment. Michigan's unemployment rate is forecast to average 7.1 percent in both 2003 and 2004.

The Department of Treasury and House and Senate Fiscal Agencies will again meet on January 14, 2004, for a Consensus Revenue Estimating Conference. At that conference, the agencies will reach consensus economic and revenue forecasts for 2004 and 2005.

MAJOR INITIATIVES AND FUTURE PROJECTS

Education: Despite an economic slowdown, education continues to be one of the most significant investments of State resources, with renewed emphasis placed on learning in the critical years from birth to age 5. More than \$14.4 billion, or 37 percent, of the State's overall budget is devoted to education in fiscal year 2003-2004. This includes funding for the K-12 system, universities, community colleges and student financial aid. In fiscal year 2002-2003, the State spent more on K-12 education than it spent on expenditures financed by General Fund general purpose revenues

Health Care: The delivery of health care services makes up the second largest share of State resources. While the state administers a variety of health care programs, the Medicaid program is the most extensive. In fiscal year 2002-2003, over \$2.3 billion in General Fund resources and over \$5.3 billion in federal funds were dedicated to this program. These funds allow the State to provide comprehensive health care services to over 1.3 million low-income Michigan citizens.

Job Creation and Economic Growth: On December 8, 2003, the Michigan Department of Labor and Economic Growth (DLEG) officially opened for business. With approximately 4,500 employees and an FY 2003-2004

budget of \$1.1 billion, DLEG's mission is to promote job creation and economic growth by centralizing and streamlining the State's job, workforce, and economic development functions within one department.

A Better Government: A number of successful initiatives have taken place during this calendar year that promotes a healthier, more efficient government. One of the most prominent is an initiative that involves all 55,000 State employees in an effort to define a shared vision and values. Currently underway, this effort is intended to strengthen State government by creating a workplace culture that is based on shared values that support the vision of a better government.

In addition, the State recruited seven "Executives on Loan" from major Michigan corporations and placed them in seven State departments. These executives brought best practices from the private sector to help streamline government and do what Michigan's best businesses do: improve services without increasing spending.

Government has also become more efficient by implementing measures that cut more than \$350 million from State government expenses. Reducing the number of cars in the State's fleet; urging every State department to cut costs with outside vendors; cutting down on travel costs; reducing cell phone use; and drastically lowering the amount of color copying are just a few examples of how government is more streamlined today.

FINANCIAL INFORMATION

The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, MD&A focuses on the State's major funds: the General Fund, Budget Stabilization Fund, School Aid Fund, State Lottery Fund, and the Michigan Unemployment Compensation Funds. Fiduciary activities are excluded from the MD&A.

Cash Management and Investments: As discussed more fully in Notes 5 and 8 to the basic financial statements, the State Treasurer maintains the State's Common Cash pool, which is used by most State funds for short-term investments and to provide centralized control over disbursements. The total amount of pooled cash, which is primarily invested in prime commercial paper, amounted to \$2.2 billion at September 30, 2003, a decrease of approximately \$980.1 million (31.0 percent) from \$3.2 billion at September 30, 2002. Total investments amounted to \$50.3 billion at September 30, 2003, an increase of \$3.6 billion (7.8 percent) from \$46.7 billion at September 30, 2002. Pension (and other employee benefits) trust fund investments represent 92.9 percent of the total investments held by the State.

Debt Management: The State Constitution authorizes general obligation long-term borrowing, subject to approval by the Legislature and a majority of voters at a general election. General obligation bond issues totaled \$316.8 million during 2002-2003. The bonds provided financing for the Clean Michigan Initiative and school district loans, resulting in total general obligation bonds outstanding of \$1.4 billion at year-end.

Long-term bonds have been issued periodically for specific purposes, such as constructing new State and

university facilities and road and bridge construction. Funding of the debt requirements is to come strictly from designated revenue sources. Revenue dedicated bonded debt issuances, including that of the State Building Authority, totaled \$944.5 million during 2002-2003, resulting in a total of revenue dedicated debt outstanding of \$3.9 billion at year-end.

The State Constitution provides that the Legislature may authorize the issuance of short-term general obligation notes to assist in managing cash flows. Such borrowings are limited by the Constitution to 15% of undedicated State revenue received in the preceding year. The Constitution also requires that such borrowings be repaid before year-end. During fiscal year 2002-2003, the State issued and repaid short-term borrowings of \$1.2 billion.

Additional disclosures about the State's general long-term obligations are provided in Note 12 to the basic financial statements.

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

The State Employees' Retirement System (SERS) is the largest of the defined benefit plans for which the State is responsible for providing funding. Total assets of SERS at September 30, 2003 were \$9.2 billion, with net assets held in trust for pension and postemployment health-care benefits totaling \$9.0 billion. Additional disclosures relating to the State's pension funds are provided in Note 10 to the financial statements.

Risk Management: Risk management was established within the Department of Management and Budget in 1987 to improve the State's risk control policies and procedures. The unit's activities include analysis of and control over insurance coverage and risk exposure, and planning and implementing a statewide safety and health policy and program. The State is self-insured for many types of general liability and property losses. Additional disclosures on the State's risk management activities are provided in Note 24.

OTHER INFORMATION

Certificate of Achievement: The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Michigan for its SOMCAFR for the year ended September 30, 2002. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

A Certificate of Achievement is valid for a period of one year only. The State has received a Certificate of Achievement for 16 consecutive years. We believe our

current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA for review.

Acknowledgments: The preparation of this report requires the collective efforts of hundreds of finance personnel throughout the State, both individually and in teams from virtually all agencies and departments. For the second consecutive year, we published the CAFR within 90 days of

the fiscal year end; a feat yet to be accomplished by any other state. Achieving this was the result of the dedicated management and staff of the Financial Control Division, Office of Financial Management; the chief financial officers, chief accountants, and their staffs of all State agencies; and the management and staff of the Office of the Auditor General. We sincerely appreciate the dedicated efforts of all of these individuals.

Sincerely,



Mary A. Lannoye
State Budget Director



Michael J. Moody, CPA
Director, Office of Financial Management

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2002

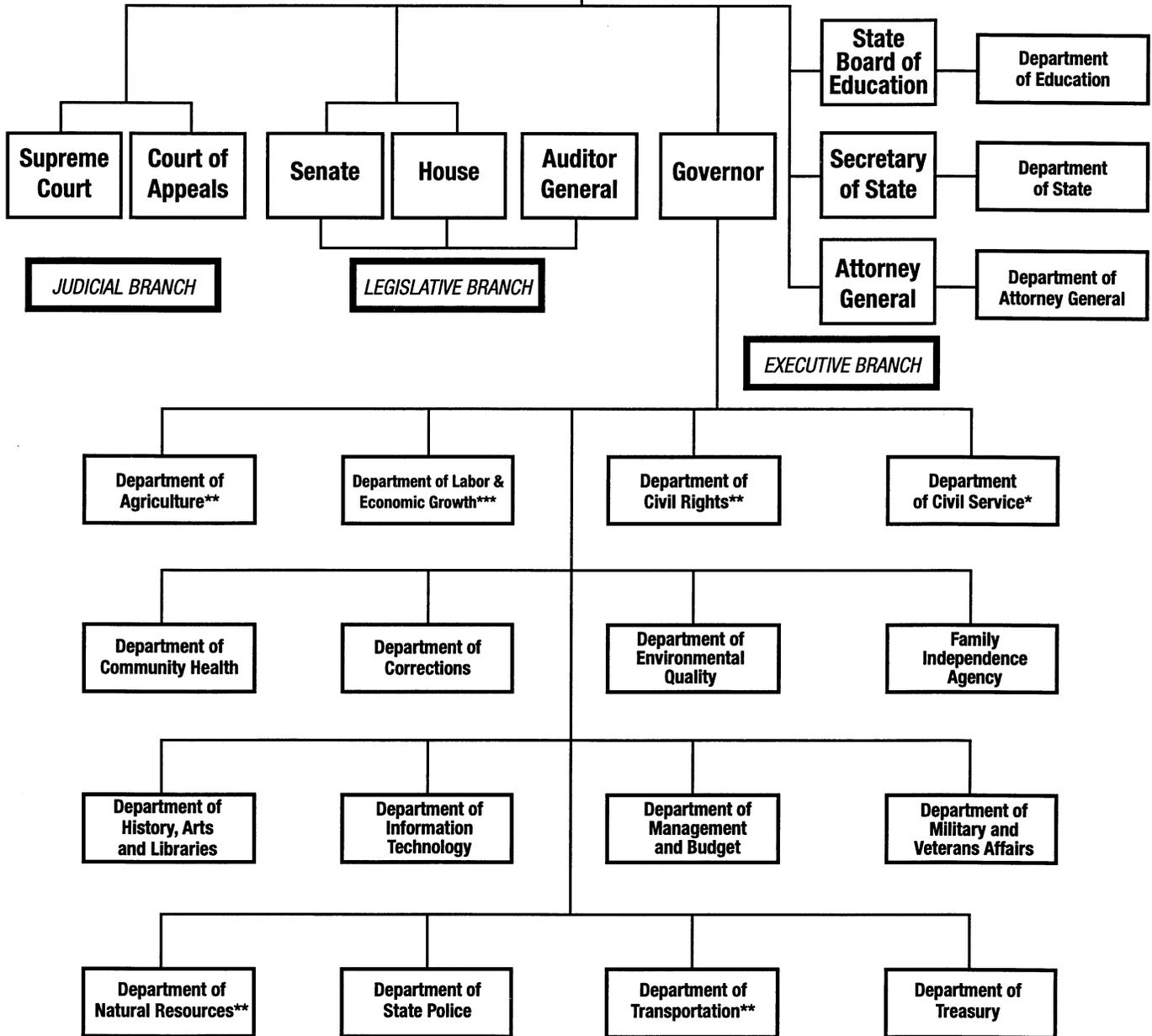
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

STATE OF MICHIGAN ORGANIZATIONAL STRUCTURE



* Has Commission appointed by Governor
 ** Has Commission appointed by Governor, confirmed by Senate
 *** Formerly the Department of Career Development and Department of Consumer & Industry Services

