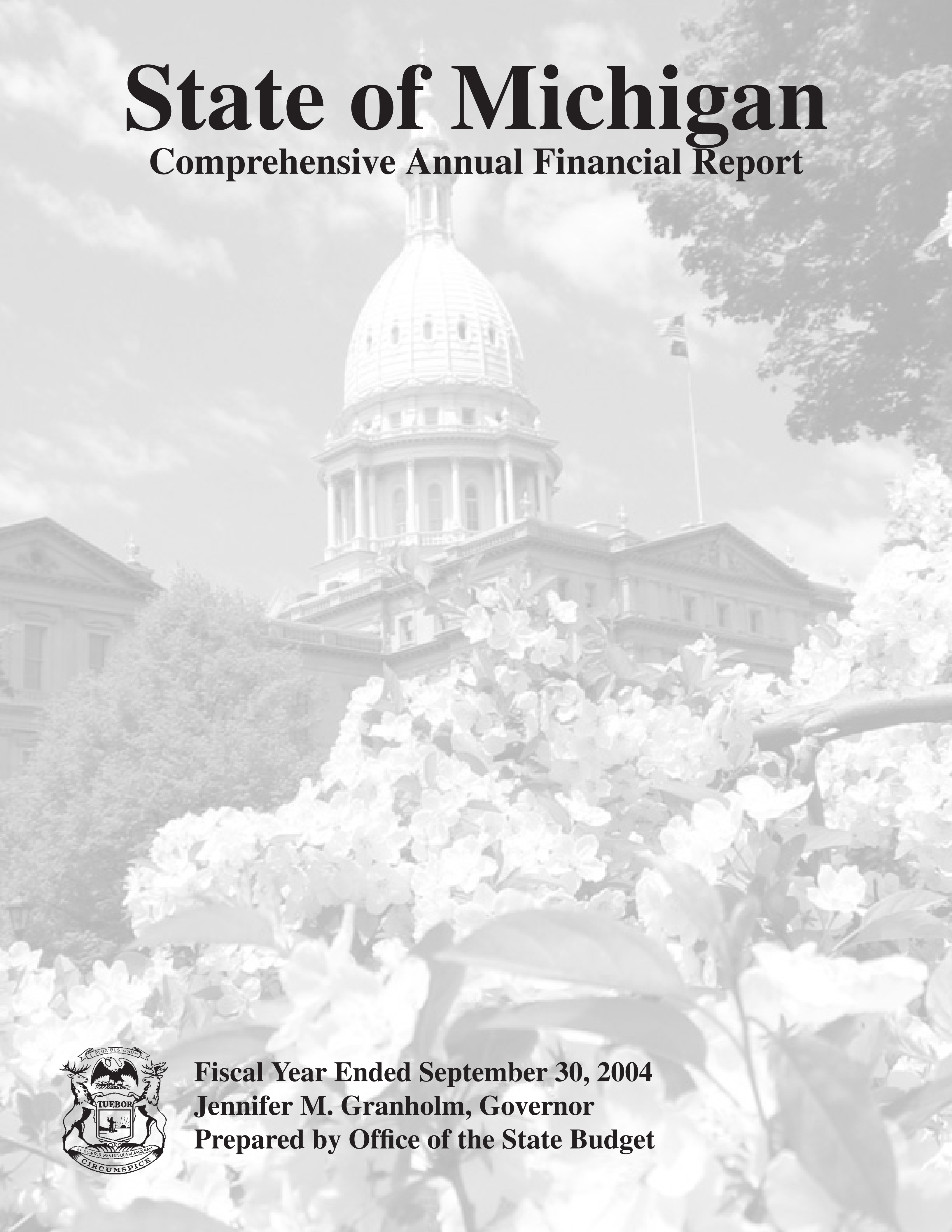

# State of Michigan

## Comprehensive Annual Financial Report

**Fiscal Year Ended September 30, 2004**
**Jennifer M. Granholm, Governor**
**Prepared by Office of the State Budget**

In recognition of its 125th anniversary, we have featured the Michigan State Capitol on the cover and several pages throughout the report.

Construction of the Capitol began in 1872 and was dedicated to the people of Michigan January 1, 1879, for a modest cost of $1.4 million. In 1992, a three-year project to restore the Capitol to its original glory was successfully completed.

It is one of America's finest examples of Victorian decorative painting. Almost every surface of the inside is hand-painted. The building is a masterpiece of craftsmanship. One of the most spectacular sights in the Capitol is the view of the inner dome from the first floor (photo shown inside).

Today, the Capitol enjoys a well-deserved reputation as one of the nation's most important historic buildings. Every year, over 125,000 individuals, representing every state in the nation and many foreign countries, take guided tours.

This document and other related information may be accessed via the Internet at www.michigan.gov/ofm.

This publication was produced at a cost of $6,776 for printing or $7.97 per copy. A total of 850 copies were printed using recycled paper. This report is required by law, Public Act 431 of 1984, as amended.

# *State of Michigan*

## *Comprehensive Annual Financial Report*

Fiscal Year Ended September 30, 2004

**JENNIFER M. GRANHOLM**
**Governor**

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

**MICHAEL J. MOODY, CPA**
**Director**
**Office of Financial Management**

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## III. STATISTICAL SECTION

STATE OF MICHIGAN

JENNIFER M. GRANHOLM
GOVERNOR

# OFFICE OF THE STATE BUDGET

LANSING

MARY A. LANNOYE
DIRECTOR

December 27, 2004

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, 2004.

## 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. The system of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

All financial transactions of the State primary government are recorded in the central accounting system, except for the Michigan Unemployment Compensation Funds, Attorney Discipline System, 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 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.

111 S. CAPITOL • P.O. BOX 30026 • LANSING, MICHIGAN 48909
www.michigan.gov • (517) 373-7560

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, 2004 are free of material misstatements. The OAG concluded that the Basic Financial Statements for the fiscal year ended September 30, 2004 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): GAAP 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

Michigan was admitted to the Union as the 26th state in 1837. The State is governed under the Constitution of 1963, as amended.

Executive Branch: The Executive Branch consists of 19 principal departments. Sixteen principal departments are headed by commissions and/or directors appointed by the elected governor. Two principal departments, Attorney General and State, are headed by elected officials and one, Education, is headed by an elected board.

Judicial Branch: The Judicial Branch consists of the Supreme Court, Court of Appeals, Court of Claims, and the State's circuit, district, probate, and municipal courts. In addition to its judicial duties, the Supreme Court is responsible for the general administrative supervision of all courts in the state. The Supreme Court also establishes rules for practice and procedure in all courts.

Legislative Branch: The Legislative Branch consists of the Senate, House of Representatives, and Office of the Auditor General. The Senate, which consists of 38 elected members, and House of Representatives, which consists of 110 elected members, enact the laws of Michigan. The Office of the Auditor General conducts post financial and performance audits of state government operations

Reporting Entity: The financial reporting entity of the State includes all of the funds of the primary government as well as component units for which the State's elected officials are financially accountable. The transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the 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. 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.

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.

## ECONOMIC CONDITIONS AND OUTLOOK

The current U.S. economic recovery is now three years old, having begun in November 2001. Over the past six quarters, real annualized GDP growth has exceeded 3.0 percent each quarter. In five of the past six quarters, consumption growth has been strong and equipment investment has grown at double-digit rates. Light vehicle sales have remained strong throughout the recovery, boosted by record incentives and low financing rates. Supported by historically low interest rates, new and existing home sales have remained strong as well.

However, employment growth lagged the recovery. Employment declined each quarter during the recovery until the fourth quarter of 2003. Employment has grown in each of the past four quarters, but that growth has been uneven. Employment reported tepid growth the last quarter of 2003 and moderate growth in the first quarter of 2004; employment then surged in the second quarter of this year before moderating in the third quarter. Employment recorded a strong increase in October, but employment growth was tepid in November. Continued job growth will be key to sustained economic growth.

Despite recent growth, U.S. payroll employment in November was still about 400,000 jobs below its March 2001 peak. Further, some sectors are still struggling. The manufacturing sector has been particularly hard hit. U.S. manufacturing employment declined for 42 straight months, before reporting solid gains in early 2004. However, in recent months, manufacturing employment has declined slightly. Rapid productivity gains have allowed firms to reduce payroll employment even as they have continued to increase output.

2004 Michigan Economic Review: Michigan's economy relies heavily on the performance of the manufacturing sector in general and the auto industry specifically. Given extremely weak Big 3 market share along with continued supply rationalization among vehicle suppliers, Michigan's employment performance has been below the national average. Substantial productivity gains in the manufacturing sector and vehicle industry have also contributed to Michigan's sub-par employment performance.

Over the past three years, the annual average for wage and salary employment has fallen. Through October, state employment is down compared to a year ago. From Michigan's employment peak in June 2000 compared to October 2004, Michigan has lost more than 300,000 jobs. By this time after the 1990-1991 recession, Michigan employment had risen nearly 200,000 jobs above its pre-recession peak. Michigan manufacturing employment has declined even more sharply. Since June 2000, Michigan manufacturing employment has fallen by slightly more than 200,000 jobs. However, while both overall and manufacturing employment have trended down since June 2000, the rate of that decline has slowed. Through October, state employment has increased in two of the last three months.

Michigan's annual average unemployment rate for 2003 was 7.3 percent, the highest level since 1992. The most recent monthly unemployment reading in October 2004 was 6.6 percent. The state's unemployment rate is down 1.0 percentage point from a year ago but substantially above its lows, around 3.0 percent, during the expansion of the late 1990s. Wages and salaries grew 0.6 percent year-over-year in the second quarter of 2004. Overall personal income grew 3.1 percent year-over-year in the second quarter.

The Department of Treasury and House and Senate Fiscal Agencies met on December 3, 2004, and reached a consensus for the 2004 and 2005 revenue and economic forecasts. The following summarizes the consensus economic forecast for 2005.

2005 U.S. Consensus Economic Outlook: Conference parties reached agreement on the outlook for several key economic variables. According to the Consensus forecast, real GDP is forecast to grow 3.2 percent in 2005, after growing a projected 4.4 percent in 2004. U.S. light vehicle sales are forecast to continue to be relatively steady with sales expected to be 16.7 million units in 2004 and 16.8 million units in 2005. The import share of those sales is expected to continue to rise, increasing from 19.9 percent in 2003 to 20.1 percent in 2004 and 20.6 percent in 2005. The U.S. unemployment rate is expected to decline from 6.0 percent in 2003 to 5.5 percent in 2004 and 5.4 percent in 2005. Interest rates are projected to rise over the forecast horizon but still remain at historically low levels as the Federal Reserve continues to raise the target federal funds rate at a measured pace. The Treasury bill rate is forecast to rise from 1.4 percent in 2004 to 2.4 percent in 2005. As measured by the consumer price index (CPI), inflation is expected to remain moderate with consumer prices rising a projected 2.6 percent, down slightly from 2.7 percent in 2004.

As businesses gain confidence in the sustainability of the expansion, business investment is expected to remain strong and the labor market is projected to firm up. With a firmer labor market and continued low interest rates, consumption is projected to remain solid. At the same time, higher oil prices, rising interest rates, and an end to the tax cuts will act to slow growth in 2005.

2005 Michigan Consensus Economic Outlook: With continued U.S. economic growth, smaller declines in manufacturing sector employment and improvements in the private non-manufacturing sector, Michigan employment is expected to grow each quarter, with employment gains averaging a modest 8,000 jobs per quarter.

For 2004, employment is estimated to have declined by 49,000 jobs (1.1 percent) – the fourth straight annual Michigan employment decline. With slight growth in 2005, employment is forecast to average 0.3 percent higher than 2004 employment. After falling from 7.3 percent to 6.7 percent in 2004, Michigan's unemployment rate is forecast to rise to 6.9 percent in 2005.

Michigan personal income is projected to rise 4.5 percent in 2005, after increasing an estimated 2.7 percent in 2004. In 2005, wages and salaries income is forecast to grow 3.7 percent after rising slightly (0.7 percent) in 2004. As measured by the Detroit CPI, consumer prices are projected to increase 2.4 percent.

The Department of Treasury and House and Senate Fiscal Agencies will meet again on January 13, 2005, for a Consensus Revenue Estimating Conference. At that conference, the agencies will reach consensus economic and revenue forecasts for 2005 and 2006.

## MAJOR INITIATIVES AND FUTURE PROJECTS

Education: Despite tough economic times, the State remains committed to quality education at all age levels. Over $14.5 billion, or 37 percent, of the State's total FY 2004-2005 budget is devoted to education. This includes funding for early childhood programs, the K-12 system, universities, community colleges, and student financial aid.

As part of its overall goal of improving student achievement, the State continues to place emphasis on learning in the critical preschool years by investing in programs that provide quality early childhood learning, childcare, and parental education. The State has also instituted a program to identify and assist schools that are considered high priority for improvement in academic achievement.

Health and Human Services: Protecting Michigan's most vulnerable citizens is also a high priority. For FY 2004-2005, the two departments primarily responsible for health and human services, the Department of Community Health and Family Independence Agency, account for $14.1 billion, or 36 percent, of the overall State budget.

While the State administers a variety of health and human services programs, Medicaid is the most extensive, accounting for $8.6 billion of the FY 2004-2005 budget. These funds allow the State to provide health care services for over 1.3 million low-income citizens.

Economy: State government is committed to growing its economy by sustaining and creating business investment and jobs in Michigan. One of the key initiatives in this area is the Technology Tri-Corridor, which fosters growth in life sciences, advanced automotive technologies, and homeland security industries through funding and resource collaboration, focusing on emerging technology sectors. Financing is available through a competitive proposal process for life sciences, advanced automotive technologies and homeland security companies and researchers.

Other initiatives related to the economy include the Michigan Timely Application and Permit Service (MiTAPS), which provides one-stop shopping for businesses to identify and apply for permits needed to do business in Michigan; the Michigan Broadband Development Authority, which promotes broadband deployment and utilization in Michigan to stimulate economic development and organizational efficiency; and the Cool Cities Pilot Project, aimed at keeping and attracting young, educated, and skilled workers.

Hometown Security: Michigan is now benefiting from the services of 89 additional Michigan State Police Troopers as a result of the recent completion of the 120th Trooper Recruit School. This is the first trooper recruit school held since 2001. With the addition of these troopers, 1,095 troopers are assigned to posts located throughout the state.

Michigan is also in the midst of a variety of efforts to control the growth in the prison population without sacrificing the safety of its citizens. As a result of these efforts, the State has been able to forego the reopening of two closed prisons, saving $60 million. It also expects to close an additional prison during FY 2004-2005 by shifting prisoners from an older, less cost-efficient facility to a newer, underutilized facility.

Better Government: State government continued to become more efficient during FY 2003-2004 by implementing administrative measures that reduced spending by $185 million. Most of the savings resulted from ongoing improvements in contracting practices, such as reducing the number of sole source contracts, eliminating contract extensions, and negotiating price reductions. Other examples of savings included continued reductions in the number of cars in the State's fleet, debt restructuring, voluntary rent reductions for leased facilities, and decreased energy consumption.

The State also streamlined routine human resources, benefits, and payroll functions by opening a centralized service center that provides services and support to State employees in most executive branch departments. Establishment of the centralized service center is expected to save the State $25 million over the next five years by reducing the number of staff needed in departmental human resources offices.

In order to ensure that Michigan citizens get maximum value for their future tax dollars, the State has modified its budget development process to incorporate a "budgeting for outcomes" approach for the FY 2005-2006 budget year. Budgeting for outcomes differs from the traditional approach by focusing on buying results for citizens rather than cutting or adding to last year's budget. The goal is to get the results citizens need at the price they are willing to pay.

## AWARDS AND ACKNOWLEDGEMENTS

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, 2003. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report whose content satisfies 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 17 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 to determine its eligibility for another certificate.

Acknowledgments: The preparation of this report requires the collective efforts of the management and staff of the Accounting and Financial Reporting Division, Office of Financial Management; the chief financial officers, chief accountants, internal auditors and their staffs from 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 that have allowed Michigan to maintain its position as a national leader in quality and efficiency for financial reporting.

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, 2003

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

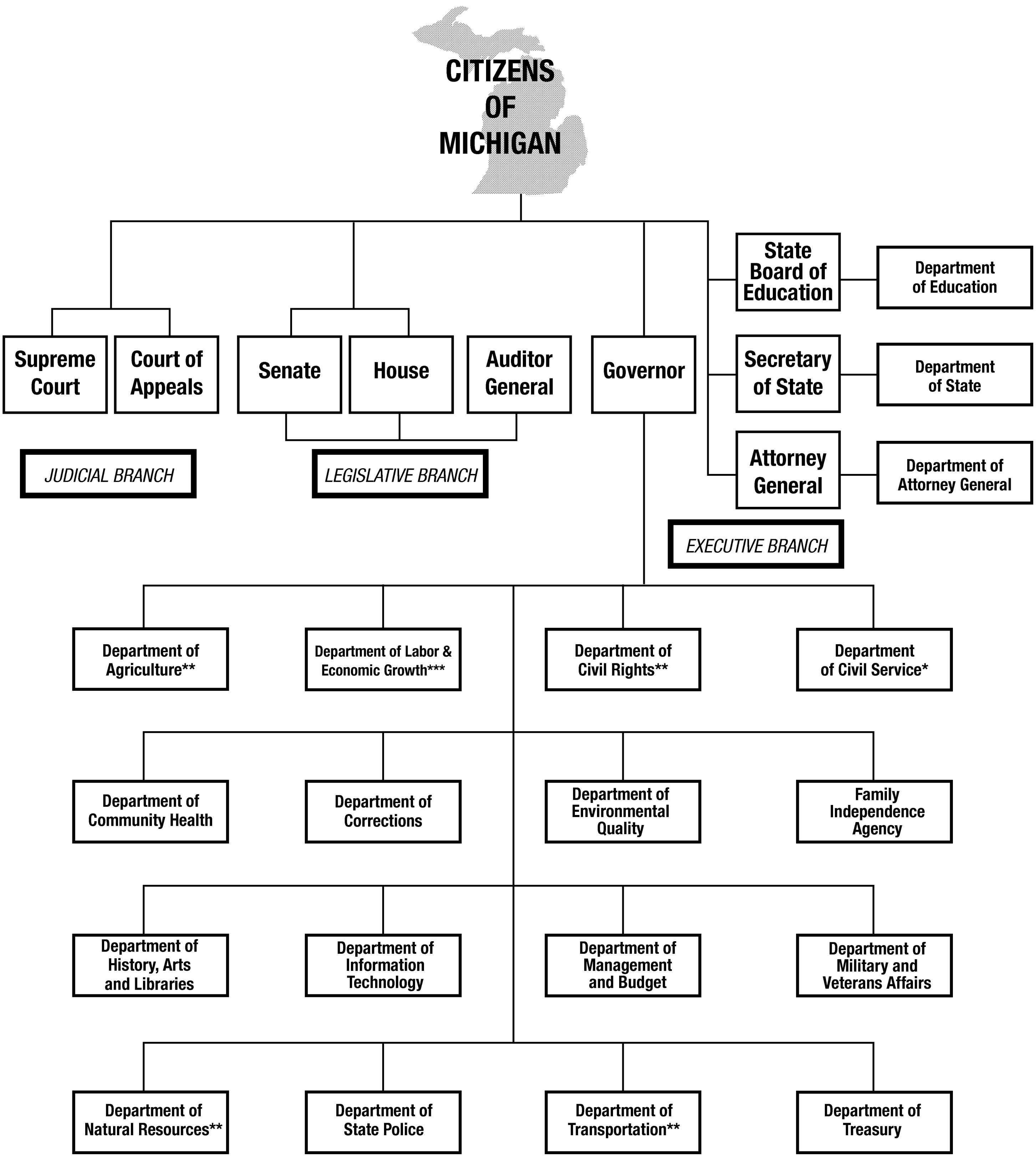
Nancy L. Zielke

President

Jeffrey R. Esser

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
William Pridgeon, Chair
James E. Byrum
Douglas E. Darling
Ann Jousma-Miller
James E. Maitland
Dan Wyant, Director, Department of Agriculture

Civil Rights Commission
Gary Torgow, Chair
Mohammed Abdrabboh
Mark Bernstein
Albert Calille
Tarun K. Sharma
Valerie P. Simmons
Margaret M. Van Houten
Linda V. Parker, Director, Department of Civil Rights

Civil Service Commission
Susan Grimes Munsell, Chair
F. Thomas Lewand
Sherry L. McMillan
James P. Pitz
James D. Farrell, 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

Marianne Udow, Director
Family Independence Agency

William Anderson, Director
Department of History, Arts and Libraries

Teresa M. 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
Mary C. Brown
Bob Garner
Gerald R. Hall Jr.
John M. Madigan
Franklin C. Wheatlake
Vacant
Rebecca A. Humphries, Director
Department of Natural Resources

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

Transportation Commission
Ted B. Wahby, Chair
Linda Miller Atkinson
Betty Jean Awrey
Robert Bender
Vincent Brennan
John W. Garside
Gloria J. Jeff, Director
Department of Transportation

Jay B. Rising, State Treasurer


Senate Chamber from Entry


House of Representatives Chamber

# II FINANCIAL SECTION

## INDEPENDENT AUDITOR'S REPORT
## MANAGEMENT'S DISCUSSION AND ANALYSIS
## BASIC FINANCIAL STATEMENTS

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

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

Independent Auditor's Report

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

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, 2004, 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, Attorney Discipline System, 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, Mackinac Bridge Authority, Mackinac Island State Park Commission, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan State Hospital Finance Authority, 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:

| Opinion Unit | Percent of Total Assets | Percent of Total Revenues/Additions |
|---|---|---|
| Governmental Activities | 2.0% | 1.5% |
| Business-Type Activities | 98.3% | 85.0% |
| Aggregate Discretely Presented Component Units | 92.2% | 94.6% |
| State Lottery Fund | 100.0% | 100.0% |
| Michigan Unemployment Compensation Funds | 100.0% | 100.0% |
| Aggregate Remaining Fund Information | 92.5% | 64.3% |

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.

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

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL

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



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, 2004, 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.

As discussed in Note 4 to the basic financial statements, the State of Michigan adopted Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and Governmental Accounting Standards Board Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues.*

The management's discussion and analysis on pages 5 through 12, budgetary comparison schedules and corresponding notes on pages 86 through 89, and information about infrastructure assets reported using the modified approach on pages 90 and 91 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,

Thomas H. McTavish, C.P.A.
Auditor General
December 27, 2004

# 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, 2004. 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:**

- At September 30, 2004, the State's assets exceeded its liabilities by $17.2 billion.

- The State's unrestricted net assets were ($954.8) million as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.

- The State's total net assets decreased by $1.0 billion (5.7 percent) during fiscal year 2003-2004.

**Fund Level:**

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of $3.3 billion. Of this amount, $495.5 million is *unreserved fund balance* and, therefore, available to fund general-purpose expenditures of the respective funds in future years. The remaining $2.8 billion is reserved for specific purposes, such as education and transportation.

- The State's three major governmental funds, the General Fund, Counter-Cyclical Budget and Economic Stabilization Fund, and the School Aid Fund, all closed the fiscal year with positive fund balances, totaling a combined $1.3 billion. In the General Fund and School Aid Fund, the entire fund balance, $1.2 billion and $74.1 million, respectively, is reserved for specific purposes. In the Counter-Cyclical Budget and Economic Stabilization Fund, the entire fund balance of $81.3 million is unreserved.

- The State's proprietary funds reported net assets at year-end of $1.3 billion. This represents a decrease of $602.8 million (31.8 percent) compared to the prior year-end.

**Long-term Debt**:

- The State's total long-term debt (bonds and notes payable) as of September 30, 2004 was $6.2 billion. This is an increase of $255.1 million since the last fiscal year-end. The increase represents the net difference between new issuances, payments, and refundings of outstanding debt.

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 96 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 $1.0 billion (5.7 percent) over the course of this fiscal year's operations. The net assets of the governmental activities decreased $437.7 million (2.7 percent) and business-type activities had a decrease of $600.5 million (or 33.9 percent).

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

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 * | 2004 | 2003 * | 2004 | 2003* |
| Current and other non-current assets | $ 9,601.8 | $ 9,368.1 | $2,189.2 | $2,860.3 | $11,791.0 | $12,228.4 |
| Capital assets | 18,694.8 | 18,669.0 | .6 | .6 | 18,695.4 | 18,669.6 |
| **Total assets** | 28,296.6 | 28,037.1 | 2,189.8 | 2,860.9 | 30,486.4 | 30,898.0 |
| Current liabilities | 4,359.5 | 4,042.1 | 543.2 | 551.9 | 4,902.7 | 4,594.0 |
| Long-term liabilities | 7,941.5 | 7,561.8 | 475.6 | 537.4 | 8,417.1 | 8,099.1 |
| **Total liabilities** | 12,301.1 | 11,603.9 | 1,018.8 | 1,089.3 | 13,319.9 | 12,693.2 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 14,962.9 | 14,996.9 | .6 | .6 | 14,963.5 | 14,997.5 |
| Restricted | 1,993.3 | 1,886.3 | 1,164.5 | 1,765.7 | 3,157.9 | 3,652.0 |
| Unrestricted | (960.7) | (450.0) | 5.9 | 5.3 | (954.8) | (444.7) |
| **Total net assets** | $15,995.6 | $16,433.3 | $1,171.0 | $1,771.5 | $17,166.6 | $18,204.8 |

* The prior year columns have been restated to reflect the implementation of GASB Technical Bulletin 2004-1 and the addition of the Attorney Discipline System.

- The largest component, $15.0 billion, 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 $3.2 billion. These represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The State's unrestricted net assets were ($954.8) million as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.

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:

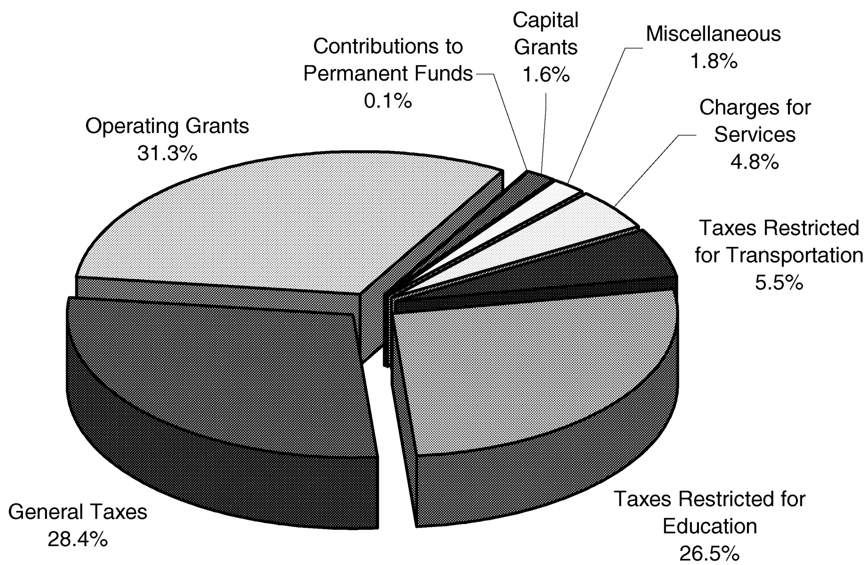
Changes in Net Assets
For Fiscal Year Ending September 30
(In Millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| **Revenues** | | | | | | |
| Program revenues | | | | | | |
| Charges for services | $ 1,801.4 | $ 1,782.9 | $4,500.6 | $4,039.8 | $6,302.0 | $5,822.7 |
| Operating grants | 11,783.5 | 11,290.7 | 76.8 | 135.1 | 11,860.2 | 11,425.8 |
| Capital grants | 618.4 | 546.7 | - | - | 618.4 | 546.7 |
| General revenues | | | | | | |
| General taxes | 10,672.9 | 10,133.7 | 12.0 | 11.3 | 10,684.9 | 10,145.0 |
| Taxes restricted for educational purposes | 9,958.3 | 10,098.3 | - | - | 9,958.3 | 10,098.3 |
| Taxes restricted for transportation purposes | 2,077.0 | 2,021.1 | - | - | 2,077.0 | 2,021.1 |
| Unrestricted investment and interest earnings | 9.7 | 14.1 | 1.2 | 1.1 | 11.0 | 15.2 |
| Miscellaneous | 677.8 | 813.6 | - | - | 677.8 | 813.6 |
| **Total revenues** | 37,599.1 | 36,701.1 | 4,590.6 | 4,187.4 | 42,189.7 | 40,888.5 |
| **Expenses** | | | | | | |
| General government | 1,748.6 | 1,714.8 | - | - | 1,748.6 | 1,714.8 |
| Education | 14,418.9 | 14,840.0 | - | - | 14,418.9 | 14,840.0 |
| Family independence services | 3,985.9 | 3,891.7 | - | - | 3,985.9 | 3,891.7 |
| Public safety and corrections | 2,256.4 | 2,159.5 | - | - | 2,256.4 | 2,159.5 |
| Conservation, environment, recreation, and agriculture | 674.4 | 612.6 | - | - | 674.4 | 612.6 |
| Labor, commerce, and regulatory | 920.1 | 901.6 | - | - | 920.1 | 901.6 |
| Health services | 9,605.2 | 9,362.9 | - | - | 9,605.2 | 9,362.9 |
| Transportation | 3,104.8 | 2,792.8 | - | - | 3,104.8 | 2,792.8 |
| Tax expenditures | 702.7 | 707.8 | - | - | 702.7 | 707.8 |
| Intergovernmental - revenue sharing | 1,305.1 | 1,451.4 | - | - | 1,305.1 | 1,451.4 |
| Interest on long-term debt | 247.0 | 281.4 | - | - | 247.0 | 281.4 |
| Liquor Purchase Revolving Fund | - | - | 544.7 | 515.2 | 544.7 | 515.2 |
| State Lottery Fund | - | - | 1,391.4 | 1,152.8 | 1,391.4 | 1,152.8 |
| Attorney Discipline System | - | - | 4.1 | - | 4.1 | - |
| Michigan Unemployment Compensation Funds | - | - | 2,349.4 | 2,473.8 | 2,349.4 | 2,473.8 |
| **Total expenses** | 38,969.1 | 38,716.4 | 4,289.5 | 4,141.8 | 43,258.6 | 42,858.2 |
| Excess (deficiency) Before Contributions and Transfers | (1,370.0) | (2,015.3) | 301.1 | 45.5 | (1,068.9) | (1,969.8) |
| Contributions to permanent fund principal | 30.8 | 31.9 | - | - | 30.8 | 31.9 |
| Transfers | 901.6 | 843.8 | (901.6) | (843.8) | - | - |
| **Increase (decease) in net assets** | (437.7) | (1,139.6) | (600.5) | (798.2) | (1,038.2) | (1,937.8) |
| Net assets – beginning restated | 16,433.3 | 17,572.9 | 1,771.5 | 2,569.8 | 18,204.8 | 20,142.6 |
| Net assets – ending | $15,995.6 | $16,433.3 | $1,171.0 | $1,771.5 | $17,166.6 | $18,204.8 |

**Governmental Activities:**

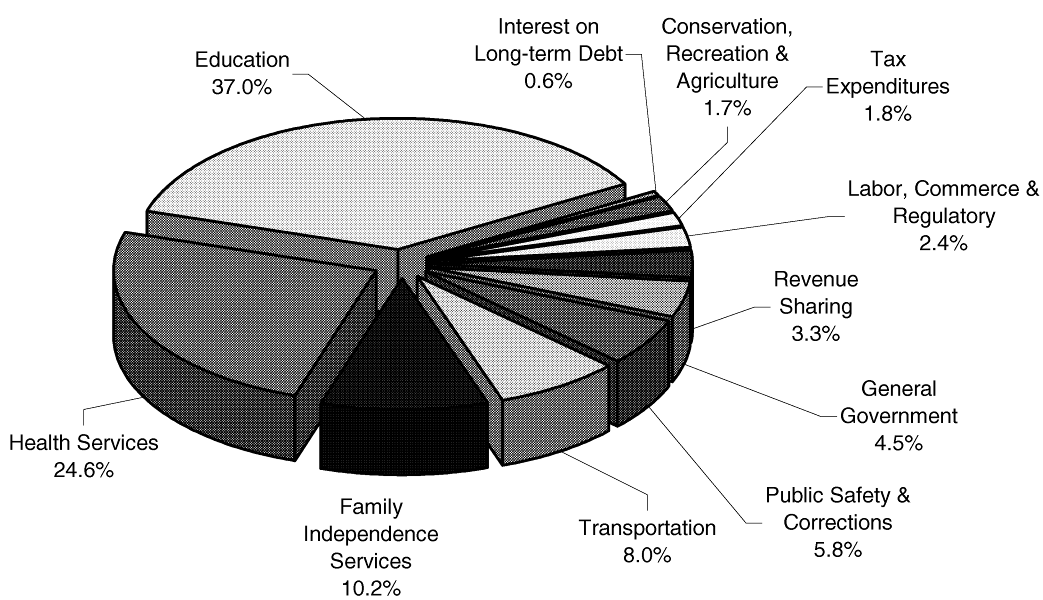
The following chart depicts revenues of the governmental activities for the fiscal year:

**Revenues - Governmental Activities for Fiscal Year Ending September 30, 2004**
($37.6 billion)




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

**Expenses - Governmental Activities for Fiscal Year Ending September 30, 2004**
($39.0 billion)



**Business-type Activities**

The business-type activities' net assets decreased by $600.5 million (33.9 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 $573.1 million (34.5 percent) to $1.1 billion.

