

State of Michigan

Comprehensive Annual Financial Report



Fiscal Year Ended September 30, 2005
Jennifer M. Granholm, Governor
Prepared by Office of the State Budget

In recognition of 150 years of operation, we have featured the Soo Locks on the cover and several pages throughout the report.

Located in the St. Mary's River at Sault Ste. Marie, the Soo Locks allow ships to navigate between Lake Superior and the lower great lakes, despite a 21-foot difference in their water levels. The locks are one of the busiest and largest lock complexes in the world, able to handle 1,000-foot freighters and over 7,000 vessels per year.

The original State Lock opened in 1855. The lock was owned and operated by the State of Michigan until 1881, when jurisdiction over the lock was transferred to the United States Army Corps of Engineers.

Today, the Soo Locks consist of four locks. The Davis Lock, completed in 1914, and the Sabin Lock, completed in 1919, are no longer used because they are too shallow for modern ships. The two locks currently in use are the MacArthur Lock, which opened in 1943, and the Poe Lock, originally opened in 1896, then rebuilt and reopened in 1968.

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

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State of Michigan
Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2005

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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Michigan

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STATE OF MICHIGAN

JENNIFER M. GRANHOLM
GOVERNOR

OFFICE OF THE STATE BUDGET
LANSING

MARY A. LANNOYE
DIRECTOR

December 28, 2005

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, 2005.

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.

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, 2005 are free of material misstatements. The OAG concluded that the Basic Financial Statements for the fiscal year ended September 30, 2005 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

U.S. Economy: The U.S. economy continues to post solid growth. Over the first eleven months of 2005, employment has risen by an average of 167,000 jobs per month. Monthly U.S. employment now exceeds its pre-recession peak by 1.7 million jobs. Manufacturing employment, however, remains well below its peak – down by nearly one-fifth.

After growing by an estimated 3.6 percent in 2005, real gross domestic product is forecast to grow 3.0 percent in 2006. Light vehicle sales are expected to remain relatively steady with sales estimated at 17.0 million units in 2005 and 16.8 million units in 2006. Unemployment, estimated at 5.1 percent for 2005, is projected to remain at that rate for 2006. The growth in consumer prices, as measured by the consumer price index, is expected to slow slightly from 3.2 percent in 2005 to 3.0 percent in 2006.

Michigan Economy: Michigan's economy relies heavily on the performance of the manufacturing sector, in general, and the auto industry, specifically. As a result, Michigan economic growth has lagged behind U.S. economic growth.

For 2005, Michigan employment is estimated to have declined by 13,000 jobs (0.3 percent) – the fifth straight year that employment has declined. From Michigan's employment peak in June 2000, Michigan has lost approximately 330,000 jobs. However, there are signs that the Michigan labor market may be improving. Through November 2005, state employment has increased in three of the past four months.

Personal income was up an estimated 4.6 percent and wages and salaries income was up an estimated 3.0 percent in 2005. Both exceeded the increase in consumer prices, as measured by the Detroit consumer price index, which is estimated at 2.7 percent for 2005.

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 0.5 percent in 2006, with employment gains averaging about 5,000 jobs per quarter. Michigan personal income and wages and salaries income are projected to rise 5.3 percent and 4.1 percent, respectively, in 2006. Consumer prices are projected to increase 2.5 percent.

MAJOR INITIATIVES AND FUTURE PROJECTS

Education: The State is committed to providing a quality education to all age levels. There are over 160 activities in 12 state departments that support the student achievement goal. Over \$14.9 billion, or 36.2 percent, of the State's total FY 2005-2006 budget is devoted to education. This includes funding for child-care and early childhood learning, K-12 education, support for colleges and universities, higher education financial assistance and adult learning opportunities.

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.

Economy: State government is committed to growing its economy by sustaining and creating business investment and jobs in Michigan. In FY 2005-2006, the State has created the 21st Century Jobs for Michigan Fund, which will invest more than \$2 billion to create thousands of new jobs and diversify the State's economy. The fund will be used to invest in new technologies that will drive Michigan's economy into the future, with the focus on four high-growth areas: the life sciences, advanced manufacturing, alternative energy, and homeland security. In addition, the State has accelerated more than \$600 million in needed road and infrastructure building projects, which will put some 11,000 citizens to work over the next five years.

The State has also provided significant tax relief for businesses. Starting in FY 2005-2006, the tax cuts are expected to save businesses roughly \$600 million over the next four years. The tax cuts are designed to provide immediate relief to Michigan's struggling automotive and manufacturing industry and to make Michigan more attractive to future investors.

Health and Human Services: For Michigan to be a great place to live and work, Michigan must protect the health of its citizens and strengthen families. Cash assistance, social services, and medical services are provided to low-income families, children and individuals to preserve and strengthen Michigan's social safety net. Public health programs and prevention services are available to encourage and support healthy behavior and positive health outcomes. For FY 2005-2006, the two departments primarily responsible for health and human services, the Department of Community Health and Human Services, account for \$14.8 billion, or 35.9 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 \$8.2 billion of the FY 2005-2006 budget.

These funds allow the State to provide health care services for over 1.4 million low-income citizens.

Hometown Security: Protection of Michigan's residents is a top priority and a core function of state government. The State will invest \$2.8 billion in FY 2005-2006 in protecting its citizens.

There are over 92 activities, in 12 departments that support the goal of protecting Michigan's citizens and communities. These range from street-level public safety programs at the Department of State Police, to military preparedness of the Michigan National Guard, to incarceration of the State's most dangerous felons.

Environment: State government is committed to the conservation, protection, management, use, and enjoyment of the State's natural resources for current and future generations. Michigan has 11,000 inland lakes, 36,000 miles of rivers and streams, and 3,000 miles of freshwater shoreline. Numerous park and recreation areas enable Michigan's citizens and visitors to enjoy outdoor recreation in a fun and safe environment on public lands and waters while benefiting the economy. Michigan lands also yield several agricultural products which rank number one nationally in the State's second largest industry – agriculture production.

Efforts to enhance the quality of Michigan's natural environment encompass 195 activities in 6 departments, primarily activities performed by the Departments of Agriculture, Environmental Quality and Natural Resources who will spend approximately \$847.3 million in FY 2005-2006 on these efforts.

Better Government: Making government in Michigan more cost effective and efficient is a primary focus of state government. Better government in Michigan means keeping the budget balanced, providing fast and friendly service to all citizens, cutting red tape, and frugally managing the workplaces, tools and equipment of state government. It also means improving collaboration in order to increase efficiencies, making Michigan more equitable for all residents, and making state government a great place to work.

The State is undertaking a number of initiatives in FY 2005-2006 that will result in administrative efficiencies or cost savings. The largest of these include implementation of the Medicare Prescription Drug Benefit, which is expected to result in \$53.5 million in pension savings; procurement process improvements that are projected to save over \$30 million; and information technology changes that are expected to save over \$10 million.

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, 2004. 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 18 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. Lannoy
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, 2004

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.



Carla E. Perry

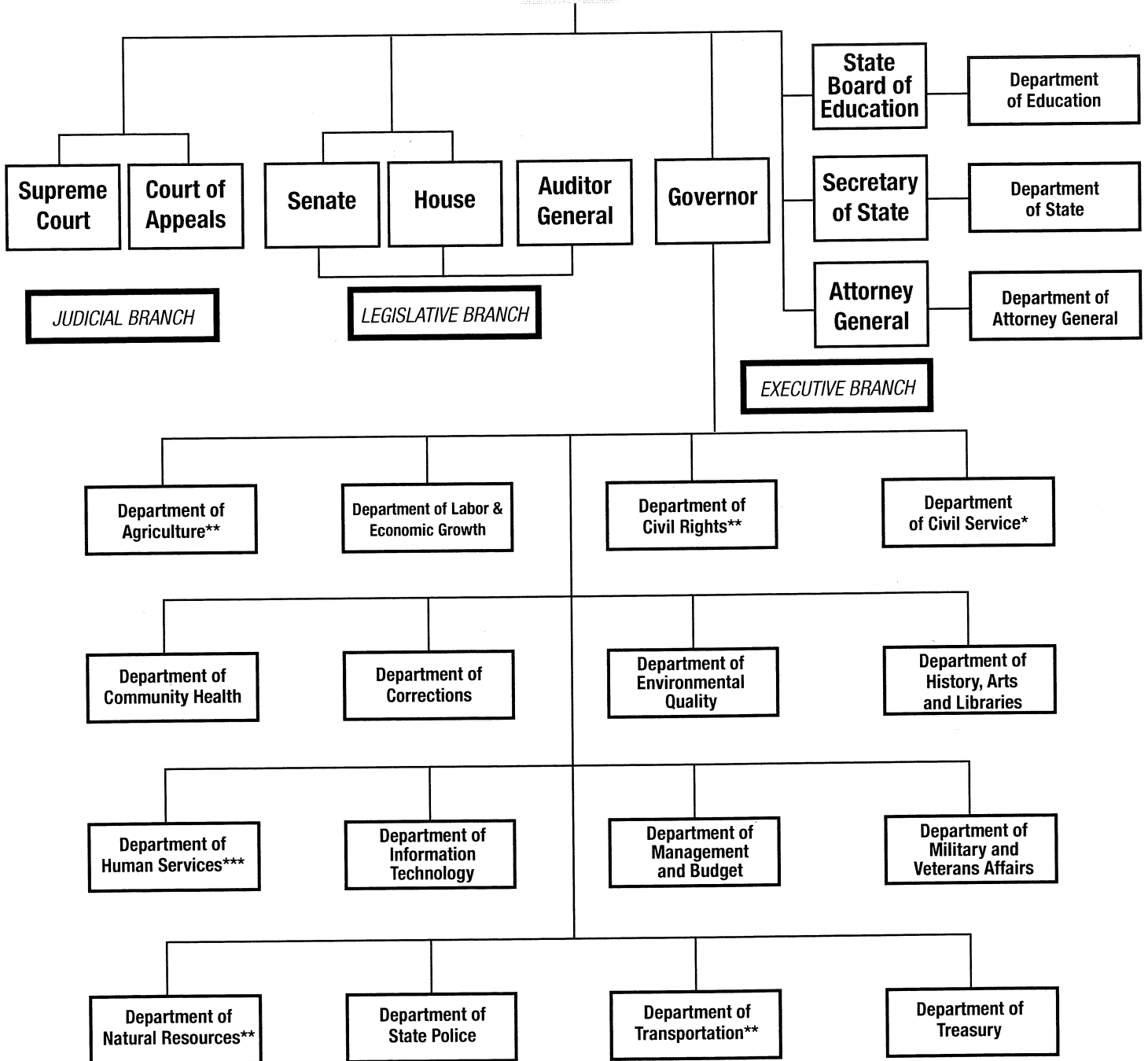
President

Jeffrey R. Emer

Executive Director

STATE OF MICHIGAN ORGANIZATIONAL STRUCTURE

**CITIZENS
OF
MICHIGAN**



* Has Commission appointed by Governor
 ** Has Commission appointed by Governor, confirmed by Senate
 *** Formerly the Family Independence Agency