STATE OF MICHIGAN
PRINCIPAL STATE OFFICIALS

JUDICIAL BRANCH

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

LEGISLATIVE BRANCH

Honorable Kenneth R. Sikkema
Majority Leader of the Senate

Honorable Rick V. Johnson
Speaker of the House of Representatives

Thomas H. McTavish
Legislative Auditor General

EXECUTIVE BRANCH

Honorable Jennifer M. Granholm, Governor

Honorable John D. Cherry Jr., Lt. Governor

Honorable Mike Cox, Attorney General

Honorable Terri Lynn Land, Secretary of State

State Board of Education
Kathleen N. Straus, President
John C. Austin
Elizabeth W. Bauer
Carolyn L. Curtin
Marianne Yared McGuire
Herbert S. Moyer
Reginald M. Turner
Eileen L. Weiser
Honorable Jennifer M. Granholm (Ex Officio)
Thomas D. Watkins, Jr.,
Superintendent of Public Instruction

Michigan Commission of Agriculture
Nora M. Viau, Chair
James E. Byrum
Douglas E. Darling
James E. Mailand
William Pridgeon
Dan Wyant, Director, Department of Agriculture

Civil Rights Commission
Gary Torgow, Chair
Mohammed Abdrabboh
Bishop George E. Brown
Albert Calille
Tarun K. Sharma
Valerie P. Simmons
Margaret M. Van Houten
Francisco J. Villarruel
Linda V. Parker, Director, Department of Civil Rights

Civil Service Commission
Susan Grimes Munsell, Chair
F. Thomas Lewand
Sherry L. McMillan
James P. Pitz
John F. Lopez, Director, Department of Civil Service

Janet Olszewski, Director
Department of Community Health

David C. Hollister, Director
Department of Labor and Economic Growth

Patricia L. Caruso, Director
Department of Corrections

Steven E. Chester, Director
Department of Environmental Quality

Musette A. Michael, Interim Director
Family Independence Agency

William Anderson, Director
Department of History, Arts and Libraries

Teri Takai, Director
Department of Information Technology

Mitch Irwin, Director
Department of Management and Budget

Mary A. Lannoye, State Budget Director
Office of the State Budget

Major General Thomas G. Cutler, Director
Department of Military and Veterans Affairs

Natural Resources Commission
Keith J. Charters, Chair
Jim Campbell
Paul J. Eisele
Bob Garner
John Madigan
William U. Parfet
Frank C. Wheatlake
K. L. Cool, Director, Department of Natural Resources

Col. Tadarial J. Sturdivant, Director
Department of State Police

Transportation Commission
Ted B. Wahby, Chair
Betty Jean Awrey
C. Robert Bailod
Robert Bender
John W. Garside
Lowell B. Jackson
Gloria J. Jeff, Director, Department of Transportation

Jay B. Rising, State Treasurer





Detroit Skyline at night. Photo courtesy Marji Silk, Travel Michigan.



Tahquamenon Falls, Paradise. Photo courtesy MDOT.



II FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT BASIC FINANCIAL STATEMENTS



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

Independent Auditor's Report

The Honorable Jennifer M. Granholm, Governor
 Members of the Legislature

December 23, 2003

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, principally as of and for the year ended September 30, 2003, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the State Lottery Fund, Michigan Unemployment Compensation Funds, Michigan Employment Security Act - Administration Fund, State Building Authority - Debt Service Fund, State Building Authority - Capital Projects Fund, State Sponsored Group Insurance Fund, State Employees' Deferred Compensation Funds, State Police Retirement Fund, State Employees' Retirement Fund, Public School Employees' Retirement Fund, Judges' Retirement Fund, State Employees' Defined Contribution Retirement Fund, Michigan Education Savings Program, Michigan State Housing Development Authority, Michigan Municipal Bond Authority, Michigan Higher Education Facilities Authority, Mackinac Bridge Authority, Michigan State Hospital Finance Authority, Michigan Higher Education Student Loan Authority, Michigan Higher Education Assistance Authority, Mackinac Island State Park Commission, State Bar of Michigan, Central Michigan University, Western Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, and Saginaw Valley State University. Those financial statements reflect total assets and revenues or additions of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as follows:

<u>Opinion Unit</u>	<u>Percent of Total Assets</u>	<u>Percent of Total Revenues/Additions</u>
Governmental Activities	2.0%	1.5%
Business-Type Activities	99.7%	84.7%
Aggregate Discretely Presented Component Units	90.7%	91.3%
State Lottery Fund	100.0%	100.0%
Michigan Unemployment Compensation Funds	100.0%	100.0%
Aggregate Remaining Fund Information	93.2%	68.1%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these component units and funds, are based solely upon the reports of the other auditors.

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL



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

The Honorable Jennifer M. Granholm, Governor
Members of the Legislature
Page 2

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 12, budgetary comparison schedules and corresponding notes on pages 82 through 85, and information about infrastructure assets reported using the modified approach on pages 86 and 87 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Michigan's basic financial statements. The combining and individual fund statements and schedules - non-major funds listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections listed in the table of contents have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas H. McTavish", written over a horizontal line.

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Michigan's (the State's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2003. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

HIGHLIGHTS

Government-wide:

- The State's net assets decreased by \$1.9 billion from the previous year-end; however, its assets still exceeded its liabilities by \$18.0 billion as of the close of the fiscal year. Component units reported net assets of \$4.6 billion, an increase of \$225.3 million (or 5.1 percent) from the previous year.

Fund Level:

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$3.3 billion, with \$712.5 million reported as *unreserved fund balance* and the remaining amount of \$2.6 billion reserved for specific purposes, such as education and transportation. At the end of the fiscal year, unreserved fund balance for the General Fund was \$174.0 million.
- The proprietary funds reported net assets at year-end of \$1.9 billion, a decrease of \$810.2 million (or 29.9 percent) during the year.

Long-term Debt:

- The State's total debt rose during the fiscal year to \$6.0 billion, an increase of \$302.4 million, which represents the net difference between new issuances, payments, and refundings of outstanding debt. During the year, the State issued bonds totaling \$1.3 billion.

More detailed information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 7.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Statements (Reporting the State as a Whole)

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: How has the State's financial position, as a whole, changed as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (pages 14 and 15) presents all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets measure whether the State's financial position is improving or not.

The Statement of Activities (pages 16 and 17) presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within the governmental activities.

- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Lottery tickets, liquor purchases, and the State's unemployment compensation services are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The State has 14 authorities and 10 universities that are reported as discretely presented component units of the State.

This report includes two schedules (pages 21 and 23) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the appropriate government-wide statements. The following summarizes the impact of transitioning from modified accrual to accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Certain tax revenues that are earned, but not available, are reported as governmental activities, but are reported as deferred revenue on the governmental fund statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements.
- Internal service funds are reported as governmental activities, but reported as proprietary funds in the fund financial statements.
- Certain pension trust funds have been funded in excess of their annual required contribution. These assets are recorded only in the government-wide statements.
- Deferred issue costs are capitalized and amortized as governmental activities, but reported as expenditures in the governmental fund statements.
- Unless due and payable, long-term liabilities, such as capital lease obligations, compensated absences, litigation, bonds and notes payable, and others only appear as liabilities in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 41 of this report.

Fund Financial Statements (Reporting the State's Major Funds)

The fund financial statements begin on page 20 and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, page 92 begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

- *Governmental funds* -- Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund and special revenue, capital project, debt service, and permanent funds.
- *Proprietary funds* -- When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report

activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services for the State's other programs and activities - such as the State's Vehicle and Travel Services. Internal service funds are reported as governmental activities on the government-wide statements.

- *Fiduciary funds* -- The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 32. These funds, which include pension (and other employee benefit), private-purpose, and agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Additional Required Supplementary Information

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles (GAAP) fund balances at fiscal year-end, and condition and maintenance data regarding certain portions of the State's infrastructure.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds, and non-major discretely presented component units. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The State's combined net assets decreased \$1.9 billion (or 9.7 percent) over the course of this fiscal year's operations. The net assets of the governmental activities decreased \$1.1 billion (or 6.6 percent) and business-type activities had a decrease of \$798.2 million (or 31.1 percent).

Changes in Net Assets
For Fiscal Year Ending September 30
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Current and other non-current assets	\$ 9,368.1	\$10,458.9	\$2,859.3	\$ 3,598.6	\$12,227.4	\$14,057.5
Capital assets	18,669.0	18,349.9	.6	.4	18,669.6	18,350.3
Total assets	28,037.1	28,808.8	2,859.9	3,599.0	30,897.0	32,407.9
Current liabilities	4,245.0	4,343.5	551.9	430.3	4,797.0	4,773.9
Long-term liabilities	7,561.8	7,095.3	537.4	599.9	8,099.1	7,695.2
Total liabilities	11,806.7	11,438.9	1,089.3	1,030.2	12,896.0	12,469.1
Net assets:						
Invested in capital assets, net of related debt	14,996.9	15,014.8	.6	.4	14,997.5	15,015.3
Restricted	1,886.3	2,016.6	1,765.7	2,563.9	3,652.0	4,580.5
Unrestricted	(652.9)	338.6	4.3	4.4	(648.6)	343.0
Total net assets	\$16,230.4	\$17,370.0	\$1,770.6	\$ 2,568.8	\$18,000.9	\$19,938.7

The largest component (83.3 percent) of the State's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Restricted net assets are the next largest component, comprising 20.3% percent. These represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion, unrestricted net assets, may be used at the State's discretion, but often have limitations on use based on State statutes.