- The State Lottery Fund's net assets decreased by $28.1 million (26.7 percent), which resulted from a decrease in the market value of investments that Lottery holds to fund future payments due for 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, $495.5 million constitutes unreserved fund balance, which is available for appropriation for the general purposes of the funds. The Budget Stabilization Fund ($81.3 million) and the transportation-related funds ($337.1 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 2003-2004, the General Fund unreserved fund balance was transferred to the Budget Stabilization Fund and reserved fund balance was $1.2 billion. Total fund balance diminished during the fiscal year by $140.9 million (10.8 percent), primarily because transfers to other funds increased by $120.8 million.

General Fund Budgetary Highlights:

During fiscal year 2004, the State was again faced with difficult budget challenges resulting in significant expenditure reductions. In December 2003, Executive Order 2003-23 was issued authorizing expenditure reductions of $200.9 million and transfers of unexpended balances and excess revenues from restricted revenue sources totaling $147.9 million to be used as general fund, general purpose revenues. In addition, the executive order reduced work project and capital outlay project carry-forward authorization from prior years by $31.0 million.

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 $101.4 million less than the original estimate of $8.0 billion.
- Restricted revenue inflows of $13.6 billion were $312.9 million more than the estimated $13.3 billion.
- The Merit Award Trust Fund made transfers to the General Fund totaling $63.0 million as part of the Executive Order 2003-23.
- The General Fund transferred $81.3 million to the Budget Stabilization Fund at the end of the year.

Differences between the final budget and actual spending result from spending authority lapses of $122.7 million and restricted revenue authorized but not spent of $8.9 million.

The Department of Community Health finished the year with a net overexpenditure of $38.2 million and the Family Independence Agency had line-item overexpenditures of $1.1 million. All other agencies finished the year with lapses.

In December 2004, the consensus revenue agreement indicated that the General Fund revenues are expected to decline in the next fiscal year. Another consensus revenue conference will be held in January 2005. Corresponding reductions in spending and other measures will help ensure that the fund balance remains positive if revenues decline as expected.

**School Aid Fund**

Fund balance at September 30, 2004, totaled $74.1 million, a decrease of $41.1 million (35.7 percent) from the prior year. Revenues and transfers to the fund totaled $12.3 billion. Expenditures to school districts and other costs decreased by $43.5 million from the previous year and totaled $12.3 billion. During the year, the School Aid budget was adjusted by prorating school aid payments. The school aid payments were reduced by $131.1 million.

**Counter-cyclical Budget and Economic Stabilization Fund**

Fund balance increased by $81.3 from the previous year as a result of the transfer from the General Fund.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2003-2004, 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 $182.6 million.

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

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Land | $ 3,117.0 | $ 3,103.1 | $ - | $ - | $ 3,117.0 | $ 3,103.1 |
| Land improvement | 86.5 | 75.7 | - | - | 86.5 | 75.7 |
| Buildings and improvements | 2,047.4 | 2,088.2 | - | - | 2,047.4 | 2,088.2 |
| Equipment | 144.5 | 163.9 | .6 | .6 | 145.0 | 164.4 |
| Infrastructure | 11,964.6 | 11,831.3 | - | - | 11,964.6 | 11,831.3 |
| Other | 19.8 | 18.9 | - | - | 19.8 | 18.9 |
| Subtotal | 17,379.8 | 17,281.0 | .6 | .6 | 17,380.4 | 17,281.6 |
| Construction in progress | 1,315.0 | 1,388.0 | - | - | 1,315.0 | 1,388.0 |
| **Total** | $18,694.8 | $18,669.0 | $ .6 | $ .6 | $18,695.4 | $18,669.6 |

The most significant impact on capital assets during the year resulted from the 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 27,534 lane miles of roads and 4,724 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 2003, indicated that 20.0% 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 (2003) indicated that the condition of the bridges had improved from the condition reported for 2002.

The State's fiscal year 2004-2005 capital outlay appropriations have not been enacted except for the rent payments made to the State Building Authority totaling $250.8 million. Unspent capital outlay authorizations of $463.0 million that existed at September 30, 2004, are available in fiscal year 2005. 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.

Outstanding Bonded Debt as of September 30
(In Millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| General obligation bonds (backed by the State) | $1,527.5 | $1,413.4 | $ - | $ - | $1,527.5 | $1,413.4 |
| Revenue bonds and notes (backed by specific tax and fee revenues) | 3,987.7 | 3,919.6 | - | - | 3,987.7 | 3,919.6 |
| **Total** | $5,515.2 | $5,333.0 | $ - | $ - | $5,515.2 | $5,333.0 |

During fiscal year 2003-2004 the State issued general obligation debt totaling $302.8 million, including $64.5 million for conservation and recreation projects (the Clean Michigan Initiative) and $238.3 million to provide funds for loans to school districts.

**Bond Ratings**
The State's general obligations are rated AA+ 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 2003-2004 the State issued and repaid short-term borrowing totaling $1.3 billion.

## ECONOMIC CONDITION AND OUTLOOK

Michigan's economy relies heavily on the performance of the manufacturing sector in general and the auto industry specifically. Given extremely weak manufacturing employment performance, declining vehicle production, continued declines in Big 3 market share along with continued supply rationalization among vehicle suppliers, Michigan's employment performance has been below the national average. Substantial productivity gains in the manufacturing sector and vehicle industry have also contributed to Michigan's sub-par employment performance.

Through October, state employment is down compared to a year ago. From Michigan's employment peak in June 2000 compared to October 2004, Michigan has lost more than 300,000 jobs. By this time after the 1990-1991 recession, Michigan employment had risen nearly 200,000 jobs above its pre-recession peak. Michigan manufacturing employment has declined even more sharply. Since June 2000, Michigan manufacturing employment has fallen by slightly more than 200,000 jobs.

However, with continued U.S. economic growth, smaller declines in manufacturing sector employment and improvements in the private non-manufacturing sector, Michigan employment is expected to grow each quarter, with employment gains averaging a modest 8,000 jobs per quarter. For 2004, employment is estimated to have declined by 49,000 jobs (1.1 percent) – the fourth straight annual Michigan employment decline. With slight growth in 2005, employment is forecast to average 0.3 percent higher than 2004 employment. After falling from 7.3 percent to 6.7 percent in 2004, Michigan's unemployment rate is forecast to rise to 6.9 percent in 2005.

Michigan personal income is projected to rise 4.5 percent in 2005, after increasing an estimated 2.7 percent in 2004. In 2005, wages and salaries income is forecast to grow 3.7 percent after rising slightly (0.7 percent) in 2004. As measured by the Detroit CPI, consumer prices are projected to increase 2.4 percent.

## 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

**STATEMENT OF NET ASSETS**
SEPTEMBER 30, 2004
(In Thousands)

| | PRIMARY GOVERNMENT | | | |
|---|---|---|---|---|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTALS | COMPONENT UNITS |
| **ASSETS** | | | | |
| Current Assets: | | | | |
| Cash | $ 13,323 | $ 5,245 | **$ 18,568** | $ 670,035 |
| Equity in common cash (Note 5) | 1,554,396 | 71,357 | **1,625,754** | 75,128 |
| Taxes, interest, and penalties receivable (Note 6) | 4,444,613 | - | **4,444,613** | - |
| Internal balances | 27,937 | (27,937) | **-** | - |
| Amounts due from component units | 3,963 | 730 | **4,693** | 239 |
| Amounts due from primary government | - | - | **-** | 178,713 |
| Amounts due from federal government | 898,175 | 1,682 | **899,857** | 28,919 |
| Amounts due from local units | 204,408 | 39,288 | **243,696** | 907,370 |
| Inventories | 42,247 | 7,251 | **49,498** | 15,660 |
| Investments (Note 8) | 439,512 | 1,029,597 | **1,469,108** | 1,027,279 |
| Securities lending collateral (Note 8) | 21,775 | 301,950 | **323,724** | - |
| Other current assets | 558,314 | 249,946 | **808,260** | 392,407 |
| Total Current Assets | 8,208,662 | 1,679,109 | **9,887,771** | 3,295,749 |
| Restricted Assets: | | | | |
| Cash and cash equivalents | - | - | **-** | 17,281 |
| Investments | - | - | **-** | 380,354 |
| Mortgages and loans receivable | - | - | **-** | 45,365 |
| Taxes, interest, and penalties receivable (Note 6) | 271,994 | - | **271,994** | - |
| Amounts due from federal government | 2,201 | - | **2,201** | - |
| Amounts due from local units | 666,998 | - | **666,998** | 2,324,057 |
| Mortgages and loans receivable | - | - | **-** | 3,023,054 |
| Investments (Note 8) | 380,908 | 496,824 | **877,732** | 3,107,403 |
| Capital Assets (Note 9): | | | | |
| Land and other non-depreciable assets | 3,153,972 | - | **3,153,972** | 95,757 |
| Buildings, equipment, and other depreciable assets | 4,593,772 | 4,834 | **4,598,606** | 4,071,388 |
| Less accumulated depreciation | (2,067,291) | (4,268) | **(2,071,559)** | (1,505,094) |
| Infrastructure | 11,699,350 | - | **11,699,350** | 102,621 |
| Construction in progress | 1,315,044 | - | **1,315,044** | 174,559 |
| Total capital assets | 18,694,846 | 566 | **18,695,412** | 2,939,231 |
| Interest in joint ventures (Note 7) | 31,473 | - | **31,473** | - |
| Other noncurrent assets | 39,542 | 13,300 | **52,842** | 301,236 |
| Total Assets | $ 28,296,625 | $ 2,189,799 | **$ 30,486,424** | $ 15,433,731 |
| **LIABILITIES** | | | | |
| Current Liabilities: | | | | |
| Warrants outstanding | $ 179,255 | $ 8,434 | **$ 187,690** | $ 1,116 |
| Obligations under security lending | 21,775 | 301,950 | **323,724** | - |
| Accounts payable and other liabilities | 2,335,801 | 231,645 | **2,567,445** | 267,732 |
| Income tax refunds payable (Note 15) | 717,518 | - | **717,518** | - |
| Amounts due to component units | 2,013 | - | **2,013** | - |
| Amounts due to primary government | - | - | **-** | 5,141 |
| Bonds and notes payable (Notes 12 and 13) | 648,935 | - | **648,935** | 1,083,309 |
| Interest payable | 111,977 | - | **111,977** | 108,789 |
| Deferred revenue | 110,746 | 813 | **111,559** | 71,212 |
| Current portion of other long-term obligations (Note 14) | 231,519 | 368 | **231,887** | 101,114 |
| Total Current Liabilities | 4,359,539 | 543,209 | **4,902,748** | 1,638,413 |
| Prize awards payable (Note 14) | - | 430,228 | **430,228** | - |
| Deferred revenue | 21,533 | - | **21,533** | 3,284 |
| Bonds and notes payable (Notes 12 and 13) | 6,042,970 | - | **6,042,970** | 7,001,277 |
| Noncurrent portion of other long-term obligations (Note 14) | 1,877,030 | 45,346 | **1,922,376** | 1,520,085 |
| Total Liabilities | $ 12,301,071 | $ 1,018,784 | **$ 13,319,855** | $ 10,163,060 |

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

| NET ASSETS | PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTALS | COMPONENT UNITS |
|---|---|---|---|---|
| Invested in capital assets, net of related debt | $ 14,962,902 | $ 566 | **$ 14,963,468** | $ 1,903,120 |
| Restricted For: | | | | |
| Education | - | - | **-** | 198,565 |
| Construction and debt service | 48,707 | - | **48,707** | 299,060 |
| Public safety and corrections | 17,532 | - | **17,532** | - |
| Conservation, environment, recreation, and agriculture | 323,327 | - | **323,327** | - |
| Health and family services | 20,264 | - | **20,264** | - |
| Transportation | 770,056 | - | **770,056** | - |
| Unemployment compensation | - | 1,087,442 | **1,087,442** | - |
| Other purposes | 245,632 | 77,098 | **322,729** | 1,519,310 |
| Funds Held as Permanent Investments: | | | | |
| Expendable | 93,658 | - | **93,658** | 26,942 |
| Nonexpendable | 474,158 | - | **474,158** | 193,723 |
| Unrestricted | (960,684) | 5,910 | **(954,774)** | 1,129,952 |
| Total Net Assets | $ 15,995,554 | $ 1,171,016 | **$ 17,166,569** | $ 5,270,672 |

## STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

| Functions/Programs | EXPENSES | PROGRAM REVENUES: CHARGES FOR SERVICES | PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS | PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS |
|---|---|---|---|---|
| **Primary Government:** | | | | |
| Governmental Activities: | | | | |
| General government | $ 1,748,598 | $ 826,573 | $ 202,168 | $ 27,526 |
| Education | 14,418,940 | 5,277 | 1,325,584 | - |
| Family independence services | 3,985,861 | 58,170 | 2,777,417 | - |
| Public safety and corrections | 2,256,393 | 154,440 | 130,466 | - |
| Conservation, environment, recreation, and agriculture | 674,387 | 254,861 | 121,972 | 330 |
| Labor, commerce, and regulatory | 920,056 | 247,857 | 514,973 | - |
| Health services | 9,605,216 | 57,071 | 6,312,530 | - |
| Transportation | 3,104,841 | 197,125 | 398,362 | 590,590 |
| Tax expenditures (Note 15) | 702,700 | - | - | - |
| Intergovernmental-revenue sharing | 1,305,146 | - | - | - |
| Interest on long-term debt | 246,992 | - | - | - |
| Total governmental activities | 38,969,130 | 1,801,373 | 11,783,472 | 618,445 |
| Business-type Activities: | | | | |
| Liquor Purchase Revolving Fund | 544,683 | 675,747 | - | - |
| State Lottery Fund | 1,391,385 | 2,002,688 | 18,694 | - |
| Attorney Discipline System | 4,056 | 4,593 | - | - |
| Michigan Unemployment Compensation Funds | 2,349,400 | 1,817,576 | 58,068 | - |
| Total business-type activities | 4,289,524 | 4,500,604 | 76,762 | - |
| Total primary government | $ 43,258,653 | $ 6,301,978 | $ 11,860,234 | $ 618,445 |
| **Component Units:** | | | | |
| Authorities: | | | | |
| Michigan Education Trust | $ 67,688 | $ 237 | $ 37,167 | $ - |
| Michigan State Housing Development Authority | 481,956 | 169,942 | 348,447 | - |
| Michigan Municipal Bond Authority | 143,218 | 103,059 | 151,203 | - |
| Non-Major | 433,252 | 115,133 | 217,708 | - |
| State Universities: | | | | |
| Central Michigan University | 293,418 | 183,985 | 30,827 | 2,623 |
| Western Michigan University | 436,423 | 259,272 | 70,215 | 1,397 |
| Non-Major | 1,262,415 | 723,963 | 161,835 | 65,557 |
| Total component units | $ 3,118,369 | $ 1,555,592 | $ 1,017,402 | $ 69,577 |

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.

| NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS | | | |
|---|---|---|---|
| PRIMARY GOVERNMENT | | | |
| GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTALS | COMPONENT UNITS |
| $ (692,332) | $ - | $ **(692,332)** | $ - |
| (13,088,079) | - | **(13,088,079)** | - |
| (1,150,274) | - | **(1,150,274)** | - |
| (1,971,487) | - | **(1,971,487)** | - |
| (297,224) | - | **(297,224)** | - |
| (157,227) | - | **(157,227)** | - |
| (3,235,615) | - | **(3,235,615)** | - |
| (1,918,764) | - | **(1,918,764)** | - |
| (702,700) | - | **(702,700)** | - |
| (1,305,146) | - | **(1,305,146)** | - |
| (246,992) | - | **(246,992)** | - |
| (24,765,839) | - | **(24,765,839)** | - |
| - | 131,064 | **131,064** | - |
| - | 629,997 | **629,997** | - |
| - | 537 | **537** | - |
| - | (473,756) | **(473,756)** | - |
| - | 287,843 | **287,843** | - |
| (24,765,839) | 287,843 | **(24,477,996)** | - |
| - | - | - | (30,284) |
| - | - | - | 36,433 |
| - | - | - | 111,045 |
| - | - | - | (100,411) |
| - | - | - | (75,982) |
| - | - | - | (105,539) |
| - | - | - | (311,060) |
| - | - | - | (475,798) |
| 2,565,865 | - | **2,565,865** | - |
| 4,693,512 | - | **4,693,512** | - |
| 1,773,325 | - | **1,773,325** | - |
| 1,640,244 | 11,989 | **1,652,233** | - |
| 5,143,414 | - | **5,143,414** | - |
| 1,896,860 | - | **1,896,860** | - |
| 2,142,706 | - | **2,142,706** | - |
| 775,297 | - | **775,297** | - |
| 64,960 | - | **64,960** | - |
| 1,070,488 | - | **1,070,488** | - |
| 933,822 | - | **933,822** | - |
| 7,721 | - | **7,721** | - |
| 9,728 | 1,225 | **10,953** | 62,131 |
| 677,848 | - | **677,848** | 57,962 |
| 30,759 | - | **30,759** | - |
| - | - | - | 667,806 |
| 901,580 | (901,580) | - | - |
| 24,328,129 | (888,366) | **23,439,763** | 787,898 |
| (437,710) | (600,524) | **(1,038,233)** | 312,100 |
| 16,433,263 | 1,771,539 | **18,204,803** | 4,958,572 |
| $ 15,995,554 | $ 1,171,016 | $ **17,166,569** | $ 5,270,672 |

# 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. Public Act 158 of 2003, effective October 1, 2003, created the school aid stabilization fund as a separate account within the School Aid Fund. Pursuant to this act, any remaining unreserved fund balance in the School Aid Fund at year-end is transferred to this account.

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 96.

**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
SEPTEMBER 30, 2004
(In Thousands)

| | GENERAL FUND | COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND | SCHOOL AID FUND | NON-MAJOR FUNDS | TOTALS |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash | $ 7,541 | $ - | $ - | $ 5,691 | **$ 13,232** |
| Equity in common cash (Note 5) | - | - | - | 1,279,959 | **1,279,959** |
| Taxes, interest, and penalties receivable (Note 6) | 2,498,042 | - | 1,820,188 | 126,383 | **4,444,613** |
| Amounts due from other funds (Note 17) | 1,551,776 | 81,258 | 9,883 | 961,147 | **2,604,063** |
| Amounts due from component units | 819 | - | - | 2,991 | **3,811** |
| Amounts due from federal agencies | 671,540 | - | 59,335 | 167,299 | **898,175** |
| Amounts due from local units | 61,530 | - | 80,564 | 62,315 | **204,408** |
| Inventories | 21,276 | - | - | 6,067 | **27,344** |
| Investments (Note 8) | - | - | - | 439,512 | **439,512** |
| Securities lending collateral | - | - | - | 21,775 | **21,775** |
| Other current assets | 298,132 | - | 466 | 238,123 | **536,722** |
| Total Current Assets | 5,110,656 | 81,258 | 1,970,435 | 3,311,264 | **10,473,613** |
| Taxes, interest, and penalties receivable (Note 6) | 226,440 | - | 44,143 | 1,411 | **271,994** |
| Advances to other funds (Note 17) | 6,768 | - | - | 21,689 | **28,457** |
| Amounts due from federal agencies | 2,201 | - | - | - | **2,201** |
| Amounts due from local units | 619,604 | - | 1,125 | 46,270 | **666,998** |
| Investments (Note 8) | - | - | - | 380,908 | **380,908** |
| Other noncurrent assets | 2,337 | - | - | 6,985 | **9,323** |
| Total Assets | $ 5,968,006 | $ 81,258 | $ 2,015,703 | $ 3,768,527 | **$ 11,833,494** |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Current Liabilities: | | | | | |
| Warrants outstanding | $ 113,279 | $ - | $ 1,228 | $ 61,159 | **$ 175,666** |
| Obligations under security lending | - | - | - | 21,775 | **21,775** |
| Accounts payable and other liabilities (Note 22) | 1,388,343 | - | 147,952 | 715,012 | **2,251,307** |
| Income tax refunds payable (Note 15) | 717,518 | - | - | - | **717,518** |
| Amounts due to other funds (Note 17) | 926,041 | - | 1,466,496 | 214,735 | **2,607,272** |
| Amounts due to component units | 1,893 | - | - | 120 | **2,013** |
| Bonds and notes payable | - | - | - | 449,170 | **449,170** |
| Interest payable | - | - | - | 367 | **367** |
| Deferred revenue | 1,331,132 | - | 281,814 | 259,509 | **1,872,455** |
| Total Current Liabilities | 4,478,206 | - | 1,897,490 | 1,721,847 | **8,097,543** |
| Long-Term Liabilities: | | | | | |
| Advances from other funds (Note 17) | - | - | - | 21,689 | **21,689** |
| Deferred revenue | 319,981 | - | 44,143 | 19,294 | **383,418** |
| Total Liabilities | 4,798,187 | - | 1,941,634 | 1,762,830 | **8,502,650** |
| Fund Balances: | | | | | |
| Reserved fund balance (Note 21) | 1,169,819 | - | 74,070 | 1,591,479 | **2,835,368** |
| Unreserved fund balance reported in: | | | | | |
| Special revenue funds | - | 81,258 | - | 456,659 | **537,917** |
| Debt service funds | - | - | - | 365,841 | **365,841** |
| Capital projects funds | - | - | - | (451,060) | **(451,060)** |
| Permanent funds | - | - | - | 42,778 | **42,778** |
| Total Fund Balances | 1,169,819 | 81,258 | 74,070 | 2,005,697 | **3,330,844** |
| Total Liabilities and Fund Balances | $ 5,968,006 | $ 81,258 | $ 2,015,703 | $ 3,768,527 | **$ 11,833,494** |

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

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**
**TO THE STATEMENT OF NET ASSETS**
SEPTEMBER 30, 2004
(In Thousands)

| | | |
|---|---|---|
| Total fund balances for governmental funds | | $ 3,330,844 |
| 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 | 3,153,972 | |
| Buildings, equipment, and other depreciable assets | 4,151,380 | |
| Infrastructure | 11,699,350 | |
| Construction in progress | 1,315,044 | |
| Interest in joint ventures | 31,473 | |
| Accumulated depreciation | (1,727,154) | 18,624,065 |
| Certain tax revenues are earned but not available and therefore are not reported in the funds. | | 1,831,784 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. | | 298,604 |
| 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. | | 121,620 |
| 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) | | 1,861 |
| 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. | | 28,301 |
| 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 | (403,433) | |
| Compensated absences | (468,034) | |
| Workers' compensation | (106,492) | |
| Litigation | (588,388) | |
| Net pension obligations | (316,133) | |
| Other long-term liabilities | (4,699) | (1,887,180) |
| 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 | (6,115,206) | |
| Unamortized premiums | (225,279) | |
| Less deferred loss amount on refundings | 97,750 | |
| Accrued interest payable | (111,610) | (6,354,345) |
| Net assets of governmental activities | | $ 15,995,554 |

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

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
## GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

| | GENERAL | COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND | SCHOOL AID FUND | NON-MAJOR FUNDS | TOTALS |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes | $ 10,689,854 | $ - | $ 9,970,459 | $ 2,139,616 | **$ 22,799,928** |
| From federal agencies | 9,258,903 | - | 1,256,727 | 1,064,589 | **11,580,220** |
| From local agencies | 109,553 | - | - | 130,262 | **239,815** |
| From services | 147,683 | - | - | 457 | **148,140** |
| From licenses and permits | 378,983 | - | - | 176,875 | **555,858** |
| Special Medicaid reimbursements | 704,551 | - | - | - | **704,551** |
| Miscellaneous | 545,483 | - | 11,122 | 648,762 | **1,205,367** |
| Total Revenues | 21,835,010 | - | 11,238,308 | 4,160,560 | **37,233,878** |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | 1,012,314 | - | - | 105,345 | **1,117,659** |
| Education | 1,905,826 | - | 12,298,895 | 240,463 | **14,445,184** |
| Family independence services | 3,932,471 | - | - | 2,699 | **3,935,170** |
| Public safety and corrections | 2,118,888 | - | - | 2,695 | **2,121,584** |
| Conservation, environment, recreation, and agriculture | 329,962 | - | - | 256,134 | **586,096** |
| Labor, commerce, and regulatory | 713,456 | - | - | 189,448 | **902,903** |
| Health services | 9,577,909 | - | - | 98,360 | **9,676,268** |
| Transportation | - | - | - | 2,212,371 | **2,212,371** |
| Tax expenditures (Note 15) | 702,700 | - | - | - | **702,700** |
| Capital outlay | 42,053 | - | - | 1,058,052 | **1,100,106** |
| Intergovernmental-revenue sharing | 1,305,146 | - | - | - | **1,305,146** |
| Debt service: | | | | | |
| Bond principal retirement | - | - | - | 729,557 | **729,557** |
| Bond interest and fiscal charges | - | - | - | 241,194 | **241,194** |
| Capital lease payments | 50,123 | - | - | 717 | **50,840** |
| Total Expenditures | 21,690,848 | - | 12,298,895 | 5,137,036 | **39,126,778** |
| Excess of Revenues over (under) Expenditures | 144,162 | - | (1,060,587) | (976,475) | **(1,892,901)** |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Bonds and notes issued | - | - | - | 520,676 | **520,676** |
| Premium on bond issuance | - | - | - | 55,940 | **55,940** |
| Refunding bonds issued | - | - | - | 660,249 | **660,249** |
| Payment to refunded bond escrow agent | - | - | - | (247,256) | **(247,256)** |
| Capital lease acquisitions | 19,661 | - | - | - | **19,661** |
| Proceeds from sale of capital assets | 4,609 | - | - | 12,627 | **17,236** |
| Transfers from other funds (Note 19) | 512,905 | 81,258 | 1,022,683 | 1,678,094 | **3,294,939** |
| Transfers to other funds (Note 19) | (822,275) | - | (3,167) | (1,566,652) | **(2,392,095)** |
| Total Other Financing Sources (Uses) | (285,101) | 81,258 | 1,019,516 | 1,113,677 | **1,929,350** |
| Excess of Revenues and Other Sources over (under) Expenditures and Other Uses | (140,939) | 81,258 | (41,071) | 137,202 | **36,449** |
| Fund Balances - Beginning of fiscal year restated | 1,310,758 | - | 115,141 | 1,868,496 | **3,294,395** |
| Fund Balances - End of fiscal year | $ 1,169,819 | $ 81,258 | $ 74,070 | $ 2,005,697 | **$ 3,330,844** |

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
FISCAL YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

| | | |
|---|---|---|
| Net change in fund balance - total governmental funds | | $ 36,449 |
| 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 | 26,814 | |
| Buildings, equipment, and other depreciable assets | 108,064 | |
| Infrastructure additions | 135,660 | |
| Construction in progress | (72,949) | |
| Gain on sale of capital assets | 8,191 | |
| Accumulated depreciation | (133,407) | 72,372 |
| 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. | | 6,944 |
| Increase in equity interest in joint ventures (Note 7) | | 75 |
| 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. | | (79,876) |
| 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. | | (3,290) |
| 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 | (1,236,865) | |
| Repayment of bond principal | 729,557 | |
| Payment to refunded bond escrow agent | 247,256 | |
| Accrued interest and amortization | (4,199) | |
| Deferred issue costs | 7,330 | |
| Other | (9,971) | (266,893) |
| 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 | (161,708) | |
| Capital lease payments | 21,561 | |
| Compensated absences payments | (87,299) | |
| Litigation settlements and payments | 27,590 | |
| Workers' compensation | (1,012) | |
| Other | (2,623) | (203,492) |
| Change in net assets of governmental activities | | $ (437,710) |

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 Labor and Economic Growth: 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

Individual fund statements for the Enterprise Funds, whose combined totals are presented on this statement, begin on page 160.

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page 164.