STATE OF MICHIGAN
PRINCIPAL STATE OFFICIALS

JUDICIAL BRANCH

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

LEGISLATIVE BRANCH

Honorable Kenneth R. Sikkema
Majority Leader of the Senate

Honorable Craig DeRoche
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
Nancy Danhof
Marianne Yared McGuire
Reginald M. Turner
Eileen Lappin Weiser
Honorable Jennifer M. Granholm (Ex Officio)
Michael P. Flanagan
Superintendent of Public Instruction

Michigan Commission of Agriculture
James E. Byrum, Chair
Douglas E. Darling
Ann Jousma-Miller
James E. Maitland
Dale N. Norton
Mitch Irwin, Director, Department of Agriculture

Civil Rights Commission
Mark Bernstein, Chair
Mohammed Abdrabboh
Albert Calille
Kelvin W. Scott
Tarun K. Sharma
Karen Henry Stokes
Margaret M. Van Houten
Matthew Wesaw
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

Patricia L. Caruso, Director
Department of Corrections

Steven E. Chester, Director
Department of Environment Quality

William Anderson, Director
Department of History, Arts and Libraries

Marianne Udow, Director
Department of Human Services

Teresa M. Takai, Director
Department of Information Technology

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

Lisa Webb Sharpe, 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
Darnell Earley
Bob Garner
Gerald R. Hall, Jr.
John M. Madigan
Franklin C. Wheatlake
Rebecca A. Humphries, Director
Department of Natural Resources

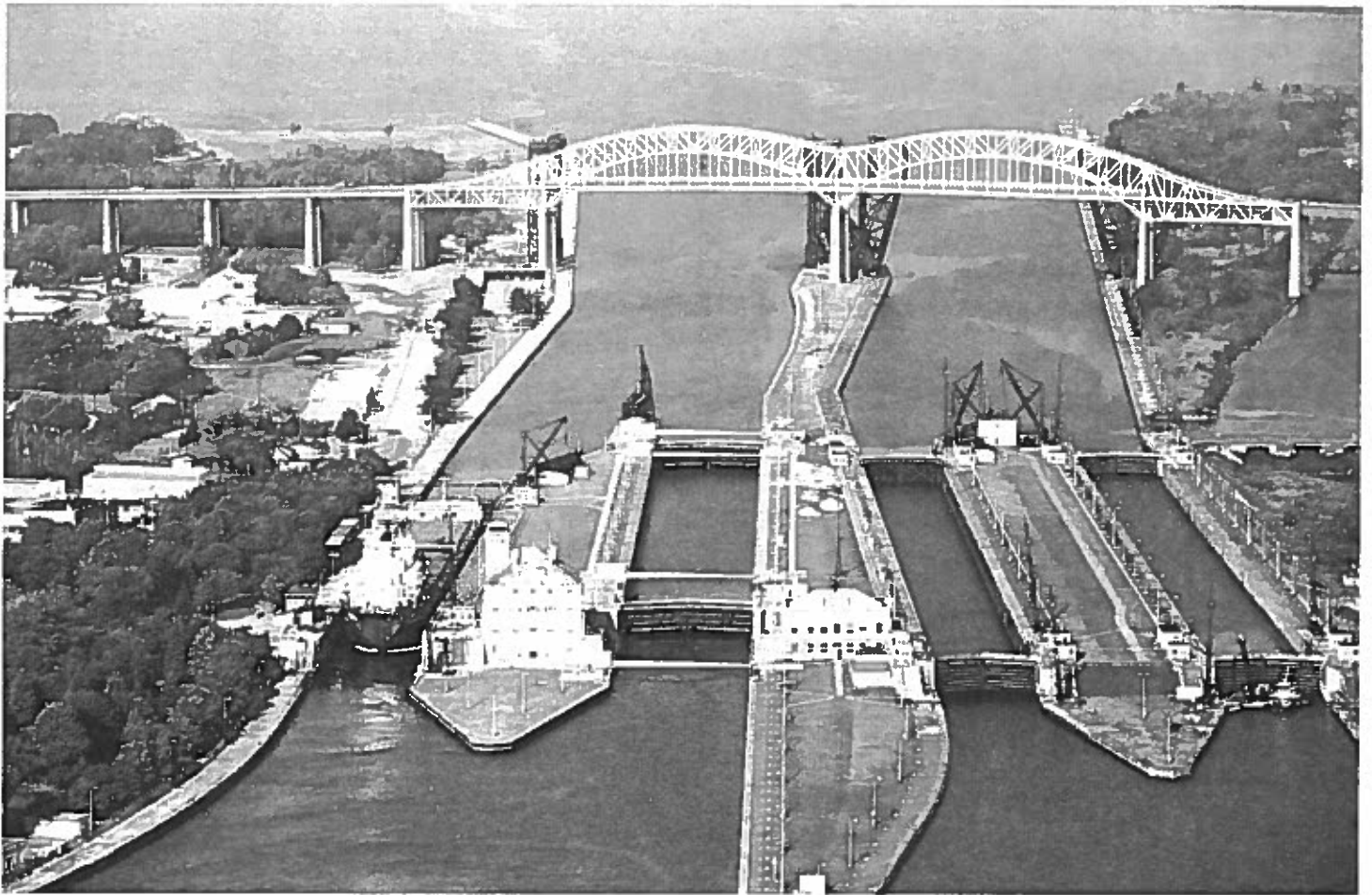
Col. Tadarial J. Sturdivant, Director
Department of State Police

Transportation Commission
Ted B. Wahby, Chair
Linda Miller Atkinson
Robert Bender
Vincent J. Brennan
Maureen Miller Brosnan
James R. Rosendall
Gloria J. Jeff, Director
Department of Transportation

Jay B. Rising, State Treasurer



The Soo Locks shortly after the Civil War



The Soo Locks today.



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, 2005, 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:

<u>Opinion Unit</u>	<u>Percent of Total Assets</u>	<u>Percent of Total Revenues/Additions</u>
Governmental Activities	1.6%	2.0%
Business-Type Activities	97.6%	84.3%
Aggregate Discretely Presented Component Units	92.6%	93.3%
State Lottery Fund	100.0%	100.0%
Michigan Unemployment Compensation Funds	100.0%	100.0%
Aggregate Remaining Fund Information	93.6%	65.3%

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



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL

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

The Honorable Jennifer M. Granholm, Governor
Members of the Legislature
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supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, as of September 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

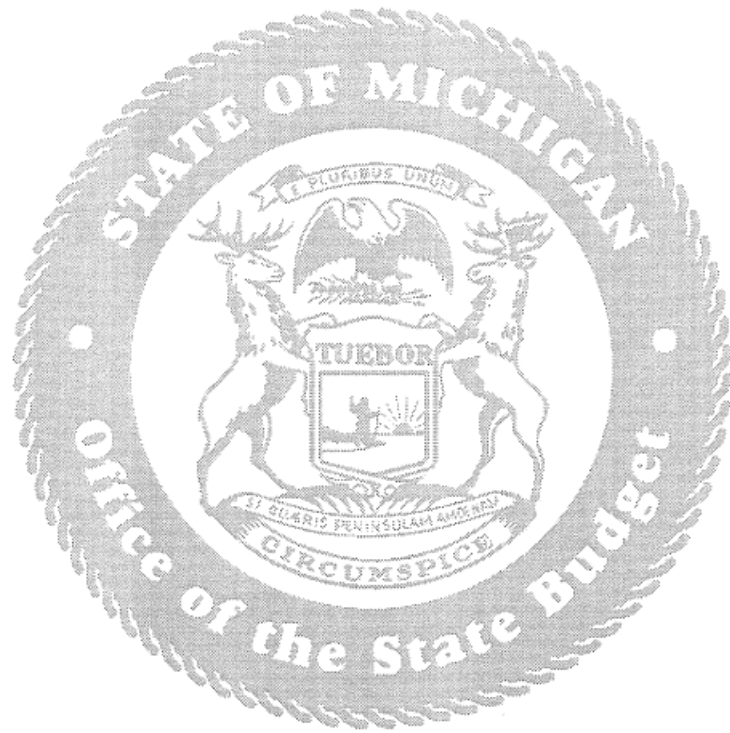
The management's discussion and analysis on pages 5 through 12, budgetary comparison schedules and corresponding notes on pages 90 through 93, and information about infrastructure assets reported using the modified approach on pages 94 and 95 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Michigan's basic financial statements. The combining and individual fund statements and schedules - non-major funds listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections listed in the table of contents have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish". The signature is written in a cursive style and is positioned above the printed name.

Thomas H. McTavish, C.P.A.
Auditor General
December 28, 2005



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, 2005. 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, 2005, the State's assets exceeded its liabilities by \$17.3 billion.
- The State's unrestricted net assets were (\$925.3) 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 increased by \$59.9 million (0.3 percent) during fiscal year 2004-2005.