Michigan

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

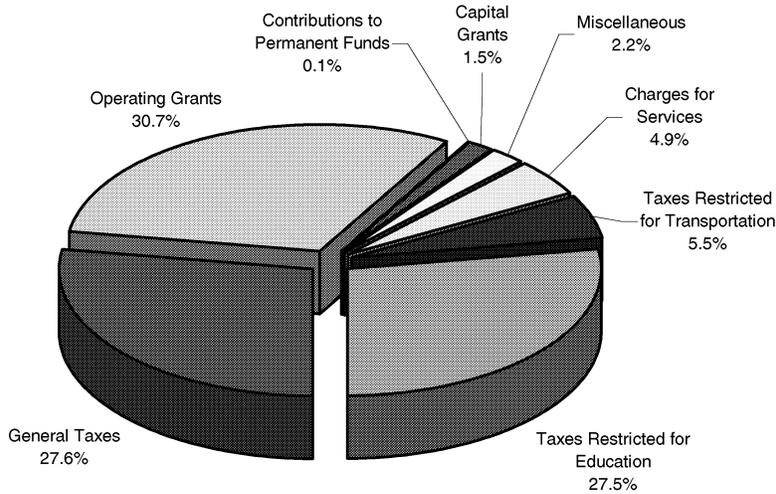
**Changes in Net Assets
For Fiscal Year Ending September 30
(In Millions)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Revenues						
Program revenues						
Charges for services	\$ 1,782.9	\$ 1,608.9	\$4,039.8	\$3,764.1	\$5,822.7	\$ 5,373.0
Operating grants	11,290.7	10,848.7	135.1	535.5	11,425.8	11,384.2
Capital grants	546.7	589.5	-	-	546.7	589.5
General revenues						
General taxes	10,133.7	10,099.5	11.3	10.7	10,145.0	10,110.2
Taxes restricted for educational purposes	10,098.3	9,481.0	-	-	10,098.3	9,481.0
Taxes restricted for transportation purposes	2,021.1	2,002.6	-	-	2,021.1	2,002.6
Unrestricted investment and interest earnings	14.1	51.7	1.1	1.6	15.2	53.2
Miscellaneous	813.6	790.9	-	-	813.6	790.9
Total revenues	<u>36,701.1</u>	<u>35,472.8</u>	<u>4,187.4</u>	<u>4,311.9</u>	<u>40,888.5</u>	<u>39,784.7</u>
Expenses						
General government	1,714.8	1,560.1	-	-	1,714.8	1,560.1
Education	14,840.0	14,696.1	-	-	14,840.0	14,696.1
Family independence services	3,891.7	3,792.1	-	-	3,891.7	3,792.1
Public safety and corrections	2,159.5	2,161.5	-	-	2,159.5	2,161.5
Conservation, environment, recreation, and agriculture	612.6	691.8	-	-	612.6	691.8
Labor, commerce, and regulatory	901.6	898.2	-	-	901.6	898.2
Health services	9,362.9	8,952.4	-	-	9,362.9	8,952.4
Transportation	2,792.8	3,268.2	-	-	2,792.8	3,268.4
Tax expenditures	707.8	615.1	-	-	707.8	615.1
Intergovernmental - revenue sharing	1,451.4	1,517.3	-	-	1,451.4	1,517.3
Interest on long-term debt	281.4	248.3	-	-	281.4	248.3
Liquor Purchase Revolving Fund	-	-	515.2	494.7	515.2	494.7
State Lottery Fund	-	-	1,152.8	1,153.3	1,152.8	1,153.3
Michigan Unemployment Compensation Funds	-	-	2,473.8	2,328.7	2,473.8	2,328.7
Total expenses	<u>38,716.4</u>	<u>38,401.1</u>	<u>4,141.8</u>	<u>3,976.7</u>	<u>42,858.2</u>	<u>42,377.8</u>
Excess (deficiency) Before Contributions and Transfers	(2,015.3)	(2,928.3)	45.5	335.2	(1,969.8)	(2,593.1)
Contributions to permanent fund principal	31.9	19.9	-	-	31.9	19.9
Transfers	843.8	894.5	(843.8)	(894.5)	-	-
Increase (decrease) in net assets	(1,139.6)	(2,013.8)	(798.2)	(559.3)	(1,937.8)	(2,573.1)
Net assets – beginning	17,370.0	19,383.8	2,568.8	3,128.1	19,938.7	22,511.9
Net assets – ending	<u>\$16,230.4</u>	<u>\$17,370.0</u>	<u>\$1,770.6</u>	<u>\$2,568.8</u>	<u>\$18,000.9</u>	<u>\$19,938.7</u>

Governmental Activities:

The following chart depicts revenues of the governmental activities for the fiscal year:

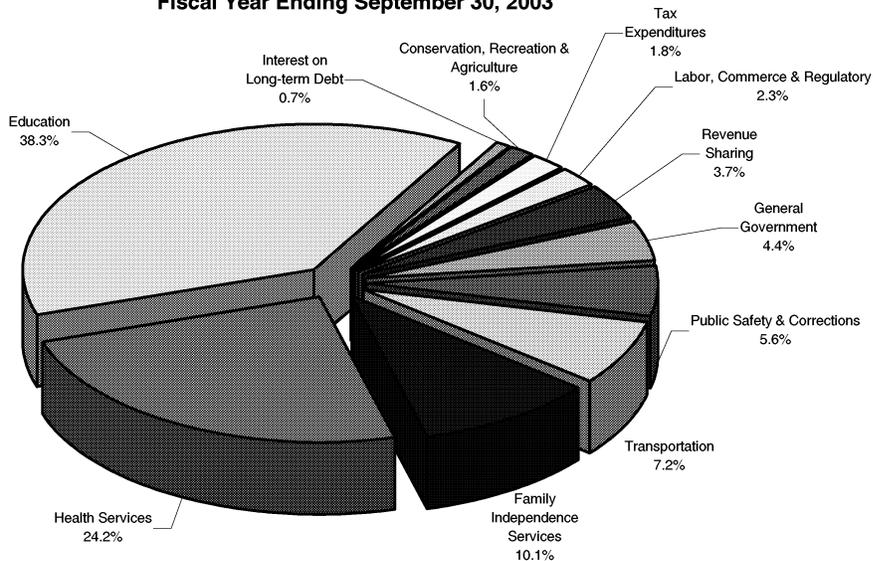
**Revenues - Governmental Activities
Fiscal Year Ending September 30, 2003**



Revenues for the State's governmental activities are likely to continue to decrease in the coming years as the personal income tax rate gradually declines and as the economy attempts to recover.

The following chart depicts expenses of the governmental activities for the fiscal year:

**Expenses - Governmental Activities
Fiscal Year Ending September 30, 2003**



Business-type Activities

Net assets of the business-type activities decreased by \$798.2 million (or 31.1 percent) during the fiscal year. Factors contributing to these results included:

- The increase in unemployment in the State resulted in the Michigan Unemployment Compensation Funds finishing the fiscal year with a decrease in net assets of \$775.3 million (or 31.8 percent) to \$1.7 billion.
- The State Lottery Fund's net assets decreased by \$22.9 million (or 17.9 percent), which resulted from a decrease in the market value of investments that Lottery holds to fund future payments due on annuitized lottery prizes.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As the State completed the year, its governmental funds reported fund balances of \$3.3 billion. Of this total amount, \$712.5 million constitutes unreserved fund balance, which is available for appropriation for the general purposes of the funds. The General Fund (\$174.0 million), the School Aid Fund (\$113.7 million), and transportation-related funds (\$305.9 million) comprise a significant portion of the unreserved fund balance. The remainder of fund balance is reserved and is not available for new spending because it has already been dedicated for various commitments, such as capital outlay projects.

General Fund

The General Fund is the chief operating fund of the State. At the end of fiscal year 2002-2003, unreserved fund balance of the General Fund was \$174.0 million and reserved fund balance was \$1.1 billion. Total fund balance diminished during the fiscal year by \$466.3 million (or 26.2 percent), primarily because of lower tax collections during the economic downturn.

General Fund Budgetary Highlights:

During fiscal year 2003, the State was faced with difficult budget challenges resulting in significant expenditure reductions. In December 2002, Executive Order 2002-22 was issued authorizing expenditure reductions totaling \$230.6 million and transfers of unexpended balances and excess revenues from restricted revenue sources totaling \$106.8 million to be used as general fund – general purpose revenues. In February 2003, the Governor issued Executive Order 2003-03, authorizing additional expenditure reductions of \$145.3 million, consisting of general fund – general purpose reductions of \$125.5 million and \$19.8 million in special purpose funding reductions.

In addition to the executive order spending reductions, the original budget was amended by various supplemental appropriations and appropriation reductions. The following summarizes the differences between the original and final budget amounts:

- General purpose tax revenues of \$7.9 billion were \$233.0 million less than the original estimate of \$8.2 billion.
- Restricted revenue inflows of \$13.1 billion were \$295.7 million less than the estimated \$13.4 billion.
- The Budget Stabilization Fund transferred \$124.1 million to the General Fund.
- In addition to the BSF transfers, the General Fund received another \$235.6 million from various special purpose funds to balance the budget.

Differences between the final budget and actual spending result from spending authority lapses of \$118.4 million and restricted revenue authorized but not spent of \$5.9 million.

There were no net overexpenditures or line-item overexpenditures by any State departments.

General Fund revenues are expected to continue to decline in the next fiscal year. Corresponding reductions in spending and other measures will help ensure that the fund balance remains positive.

School Aid Fund

Fund balance at September 30, 2003, totaled \$115.1 million, a decrease of \$126.8 million (or 52.4 percent) from the prior year. Revenues and transfers to the fund totaled \$12.2 billion. Expenditures to school districts and other costs increased by \$963.4 million (or 8.5 percent) from the previous year and totaled \$12.3 billion.

Counter-cyclical Budget and Economic Stabilization Fund

Fund balance at September 30, 2003 was reduced to zero from \$145.2 million the previous year. The continued downturn in the economy required transfers from the fund to assist the State in balancing its budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2002-2003, the State had invested \$18.7 billion, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$169.0 million.

Capital Assets as of September 30
(Net of Depreciation, In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Land	\$ 3,103.1	\$ 3,082.4	\$ -	\$ -	\$ 3,103.1	\$ 3,082.4
Land improvement	75.7	68.3	-	-	75.7	68.3
Buildings and improvements	2,088.2	1,997.3	-	-	2,088.2	1,997.3
Equipment	163.9	202.3	.6	.4	164.4	202.7
Infrastructure	11,831.3	11,766.1	-	-	11,831.3	11,766.1
Other	18.9	18.9	-	-	18.9	18.9
Subtotal	17,281.0	17,135.3	.6	.4	17,281.6	17,135.7
Construction in progress	1,388.0	1,214.6	-	-	1,388.0	1,214.6
Total	\$18,669.0	\$18,349.9	\$.6	\$.4	\$18,669.6	\$18,350.3

The most significant impact on capital assets during the year resulted from the acquisition of land relating to welcome center and rest stop construction and road and bridge construction and repair projects.

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State's network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 27,460 lane miles of roads and 4,728 bridges (spans in excess of 20 feet).

The State has consistently improved the assessed condition of roads over the past five years. The State's goal is to have no more than 30% of roads in "poor" or "very poor" condition. The most recent condition assessment, completed for calendar year 2002, indicated that 21.9% of roads were considered poor or very poor.