**STATEMENT OF NET ASSETS**
**PROPRIETARY FUNDS**
SEPTEMBER 30, 2004
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS | | | | |
|---|---|---|---|---|---|
| | MAJOR | | | | |
| | STATE LOTTERY FUND | MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS | NON-MAJOR | **TOTALS** | GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS |
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash | $ 2 | $ 4,049 | $ 1,194 | **$ 5,245** | $ 91 |
| Equity in common cash (Note 5) | 6,736 | 4,557 | 60,064 | **71,357** | 274,437 |
| Amounts due from other funds (Note 17) | - | 4,959 | - | **4,959** | 31,180 |
| Amounts due from component units | - | 730 | - | **730** | 152 |
| Amounts due from federal agencies | - | 1,682 | - | **1,682** | - |
| Amounts due from local units | - | 39,288 | - | **39,288** | - |
| Inventories | 3,750 | - | 3,501 | **7,251** | 14,904 |
| Investments (Note 8) | 103,862 | 924,572 | 1,163 | **1,029,597** | - |
| Securities lending collateral | 301,950 | - | - | **301,950** | - |
| Other current assets | 55,346 | 187,173 | 7,427 | **249,946** | 20,293 |
| Total Current Assets | 471,645 | 1,167,010 | 73,349 | **1,712,005** | 341,057 |
| Investments (Note 8) | 496,824 | - | - | **496,824** | - |
| Capital Assets (Note 9): | | | | | |
| Buildings and equipment | 4,112 | - | 722 | **4,834** | 442,392 |
| Allowance for depreciation | (3,599) | - | (669) | **(4,268)** | (340,138) |
| Total capital assets | 513 | - | 53 | **566** | 102,254 |
| Other noncurrent assets | - | 13,300 | - | **13,300** | - |
| Total Assets | $ 968,982 | $ 1,180,310 | $ 73,403 | **$ 2,222,695** | $ 443,311 |
| **LIABILITIES** | | | | | |
| Current Liabilities: | | | | | |
| Warrants outstanding | $ 1,757 | $ - | $ 6,677 | **$ 8,434** | $ 3,589 |
| Accounts payable and other liabilities (Note 22) | 145,984 | 26,893 | 58,694 | **231,571** | 69,809 |
| Amounts due to other funds (Note 17) | 9,978 | 22,915 | 77 | **32,970** | 13,419 |
| Deferred revenue | - | 118 | 695 | **813** | 6,737 |
| Obligations under security lending (Note 8) | 301,950 | - | - | **301,950** | - |
| Current portion of other long-term obligations (Note 14) | 172 | - | 196 | **368** | 96,461 |
| Total Current Liabilities | 459,841 | 49,926 | 66,339 | **576,105** | 190,016 |
| Long-Term Liabilities: | | | | | |
| Advances from other funds (Note 17) | - | - | - | **-** | 6,768 |
| Prize awards payable | 430,228 | - | - | **430,228** | - |
| Noncurrent portion of other long-term obligations (Note 14) | 1,816 | 42,942 | 588 | **45,346** | 124,907 |
| Total Liabilities | 891,885 | 92,868 | 66,927 | **1,051,679** | 321,691 |
| **NET ASSETS** | | | | | |
| Invested in capital assets, net of related debt | $ 513 | $ - | $ 53 | **$ 566** | $ 82,667 |
| Restricted For: | | | | | |
| Unemployment compensation | - | 1,087,442 | - | **1,087,442** | - |
| Other purposes | 77,098 | - | - | **77,098** | 3,361 |
| Unrestricted | (513) | - | 6,423 | **5,910** | 35,591 |
| Total Net Assets | $ 77,098 | $ 1,087,442 | $ 6,476 | **$ 1,171,016** | $ 121,620 |

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**
**PROPRIETARY FUNDS**
FISCAL YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS | | | | |
|---|---|---|---|---|---|
| | MAJOR | | | | |
| | STATE LOTTERY FUND | MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS | NON-MAJOR | **TOTALS** | GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS |
| **OPERATING REVENUES** | | | | | |
| Operating revenues | $ 2,002,688 | $ 1,817,576 | $ 680,340 | **$ 4,500,604** | $ 1,569,067 |
| Total Operating Revenues | 2,002,688 | 1,817,576 | 680,340 | **4,500,604** | 1,569,067 |
| **OPERATING EXPENSES** | | | | | |
| Salaries, wages, and other administrative | 240,615 | - | 54,181 | **294,796** | 521,761 |
| Interest expense | 1 | - | - | **1** | 18 |
| Depreciation | 149 | - | 24 | **173** | 48,966 |
| Purchases for resale | - | - | 493,271 | **493,271** | 43,058 |
| Purchases for prison industries | - | - | - | **-** | 14,204 |
| Lottery prize awards | 1,107,050 | - | - | **1,107,050** | - |
| Premiums and claims | - | - | 1 | **1** | 894,837 |
| Unemployment benefits | - | 1,980,227 | - | **1,980,227** | - |
| Other operating expenses | - | 369,173 | 1,262 | **370,435** | 51,099 |
| Total Operating Expenses | 1,347,815 | 2,349,400 | 548,739 | **4,245,953** | 1,573,943 |
| Operating Income (Loss) | 654,874 | (531,824) | 131,601 | **254,651** | (4,876) |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | |
| Specific tax on spirits | - | - | 11,989 | **11,989** | - |
| Interest revenue | 960 | - | 1,177 | **2,137** | 3,025 |
| Investment revenue (expense) - net | 17,734 | 58,068 | 48 | **75,850** | - |
| Other nonoperating revenues | - | - | - | **-** | 630 |
| Amortization of prize award obligation discount | (39,223) | - | - | **(39,223)** | - |
| Interest expense | (4,347) | - | - | **(4,347)** | (1,214) |
| Other nonoperating expense | - | - | - | **-** | (791) |
| Total Nonoperating Revenues (Expenses) | (24,876) | 58,068 | 13,214 | **46,406** | 1,651 |
| Income (Loss) Before Capital Contributions and Transfers | 629,997 | (473,756) | 144,815 | **301,057** | (3,226) |
| **CAPITAL CONTRIBUTIONS AND TRANSFERS** | | | | | |
| Capital contributions from other funds | - | - | - | **-** | 1,125 |
| Transfers To: | | | | | |
| School Aid Fund | (644,883) | - | - | **(644,883)** | - |
| Other funds | (13,193) | (99,325) | (144,180) | **(256,698)** | (1,190) |
| Total transfers to other funds | (658,076) | (99,325) | (144,180) | **(901,580)** | (1,190) |
| Total Capital Contributions and Transfers In (Out) | (658,076) | (99,325) | (144,180) | **(901,580)** | (64) |
| Change in net assets | (28,079) | (573,080) | 636 | **(600,524)** | (3,290) |
| Total net assets - Beginning of fiscal year | 105,176 | 1,660,522 | 5,841 | **1,771,539** | 124,910 |
| Total net assets - End of fiscal year | $ 77,098 | $ 1,087,442 | $ 6,476 | **$ 1,171,016** | $ 121,620 |

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

**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
FISCAL YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

| | BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS | | | | |
|---|---|---|---|---|---|
| | MAJOR | | | | |
| | STATE LOTTERY FUND | MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS | NON-MAJOR | **TOTALS** | GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipts from federal and local agencies | $ - | $ 381,108 | $ - | **$ 381,108** | $ - |
| Receipts from customers | 2,008,218 | 1,395,780 | 675,747 | **4,079,745** | 1,552,322 |
| Membership dues | - | - | 4,791 | **4,791** | - |
| Payments to employees | (10,978) | - | (13,347) | **(24,324)** | (158,873) |
| Payments to suppliers | (46,409) | - | (524,124) | **(570,533)** | (678,130) |
| Payments to prize winners | (1,205,945) | - | - | **(1,205,945)** | - |
| Payments for commissions to retailers | (182,305) | - | - | **(182,305)** | - |
| Claims paid | - | (2,360,586) | - | **(2,360,586)** | (681,027) |
| Other receipts | - | 2,100 | 167 | **2,267** | 311 |
| Other payments | - | - | (5,127) | **(5,127)** | (8,784) |
| Net cash provided (used) by operating activities | $ 562,581 | $ (581,598) | $ 138,107 | **$ 119,089** | $ 25,819 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | |
| Loans or loan repayments from other funds | $ - | $ - | $ - | **$ -** | $ 31,987 |
| Loans or loan repayments to other funds | - | - | - | **-** | (31,695) |
| Specific tax on spirits | - | - | 11,989 | **11,989** | - |
| Transfers to other funds | (673,241) | (105,977) | (144,180) | **(923,398)** | (1,190) |
| Other receipts | - | - | - | **-** | 9 |
| Net cash provided (used) by noncapital financing activities | $ (673,241) | $ (105,977) | $ (132,191) | **$ (911,409)** | $ (888) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | |
| Acquisition and construction of capital assets | $ (82) | $ - | $ - | **$ (82)** | $ (19,514) |
| Interest paid | - | - | - | **-** | (292) |
| Capital lease payments (including imputed interest expense) | - | - | - | **-** | (17,037) |
| Proceeds from sale of capital assets | - | - | - | **-** | 180 |
| Net cash provided (used) by capital and related financing activities | $ (82) | $ - | $ - | **$ (82)** | $ (36,664) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Proceeds from sale and maturities of investment securities | $ 108,890 | $ 620,901 | $ (26) | **$ 729,765** | $ - |
| Interest and dividends on investments | 960 | 58,068 | 1,177 | **60,205** | 3,025 |
| Income from securities lending activities | 4,723 | - | - | **4,723** | - |
| Expenses from securities lending activities | (4,347) | - | - | **(4,347)** | - |
| Net cash provided (used) by investing activities | $ 110,226 | $ 678,969 | $ 1,151 | **$ 790,346** | $ 3,025 |
| Net cash provided (used) - all activities | $ (516) | $ (8,606) | $ 7,067 | **$ (2,056)** | $ (8,708) |
| Cash and cash equivalents at beginning of year | 5,498 | 17,212 | 47,514 | **70,223** | 279,647 |
| **Cash and cash equivalents at end of year** | $ 4,981 | $ 8,606 | $ 54,580 | **$ 68,168** | $ 270,939 |

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

| | BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS | | | | |
|---|---|---|---|---|---|
| | MAJOR | | | | |
| | STATE LOTTERY FUND | MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS | NON-MAJOR | TOTALS | GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS |
| **RECONCILIATION OF CASH AND CASH EQUIVALENTS** | | | | | |
| Per Statement of Net Assets Classifications: | | | | | |
| Cash | $ 2 | $ 4,049 | $ 1,194 | **$ 5,244** | $ 91 |
| Equity in common cash | 6,736 | 4,557 | 60,064 | **71,357** | 274,437 |
| Warrants outstanding | (1,757) | - | (6,677) | **(8,434)** | (3,589) |
| Cash and cash equivalents at end of year | $ 4,981 | $ 8,606 | $ 54,580 | **$ 68,168** | $ 270,939 |
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | | | | | |
| Operating income (loss) | $ 654,874 | $ (531,824) | $ 131,601 | **$ 254,651** | $ (4,876) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | | | | |
| Depreciation expense | 149 | - | 24 | **173** | 48,966 |
| Amortization of prize award obligation discount | (39,223) | - | - | **(39,223)** | - |
| Other reconciling items | 131 | - | - | **131** | - |
| Net Changes in Assets and Liabilities: | | | | | |
| Inventories | (1,619) | - | 161 | **(1,458)** | 2,346 |
| Other assets (net) | 12,940 | (38,849) | (3,506) | **(29,415)** | (12,603) |
| Accounts payable and other liabilities | 2,378 | (10,911) | 9,462 | **929** | (8,014) |
| Prize awards payable | (67,050) | - | - | **(67,050)** | - |
| Deferred revenue | - | (14) | 365 | **351** | - |
| Net cash provided (used) by operating activities | $ 562,581 | $ (581,598) | $ 138,107 | **$ 119,089** | $ 25,819 |
| **SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES** | | | | | |
| Capital contributions | $ - | $ - | $ - | **$ -** | $ 1,125 |
| Cost of capital assets acquisitions financed by capital leases | - | - | - | **-** | 10,576 |
| Capital lease liabilities entered into during the year | - | - | - | **-** | (10,576) |
| Increase (decrease) in fair value of investments | (28,079) | - | - | **(28,079)** | - |
| Transfers to other funds (accrual) | (9,883) | (19,750) | - | **(29,633)** | - |
| Gain (loss) on disposal of capital assets | - | - | - | **-** | (339) |
| Total noncash investing, capital, and financing activities | $ (37,962) | $ (19,750) | $ - | **$ (57,712)** | $ 786 |

# FIDUCIARY FUND FINANCIAL STATEMENTS

Individual fund financial statements begin on the following pages:

**STATEMENT OF FIDUCIARY NET ASSETS**
**FIDUCIARY FUNDS**
SEPTEMBER 30, 2004
(In Thousands)

| | PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS | PRIVATE PURPOSE TRUST FUNDS | AGENCY FUNDS |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | $ 592 | $ 960 | $ 79,707 |
| Equity in common cash (Note 5) | 208,426 | 69,386 | 4,095 |
| Receivables: | | | |
| From participants | 136,342 | - | - |
| From employers | 546,220 | - | - |
| Interest and dividends | 179 | 143 | - |
| Due from other funds (Note 17) | 14,902 | - | - |
| Sale of investments | 184 | 1,160 | - |
| Investments at Fair Value (Note 8): | | | |
| Short term investments | 1,549,154 | - | 15,070 |
| Bonds, notes, mortgages, and preferred stock | 8,177,244 | 11,734 | 44,606 |
| Common stock | 22,947,573 | 86 | - |
| Real estate | 3,259,600 | - | - |
| Alternative investments | 6,169,744 | - | - |
| International investments | 4,969,425 | - | - |
| Mutual funds | 1,677,805 | 623,053 | - |
| Pooled investment funds | 1,756,243 | - | - |
| Money market funds | 63,081 | - | - |
| Guaranteed funding agreements | - | 120,804 | - |
| Securities lending collateral (Note 8) | 2,808,598 | 1 | - |
| Other current assets | - | 6,973 | 6,029 |
| Other noncurrent assets | - | - | 372,614 |
| Total assets | $ 54,285,311 | $ 834,300 | $ 522,122 |
| **LIABILITIES** | | | |
| Warrants outstanding | $ 10,098 | $ 1,891 | $ 154 |
| Accounts payable and other liabilities | 70,735 | 7,240 | 100,448 |
| Amounts due to other funds (Note 17) | 26 | - | 1,298 |
| Obligations under security lending | 2,808,598 | 1 | - |
| Other long-term liabilities | - | - | 420,222 |
| Total liabilities | $ 2,889,457 | $ 9,133 | $ 522,122 |
| **NET ASSETS** | | | |
| Net assets held in trust for pension, postemployment health-care, other employee benefits, and other purposes | $ 51,395,854 | $ 825,168 | |
| Reconciliation of Net Assets Held in Trust: | | | |
| Pension benefits (Note 10) | $ 47,687,660 | $ - | |
| Postemployment health-care benefits | 527,391 | - | |
| Other employee benefits (Note 16) | 3,180,803 | - | |
| Other purposes | - | 825,168 | |
| Total net assets held in trust for benefits and other purposes | $ 51,395,854 | $ 825,168 | |

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

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**
**FIDUCIARY FUNDS**
FISCAL YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

| | PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS | PRIVATE PURPOSE TRUST FUNDS |
|---|---|---|
| **ADDITIONS** | | |
| Contributions: | | |
| From participants | $ 732,441 | $ 260,920 |
| From employers | 1,887,056 | - |
| From clients | - | 37,860 |
| From gifts, bequests, and endowments | - | 983 |
| From other plans | 5,055 | - |
| Investment Income: | | |
| Net appreciation (depreciation) in fair value of investments | 4,701,940 | 31,039 |
| Interest, dividends, and other | 1,093,914 | 25,145 |
| Securities lending income | 30,206 | 18 |
| Less Investment Expense: | | |
| Investment activity expense | 79,120 | 2,714 |
| Securities lending expense | 26,887 | 17 |
| Net investment income (loss) | 5,720,053 | 53,472 |
| Escheated property | - | 22,622 |
| Miscellaneous income | 2,480 | 1,664 |
| Total Additions | 8,347,086 | 377,520 |
| **DEDUCTIONS** | | |
| Benefits paid to participants or beneficiaries | 3,431,197 | 22,277 |
| Medical, dental, and life insurance for retirants | 1,003,803 | - |
| Refunds and transfers to other systems | 31,818 | - |
| Amounts distributed to clients, claimants, or third parties | - | 73,668 |
| Administrative expense | 82,263 | 6,785 |
| Transfers to other funds | 74 | - |
| Total Deductions | 4,549,155 | 102,731 |
| Net increase (decrease) | 3,797,931 | 274,789 |
| Net assets - Beginning of fiscal year | 47,597,924 | 550,378 |
| Net assets - End of fiscal year (Note 10) | $ 51,395,854 | $ 825,168 |
| Reconciliation of Net Increase in Assets: | | |
| Net increase (decrease) in assets held in trust for pension benefits | $ 3,564,783 | $ - |
| Net increase (decrease) in assets held in trust for postemployment benefits | 31,416 | - |
| Net increase (decrease) in assets held in trust for other employee benefits | 201,732 | - |
| Net increase (decrease) in assets held in trust for other purposes | - | 274,789 |
| Total net increase (decrease) | $ 3,797,931 | $ 274,789 |

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 186.

The non-major component unit - State universities are presented beginning on page 192.

**STATEMENT OF NET ASSETS**
**COMPONENT UNITS**
SEPTEMBER 30, 2004
(In Thousands)

| | | AUTHORITIES | | |
|---|---|---|---|---|
| | MICHIGAN EDUCATION TRUST | MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY | MICHIGAN MUNICIPAL BOND AUTHORITY | NON-MAJOR |
| **ASSETS** | | | | |
| Current Assets: | | | | |
| Cash | $ 189,538 | $ 162,199 | $ 75 | $ 78,631 |
| Equity in common cash (Note 5) | - | - | 229 | 74,899 |
| Amounts due from component units | - | - | - | - |
| Amounts due from primary government | 1,355 | - | 570 | 1,263 |
| Amounts due from federal government | - | - | - | 14,036 |
| Amounts due from local units | - | - | 907,126 | - |
| Inventories | - | - | - | 727 |
| Investments (Note 8) | - | 101,600 | 560,919 | 323,278 |
| Other current assets | 18,176 | 40,639 | 40,436 | 195,347 |
| Total Current Assets | 209,069 | 304,438 | 1,509,353 | 688,181 |
| Restricted Assets: | | | | |
| Cash and cash equivalents | - | - | - | 6,407 |
| Investments | - | - | - | 10,539 |
| Mortgages and loans receivable | - | - | - | - |
| Amounts due from local units | - | - | 2,324,057 | - |
| Mortgages and loans receivable | - | 1,766,448 | - | 1,224,512 |
| Investments (Note 8) | 721,677 | 576,497 | 1,032,666 | 394,772 |
| Capital Assets: | | | | |
| Land and other non-depreciable assets | - | - | - | 843 |
| Buildings, equipment, and other depreciable assets | - | 15,098 | - | 46,592 |
| Less accumulated depreciation | - | (2,056) | - | (18,702) |
| Infrastructure | - | - | - | 102,621 |
| Construction in progress | - | - | - | - |
| Total capital assets | - | 13,042 | - | 131,355 |
| Other noncurrent assets | 41,836 | 47,430 | 151,300 | 16,882 |
| Total Assets | $ 972,583 | $ 2,707,854 | $ 5,017,377 | $ 2,472,648 |
| **LIABILITIES** | | | | |
| Current Liabilities: | | | | |
| Warrants outstanding | $ - | $ - | $ - | $ 1,116 |
| Accounts payable and other liabilities | 5 | 33,182 | 6,132 | 28,004 |
| Amounts due to primary government | - | - | 525 | 1,945 |
| Bonds and notes payable (Note 13) | - | 148,780 | 862,056 | 40,626 |
| Interest payable | - | 8,588 | 74,935 | 8,246 |
| Deferred revenue | - | - | 10,942 | 2,838 |
| Current portion of other long-term obligations | 86,004 | - | - | 4,235 |
| Total Current Liabilities | 86,008 | 190,551 | 954,589 | 87,009 |
| Deferred revenue | - | - | - | - |
| Bonds and notes payable (Note 13) | - | 1,533,730 | 2,564,958 | 1,854,898 |
| Noncurrent portion of other long-term obligations | 881,662 | 430,839 | 65,088 | 66,140 |
| Total Liabilities | $ 967,670 | $ 2,155,120 | $ 3,584,635 | $ 2,008,047 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | $ - | $ - | $ - | $ 126,200 |
| Restricted For: | | | | |
| Education | - | - | - | - |
| Construction and debt service | - | 261,272 | - | 10,371 |
| Other purposes | 4,913 | - | 1,422,475 | 29,677 |
| Funds Held as Permanent Investments: | | | | |
| Expendable | - | - | - | - |
| Nonexpendable | - | - | - | - |
| Unrestricted | - | 291,462 | 10,267 | 298,353 |
| Total Net Assets | $ 4,913 | $ 552,734 | $ 1,432,742 | $ 464,601 |

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

STATE UNIVERSITIES

| CENTRAL MICHIGAN UNIVERSITY | WESTERN MICHIGAN UNIVERSITY | NON-MAJOR | **TOTALS** |
|---|---|---|---|
| $ 31,594 | $ 16,571 | $ 191,428 | **$ 670,035** |
| - | - | - | **75,128** |
| - | - | 239 | **239** |
| 43,264 | 21,643 | 110,618 | **178,713** |
| 717 | 2,857 | 11,310 | **28,919** |
| - | 16 | 228 | **907,370** |
| 3,321 | 4,495 | 7,117 | **15,660** |
| - | 11,234 | 30,248 | **1,027,279** |
| 16,081 | 15,820 | 65,908 | **392,407** |
| 94,977 | 72,636 | 417,096 | **3,295,749** |
| | | | |
| 2,612 | - | 8,262 | **17,281** |
| 52,977 | 138,041 | 178,797 | **380,354** |
| 7,252 | - | 38,112 | **45,365** |
| - | - | - | **2,324,057** |
| - | 8,706 | 23,388 | **3,023,054** |
| 70,996 | 67,092 | 243,703 | **3,107,403** |
| | | | |
| 9,922 | 14,912 | 70,080 | **95,757** |
| 504,253 | 845,587 | 2,659,859 | **4,071,388** |
| (209,060) | (286,161) | (989,116) | **(1,505,094)** |
| - | - | - | **102,621** |
| 11,878 | 41,081 | 121,600 | **174,559** |
| 316,993 | 615,419 | 1,862,423 | **2,939,231** |
| - | 16,621 | 27,167 | **301,236** |
| $ 545,807 | $ 918,514 | $ 2,798,948 | **$ 15,433,731** |
| | | | |
| $ - | $ - | $ - | **$ 1,116** |
| 42,886 | 34,067 | 123,456 | **267,732** |
| 646 | 105 | 1,920 | **5,141** |
| 6,610 | 6,520 | 18,718 | **1,083,309** |
| 981 | 11,724 | 4,316 | **108,789** |
| 9,368 | 9,887 | 38,178 | **71,212** |
| - | 524 | 10,352 | **101,114** |
| 60,491 | 62,827 | 196,939 | **1,638,413** |
| | | | |
| - | - | 3,284 | **3,284** |
| 125,030 | 257,425 | 665,236 | **7,001,277** |
| 15,014 | 23,166 | 38,176 | **1,520,085** |
| $ 200,535 | $ 343,418 | $ 903,635 | **$ 10,163,060** |
| | | | |
| $ 187,253 | $ 314,666 | $ 1,275,001 | **$ 1,903,120** |
| | | | |
| 42,928 | 10,184 | 145,453 | **198,565** |
| 5,977 | 8,478 | 12,963 | **299,060** |
| - | 43,547 | 18,699 | **1,519,310** |
| | | | |
| - | - | 26,942 | **26,942** |
| - | 47,960 | 145,763 | **193,723** |
| 109,114 | 150,262 | 270,493 | **1,129,952** |
| $ 345,273 | $ 575,097 | $ 1,895,313 | **$ 5,270,672** |

**STATEMENT OF ACTIVITIES**
**COMPONENT UNITS**
FISCAL YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES: CHARGES FOR SERVICES | PROGRAM REVENUES: OPERATING GRANTS/ CONTRIBUTIONS | PROGRAM REVENUES: CAPITAL GRANTS/ CONTRIBUTIONS | NET (EXPENSE) REVENUE |
|---|---|---|---|---|---|
| Authorities: | | | | | |
| Michigan Education Trust | $ 67,688 | $ 237 | $ 37,167 | $ - | $ (30,284) |
| Michigan State Housing Development Authority | 481,956 | 169,942 | 348,447 | - | 36,433 |
| Michigan Municipal Bond Authority | 143,218 | 103,059 | 151,203 | - | 111,045 |
| Non-Major | 433,252 | 115,133 | 217,708 | - | (100,411) |
| State Universities: | | | | | |
| Central Michigan University | 293,418 | 183,985 | 30,827 | 2,623 | (75,982) |
| Western Michigan University | 436,423 | 259,272 | 70,215 | 1,397 | (105,539) |
| Non-Major | 1,262,415 | 723,963 | 161,835 | 65,557 | (311,060) |
| Total | $ 3,118,369 | $ 1,555,592 | $ 1,017,402 | $ 69,577 | $ (475,798) |

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

| 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 |
| $ - | $ - | $ - | $ - | $ (30,284) | $ 35,196 | $ 4,913 |
| 15,567 | - | - | - | 52,000 | 500,734 | 552,734 |
| - | - | - | - | 111,045 | 1,321,697 | 1,432,742 |
| 7,486 | 47,987 | 5,850 | - | (39,089) | 503,690 | 464,601 |
| 12,719 | 90,013 | 215 | - | 26,965 | 318,308 | 345,273 |
| 6,224 | 135,590 | 35,361 | - | 71,636 | 503,460 | 575,097 |
| 20,135 | 394,216 | 16,536 | - | 119,827 | 1,775,487 | 1,895,313 |
| $ 62,131 | $ 667,806 | $ 57,962 | $ - | $ 312,100 | $ 4,958,572 | $ 5,270,672 |

# Index
## Notes to the Financial Statements

# NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## A. Reporting Entity

Michigan was admitted to the Union as the twenty-sixth state in 1837. The State of Michigan is governed under the Constitution of 1963, as amended. The legislative power is vested in a 38-member senate and a 110-member house of representatives; executive power is vested in a governor; and the judicial power is vested exclusively in one court of justice.

For financial reporting purposes, the State of Michigan's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, departments and agencies, bureaus, boards, commissions, and those authorities that are considered an integral part of the primary government. Component units are legally separate governmental organizations for which the State's elected officials are financially accountable. Component units can also be legally separate, tax-exempt entities that raise and hold economic resources for the direct benefit of a governmental unit.

Financial accountability is defined in GASB Statement No. 14, The Financial Reporting Entity. The State is financially accountable for those entities in which the State appoints a voting majority of an organization's governing authority, and either is able to impose its will upon the entity or there exists a financial benefit or burden relationship with the State. For those entities in which the State does not appoint a voting majority of the governing authority, GASB Statement No. 14 requires inclusion in the reporting entity if they are fiscally dependent on the State or if it would be misleading to exclude the authority.

GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 14, establishes criteria for legally separate, tax-exempt entities that should be reported as component units if all of the criteria are met. Although the State has not identified any organizations that would qualify as direct component units of the State by meeting all of the criteria of GASB Statement No. 39, most of the university component units described later in this note have significant foundations that meet the criteria of GASB Statement No. 39.

### Blended Component Units

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

### Discretely Presented Component Units

These types of component units are reported in separate columns or rows in the government-wide statements to emphasize that they are legally separate from the government.

The State is able to impose its will upon these discretely presented component units:

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

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

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

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

The Michigan Broadband Development Authority is a financing authority that assists in the build-out of broadband infrastructure to accelerate the deployment of high-speed Internet connections Statewide.

The Michigan Higher Education Assistance Authority is the State guaranty agency under the Stafford Loan Program, the Supplemental Loans to Students Program, and the Parent Loan for Undergraduate Students Program. This Authority also administers scholarships and grants that are financed with General Fund appropriations.

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

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

The Michigan Public Educational Facilities Authority partners with other states to facilitate the acquisition of capital for the construction, rehabilitation, refurbishing, or equipping of qualified public educational facilities.

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

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

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

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

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

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

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

Ten of the State's public universities are considered component units because they have boards appointed by the primary government. Their balances and operating results are included with the other discretely presented components units on the government-wide statements. The ten universities included in these statements are: Central Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, Saginaw Valley State University, and Western Michigan University. Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate. The State provides significant funding to support these institutions; however, under GASB Statement No. 14 criteria, they are considered fiscally independent, special-purpose governments.

Included in the balances and operating results for most of the university component units is financial activity for fund-raising foundations that contribute to these universities. Although the universities do not control the timing or amount of receipts from their foundations, the majority of resources, or income thereon, that the foundations hold and invest are restricted to the activities of the respective universities by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific universities, the foundations are considered component units of the universities and are included in the universities' financial statements.

### Significant Transactions

The State's significant transactions with its major discretely presented component units results primarily from providing appropriations to the public universities, including $90.0 million to Central Michigan University and $135.6 million to Western Michigan University.

### Availability of Financial Statements

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

### Related Organizations

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

### Joint Ventures

As discussed in more detail in Note 7, the State participates in two joint ventures. Its financial activities are not included in the State's fund financial statements, but the State's equity interest is recorded as an asset in the Statement of Net Assets.

### Jointly Governed Organizations

The State, the University of Michigan, Michigan State University, and Wayne State University appoint members of the board of the Michigan Public Health Institute (MPHI), a non-profit corporation. MPHI was established to plan, promote, and coordinate health services research with a public university or a consortium of public universities in the State. The State does not appoint a majority of the board, has no rights to the assets, and is not responsible for debts of MPHI. Therefore, the State's accountability for MPHI does not extend beyond making the appointments. During fiscal year 2003-2004, the State awarded contracts totaling $30.2 million to MPHI.

## B. Government-Wide and Fund Financial Statements

### Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

**Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

**Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

**Unrestricted net assets** consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

## C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

### Measurement Focus and Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become *susceptible to accrual*; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers tax revenues and court settlements to be available if they are collected within 60 days of the end of the fiscal period. Revenues that the State earns by incurring obligations are recognized in the period when all applicable eligibility requirements have been met and the resources are available.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due and payable.

### Financial Statement Presentation

The State reports the following major governmental funds:

The General Fund is the State's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The Counter-Cyclical Budget and Economic Stabilization Fund, commonly referred to as the "Rainy Day Fund," was created to assist in stabilizing revenue and employment during periods of economic recession and high unemployment.

The School Aid Fund's purpose is to aid in the support of the public schools and the intermediate school districts.

The State reports the following major enterprise funds:

The State Lottery Fund accounts for the operations of the State's lottery, bingo, and charitable game operations.

The Michigan Unemployment Compensation Funds receive contributions from employers and provide benefits to eligible unemployed workers.

Additionally, the State reports the following fund types:

### Governmental Fund Types:

**Special Revenue Funds** - include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. Examples include conservation, transportation, regulatory, and other activities.

**Debt Service Funds** - account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**Capital Projects Funds** - account for the acquisition or construction of major State capital facilities financed by bond proceeds and commercial paper notes.

**Permanent Funds** - report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry, such as veterans, child abuse and neglect prevention, state park preservation, and others.

### Proprietary Fund Types:

**Enterprise Funds** - report the activities for which fees are charged to external users for goods or services, such as the State's liquor sales. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees.

**Internal Service Funds** - provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include prisoner-built office furnishings; motor pool services; printing, reproduction and mailing services; information technology; risk management; and health-related fringe benefits. In the government-wide statements, internal service funds are included with governmental activities.

### Fiduciary Fund Types:

**Pension (and other employee benefit) Trust Funds** - report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit pension plans, defined contribution plans, and other postemployment benefit plans.

**Private Purpose Trust Funds** - report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include the State's Escheats Fund, gifts to the State, worker disability monies, and others.

**Agency Funds** - report assets and liabilities for deposits and investments entrusted to the State as an agent for others.

## D. Fiscal Year-Ends

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

## E. Assets, Liabilities, and Net Assets/Fund Balance

### Cash and Cash Equivalents

On the Statement of Cash Flows, the amount reported as "Cash and cash equivalents" is equal to the total of the amounts on the Statement of Net Assets "Cash" and "Equity in Common Cash," less the amount of "Warrants outstanding."