Fund Level:

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$3.4 billion. Of this amount, \$412.0 million is *unreserved fund balance* and, therefore, available to fund general-purpose expenditures of the respective funds in future years. The remaining \$3.0 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 \$1.6 billion, with \$1.3 billion reserved for specific purposes such as education and multi-year projects. The General Fund and the Counter-Cyclical Budget and Economic Stabilization Fund ended the year with unreserved fund balances of \$220.5 million and \$2.0 million, respectively. In the School Aid Fund, the entire fund balance of \$98.0 million is reserved for specific purposes.
- The State's proprietary funds reported net assets at year-end of \$963.6 million. This represents a decrease of \$329.1 million (25.5 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, 2005 was \$6.3 billion. This is an increase of \$24.4 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 16 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 100 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

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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 (enterprise and internal service) funds 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 increased \$59.9 million (0.3 percent) over the course of this fiscal year's operations. The net assets of the governmental activities increased \$329.0 million (2.0 percent) and business-type activities had a decrease of \$269.0 million (or 23.0 percent).

Statement of Net Assets
For Fiscal Year Ending September 30
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004 *	2005	2004 *	2005	2004 *
Current and other non-current assets	\$9,558.5	\$ 9,601.8	\$1,956.5	\$2,189.2	\$11,515.0	\$11,791.0
Capital assets	18,955.9	18,746.0	.6	.6	18,956.5	18,746.5
Total assets	28,514.4	28,347.7	1,957.1	2,189.8	30,471.5	30,537.5
Current liabilities	4,084.2	4,359.5	637.0	543.2	4,721.2	4,902.7
Long-term liabilities	8,030.2	7,917.2	418.1	475.6	8,448.3	8,392.8
Total liabilities	12,114.4	12,276.7	1,055.1	1,018.8	13,169.5	13,295.5
Net assets:						
Invested in capital assets, net of related debt	15,245.5	15,014.1	.6	.6	15,246.0	15,014.7
Restricted	2,086.8	1,993.3	894.5	1,164.5	2,981.3	3,157.9
Unrestricted	(932.2)	(936.4)	6.9	5.9	(925.3)	(930.5)
Total net assets	\$16,400.0	\$16,071.1	\$902.0	\$1,171.0	\$17,302.0	\$17,242.1

* The prior year columns have been restated. More detailed information regarding the restatements can be found on page 49.

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The largest component, \$15.2 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 \$3.0 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 (\$925.3) 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)

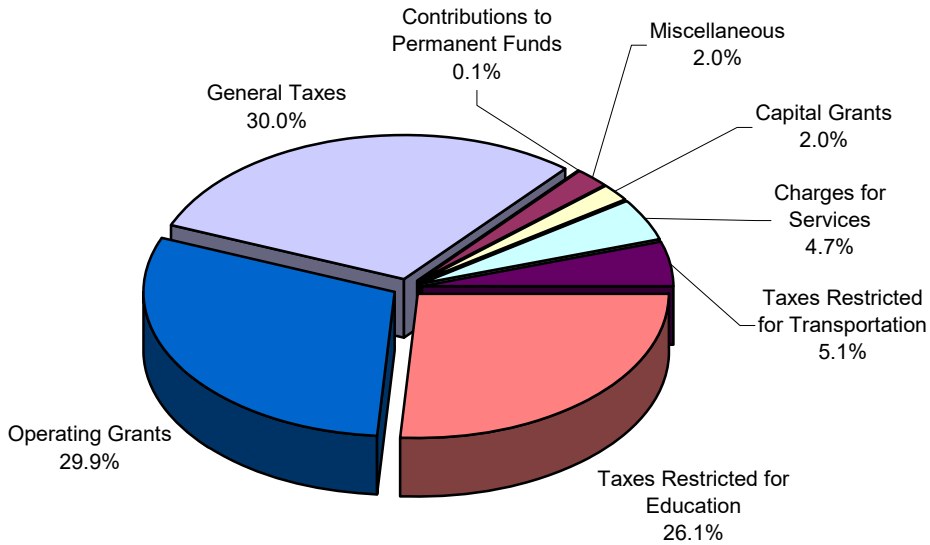
	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004 *	2005	2004	2005	2004 *
Revenues						
Program revenues						
Charges for services	\$1,871.0	\$ 1,801.4	\$ 4,422.1	\$ 4,500.6	\$ 6,293.1	\$ 6,302.0
Operating grants	11,792.1	11,783.5	54.1	76.8	11,846.3	11,860.2
Capital grants	805.6	618.4	-	-	805.6	618.4
General revenues						
General taxes	11,842.6	10,672.9	12.2	12.0	11,854.8	10,684.9
Taxes restricted for educational purposes	10,294.1	9,958.3	-	-	10,294.1	9,958.3
Taxes restricted for transportation purposes	1,995.6	2,077.0	-	-	1,995.6	2,077.0
Unrestricted investment and interest earnings	14.1	9.7	2.8	1.2	16.9	11.0
Miscellaneous	788.8	677.8	.1	-	788.9	677.8
Total revenues	<u>39,403.9</u>	<u>37,599.1</u>	<u>4,491.2</u>	<u>4,590.6</u>	<u>43,895.2</u>	<u>42,189.7</u>
Expenses						
General government	1,877.4	1,748.6	-	-	1,877.4	1,748.6
Education	14,531.4	14,418.9	-	-	14,531.4	14,418.9
Human Services	4,154.8	3,985.9	-	-	4,154.8	3,985.9
Public safety and corrections	2,320.4	2,256.4	-	-	2,320.4	2,256.4
Conservation, environment, recreation, and agriculture	652.3	674.4	-	-	652.3	674.4
Labor, commerce, and regulatory	936.5	920.1	-	-	936.5	920.1
Health services	10,179.7	9,605.2	-	-	10,179.7	9,605.2
Transportation	3,107.0	3,104.8	-	-	3,107.0	3,104.8
Tax expenditures	815.3	702.7	-	-	815.3	702.7
Intergovernmental - revenue sharing	1,112.9	1,305.1	-	-	1,112.9	1,305.1
Interest on long-term debt	287.5	247.0	-	-	287.5	247.0
Liquor Purchase Revolving Fund	-	-	557.4	544.7	557.4	544.7
State Lottery Fund	-	-	1,447.3	1,391.4	1,447.3	1,391.4
Attorney Discipline System	-	-	3.9	4.1	3.9	4.1
Michigan Unemployment Compensation Funds	-	-	1,892.5	2,349.4	1,892.5	2,349.4
Total expenses	<u>39,975.3</u>	<u>38,969.1</u>	<u>3,901.0</u>	<u>4,289.5</u>	<u>43,876.3</u>	<u>43,258.7</u>
Excess (deficiency) Before Contributions and Transfers	(571.3)	(1,370.0)	590.2	301.1	18.9	(1,068.9)
Contributions to permanent fund principal	41.0	30.8	-	-	41.0	30.8
Transfers	859.3	901.6	(859.3)	(901.6)	-	-
Increase (decrease) in net assets	329.0	(437.7)	(269.0)	(600.5)	59.9	(1,038.2)
Net assets – beginning restated	16,071.1	16,508.8	1,171.0	1,771.5	17,242.1	18,280.3
Net assets – ending	<u>\$16,400.0</u>	<u>\$16,071.1</u>	<u>\$902.0</u>	<u>\$1,171.0</u>	<u>\$17,302.0</u>	<u>\$17,242.1</u>

* The prior year columns have been restated. More detailed information regarding the restatements can be found on page 49.

Governmental Activities:

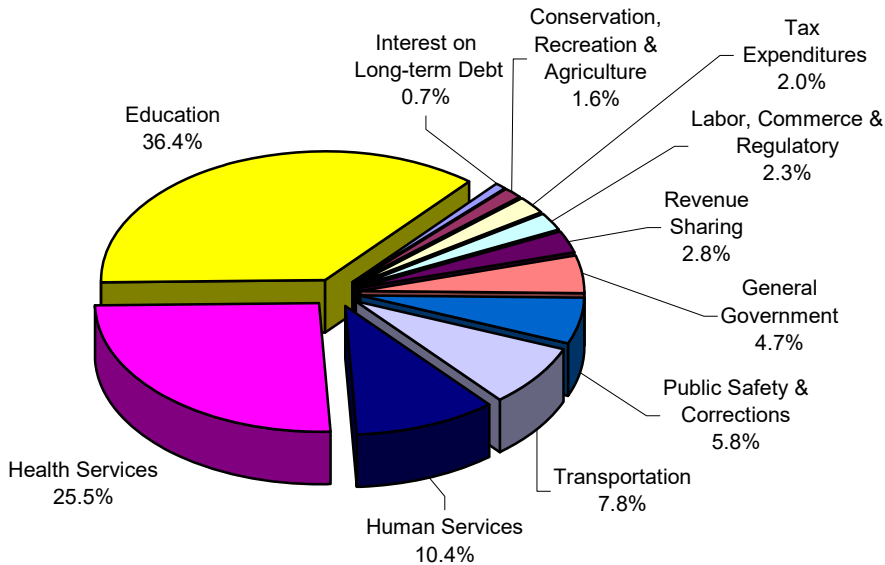
The following chart depicts revenues of the governmental activities for the fiscal year:

**Revenues - Governmental Activities for
Fiscal Year Ending September 30, 2005**
(\$39.4 billion)



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

**Expenses - Governmental Activities for
Fiscal Year Ending September 30, 2005**
(\$40.0 billion)



Business-type Activities

The business-type activities' net assets decreased by \$269.0 million (23.0 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 \$245.4 million (22.6 percent) to \$842.1 million.
- The State Lottery Fund's net assets decreased by \$24.6 million (32.0 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 \$3.4 billion. Of this total amount, \$412.0 million constitutes unreserved fund balance, which is available for appropriation for the general purposes of the funds. The General Fund (\$220.5 million) and transportation-related funds (\$171.8 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 2004-2005, the General Fund unreserved fund balance was \$220.5 million and the reserved fund balance was \$1.2 billion. Total fund balance increased during the fiscal year by \$283.6 million (24.2 percent), primarily because tax revenues were higher than anticipated.

General Fund Budgetary Highlights:

During fiscal year 2005, the State was again faced with difficult budget challenges resulting in significant expenditure reductions. In March 2005, Executive Order 2005-7 was issued authorizing expenditure reductions of \$295.1 million and transfers of unexpended balances and excess revenues from restricted revenue sources totaling \$8.2 million to be used as general fund, general purpose revenues.