The State's bridges have assessed conditions that are better than the established benchmarks. The most recent assessment (2002) indicated that the condition of the bridges had improved from the condition reported for 2001.

The State's fiscal year 2003-2004 capital outlay budget projects spending \$621.1 million for new construction and special maintenance projects, in addition to \$305.6 million of unspent capital outlay authorizations that existed at September 30, 2003. More detailed information about the State's capital assets is presented in Note 9 to the financial statements.

Long-term Debt: The State, along with the State Building Authority (SBA), a blended component unit of the State, are empowered by law to authorize, issue, and sell debt obligations. General obligation bonds, issued by the State, are backed by the full faith and credit of the State. The State also issues revenue dedicated bonded debt, whose payment for principal and interest comes solely out of funds that receive legally restricted revenues. The State is not legally obligated for the debt issued by SBA. SBA's bonds generate revenue to finance the construction of facilities used by the State and universities. Revenues derived from leases on the facilities fund the debt service requirements. More detailed information regarding the State's long-term obligations is presented in Notes 12 and 14 to the financial statements.

Michigan

Outstanding Bonded Debt as of September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
General obligation bonds (backed by the State)	\$1,413.4	\$1,119.6	\$ -	\$ -	\$1,413.4	\$1,119.6
Revenue bonds and notes (backed by specific tax and fee revenues)	3,919.6	3,907.7	-	-	3,919.6	3,907.7
Total	\$5,333.0	\$5,027.2	\$ -	\$ -	\$5,333.0	\$5,027.2

During fiscal year 2002-2003 the State issued general obligation debt totaling \$316.8 million, including \$200.0 million for conservation and recreation projects (the Clean Michigan Initiative) and \$116.8 million to provide funds to loan to school districts.

Bond Ratings

The State's general obligations are rated AAA by Standard & Poors and Aa1 by Moody's.

Limitations on Debt

The State Constitution authorizes general obligation long-term borrowing, with approval of the Legislature and a majority of the voters, and general obligation short-term notes, of which the principal may not exceed 15% of undedicated revenues received in the preceding year. In fiscal year 2002-2003 the State issued and repaid short-term borrowing totaling \$1.2 billion.

ECONOMIC CONDITION AND OUTLOOK

Michigan's economy has been disproportionately hit by the U.S. slowdown. The decline in Michigan wage and salary employment from its peak has been three times more severe than the national decline from its peak. In 2003, Michigan wage and salary employment declined by an estimated 1.1 percent, marking the third straight year of employment declines. Michigan's unemployment rate rose to an estimated 7.1 percent. Michigan wages and salaries income reported mild growth, compared with essentially flat growth in 2002. Personal income grew slightly faster in 2003 than in 2002.

While U.S. employment is forecast to rise beginning in the current quarter, Michigan employment is forecast to remain flat in the last quarter of 2003 and then rise only modestly over the balance of the forecast horizon. Continued weakness in manufacturing employment will constrain Michigan employment growth. Michigan wage and salary employment is forecast to rise by about 15,000 jobs each of the first three quarters of 2004 before rising by 21,000 jobs in the fourth quarter.

For 2003, employment is estimated to have declined 49,000 (1.1 percent) – the third straight annual Michigan employment decline. With modest growth in 2004, 2004 employment is forecast to average 0.6 percent higher than 2003 employment. Michigan's unemployment rate is forecast to average 7.1 percent in both 2003 and 2004.

CONTACTING THE STATE'S OFFICE OF FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Additional copies of this report and other financial information can be obtained by visiting the Office of Financial Management website at www.michigan.gov/ofm. You can also contact the office by phone at (517) 373-3029.

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



BASIC FINANCIAL STATEMENTS

Michigan

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2003

(In Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
ASSETS				
Current Assets:				
Cash	\$ 12,774	\$ 3,530	\$ 16,303	\$ 495,044
Equity in common cash (Note 5)	1,697,518	75,505	1,773,023	131,016
Taxes, interest, and penalties receivable (Note 6)	4,109,179	-	4,109,179	-
Internal balances	49,314	(49,314)	-	-
Amounts due from component units	11,708	454	12,162	7,639
Amounts due from primary government	-	-	-	208,179
Amounts due from federal government	1,036,949	13,632	1,050,582	24,405
Amounts due from local units	164,408	28,645	193,053	846,935
Inventories	45,356	5,793	51,149	15,750
Investments (Note 8)	409,729	1,653,825	2,063,554	819,740
Securities lending collateral (Note 8)	51,928	306,119	358,047	-
Other current assets	488,461	221,385	709,846	432,545
Total Current Assets	8,077,324	2,259,575	10,336,898	2,981,253
Restricted Assets:				
Cash and cash equivalents	-	-	-	169,393
Investments	-	-	-	727,192
Mortgages and loans receivable	-	-	-	1,663,430
Taxes, interest, and penalties receivable (Note 6)	288,709	-	288,709	-
Amounts due from federal government	1,341	-	1,341	-
Amounts due from local units	541,643	-	541,643	2,218,304
Mortgages and loans receivable	-	-	-	1,000,730
Investments (Note 8)	392,018	588,194	980,212	2,098,397
Capital Assets (Note 9):				
Land and other non-depreciable assets	3,127,158	-	3,127,158	92,973
Buildings, equipment, and other depreciable assets	4,527,876	4,030	4,531,906	3,668,861
Less accumulated depreciation	(1,937,690)	(3,450)	(1,941,140)	(1,402,339)
Infrastructure	11,563,690	-	11,563,690	102,464
Construction in progress	1,387,993	-	1,387,993	339,765
Total capital assets	18,669,027	581	18,669,607	2,801,725
Interest in joint ventures (Note 7)	31,398	-	31,398	-
Other noncurrent assets	35,638	11,516	47,154	258,822
Total Assets	\$ 28,037,097	\$ 2,859,866	\$ 30,896,962	\$ 13,919,246
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 156,426	\$ 9,068	\$ 165,494	\$ 374
Obligations under security lending	51,928	306,119	358,047	-
Accounts payable and other liabilities	2,395,324	236,111	2,631,435	271,544
Income tax refunds payable (Note 15)	671,023	-	671,023	-
Amounts due to component units	5,567	-	5,567	6,366
Amounts due to primary government	-	-	-	6,614
Bonds and notes payable (Notes 12 and 13)	540,260	-	540,260	1,265,446
Interest payable	94,012	-	94,012	97,587
Deferred revenue	82,135	132	82,267	72,276
Current portion of other long-term obligations (Note 14)	248,308	482	248,791	92,706
Total Current Liabilities	4,244,982	551,913	4,796,895	1,812,912
Prize awards payable (Note 14)	-	490,926	490,926	-
Deferred revenue	77,593	-	77,593	931
Bonds and notes payable (Notes 12 and 13)	5,785,780	-	5,785,780	5,946,526
Noncurrent portion of other long-term obligations (Note 14)	1,698,383	46,452	1,744,835	1,524,959
Total Liabilities	\$ 11,806,738	\$ 1,089,291	\$ 12,896,030	\$ 9,285,328

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

Michigan

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 14,996,945	\$ 581	\$ 14,997,525	\$ 1,803,560
Restricted For:				
Education	-	-	-	129,985
Construction and debt service	39,659	-	39,659	306,277
Public safety and corrections	18,734	-	18,734	-
Conservation, environment, recreation, and agriculture	343,033	-	343,033	-
Health and family services	40,134	-	40,134	-
Transportation	669,001	-	669,001	-
Unemployment compensation	-	1,660,522	1,660,522	-
Other purposes	248,024	105,176	353,201	1,412,338
Funds Held as Permanent Investments:				
Expendable	78,393	-	78,393	11,429
Nonexpendable	449,357	-	449,357	15,817
Unrestricted	(652,923)	4,295	(648,628)	954,511
Total Net Assets	<u>\$ 16,230,358</u>	<u>\$ 1,770,575</u>	<u>\$ 18,000,933</u>	<u>\$ 4,633,918</u>

Michigan

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2003
(In Thousands)

<u>Functions/Programs</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>
Primary Government:				
Governmental Activities:				
General government	\$ 1,714,827	\$ 670,680	\$ 210,871	\$ 12,632
Education	14,839,951	14,030	1,167,387	-
Family independence services	3,891,686	49,917	2,706,129	-
Public safety and corrections	2,159,537	111,843	108,379	-
Conservation, environment, recreation, and agriculture	612,638	236,157	108,122	631
Labor, commerce, and regulatory	901,562	252,982	497,660	-
Health services	9,362,895	229,826	6,123,693	-
Transportation	2,792,752	217,466	368,460	533,450
Tax expenditures (Note 15)	707,800	-	-	-
Intergovernmental-revenue sharing	1,451,374	-	-	-
Interest on long-term debt	281,408	-	-	-
Total governmental activities	38,716,430	1,782,901	11,290,702	546,713
Business-type Activities:				
Liquor Purchase Revolving Fund	515,243	638,170	-	-
State Lottery Fund	1,152,760	1,700,313	27,830	-
Michigan Unemployment Compensation Funds	2,473,817	1,701,364	107,286	-
Total business-type activities	4,141,820	4,039,848	135,116	-
Total primary government	\$ 42,858,249	\$ 5,822,749	\$ 11,425,819	\$ 546,713
Component Units:				
Authorities:				
Michigan Education Trust	\$ 76,992	\$ 331	\$ 41,150	\$ -
Michigan State Housing Development Authority	378,990	190,438	240,436	-
Michigan Municipal Bond Authority	132,292	99,213	142,770	-
Non-Major	544,413	107,855	284,216	-
State Universities:				
Central Michigan University	288,233	168,111	28,706	5,832
Western Michigan University	421,860	245,069	36,603	10,953
Non-Major	1,237,493	658,942	137,481	20,338
Total component units	\$ 3,080,274	\$ 1,469,959	\$ 911,362	\$ 37,124

General Revenues:
Taxes:
 General:
 Sales and use
 Personal income
 Single business
 Other
 Restricted For Educational Purposes:
 Sales and use
 Personal income
 Education, property, and real estate transfers
 Other
 Restricted For Transportation Purposes:
 Sales and use
 Gasoline and diesel fuel
 Motor vehicle weight
 Other
 Unrestricted investment and interest earnings
 Miscellaneous
 Contributions to permanent fund principal
 Payments from State of Michigan
 Transfers
 Total general and other revenue, payments, and transfers
 Change in net assets
Net assets-beginning-restated
Net assets-ending