### Cash

Cash reported on the Statement of Net Assets and the Balance Sheet consists of petty cash, undeposited receipts, deposits in transit to the Common Cash pool, and cash equivalents such as short-term investments with original maturities of less than three months that are used for cash management, rather than investing activities.

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

### Taxes Receivable
Taxes receivable represent amounts due to the State at September 30, which will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered "available" (i.e., received by the State within approximately 60 days after year-end) is recorded as revenue; the remainder is recorded as deferred revenue. Application of the measurability and availability criteria regarding taxes is described in Note 6.

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

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

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

### Security Lending Collateral
Securities on loan for cash collateral are reported in the Statement of Net Assets. Liabilities resulting from the security lending transactions are also reported. Additional disclosures describing security-lending transactions are provided in Note 8.

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

### Mortgages and Loans Receivable
Mortgages and loans receivable are reported net of unamortized premiums, discounts, deferred loan origination fees, and allowances for possible losses.

### Capital Assets
Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, ramps, and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. Capital assets are reported at historical cost or, if donated, at the estimated fair market value at the date of acquisition. In some instances, capital asset historical costs were not available; therefore, the costs of these assets at the dates of acquisitions have been estimated.

Interest incurred during construction is only capitalized in proprietary funds. Most capital assets are depreciated over their useful lives, using the straight-line depreciation method. However, the State's significant infrastructure assets utilize an alternative accounting treatment in which costs to maintain and preserve these assets are expensed and no depreciation expense is recorded. This approach is discussed further in the Required Supplementary Information portion of this report.

Additional disclosures related to capital assets and assets acquired through capital leases are provided in Notes 9 and 11, respectively.

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

### Income Tax Refunds Payable
The amount of collected or accrued personal income tax revenues that will be refunded is estimated and accrued as a General Fund liability. Note 15 more fully describes this liability.

### Prize Awards Payable
The State Lottery Fund makes long-term prize awards for certain games, most notably the lotto games. At September 30, 2004 long-term prize awards of $617.3 million were reported at a present value of $430.2 million, using discount rates ranging from 5.0 to 8.5%.

Non-installment prize awards and the portion of long-term awards payable during the next fiscal year, totaling $135.7 million, are included with "Accounts payable and other liabilities" on the Statement of Net Assets.

### Deferred Revenue
In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable.

### Long-Term Liabilities
In the government-wide statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Long-term liabilities are more fully described in Notes 12, 13, and 14.

### Compensated Absences

In the government-wide statements and proprietary fund financial statements, compensated absences are reported as liabilities as required by GASB.

Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 256 to 316 hours. They receive a 100% termination payment upon separation based upon their final rate of pay. The liability for annual leave is valued at 100% of the balance plus the State's share of social security and retirement contributions.

Employee sick leave balances accumulate without limit. Termination payments are made only upon separation from State service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50% of the employee's sick leave accumulation, times their last rate of pay. When separating for any other reason, employees are paid a percentage of their unused sick leave that increases from 0 to 50%, depending upon the balance of their sick leave hours. Sick leave is valued at 0 to 50% plus the State's share of social security contributions, based on the pay rates in effect as of September 30, 2004.

The State instituted a banked leave time program in fiscal year 2004 whereby eligible employees work a regular schedule but receive pay for a reduced number of hours. The unpaid hours worked accrue to a banked leave time account. Upon an employee's separation, death, or retirement from State service, unused banked leave time hours shall be contributed by the State to the employee's account within the State's 401k plans, and if applicable to the State's 457 plans. The banked leave liability is valued at the pay rates in effect as of September 30, the fiscal year-end.

In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end.

### Net Assets/Fund Balance

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiducjary fund statements, and "Fund Balance" on governmental fund statements.

### Reservations

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either: 1) funds legally segregated for a specific use or 2) assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund. Note 21 provides a disaggregation of reserved fund balances.

## F. Revenues and Expenditures/Expenses

### Government-Wide Financial Statements

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g. general government, education, transportation, etc). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

### Interest on Long-Term Debt

Interest charges on the State's general long-term liabilities do not qualify as a direct expense of a function and are reported on this line, unless the borrowing is essential to the creation or continuing existence of a program. During fiscal year 2003-2004, interest charges on general long-term liabilities totaling $22.1 million were reported as functional expenses.

### Fund Financial Statements

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current," "Capital outlay," "Intergovernmental-revenue sharing," or "Debt service." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Tax expenditures, which represent income tax credit programs that are in substance grants, are also reported as current expenditures. These are described in more detail in Note 15.

Capital outlay includes expenditures for capital assets. Intergovernmental-revenue sharing accounts for the distribution of certain tax revenues that are shared with local units based upon constitutional and statutory requirements. Debt service includes both interest and principal outlays related to bonds and payments on capitalized leases.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g., salaries, depreciation, and purchases for resale). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

### Other Financing Sources

These additions to governmental fund balances in the fund financial statements include resources and financing provided by bond proceeds, capital leases, and transfers from other funds.

### Reimbursements

Reimbursements result when a fund originally making a disbursement receives resources from another fund to which the expenditure/expense is more properly attributable. For example, the State uses this method when the administrative costs of proprietary funds, discretely presented component units, or pension (and other employee benefit) trust funds are appropriated in the General Fund.

### Interfund Services Provided and Used

When a sale or purchase of program-related goods and/or services between funds occurs, for a price approximating their external exchange value, the seller reports revenue and the purchaser expenditure or expense, depending upon the fund type.

Transactions between the primary government and a discretely presented component unit are generally classified as revenues and expenses, unless they represent repayments of loans or similar activities.

#### Other Financing Uses

These reductions of governmental fund resources in fund financial statements normally result from transfers to other funds.

### G. Interfund Activity and Balances

#### Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities (examples include the transfers of profits from the Liquor Purchase Revolving Fund to General Fund and the Lottery Fund to the School Aid Fund) and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column (examples include activities between the Department of Treasury [general government line] and the Department of Education [education line]). Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources. An example is gas taxes collected by the Department of Transportation but expended by the Department of Natural Resources.

#### Interfund Balances

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

## NOTE 2 – FUNDS AND COMPONENT UNITS BY CLASSIFICATION

The following table lists all of the funds and component units whose balances are reflected in this financial report.

Operating funds which are subject to annual appropriation and for which budget and actual schedules are included in this report are identified by an "*". For each fund or component unit listed, the SOMCAFR page number of the first financial statement for that fund or component unit is shown in parenthesis.

### PRIMARY GOVERNMENT:

#### MAJOR FUNDS

**Governmental:**

General Fund* (p. 20)
Counter-Cyclical Budget and Economic Stabilization Fund* (p. 20)
School Aid Fund* (p. 20)

**Proprietary:**

State Lottery Fund (p. 26)
Michigan Unemployment Compensation Funds (p. 26)

#### NON-MAJOR FUNDS

**Governmental:**

**Special Revenue Funds:**

**Transportation Related:**

State Aeronautics Fund* (p. 104)
State Trunkline Fund* (p. 104)
Michigan Transportation Fund* (p. 104)
Comprehensive Transportation Fund* (p. 104)
Combined State Trunkline Bond Proceeds Fund (p. 105)
Combined Comprehensive Transportation Bond Proceeds Fund (p. 105)
Transportation Related Trust Funds (p. 105)

**Conservation, Environment, and Recreation Related:**

Game and Fish Protection Fund* (p. 114)
Michigan State Waterways Fund* (p. 114)
Marine Safety Fund* (p. 114)
Game and Fish Protection Trust Fund (p. 114)
State Park Improvement Fund* (p. 114)
Combined Recreation Bond Fund - Local Projects (p. 115)
Combined Environmental Protection Bond Fund (p. 115)
Michigan Nongame Fish and Wildlife Fund* (p. 115)
Forest Development Fund* (p. 115)
Michigan Underground Storage Tank Financial Assurance Fund (p. 115)
Bottle Deposits Fund (p. 115)

**Regulatory and Administrative Related:**

Michigan Employment Security Act – Administration Fund* (p. 124)
Safety Education and Training Fund* (p. 124)
State Construction Code Fund* (p. 124)
Homeowner Construction Lien Recovery Fund* (p. 124)
State Casino Gaming Fund* (p. 125)
Second Injury Fund (p. 125)
Silicosis, Dust Disease, and Logging Industry Compensation Fund (p. 125)
Self-Insurers' Security Fund (p. 125)
Utility Consumer Representation Fund (p. 125)

**Other State Funds:**

School Bond Loan Fund (p. 134)
Tobacco Settlement Trust Fund* (p. 134)
Michigan Merit Award Trust Fund* (p. 134)
Assigned Claims Facility and Plan Fund (p. 135)
Miscellaneous Special Revenue Funds (p. 135)

**Debt Service Funds:**
Combined State Trunkline Bond and Interest Redemption Fund (p. 142)
Combined Comprehensive Transportation Bond and Interest Redemption Fund (p. 142)
Recreation and Environmental Protection Bond Redemption Fund (p. 142)
School Loan Bond Redemption Fund (p. 143)
State Building Authority (p. 143)
Michigan Underground Storage Tank Financial Assurance Finance Authority (p. 143)

**Capital Projects Funds:**
Combined Recreation Bond Fund - State Projects (p. 148)
Advance Financing Funds (p. 148)
State Building Authority (p. 148)

**Permanent Funds:**
Michigan Natural Resources Trust Fund* (p. 152)
Michigan State Parks Endowment Fund* (p. 152)
Michigan Civilian Conservation Corps Endowment Fund* (p. 152)
Michigan Veterans' Trust Fund* (p. 153)
Children's Trust Fund* (p. 153)

## Proprietary:

**Enterprise Funds:**
Liquor Purchase Revolving Fund (p. 160)
Attorney Discipline System (p. 160)

**Internal Service Funds:**
Correctional Industries Revolving Fund (p. 164)
Motor Transport Fund (p. 164)
Office Services Revolving Fund (p. 164)
Information Technology Fund (p. 165)
Risk Management Fund (p. 165)
State Sponsored Group Insurance Fund (p. 165)

## Fiduciary:

**Pension (and other employee benefit) Trust Funds:**
State Employees' Deferred Compensation Funds (p. 172)
Legislative Retirement Fund (p. 172)
State Police Retirement Fund (p. 172)
State Employees' Retirement Fund (p. 173)
Public School Employees' Retirement Fund (p. 173)
Judges' Retirement Fund (p. 173)
State Employees' Defined Contribution Retirement Fund (p. 173)

**Private Purpose Trust Funds:**
Escheats Fund (p. 178)
Gifts, Bequests, and Deposits Investment Fund (p. 178)
Hospital Patients' Trust Fund (p. 178)
Michigan Education Savings Program (p. 178)

**Agency Funds:**
Environmental Quality Deposits Fund (p. 181)
Insurance Carrier Deposits Fund (p. 181)
State Treasurer's Escrow and Paying Agent Fund (p. 181)
Child Support Collection Fund (p. 181)

## DISCRETELY PRESENTED COMPONENT UNITS:

### Authorities:

**Major Funds:**
Michigan Education Trust (p. 36)
Michigan State Housing Development Authority (p. 36)
Michigan Municipal Bond Authority (p. 36)

**Non-Major Funds:**
Mackinac Bridge Authority (p. 186)
Mackinac Island State Park Commission (p. 186)
Michigan Broadband Development Authority (p. 186)
Michigan Economic Development Corporation (p. 186)
Michigan Higher Education Assistance Authority (p. 186)
Michigan Higher Education Facilities Authority (p. 187)
Michigan Higher Education Student Loan Authority (p. 187)
Michigan Public Educational Facilities Authority (p. 187)
Michigan State Hospital Finance Authority (p. 187)
Michigan Strategic Fund (p. 187)
State Bar of Michigan (p. 187)

### State Universities (1):

**Major Funds:**
Central Michigan University (p. 37)
Western Michigan University (p. 37)

**Non-Major Funds:**
Eastern Michigan University (p. 192)
Ferris State University (p. 192)
Grand Valley State University (p. 192)
Lake Superior State University (p. 192)
Michigan Technological University (p. 193)
Northern Michigan University (p. 193)
Oakland University (p. 193)
Saginaw Valley State University (p. 193)

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

# NOTE 3 – BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

## A. Major Constitutional and Statutory Provisions

### Balanced Budget Requirements

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

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

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

### Local Spending Requirements

Article 9, Section 30 of the State Constitution requires that State spending to, or on behalf of, local units of government shall not fall below a specified percentage of total State spending. The percentage, recalculated effective with fiscal year 1992-1993, is 48.97 %.

Final calculations establishing the State's compliance with this constitutional provision for fiscal year 2003-2004 are not yet complete. For fiscal year 2002-2003, 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 62.7%, reflecting payments that exceeded the minimum required by $3.5 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 2003-2004.

### Revenue Limits

Article 9, Section 26, of the State Constitution restricts State revenues to a ceiling that is based upon revenues as a proportion of total personal income for the State. The base year ratio, determined in fiscal year 1978-1979, in relation to calendar year 1977 personal income, is 9.49%. Both the constitutional language and implementing statutes provide for other adjustments to the revenue and personal income calculations. If revenues exceed the limit by 1% or more, the amount in excess must be refunded to personal income tax payers and payers of the State's single business tax. If the limit is exceeded by an amount less than 1%, the excess may be deposited into the State's Budget Stabilization Fund. The calculations determining the State's compliance with this constitutional provision for fiscal year 2003-2004 are not final. For fiscal year 2002-2003, the most recent year for which final calculations are available, total State revenues subject to this limitation were beneath the constitutional limit by $4.2 billion. The State expects that total State revenues subject to the limitation will not exceed the limit for fiscal year 2003-2004.

### Budget Stabilization Fund

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

The following table summarizes the transactions for the fund for fiscal year 2003-2004 (in millions):

| | |
|---|---|
| Beginning unreserved fund balance | $ - |
| Transfer from General Fund | 81.3 |
| Ending unreserved fund balance | $ 81.3 |

The transfer from the General Fund was pursuant to P.A. 309 of 2004, Section 204. This transfer was made as a result of the General Fund reporting an unreserved fund balance as of September 30, 2004.

### Budgetary Overexpenditures

In the event that expenditures exceed authorization during a year, the department must request a supplemental appropriation for the amount overspent, if that amount exceeds their lapses or if they expect to make payments from prior year authorization in the next fiscal year. There were the following line-item overexpenditures of State departments incurred during the year, which represent noncompliance with State budget laws (in millions):

| | |
|---|---|
| General Fund | |
| Community Health | $ 47.1 |
| Family Independence Agency | 1.1 |
| General Fund Total | $ 48.3 |

Subsequent to the release of this report, the State publishes "Statewide Authorization Dispositions" to demonstrate its compliance with the legal level of budgetary control. The report includes line-item appropriation details for the General Fund and budgeted operating funds, and is available by contacting the Office of Financial Management at (517) 373-3029.

# NOTE 4 – ACCOUNTING CHANGES AND RESTATEMENTS

The government-wide Statement of Activities includes an increase in beginning net assets for $202.9 million due to the State's implementation of Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues. In November 1998, 46 states, including Michigan, settled with the major tobacco companies in a settlement agreement that precludes the states from attempting future litigation in exchange for monetary awards that will continue in perpetuity. Prior to GASB Technical Bulletin No. 2004-1, the State was accounting for the tobacco settlement payments as revenue when received. With implementation of the bulletin, the State is now required to recognize revenue and a receivable for the portion of the next payment to be received but already earned as of September 30 based on the fiscal year's pro-rated share of cigarette sales. The restatement to beginning net assets represents the amount of revenue that would have been recognized in prior years using the new revenue recognition requirements of the technical bulletin.

The Attorney Discipline System, an enterprise fund, shows an increase of $1.0 million to beginning net assets. This fund is being presented in the State's financial statements for the first time this fiscal year. The increase in beginning net assets reflects the net assets of the fund that would have been disclosed in prior years had the Attorney Discipline System been reported in the State's financial statements in prior years.

The Michigan State Housing Development Authority, a discretely presented component unit, increased its beginning net assets by $13.5 million to reflect a change in accounting for grants from previously issued financial statements. Previously, this component unit recorded grant commitments based on the commitment date and not when the grants were earned by the grantee. Generally accepted accounting principles require commitments to be recognized as expenses when earned.

Seven of the ten state universities reported as discretely presented component units increased beginning net assets by a combined total of $311.1 million due to the implementation of GASB Statement No. 39. This new accounting standard requires each university to include in their financial statements the activities of foundations that raise significant economic resources for the direct benefit of the university. The increase in beginning net assets for the universities represents the net assets held by the foundations at the beginning of the fiscal year and not previously reported in the universities' financial statements.

During fiscal year 2004, the State implemented an accounting change for its estimate of State Education Tax (SET) receivable at September 30 to include SET collected by local governments but not yet remitted to the State. This change in estimate resulted in increased current year revenue of $78.4 million in the School Aid Fund, a special revenue fund.

# NOTE 5 – TREASURER'S COMMON CASH

## A. General Accounting Policies

The State Treasurer manages the State's Common Cash pool, which is used by most state funds. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund; rather, each contributing fund's balance is treated as equity in the pool, and presented in this report as "Equity in common cash." Many funds, including pension (and other employee benefit) trust funds, use their equity in the pool as a short-term investment vehicle.

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

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

Interest revenues on positive balances and interest charges on negative balances are reflected as revenues or expenditures/ expenses of each of the participating funds.

## B. Investments and Deposits

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

The Treasurer invests excess cash in short-term investments, mostly prime commercial paper. The law does not prohibit the Treasurer from entering into repurchase agreements; however, the Treasurer did not use these agreements in managing the pool in fiscal year 2003-2004.

Statutes provide for certain special State investment programs for which the General Fund is credited (charged) for earnings in excess (under) of those achieved by regular pool investments. There have been no principal losses because of these programs to date.

Emergency Financial Assistance Loan Program: This program provides for emergency loans to local units of government, and is the most significant of the special investment programs. The Emergency Financial Assistance Loan Board, established by P.A. 243 of 1980, administers the program. The Treasurer may not loan more than a combined total of $5.0 million in any one fiscal year to qualifying cities, villages, or townships in amounts as approved by the Board.

In fiscal year 1999-2000 the Emergency Financial Assistance Loan Board was authorized to approve the lending of up to $159.9 million to Wayne County to finance the payment of certain obligations to the State. The outstanding balance at September 30, 2004, was $47.8 million. Loan repayments by the County are supported by provisions of the loan agreement and legislation that pledge the County's share of a portion of the State collected taxes on cigarettes. There were no repayments on the loans in fiscal year 2003-2004.

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

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

The Act specifies that the maximum amount of a Michigan marina-dredging loan is $75 thousand per marina. The total amount of outstanding loans is statutorily limited to $20.0 million. The loans accrue interest at a rate of six percent, and the loans' terms may not exceed seven years. Other details about the loans are available in the investment agreement. The total amount on loan at September 30, 2004, was $201 thousand; repayments during the year were $68 thousand.

Michigan Sugar Beet Loan Program: Public Act 123 of 2001 provides for a program in which the State may make no-interest loans from the Common Cash pool to sugar beet growers' cooperatives for the purpose of buying the assets of agricultural processors who are in or have recently been in bankruptcy proceedings.

The Act specifies that the loans may not exceed $5.0 million in total, with loan periods not to exceed 5 years. As of September 30, 2004, the loans outstanding totaled $5.0 million, with maturity dates of February 1, 2007.

Public Act 342 of 2004 requires the State Treasurer, as part of the modification to the loan, to subordinate a loan of not more than $5.0 million to the primary loan of a sugar beet growers' cooperative (Michigan Sugar Beet Growers, Inc.) and relinquish any enforcement powers or authority that may exist under the current contract or agreement.

Agriculture Disaster Relief Program: Public Act 16 of 2002 created this program to provide loans to assist farmers and businesses suffering losses as a result of a disaster. Financial institutions (banks) making these loans can have the cost of the loan covered by (1) earnings on funds deposited by the State, or (2) subsidy of the cost.

The maximum loan is $150 thousand ($200 thousand under certain circumstances) to farmers and $400 thousand per legal entity to businesses. The total amount the State may deposit under this program is $30.0 million. Of that amount, no more than $10.0 million may be allocated to qualified agricultural loans made to businesses. Details on what constitutes a qualified loan can be found in the statute. Loans must be made before October 1, 2002, and must be repaid by October 1, 2007.

As of September 30, 2004, the State had deposited a total of $4.7 million with three different financial institutions. Subsidy payments totaled $2.0 million and repayments totaled $54.4 million.

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

| | |
|---|---|
| Assets | |
| Cash on hand | $ - |
| Demand deposits | 249.7 |
| Time deposits - regular | - |
| Time deposits - Marina Loan Programs | .2 |
| Time deposits - Agricultural Loan Program | 4.7 |
| Prime commercial paper - at cost | 1,672.8 |
| Interest receivable | 1.6 |
| Emergency loans to local units - at cost | 48.9 |
| Michigan Sugar Beet Loan Program | 5.0 |
| Total assets | $ 1,982.8 |
| Equities | |
| Fund equities (net) in Common Cash (1): | |
| Governmental activities | $ 1,554.4 |
| Business-type activities | 71.4 |
| Fiduciary funds | 281.9 |
| Discretely presented component units | 75.1 |
| Net fund equities | $ 1,982.8 |

(1) Negative equity balances in the pool are reclassified at year-end as interfund receivables and liabilities. Current balances are included with "Amounts due from other funds" and "Amounts due to other funds" and long-term amounts are classified as interfund advances. Note 17 summarizes interfund receivables and liabilities.

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

## Deposits

At September 30, 2004, the carrying amount of deposits, including time and demand deposits, was $254.6 million. The deposits were reflected in the accounts of the banks at $254.6 million. Of the bank balance, $4.6 million was covered by federal depository insurance (GASB credit risk category 1), $249.6 million was collateralized with securities held by the State's agent in the State's name (GASB credit risk category 1), and $.4 million of demand deposits which are uninsured and uncollateralized (GASB credit risk category 3). Compensating balances kept in demand deposit accounts to avoid service charges totaled $243.2 million at September 30, 2004.

## Investments

Using the GASB categories of custodial credit risk, all of the investments (including prime commercial paper, corporate notes, and emergency municipal loans) are in category 1. The sugar beet loans are evidenced by zero interest promissory notes. The emergency municipal loans are evidenced by notes held by the State in the State's name, so they fall in custodial credit risk category 1. At September 30, 2004, the fair value of prime commercial paper was $1.7 billion.

## NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent amounts due to the State at September 30, for revenues earned in fiscal year 2003-2004, which will be collected sometime in the future. Amounts expected to be collected in the next fiscal year are classified as "current" and amounts expected to be collected beyond the next fiscal year are classified as "noncurrent." The receivables have been recorded net of allowances for uncollectibles.

Sales, use, single business, and income taxes are accrued to the extent that the related sales, wage, or activity being taxed occurred prior to October 1. Property taxes receivable are accrued when taxes are levied against the property owners. Single business taxes are accrued if received prior to December 1 (i.e., quarterly filings due November 30).

In the government-wide financial statements, a corresponding amount is recorded as revenue using the accrual basis of accounting. In the governmental fund financial statements, revenue is recorded using the modified accrual basis of accounting for amounts due to the State at September 30 (as stated above) that are considered "available" (e.g. received by the State within approximately 60 days after that date). The remainder is recorded as deferred revenue.

Local units of government, as agents for the State, assess the State property tax. Taxes are due and payable at the same time as local unit taxes and were generally divided into a summer portion payable to the local units on the succeeding July 1 and a winter portion due December 31. Beginning in fiscal year 2002-2003, local units are required to levy property taxes in July. The State accrues revenues received by the State or the local units, on its behalf, during October and November. Since the property taxes are levied and received by the local units, it is not feasible for the State to measure and record delinquent amounts receivable and, therefore, no delinquent amounts are recorded or reflected in the table below. The accrued telephone and telegraph taxes are due December 1 and were received at approximately that time. Delinquent taxes are recognized to the extent that they will be collected within 12 months.

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

| Tax | General Fund | Special Revenue Funds | Total |
|---|---|---|---|
| Sales & use | $ 329.1 | $ 660.7 | $ 989.7 |
| Individual income | 1,488.3 | 168.8 | 1,657.1 |
| Single business | 1,510.5 | - | 1,510.5 |
| State education (property) | - | 1,249.5 | 1,249.5 |
| Telephone & telegraph | 48.2 | - | 48.2 |
| Motor fuel | - | 236.8 | 236.8 |
| Insurance - retaliatory | 63.7 | - | 63.7 |
| Estate & inheritance | 9.6 | - | 9.6 |
| Tobacco products | 88.3 | 70.8 | 159.1 |
| Quality assurance assessment | 65.4 | - | 65.4 |
| Other | 27.0 | 60.1 | 87.1 |
| Penalties and interest | 1,096.6 | .2 | 1,096.9 |
| Gross taxes receivable | 4,726.8 | 2,446.9 | 7,173.6 |
| Less allowance for uncollectibles | 2,002.3 | 454.7 | 2,457.0 |
| Total taxes receivable (net) | $ 2,724.5 | $ 1,992.1 | $ 4,716.6 |
| As reported on the financial statements | | | |
| Current taxes receivable | $ 2,498.0 | $ 1,946.6 | $ 4,444.6 |
| Noncurrent taxes receivable | 226.4 | 45.6 | 272.0 |
| Total taxes receivable (net) | $ 2,724.5 | $ 1,992.1 | $ 4,716.6 |

# NOTE 7 – JOINT VENTURES

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

### Great Lakes Protection Fund

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

Contribution requirements were established based upon water consumption and usage. Contributions to GLPF are permanently restricted and are not available for disbursement. Michigan is the largest contributor, having made a contribution of $25.0 million, constituting approximately 31% of the total. Michigan made its required contribution by issuing GLPF a general obligation bond authorized as part of the State's environmental protection bond program. No additional contributions from Michigan will be required.

Two members on GLPF's board of directors represent each of the participating seven member states. The states' respective governors select the board members. Directors control GLPF's financing and budgeting operations, within requirements established by the Articles of Incorporation. One-third of the net earnings on total contributions (after operating expenses) is granted to the respective states in proportion to their contributions to GLPF. Two-thirds of the net earnings are available to GLPF to make other grants. The State's equity interest in GLPF of $25.0 million is reflected as an asset in the government-wide statements.

### Joint International Bridge Authority

The International Bridge in Sault Ste. Marie, Michigan is a joint venture of the State and Canadian governments. The Authority consists of six people, three appointed by each government. The Authority oversees the operations and maintenance of the Bridge. The International Bridge Administration, an administrative entity within the Michigan Department of Transportation, is responsible for the day-to-day operations of the Bridge. The Authority reimburses the State for costs incurred to provide these services.

For the period ending December 31, 2003 (the Authority's most recently audited financial statements), its net assets increased by approximately $1.2 million. The Bridge and the ancillary assets on Michigan's side of the Bridge, in addition to one-half of the balance of funds not required to pay liabilities, represent the State's equity interest. The State is obligated to pay one-half of any claims incurred by the Authority that are not covered by insurance or existing resources. The State's equity interest of $6.5 million is reflected as an asset in the government-wide statements.

# NOTE 8 – DEPOSITS AND INVESTMENTS

## A. General Information

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

### Deposits

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

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

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

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

### Investments

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

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

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

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

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

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

## B. Deposits and Investments - Primary Government

### Deposits

In addition to equity in the Common Cash pool, some State funds maintain deposits with financial institutions. At year-end, the carrying amount of such deposits, excluding those classified as investments, was negative $11.5 million, which was caused primarily by a net book cash overdraft in an account maintained by the Michigan Unemployment Compensation Funds (MUCF). The deposits were reflected in the accounts of the banks at $19.5 million. Of the bank balances, $.1 million was covered by federal depository insurance or by collateral held by the State's agents in the State's name (GASB credit risk category #1), $15.4 million was covered by collateral held in the pledging banks' trust departments in the State's name (GASB credit risk category #2), and $4.0 million was uninsured and uncollateralized (GASB credit risk category #3).

### Investments

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

The State Treasurer is also authorized to invest a limited amount of pension (and other employee benefit) trust funds in futures contracts. Such investments were made in Standard & Poors 500 and Standard & Poors Midcap Index futures contracts during the year. At September 30, 2004, there was $152.1 million invested in futures contracts. Derivatives are used for a small amount of the pension (and other employee benefit) trust fund portfolios to provide additional diversification. However, derivatives are not used for speculation and they are not used to leverage the investment portfolios. Approximately 10% of the total pension (and other employee benefit) trust funds portfolio has been invested from time to time in futures contracts and swap agreements. The swap agreements provide that the retirement systems will pay quarterly, over the term of the swap agreements, interest indexed to the three month London Interbank Offered Rate (Libor), adjusted for an interest rate spread, on the notional amount stated in the agreements. United States domestic Libor-based floating rate notes were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these notes. Swap agreements represent the largest category of derivatives used and total 10.0% of the total portfolio.

In July 2004, four state retirement systems' (State Employees', State Police, Public School Employees', and Judges') investments were contributed to an investment pool structure. Investments for these systems represent a pro rata share based on ownership of the investment pools. In their separately issued financial statements, these investments are not considered securities for the purpose of assessing credit risk.

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

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

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

The deferred compensation plans are invested in mutual funds, U.S. Treasury strips, money market funds, and pooled investment funds. During fiscal year 2003-2004, the deferred compensation plans' investment activities were managed by a private investment firm, which invests as directed by members of the plan.

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

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

| | GASB Category | | | | | |
|---|---|---|---|---|---|---|
| | #1 | #2 | #3 | Not Categorized | Total Carrying Value | Fair Value |
| Prime commercial paper | $ 3,242.8 | $ - | $ 23.0 | $ - | $ 3,265.8 | $ 3,265.8 |
| Money market funds | - | - | 5.7 | 209.6 | 215.3 | 215.3 |
| Government securities | 2,083.5 | - | 212.8 | - | 2,296.3 | 2,296.3 |
| Investment agreements | 6.0 | - | - | - | 6.0 | 6.0 |
| Corporate bonds and notes | 4,007.2 | - | - | - | 4,007.2 | 4,007.2 |
| Preferred stock | .1 | - | - | - | .1 | .1 |
| Equities | 21,207.2 | - | - | - | 21,207.2 | 21,207.2 |
| Real estate | - | - | - | 3,223.2 | 3,223.2 | 3,223.2 |
| Venture capital and leveraged buyouts | 32.4 | - | - | 6,049.9 | 6,082.3 | 6,082.3 |
| International | 4,554.0 | - | - | 346.9 | 4,900.8 | 4,900.8 |
| U.S. Treasury (unemployment) trust fund | - | - | - | 924.6 | 924.6 | 924.6 |
| Mutual funds | - | - | 1.2 | 2,552.0 | 2,553.2 | 2,553.2 |
| Pooled investment funds | - | - | - | 2,004.3 | 2,004.3 | 2,004.3 |
| Security Lending Transactions: | | | | | | |
| Government securities | - | - | - | 2,127.6 | 2,127.6 | 2,127.6 |
| Corporate bonds and notes | - | - | - | 232.0 | 232.0 | 232.0 |
| Equities | - | - | - | 733.8 | 733.8 | 733.8 |
| Retirement System Pooled Investment Adjustments:* | | | | | | |
| Unsettled investment transactions | - | - | - | (155.6) | (155.6) | (155.6) |
| Cash collateral | - | - | - | (152.1) | (152.1) | (152.1) |
| Synthetic equities | - | - | - | 152.1 | 152.1 | 152.1 |
| Accrued interest | - | - | - | 108.0 | 108.0 | 108.0 |
| Total Investments | $ 35,133.2 | $ - | $ 242.7 | $ 18,356.2 | $ 53,732.1 | $ 53,732.1 |

As Reported on Statement of Net Assets

| | |
|---|---|
| Current investments | $ 1,469.1 |
| Noncurrent investments | 877.7 |
| Total Investments | $ 2,346.8 |

As Reported on the Statements of Net Assets and Statement of Fiduciary Net Assets

| | Current Investments | Noncurrent Investments | Total |
|---|---|---|---|
| Governmental activities | $ 439.5 | $ 380.9 | $ 820.4 |
| Business-type activities | 1,029.6 | 496.8 | 1,526.4 |
| Fiduciary funds | 2,308.1 | 49,077.1 | 51,385.2 |
| | $ 3,777.2 | $ 49,954.9 | $ 53,732.1 |

*These adjustments are the result of the Retirement Systems' contributions reverting entirely to investment pools.