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 \$8.4 billion were \$186.1 million more than the original estimate of \$8.2 billion.
- Restricted revenue inflows of \$14.3 billion were \$215.3 million more than the estimated \$14.1 billion.
- The General Fund received transfers of \$465.1 million from other appropriated funds; the largest transfers were from the Liquor Purchase Revolving Fund and the Counter-Cyclical Budget and Economic Stabilization Fund.

Differences between the final budget and actual spending result from spending authority lapses of \$65.4 million and restricted revenue authorized but not spent of \$7.8 million.

The Department of Human Services finished the year with line item over-expenditures of \$8.0 million. All other agencies finished the year with lapses.

School Aid Fund

Fund balance at September 30, 2005, totaled \$98.0 million, an increase of \$23.9 million (32.3 percent) from the prior year. Revenues and transfers to the fund totaled \$12.5 billion. Expenditures to school districts and other costs increased by \$94.3 million from the previous year and totaled \$12.4 billion.

Counter-Cyclical Budget and Economic Stabilization Fund

Fund balance decreased by \$79.3 from the previous year as a result of the transfer to the General Fund.

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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2004-2005, the State had invested \$19.0 billion, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$177.3 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004 *	2005	2004	2005	2004 *
	Land	\$3,178.5	\$ 3,113.7	\$ -	\$ -	3,178.5
Land improvement	83.6	86.5	-	-	83.6	86.5
Buildings and improvements	2,118.0	2,041.8	-	-	2,118.0	2,041.8
Equipment	131.1	144.5	.6	.6	131.7	145.0
Infrastructure	12,405.7	12,012.6	-	-	12,405.7	12,012.6
Other	19.8	19.8	-	-	19.8	19.8
Subtotal	17,936.7	17,418.8	.6	.6	17,937.3	17,419.4
Construction in progress	1,019.1	1,327.1	-	-	1,019.1	1,327.1
Total	18,955.9	18,746.0	\$.6	\$.6	18,956.5	18,746.6

The most significant impact on capital assets during the year resulted from the road and bridge construction and repair projects.

* The prior year columns have been restated. More detailed information regarding the restatements can be found on page 49.

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 27,557 lane miles of roads and 4,734 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 2004, indicated that 19.0% 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 (2004) indicated that the condition of the bridges had improved from the condition reported for 2003. For calendar year 2004, 15.8% of the bridges were assessed as structurally deficient.

The State's fiscal year 2005-2006 capital outlay appropriations projects spending \$228.3 million for new construction and special maintenance projects. In addition, \$460.2 million of unspent capital outlay authorizations that existed at September 30, 2005 is available to spend in fiscal year 2006. 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.

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Outstanding Bonded Debt as of September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
General obligation bonds (backed by the State)	\$1,645.1	\$1,527.5	\$ -	\$ -	\$1,645.1	\$1,527.5
Revenue bonds and notes (backed by specific tax and fee revenues)	4,280.8	3,987.7	-	-	4,280.8	3,987.7
Total	\$5,925.9	\$5,515.2	\$ -	\$ -	\$5,925.9	\$5,515.2

During the year, the State issued general obligation refunding bonds to retire older bonds and to make loans to local school districts, resulting in an increase of \$117.6 million. In addition, the State issued revenue-dedicated bonds to retire grant anticipation notes and to secure more favorable interest rates and reduce certain debt service payments.

Bond Ratings

The State's general obligations are rated AA by Standard & Poors and Aa2 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 2004-2005 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.

For 2005, employment is estimated to have declined by 13,000 jobs (0.3 percent) – the fifth straight year that Michigan employment has declined. From Michigan's employment peak in June 2000, Michigan has lost approximately 330,000 jobs. However, there are signs the Michigan labor market may be improving. Through November 2005, state employment has increased in three of the last four months.

Personal income was up an estimated 4.6 percent and wages and salaries income was up an estimated 3.0 percent in 2005. Both exceeded the increase in consumer prices, as measured by the Detroit consumer price index, which is estimated at 2.7 percent for 2005.

With continued U.S. economic growth, smaller declines in manufacturing sector employment, and improvements in the private non-manufacturing section, Michigan employment is expected to grow 0.5 percent in 2006, with employment gains averaging about 5,000 jobs per quarter. Michigan personal income and wages and salaries income are projected to rise 5.3 percent and 4.1 percent, respectively, in 2006. Consumer prices are projected to increase 2.5 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

Michigan

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2005

(In Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
ASSETS				
Current Assets:				
Cash	\$ 7,393	\$ 6,140	\$ 13,533	\$ 542,982
Equity in common cash (Note 5)	1,122,502	70,989	1,193,491	107,429
Taxes, interest, and penalties receivable (Note 6)	4,814,898	-	4,814,898	-
Internal balances	15,132	(15,132)	-	-
Amounts due from component units	44,166	393	44,559	216
Amounts due from primary government	-	-	-	174,653
Amounts due from federal government	848,304	1,218	849,523	34,129
Amounts due from local units	170,635	39,811	210,446	1,007,136
Inventories	44,151	6,572	50,723	17,212
Investments (Note 8)	210,625	726,223	936,848	1,318,384
Securities lending collateral (Note 8)	21,855	409,170	431,025	-
Other current assets	624,570	274,636	899,206	460,419
Total Current Assets	<u>7,924,231</u>	<u>1,520,020</u>	<u>9,444,251</u>	<u>3,662,560</u>
Restricted Assets:				
Cash and cash equivalents	-	-	-	49,368
Investments	-	-	-	346,772
Mortgages and loans receivable	-	-	-	1,800,441
Taxes, interest, and penalties receivable (Note 6)	283,679	-	283,679	-
Amounts due from federal government	10,326	-	10,326	-
Amounts due from local units	710,536	-	710,536	2,613,898
Mortgages and loans receivable	-	-	-	1,542,620
Investments (Note 8)	551,867	420,885	972,752	3,356,171
Capital Assets (Note 9):				
Land and other non-depreciable assets	3,215,422	-	3,215,422	106,120
Buildings, equipment, and other depreciable assets	4,719,180	4,741	4,723,921	4,239,824
Less accumulated depreciation	(2,143,575)	(4,159)	(2,147,735)	(1,533,178)
Infrastructure	12,145,718	-	12,145,718	102,722
Construction in progress	1,019,125	-	1,019,125	87,883
Total capital assets	18,955,870	582	18,956,452	3,003,371
Interest in joint ventures (Note 7)	31,909	-	31,909	-
Other noncurrent assets	45,993	15,600	61,593	294,024
Total Assets	<u>\$ 28,514,411</u>	<u>\$ 1,957,087</u>	<u>\$ 30,471,498</u>	<u>\$ 16,669,225</u>
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 147,086	\$ 1,443	\$ 148,529	\$ 1,548
Obligations under security lending	21,855	409,170	431,025	-
Accounts payable and other liabilities	2,213,233	225,296	2,438,530	279,894
Income tax refunds payable (Note 15)	681,712	-	681,712	-
Amounts due to component units	3,102	-	3,102	-
Amounts due to primary government	-	-	-	46,180
Bonds and notes payable (Notes 12 and 13)	522,117	-	522,117	1,215,397
Interest payable	112,481	-	112,481	119,595
Deferred revenue	126,007	719	126,726	57,612
Current portion of other long-term obligations (Note 14)	256,618	367	256,985	101,737
Total Current Liabilities	<u>4,084,211</u>	<u>636,995</u>	<u>4,721,207</u>	<u>1,821,963</u>
Prize awards payable (Note 14)	-	371,917	371,917	-
Deferred revenue	21,865	-	21,865	2,613
Bonds and notes payable (Notes 12 and 13)	6,079,184	-	6,079,184	7,735,404
Noncurrent portion of other long-term obligations (Note 14)	1,929,156	46,189	1,975,345	1,542,264
Total Liabilities	<u>\$ 12,114,417</u>	<u>\$ 1,055,101</u>	<u>\$ 13,169,518</u>	<u>\$ 11,102,246</u>

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

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 15,245,452	\$ 582	\$ 15,246,033	\$ 1,940,459
Restricted For:				
Education	-	-	-	205,728
Construction and debt service	91	-	91	316,717
Public safety and corrections	9,039	-	9,039	-
Conservation, environment, recreation, and agriculture	391,271	-	391,271	-
Health and human services	45,908	-	45,908	-
Transportation	811,241	-	811,241	-
Unemployment compensation	-	842,062	842,062	-
Labor and economic growth	116,096	-	116,096	-
Other purposes	113,545	52,451	165,997	1,620,446
Funds Held as Permanent Investments:				
Expendable	101,210	-	101,210	39,085
Nonexpendable	498,362	-	498,362	204,899
Unrestricted	(932,221)	6,891	(925,330)	1,239,647
Total Net Assets	<u>\$ 16,399,994</u>	<u>\$ 901,986</u>	<u>\$ 17,301,980</u>	<u>\$ 5,566,979</u>

Michigan

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

Functions/Programs	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General government	\$ 1,877,410	\$ 876,151	\$ 51,635	\$ 21,673
Education	14,531,388	4,858	1,383,342	-
Human services	4,154,811	53,400	2,951,412	-
Public safety and corrections	2,320,406	155,683	151,485	-
Conservation, environment, recreation, and agriculture	652,326	269,035	153,849	188
Labor, commerce, and regulatory	936,467	238,229	545,421	-
Health services	10,179,705	72,062	6,160,364	-
Transportation	3,106,993	201,598	394,620	783,718
Tax expenditures (Note 15)	815,300	-	-	-
Intergovernmental-revenue sharing	1,112,931	-	-	-
Interest on long-term debt	287,519	-	-	-
Total governmental activities	39,975,258	1,871,016	11,792,127	805,580
Business-type Activities:				
Liquor Purchase Revolving Fund	557,377	688,928	-	-
State Lottery Fund	1,447,285	2,082,229	20,708	-
Attorney Discipline System	3,856	4,588	-	-
Michigan Unemployment Compensation Funds	1,892,486	1,646,311	33,440	-
Total business-type activities	3,901,003	4,422,057	54,148	-
Total primary government	\$ 43,876,261	\$ 6,293,073	\$ 11,846,275	\$ 805,580
Component Units:				
Authorities:				
Michigan Education Trust	\$ 49,864	\$ 153	\$ 26,934	\$ -
Michigan State Housing Development Authority	519,075	162,217	381,733	-
Michigan Municipal Bond Authority	159,152	102,152	157,528	-
Non-Major	469,908	138,604	248,474	4,625
State Universities:				
Central Michigan University	299,039	195,389	31,399	1,767
Western Michigan University	420,818	257,467	53,959	2,008
Non-Major	1,301,183	756,214	168,125	19,995
Total component units	\$ 3,219,038	\$ 1,612,196	\$ 1,068,152	\$ 28,395