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

Michigan

NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
\$ (820,643)	\$ -	\$ (820,643)	\$ -
(13,658,534)	-	(13,658,534)	-
(1,135,641)	-	(1,135,641)	-
(1,939,315)	-	(1,939,315)	-
(267,727)	-	(267,727)	-
(150,920)	-	(150,920)	-
(3,009,375)	-	(3,009,375)	-
(1,673,376)	-	(1,673,376)	-
(707,800)	-	(707,800)	-
(1,451,374)	-	(1,451,374)	-
(281,408)	-	(281,408)	-
<u>(25,096,114)</u>	<u>-</u>	<u>(25,096,114)</u>	<u>-</u>
-	122,927	122,927	-
-	575,383	575,383	-
<u>-</u>	<u>(665,166)</u>	<u>(665,166)</u>	<u>-</u>
<u>-</u>	<u>33,144</u>	<u>33,144</u>	<u>-</u>
<u>(25,096,114)</u>	<u>33,144</u>	<u>(25,062,969)</u>	<u>-</u>
-	-	-	(35,511)
-	-	-	51,884
-	-	-	109,691
-	-	-	(152,343)
-	-	-	(85,583)
-	-	-	(129,236)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(420,731)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(661,829)</u>
2,475,020	-	2,475,020	-
4,569,230	-	4,569,230	-
1,824,292	-	1,824,292	-
1,265,175	11,297	1,276,472	-
5,081,189	-	5,081,189	-
1,816,390	-	1,816,390	-
2,408,728	-	2,408,728	-
791,958	-	791,958	-
79,440	-	79,440	-
1,089,558	-	1,089,558	-
844,695	-	844,695	-
7,402	-	7,402	-
14,132	1,102	15,234	34,497
813,608	-	813,608	49,878
31,938	-	31,938	-
-	-	-	802,800
843,762	(843,762)	-	-
<u>23,956,515</u>	<u>(831,363)</u>	<u>23,125,153</u>	<u>887,176</u>
(1,139,599)	(798,218)	(1,937,817)	225,347
17,369,957	2,568,793	19,938,749	4,408,571
<u>\$ 16,230,358</u>	<u>\$ 1,770,575</u>	<u>\$ 18,000,933</u>	<u>\$ 4,633,918</u>



GOVERNMENTAL FUND FINANCIAL STATEMENTS



Major Funds

GENERAL FUND

This fund is the State's operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND

This fund, commonly referred to as the "Budget Stabilization Fund" or "Rainy Day Fund," was created by P.A. 76 of 1977 to assist in stabilizing revenue and employment during periods of economic recession and high unemployment. In general, transfers are made into this fund from the General Fund during improving economic times and funds flow from this fund to the General Fund in times of declining economy. Additional information regarding the fund is provided in Note 3.

SCHOOL AID FUND

An amendment to the 1908 State Constitution created this fund in 1955. The 1963 State Constitution provided for the fund's continued existence. Its purpose is to aid in the support of the public schools and the intermediate school districts of the State. School aid payments to school districts are based on a statutory formula.

The fund receives State revenues restricted to local school programs, including: the constitutionally dedicated sixty percent of the collections of sales tax imposed at a rate of 4% and all of the collections of sales tax imposed at the additional rate of 2%; State Lottery Fund earnings; a percentage of the adjusted gross receipts from casino gaming; the real estate transfer tax; and portions of the personal income, cigarette, liquor, and industrial and commercial facilities taxes. A constitutional amendment approved by voters in 1994 made structural changes in the method of financing local school districts. The amendment authorized the levy of a statewide property tax, which is deposited in the School Aid Fund. Appropriated transfers are also made from the General Fund.

Non-Major Funds

Non-major governmental funds are presented, by fund type, beginning on page 92.

Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2003
 (In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 7,609	\$ -	\$ 1	\$ 5,125	\$ 12,735
Equity in common cash (Note 5)	-	-	-	1,409,261	1,409,261
Taxes, interest, and penalties receivable (Note 6)	2,447,538	-	1,538,203	123,438	4,109,179
Amounts due from other funds (Note 17)	1,343,202	-	155,690	665,099	2,163,991
Amounts due from component units	691	-	-	10,990	11,681
Amounts due from federal agencies	816,854	-	39,730	180,366	1,036,949
Amounts due from local units	54,892	-	48,488	61,029	164,408
Inventories	22,398	-	-	5,708	28,106
Investments (Note 8)	-	-	-	409,729	409,729
Securities lending collateral	-	-	-	51,928	51,928
Other current assets	420,339	-	405	43,814	464,558
Total Current Assets	5,113,521	-	1,782,518	2,966,486	9,862,525
Taxes, interest, and penalties receivable (Note 6)	240,630	-	46,317	1,762	288,709
Advances to other funds (Note 17)	6,475	-	-	25,984	32,459
Amounts due from federal agencies	1,341	-	-	-	1,341
Amounts due from local units	495,377	-	1,163	45,103	541,643
Investments (Note 8)	-	-	-	392,018	392,018
Other noncurrent assets	3,084	-	-	8,227	11,310
Total Assets	\$ 5,860,428	\$ -	\$ 1,829,998	\$ 3,439,579	\$ 11,130,005
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 90,888	\$ -	\$ 1,308	\$ 55,582	\$ 147,778
Obligations under security lending	-	-	-	51,928	51,928
Accounts payable and other liabilities (Note 22)	1,427,790	-	132,111	742,724	2,302,625
Income tax refunds payable (Note 15)	671,023	-	-	-	671,023
Amounts due to other funds (Note 17)	629,864	-	1,243,298	264,428	2,137,590
Amounts due to component units	5,445	-	-	122	5,567
Bonds and notes payable	-	-	-	338,490	338,490
Interest payable	-	-	-	111	111
Deferred revenue	1,347,475	-	291,822	71,028	1,710,325
Total Current Liabilities	4,172,485	-	1,668,539	1,524,413	7,365,437
Long-Term Liabilities:					
Advances from other funds (Note 17)	-	-	-	25,984	25,984
Deferred revenue	377,186	-	46,317	20,687	444,190
Total Liabilities	4,549,670	-	1,714,857	1,571,084	7,835,611
Fund Balances:					
Reserved fund balance (Note 21)	1,136,802	-	1,473	1,443,591	2,581,866
Unreserved fund balance reported in:					
General fund	173,956	-	-	-	173,956
Special revenue funds	-	-	113,668	457,496	571,164
Debt service funds	-	-	-	369,313	369,313
Capital projects funds	-	-	-	(436,623)	(436,623)
Permanent funds	-	-	-	34,719	34,719
Total Fund Balances	1,310,758	-	115,141	1,868,496	3,294,395
Total Liabilities and Fund Balances	\$ 5,860,428	\$ -	\$ 1,829,998	\$ 3,439,579	\$ 11,130,005

Michigan

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**
SEPTEMBER 30, 2003
(In Thousands)

Total fund balances for governmental funds		\$ 3,294,395
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. (Note 9)		
Land and other non-depreciable assets	3,127,158	
Buildings, equipment, and other depreciable assets	4,117,630	
Infrastructure	11,563,690	
Construction in progress	1,387,993	
Interest in joint ventures	31,398	
Accumulated depreciation	<u>(1,647,826)</u>	18,580,042
Certain tax revenues are earned but not available and therefore are not reported in the funds.		
		1,911,795
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
		88,756
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		
		124,910
Certain pension trust funds have been funded in excess of the annual required contributions, creating a year-end asset. This asset is not a current available resource and is not reported in the funds. (Note 10)		
		1,971
Deferred issue costs are reported as current expenditures in the funds. However, deferred issue costs are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Assets.		
		22,299
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 14)		
Capital lease obligations	(453,418)	
Compensated absences	(380,735)	
Workers' compensation	(105,480)	
Litigation and other claims and judgments	(617,725)	
Net pension obligations	(154,536)	
Arbitrage	<u>(465)</u>	(1,712,359)
Long-term bonded debt is not due and payable in the current period and therefore is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement. (Note 12)		
Bonds and notes payable	(5,933,003)	
Unamortized premiums	(183,516)	
Less deferred loss amount on refundings	128,969	
Accrued interest payable	<u>(93,900)</u>	<u>(6,081,451)</u>
Net assets of governmental activities		<u><u>\$ 16,230,358</u></u>

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

Michigan

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

(In Thousands)

	GENERAL	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
REVENUES					
Taxes	\$ 10,214,450	\$ -	\$ 10,128,721	\$ 2,082,787	\$ 22,425,957
From federal agencies	8,759,151	-	1,069,511	985,141	10,813,804
From local agencies	106,996	-	-	123,732	230,728
From services	120,616	-	-	581	121,198
From licenses and permits	242,857	-	-	174,929	417,786
Special Medicaid reimbursements	932,658	-	-	-	932,658
Miscellaneous	770,255	1,821	18,757	676,980	1,467,812
Total Revenues	21,146,983	1,821	11,216,989	4,044,150	36,409,943
EXPENDITURES					
Current:					
General government	1,070,560	-	-	139,356	1,209,916
Education	2,192,789	-	12,334,442	339,295	14,866,526
Family independence services	3,875,367	-	-	2,586	3,877,953
Public safety and corrections	2,112,013	-	-	3,436	2,115,448
Conservation, environment, recreation, and agriculture	332,067	-	-	259,150	591,218
Labor, commerce, and regulatory	699,125	-	-	192,519	891,644
Health services	9,195,687	-	-	74,797	9,270,484
Transportation	-	-	-	2,080,361	2,080,361
Tax expenditures (Note 15)	707,800	-	-	-	707,800
Capital outlay	38,652	-	-	1,125,350	1,164,002
Intergovernmental-revenue sharing	1,451,374	-	-	-	1,451,374
Debt service:					
Bond principal retirement	-	-	-	222,477	222,477
Bond interest and fiscal charges	-	-	-	239,054	239,054
Capital lease payments	66,668	-	-	1,055	67,723
Total Expenditures	21,742,102	-	12,334,442	4,679,437	38,755,981
Excess of Revenues over (under) Expenditures	(595,119)	1,821	(1,117,453)	(635,287)	(2,346,038)
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	-	-	-	568,616	568,616
Premium on bond issuance	-	-	-	87,561	87,561
Refunding bonds issued	-	-	-	692,694	692,694
Payment to refunded bond escrow agent	-	-	-	(851,235)	(851,235)
Capital lease acquisitions	16,052	-	-	-	16,052
Transfers from other funds	814,264	9,097	1,001,766	1,608,409	3,433,535
Transfers to other funds	(701,519)	(156,068)	(11,106)	(1,658,722)	(2,527,415)
Total Other Financing Sources (Uses)	128,797	(146,971)	990,660	447,322	1,419,808
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(466,321)	(145,150)	(126,793)	(187,965)	(926,230)
Fund Balances - Beginning of fiscal year restated	1,777,079	145,150	241,934	2,056,461	4,220,625
Fund Balances - End of fiscal year	\$ 1,310,758	\$ -	\$ 115,141	\$ 1,868,496	\$ 3,294,395