Pension (and other employee benefits) trust fund investments represent 94.1% of the total investments of the primary government. Other large holders of investments were the State Lottery Fund and MUCF.

The State Lottery Fund investments, $600.7 million, are all in the form of zero coupon U.S. Treasury bonds. These investments are held to provide funding for deferred prize awards.

### Securities Lending Transactions

Under the authority of P.A. 314 of 1965, the State lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The custodian is not liable for any losses unless there is negligence or willful misconduct on its part. State statutes allow the State to participate in securities lending transactions, via a Securities Lending Authorization Agreement, authorizing the agent bank to lend its securities to broker-dealers and banks, pursuant to a form of loan agreement. During the fiscal year, the agent bank, at the direction of the State Treasurer, lent securities and received: cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, convertible bonds, Canadian provincial debt, and irrevocable bank letters of credit as collateral. The agent bank did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: 1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; or 2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

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

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified and non-qualified tax-exempt plan lenders, in a collective investment pool. As of September 30, 2004, the investment pool had an average duration of 42 days and an average expected maturity of 546 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2004, the retirement systems had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the State as of September 30, 2004, were $3.2 billion and $3.1 billion respectively.

## C. Deposits and Investments - Discretely Presented Component Units

### Deposits

At year-end, the carrying amount of discretely presented component units deposits, excluding those classified as investments, was $303.7 million. The deposits were reflected in the accounts of the banks at $334.8 million. Of the bank balances, $13.8 million was covered by federal depository insurance or by collateral held by the component units' agents in the component units' names (GASB credit risk category #1), $44.1 million was covered by collateral held in the pledging banks' trust departments in the component units' names (GASB credit risk category #2), $272.5 million was uninsured and uncollateralized (GASB credit risk category #3), and $4.4 million was held in money market funds which are not categorized.

### Investments

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

### Restricted Assets

Restricted investments on the government-wide Statement of Net Assets, totaling $1,102.0 million, represent amounts that are pledged toward the payment of outstanding bonds and notes.

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

| | GASB Category #1 | GASB Category #2 | GASB Category #3 | Not Categorized | Total Carrying Value | Fair Value |
|---|---|---|---|---|---|---|
| Deposits(1): | | | | | | |
| Time deposits | $ 2.8 | $ - | $ 31.0 | $ (1.9) | $ 31.8 | $ 31.8 |
| Government money market accounts | - | - | 5.2 | 150.5 | 155.7 | 155.7 |
| Investments: | | | | | | |
| Commercial paper | 183.7 | 57.4 | 5.2 | 7.6 | 253.9 | 253.9 |
| Short-term notes | - | - | 43.5 | 31.9 | 75.4 | 75.4 |
| Repurchase agreements | 37.1 | 204.7 | - | - | 241.8 | 241.8 |
| Government securities | 1,032.9 | 200.8 | 43.9 | 14.1 | 1,291.8 | 1,291.8 |
| Insured mortgage backed securities | 172.9 | 1.5 | 10.3 | - | 184.6 | 184.6 |
| Government backed securities | - | .9 | 208.0 | - | 209.0 | 209.0 |
| Investment agreements | - | - | - | 94.4 | 94.4 | 94.4 |
| Corporate bonds and notes | 340.5 | 3.0 | 48.9 | - | 392.4 | 391.4 |
| Equities | 13.8 | 28.3 | 21.9 | 63.9 | 127.9 | 122.4 |
| Real estate | - | .7 | - | .6 | 1.3 | 1.3 |
| Venture capital and leveraged buyouts | - | - | - | 14.2 | 14.2 | 14.2 |
| Certificates of indebtedness | - | 4.3 | - | - | 4.3 | 4.3 |
| Government money market funds | - | - | - | 10.9 | 10.9 | 10.9 |
| Mutual funds | - | 42.2 | - | 453.7 | 495.9 | 479.0 |
| Guaranteed investment contracts | - | - | - | 1,138.2 | 1,138.2 | 1,138.2 |
| Pooled investment funds | - | - | - | 286.0 | 286.0 | 286.0 |
| Other investments | - | 1.4 | 10.9 | 20.2 | 32.4 | 49.0 |
| Total Investments | $ 1,783.7 | $ 545.2 | $ 428.8 | $ 2,284.2 | 5,041.8 | $ 5,035.1 |

| | |
|---|---|
| Less Investments Reported as "Cash" on the Statement of Net Assets | (526.8) |
| Total Investments | $ 4,515.0 |
| As Reported on the Statement of Net Assets | |
| Current investments | $ 1,027.3 |
| Noncurrent restricted investments | 380.4 |
| Noncurrent investments | 3,107.4 |
| Total Investments | $ 4,515.0 |

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

# NOTE 9 – CAPITAL ASSETS

## A. Primary Government

### Summary of Significant Accounting Policies

**Methods used to value capital assets**
Capital assets, which include property, plant, equipment, and infrastructure items (e.g. roads, bridges, ramps, and similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

**Capitalization policies**
All land and non-depreciable land improvements are capitalized, regardless of cost. Equipment is capitalized when the cost of individual items exceed $5 thousand, and all other capital assets are capitalized when the cost of individual items or projects exceed $100 thousand.

The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

**Items not capitalized and depreciated**
The State possesses certain capital assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures such as statues, monuments, historical documents, paintings, forts and lighthouses, rare library books, miscellaneous capitol-related artifacts and furnishings, and the like.

**Depreciation and useful lives**
Applicable capital assets are depreciated using the straight-line method, with a half-year's depreciation charged in the year of acquisition and in the year of disposal. Agencies assigned useful lives that were most suitable for the particular assets. Estimated useful lives generally were assigned as follows:

| Asset | Years |
|---|---|
| Equipment | 2-25 |
| Buildings | 5-50 |
| Infrastructure | 15-40 |
| Land Improvements | 5-40 |

**Modified approach for infrastructure**
The State has elected to use the "modified approach" to account for certain infrastructure assets, as provided in GASB Statement No. 34. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the State, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Capital asset activities for the fiscal year ended September 30, 2004 were as follows (in millions):

| Governmental Activities | Beginning Balance | Additions | Deletions | Adjustments and Reclass-ifications | Ending Balance |
|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | |
| Land | $ 3,103.1 | $ 10.2 | $ (.8) | $ 4.6 | $ 3,117.0 |
| Land improvements | 5.2 | .5 | - | 11.5 | 17.2 |
| Construction in progress | 1,388.0 | 312.9 | (283.6) | (102.3) | 1,315.0 |
| Infrastructure | 11,563.7 | 288.7 | (153.0) | - | 11,699.4 |
| Mineral rights | 18.9 | .9 | - | - | 20.0 |
| Total capital assets, not being depreciated | 16,078.9 | 613.1 | (437.4) | (86.2) | 16,168.4 |
| Capital assets, being depreciated: | | | | | |
| Land improvements | 108.8 | .2 | (.4) | 2.4 | 111.0 |
| Equipment and vehicles | 676.6 | 53.4 | (35.0) | .5 | 695.5 |
| Buildings | 3,138.3 | 93.9 | (59.4) | (10.0) | 3,162.8 |
| Infrastructure | 604.2 | 12.8 | (1.1) | 8.5 | 624.5 |
| Total capital assets, being depreciated | 4,527.9 | 160.4 | (96.0) | 1.5 | 4,593.8 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | (38.3) | (3.3) | - | (.1) | (41.7) |
| Equipment and vehicles | (512.7) | (70.4) | 28.0 | 4.1 | (551.1) |
| Buildings | (1,050.1) | (89.3) | 23.8 | .3 | (1,115.4) |
| Infrastructure | (336.6) | (23.0) | 1.1 | (.7) | (359.2) |
| Total accumulated depreciation | (1,937.7) | (186.1) | 52.9 | 3.6 | (2,067.3) |
| Total capital assets, being depreciated, net | 2,590.2 | (26.0) | (43.0) | 5.0 | 2,526.5 |
| Governmental activity capital assets, net | $ 18,669.0 | $ 587.4 | $ (480.5) | $ (81.1) | $ 18,694.8 |

| Business-type Activities | Beginning Balance | Additions | Deletions | Adjustments and Reclas-sifications | Ending Balance |
|---|---|---|---|---|---|
| Capital assets, being depreciated: | | | | | |
| Buildings | $ - | $ - | $ - | $ - | $ - |
| Equipment | 4.8 | - | - | - | 4.8 |
| Total capital assets, being depreciated | 4.8 | - | - | - | 4.8 |
| Less accumulated depreciation for: | | | | | |
| Buildings | - | - | - | - | - |
| Equipment | (4.1) | (.2) | - | - | (4.3) |
| Total accumulated depreciation | (4.1) | (.2) | - | - | (4.3) |
| Total capital assets, being depreciated, net | .7 | (.1) | - | - | .6 |
| Business-type activity capital assets, net | $ .7 | $ (.1) | $ - | $ - | $ .6 |

Beginning balances for Business-type activities were restated due to the addition of a new fund in the fiscal year ended September 30, 2004: The Attorney Discipline System. See Note 4 for additional discussion on this restatement.

Depreciation expense was charged to functions of the primary government as follows:

| | | Amount |
|---|---|---|
| Governmental Activities: | | |
| General Government | $ | 24.5 |
| Education | | .3 |
| Family Independence Services | | 8.9 |
| Public Safety and Corrections | | 48.5 |
| Conservation, Environment, Recreation, and Agriculture | | 9.3 |
| Labor, Commerce, and Regulatory | | 2.4 |
| Health Services | | 6.5 |
| Transportation | | 33.0 |
| Depreciation on capital assets held by the State's internal service funds is charged to the various functions based on their use of the assets. | | 49.0 |
| Total Depreciation Expense – Governmental Activities | $ | 182.4 |
| Business-type Activities: | | |
| Enterprise | | .2 |
| Total Depreciation Expense – Business-type Activities | $ | .2 |

## B. Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in millions):

| | | Amount |
|---|---|---|
| State Universities: | | |
| Land and other non-depreciable assets | $ | 94.9 |
| Buildings, equipment, and other depreciable assets | | 3,947.6 |
| Infrastructure | | 62.2 |
| Construction in progress | | 174.6 |
| Total | | 4,279.2 |
| Less accumulated depreciation | | (1,484.3) |
| Capital Assets, net – State Universities | | 2,794.8 |
| Capital Assets, net – Authorities | | 144.4 |
| Capital Assets, Total – Discretely Presented Component Units | $ | 2,939.2 |

# NOTE 10 – PENSION BENEFITS AND OTHER POSTEMPLOYMENT BENEFITS

## A. Defined Benefit Pension Plans

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

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

Each plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to plan members. Each plan, except MRP, is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports, except LRS, may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111. The LRS report may be obtained by writing to the Michigan Legislative Retirement System, House Office Building, Suite S0927, P.O. Box 30014, Lansing, MI 48909 or by calling (517) 373-0575.

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

| Plan Membership Data | LRS | SPRS | SERS | PSERS | JRS | MRP |
|---|---|---|---|---|---|---|
| Current active: | | | | | | |
| Vested | 23 | 901 | 30,467 | 117,667 | 285 | 1,391 |
| Nonvested | 1 | 977 | 5,042 | 203,596 | 40 | 10,057 |
| Retirees & beneficiaries receiving benefits | 268 | 2,697 | 45,619 | 145,588 | 549 | 2,513 |
| Terminated members with vested deferred benefits | 71 | 16 | 7,202 | 14,429 | 11 | 1,192 |

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS

#### Basis of Accounting

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

#### Methods Used to Value Investments

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

#### Significant Investments

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

### FUNDING POLICY

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

The Public School Employees' Retirement System (PSERS) is a cost-sharing, multiple-employer, State-wide defined benefit retirement system. Statute requires a reconciliation of required contributions and actual contributions in the PSERS. Public Act 158 of 1992 provides that any overage or shortage must be paid in installments over five years.

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

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

Effective in fiscal year 2000-2001, SPRS, SERS, and PSERS use the valuation for the previous fiscal year for their respective reports. This approach is consistent with Governmental Accounting Standards Board (GASB) Statement No. 25. Consistent with this approach the most recent actuarial valuation was performed as of September 30, 2003.

## ANNUAL PENSION COST AND OTHER RELATED INFORMATION

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

| | LRS | SPRS | SERS | MRP |
|---|---|---|---|---|
| **Required contribution rates:** | | | | |
| State | - | 23.85% | 14.12% | -** |
| Plan Members | *** | - | - | - |
| **Annual Pension Cost and Net Pension Obligation:** | | | | |
| Annual required contribution | $ - | $ 27.00 | $ 262.55 | $ 3.54 |
| Interest on net pension asset | (.14) | 1.13 | 10.59 | .64 |
| Adjustment to annual required contribution | .25 | (.75) | (11.07) | (.67) |
| Annual pension cost | .11 | 27.38 | 262.07 | 3.51 |
| Contributions made | - | 24.79 | 103.87 | 2.70 |
| Change in net pension asset/obligation | .11 | 2.59 | 158.20 | .81 |
| Net pension (asset) obligation at beginning of fiscal year | (1.97) | 14.13 | 132.40 | 8.01 |
| Net pension (asset) obligation at end of fiscal year | $ (1.86) | $ 16.71 | $ 290.60 | $ 8.82 |
| **Significant Actuarial Assumptions used include:** | | | | |
| Latest actuarial valuation date | 9/30/04 | 9/30/03 | 9/30/03 | 9/30/03 |
| Actuarial cost method | Entry Age | Entry Age | Entry Age | Entry Age |
| Amortization method | Level percent of payroll open | Level percent of payroll closed | Level percent of payroll closed | Level dollar closed |
| Remaining amortization period | 12 years | 33 years | 33 years | 33 years |
| Asset valuation method | 5-year smoothed market | 5-year smoothed market | 5-year smoothed market | None, Unfunded plan |
| Actuarial assumption: | | | | |
| Investment rate of return | 7% | 8% | 8% | 8% |
| Projected salary increases | 4% | 4.7 - 84% | 4 - 16% | 4% |
| Includes inflation at | 4% | 3.5% | 3.5% | 4% |
| Cost-of-living adjustments | 4% annual compounded (not compounded for legislators who first became members after 1/1/95) | 2% annual non-compounded with maximum annual increase $500 | 3% annual non-compounded with maximum annual increase $300 | 4% for special duty retirants |

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

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

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

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

| | PSERS | JRS |
|---|---|---|
| **Required contribution rates:** | | |
| State | N/A | ** |
| Plan Members | 3.9* | 5.94 |
| Number of participating employers | 719 | 173 |

N/A - Not available

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

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

**THREE YEAR HISTORICAL TREND INFORMATION**

The following table provides a schedule of funding progress for the State's defined benefit plans (amounts in millions):

| | Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b-a) Unfunded (Overfunded) AAL | (a/b) Funded Ratio | (c) Covered Payroll | ((b-a)/c) UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|---|
| **LRS** | | | | | | | |
| | 9/30/04 | $ 161.9 | $ 151.9 | $ (10.0) | 106.6% | $ 2.0 | (494.4)% |
| | 9/30/03 | 165.0 | 147.4 | (17.5) | 111.9 | 2.0 | (875.0) |
| | 9/30/02 | 167.2 | 143.9 | (23.3) | 116.2 | 4.3 | (541.9) |
| **SPRS**** | | | | | | | |
| | 9/30/03 | 1,139.1 | 1,186.4 | 47.3 | 96.0 | 113.2 | 41.8 |
| | 9/30/02 | 1,141.3 | 1,135.7 | (5.7) | 100.5 | 124.4 | (4.6) |
| | 9/30/01 | 1,148.6 | 1,073.6 | (75.0) | 107.0 | 118.8 | (63.1) |
| **SERS**** | | | | | | | |
| | 9/30/03 | 10,440.6 | 11,761.1 | 1,320.5 | 88.8 | 1,859.6 | 71.0 |
| | 9/30/02 | 10,616.3 | 10,752.7 | 136.4 | 98.7 | 2,133.5 | 6.4 |
| | 9/30/01 | 10,632.7 | 9,878.2 | (754.5) | 107.6 | 2,230.6 | (33.8) |
| **PSERS**** | | | | | | | |
| | 9/30/03 | 38,726.0 | 44,769.0 | 6,043.0 | 86.5 | 10,044.0 | 60.2 |
| | 9/30/02 | 38,382.0 | 41,957.0 | 3,575.0 | 91.5 | 9,707.0 | 36.8 |
| | 9/30/01 | 38,399.0 | 39,774.0 | 1,375.0 | 96.5 | 9,264.0 | 14.8 |
| **JRS** | | | | | | | |
| | 9/30/04 | 286.9 | 236.4 | (50.4) | 121.3 | 37.5 | (134.6) |
| | 9/30/03 | 292.3 | 235.2 | (57.0) | 124.2 | 38.9 | (146.6) |
| | 9/30/02 | 291.7 | 229.2 | (62.5) | 127.3 | 42.4 | (147.3) |
| **MRP*** | | | | | | | |
| | 9/30/03 | - | 40.4 | 40.4 | - | .6 | 7,313.0 |
| | 9/30/01 | - | 38.0 | 38.0 | - | .5 | 8,049.6 |
| | 9/30/99 | - | 33.5 | 33.5 | - | .5 | 6,771.4 |

*Actuarial valuation performed biennially.
**The most recent actuarial valuation was performed as of September 30, 2003.

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

| | Year | Annual Cost (APC) | Percentage Contributed | Net Pension Obligation (Asset) |
|---|---|---|---|---|
| **LRS** | | | | |
| | 2001-02 | .1 | - | (2.1) |
| | 2002-03 | .1 | - | (2.0) |
| | 2003-04 | .1 | - | (1.9) |
| **SPRS** | | | | |
| | 2001-02 | 22.4 | 100.2 | 13.0 |
| | 2002-03 | 27.1 | 95.9 | 14.1 |
| | 2003-04 | 27.4 | 90.5 | 16.7 |
| **SERS** | | | | |
| | 2001-02 | 111.8 | - | 10.1 |
| | 2002-03 | 184.2 | 33.6 | 132.4 |
| | 2003-04 | 262.1 | 39.6 | 290.6 |
| **MRP** | | | | |
| | 2001-02 | 3.3 | 73.1 | 7.4 |
| | 2002-03 | 3.3 | 80.1 | 8.0 |
| | 2003-04 | 3.5 | 76.9 | 8.8 |

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

| | Fiscal Year | Annual Required Contribution (ARC) | Percentage of ARC Contributed |
|---|---|---|---|
| **PSERS** | | | |
| | 2001-02 | 669.0 | 90.3 |
| | 2002-03 | 812.9 | 85.9 |
| | 2003-04 | 978.0 | 71.3 |
| **JRS** | | | |
| | 2001-02 | - | - |
| | 2002-03 | - | - |
| | 2003-04 | - | - |

## REQUIRED SUPPLEMENTARY INFORMATION

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

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

### Schedule of funding progress for MRP

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (b)-(a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 9/30/99 | - | 33.5 | 33.5 | - | .5 | 6,771.4 |
| 9/30/01 | - | 38.0 | 38.0 | - | .5 | 8,049.6 |
| 9/30/03 | - | 40.4 | 40.4 | - | .6 | 7,313.0 |

Actuarial valuation performed biennially; plans with biennial valuations need not present duplicate information for the intervening years.

**Schedule of Employer Contributions for MRP:**

| Year Ended September 30 | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2004 | 3.5 | 76.3 |
| 2003 | 3.3 | 79.4 |
| 2002 | 3.0 | 80.6 |
| 2001 | 3.0 | 76.1 |
| 2000 | 3.0 | 74.6 |
| 1999 | 2.5 | 84.7 |

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

## B. Defined Contribution Pension Plans

### State Employees' Defined Contribution Retirement Plan

The State Employees' Defined Contribution Retirement Plan (Plan) was established to provide benefits at retirement to employees of the State who were hired after March 31, 1997, and to those members of the State Employees' Retirement (defined benefit) System, Judges' Retirement System, and Legislative Retirement System who elected to transfer to this plan. The Plan is administered by the Department of Management and Budget. The State is required to contribute 4% of annual covered payroll. The State is also required to match employee contributions up to 3% of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the Legislature. Employer contributions to the plan for the year totaled $56.0 million. Participant contributions to the plan were $20.1 million. The reports may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

The following investments represent 5% or more of net plan assets at September 30, 2004: SSGA Stable Value GIC Fund, $49.2 million; Yield Enhanced Short-Term Fund, $95.1 million; SSGA S&P 500 Index Fund, $39.0 million; Dodge & Cox Stock Fund, $44.9 million; Fidelity Magellan Fund, $30.4 million; Smith Barney Large Cap Growth Fund, $23.8 million.

Effective September 30, 2000, the assets and coverage of members of the Michigan Judges' Retirement System were transferred to the State Employees' Defined Contribution Retirement Plan.

### Component Units

In addition to the Public School Employees' Retirement System (PSERS), the State university component units participate in the Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The TIAA-CREF is a defined contribution multiple-employer pension plan. The State university component units are required to contribute between 4% and 15% of annual covered payroll, as determined by each institution's employment agreements. The total contribution to the TIAA-CREF for all State university component units was $69.8 million for the year ending June 30, 2004.

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

Effective January 1, 2004, the State Bar of Michigan assumed responsibility for the retirement plans of State Bar employees who participated in the State of Michigan's Defined Contribution Retirement Plan (Plan). All monies held in the Plan on behalf of participating State Bar employees were subsequently transferred to the newly established State Bar 401(a) retirement plan and 457(b) retirement plans. The State Bar of Michigan is required to make minimum contributions and may establish other benefit provisions for their retirement plans. The State Bar of Michigan's contribution to the new plans was $.8 million for the year ended September 30, 2004.

Additional information for the retirement plan can be obtained by contacting the State Bar at (517) 372-9030.

## C. Other Postemployment Benefits

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

The LRS life insurance benefits are paid on an advance-funded basis. The actuarial cost method and actuarial assumptions are the same as for the pension plan, as discussed in Section A. At September 30, 2004, the actuarial accrued liability for life insurance premiums was $7.7 million with net assets available for benefits of $14.3 million. The expense for life insurance premiums was $.1 million in fiscal year 2003-2004.

The net assets available for benefits relate to residual balances from funding provided in prior fiscal years. Public Act 93 of 2002 created a health advance funding subaccount within the State Employees' Retirement System as a means to begin prefunding, on an actuarial basis, health benefits for participants in the System. During fiscal year 2003-2004, there were no pension contributions transferred to the subaccount.

Following is a brief summary of the other postemployment benefits as of September 30, 2004:

| | LRS | SPRS | SERS | JRS | PSERS | TOTAL |
|---|---|---|---|---|---|---|
| Participants eligible for benefits | 343 | 2,697 | 45,619 | 549 | 145,588 | 194,796 |
| Contribution rates for current employees (% of payroll) | None | None | None | 1.5% | None | |
| Percentage of pre-Medicare premiums paid by participants | None | 5% | 5% | 5% | 10%* | |
| Expense for year (in millions) | $4.0 | $29.2 | $354.6 | $.6 | $615.4 | $1,003.8 |
| Net assets available for benefits (in millions) | 9.8 | - | 33.9 | (.3) | 484.0 | 527.4 |

*The schools that employ the plan's members pay the employer share of health costs. PSERS retirees pay the same share of health care costs required from Social Security retirees for part B Medicare coverage until Medicare coverage begins at age 65.

Dental, vision, and hearing benefits are also extended to all retirees and their beneficiaries, for which retirees pay 10% of the health premiums.

## NOTE 11 – LEASES

### Accounting Policy

The State leases various assets under noncancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases that are comparable to purchases are classified as capital leases.

In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception. The principal portion of lease payments reduces the liability; the interest portion is expensed.

For capital leases in governmental funds, other financing sources and expenditures are recorded at lease inception. Lease payments are recorded as debt service expenditures. (As explained in Note 3, for budgetary purposes, lease payments are only reported as expenditures when paid.)

Most leases have cancellation clauses with 1 to 6 month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable, because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Some lease agreements include escalation clauses or other contingent rentals.

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

Leases that exist between the State and the State Building Authority (SBA, a blended component unit) are not recorded as leases in this report. In their separately issued financial statements, SBA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by SBA to construct the assets associated with the leases. Future payments to SBA are, therefore, not included in the schedules of lease commitments below. Note 12 provides information on the amount of the Authority's bonds outstanding and a schedule of debt service requirements.

### A. Primary Government – Governmental Activities

Rental expenditures incurred under operating leases totaled $81.1 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totaled $27.6 million, $30.2 million, and $17.7 million, respectively.

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

| | | Capital Leases | | | |
|---|---|---|---|---|---|
| Year Ended September 30 | Operating Leases | Principal | Interest | Executory Costs | Total |
| 2005 | $ 43.9 | $ 32.6 | $ 28.6 | $ 17.1 | $ 78.3 |
| 2006 | 22.7 | 28.0 | 35.4 | 26.8 | 90.3 |
| 2007 | 15.7 | 24.5 | 33.8 | 25.7 | 84.1 |
| 2008 | 10.8 | 21.6 | 31.6 | 25.0 | 78.3 |
| 2009 | 7.4 | 19.5 | 29.5 | 23.3 | 72.3 |
| 2010-2014 | 15.5 | 76.1 | 121.9 | 97.6 | 295.6 |
| 2015-2019 | 7.4 | 74.3 | 87.9 | 82.5 | 244.7 |
| 2020-2024 | 2.8 | 66.3 | 54.8 | 68.9 | 190.0 |
| Thereafter | - | 80.1 | 26.1 | 80.6 | 186.8 |
| Total | $ 126.0 | $ 423.0 | $ 449.8 | $ 447.5 | $ 1,320.2 |

The above capital leases relate to governmental activities which include the General Fund, special revenue funds, and the internal service funds. A liability of $423.0 million has been recorded in the government-wide statements for the capital lease principal. The historical cost of assets acquired under capital leases and included in capital assets on the government-wide statements at September 30 follows (in millions):

| | |
|---|---|
| Land | $ 70.0 |
| Buildings | 439.2 |
| Equipment | 76.7 |
| Total | 585.9 |
| Accumulated Depreciation | (194.4) |
| Net Land, Buildings, and Equipment | $ 391.4 |

## B. Primary Government – Business-Type Activities

Rental expense incurred under operating leases totaled $.5 million during the fiscal year. There were no capital lease obligations.

A summary of operating lease commitments to maturity follows (in millions):

| Year Ended September 30 | Operating Leases |
|---|---|
| 2005 | $ .4 |
| 2006 | .4 |
| 2007 | .4 |
| 2008 | .2 |
| 2009 | .1 |
| | $ 1.4 |

## C. Discretely Presented Component Units

Operating lease commitments for universities and authorities totaled $12.7 million. Total capital lease obligations were $24.8 million, $13.8 million, and $0 for principal, interest, and executory costs, respectively.

# NOTE 12 – BONDS AND NOTES PAYABLE – PRIMARY GOVERNMENT

## A. General Information

### General Obligation Bonds and Notes

Article 9, Section 15, of the State Constitution authorizes general obligation long-term borrowing, subject to approval by the Legislature and a majority of voters at a general election. In addition, debt may be incurred without voter approval for the purpose of providing loans to school districts. General obligation notes to provide temporary financing for such loans are recorded as liabilities in the School Bond Loan Fund, a special revenue fund. General Fund appropriations are made to finance debt principal and interest requirements for all general obligation issues. General obligation bonds are backed by the full faith and credit of the State.

The State Constitution provides that the Legislature may also authorize the issuance of general obligation short-term notes, the principal amount of which may not exceed 15% of undedicated revenues received in the preceding year. The State Constitution also provides that such notes must be repaid within the fiscal year of the borrowing. In fiscal year 2003-2004, the State issued general obligation notes to meet cash flow requirements of the General Fund.

Short-term debt activity for the fiscal year ended September 30, 2004, was as follows (in billions):

| | Beginning Balance | Draws | Repayments | Ending Balance |
|---|---|---|---|---|
| General Obligation Notes | $ - | $ 1.3 | $ 1.3 | $ - |

### Revenue Dedicated Bonds and Notes

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

In previous years, the Department of Transportation issued grant anticipation notes. The notes have variable rates that may bear interest at a daily interest rate, a weekly rate, note interest term rate, long-term interest rate, or an ARS interest rate.

The notes are issued in accordance with the authorization provided in P.A. 51 of 1951, as amended. The proceeds of the sale of the notes, together with investment earnings on the proceeds and other available monies, will be used to pay a portion of the costs to complete the Build Michigan II highway program, to pay capitalized interest on the notes, and to pay note issuance costs.

The principal and interest on the notes are payable solely from and are secured by an irrevocable pledge of the State share of all federal grants received each year under the Federal-Aid Highway Program. Payment of the principal and interest on the notes from the State share shall be subject to an appropriation each year by the Legislature in an amount sufficient to make the payments. As of September 30, 2004, there were no principal payments made on the notes. The amount outstanding at September 30, 2004, $600.0 million, is not disclosed in the table below.

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

Revenue bonds have been issued by the State Building Authority (SBA) to acquire and/or construct various facilities for use by the State or institutions of higher education. Revenue bonds have also been issued to finance equipment capital lease refinancings and acquisitions. In addition, the SBA issues commercial paper notes to fund capital projects prior to bonding. Short-term debt activity for the fiscal year ended September 30, 2004, follows (in millions):

| | Beginning Balance | Draws | Repayments | Ending Balance |
|---|---|---|---|---|
| Commercial Paper Notes | $ 338.5 | $ 2,302.5 | $ 2,191.8 | $ 449.2 |

Note 13 provides disclosures regarding the bonds and notes payable of the discretely presented component units.