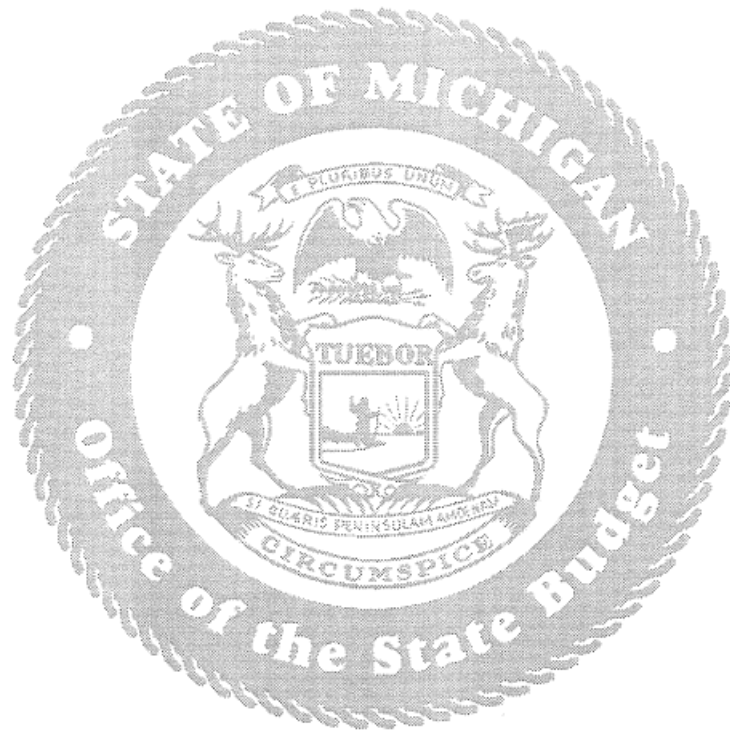
General Revenues:

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
\$ (927,950)	\$ -	\$ (927,950)	\$ -
(13,143,188)	-	(13,143,188)	-
(1,149,999)	-	(1,149,999)	-
(2,013,239)	-	(2,013,239)	-
(229,254)	-	(229,254)	-
(152,818)	-	(152,818)	-
(3,947,280)	-	(3,947,280)	-
(1,727,057)	-	(1,727,057)	-
(815,300)	-	(815,300)	-
(1,112,931)	-	(1,112,931)	-
(287,519)	-	(287,519)	-
(25,506,535)	-	(25,506,535)	-
-	131,551	131,551	-
-	655,652	655,652	-
-	732	732	-
-	(212,734)	(212,734)	-
-	575,202	575,202	-
(25,506,535)	575,202	(24,931,333)	-
-	-	-	(22,777)
-	-	-	24,876
-	-	-	100,527
-	-	-	(78,205)
-	-	-	(70,483)
-	-	-	(107,384)
-	-	-	(356,849)
-	-	-	(510,295)
2,663,226	-	2,663,226	-
5,036,282	-	5,036,282	-
1,934,003	-	1,934,003	-
2,209,052	12,194	2,221,247	-
5,283,583	-	5,283,583	-
2,019,932	-	2,019,932	-
2,236,159	-	2,236,159	-
754,431	-	754,431	-
56,924	-	56,924	-
1,068,565	-	1,068,565	-
863,367	-	863,367	-
6,719	-	6,719	-
14,141	2,784	16,925	84,110
788,809	50	788,859	42,633
41,033	-	41,033	-
-	-	-	670,687
859,260	(859,260)	-	-
25,835,487	(844,232)	24,991,255	797,430
328,952	(269,030)	59,922	287,134
16,071,042	1,171,016	17,242,058	5,279,845
\$ 16,399,994	\$ 901,986	\$ 17,301,980	\$ 5,566,979



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 in 1977 to assist in stabilizing revenue during periods of economic recession. This fund is governed by Article 3 of PA 431 of 1984, as amended. 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 100.

Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2005
 (In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 6,884	\$ -	\$ -	\$ 291	\$ 7,175
Equity in common cash (Note 5)	-	1,953	-	894,268	896,221
Taxes, interest, and penalties receivable (Note 6)	2,737,912	-	1,964,627	112,359	4,814,898
Amounts due from other funds (Note 17)	1,573,606	-	10,579	888,314	2,472,499
Amounts due from component units	384	-	41,100	2,601	44,085
Amounts due from federal agencies	617,239	-	48,073	182,992	848,304
Amounts due from local units	53,527	-	34,182	82,926	170,635
Inventories	22,795	-	-	6,590	29,385
Investments (Note 8)	-	-	-	210,625	210,625
Securities lending collateral	-	-	-	21,855	21,855
Other current assets	342,732	-	-	256,261	598,993
Total Current Assets	<u>5,355,079</u>	<u>1,953</u>	<u>2,098,562</u>	<u>2,659,081</u>	<u>10,114,674</u>
Taxes, interest, and penalties receivable (Note 6)	234,537	-	47,435	1,707	283,679
Advances to other funds (Note 17)	6,956	-	-	19,783	26,739
Amounts due from federal agencies	10,326	-	-	-	10,326
Amounts due from local units	661,230	-	3,554	45,752	710,536
Investments (Note 8)	-	-	-	551,867	551,867
Other noncurrent assets	1,633	-	-	5,001	6,634
Total Assets	<u>\$ 6,269,760</u>	<u>\$ 1,953</u>	<u>\$ 2,149,551</u>	<u>\$ 3,283,191</u>	<u>\$ 11,704,455</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 90,992	\$ -	\$ 286	\$ 54,186	\$ 145,465
Obligations under security lending	-	-	-	21,855	21,855
Accounts payable and other liabilities (Note 22)	1,397,945	-	124,139	592,985	2,115,069
Income tax refunds payable (Note 15)	681,712	-	-	-	681,712
Amounts due to other funds (Note 17)	819,562	-	1,549,336	129,198	2,498,096
Amounts due to component units	2,996	-	-	106	3,102
Bonds and notes payable	-	-	-	334,177	334,177
Interest payable	-	-	-	883	883
Deferred revenue	1,486,595	-	330,387	260,907	2,077,889
Total Current Liabilities	<u>4,479,803</u>	<u>-</u>	<u>2,004,148</u>	<u>1,394,297</u>	<u>7,878,248</u>
Long-Term Liabilities:					
Advances from other funds (Note 17)	-	-	-	19,783	19,783
Deferred revenue	336,564	-	47,435	18,140	402,139
Total Liabilities	<u>4,816,368</u>	<u>-</u>	<u>2,051,583</u>	<u>1,432,220</u>	<u>8,300,171</u>
Fund Balances:					
Reserved fund balance (Note 21)	1,232,856	-	97,968	1,661,495	2,992,318
Unreserved fund balance reported in:					
General Fund	220,537	-	-	-	220,537
Special revenue funds	-	1,953	-	301,274	303,226
Debt service funds	-	-	-	194,586	194,586
Capital projects funds	-	-	-	(349,643)	(349,643)
Permanent funds	-	-	-	43,259	43,259
Total Fund Balances	<u>1,453,393</u>	<u>1,953</u>	<u>97,968</u>	<u>1,850,971</u>	<u>3,404,284</u>
Total Liabilities and Fund Balances	<u>\$ 6,269,760</u>	<u>\$ 1,953</u>	<u>\$ 2,149,551</u>	<u>\$ 3,283,191</u>	<u>\$ 11,704,455</u>

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, 2005

(In Thousands)

Total fund balances for governmental funds		\$ 3,404,284
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	3,215,422	
Buildings, equipment, and other depreciable assets	4,250,447	
Infrastructure	12,145,718	
Construction in progress	1,019,125	
Interest in joint ventures	31,909	
Accumulated depreciation	<u>(1,761,747)</u>	18,900,874
Certain tax revenues are earned but not available and therefore are not reported in the funds.		2,037,535
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		302,328
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.		61,585
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)		1,757
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.		37,545
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	(389,721)	
Compensated absences	(519,518)	
Workers' compensation	(106,646)	
Litigation	(600,937)	
Net pension obligations	(349,206)	
Other long-term liabilities	<u>(1,164)</u>	(1,967,192)
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	(6,097,854)	
Unamortized premiums	(306,291)	
Less deferred loss amount on refundings	137,022	
Accrued interest payable	<u>(111,598)</u>	<u>(6,378,722)</u>
Net assets of governmental activities		<u>\$ 16,399,994</u>