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

Michigan

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED SEPTEMBER 30, 2003

(In Thousands)

Net change in fund balance - total governmental funds \$ (926,230)

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.
(Note 9)

Land and other non-depreciable assets	20,727	
Buildings, equipment, and other depreciable assets	142,254	
Loss on disposal - depreciable assets	(286)	
Infrastructure additions	76,212	
Construction in progress	173,403	
Accumulated depreciation	<u>(121,252)</u>	291,059

Certain revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities. (16,550)

Decrease in equity interest in joint ventures (Note 7) (1,063)

Tax revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities. (161,050)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. (12,007)

Bond proceeds provide current financial resources to governmental funds by issuing debt which increases long-term bonded debt in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term bonded debt in the Statement of Net Assets. This is the amount proceeds exceed repayments. (Note 12)

Bond proceeds and premiums received	(1,348,871)	
Repayment of bond principal	222,477	
Payment to refunded bond escrow agent	851,235	
Accrued interest and amortization	(22,288)	
Deferred issue costs	<u>7,739</u>	(289,708)

Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported on the Statement of Net Assets and have been eliminated from the Statement of Activities.
(Note 14)

Net pension obligation	(124,451)	
Capital lease payments	23,474	
Compensated absences payments	15,413	
Litigation settlements and payments	(45,349)	
Workers' compensation	103,315	
Other	<u>3,549</u>	<u>(24,049)</u>

Change in net assets of governmental activities \$ (1,139,599)

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



PROPRIETARY FUND FINANCIAL STATEMENTS



Major Funds

STATE LOTTERY FUND

Public Act 239 of 1972 established the State Lottery Fund and created a Bureau of State Lottery under authority of Article 5, Section 4, of the State Constitution. This authority expired on August 1, 1974, at which time the Bureau became an organizational entity in the Department of Management and Budget. The Bureau was transferred to the Department of Treasury during fiscal year 1990-91. Net income of the fund related to lottery operations is transferred to the School Aid Fund and the fund's net income related to bingo and charity games regulation is transferred to the General Fund. The remaining net assets balance represents the unrealized cumulative gain or loss on investments, as required by GASB Statement No. 31.

Revenues and related expenses are recognized in the period during which the related drawings are held. Deferred prize awards are recorded as expenses and liabilities at their discounted present value. The State Treasurer invests funds equivalent to the discounted value of the installment payments and the Lottery Fund is credited with the interest earnings.

MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS

The columns for the Michigan Unemployment Compensation Funds reflect the activity of two funds administered by the Bureau of Worker's and Unemployment Compensation within the Department of Consumer and Industry Services: the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund. The Michigan Unemployment Compensation Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers. The fund also makes payments under certain federally funded programs. Administrative costs of the fund are accounted for in the Michigan Employment Security Act - Administration Fund, a special revenue fund.

The Michigan Employment Security Act Contingent Fund was created by P.A. 535 of 1982 to receive a special temporary unemployment tax surcharge, known as the solvency tax. The fund also receives interest and penalty charges on late contributions. Public Act 224 of 1989 restricts use of solvency taxes for payment of interest on the Michigan Unemployment Compensation borrowings from the federal government.

A portion of the asset "Amounts due from other funds" and the liability "Amounts due to other funds" represent receivables and payables between the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund.

Non-Major Funds

LIQUOR PURCHASE REVOLVING FUND

Public Act 259 of 1941 authorized the creation of the Liquor Purchase Revolving Fund. The Liquor Control Commission, within the Department of Consumer and Industry Services, is primarily responsible for the fund. Under State monopoly, liquor is sold at wholesale through a State controlled, privately operated distribution system. The fund accounts for the sales of and the replenishing and transporting of the liquor stock. Administrative, warehousing, and delivery costs are paid for through the fund. At the end of each fiscal year, the "net income" of the fund is transferred to the General Fund in accordance with P.A. 431 of 1984.

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page 156.

Michigan

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2003
(In Thousands)**

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR		NON-MAJOR		
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	LIQUOR PURCHASE REVOLVING FUND	TOTALS	
ASSETS					
Current Assets:					
Cash	\$ 2	\$ 3,527	\$ 1	\$ 3,530	\$ 39
Equity in common cash (Note 5)	6,493	13,685	55,327	75,505	288,256
Amounts due from other funds (Note 17)	-	4,899	-	4,899	22,965
Amounts due from component units	-	454	-	454	28
Amounts due from federal agencies	-	13,632	-	13,632	-
Amounts due from local units	-	28,645	-	28,645	-
Inventories	2,132	-	3,661	5,793	17,250
Investments (Note 8)	108,352	1,545,473	-	1,653,825	-
Securities lending collateral	306,119	-	-	306,119	-
Other current assets	68,433	149,137	3,815	221,385	23,643
Total Current Assets	<u>491,530</u>	<u>1,759,452</u>	<u>62,805</u>	<u>2,313,787</u>	<u>352,181</u>
Investments (Note 8)	588,194	-	-	588,194	-
Capital Assets (Note 9):					
Buildings and equipment	4,030	-	-	4,030	410,246
Allowance for depreciation	(3,450)	-	-	(3,450)	(289,864)
Total capital assets	<u>581</u>	<u>-</u>	<u>-</u>	<u>581</u>	<u>120,382</u>
Other noncurrent assets	-	11,516	-	11,516	-
Total Assets	<u>\$ 1,080,305</u>	<u>\$ 1,770,968</u>	<u>\$ 62,805</u>	<u>\$ 2,914,078</u>	<u>\$ 472,563</u>
LIABILITIES					
Current Liabilities:					
Warrants outstanding	\$ 997	\$ -	\$ 8,072	\$ 9,068	\$ 8,648
Accounts payable and other liabilities (Note 22)	150,297	36,387	49,337	236,021	72,015
Amounts due to other funds (Note 17)	25,110	29,149	43	54,302	20,613
Deferred revenue	-	132	-	132	5,571
Obligations under security lending (Note 8)	306,119	-	-	306,119	-
Current portion of other long-term obligations (Note 14)	258	-	224	482	116,436
Total Current Liabilities	<u>482,781</u>	<u>65,669</u>	<u>57,676</u>	<u>606,126</u>	<u>223,282</u>
Long-Term Liabilities:					
Advances from other funds (Note 17)	-	-	-	-	6,475
Prize awards payable	490,926	-	-	490,926	-
Noncurrent portion of other long-term obligations (Note 14)	1,421	44,777	253	46,452	117,896
Total Liabilities	<u>975,129</u>	<u>110,446</u>	<u>57,929</u>	<u>1,143,504</u>	<u>347,653</u>
NET ASSETS					
Invested in capital assets, net of related debt	\$ 581	\$ -	\$ -	\$ 581	\$ 95,228
Restricted For:					
Unemployment compensation	-	1,660,522	-	1,660,522	-
Other purposes	105,176	-	-	105,176	4,407
Unrestricted	(581)	-	4,876	4,295	25,275
Total Net Assets	<u>\$ 105,176</u>	<u>\$ 1,660,522</u>	<u>\$ 4,876</u>	<u>\$ 1,770,575</u>	<u>\$ 124,910</u>

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

Michigan

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
 FISCAL YEAR ENDED SEPTEMBER 30, 2003
 (In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS	
	MAJOR		NON-MAJOR			TOTALS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	LIQUOR PURCHASE REVOLVING FUND			
OPERATING REVENUES						
Operating revenues	\$ 1,700,313	\$ 1,701,364	\$ 638,170	\$ 4,039,848	\$ 1,541,100	
Total Operating Revenues	1,700,313	1,701,364	638,170	4,039,848	1,541,100	
OPERATING EXPENSES						
Salaries, wages, and other administrative	207,055	-	48,020	255,075	569,835	
Depreciation	165	-	-	165	47,752	
Purchases for resale	-	-	465,842	465,842	43,714	
Purchases for prison industries	-	-	-	-	15,454	
Lottery prize awards	898,137	-	-	898,137	-	
Premiums and claims	-	-	-	-	831,532	
Unemployment benefits	-	1,967,762	-	1,967,762	-	
Other operating expenses	-	506,055	1,380	507,435	54,661	
Total Operating Expenses	1,105,357	2,473,817	515,243	4,094,417	1,562,947	
Operating Income (Loss)	594,956	(772,453)	122,927	(54,569)	(21,847)	
NONOPERATING REVENUES (EXPENSES)						
Specific tax on spirits	-	-	11,297	11,297	-	
Interest revenue	905	-	1,099	2,004	4,664	
Investment revenue (expense) - net	26,928	107,286	-	134,215	-	
Other nonoperating revenues	-	-	-	-	35	
Amortization of prize award obligation discount	(44,088)	-	-	(44,088)	-	
Interest expense	(3,314)	-	-	(3,314)	(1,768)	
Other nonoperating expense	-	-	-	-	(253)	
Total Nonoperating Revenues (Expenses)	(19,570)	107,286	12,396	100,113	2,678	
Income (Loss) Before Capital Contributions and Transfers	575,386	(665,166)	135,323	45,544	(19,169)	
CAPITAL CONTRIBUTIONS AND TRANSFERS						
Capital contributions from other funds	-	-	-	-	7,851	
Transfers To:						
School Aid Fund	(586,048)	-	-	(586,048)	-	
Other funds	(12,223)	(110,167)	(135,323)	(257,714)	(689)	
Total transfers to other funds	(598,271)	(110,167)	(135,323)	(843,762)	(689)	
Total Capital Contributions and Transfers In (Out)	(598,271)	(110,167)	(135,323)	(843,762)	7,161	
Change in net assets	(22,884)	(775,334)	-	(798,218)	(12,007)	
Total net assets - Beginning of fiscal year	128,061	2,435,856	4,876	2,568,793	136,917	
Total net assets - End of fiscal year	\$ 105,176	\$ 1,660,522	\$ 4,876	\$ 1,770,575	\$ 124,910	