### Bonds Issued and Outstanding

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

| General Obligation Bonded Debt | Amounts Issued | Outstanding 9/30/2004 | Fiscal Year Maturities First Year | Fiscal Year Maturities Last Year | Average Interest Rate Percentage |
|---|---|---|---|---|---|
| General Obligation Refunding Debt: | | | | | |
| Series 2001 (Refunding) | $ 183.3 | $ 183.0 | 2002 | 2016 | 4.76 |
| Series 2002 (Refunding) | 300.7 | 300.4 | 2004 | 2017 | 4.40 |
| Recreation and Environmental Protection: | | | | | |
| Series 1989 (1) | 75.0 | 21.3 | 1991 | 2012 | 6.92 |
| Series 1992 (1) | 246.3 | 86.4 | 1994 | 2013 | 6.15 |
| College Savings Bonds - Series 1992 Mini-bonds (1) | .5 | 1.0 | 2012 | 2012 | 6.50 |
| Series 1992 A (1)(2) | 13.9 | 7.3 | 1994 | 2012 | 6.17 |
| Series 1993 (1)(2) | 16.7 | 10.1 | 1995 | 2013 | 5.00 |
| Series 1995 (1) | 234.3 | 83.9 | 1997 | 2020 | 5.28 |
| Series 1998 (1) | 90.0 | 19.9 | 1999 | 2009 | 4.80 |
| Series 1999 A (3) | 81.8 | 22.4 | 2004 | 2010 | 5.57 |
| Series 2000 (1) | 60.0 | 16.9 | 2002 | 2011 | 5.22 |
| Series 2001 (3) | 56.8 | 54.9 | 2004 | 2020 | 4.82 |
| Series 2003 (5) | 10.0 | 10.0 | 2053 | 2053 | 0.00 |
| Series 2003 A (1)(3) | 200.0 | 200.0 | 2007 | 2021 | 5.00 |
| Series 2004 A (3)(4) | 39.4 | 39.4 | 2010 | 2025 | variable |
| Series 2004 B (3)(4) | 15.1 | 15.1 | 2006 | 2010 | variable |
| School Loan Bonds: | | | | | |
| Series 1995 | 180.0 | 24.9 | 1997 | 2007 | 5.47 |
| Series 1998 | 160.0 | 65.7 | 2001 | 2012 | 4.86 |
| Series 2001 C (4) | 45.9 | 45.9 | 2019 | 2021 | variable |
| Series 2002 A (4) | 50.6 | 31.0 | 2005 | 2019 | variable |
| Series 2002 B (4) | 47.3 | 46.5 | 2018 | 2021 | variable |
| Series 2003 B (4) | 3.3 | 3.3 | 2008 | 2010 | variable |
| Series 2004 A (4) | 203.2 | 203.2 | 2020 | 2024 | variable |
| Series 2004 B (4) | 35.1 | 35.1 | 2020 | 2024 | variable |
| Total General Obligation Bonded Debt | 2,349.0 | 1,527.5 | | | |
| **Revenue Dedicated Bonded Debt** | | | | | |
| MUSTFA Related: | | | | | |
| Tax Dedicated Bonds: | | | | | |
| 1996 - Revenue Bonds - Series I | 216.6 | 104.8 | 1997 | 2010 | 5.67 |
| State Park Related: | | | | | |
| 2002 - Gross revenue Bonds | 15.5 | 15.0 | 2004 | 2023 | 3.58 |
| Total Revenue Dedicated Bonded Debt - MUSTFA and State Park Related | 232.1 | 119.8 | | | |
| Transportation Related: | | | | | |
| Tax Dedicated Bonds: | | | | | |
| Michigan Comprehensive Transportation: | | | | | |
| Series 1996 (Series A Refunding) | 22.7 | 20.2 | 1998 | 2014 | 5.42 |
| Series 1998 (Series A Refunding) | 38.6 | 38.6 | 2005 | 2011 | 4.66 |
| Series 2001 (Series A Refunding) | 27.8 | 27.8 | 2008 | 2022 | 5.01 |
| Series 2002 (Series A Refunding) | 89.6 | 67.9 | 2003 | 2011 | 5.06 |
| Series 2002 (Series B) | 82.3 | 79.6 | 2004 | 2022 | 5.13 |
| Series 2003 | 35.0 | 33.5 | 2004 | 2023 | 3.61 |
| State Trunkline Fund Bonds: | | | | | |
| Series 1989 (Series A) | 135.8 | 24.6 | 1994 | 2009 | 6.97 |
| Series 1992 (Series A Refunding) | 253.6 | 63.7 | 2000 | 2013 | 5.64 |
| Series 1992 (Series B Refunding) | 99.6 | 9.8 | 2000 | 2013 | 5.68 |
| Series 1994 (Series A Refunding) | 150.0 | 3.3 | 1996 | 2006 | 5.50 |
| Series 1996 (Series A) | 54.5 | 3.4 | 1998 | 2008 | 5.71 |
| Series 1998 (Series A) | 377.9 | 377.9 | 2006 | 2027 | 5.09 |
| Series 2001 (Series A) | 308.2 | 197.8 | 2003 | 2031 | 5.27 |
| Series 2002 (Refunding) | 97.9 | 86.0 | 2004 | 2022 | 4.71 |
| Series 2004 (Refunding) | 103.5 | 103.5 | 2006 | 2022 | 4.13 |
| Series 2004 | 185.7 | 185.7 | 2008 | 2019 | 4.36 |
| Total Revenue Dedicated Bonded Debt - Transportation Related | 2,062.7 | 1,323.3 | | | |

| | Amounts Issued | Outstanding 9/30/2004 | Fiscal Year Maturities First Year | Fiscal Year Maturities Last Year | Average Interest Rate Percentage |
|---|---|---|---|---|---|
| State Building Authority: | | | | | |
| 1998 Series I Bonds (Refunding) | 330.4 | 284.1 | 1999 | 2021 | 4.75 |
| 1999 Series I Bonds | 85.7 | 66.5 | 1999 | 2016 | 4.54 |
| 2000 Series I Bonds | 147.9 | 134.3 | 2000 | 2022 | 5.24 |
| 2001 Series I Bonds | 121.7 | 108.6 | 2002 | 2019 | 5.28 |
| 2001 Series I Bonds (Refunding) | 419.7 | 398.5 | 2003 | 2026 | 5.31 |
| 2001 Series II Bonds | 170.1 | 157.3 | 2003 | 2020 | 5.28 |
| 2002 Series III Refunding | 215.2 | 210.7 | 2004 | 2027 | 4.60 |
| 2003 Series I Refunding | 659.4 | 636.7 | 2004 | 2018 | 3.64 |
| 2003 Series II Refunding | 392.6 | 392.6 | 2005 | 2030 | 4.42 |
| 2004 Series I | 155.4 | 155.4 | 2005 | 2020 | 4.08 |
| Total State Building Authority Bonded Debt | 2,698.0 | 2,544.6 | | | |
| Total Revenue Dedicated Bonded Debt | 4,992.7 | 3,987.7 | | | |
| Total General Obligation and Revenue Dedicated Bonded Debt | $ 7,341.8 | $ 5,515.2 | | | |

(1) Public Acts 326 and 327 of 1988 and P.A. 451 of 1994 authorized the issuance of bonds totaling $800.0 million. As of September 30, 2004, $774.6 million of such bonds had been issued, leaving remaining authorization of $25.4 million. Sum of amounts issued in table differs by amount of bonds refunded or redeemed.

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

(3) Public Act 284 of 1998 authorized the issuance of bonds totaling $675.0 million. As of September 30, 2004, $331.2 million of such bonds had been issued, leaving remaining authorization of $343.8 million. Sum of amounts issued in table differs by amount of bonds refunded or redeemed.

(4) The Multi-Modal Series, Environmental and School Loan Bond Series, currently bear interest at a commercial paper rate and are remarketed at each maturity. For the future debt service requirements, interest was estimated at the interest rate in effect at September 30, 2004.

(5) In November 2002, voters approved a ballot proposal in which the State would issue $1.0 billion in general obligations bonds to provide capital, which is then loaned to local units of government for water quality improvement projects. Rather than issuing the bonds at public or private sale and receiving cash, the State "issued" $100.0 million in bonds to a discretely presented component unit, the Michigan Municipal Bond Authority (MMBA). Although no cash traded hands, MMBA (the registered owner of the bonds) is holding the bond document as collateral and issuing their own revenue bonds to generate the capital. This transaction allows the State's General Fund to defer principal and interest costs until future years when the bond is repurchased/redeemed. MMBA will fund the principal and interest costs of the revenue bonds until such time that they request the State to honor the general obligation bond document.

On December 18, 2003, the State issued $100.0 million in bonds ($10.0 million relating to Strategic Water Quality and $90.0 million relating to the previously existing State Water Quality Revolving Fund). The $10.0 million bond relating to Strategic Water Quality includes a repurchase provision that requires the State to repurchase all or any portion of this bond upon 10 days prior written notice from the registered owner, MMBA. The State anticipates at this time that if the bond repurchase was acted on, the State would issue long-term debt to finance the repurchase. This bond is being used as collateral by MMBA for the Strategic Water Quality bonds being issued by MMBA to local governments. For these reasons, the State has recognized the $10.0 million bond related to Strategic Water Quality as a liability in the entity-wide statements. The $90.0 million "bond" document issued for the State Water Quality Revolving Fund does not contain the 10 day repurchase provision that the $10.0 million bond does. Nor is the $90.0 million "bond" document being used as collateral by MMBA. For these reasons, the State has not recognized a liability for the $90.0 million "bond" document related to the existing State Water Quality Revolving Fund.

## Capital Appreciation Bonds

Capital appreciation and convertible capital appreciation bonds are recorded in the preceding table and Section B at their accreted year-end book value. The table that follows summarizes capital appreciation bonds (in millions):

| | Accreted Book Value | Ultimate Maturity Value | Fiscal Year Maturities First Year | Fiscal Year Maturities Last Year |
|---|---|---|---|---|
| **General Obligation Bonds:** | | | | |
| Series 1989 | $28.5 | 34.3 | 1999 | 2012 |
| Series 1992 | 16.7 | 22.1 | 1994 | 2012 |
| College Savings Bonds - Series 1992 Mini-bonds | 1.0 | 1.8 | 2012 | 2012 |
| Series 1995 | 15.9 | 19.7 | 2001 | 2010 |
| **Revenue Dedicated – Transportation Related:** | | | | |
| State Trunkline – Series 1989 A | 24.6 | 29.8 | 2004 | 2009 |
| State Trunkline – Series 1992 A and B | 73.5 | 97.7 | 2006 | 2013 |

## Refundings and Defeasances

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

The State has defeased certain bonds through current refundings in which the proceeds of the refunding debt are applied immediately to redeem the debt to be refunded.

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

| | Amounts Outstanding |
|---|---|
| Recreation and Environmental Protection: | |
| Series 1989 | $ 2.5 |
| Series 1995 | 103.1 |
| Series 1998 | 50.4 |
| Series 1999 A | 56.1 |
| Series 2000 (partial) | 37.4 |
| Total | $ 249.4 |
| School Loan Bonds: | |
| Series 1995 | $ 103.3 |
| Series 1998 | 69.1 |
| Total | $ 172.4 |
| State Trunkline Fund Bonds: | |
| Series 1994 A (partial) | $ 123.8 |
| Series 1996 A (partial) | 45.2 |
| Series 2001 A (partial) | 99.3 |
| | $ 268.3 |
| State Building Authority: | |
| 1989 Series I | $ 10.8 |
| 1993 Series I | 37.0 |
| 1994 Series I | 18.2 |
| 1994 Series II | 13.8 |
| 1996 Series I | 51.8 |
| 1997 Series I | 81.0 |
| 1997 Series II | 264.0 |
| 1998 Series I | 81.0 |
| 1997 Series A | 10.9 |
| 2000 (MSP Phase II) | 35.1 |
| 2001 (MSP Phase III) | 49.2 |
| 2002 (MSP Phase IV) | 32.7 |
| Total | $ 685.6 |

## General Obligation

During the year, the State of Michigan issued, as a current refunding, $238.3 million of School Loan Multi-Modal Bonds Series 2004 A & B maturing in years 2020 through 2024 with a variable interest rate. The maximum interest rate applicable to the Series 2004A bonds is 10% annually and the maximum interest rate applicable to the Series 2004B bonds is 12% annually. From the proceeds, $141.8 million was used to refund principal and interest on General Obligation bonds and School Loan Bonds, $96.5 million was deposited into the School Bond Loan Fund to make loans to local school districts and to pay for costs of issuance of the bonds.

Also during the year, the State of Michigan issued, as a current refunding, $51.0 million of School Loan Multi-Modal Bonds Series 2003 D & E maturing in years 2017 through 2021 with a variable interest rate. The maximum interest rate applicable to the Series 2003 D & E bonds is 12% annually. From the proceeds, $4.7 million was used to refund principal and interest on General Obligation bonds and School Loan Bonds, $24.0 million was deposited into the School Bond Loan Fund to make loans to local school districts, $22.4 million was used to make regularly scheduled principal and interest payments and to pay for costs of issuance of the bonds. These bonds were issued and completely refunded in fiscal year 2004 with the proceeds of School Loan Multi-Modal Bonds Series 2004 A & B.

The variable rate refunded and new debt bear interest rates based upon various periodic market rates and are remarketed at each maturity.

### Revenue Dedicated

In May of 2004, the State issued $103.5 million of revenue dedicated State Trunk Line Fund Refunding Bonds Series 2004. The proceeds were used to refund various portions of previously issued bonds that carried higher interest rates.

The State advance refunded these bonds to reduce its total debt service payments over the next 18 years by $5.4 million and to achieve an economic gain of $3.9 million.

During the year, the State Building Authority issued $303.5 million of fixed-rate revenue refunding bonds (as part of a total issuance of $392.6 million, which provided $89.1 million of financing for new projects), along with $13.2 million of Authority cash and $15.8 million of issuance premium, for a current refunding of $332.5 of variable-rate revenue bonds. The refunding was undertaken to reduce future debt service payments and to lock-in favorable interest rates. The refunded variable-rate bonds had no stated annual debt service requirements, had a nominal final maturity date of October 15, 2037, and bore interest at a commercial paper rate. The refunded bonds, which serially mature through October 15, 2029, carry an average fixed interest rate of 4.415%.

Also during the year, the State Building Authority (SBA) issued $112.8 million of revenue refunding bonds (as part of a total issuance of $155.4 million). The proceeds were used to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust along with $16.8 million of Authority cash for the purpose of generating resources for all future debt service payments of $127.9 million of bonds.

The advance refunding was undertaken to reduce total debt service payments by $2.8 million and resulted in an economic gain of $1.3 million.

### Debt Service Requirements

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

| | General Obligation | | | MUSTFA, State Park, and Transportation Related | | State Building Authority | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Years Ending | Principal | Fixed Interest | *Estimated Interest | Principal | Fixed Interest | Principal | Interest | Total Principal And Interest |
| 2005 | $ 56.0 | $ 53.3 | $ 5.1 | $ 65.0 | $ 67.7 | $ 78.8 | $ 126.1 | $ 452.0 |
| 2006 | 61.9 | 50.7 | 5.1 | 68.4 | 65.1 | 108.4 | 122.5 | 482.1 |
| 2007 | 78.1 | 48.0 | 5.1 | 71.0 | 62.4 | 113.2 | 117.9 | 495.6 |
| 2008 | 82.5 | 44.8 | 5.0 | 85.9 | 59.5 | 118.5 | 112.2 | 508.4 |
| 2009 | 86.1 | 41.4 | 5.0 | 89.3 | 56.1 | 124.1 | 106.3 | 508.2 |
| 2010-2014 | 480.5 | 144.5 | 23.7 | 339.7 | 232.7 | 722.0 | 426.9 | 2,370.0 |
| 2015-2019 | 336.0 | 36.7 | 22.1 | 359.5 | 151.2 | 718.3 | 224.4 | 1,848.1 |
| 2020-2024 | 348.8 | 3.0 | 10.1 | 253.6 | 63.1 | 364.7 | 91.1 | 1,134.4 |
| 2025-2029 | 3.3 | - | - | 101.4 | 22.2 | 175.4 | 23.6 | 326.0 |
| 2030-2034 | - | - | - | 38.7 | 2.1 | 21.3 | .5 | 62.6 |
| 2035-2039 | - | - | - | - | - | - | - | - |
| Thereafter | 10.0 | - | - | - | - | - | - | 10.0 |
| Total | $1,543.2 | $ 422.4 | $ 81.2 | $1,472.5 | $ 782.1 | $2,544.6 | $1,351.5 | $ 8,197.5 |

*Interest for Multi-Modal Bonds future debt service requirements was estimated at the rate in effect at September 30, 2004.

Interest to maturity for the State Building Authority will be significantly smaller than the amount shown in the above table because many of the bonds will be called prior to the final scheduled maturity date. The retirement of these bonds varies from project to project, as each bond issue is related to specific projects and any excess borrowing and accrued investment earnings are restricted to projects and debt service on the related bonds. State Building Authority debt service fund unreserved fund balances totaled $193.5 million at year-end. Most of this represents investments related to completed projects that will be used for debt service on the projects' bonds.

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

## B. Changes in Bonds and Notes Payable

Changes in bonds and notes payable for the year ended September 30, 2004, are summarized as follows (in millions):

| Governmental Activities | Beginning Balance Restated* | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due Thereafter |
|---|---|---|---|---|---|---|
| Bonds Payable: | | | | | | |
| General obligation debt | $ 1,413.4 | $ 357.2 | $ 243.1 | $ 1,527.5 | $ 56.0 | $ 1,471.5 |
| Revenue bonds | 1,312.8 | 295.2 | 164.9 | 1,443.1 | 65.0 | 1,378.1 |
| State Building Authority | 2,569.7 | 547.9 | 573.1 | 2,544.6 | 78.8 | 2,465.8 |
| Notes Payable: | | | | | | |
| Transportation related | 600.0 | - | - | 600.0 | - | 600.0 |
| Deferred Loss on Refundings: | | | | | | |
| General obligation debt | (30.0) | - | 2.3 | (27.7) | - | (27.7) |
| Revenue dedicated debt | (5.5) | (8.3) | .6 | (13.2) | - | (13.2) |
| State Building Authority | (56.3) | (6.0) | 5.5 | (56.9) | - | (56.9) |
| Unamortized Premiums: | | | | | | |
| General obligation debt | 53.0 | - | 4.1 | 48.9 | - | 48.9 |
| Revenue dedicated debt | 23.2 | 25.3 | 2.2 | 46.2 | - | 46.2 |
| State Building Authority | 107.3 | 30.7 | 7.9 | 130.1 | - | 130.1 |
| Total bonds and notes payable | $ 5,987.6 | $ 1,242.0 | $ 958.4 | $ 6,242.7 | $ 199.8 | $ 6,043.0 |
| Plus commercial paper notes reported as "Current Liabilities: Bonds and notes payable" on the Statement of Net Assets | | | | 449.2 | 449.2 | - |
| As reported on the Statement of Net Assets | | | | $ 6,691.9 | $ 648.9 | $ 6,043.0 |

*The beginning balance of long-term debt outstanding as presented above and deferred amounts on refunding were each reduced by $37.0 million because of the reclassification of prior year debt refunding for the State Building Authority.

# NOTE 13 – BONDS AND NOTES PAYABLE – DISCRETELY PRESENTED COMPONENT UNITS

## A. Bonds and Notes Payable

### Bonds Payable

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State.

The State universities and the Michigan State Housing Development Authority utilize June 30 fiscal year-ends. The remaining discretely presented component units have September 30 fiscal year-ends.

The following table summarizes debt service requirements of the discretely presented component units as reported in their separately issued financial statements, utilizing their respective fiscal year-end (in millions):

| Fiscal Years Ending In | Principal | Fixed Interest | Estimated Interest | Total |
|---|---|---|---|---|
| 2005 | $ 320.3 | $ 307.9 | $ 3.3 | $ 631.6 |
| 2006 | 222.2 | 297.9 | 3.2 | 523.4 |
| 2007 | 267.2 | 284.6 | 3.1 | 555.0 |
| 2008 | 287.6 | 273.5 | 3.0 | 564.1 |
| 2009 | 300.0 | 249.2 | 2.9 | 552.1 |
| | 1,397.3 | 1,413.2 | 15.7 | 2,826.2 |
| 2010-2014 | 1,469.5 | 1,041.9 | 12.3 | 2,523.7 |
| 2015-2019 | 1,153.5 | 716.7 | 8.6 | 1,878.8 |
| 2020-2024 | 1,100.8 | 408.9 | 6.6 | 1,516.3 |
| 2025-2029 | 612.8 | 230.0 | 4.3 | 847.0 |
| 2030-2034 | 609.5 | 125.3 | .8 | 735.7 |
| 2035-2039 | 932.1 | 54.8 | - | 987.0 |
| | 5,878.1 | 2,577.6 | 32.6 | 8,488.4 |
| Total | 7,275.5 | $ 3,990.8 | $ 48.3 | $ 11,314.6 |
| Deferred amount on refunding | (89.4) | | | |
| Unamortized discount | (.1) | | | |
| Unamortized premium | 135.5 | | | |
| Total principal | $ 7,321.5 | | | |

Included in the table above is $607.7 million of demand bonds comprised of the Michigan Higher Education Student Loan Authority, $151.4 million, and the Michigan State Housing Development Authority, $456.3 million. Defeased bonds outstanding of the Michigan Municipal Bond Authority, Michigan Higher Education Student Loan Authority, and Michigan State Housing Development Authority are not reflected in the table above.

Grand Valley State University entered into an interest rate exchange agreement for $20.0 million of outstanding variable rate bonds. In accordance with the exchange agreements, the University pays a fixed rate of 3.3%.

### Notes Payable

The Michigan Municipal Bond Authority has short-term notes outstanding of $763.1 million as of September 30, 2004.

## B. Unrecorded Limited Obligation Debt

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

The Michigan Higher Education Facilities Authority (MHEFA) issues limited obligation bonds to finance loans to private nonprofit institutions of higher education for capital improvements. As of September 30, 2004, MHEFA had bonds outstanding of $408.1 million. Of the above amount, $24.0 million of bonds have been defeased in substance, leaving a remaining undefeased balance of $384.0 million.

The Michigan Strategic Fund (MSF) issues industrial development revenue bonds which are not recorded as liabilities. The total amount issued for the period January 1, 1979 through September 30, 2004, was $6.8 billion. MSF also issues taxable bonds which are not recorded as liabilities. The amount issued in fiscal year 2003-2004 was $1.0 million. These borrowings are in substance, debts of other entities and financial transactions are handled by outside trustees.

The Michigan State Hospital Finance Authority (MSHFA) has issued $5.4 billion of no commitment bonds as of September 30, 2004. Of the above amount, $4.1 billion have been defeased in substance, leaving a remaining undefeased balance of $1.3 billion. Economic gains and accounting gains and losses, resulting from in-substance defeasance inure to the benefit of the facility for which the bonds were issued, and accordingly are not reflected in the Authority's financial statements.

The Michigan State Housing Development Authority (MSHDA) has been authorized to issue up to $800.0 million of limited obligation bonds to finance multi-family housing projects. At June 30, 2004, limited obligation bonds had been issued totaling $615.2 million, of which fourteen issues totaling $131.0 million had been retired.

The Michigan Public Educational Facilities Authority (MPEFA) issues limited obligation bonds to finance loans to qualified public educational facilities for capital improvements. As of September 30, 2004, MPEFA had bonds outstanding of $2.6 million.

## C. Short-Term Debt Activity

Western Michigan University used its revolving line of credit to finance a new student information system. Activity on the line of credit during Western Michigan University's fiscal year ended June 30, 2004, was as follows (in millions):

| | Beginning Balance | Draws | Payments | Ending Balance |
|---|---|---|---|---|
| Line of Credit | $ - | $ 6.9 | $ - | $ 6.9 |

# NOTE 14 – OTHER LONG-TERM OBLIGATIONS

## A. Primary Government

### Other Long-Term Obligations
In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until claims, judgments, or amounts owed are "due and payable" at September 30. Expenses and liabilities for material claims and judgment losses are recorded in the government-wide and proprietary fund financial statements when the loss is considered probable.

### Capital Leases
This liability is described in more detail in Note 11.

### Compensated Absences
This liability is described in Note 1.

### Workers' Compensation
The gross amount of workers' compensation liability, $158.5 million at September 30, 2004, has been recorded at its discounted present value of $106.5 million, using a discount rate of approximately 8%. The present value of the current portion of this liability is $23.7 million. In fiscal year 2003-2004 State agencies paid reimbursement for actual workers' compensation claims and administrative fees totaling $40.8 million.

### Net Pension Obligation
This liability is described in Note 10.

### Other Claims & Judgments
The governmental activity estimated liability for other claims and litigation losses, $414.7 million at September 30, 2004, includes amounts for litigation, such as damages in tort cases and refund claims in cases involving State taxes, transportation claims, natural resources and environmental quality claims, and other claims, in which it is considered probable that costs will be incurred. Also included is an estimated liability totaling $.5 million for arbitrage payable to the federal government for interest earned on bond proceeds. Where a range of potential loss exists, the amount recorded is based upon the expected minimum amount that will be lost if the State does, indeed, lose. The allowance also includes projections for highway related negligence cases based upon historical loss ratios. The State continues to vigorously contest all of these claims and the State may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the State losses exceed the projected minimums which have been recorded). The maximum potential loss on the allowance for estimated litigation losses is not considered reasonably measurable.

The liability recorded for other claims and judgments within business-type activities represents overpayments by employers to the Michigan Unemployment Compensation Fund totaling $42.9 million.

### Durant Settlement
The reported estimated liability for litigation losses includes the Donald Durant, et al v State of Michigan, et al consolidated cases, which totaled $353.6 million at September 30, 2004. This amount will, over time, be paid to each "non-Durant" school district for its underfunded State mandated program costs if certain requirements are met. See Note 23 for additional disclosure regarding the Durant case and other contingencies.

### Changes in Other Long-Term Obligations
Changes in long-term liabilities for the year ended September 30, 2004, are summarized as follows (in millions):

| Governmental Activities | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due Thereafter |
|---|---|---|---|---|---|---|
| Other Long-term Obligations: | | | | | | |
| Capital lease obligations | $ 478.6 | $ 25.4 | $ 80.9 | $ 423.0 | $ 32.6 | $ 390.4 |
| Compensated absences | 403.1 | 320.5 | 229.3 | 494.4 | 50.1 | 444.3 |
| Workers' compensation | 105.5 | 24.5 | 23.5 | 106.5 | 23.7 | 82.8 |
| Net pension obligations | 154.5 | 161.6 | - | 316.1 | - | 316.1 |
| Other claims & judgments | 430.0 | 19.9 | 35.2 | 414.7 | 93.5 | 321.3 |
| Durant settlement | 375.0 | 10.3 | 31.7 | 353.6 | 31.7 | 321.9 |
| Total Governmental Activities | $ 1,946.7 | $ 562.3 | $ 400.6 | $ 2,108.4 | $ 231.5 | $ 1,876.8 |
| **Business-type Activities** | | | | | | |
| Other Long-term Obligations: | | | | | | |
| Lottery prize awards* | $ 596.7 | $ 43.2 | $ 109.8 | $ 530.0 | $ 99.8 | $ 430.2 |
| Compensated absences | 2.2 | 1.5 | .9 | 2.8 | .4 | 2.4 |
| Other claims & judgments | 44.8 | - | 1.8 | 42.9 | - | 42.9 |
| Total Business-type Activities | $ 643.6 | $ 44.6 | $ 112.5 | $ 575.7 | $ 100.2 | $ 475.6 |

*The amounts due within one year are included with "Accounts payable and other liabilities" on the Statement of Net Assets.

The General Fund, special revenue, and internal service funds in which the leases are recorded will liquidate the capital lease obligations. The compensated absence and workers' compensation liabilities will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension obligations will be liquidated by the State's governmental and internal service funds that contribute toward the pension funds, based on the statutorily required contribution rates. The School Aid Fund will liquidate the Durant settlement. Other claims and judgments attributable to governmental activities will generally be liquidated by the General Fund and transportation related special revenue funds.

## B. Discretely Presented Component Units

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

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

The actuarial report on the status of MET Plans B and C, as of September 30, 2004, shows the actuarial present value of future tuition obligations to be $600.2 million, as compared to the actuarially determined market value of assets available of $640.9 milion. The actuarial assumptions used include: a projected tuition increase rate of 7% for the years through 2010 and 7.3% for subsequent years; and a discount rate of 5%.

The actuarial report on the status of MET Plan D, as of September 30, 2004, shows the actuarial present value of future tuition obligations to be $367.4 million, as compared to the actuarially determined market value of assets available of $331.6 million. The actuarial assumptions used include: a projected tuition increase rate of 7% for the years through 2010 and 7.3% for subsequent years; and a discount rate of 7.25%.

During 2000 MET changed the balance sheet presentation of the tuition benefit obligation by increasing the liability to include the present value of future contract payments expected to be collected from installment contract purchasers. There was no effect on net income or retained earnings as a result of the reclassification.

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

# NOTE 15 – INCOME TAX CREDITS AND REFUNDS

## A. Income Tax Credits

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

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

The following table summarizes the various credits, reported as an expense/expenditure on the "Tax credits" line in the government-wide and fund financial statements (in millions).

| | |
|---|---|
| Property tax credits: | |
| General homestead | $ 368.8 |
| Senior citizens | 276.4 |
| Farmland preservation | 26.6 |
| Other property tax credits | 29.7 |
| Subtotal - property tax credits | 701.5 |
| Adoption credit | 1.2 |
| Total tax expenditures | $ 702.7 |

## B. Income Tax Refunds Payable

The $717.5 million reported as a liability on the "Income tax refunds payable" line in the government-wide and fund financial statements includes: projected refund estimates for overwithholding and tax credits reported as revenue reductions, actual refunds made in October and November, and accruals for known income tax litigation losses.

# NOTE 16 – DEFERRED COMPENSATION PLANS

The State offers its employees (excluding university employees) two deferred compensation plans to allow a portion of their salary to be deferred until future years. Executive Order 1999-7 transferred administrative oversight of the plans, labeled 457 and 401k after sections of the Internal Revenue Code, to the Department of Management and Budget. Day-to-day operations of the plans have been contracted to a third-party; however, the State Treasurer oversees investment options. The 457 plan and the 401k plan are combined for reporting purposes under the heading of "State Employees' Deferred Compensation Funds."

The State makes no contribution to the 457 plan. Generally, the State does not make matching contributions to the 401k plan; however, the State has occasionally made matching contributions to the 401k plan as part of certain employees' compensation packages.

To expand investment options, three investment tiers were developed and made available to participants on July 1, 1997. Participants invest their contributions and accumulated earnings by selecting mutual funds in one or more of the investment tiers. Employees may, at any time, transfer accumulated balances and future contributions among mutual funds in the investment tiers. Investment earnings, net of administrative charges, are credited to the participants proportionally, based upon their balances in the plan.

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

Net assets available for plan benefits for the 457 plan and the 401k plan at September 30, 2004, were $1.8 and $1.4 billion, respectively.

# NOTE 17 – INTERFUND RECEIVABLES AND PAYABLES

## A. Primary Government

The balances of current interfund receivables and payables as of September 30 were (in millions):

| | Due To | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Due From | General Fund | Budget Stabilization Fund | School Aid Fund | Non-major Governmental Funds | Unemployment Compensation Funds | Internal Service Funds | Fiduciary Funds | Total |
| General Fund | $ - | $ 81.3 | $ - | $ 814.4 | $ 1.7 | $ 16.2 | $ 12.5 | $ 926.0 |
| School Aid Fund | 1,466.5 | - | - | - | - | - | - | 1,466.5 |
| Non-major Governmental Funds | 64.2 | - | - | 146.8 | .1 | 2.1 | 1.5 | 214.7 |
| State Lottery Fund | - | - | 9.9 | - | - | .1 | - | 10.0 |
| Unemployment Compensation Funds | 19.8 | - | - | - | 3.2 | - | - | 22.9 |
| Non Major Enterprise Funds | - | - | - | - | - | - | - | .1 |
| Internal Service Funds | - | - | - | - | - | 12.8 | .6 | 13.4 |
| Fiduciary Funds | 1.3 | - | - | - | - | - | - | 1.3 |
| Total | $1,551.8 | $ 81.3 | $ 9.9 | $ 961.1 | $ 5.0 | $ 31.2 | $ 14.8 | $2,655.0 |

Interfund receivables and payables are recorded for 1) borrowings to eliminate negative balances in the Common Cash pool, as described in Note 5, 2) payroll liabilities for group insurance and retirement, and 3) tax accrual distributions for taxes collected in the following fiscal year.