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

Michigan

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
REVENUES					
Taxes	\$ 11,698,151	\$ -	\$ 10,242,334	\$ 1,996,478	\$ 23,936,964
From federal agencies	9,424,817	-	1,321,710	1,227,479	11,974,006
From local agencies	107,240	-	-	155,635	262,875
From services	261,786	-	-	3,170	264,956
From licenses and permits	264,559	-	-	158,941	423,501
Special Medicaid reimbursements	467,970	-	-	-	467,970
Miscellaneous	665,918	1,995	62,455	745,009	1,475,377
Total Revenues	22,890,442	1,995	11,626,499	4,286,712	38,805,648
EXPENDITURES					
Current:					
General government	1,146,480	-	-	160,968	1,307,448
Education	2,005,567	-	12,393,232	158,233	14,557,032
Human services	4,120,300	-	-	2,479	4,122,779
Public safety and corrections	2,284,662	-	-	2,790	2,287,452
Conservation, environment, recreation, and agriculture	341,130	-	-	273,809	614,939
Labor, commerce, and regulatory	738,579	-	-	186,297	924,876
Health services	9,957,302	-	-	169,243	10,126,544
Transportation	-	-	-	2,167,888	2,167,888
Tax expenditures (Note 15)	815,300	-	-	-	815,300
Capital outlay	34,597	-	-	1,239,649	1,274,247
Intergovernmental-revenue sharing	1,112,931	-	-	-	1,112,931
Debt service:					
Bond principal retirement	-	-	-	354,711	354,711
Bond interest and fiscal charges	-	-	-	276,216	276,216
Capital lease payments	49,069	-	-	461	49,530
Total Expenditures	22,605,917	-	12,393,232	4,992,744	39,991,894
Excess of Revenues over (under) Expenditures	284,525	1,995	(766,733)	(706,033)	(1,186,245)
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	-	-	-	365,164	365,164
Premium on bond issuance	-	-	-	97,857	97,857
Refunding bonds issued	-	-	-	1,528,539	1,528,539
Payment to refunded bond escrow agent	-	-	-	(1,609,886)	(1,609,886)
Capital lease acquisitions	6,778	-	-	-	6,778
Proceeds from sale of capital assets	3,037	-	-	7,606	10,643
Transfers from other funds (Note 19)	465,174	-	831,722	1,627,187	2,924,083
Transfers to other funds (Note 19)	(475,940)	(81,300)	(41,091)	(1,465,161)	(2,063,492)
Total Other Financing Sources (Uses)	(952)	(81,300)	790,631	551,306	1,259,686
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	283,574	(79,305)	23,898	(154,726)	73,440
Fund Balances - Beginning of fiscal year	1,169,819	81,258	74,070	2,005,697	3,330,844
Fund Balances - End of fiscal year	\$ 1,453,393	\$ 1,953	\$ 97,968	\$ 1,850,971	\$ 3,404,284

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, 2005

(In Thousands)

Net change in fund balance - total governmental funds \$ 73,440

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	64,810	
Buildings, equipment, and other depreciable assets	203,987	
Infrastructure additions	398,406	
Construction in progress	(308,024)	
Loss on disposal of capital assets	(7,869)	
Accumulated depreciation	<u>(133,929)</u>	217,382

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. 3,723

Increase in equity interest in joint ventures (Note 7) 436

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. 205,751

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. (60,035)

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)

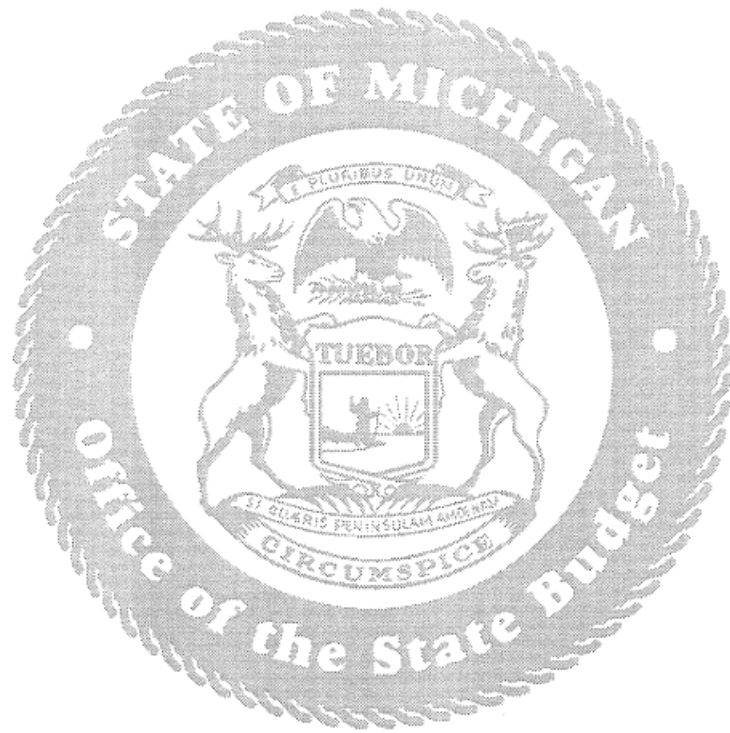
Bond proceeds and premiums received	(1,991,560)	
Repayment of bond principal	354,711	
Payment to refunded bond escrow agent	1,609,886	
Accrued interest and amortization	406	
Deferred issue costs	11,358	
Other	<u>66</u>	(15,132)

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	(57,460)	
Capital lease payments	21,580	
Compensated absences payments	(51,566)	
Litigation settlements and payments	(9,295)	
Workers' compensation	(154)	
Other	<u>282</u>	<u>(96,613)</u>

Change in net assets of governmental activities \$ 328,952

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 164.

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page 168.

Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
 SEPTEMBER 30, 2005
 (In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
ASSETS					
Current Assets:					
Cash	\$ 2	\$ 5,075	\$ 1,063	\$ 6,140	\$ 219
Equity in common cash (Note 5)	6,200	7,312	57,477	70,989	226,281
Amounts due from other funds (Note 17)	-	5,007	-	5,007	16,956
Amounts due from component units	-	393	-	393	82
Amounts due from federal agencies	-	1,218	-	1,218	-
Amounts due from local units	-	39,811	-	39,811	-
Inventories	3,358	-	3,214	6,572	14,765
Investments (Note 8)	93,378	630,976	1,869	726,223	-
Securities lending collateral	409,170	-	-	409,170	-
Other current assets	55,615	211,634	7,387	274,636	24,498
Total Current Assets	<u>567,723</u>	<u>901,426</u>	<u>71,010</u>	<u>1,540,159</u>	<u>282,800</u>
Investments (Note 8)	420,885	-	-	420,885	-
Capital Assets (Note 9):					
Buildings and equipment	4,019	-	722	4,741	468,733
Allowance for depreciation	(3,475)	-	(684)	(4,159)	(381,828)
Total capital assets	<u>544</u>	<u>-</u>	<u>38</u>	<u>582</u>	<u>86,905</u>
Other noncurrent assets	-	15,600	-	15,600	-
Total Assets	<u>\$ 989,151</u>	<u>\$ 917,026</u>	<u>\$ 71,048</u>	<u>\$ 1,977,225</u>	<u>\$ 369,706</u>
LIABILITIES					
Current Liabilities:					
Warrants outstanding	\$ 790	\$ -	\$ 653	\$ 1,443	\$ 1,621
Accounts payable and other liabilities (Note 22)	141,941	21,639	61,525	225,105	64,503
Amounts due to other funds (Note 17)	10,712	9,505	113	20,330	8,809
Deferred revenue	-	434	285	719	7,649
Obligations under security lending (Note 8)	409,170	-	-	409,170	-
Current portion of other long-term obligations (Note 14)	195	-	172	367	91,449
Total Current Liabilities	<u>562,808</u>	<u>31,578</u>	<u>62,748</u>	<u>657,134</u>	<u>174,031</u>
Long-Term Liabilities:					
Advances from other funds (Note 17)	-	-	-	-	6,956
Prize awards payable	371,917	-	-	371,917	-
Noncurrent portion of other long-term obligations (Note 14)	1,975	43,386	828	46,189	127,134
Total Liabilities	<u>936,700</u>	<u>74,964</u>	<u>63,575</u>	<u>1,075,239</u>	<u>308,120</u>
NET ASSETS					
Invested in capital assets, net of related debt	\$ 544	\$ -	\$ 38	\$ 582	\$ 70,376
Restricted For:					
Unemployment compensation	-	842,062	-	842,062	-
Other purposes	52,451	-	-	52,451	3,137
Unrestricted	(544)	-	7,434	6,891	(11,928)
Total Net Assets	<u>\$ 52,451</u>	<u>\$ 842,062</u>	<u>\$ 7,472</u>	<u>\$ 901,986</u>	<u>\$ 61,585</u>

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

Michigan

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
OPERATING REVENUES					
Operating revenues	\$ 2,082,229	\$ 1,646,311	\$ 693,516	\$ 4,422,056	\$ 1,536,815
Total Operating Revenues	<u>2,082,229</u>	<u>1,646,311</u>	<u>693,516</u>	<u>4,422,056</u>	<u>1,536,815</u>
OPERATING EXPENSES					
Salaries, wages, and other administrative	252,778	-	56,632	309,410	499,307
Interest expense	-	-	-	-	2
Depreciation	137	-	15	152	43,185
Purchases for resale	-	-	503,364	503,364	63,749
Purchases for prison industries	-	-	-	-	15,060
Lottery prize awards	1,154,105	-	-	1,154,105	-
Premiums and claims	-	-	134	134	923,443
Unemployment benefits	-	1,834,509	-	1,834,509	-
Other operating expenses	-	57,977	1,087	59,064	49,953
Total Operating Expenses	<u>1,407,019</u>	<u>1,892,486</u>	<u>561,233</u>	<u>3,860,737</u>	<u>1,594,698</u>
Operating Income (Loss)	<u>675,210</u>	<u>(246,174)</u>	<u>132,283</u>	<u>561,319</u>	<u>(57,884)</u>
NONOPERATING REVENUES (EXPENSES)					
Specific tax on spirits	-	-	12,194	12,194	-
Interest revenue	2,541	-	2,618	5,159	-
Investment revenue (expense) - net	18,167	33,440	165	51,773	-
Other nonoperating revenues	-	-	51	51	220
Amortization of prize award obligation discount	(34,252)	-	-	(34,252)	-
Interest expense	(6,014)	-	-	(6,014)	(881)
Other nonoperating expense	-	-	-	-	(265)
Total Nonoperating Revenues (Expenses)	<u>(19,558)</u>	<u>33,440</u>	<u>15,029</u>	<u>28,911</u>	<u>(925)</u>
Income (Loss) Before Capital Contributions and Transfers	<u>655,652</u>	<u>(212,734)</u>	<u>147,312</u>	<u>590,230</u>	<u>(58,809)</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS					
Capital contributions from other funds	-	-	-	-	35
Transfers To:					
School Aid Fund	(667,579)	-	-	(667,579)	-
Other funds	(12,719)	(32,646)	(146,315)	(191,681)	(1,261)
Total transfers to other funds	<u>(680,298)</u>	<u>(32,646)</u>	<u>(146,315)</u>	<u>(859,260)</u>	<u>(1,261)</u>
Total Capital Contributions and Transfers In (Out)	<u>(680,298)</u>	<u>(32,646)</u>	<u>(146,315)</u>	<u>(859,260)</u>	<u>(1,226)</u>
Change in net assets	<u>(24,646)</u>	<u>(245,380)</u>	<u>996</u>	<u>(269,030)</u>	<u>(60,035)</u>
Total net assets - Beginning of fiscal year	<u>77,098</u>	<u>1,087,442</u>	<u>6,476</u>	<u>1,171,016</u>	<u>121,620</u>
Total net assets - End of fiscal year	<u>\$ 52,451</u>	<u>\$ 842,062</u>	<u>\$ 7,472</u>	<u>\$ 901,986</u>	<u>\$ 61,585</u>