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

Michigan

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2003
(In Thousands)**

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS	
	MAJOR		NON-MAJOR			TOTALS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	LIQUOR PURCHASE REVOLVING FUND			
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from federal and local agencies	\$ -	\$ 513,759	\$ -	\$ 513,759	\$ -	
Receipts from customers	1,687,768	1,182,877	638,170	3,508,815	1,542,449	
Payments to employees	(10,578)	-	(10,758)	(21,336)	(158,151)	
Payments to suppliers	(45,035)	-	(502,158)	(547,193)	(676,224)	
Payments to prize winners	(994,372)	-	-	(994,372)	-	
Payments for commissions to retailers	(151,322)	-	-	(151,322)	-	
Claims paid	-	(2,474,455)	-	(2,474,455)	(619,988)	
Other receipts	-	1,678	1,511	3,189	96,720	
Other payments	-	-	(1,391)	(1,391)	(7,872)	
Net cash provided (used) by operating activities	<u>\$ 486,461</u>	<u>\$ (776,141)</u>	<u>\$ 125,374</u>	<u>\$ (164,306)</u>	<u>\$ 176,935</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Loans or loan repayments from other funds	\$ -	\$ -	\$ -	\$ -	\$ 32,653	
Loans or loan repayments to other funds	-	-	-	-	(32,388)	
Specific tax on spirits	-	-	11,297	11,297	-	
Transfers to other funds	(596,753)	(145,210)	(135,323)	(877,287)	(689)	
Net cash provided (used) by noncapital financing activities	<u>\$ (596,753)</u>	<u>\$ (145,210)</u>	<u>\$ (124,026)</u>	<u>\$ (865,990)</u>	<u>\$ (424)</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition and construction of capital assets	\$ (303)	\$ -	\$ -	\$ (303)	\$ (11,988)	
Interest paid	-	-	-	-	(265)	
Capital lease payments (including imputed interest expense)	-	-	-	-	(19,707)	
Proceeds from sale of capital assets	-	-	-	-	361	
Net cash provided (used) by capital and related financing activities	<u>\$ (303)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (303)</u>	<u>\$ (31,599)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale and maturities of investment securities	\$ 110,029	\$ 812,269	\$ -	\$ 922,298	\$ -	
Interest and dividends on investments	905	107,286	1,099	109,290	4,664	
Income from securities lending activities	3,673	-	-	3,673	-	
Expenses from securities lending activities	(3,314)	-	-	(3,314)	-	
Net cash provided (used) by investing activities	<u>\$ 111,293</u>	<u>\$ 919,555</u>	<u>\$ 1,099</u>	<u>\$ 1,031,947</u>	<u>\$ 4,664</u>	
Net cash provided (used) - all activities	\$ 697	\$ (1,796)	\$ 2,446	\$ 1,347	\$ 149,575	
Cash and cash equivalents at beginning of year	<u>4,801</u>	<u>19,008</u>	<u>44,810</u>	<u>68,619</u>	<u>130,072</u>	
Cash and cash equivalents at end of year	<u><u>\$ 5,498</u></u>	<u><u>\$ 17,212</u></u>	<u><u>\$ 47,256</u></u>	<u><u>\$ 69,966</u></u>	<u><u>\$ 279,647</u></u>	

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

Michigan

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR		NON-MAJOR		
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	LIQUOR PURCHASE REVOLVING FUND	TOTALS	
RECONCILIATION OF CASH AND CASH EQUIVALENTS					
Per Statement of Net Assets Classifications:					
Cash	\$ 2	\$ 3,527	\$ 1	\$ 3,530	\$ 39
Equity in common cash	6,493	13,685	55,327	75,505	288,256
Warrants outstanding	(997)	-	(8,072)	(9,068)	(8,648)
Cash and cash equivalents at end of year	<u>\$ 5,498</u>	<u>\$ 17,212</u>	<u>\$ 47,256</u>	<u>\$ 69,966</u>	<u>\$ 279,647</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 594,956	\$ (772,453)	\$ 122,927	\$ (54,569)	\$ (21,847)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation expense	165	-	-	165	47,752
Amortization of prize award obligation discount	(44,088)	-	-	(44,088)	-
Other reconciling items	358	-	-	358	2,217
Net Changes in Assets and Liabilities:					
Inventories	1,440	-	(268)	1,172	703
Other assets (net)	(13,949)	(5,897)	1,511	(18,335)	88,106
Accounts payable and other liabilities	(1,791)	2,149	1,203	1,561	60,003
Prize awards payable	(50,630)	-	-	(50,630)	-
Deferred revenue	-	60	-	60	-
Net cash provided (used) by operating activities	<u>\$ 486,461</u>	<u>\$ (776,141)</u>	<u>\$ 125,374</u>	<u>\$ (164,306)</u>	<u>\$ 176,935</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES					
Capital contributions	\$ -	\$ -	\$ -	\$ -	\$ 7,851
Cost of capital assets acquisitions financed by capital leases	-	-	-	-	10,065
Capital lease liabilities entered into during the year	-	-	-	-	(10,065)
Increase (decrease) in fair value of investments	(22,884)	-	-	(22,884)	-
Transfers to other funds (accrual)	(25,048)	(26,403)	-	(51,451)	-
Gain (loss) on disposal of capital assets	-	-	-	-	(349)
Total noncash investing, capital, and financing activities	<u>\$ (47,932)</u>	<u>\$ (26,403)</u>	<u>\$ -</u>	<u>\$ (74,335)</u>	<u>\$ 7,502</u>



FIDUCIARY FUND FINANCIAL STATEMENTS



Individual fund financial statements begin on the following pages:

Pension (and Other Employee Benefit) Trust Funds, page 164
Private Purpose Trust Funds, page 170
Agency Funds, page 175

Michigan

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
 SEPTEMBER 30, 2003
 (In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
ASSETS	<u> </u>	<u> </u>	<u> </u>
Cash	\$ 6	\$ 1,502	\$ 81,576
Equity in common cash (Note 5)	164,929	103,836	5,058
Receivables:			
From participants	112,678	-	-
From employers	504,447	-	-
Interest and dividends	110,718	85	-
Due from other funds (Note 17)	20,980	-	-
Sale of investments	2,926	2,241	-
Investments at Fair Value (Note 8):			
Short term investments	1,594,292	-	23,758
Bonds, notes, mortgages, and preferred stock	7,714,213	11,401	58,917
Common stock	20,041,799	77	-
Real estate	3,885,720	-	-
Alternative investments	6,066,534	-	-
International investments	4,103,199	-	-
Mutual funds	1,437,603	362,403	-
Pooled investment funds	1,691,342	-	-
Money market funds	248,002	-	-
Guaranteed funding agreements	-	89,542	-
Securities lending collateral (Note 8)	1,090,511	1	-
Capital Assets:			
Buildings and equipment	24	-	-
Allowance for depreciation	(24)	-	-
Total capital assets	<u>-</u>	<u>-</u>	<u>-</u>
Other current assets	-	4,167	10,204
Other noncurrent assets	-	-	336,062
Total assets	<u>\$ 48,789,897</u>	<u>\$ 575,255</u>	<u>\$ 515,575</u>
LIABILITIES			
Warrants outstanding	\$ 12,221	\$ 1,650	\$ 67
Accounts payable and other liabilities	89,206	23,225	111,094
Amounts due to other funds (Note 17)	36	-	124
Obligations under security lending	1,090,511	1	-
Other long-term liabilities	-	-	404,290
Total liabilities	<u>\$ 1,191,974</u>	<u>\$ 24,876</u>	<u>\$ 515,575</u>
NET ASSETS			
Net assets held in trust for pension, postemployment health-care, other employee benefits, and other purposes	<u>\$ 47,597,924</u>	<u>\$ 550,378</u>	
Reconciliation of Net Assets Held in Trust:			
Pension benefits (Note 10)	\$ 44,122,877	\$ -	
Postemployment health-care benefits	495,975	-	
Other employee benefits (Note 16)	2,979,071	-	
Other purposes	-	550,378	
Total net assets held in trust for benefits and other purposes	<u>\$ 47,597,924</u>	<u>\$ 550,378</u>	

Michigan

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
 FISCAL YEAR ENDED SEPTEMBER 30, 2003
 (In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS		
Contributions:		
From participants	\$ 695,579	\$ 209,886
From employers	1,863,610	-
From clients	-	37,915
From gifts, bequests, and endowments	-	442
From other plans	3,177	-
Investment Income:		
Net appreciation (depreciation) in fair value of investments	5,408,771	39,878
Interest, dividends, and other	1,045,817	10,059
Securities lending income	22,164	12
Less Investment Expense:		
Investment activity expense	85,160	1,407
Securities lending expense	18,276	11
Net investment income (loss)	6,373,315	48,531
Escheated property	-	74,705
Miscellaneous income	2,079	1,218
Total Additions	8,937,761	372,698
DEDUCTIONS		
Benefits paid to participants or beneficiaries	3,281,410	11,369
Medical, dental, and life insurance for retirants	944,012	-
Refunds and transfers to other systems	14,185	-
Amounts distributed to clients, claimants, or third parties	-	68,667
Administrative expense	87,791	11,097
Transfers to other funds	58,293	3,376
Total Deductions	4,385,691	94,509
Net increase (decrease)	4,552,070	278,190
Net assets - Beginning of fiscal year	43,045,854	272,189
Net assets - End of fiscal year (Note 10)	\$ 47,597,924	\$ 550,378
Reconciliation of Net Increase in Assets:		
Net increase (decrease) in assets held in trust for pension benefits	\$ 4,248,183	\$ -
Net increase (decrease) in assets held in trust for postemployment benefits	74,562	-
Net increase (decrease) in assets held in trust for other employee benefits	229,325	-
Net increase (decrease) in assets held in trust for other purposes	-	278,190
Total net increase (decrease)	\$ 4,552,070	\$ 278,190

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



COMPONENT UNIT FINANCIAL STATEMENTS



Major Funds

MICHIGAN EDUCATION TRUST

The Michigan Education Trust (MET) operates a prepaid tuition program. A purchaser enters into a contract with MET which provides that in return for a specified actuarially determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The amount the purchaser is required to pay is based on several factors, among them are tuition costs, the child's age and grade in school, anticipated investment earnings, tuition rate increases, and the type of contract purchased.