Not included in the table above are the following interfund advances, which are not expected to be repaid within one year: $6.8 million due from the Correctional Industries Revolving Fund (an internal service fund) to the General Fund for amounts loaned for capital construction and $21.7 million due from the Blue Water Bridge Fund to the State Trunkline Fund (both reported as part of the State Trunkline Fund, a special revenue fund) for federal funds loaned for bridge construction.

## B. Discretely Presented Component Units

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

## NOTE 18 – INTERFUND COMMITMENTS

**Michigan State Waterways Fund**
In fiscal year 2002-2003, P.A. 746 of 2002, required the transfer of $7.8 million from the Michigan State Waterways Fund to the General Fund. The Act states that in the future the General Fund is to provide reimbursement. Interfund receivables and payables are not recorded for this commitment, because there is no repayment schedule and the repayment is considered long-term and budgetary in nature.

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

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

As of September 30, 2004, the Authority has repaid a total of $10.3 million of the advance from the Michigan Transportation Fund, leaving a balance of $52.8 million. No repayments have been made on the advance from the State Trunkline Fund.

## NOTE 19 – TRANSFERS

Interfund transfers for the year ended September 30, 2004, consisted of the following (in millions):

| | Transferred To | | | | |
|---|---|---|---|---|---|
| **Transferred From** | General Fund | Budget Stabilization Fund | School Aid Fund | Non-major Governmental Funds | Total |
| General Fund | $ - | $ 81.3 | $ 377.8 | $ 363.2 | $ 822.3 |
| School Aid Fund | 3.2 | - | - | - | 3.2 |
| Non-major Governmental Funds | 259.5 | - | - | 1,307.1 | 1,566.7 |
| State Lottery Fund | 13.2 | - | 644.9 | - | 658.1 |
| Unemployment Compensation Funds | 91.6 | - | - | 7.8 | 99.3 |
| Non-major Enterprise Funds | 144.2 | - | - | - | 144.2 |
| Internal Service Funds | 1.2 | - | - | - | 1.2 |
| Fiduciary Funds | .1 | - | - | - | .1 |
| Total | $ 512.9 | $ 81.3 | $ 1,022.7 | $ 1,678.1 | $ 3,294.9 |

Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Liquor Purchase Revolving Fund and the State Lottery Fund as required by law, 5) transfer budgetary surpluses from the General Fund to the Counter-Cyclical Budget and Economic Stabilization Fund or transfer accumulated surpluses from the Counter-Cyclical Budget and Economic Stabilization Fund to other funds when necessary, and 6) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

In the fiscal year ended September 30, 2004, the State recorded transfers for $81.3 million to the Counter-Cyclical Budget and Economic Stabilization Fund from the General Fund. These transfers were made in accordance with P.A. 309 of 2004, Section 204.

# NOTE 20 – FUND DEFICITS

## A. Primary Government

**Governmental Funds**
The Advance Financing Funds, a capital projects fund, had a fund balance deficit of $18.4 million. The deficit was caused by expenditures for projects for which bonds have not yet been issued and for expenditures incurred to improve State-owned sites that have not been sold.

The State Building Authority, a capital projects fund, had a fund balance deficit of $435.6 million. The deficit resulted because the issuance of commercial paper represents a fund liability and the corresponding construction projects are not reported as assets in the fund.

**Proprietary Funds**
The Office Services Revolving Fund, an internal service fund, had a fund balance deficit of $4.7 million. The deficit resulted because rates charged were insufficient to cover expenses incurred. The rates were increased in fiscal year 2005 to eliminate the deficit.

## B. Discretely Presented Component Units

All discretely presented component units have positive net asset balances as of September 30, 2004, with the exception of the Michigan Broadband Development Authority (MBDA). MBDA's fund deficit of $11.6 million was caused by expenses for projects for which not all corresponding revenue was received.

# NOTE 21 – FUND BALANCES

## A. Reservations - Primary Government

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

| | General Fund | School Aid Fund | Other Special Revenue Funds | Debt Service Funds | Permanent Funds | Total |
|---|---|---|---|---|---|---|
| Budgetary carry-forwards: | | | | | | |
| Encumbrances | $ 64.1 | $ .5 | $ 80.0 | $ - | $ 13.3 | $ 157.9 |
| Restricted revenues | 527.8 | 72.4 | 307.9 | - | - | 908.1 |
| Multi-year projects (capital outlay and work projects) | 34.0 | - | 428.5 | - | 37.7 | 500.2 |
| Construction and debt service | - | - | 70.3 | - | - | 70.3 |
| Revolving loan programs | 5.0 | - | 49.4 | - | - | 54.4 |
| Funds held as permanent investments | - | - | 121.3 | - | 452.8 | 574.1 |
| Noncurrent assets | 538.9 | 1.1 | 30.0 | - | - | 570.0 |
| Other purposes | - | - | - | .3 | - | .3 |
| Total Reserved Fund Balances | $ 1,169.8 | $ 74.1 | $ 1,087.4 | $ .3 | $ 503.8 | $ 2,835.4 |

Budgetary carry-forwards represent unused spending authorization that continues to be available in the new year. Restricted revenue carry-forwards include revenues restricted by law for specified purposes. The largest restricted revenue carry-forward in the General Fund is related to the Low Income and Energy Efficient Program in the amount of $34.1 million. The $34.0 million of multi-year projects in the General Fund includes $7.9 million of capital outlay and $26.0 million of work project authorizations. Such amounts are reserved because the funds are legally segregated for a specific purpose.

Reserved fund balance for restricted revenues within the School Aid Fund represents the amount held within the school aid stabilization fund, created by P.A. 158 of 2003.

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

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

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

Reserved fund balance for other purposes represents a reserve account required by the State Park Gross Revenue Bonds document. This reserved amount is used to pay principal and interest in the event of default.

Also, no reservations of fund balances are recorded in single purpose special revenue funds. From the overall State perspective, the unreserved fund balances of funds other than the General Fund are restricted by the nature of the fund type and they are not available for general State purposes.

### B. Net Asset Designations - Primary Government

The line "Unrestricted net assets" on the government-wide Statement of Net Assets contains designations as follows:

The State Sponsored Group Insurance Fund, an internal service fund described in Note 24, designated $75.7 million for future catastrophic losses.

## NOTE 22 – DISAGGREGATION OF PAYABLES

The line "Current Liabilities: Accounts payable and other liabilities," as presented on the government-wide Statement of Net Assets and the applicable Balance Sheets and Statements of Net Assets in the fund financial statements, consists of the following (in millions):

| | General Fund | School Aid Fund | Non-major Govern-mental Funds | Other Funds | State Lottery Fund | Michigan Unemployment Compensation Funds | Non-major Enterprise Funds | Total |
|---|---|---|---|---|---|---|---|---|
| Medicaid Programs | $ 496.5 | $ - | $ - | $ - | $ - | $ - | $ - | $ 496.5 |
| Non-Medicaid Health Programs | 169.4 | - | .7 | - | - | - | - | 170.1 |
| Family Independence Programs | 186.0 | - | .2 | - | - | - | - | 186.1 |
| Transportation Programs | - | - | 461.9 | - | - | - | - | 461.9 |
| School Aid Programs | - | 140.7 | - | - | - | - | - | 140.7 |
| Merit Award Scholarships | - | - | 69.6 | - | - | - | - | 69.6 |
| Payroll and Withholdings | 130.8 | - | 12.3 | - | .3 | - | .3 | 143.6 |
| Tax Refunds other than Income Tax | 95.8 | 7.0 | 4.2 | - | - | - | - | 107.0 |
| Unearned Receipts | 49.9 | - | 9.2 | - | - | - | - | 59.1 |
| Amounts Held for Others | 21.5 | .2 | 7.4 | - | 1.4 | - | - | 30.5 |
| Capital Project Related | - | - | 38.4 | - | - | - | - | 38.4 |
| Prize Awards | - | - | - | - | 135.7 | - | - | 135.7 |
| Liquor Purchase | - | - | - | - | - | - | 58.3 | 58.3 |
| Unemployment Payments | - | - | - | - | - | 26.9 | - | 26.9 |
| Internal Service Fund Liabilities | - | - | - | 69.8 | - | - | - | 69.8 |
| Due to Fiduciary Funds* | - | - | - | 14.8 | - | - | - | 14.8 |
| Miscellaneous | 238.5 | - | 111.1 | - | 8.6 | - | .2 | 358.4 |
| Total | $ 1,388.3 | $ 148.0 | $ 715.0 | $ 84.6 | $ 146.0 | $ 26.9 | $ 58.7 | $ 2,567.4 |

*This amount represents amounts due to fiduciary funds that are reclassified as external payables on the government-wide Statement of Net Assets.

# NOTE 23 – CONTINGENCIES AND COMMITMENTS

## A. Primary Government

### Litigation

In the government-wide and proprietary fund financial statements, the State accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. In the governmental fund financial statements, liabilities are accrued when cases are settled and the amount is due and payable.

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

Durant et al v State of Michigan: On November 15, 2000, more than 365 Michigan school districts and individuals filed two suits in the Michigan Court of Appeals. The first suit, Durant et al v State et al ("Durant III"), asserts that the State School Aid appropriation act, P.A. 297 of 2000, violates the Michigan Constitution, Article 9, §§ 25-34 (the "Headlee Amendment"), because it allegedly transfers per pupil revenue guaranteed to school districts under the Constitution of 1963, Article 9, § 11, for unrestricted school operating purposes, in order to satisfy the State's independent funding obligation to those school districts under Article 9, § 29. The State won this case in the Court of Appeals, and the Supreme Court denied the plaintiffs' application for leave to appeal.

The second suit, Adair et al v State et al ("Adair"), asserts that the State has, by operation of law, increased the level of various specified activities and services beyond that which was required by State law as of December 23, 1978 and, subsequent to December 23, 1978, added various specified new activities or services by State law, including mandatory increases in student instruction time, without providing funding for these new activities and services, all in violation of the Headlee Amendment. In the original complaint, the Adair plaintiffs sought an unspecified money judgment equal to the reduction in the State financed proportion of necessary costs incurred by the plaintiff school districts for each school year from 1997-1998 through the date of any judgment and for attorneys' fees and litigation costs. The Adair plaintiffs also sought a declaratory judgment that the State has failed to meet its funding responsibility under the Headlee Amendment to provide the plaintiff school districts with revenues sufficient to pay for the necessary increased costs for activities and services first required by State law after December 23, 1978, and to pay for increases in the level of required activities and services beyond that which was required by State law as of December 23, 1978.

On January 2, 2001, plaintiffs filed a first amended complaint in both Durant III and Adair increasing the number of school district plaintiffs to 443. On February 22, 2001, plaintiffs filed a second amended complaint in Durant III increasing the number of school district plaintiffs to 457. On April 16, 2001, plaintiffs filed a second amended complaint in Adair increasing the number of school district plaintiffs to 463. The second amended complaint includes a request for declaratory relief, attorneys' fees and litigation costs but does not include a request for money judgment.

On April 23, 2002, the Court of Appeals dismissed the complaint in Adair in its entirety and with prejudice. Plaintiffs filed an application for leave to appeal and a motion for immediate consideration of the application for leave to appeal in the Michigan Supreme Court on May 14, 2002, which was granted on December 18, 2002.

On June 9, 2004, the Michigan Supreme Court issued its opinion in Adair. The Court held that, with three exceptions, all of the plaintiffs' claims were barred by the doctrines of *res judicata* and release. The Court ruled that all but three of the claims that plaintiffs alleged were new or increased activities could have been included in the Durant I litigation because the activities existed during the time that the Durant I litigation was pending.

The other three claims involve statutes that were enacted after the Court's 1997 Durant I decision. The Court ruled that two of these post-Durant I statutes are not new mandates because the activities are either not new or are merely permissive. The third claim involves the record keeping activities and the operation of the Center for Educational Performance and Information, which was created by Executive Order in 2000 (MCL 380.1752; EO 2000-9). Plaintiffs alleged that the statute and Executive Order require districts to create and maintain student data following State-specified data-gathering procedures and transmit the data electronically to the State. The Supreme Court ruled that the plaintiffs' allegation that districts had to now actively participate in maintaining data that the State requires for its own purposes presents a colorable claim under the Headlee Amendment. The Court reversed the Court of Appeals' dismissal of the claim and remanded the issue to the Court of Appeals to determine whether this claim constitutes a new State-mandated activity in violation of the Headlee Amendment. A Motion to Dismiss is pending before the Court of Appeals. If the plaintiffs prevail in the record keeping claim, there could be financial liability for the State.

County Road Association of Michigan et al v John M. Engler et al: On March 6, 2002, the County Road Association of Michigan and the Chippewa County Road Commission filed a complaint in Ingham County Circuit Court challenging various provisions of Executive Order 2001-9. The Executive Order was proposed by the Governor and approved by the appropriations committees of both houses of the Legislature on November 6, 2001, for the purpose of reducing appropriated expenditures, to balance the State budget. The complaint consists of five counts, alleging that Defendant State agencies: (1) violated Article 9, Section 9 of the State Constitution, by unlawfully allowing the Department of State to bill the Department of Transportation for expenses in excess of those necessary to collect motor vehicle taxes and fees; (2) violated Article 9, Section 9 of the State Constitution, by utilizing, for non-transportation purposes, revenues from the sale of information, or products, the creation of which was funded by constitutionally restricted transportation funds; (3) violated Article 5, Section 20 and Article 9, Section 17 of the State Constitution, and MCL 247.661 *et seq* by allowing the Department of Treasury to bill the Department of Transportation for expenses in excess of those necessary to collect motor vehicle taxes and fees; (4) violated Article 9, Section 17 of the State Constitution, by transferring funds from the Comprehensive Transportation Fund (CTF) to the General Fund; and (5) violated Article 9, Section 17 of the State Constitution, by transferring funds from the Transportation Economic Development Fund to the General Fund.

Three public transit authorities have intervened in the suit, asserting a single claim identical to that alleged by Plaintiffs with respect to the CTF. The Plaintiffs and Intervenors seek preliminary and permanent injunctive relief to nullify particular provisions of Executive Order 2001-9 and to restore funding to the CTF, the Michigan Transportation Fund (MTF), and the Transportation Economic Development Fund.

The Plaintiffs and Intervenors obtained two injunctions from Ingham County Circuit Court Judge William E. Collette. One injunction barred the State from diverting $20 million to the General Fund from the MTF and the other barred the State from diverting $12.8 million to the General Fund from the CTF. The State was granted interlocutory appeals on February 19, 2003, and the Court of Appeals stayed the two injunctions. On January 13, 2004, in a published opinion, the Court of Appeals vacated the CTF injunction, and remanded for dismissal, holding that Executive Order 2001-9 legitimately diverted $12.8 million from the CTF to the General Fund. On the same day, in an unpublished opinion, the Court of Appeals reversed in part and affirmed in part the MTF injunction, holding that $12.5 million was legitimately diverted from the MTF to the General Fund but that the remainder was not. In February 2004 Intervenors filed an application in the Supreme Court seeking reversal of the Court of Appeals as to the CTF injunction.

In April 2004 the State filed an application for leave in the Supreme Court seeking reversal of the Court of Appeals as to the unfavorable portion of the decision affecting the MTF injunction. That same month Plaintiffs filed an application in the Supreme Court seeking reversal of the Court of Appeals as to the favorable portion of the decision affecting the MTF injunction. In September 2004 the Supreme Court entered an order holding the two applications concerning the MTF injunction in abeyance and notifying the parties that it is considering the application concerning the CTF injunction and the oral argument will be heard and supplemental briefs may be filed. The State may have to provide an alternate source of funding to balance the budget and make up revenue shortfalls of approximately $35 million of the original $60 million sought.

Two consolidated class actions, representing approximately 4,000 motor carriers subject to Michigan regulation, originated in the Court of Claims in Westlake, et al v State of Michigan and Troy Cab v State of Michigan, et al. The motor carriers claim a full refund of annual motor carrier authority fees and per vehicle fees (plus interest) dating back to 1982. The amount of such fees collected approximates several million dollars per year.

On March 11, 2003, the Michigan Court of Appeals dismissed all claims against the State. Plaintiffs' Applications for Leave to Appeal at the Michigan Supreme Court were denied on December 3, 2003. However, the Plaintiffs have now filed Petitions for Writs of Certiorari at the U.S. Supreme Court, which has requested briefs from the Department of Justice on the merits of the Petition. Based on the position taken in the Department of Justice briefs, it is reasonably possible that Plaintiffs will prevail. The entire potential claim, including interest, could exceed $75 million.

Comben v State of Michigan: The Court of Appeals held that in light of Section 15 of the Severance Tax Act, MCL 205.315, severed oil and gas are not subject to taxation and foreclosure under the General Property Tax Act. Plaintiff Antrim County Treasurer originally sought a declaratory ruling whether owners of severed oil and gas interests were entitled to notice of tax foreclosures under the new tax foreclosure process adopted in 1999 P.A. 123. The trial court and the Court of Appeals held that under the severance tax act and the dormant minerals act, severed oil and gas rights are not subject to taxation and foreclosure. An Application for Leave to Appeal has been filed with the Michigan Supreme Court.

The State presently holds mineral rights only in 2.1 million acres of land, and mineral and surface rights in another 3.8 million acres of land, which reverted to the State for tax delinquencies and which are administered by the Department of Natural Resources. The vast majority of these 5.9 million acres of mineral rights were obtained by tax foreclosures occurring before 1941. State revenues from oil and gas activities over the last 10 years have averaged approximately $35 million annually. A separate class action to quiet title to severed oil and gas rights and for damages is presently pending in Antrim County Circuit Court. The action is consolidated with a Court of Claims action with the same name (Black Stone Minerals v State of Michigan).

**Federal Grants**

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The receipt of federal grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations. Substantially all federal grants are subject to either federal single audits or financial and compliance audits by grantor agencies. Questioned costs as a result of these audits may become disallowances after the appropriate review of federal agencies. Material disallowances are recognized as fund liabilities in the government-wide and proprietary fund financial statements when the loss becomes probable and reasonably estimable. As of September 30, 2004, the State estimates that additional disallowances of recognized revenue will not be material to the general purpose financial statements.

Federal sanctions that may result in a loss to the State include $50.4 million for the Food Stamp Program.

Lakeland Neurocare et al v State of Michigan: Two lawsuits involving a group of eight non-Medicaid nursing homes challenge the constitutionality and legality of MCL 333.20161. Originally enacted in May 2002, this provision requires Department of Community Health (DCH) to assess a "bed tax" against all non-governmental nursing homes, to use this revenue to draw down "matching" federal funds, and to pay the combined sum to Medicaid nursing homes as increased reimbursement. For the first fiscal year, this resulted in more than $100 million in increased payments. For the 2003-2004 fiscal year, this sum more than doubled. In November 2003, Ingham County Circuit Court Judge William Collette ruled that the original version of the Act violated the constitution by not distinctly stating the assessment as a tax. In December 2003, the Legislature corrected this misunderstanding, made it retroactive to May 2002, and increased the cap on the amount the DCH could assess. In two subsequent rulings, Judge Collette has effectively exempted the plaintiff homes from payment of the tax for two periods of time. The first of those – compelling repayment of $1.3 million escrowed from 2002-2003 – is pending before the Court of Appeals on application for leave. The second of them – enjoining collection of the tax for the period October 1, 2003 through December 28, 2003 - will also be appealed when the order enters. DCH is concerned that, if allowed to stand, these exemptions will result in the federal government finding that Michigan's bed tax violates the governing law, 42 USC 1396b(w) – by not being uniformly imposed on the entire class. This translates to potential disallowances totaling more than $150 million for the two years.

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

In November 1998, the Attorney General joined 45 other states and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek restitution for monies spent by the states under Medicaid and other health care programs for treatment of smoking-related diseases and conditions. Michigan's share of the settlement is expected to be $8.5 billion over the next 25 years, and then $350.0 million per year, adjusted for inflation and other factors, in perpetuity. While Michigan's percentage share of the base payments will not change over time, the amount of the annual payment is subject to a number of modifications including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in the payments (non-participating manufacturer adjustments, for example). The net effect of these adjustments on future payments is unclear, therefore only receivables and deferred revenues which can be reasonably estimated have been recorded for the future payments.

**Construction Projects**
The Department of Transportation has entered into construction contracts that will be paid with transportation related funds. As of September 30, 2004, the balances remaining in these contracts equaled $545.5 million.

**Contingent Liability for Local School District Bonds**
Public Act 108 of 1961, as amended, resulted in a contingent liability for the bonds of any school district which are "qualified" by the Superintendent of Public Instruction. Every qualified school district is required to borrow and the State is required to lend to it any amount necessary for the school district to avoid a default on its qualified bonds. In the event that funds are not available in the School Bond Loan Fund in adequate amounts to make such a loan, the State is required to make such loans from the General Fund. As of September 30, 2004, the principal amount of qualified bonds outstanding was $13.5 billion. Total debt service requirements on these bonds including interest will approximate $1.2 billion in 2005. The amount of loans by the State (related to local school district bonds qualified under this program), outstanding to local school districts as of September 30, 2004, is $527.4 million. Interest due on these loans as of September 30, 2004, is $87.7 million.

## B. Discretely Presented Component Units

**Student Loan Guarantees**
The Michigan Higher Education Assistance Authority (MHEAA) is contingently liable for loans made to students by financial institutions that qualify for guaranty. The State, other than MHEAA, is not liable for these loans. MHEAA's default ratio is currently below 5% for the fiscal year ended September 30, 2004. As a result, the federal government's reinsurance rate for defaults for the fiscal year ended September 30, 2004, is 100% for loans made prior to October 1, 1993, and 98% for loans made on or after October 1, 1993, to September 30, 1998. In the event of future adverse default experience, MHEAA could be liable for up to 25% of defaulted loans. Management does not expect that all guaranteed loans could default in one year. At the beginning of each fiscal year, MHEAA's reinsurance rate returns to 98%.

For loans made on or after October 1, 1998, the reinsurance rate will be 95%. In the event of future adverse default experience, MHEAA could be liable for up to 25% of such defaulted loans. Accordingly, MHEAA's expected maximum contingent liability is less than 25% of outstanding guaranteed loans; however, the maximum contingent liability at September 30, 2004, is $759.4 million.

MHEAA entered into commitment agreements with all lenders that provide, among other things, that MHEAA will maintain cash and marketable securities. MHEAA was in compliance with this requirement as of September 30, 2004, at an amount sufficient to guarantee loans in accordance with the Higher Education Act of 1965, as amended.

**Multi-Family Mortgage Loans**
As of June 30, 2004, the Michigan State Housing Development Authority (MSHDA) has commitments to issue multi-family mortgage loans in the amount of $77.4 million and single-family mortgage loans in the amount of $7.7 million.

MSHDA has committed up to approximately $2.1 million per year for up to 30 years from the date of completion of the respective developments (subject to three years advance notice of termination) from its accumulated reserves and future income to subsidize operations or rents for certain tenants occupying units in certain developments funded under MSHDA's multi-family program.

# NOTE 24 – RISK MANAGEMENT

## A. Primary Government

### General

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

The State has established two internal service funds, which are described below, to account for certain aspects of the risk management program. Fund expenditures (expenses) are recognized in the paying funds in a manner similar to purchased commercial insurance. For other uninsured losses not covered by an internal service fund program, such as general liability and property losses, the State recognizes fund liabilities in the fund incurring the loss as follows: governmental funds record an expenditure when a loss is due and payable; proprietary funds record an expense when it is probable that a loss has occurred and the amount can be reasonably estimated. As explained more fully in Note 14, losses for workers' compensation and certain types of litigation losses have been recognized as liabilities in the government-wide financial statements.

For unemployment claims, the Unemployment Agency (UA) bills the State for the actual amount of claims paid to former State employees. The State accrues liabilities in the governmental fund financial statements for unemployment compensation, only to the extent paid by UA through September 30. During the 2003-2004 fiscal year, expenditures for payments to former State employees (not including university employees) totaled $15.6 million. The potential liability for future payments cannot be estimated.

The State's two internal service funds, which account for certain areas of risk management, such as portions of its employee insurance benefits, employee bonding, and automobile liability, follow accounting standards established by the GASB. This results in a reporting which is very similar to that used in the private insurance industry. The various component programs within the two funds may incur deficits during a given year, but each program's surplus and unrestricted net asset balance is considered in calculating future charges or benefit levels.

### Risk Management Fund

This fund was established during fiscal year 1989-1990 to account for insurance management activities implemented within the Department of Management and Budget. The automotive liability and administrative functions are accounted for as operating activities of this fund. Expenses and liabilities for claims, including incurred but not reported or not processed claims, have been recorded in the amount of $7.5 million. This includes a long-term portion, which is recorded at $5 million. Changes in the Risk Management Fund's claims for automobile liability for the fiscal years ending September 30, 2004 and 2003 are as follows (in millions):

| | 2004 | 2003 |
|---|---|---|
| Balance - beginning | $ 7.6 | $ 6.6 |
| Current year claims and changes in estimates | 1.7 | 3.4 |
| Claim payments | (1.7) | (2.5) |
| Balance - ending | $ 7.5 | $ 7.6 |

### State Sponsored Group Insurance Fund

The Department of Management and Budget uses this fund to account for employee and retiree insurance benefit programs, which are largely self-funded. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, based on preliminary estimates from the plan administrators, have been recorded as liabilities in the amount of $167.9 million. This includes a long-term portion, which is recorded at a discounted present value of $87.5 million using a discount rate of 10.5% (first 10 years of disability), 9.0% (next 10 years), and 6.0% thereafter for claims incurred prior to January 1, 1993. Claims incurred in past years were discounted using rates as follows in the calculation of incurred but not reported claims: 1993 and 1994 used a rate of 6.0%, 1995 used a rate of 6.25%, 1996 and 1997 used a rate of 5.75%, and 1998 through 2002 used a rate of 5.25%, and 2003 and 2004 used a rate of 5.50%.

Payments to the State Sponsored Group Insurance Fund are based on estimates of amounts needed to pay prior and current year claims. In addition, a portion of the fund's net assets has been designated for catastrophic losses. The risk management designation represents the level of reserves that should be maintained to ease large fluctuations in premium levels in years of unexpected excessive claims. That designation was $75.7 million at September 30, 2004. Unrestricted net assets totaled $86.7 million at September 30, 2004.

Changes in the State Sponsored Group Insurance Fund's claims liability for employee and retiree insurance benefit programs for the fiscal years ending September 30, 2004 and 2003 are as follows (in millions):

| | 2004 | 2003 |
|---|---|---|
| Balance - beginning | $ 179.2 | $ 172.7 |
| Current year claims and changes in estimates | 857.8 | 611.7 |
| Claim payments | (869.1) | (605.2) |
| Balance - ending | $ 167.9 | $ 179.2 |

## B. Discretely Presented Component Units

### State Universities

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

# NOTE 25 – SUBSEQUENT EVENTS

## A. Long-Term Borrowing

In October 2004, the State of Michigan issued Multi-Modal General Obligation School Loan Bonds, Series 2004C in the aggregated principal amounts of $22.0 million. The Series 2004C Bonds were issued in the Commercial Paper Rate Mode. The bonds will mature on March 21, 2024.

In November 2004, the State of Michigan issued Full Faith and Credit General Obligation Notes in the amount of $1.3 billion. The notes will mature on September 30, 2005, with interest rates of 2.0% and 3.5%.

## B. Investments

In November 2004, the value of a short-term investment held by the State of Michigan Retirement System was permanently written down resulting in a loss of $12 million. The amount of the write down was less than .03% of the total value of the portfolio, which was $47 billion at September 30, 2004.