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

Michigan

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

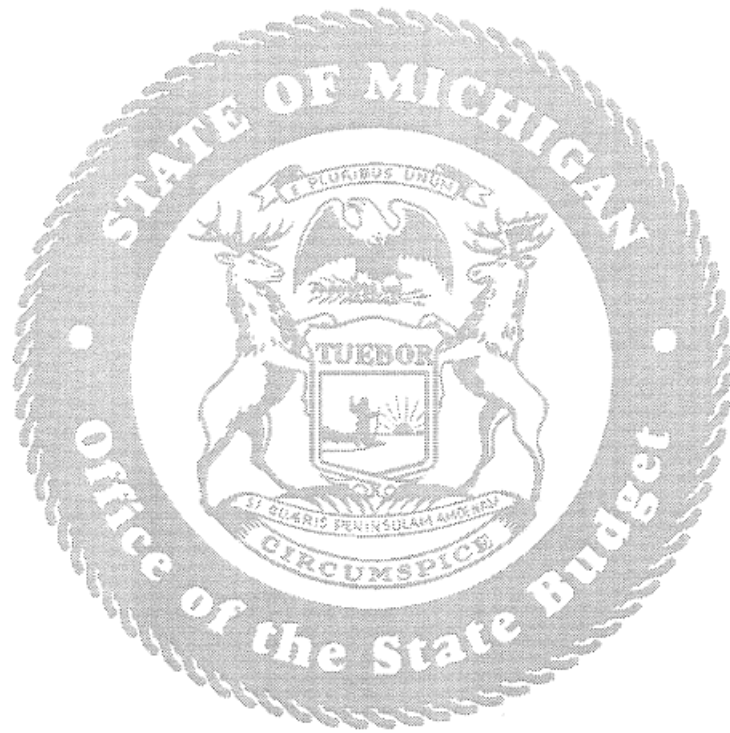
	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from federal and local agencies	\$ -	\$ 58,757	\$ -	\$ 58,757	\$ -
Receipts from customers	2,089,745	1,526,539	688,927	4,305,211	1,545,348
Membership dues	-	-	4,050	4,050	-
Payments to employees	(12,523)	-	(14,758)	(27,281)	(174,505)
Payments to suppliers	(48,360)	-	(541,871)	(590,231)	(659,598)
Payments to prize winners	(1,258,585)	-	-	(1,258,585)	-
Payments for commissions to retailers	(191,175)	-	-	(191,175)	-
Claims paid	-	(1,900,320)	-	(1,900,320)	(717,113)
Other receipts	-	38,202	534	38,736	21
Other payments	-	-	(1,584)	(1,584)	(7,357)
Net cash provided (used) by operating activities	<u>\$ 579,103</u>	<u>\$ (276,822)</u>	<u>\$ 135,299</u>	<u>\$ 437,580</u>	<u>\$ (13,203)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Other nonoperating revenues	\$ -	\$ -	\$ 51	\$ 51	\$ -
Loans or loan repayments from other funds	-	-	-	-	19,201
Loans or loan repayments to other funds	-	-	-	-	(19,013)
Specific tax on spirits	-	-	12,194	12,194	-
Transfers to other funds	(679,602)	(46,434)	(146,315)	(872,351)	(1,248)
Other receipts	-	-	-	-	(5)
Net cash provided (used) by noncapital financing activities	<u>\$ (679,602)</u>	<u>\$ (46,434)</u>	<u>\$ (134,071)</u>	<u>\$ (860,107)</u>	<u>\$ (1,065)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	\$ (168)	\$ -	\$ -	\$ (168)	\$ (18,993)
Interest paid	-	-	-	-	(188)
Capital lease payments (including imputed interest expense)	-	-	-	-	(12,741)
Proceeds from sale of capital assets	-	-	-	-	130
Net cash provided (used) by capital and related financing activities	<u>\$ (168)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (168)</u>	<u>\$ (31,792)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investment securities	\$ (123,873)	\$ -	\$ -	\$ (123,873)	\$ -
Proceeds (purchases) from sale and maturities of investment securities	222,099	293,596	(540)	515,155	-
Interest and dividends on investments	2,541	33,440	2,618	38,600	-
Income from securities lending activities	6,344	-	-	6,344	-
Expenses from securities lending activities	(6,014)	-	-	(6,014)	-
Net cash provided (used) by investing activities	<u>\$ 101,097</u>	<u>\$ 327,036</u>	<u>\$ 2,078</u>	<u>\$ 430,211</u>	<u>\$ -</u>
Net cash provided (used) - all activities	\$ 430	\$ 3,780	\$ 3,307	\$ 7,517	\$ (46,060)
Cash and cash equivalents at beginning of year	<u>4,981</u>	<u>8,606</u>	<u>54,580</u>	<u>68,168</u>	<u>270,939</u>
Cash and cash equivalents at end of year	<u><u>\$ 5,412</u></u>	<u><u>\$ 12,387</u></u>	<u><u>\$ 57,887</u></u>	<u><u>\$ 75,685</u></u>	<u><u>\$ 224,879</u></u>

The accompanying notes are an integral part of the financial statements

Michigan

BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS

	MAJOR			TOTALS	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
RECONCILIATION OF CASH AND CASH EQUIVALENTS					
Per Statement of Net Assets Classifications:					
Cash	\$ 2	\$ 5,075	\$ 1,063	\$ 6,140	\$ 219
Equity in common cash	6,200	7,312	57,477	70,989	226,281
Warrants outstanding	(790)	-	(653)	(1,443)	(1,621)
Cash and cash equivalents at end of year	<u>\$ 5,412</u>	<u>\$ 12,387</u>	<u>\$ 57,887</u>	<u>\$ 75,685</u>	<u>\$ 224,879</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 675,210	\$ (246,174)	\$ 132,283	\$ 561,319	\$ (57,884)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation expense	137	-	15	152	43,185
Amortization of prize award obligation discount	(34,252)	-	-	(34,252)	-
Other reconciling items	135	-	-	135	-
Net Changes in Assets and Liabilities:					
Inventories	392	-	287	679	139
Other assets (net)	(386)	(26,531)	40	(26,877)	5,023
Accounts payable and other liabilities	193	(4,433)	3,084	(1,157)	(3,665)
Prize awards payable	(62,326)	-	-	(62,326)	-
Deferred revenue	-	316	(410)	(94)	-
Net cash provided (used) by operating activities	<u>\$ 579,103</u>	<u>\$ (276,822)</u>	<u>\$ 135,299</u>	<u>\$ 437,580</u>	<u>\$ (13,203)</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES					
Capital contributions	\$ -	\$ -	\$ -	\$ -	\$ 35
Cost of capital assets acquisitions financed by capital leases	-	-	-	-	8,991
Capital lease liabilities entered into during the year	-	-	-	-	(8,991)
Increase (decrease) in fair value of investments	(24,646)	-	-	(24,646)	-
Transfers to other funds (accrual)	(10,579)	(5,963)	-	(16,542)	-
Gain (loss) on disposal of capital assets	-	-	-	-	(265)
Total noncash investing, capital, and financing activities	<u>\$ (35,226)</u>	<u>\$ (5,963)</u>	<u>\$ -</u>	<u>\$ (41,189)</u>	<u>\$ (230)</u>



FIDUCIARY FUND FINANCIAL STATEMENTS



Individual fund financial statements begin on the following pages:
Pension (and Other Employee Benefit) Trust Funds, page 176.
Private Purpose Trust Funds, page 182.
Agency Funds, page 185.

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

SEPTEMBER 30, 2005

(In Thousands)

ASSETS	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
Cash	\$ 48	\$ 1,372	\$ 69,477
Equity in common cash (Note 5)	113,556	116,406	3,685
Receivables:			
From participants	161,243	-	-
From employers	509,505	-	-
Interest and dividends	457	219	-
Due from other funds (Note 17)	33,855	-	-
Due from component unit	316	-	-
Sale of investments	488	-	-
Investments at Fair Value (Note 8):			
Short term investments	1,775,090	-	11,051
Bonds, notes, mortgages, and preferred stock	8,358,207	14,282	33,789
Common stock	24,849,090	109	-
Real estate	3,937,522	-	-
Alternative investments	5,871,095	-	-
International investments	6,203,092	-	-
Mutual funds	1,990,933	916,484	-
Pooled investment funds	1,916,859	-	-
Money market funds	182,683	-	-
Guaranteed funding agreements	-	150,458	-
Securities lending collateral (Note 8)	2,870,289	2,475	-
Other current assets	-	6,763	1,856
Other noncurrent assets	-	-	379,745
Total assets	\$ 58,774,330	\$ 1,208,568	\$ 499,603
LIABILITIES			
Warrants outstanding	\$ 8,341	\$ 1,961	\$ 42
Accounts payable and other liabilities	93,619	7,140	84,641
Amounts due to other funds (Note 17)	3	-	1,079
Obligations under security lending	2,870,289	2,475	-
Other long-term liabilities	-	-	413,840
Total liabilities	\$ 2,972,252	\$ 11,576	\$ 499,603
NET ASSETS			
Net assets held in trust for pension, postemployment health-care, other employee benefits, and other purposes	\$ 55,802,077	\$ 1,196,993	
Reconciliation of Net Assets Held in Trust:			
Pension benefits (Note 10)	\$ 51,685,705	\$ -	
Postemployment health-care benefits	587,677	-	
Other employee benefits (Note 16)	3,528,696	-	
Other purposes	-	1,196,993	
Total net assets held in trust for benefits and other purposes	\$ 55,802,077	\$ 1,196,993	