Public Act 316 of 1986 created MET. MET is governed by a nine-member board that consists of the State Treasurer and eight other individuals appointed by the Governor with the advice and consent of the Senate. Although MET is administratively located within the Michigan Department of Treasury, the Act provides its assets are not to be considered assets of the State and are not to be loaned or otherwise transferred or used by the State for any purpose other than the purposes specified in the Act. The Act and contracts also specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

Public Act 346 of 1966, as amended, created the Michigan State Housing Development Authority (MSHDA) to issue notes and bonds to finance housing for sale or rental to families with low or moderate incomes and to finance home improvements. MSHDA is also the administrator of various "Section 8" housing programs in Michigan for the U.S. Department of Housing and Urban Development. The Governor appoints MSHDA's board members.

MICHIGAN MUNICIPAL BOND AUTHORITY

Public Act 227 of 1985, as amended, created the Michigan Municipal Bond Authority (MMBA) to assist local units of government in reducing their financing costs for public improvements, deficit reduction, and various other municipal purposes. MMBA pools the borrowing needs of various units and issues limited obligation debt; the proceeds of which are used to purchase local unit obligations or to make loans to local units.

MMBA is governed by a board of trustees consisting of the State Treasurer, two appointees of the Governor, and five state residents appointed by the Governor, with the advice and consent of the Senate.

MMBA and the Department of Environmental Quality serve as co-administrators of a special State Revolving Fund, which is reported as part of MMBA. The State Revolving Fund assists governmental units in financing water quality projects. Federal government and State matching provides financing for this activity along with investment interest earnings and/or other available funds. MMBA's separately issued financial reports provide a separate accounting of this fund's activities.

CENTRAL MICHIGAN UNIVERSITY AND WESTERN MICHIGAN UNIVERSITY

Central Michigan University and Western Michigan University are the two major universities of the ten universities included in this report. They are legally separate entities whose governing boards are appointed by the Governor and for which the State is therefore, defined as legally accountable. Excluded from this report are three other universities (University of Michigan, Michigan State University and Wayne State University) whose board members are elected by the voters and, therefore, considered separate special purpose governments.

Non-Major Funds

The non-major component unit - authorities are presented beginning on page 180.

The non-major component unit - State universities are presented beginning on page 186.

Michigan

STATEMENT OF NET ASSETS
COMPONENT UNITS
 SEPTEMBER 30, 2003
 (In Thousands)

	AUTHORITIES			
	MICHIGAN EDUCATION TRUST	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN MUNICIPAL BOND AUTHORITY	NON-MAJOR
ASSETS				
Current Assets:				
Cash	\$ 111,735	\$ -	\$ 17	\$ 176,958
Equity in common cash (Note 5)	-	-	40	130,976
Amounts due from component units	-	-	-	6,366
Amounts due from primary government	1,146	-	522	1,401
Amounts due from federal government	-	-	-	10,532
Amounts due from local units	-	-	846,816	-
Inventories	-	-	-	672
Investments (Note 8)	-	-	359,617	380,997
Other current assets	22,859	142,928	35,770	161,017
Total Current Assets	<u>135,739</u>	<u>142,928</u>	<u>1,242,783</u>	<u>868,918</u>
Restricted Assets:				
Cash and cash equivalents	-	144,206	-	8,216
Investments	-	680,928	-	3,429
Mortgages and loans receivable	-	1,663,430	-	-
Amounts due from local units	-	-	2,218,304	-
Mortgages and loans receivable	-	-	-	924,851
Investments (Note 8)	786,267	-	965,531	42,436
Capital Assets:				
Land and other non-depreciable assets	-	-	-	843
Buildings, equipment, and other depreciable assets	-	16,966	-	45,311
Less accumulated depreciation	-	(1,828)	-	(15,937)
Infrastructure	-	-	-	102,464
Construction in progress	-	-	-	176
Total capital assets	-	15,138	-	132,858
Other noncurrent assets	39,956	44,922	145,897	14,031
Total Assets	<u>\$ 961,962</u>	<u>\$ 2,691,552</u>	<u>\$ 4,572,515</u>	<u>\$ 1,994,738</u>
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ -	\$ -	\$ 374
Accounts payable and other liabilities	5	26,889	9,042	28,756
Amounts due to component units	-	-	-	6,366
Amounts due to primary government	-	-	1,253	1,569
Bonds and notes payable (Note 13)	-	399,970	812,319	28,099
Interest payable	-	9,264	63,073	6,940
Deferred revenue	-	-	12,389	1,532
Current portion of other long-term obligations	71,704	-	-	6,668
Total Current Liabilities	<u>71,708</u>	<u>436,123</u>	<u>898,075</u>	<u>80,304</u>
Deferred revenue	-	-	-	-
Bonds and notes payable (Note 13)	-	1,313,095	2,278,699	1,342,286
Noncurrent portion of other long-term obligations	855,057	455,124	74,044	68,458
Total Liabilities	<u>\$ 926,766</u>	<u>\$ 2,204,342</u>	<u>\$ 3,250,817</u>	<u>\$ 1,491,048</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ 126,746
Restricted For:				
Education	-	-	-	-
Construction and debt service	-	242,277	-	10,432
Other purposes	35,196	-	1,312,830	27,926
Funds Held as Permanent Investments:				
Expendable	-	-	-	-
Nonexpendable	-	-	-	-
Unrestricted	-	244,934	8,867	338,586
Total Net Assets	<u>\$ 35,196</u>	<u>\$ 487,210</u>	<u>\$ 1,321,697</u>	<u>\$ 503,690</u>

Michigan

STATE UNIVERSITIES

CENTRAL MICHIGAN UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	NON-MAJOR	TOTALS
\$ 12,409	\$ 7,345	\$ 186,580	\$ 495,044
-	-	-	131,016
-	-	1,273	7,639
48,960	28,906	127,245	208,179
490	3,014	10,369	24,405
-	-	118	846,935
2,840	4,558	7,681	15,750
-	40,849	38,277	819,740
15,775	6,637	47,559	432,545
<u>80,474</u>	<u>91,309</u>	<u>419,103</u>	<u>2,981,253</u>
10,635	-	6,337	169,393
42,835	-	-	727,192
-	-	-	1,663,430
-	-	-	2,218,304
7,244	8,585	60,049	1,000,730
68,320	30,580	205,264	2,098,397
9,545	13,591	68,994	92,973
419,758	729,644	2,457,181	3,668,861
(195,261)	(266,436)	(922,878)	(1,402,339)
-	-	-	102,464
83,143	103,410	153,037	339,765
<u>317,185</u>	<u>580,209</u>	<u>1,756,335</u>	<u>2,801,725</u>
-	2,013	12,003	258,822
<u>\$ 526,692</u>	<u>\$ 712,695</u>	<u>\$ 2,459,091</u>	<u>\$ 13,919,246</u>
\$ -	\$ -	\$ -	\$ 374
49,299	40,990	116,564	271,544
-	-	-	6,366
656	45	3,091	6,614
2,280	4,865	17,912	1,265,446
936	13,719	3,654	97,587
9,024	9,379	39,951	72,276
224	409	13,702	92,706
<u>62,419</u>	<u>69,408</u>	<u>194,875</u>	<u>1,812,912</u>
-	-	931	931
131,426	263,945	617,076	5,946,526
14,540	22,375	35,361	1,524,959
<u>\$ 208,385</u>	<u>\$ 355,727</u>	<u>\$ 848,243</u>	<u>\$ 9,285,328</u>
\$ 193,457	\$ 278,971	\$ 1,204,386	\$ 1,803,560
37,356	9,892	82,737	129,985
6,631	12,274	34,664	306,277
-	8,031	28,353	1,412,338
-	-	11,429	11,429
-	-	15,817	15,817
80,863	47,800	233,462	954,511
<u>\$ 318,308</u>	<u>\$ 356,968</u>	<u>\$ 1,610,848</u>	<u>\$ 4,633,918</u>

Michigan

**STATEMENT OF ACTIVITIES
COMPONENT UNITS**

FISCAL YEAR ENDED SEPTEMBER 30, 2003
(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES				NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS		
Authorities:						
Michigan Education Trust	\$ 76,992	\$ 331	\$ 41,150	\$ -	\$ (35,511)	
Michigan State Housing Development Authority	378,990	190,438	240,436	-	51,884	
Michigan Municipal Bond Authority	132,292	99,213	142,770	-	109,691	
Non-Major	544,413	107,855	284,216	-	(152,343)	
State Universities:						
Central Michigan University	288,233	168,111	28,706	5,832	(85,583)	
Western Michigan University	421,860	245,069	36,603	10,953	(129,236)	
Non-Major	1,237,493	658,942	137,481	20,338	(420,731)	
Total	\$ 3,080,274	\$ 1,469,959	\$ 911,362	\$ 37,124	\$ (661,829)	

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

Michigan

GENERAL REVENUES						
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	SPECIAL ITEMS	CHANGE IN NET ASSETS	NET ASSETS BEGINNING OF YEAR RESTATED	NET ASSETS END OF YEAR
\$ -	\$ -	\$ -	\$ -	\$ (35,511)	\$ 70,707	\$ 35,196
-	-	-	-	51,884	435,326	487,210
-	-	-	-	109,691	1,212,006	1,321,697
8,474	85,082	17,183	-	(41,605)	545,295	503,690
6,606	111,307	127	-	32,456	285,851	318,308
5,244	150,812	14,972	-	41,791	315,177	356,968
14,174	455,600	17,597	-	66,640	1,544,208	1,610,848
<u>\$ 34,497</u>	<u>\$ 802,800</u>	<u>\$ 49,878</u>	<u>\$ -</u>	<u>\$ 225,347</u>	<u>\$ 4,408,571</u>	<u>\$ 4,633,918</u>