## C. Long-Term Borrowing - Discretely Presented Component Units

Subsequent to their respective year-ends, the following discretely presented component units issued bonds and/or entered into swap agreements (in millions):

| | Bonds Issued | Swap Agreements |
|---|---|---|
| Michigan Public Educational Facilities Authority | $ 3.8 | $ - |
| Michigan State Hospital Finance Authority | 86.7 | - |
| Michigan State Housing Development Authority | 197.8 | - |
| Grand Valley State University | 28.0 | - |
| Oakland University | 31.8 | - |
| Saginaw Valley State University | 11.8 | - |
| Western Michigan University | - | 45.9 |
| Total | $ 360.0 | $ 45.9 |

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

# II FINANCIAL SECTION

## REQUIRED SUPPLEMENTARY INFORMATION

**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE**
**MAJOR GOVERNMENTAL FUNDS**
SEPTEMBER 30, 2004
(In Thousands)

| | GENERAL FUND | | | |
|---|---|---|---|---|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| Beginning budgetary fund balance | $ 884,545 | $ 884,545 | $ 884,545 | $ - |
| Resources (inflows): | | | | |
| General Purpose Revenues: | | | | |
| Taxes | 7,982,900 | 7,881,503 | 7,881,503 | - |
| Federal | 20,000 | 248,354 | 248,354 | - |
| Local | 1,000 | 2,939 | 2,939 | - |
| Licenses and permits | 18,000 | 55,181 | 55,181 | - |
| Services | 5,000 | 17,843 | 17,843 | - |
| Miscellaneous | 4,800 | 165,288 | 165,288 | - |
| Transfers in | 127,000 | 344,654 | 344,654 | - |
| Restricted Revenues: | | | | |
| Taxes | 1,987,278 | 2,808,351 | 2,808,351 | - |
| Federal | 8,926,891 | 9,010,550 | 9,010,550 | - |
| Local | 912,459 | 811,164 | 811,164 | - |
| Licenses and permits | 369,479 | 323,802 | 323,802 | - |
| Services | 102,749 | 129,840 | 129,840 | - |
| Miscellaneous | 948,442 | 380,195 | 380,195 | - |
| Proceeds from sale of capital assets | - | 4,609 | 4,609 | - |
| Transfers in | 76,551 | 168,251 | 168,251 | - |
| Total Revenue Inflows | 21,482,549 | 22,352,524 | 22,352,524 | - |
| Amounts Available for Appropriation | 22,367,094 | 23,237,069 | 23,237,069 | - |
| Charges to Appropriations (outflows): | | | | |
| Legislative Branch | 130,689 | 118,953 | 118,205 | 747 |
| Judicial Branch | 260,286 | 252,550 | 250,513 | 2,037 |
| Executive Branch: | | | | |
| Agriculture | 106,888 | 93,585 | 91,949 | 1,636 |
| Attorney General | 62,696 | 55,024 | 52,419 | 2,605 |
| Civil Rights | 13,117 | 12,587 | 12,424 | 164 |
| Civil Service | 33,303 | 25,904 | 24,449 | 1,455 |
| Colleges and Universities Grants | 1,923,331 | 1,837,995 | 1,829,853 | 8,143 |
| Community Health | 9,382,751 | 9,913,885 | 9,952,118 | (38,232) |
| Corrections | 1,746,113 | 1,694,995 | 1,648,915 | 46,080 |
| Education | 396,488 | 457,397 | 454,594 | 2,803 |
| Environmental Quality | 311,065 | 181,835 | 179,660 | 2,174 |
| Executive Office | 4,860 | 4,860 | 4,673 | 186 |
| Family Independence Agency | 3,969,486 | 3,984,155 | 3,945,671 | 38,485 |
| History, Arts & Libraries | 57,727 | 58,753 | 57,382 | 1,371 |
| Labor and Economic Growth | 749,598 | 716,658 | 715,329 | 1,329 |
| Management and Budget | 571,981 | 530,601 | 522,197 | 8,403 |
| Military and Veterans Affairs | 98,219 | 102,291 | 97,783 | 4,508 |
| Natural Resources | 93,918 | 79,002 | 78,030 | 972 |
| State | 184,165 | 174,894 | 172,991 | 1,903 |
| State Police | 467,229 | 406,726 | 403,677 | 3,049 |
| Transportation | 7,772 | 3,672 | 3,672 | - |
| Treasury | 1,780,341 | 2,477,892 | 2,464,008 | 13,884 |
| Payroll expenditure adjustment | - | 8,500 | 28,867 | (20,367) |
| Intrafund expenditure reimbursements | - | (551,792) | (551,792) | - |
| Total Charges to Appropriations | 22,352,024 | 22,640,922 | 22,557,587 | 83,335 |
| Reconciling Items: | | | | |
| Encumbrances at September 30 | - | 64,124 | 64,124 | - |
| Change in noncurrent assets | - | (112,690) | (112,690) | - |
| Net Reconciling Items | - | (48,566) | (48,566) | - |
| Ending Budgetary Fund Balance | $ 15,070 | $ 547,581 | $ 630,916 | $ 83,335 |

| COUNTER-CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND | | | | SCHOOL AID FUND | | | |
|---|---|---|---|---|---|---|---|
| ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| $ - | $ - | $ - | $ - | $ 113,978 | $ 113,978 | $ 113,978 | $ - |
| - | - | - | - | 10,120,218 | 9,970,459 | 9,970,459 | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | 11,122 | 11,122 | - |
| - | 81,258 | 81,258 | - | 585,000 | 644,886 | 644,886 | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | 1,316,682 | 1,256,727 | 1,256,727 | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | 282,100 | 377,797 | 377,797 | - |
| - | 81,258 | 81,258 | - | 12,304,000 | 12,260,991 | 12,260,991 | - |
| - | 81,258 | 81,258 | - | 12,417,978 | 12,374,969 | 12,374,969 | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | 12,553,679 | 12,342,013 | 12,302,572 | 39,440 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | 12,553,679 | 12,342,013 | 12,302,572 | 39,440 |
| - | - | - | - | - | 510 | 510 | - |
| - | - | - | - | - | 38 | 38 | - |
| - | - | - | - | - | 549 | 549 | - |
| $ - | $ 81,258 | $ 81,258 | $ - | $ (135,701) | $ 33,505 | $ 72,945 | $ (39,440) |

## REQUIRED SUPPLEMENTARY INFORMATION

### BUDGETARY COMPARISON SCHEDULE
### BUDGET-TO-GAAP RECONCILIATION
SEPTEMBER 30, 2004
(In Thousands)

| | GENERAL FUND | COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND | SCHOOL AID FUND |
|---|---|---|---|
| **Sources/inflows of resources** | | | |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule | $ 23,237,069 | $ 81,258 | $ 12,374,969 |
| Differences - budget to GAAP: | | | |
| Budgetary fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes. | (884,545) | - | (113,978) |
| Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes | (4,609) | - | - |
| Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes. | (512,905) | (81,258) | (1,022,683) |
| Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds. | $ 21,835,010 | $ - | $ 11,238,308 |
| **Uses/outflows of resources** | | | |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule. | $ 22,557,587 | $ - | $ 12,302,572 |
| Differences - budget to GAAP: | | | |
| Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes. | (64,124) | - | (510) |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes. | (822,275) | - | (3,167) |
| Capital lease acquisitions are not outflows of budgetary resources but are recorded as current expenditures and other financing sources under GAAP. | 19,661 | - | - |
| Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds. | $ 21,690,848 | $ - | $ 12,298,895 |

## Required Supplementary Information

Notes to Required Supplementary Information – Budgetary Reporting

**Statutory/Budgetary Presentation**

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most "operating" funds. (Note 2 of the basic financial statements identifies the annually budgeted operating funds.)

The original executive budget and original legislative appropriations provide general purpose (unrestricted) revenue estimates in order to demonstrate compliance with constitutional provisions. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue. Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the General Fund, the Budget Stabilization Fund, and the School Aid Fund presents both the original and final appropriated budgets for fiscal year 2003-2004, as well as the actual resource inflows, outflows and fund balance stated on the budgetary basis. The supplementary portion of this report includes a Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, by fund type, for non-major special revenue and permanent funds with annual budgets. Those schedules only include the final appropriated budget.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of October 1, 2003, and includes encumbrance and multi-year projects budgetary carry-forwards from the prior fiscal year.

The budgetary fund balance represents total fund balance, net of reserves for noncurrent assets. Reserves for noncurrent assets do not represent current financial resources available for appropriation and are removed for budgetary purposes.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the "final budget" column, therefore updated revenue estimates available for appropriations as of November 30, rather than the amounts shown in the original budget, are reported. The November 30 date is used because P.A. 431 of 1984, as amended, permits budget adjustments by the Legislature through 60 days after year-end.

The final appropriations budget represents original and supplemental appropriations, carry-forwards, carry-backs (i.e., current year appropriations for prior year overdrafts), approved transfers, executive order reductions, and timing differences. Expenditures, transfers out, other financing uses, and encumbrances are combined and classified by department rather than being reported by character and function as shown in the GAAP statements. This departmental classification is used to better reflect organizational responsibility and to be more consistent with the budget process. Appropriations include interagency expenditure reimbursement, in which one agency provides funding to another agency within the same fund. The final budget and actual amounts are adjusted to eliminate the duplication.

The timing differences result from unspent authorizations for multi-year projects, such as capital outlay and work projects, and from restricted revenues that had not been appropriated for expenditure in the current year. Such authorization balances remaining at year-end are removed from the final budget column to provide an "annualized" budget.

Positive "variances" reflect restricted revenues that were appropriated and available for expenditure in the current year and unused general purpose spending authority (lapses); negative "variances" reflect budgetary overdrafts. If both positive and negative variances exist for a particular line, the amount shown is the net variance.

**Statutory/Budgetary Reconciliation**

The statutory/budgetary basis presentation differs from GAAP in ways that do not affect ending fund balance.

For budgetary reporting purposes, expenditures and transfers out in the "Actual" column include recorded encumbrances, because they are considered uses of spending authority in the year the State incurs an obligation. The "Original" and "Final Budget" columns include encumbrance authorization balances carried over from the prior fiscal year, because they provided spending authority in the current year. In the GAAP basis statements, expenditures do not include encumbrances. The effect of this difference is reflected as a reconciling item on the Budgetary Comparison Schedule for the major funds and the Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual for the non-major special revenue funds and permanent funds. The encumbrance of spending authority is recorded as a reservation of fund balance under both bases of accounting.

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

## Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments, 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 27,534 lane miles of roads and 4,724 bridges (spans in excess of 20 feet).

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved approximately at, or above, the established condition level.

### Roads

**Measurement Scale**

The Michigan Department of Transportation (MDOT) uses numerous methods to determine the condition of roadway pavements; however, the Sufficiency Rating serves as the State's primary method to measure and monitor pavement conditions. In use since 1961, the Sufficiency Rating is a visual analysis conducted by an engineer and includes a 5-point scale, as follows:

| Rating | Bituminous Surface | Concrete Surface |
|---|---|---|
| 1.0 = Excellent | Pavement shows no visible deterioration. Distresses are non-existent. | Same |
| 2.0 = Good | Some indication of initial deterioration, but not yet requiring appreciable amounts of maintenance. Distress items include the start of small transverse and/or longitudinal cracks. Slight rutting may be apparent in the wheel path. | Some indication of initial deterioration, but not yet requiring appreciable amounts of maintenance. Distress items may include the start of small transverse and/or longitudinal cracks, or slight seam and joint separation. Joints may show very small amounts of deterioration. |
| 3.0 = Fair | Average deterioration requiring occasional routine maintenance. Distresses may include minor transverse and longitudinal cracking becoming continuous throughout the segment. Severe cracking is patched effectively. Rutting may be a little more severe and hold small amounts of water. | Average deterioration requiring occasional routine maintenance. Distresses may include minor transverse and longitudinal cracking becoming continuous throughout the segment. Severe cracking is patched effectively. Through lanes and shoulders may begin to show separation from failing tie bars. |
| 4.0 = Poor | Excessive deterioration requiring frequent maintenance and warrants resurfacing soon. Distress may be evident in wide transverse and longitudinal cracks. Severe "shallow cracking" could be evident if the pavement is composite. If the segment has been patched, the cracks may be showing through. Rutting is severe and may effect driving. | Excessive deterioration requiring frequent maintenance and warrants resurfacing soon. Distress may be evident in wide transverse and longitudinal cracks. If the segment has been patched, cracks may be showing through. Joint repairs could begin to fail. Shoulder and/or through-lane separation may be apparent. Popouts or spalling could also be present in the section. |
| 5.0 = Very Poor /Failed | Extreme deterioration requiring continuous maintenance and warrants resurfacing or total cross-section replacement. Distress items may include severe transverse and longitudinal cracking or severe alligator cracking. Shadow cracking in composite pavement is wider than 1". Rutting in wheel path may be severe and patching is no longer beneficial to pavement condition. | Extreme deterioration requiring continuous maintenance and warrants resurfacing or total cross-section replacement. Distress items may include severe transverse and longitudinal cracking, joints failing, and the patching is no longer beneficial to pavement condition. Spalling and edge cracking could also be severe. |

**Established Condition Level**

No more than 30% of the pavements shall be rated as "poor" or "very poor."

**Assessed Conditions**

The State assesses condition on a calendar year basis. The following table reports the percentage of pavements meeting ratings of "Good" or "Poor", for the past five years. "Good" represents ratings of 1.0 through 3.0 above and "Poor" represents ratings of 4.0 and 5.0.

| Rating | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Good | 80.0% | 78.1% | 78% | 78% | 75% |
| Poor | 20.0% | 21.9% | 22% | 22% | 25% |

## Bridges

**Measurement Scale**

MDOT utilizes the National Bridge Inventory to monitor the condition of bridges (spans in excess of 20 feet) under its jurisdiction. The inventory rates bridges, including the deck, superstructure and substructure, using a 10-point scale:

| Rating | Description |
|---|---|
| 9 | Excellent (no specific definition). |
| 8 | Very good. |
| 7 | Good. Some minor problems. |
| 6 | Satisfactory. Structural elements show some minor deterioration. |
| 5 | Fair. All primary structural elements are sound but may have minor section loss, cracking, spalling, or scour. |
| 4 | Poor. Advanced section loss, deterioration, spalling, or scour. |
| 3 | Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present. |
| 2 | Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored it may be necessary to close the bridge until corrective action is taken. |
| 1 | Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service. |
| 0 | Failure. Out of service; beyond corrective action. |

**Established Condition Level**

No more than 35% of the bridges shall be rated as "structurally deficient."

**Assessed Conditions**

"Structurally deficient" results when a condition of 4 or worse is assessed to at least one of the major structural elements (e.g. the deck, superstructure, or substructure). The following table reports the percentage of bridges whose condition was assessed as "structurally deficient", in the stated year:

| Calendar Year | Structurally Deficient |
|---|---|
| 2003 | 16.6% |
| 2002 | 20.3% |
| 2001 | 20.9% |
| 2000 | 22.5% |
| 1999 | 18.9% |

**Budgeted and Estimated Costs to Maintain**

The following table presents the State's estimate of spending necessary to preserve and maintain the roads and bridges at, or above, the "Established Condition Levels" cited above, and the actual amount spent during the past five fiscal years (in millions):

| Fiscal Year | Estimated Spending | Actual Spending |
|---|---|---|
| 2004-2005 | $932.0 | - |
| 2003-2004 | $921.0 | $857.6 |
| 2002-2003 | $873.6 | $791.3 |
| 2001-2002 | $993.3 | $798.2 |
| 2000-2001 | $984.3 | $915.2 |
| 1999-2000 | $817.4 | $895.3 |

The budgeting process utilized by the Department of Transportation results in spending in one fiscal year from amounts that were budgeted in a previous year(s). Therefore, this timing difference does not allow a true comparison of amounts budgeted and spent within a given year. This table, and other tables within this narrative demonstrate that the State has incurred the necessary expenditures to meet its desired condition levels.

House of Representatives Appropriations Room


Supreme Court – Senate Appropriations Room

# II FINANCIAL SECTION

## COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES - NON-MAJOR FUNDS

**BALANCE SHEET**
**NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**
SEPTEMBER 30, 2004
(In Thousands)

| | SPECIAL REVENUE | DEBT SERVICE | CAPITAL PROJECTS | PERMANENT FUNDS | TOTALS |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash | $ 1,042 | $ 4,649 | $ - | $ - | $ 5,691 |
| Equity in common cash | 999,309 | 5,510 | 3,128 | 272,013 | 1,279,959 |
| Taxes, interest, and penalties receivable | 126,383 | - | - | - | 126,383 |
| Amounts due from other funds | 909,862 | 5,690 | 45,595 | - | 961,147 |
| Amounts due from component units | 1,213 | - | 1,779 | - | 2,991 |
| Amounts due from federal agencies | 167,293 | - | 6 | - | 167,299 |
| Amounts due from local units | 58,419 | - | 3,794 | 101 | 62,315 |
| Inventories | 6,067 | - | - | - | 6,067 |
| Investments | - | 378,649 | 60,863 | - | 439,512 |
| Securities lending collateral | 4,242 | - | - | 17,532 | 21,775 |
| Other current assets | 227,064 | 370 | 1,617 | 9,072 | 238,123 |
| Total Current Assets | 2,500,895 | 394,867 | 116,782 | 298,719 | 3,311,264 |
| Taxes, interest, and penalties receivable | 1,411 | - | - | - | 1,411 |
| Advances to other funds | 21,689 | - | - | - | 21,689 |
| Amounts due from local units | 46,270 | - | - | - | 46,270 |
| Investments | 64,953 | 6,000 | - | 309,955 | 380,908 |
| Other noncurrent assets | 6,985 | - | - | - | 6,985 |
| Total Assets | $ 2,642,204 | $ 400,867 | $ 116,782 | $ 608,674 | $ 3,768,527 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Current Liabilities: | | | | | |
| Warrants outstanding | $ 60,884 | $ - | $ 69 | $ 205 | $ 61,159 |
| Obligations under security lending | 4,242 | - | - | 17,532 | 21,775 |
| Accounts payable and other liabilities | 627,671 | 4,726 | 38,405 | 44,210 | 715,012 |
| Amounts due to other funds | 104,851 | 30,000 | 79,831 | 54 | 214,735 |
| Amounts due to component units | - | - | - | 120 | 120 |
| Bonds and notes payable | - | - | 449,170 | - | 449,170 |
| Interest payable | - | - | 367 | - | 367 |
| Deferred revenue | 259,509 | - | - | - | 259,509 |
| Total Current Liabilities | 1,057,158 | 34,726 | 567,842 | 62,121 | 1,721,847 |
| Long-Term Liabilities: | | | | | |
| Advances from other funds | 21,689 | - | - | - | 21,689 |
| Deferred revenue | 19,294 | - | - | - | 19,294 |
| Total Liabilities | 1,098,140 | 34,726 | 567,842 | 62,121 | 1,762,830 |
| Fund Balances: | | | | | |
| Reserved fund balance | 1,087,404 | 300 | - | 503,775 | 1,591,479 |
| Unreserved fund balance (deficit) | 456,659 | 365,841 | (451,060) | 42,778 | 414,218 |
| Total Fund Balances | 1,544,064 | 366,141 | (451,060) | 546,553 | 2,005,697 |
| Total Liabilities and Fund Balances | $ 2,642,204 | $ 400,867 | $ 116,782 | $ 608,674 | $ 3,768,527 |

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**
FISCAL YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

| | SPECIAL REVENUE | DEBT SERVICE | CAPITAL PROJECTS | PERMANENT FUNDS | TOTALS |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes | $ 2,139,616 | $ - | $ - | $ - | $ **2,139,616** |
| From federal agencies | 1,063,757 | - | - | 832 | **1,064,589** |
| From local agencies | 130,262 | - | - | - | **130,262** |
| From services | 457 | - | - | - | **457** |
| From licenses and permits | 176,875 | - | - | - | **176,875** |
| Miscellaneous | 553,125 | 3,247 | 22,695 | 69,695 | **648,762** |
| Total Revenues | 4,064,091 | 3,247 | 22,695 | 70,528 | **4,160,560** |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | 103,758 | 586 | 290 | 711 | **105,345** |
| Education | 100,391 | 4,230 | 135,842 | - | **240,463** |
| Family independence services | 4 | - | - | 2,695 | **2,699** |
| Public safety and corrections | - | - | - | 2,695 | **2,695** |
| Conservation, environment, recreation, and agriculture | 241,947 | - | - | 14,188 | **256,134** |
| Labor, commerce, and regulatory | 189,448 | - | - | - | **189,448** |
| Health services | 98,360 | - | - | - | **98,360** |
| Transportation | 2,211,490 | 881 | - | - | **2,212,371** |
| Capital outlay | 1,004,286 | - | 36,364 | 17,403 | **1,058,052** |
| Debt Service: | | | | | |
| Bond principal retirement | - | 729,557 | - | - | **729,557** |
| Bond interest and fiscal charges | - | 241,194 | - | - | **241,194** |
| Capital lease payments | 717 | - | - | - | **717** |
| Total Expenditures | 3,950,400 | 976,448 | 172,496 | 37,691 | **5,137,036** |
| Excess of Revenues over (under) Expenditures | 113,690 | (973,201) | (149,801) | 32,836 | **(976,475)** |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Bonds and notes issued | 390,346 | - | 130,330 | - | **520,676** |
| Premium on bond issuance | 15,535 | 33,606 | 6,799 | - | **55,940** |
| Refunding bonds issued | - | 660,249 | - | - | **660,249** |
| Payment to refunded bond escrow agent | - | (247,256) | - | - | **(247,256)** |
| Proceeds from sale of capital assets | 6,903 | - | 438 | 5,286 | **12,627** |
| Transfers from other funds | 1,095,057 | 523,131 | 49,906 | 10,000 | **1,678,094** |
| Transfers to other funds | (1,504,444) | (1) | (52,109) | (10,098) | **(1,566,652)** |
| Total Other Financing Sources (Uses) | 3,396 | 969,730 | 135,364 | 5,188 | **1,113,677** |
| Excess of Revenues and Other Sources over (under) Expenditures Other Uses | 117,087 | (3,471) | (14,438) | 38,024 | **137,202** |
| Fund Balances - Beginning of fiscal year restated | 1,426,977 | 369,613 | (436,623) | 508,529 | **1,868,496** |
| Fund Balances - End of fiscal year | $ 1,544,064 | $ 366,141 | $ (451,060) | $ 546,553 | $ **2,005,697** |

**BALANCE SHEET**
**SPECIAL REVENUE FUNDS - BY CLASSIFICATION**
SEPTEMBER 30, 2004
(In Thousands)

| | TRANSPORTATION RELATED | CONSERVATION, ENVIRONMENT, AND RECREATION RELATED | REGULATORY AND ADMINISTRATIVE RELATED | OTHER STATE FUNDS | TOTALS |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash | $ 966 | $ 76 | $ - | $ - | $ 1,042 |
| Equity in common cash | 478,953 | 331,498 | 62,355 | 126,502 | 999,309 |
| Taxes, interest, and penalties receivable | 119,596 | 6,787 | - | - | 126,383 |
| Amounts due from other funds | 903,991 | - | 5,872 | - | 909,862 |
| Amounts due from component units | 1,204 | 8 | - | - | 1,213 |
| Amounts due from federal agencies | 156,655 | 507 | 10,131 | - | 167,293 |
| Amounts due from local units | 57,466 | 953 | - | - | 58,419 |
| Inventories | 5,921 | 146 | - | - | 6,067 |
| Securities lending collateral | - | 4,242 | - | - | 4,242 |
| Other current assets | 14,048 | 7,102 | 899 | 205,015 | 227,064 |
| Total Current Assets | 1,738,801 | 351,321 | 79,257 | 331,517 | 2,500,895 |
| Taxes, interest, and penalties receivable | 1,381 | 30 | - | - | 1,411 |
| Advances to other funds | 21,689 | - | - | - | 21,689 |
| Amounts due from local units | 42,720 | 3,550 | - | - | 46,270 |
| Investments | - | 64,953 | - | - | 64,953 |
| Other noncurrent assets | 3,675 | 1,539 | - | 1,772 | 6,985 |
| Total Assets | $ 1,808,265 | $ 421,393 | $ 79,257 | $ 333,289 | $ 2,642,204 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Current Liabilities: | | | | | |
| Warrants outstanding | $ 17,902 | $ 1,104 | $ 956 | $ 40,922 | $ 60,884 |
| Obligations under security lending | - | 4,242 | - | - | 4,242 |
| Accounts payable and other liabilities | 481,668 | 56,503 | 14,461 | 75,039 | 627,671 |
| Amounts due to other funds | 91,437 | 6,630 | 6,765 | 19 | 104,851 |
| Deferred revenue | 50,339 | 1,463 | 4,134 | 203,573 | 259,509 |
| Total Current Liabilities | 641,346 | 69,942 | 26,317 | 319,553 | 1,057,158 |
| Long-Term Liabilities: | | | | | |
| Advances from other funds | 21,689 | - | - | - | 21,689 |
| Deferred revenue | 17,243 | 1,569 | - | 482 | 19,294 |
| Total Liabilities | 680,277 | 71,511 | 26,317 | 320,035 | 1,098,140 |
| Fund Balances: | | | | | |
| Reserves For: | | | | | |
| Budgetary Carry-Forwards: | | | | | |
| Encumbrances | 60,134 | 19,208 | 431 | 264 | 80,037 |
| Restricted revenues | 203,157 | 91,262 | 13,442 | - | 307,861 |
| Multi-year projects | 399,706 | 28,784 | - | - | 428,490 |
| Construction and debt service | 70,272 | - | - | - | 70,272 |
| Revolving loan programs | 28,940 | 20,502 | - | - | 49,442 |
| Funds held as permanent investments | - | 121,330 | - | - | 121,330 |
| Noncurrent assets | 28,683 | - | - | 1,290 | 29,973 |
| Total Reserved | 790,892 | 281,086 | 13,873 | 1,554 | 1,087,404 |
| Unreserved | 337,096 | 68,796 | 39,067 | 11,700 | 456,659 |
| Total Fund Balances | 1,127,988 | 349,881 | 52,940 | 13,254 | 1,544,064 |
| Total Liabilities and Fund Balances | $ 1,808,265 | $ 421,393 | $ 79,257 | $ 333,289 | $ 2,642,204 |

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**SPECIAL REVENUE FUNDS - BY CLASSIFICATION**
FISCAL YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

| | TRANSPORTATION RELATED | CONSERVATION, ENVIRONMENT, AND RECREATION RELATED | REGULATORY AND ADMINISTRATIVE RELATED | OTHER STATE FUNDS | TOTALS |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes | $ 2,079,758 | $ 59,857 | $ - | $ - | **$ 2,139,616** |
| From federal agencies | 941,219 | 1,642 | 120,896 | - | **1,063,757** |
| From local agencies | 130,262 | - | - | - | **130,262** |
| From services | 457 | - | - | - | **457** |
| From licenses and permits | 70,893 | 92,564 | 13,417 | - | **176,875** |
| Miscellaneous | 58,699 | 73,968 | 63,005 | 357,454 | **553,125** |
| Total Revenues | 3,281,288 | 228,032 | 197,318 | 357,454 | **4,064,091** |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | - | 326 | 15,910 | 87,523 | **103,758** |
| Education | - | - | - | 100,391 | **100,391** |
| Family independence services | - | - | - | 4 | **4** |
| Conservation, environment, recreation, and agriculture | - | 241,947 | - | - | **241,947** |
| Labor, commerce, and regulatory | - | - | 179,224 | 10,224 | **189,448** |
| Health services | - | 316 | - | 98,043 | **98,360** |
| Transportation | 2,211,490 | - | - | - | **2,211,490** |
| Capital outlay | 985,312 | 18,974 | - | - | **1,004,286** |
| Debt Service: | | | | | |
| Capital lease payments | 160 | - | 557 | - | **717** |
| Total Expenditures | 3,196,962 | 261,563 | 195,691 | 296,185 | **3,950,400** |
| Excess of Revenues over (under) Expenditures | 84,326 | (33,531) | 1,627 | 61,269 | **113,690** |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Bonds and notes issued | 185,710 | 54,515 | - | 150,121 | **390,346** |
| Premium on bond issuance | 15,535 | - | - | - | **15,535** |
| Proceeds from sale of capital assets | 6,903 | - | - | - | **6,903** |
| Transfers from other funds | 1,046,843 | 40,448 | 7,765 | 1 | **1,095,057** |
| Transfers to other funds | (1,180,237) | (91,235) | (11,223) | (221,750) | **(1,504,444)** |
| Total Other Financing Sources (Uses) | 74,753 | 3,728 | (3,458) | (71,627) | **3,396** |
| Excess of Revenues and Other Sources over (under) Expenditures and Other Uses | 159,079 | (29,803) | (1,830) | (10,358) | **117,087** |
| Fund Balances - Beginning of fiscal year | 968,909 | 379,685 | 54,770 | 23,613 | **1,426,977** |
| Fund Balances - End of fiscal year | $ 1,127,988 | $ 349,881 | $ 52,940 | $ 13,254 | **$ 1,544,064** |

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS - BY CLASSIFICATION

FISCAL YEAR ENDED SEPTEMBER 30, 2004
(In Thousands)

| Statutory/Budgetary Basis | TRANSPORTATION RELATED | | | CONSERVATION, ENVIRONMENT, AND RECREATION RELATED | | |
|---|---|---|---|---|---|---|
| | BUDGET | ACTUAL | VARIANCE | BUDGET | ACTUAL | VARIANCE |
| **REVENUES AND OTHER SOURCES** | | | | | | |
| Taxes | $ 2,079,758 | $ 2,079,758 | $ - | $ 282 | $ 282 | $ - |
| From federal agencies | 724,369 | 724,369 | - | 1,642 | 1,642 | - |
| From local agencies | 56,093 | 56,093 | - | - | - | - |
| From services | 457 | 457 | - | - | - | - |
| From licenses and permits | 70,893 | 70,893 | - | 92,564 | 92,564 | - |
| Miscellaneous | 54,813 | 54,813 | - | 32,684 | 32,684 | - |
| Proceeds from sale of capital assets | 6,903 | 6,903 | - | - | - | - |
| Transfers in | 1,033,851 | 1,033,851 | - | 25,444 | 25,444 | - |
| Total Revenues and Other Sources | 4,027,137 | 4,027,137 | - | 152,616 | 152,616 | - |
| **EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY** | | | | | | |
| Attorney General | - | - | - | - | - | - |
| Colleges and Universities Grants | - | - | - | - | - | - |
| Community Health | - | - | - | - | - | - |
| Education | - | - | - | - | - | - |
| Labor and Economic Growth | - | - | - | - | - | - |
| Natural Resources | - | - | - | 194,053 | 183,943 | 10,109 |
| Transportation | 4,145,549 | 3,964,062 | 181,487 | - | - | - |
| Treasury | - | - | - | 7 | 7 | - |
| Total Expenditures, Transfers Out, and Encumbrances | 4,145,549 | 3,964,062 | 181,487 | 194,059 | 183,950 | 10,109 |
| Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis) | $ (118,412) | 63,075 | $ 181,487 | $ (41,443) | (31,334) | $ 10,109 |
| Reconciling Items: | | | | | | |
| Encumbrances at September 30 | | 60,134 | | | 16,545 | |
| Funds not annually budgeted | | 35,870 | | | (15,014) | |
| Net Reconciling Items | | 96,004 | | | 1,530 | |
| Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis) | | 159,079 | | | (29,803) | |
| **FUND BALANCES (GAAP BASIS)** | | | | | | |
| Beginning balances | | 968,909 | | | 379,685 | |
| Ending balances (GAAP Basis) | | $ 1,127,988 | | | $ 349,881 | |

| REGULATORY AND ADMINISTRATIVE RELATED | | | OTHER STATE FUNDS | | | TOTALS | | |
|---|---|---|---|---|---|---|---|---|
| BUDGET | ACTUAL | VARIANCE | BUDGET | ACTUAL | VARIANCE | BUDGET | ACTUAL | VARIANCE |
| $ - | $ - | $ - | $ - | $ - | $ - | $ 2,080,041 | $ 2,080,041 | $ - |
| 120,896 | 120,896 | - | - | - | - | 846,907 | 846,907 | - |
| - | - | - | - | - | - | 56,093 | 56,093 | - |
| - | - | - | - | - | - | 457 | 457 | - |
| 13,417 | 13,417 | - | - | - | - | 176,875 | 176,875 | - |
| 36,831 | 36,831 | - | 272,118 | 272,118 | - | 396,446 | 396,446 | - |
| - | - | - | - | - | - | 6,903 | 6,903 | - |
| 7,765 | 7,765 | - | 1 | 1 | - | 1,067,061 | 1,067,061 | - |
| 178,910 | 178,910 | - | 272,119 | 272,119 | - | 4,630,782 | 4,630,782 | - |
| - | - | - | 352 | 328 | 24 | 352 | 328 | 24 |
| - | - | - | 92,633 | 88,063 | 4,570 | 92,633 | 88,063 | 4,570 |
| - | - | - | 98,043 | 98,043 | - | 98,043 | 98,043 | - |
| - | - | - | 16,740 | 16,317 | 423 | 16,740 | 16,317 | 423 |
| 154,113 | 150,448 | 3,665 | 10,399 | 10,399 | - | 164,511 | 160,846 | 3,665 |
| - | - | - | - | - | - | 194,053 | 183,943 | 10,109 |
| - | - | - | - | - | - | 4,145,549 | 3,964,062 | 181,487 |
| 24,310 | 24,286 | 25 | 67,492 | 66,130 | 1,362 | 91,809 | 90,422 | 1,387 |
| 178,423 | 174,733 | 3,690 | 285,659 | 279,279 | 6,379 | 4,803,690 | 4,602,025 | 201,665 |
| $ 487 | 4,177 | $ 3,690 | $ (13,539) | (7,160) | $ 6,379 | $ (172,908) | 28,758 | $ 201,665 |
| | 431 | | | 264 | | | 77,374 | |
| | (6,438) | | | (3,462) | | | 10,955 | |
| | (6,007) | | | (3,198) | | | 88,329 | |
| | (1,830) | | | (10,358) | | | 117,087 | |
| | 54,770 | | | 23,613 | | | 1,426,977 | |
| | $ 52,940 | | | $ 13,254 | | | $ 1,544,064 | |