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

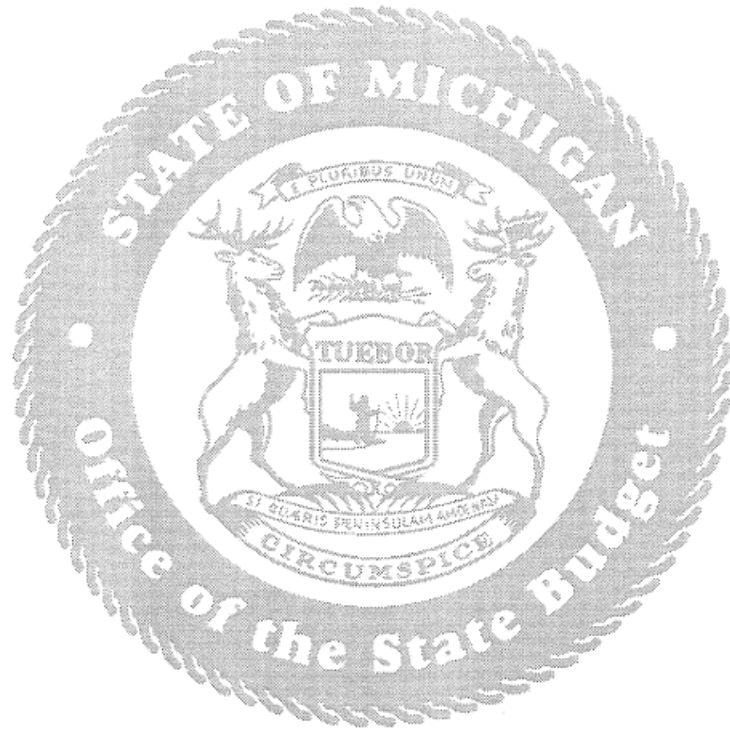
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
	<u> </u>	<u> </u>
ADDITIONS		
Contributions:		
From participants	\$ 663,821	\$ 278,534
From employers	2,176,652	-
From clients	-	40,797
From gifts, bequests, and endowments	-	659
From other plans	6,941	-
Investment Income:		
Net appreciation (depreciation) in fair value of investments	4,912,344	54,926
Interest, dividends, and other	1,521,243	35,075
Securities lending income	73,520	36
Less Investment Expense:		
Investment activity expense	68,740	4,048
Securities lending expense	69,511	35
Net investment income (loss)	6,368,856	85,953
Escheated property	-	91,562
Miscellaneous income	3,216	2,750
	<u>9,219,486</u>	<u>500,255</u>
DEDUCTIONS		
Benefits paid to participants or beneficiaries	3,639,022	40,244
Medical, dental, and life insurance for retirants	1,060,411	-
Refunds and transfers to other systems	25,861	-
Amounts distributed to clients, claimants, or third parties	-	75,516
Administrative expense	87,899	12,671
Transfers to other funds	70	-
	<u>4,813,263</u>	<u>128,431</u>
Net increase (decrease)	4,406,223	371,825
Net assets - Beginning of fiscal year	51,395,854	825,168
Net assets - End of fiscal year (Note 10)	<u>\$ 55,802,077</u>	<u>\$ 1,196,993</u>
Reconciliation of Net Increase in Assets:		
Net increase (decrease) in assets held in trust for pension benefits	\$ 3,998,044	\$ -
Net increase (decrease) in assets held in trust for postemployment benefits	60,286	-
Net increase (decrease) in assets held in trust for other employee benefits	347,893	-
Net increase (decrease) in assets held in trust for other purposes	-	371,825
	<u>\$ 4,406,223</u>	<u>\$ 371,825</u>

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 190.

The non-major component unit - State universities are presented beginning on page 196.

Michigan

STATEMENT OF NET ASSETS

COMPONENT UNITS

SEPTEMBER 30, 2005

(In Thousands)

	AUTHORITIES			
	MICHIGAN EDUCATION TRUST	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN MUNICIPAL BOND AUTHORITY	NON-MAJOR
ASSETS				
Current Assets:				
Cash	\$ 79,543	\$ 113,336	\$ -	\$ 107,485
Equity in common cash (Note 5)	-	-	30,022	77,406
Amounts due from component units	-	-	-	-
Amounts due from primary government	1,501	-	673	2,163
Amounts due from federal government	-	-	-	20,004
Amounts due from local units	-	-	1,006,903	-
Inventories	-	-	-	680
Investments (Note 8)	-	185,212	597,584	429,539
Other current assets	22,699	54,376	40,094	248,207
Total Current Assets	<u>103,744</u>	<u>352,924</u>	<u>1,675,277</u>	<u>885,484</u>
Restricted Assets:				
Cash and cash equivalents	-	-	-	5,648
Investments	-	-	-	2,059
Mortgages and loans receivable	-	1,754,750	-	-
Amounts due from local units	-	-	2,613,898	-
Mortgages and loans receivable	-	-	-	1,508,809
Investments (Note 8)	834,011	551,509	1,084,811	371,446
Capital Assets:				
Land and other non-depreciable assets	-	-	-	8,551
Buildings, equipment, and other depreciable assets	-	-	-	59,749
Less accumulated depreciation	-	-	-	(27,737)
Infrastructure	-	-	-	102,722
Construction in progress	-	-	-	-
Total capital assets	-	-	-	143,285
Other noncurrent assets	39,130	41,989	152,818	18,454
Total Assets	<u>\$ 976,885</u>	<u>\$ 2,701,171</u>	<u>\$ 5,526,804</u>	<u>\$ 2,935,185</u>
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ -	\$ -	\$ 1,548
Accounts payable and other liabilities	5	28,116	4,241	37,911
Amounts due to primary government	-	-	41,521	1,672
Bonds and notes payable (Note 13)	-	192,590	966,165	24,364
Interest payable	-	9,322	80,435	12,083
Deferred revenue	-	-	761	2,011
Current portion of other long-term obligations	86,004	-	-	4,898
Total Current Liabilities	<u>86,008</u>	<u>230,027</u>	<u>1,093,125</u>	<u>84,487</u>
Deferred revenue	-	-	-	-
Bonds and notes payable (Note 13)	-	1,428,564	2,844,541	2,308,429
Noncurrent portion of other long-term obligations	908,742	446,201	55,869	55,712
Total Liabilities	<u>\$ 994,750</u>	<u>\$ 2,104,792</u>	<u>\$ 3,993,534</u>	<u>\$ 2,448,627</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ 137,123
Restricted For:				
Education	-	-	-	-
Construction and debt service	-	268,047	-	13,936
Other purposes	-	-	1,525,572	30,493
Funds Held as Permanent Investments:				
Expendable	-	-	-	-
Nonexpendable	-	-	-	-
Unrestricted	(17,865)	328,332	7,698	305,007
Total Net Assets	<u>\$ (17,865)</u>	<u>\$ 596,379</u>	<u>\$ 1,533,269</u>	<u>\$ 486,558</u>

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

Michigan

STATE UNIVERSITIES

CENTRAL MICHIGAN UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	NON-MAJOR	TOTALS
\$ 26,463	\$ 14,414	\$ 201,740	\$ 542,982
-	-	-	107,429
-	-	216	216
48,080	20,773	101,463	174,653
1,031	2,027	11,066	34,129
-	87	146	1,007,136
3,408	5,028	8,096	17,212
-	45,446	60,604	1,318,384
16,155	17,397	61,490	460,419
<u>95,137</u>	<u>105,173</u>	<u>444,822</u>	<u>3,662,560</u>
30,657	-	13,062	49,368
34,188	157,480	153,044	346,772
7,275	-	38,417	1,800,441
-	-	-	2,613,898
-	8,940	24,871	1,542,620
119,405	86,169	308,820	3,356,171
9,925	14,742	72,902	106,120
517,049	908,954	2,754,071	4,239,824
(222,588)	(309,542)	(973,311)	(1,533,178)
-	-	-	102,722
13,914	13,749	60,220	87,883
<u>318,300</u>	<u>627,904</u>	<u>1,913,882</u>	<u>3,003,371</u>
-	17,211	24,422	294,024
<u>\$ 604,962</u>	<u>\$ 1,002,876</u>	<u>\$ 2,921,341</u>	<u>\$ 16,669,225</u>
\$ -	\$ -	\$ -	\$ 1,548
49,087	37,394	123,140	279,894
577	200	2,210	46,180
4,055	6,590	21,633	1,215,397
1,360	14,173	2,222	119,595
9,389	6,350	39,100	57,612
-	567	10,268	101,737
<u>64,468</u>	<u>65,275</u>	<u>198,573</u>	<u>1,821,963</u>
-	-	2,613	2,613
153,145	288,435	712,290	7,735,404
14,882	22,420	38,438	1,542,264
<u>\$ 232,496</u>	<u>\$ 376,130</u>	<u>\$ 951,916</u>	<u>\$ 11,102,246</u>
\$ 190,363	\$ 347,613	\$ 1,265,360	\$ 1,940,459
43,033	10,797	151,897	205,728
3,698	5,659	25,377	316,717
-	45,593	18,788	1,620,446
-	-	39,085	39,085
-	50,750	154,149	204,899
135,372	166,334	314,769	1,239,647
<u>\$ 372,466</u>	<u>\$ 626,746</u>	<u>\$ 1,969,425</u>	<u>\$ 5,566,979</u>

STATEMENT OF ACTIVITIES

COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>				<u>NET (EXPENSE) REVENUE</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS/ CONTRIBUTIONS</u>	<u>CAPITAL GRANTS/ CONTRIBUTIONS</u>		
Authorities:						
Michigan Education Trust	\$ 49,864	\$ 153	\$ 26,934	\$ -		\$ (22,777)
Michigan State Housing Development Authority	519,075	162,217	381,733	-		24,876
Michigan Municipal Bond Authority	159,152	102,152	157,528	-		100,527
Non-Major	469,908	138,604	248,474	4,625		(78,205)
State Universities:						
Central Michigan University	299,039	195,389	31,399	1,767		(70,483)
Western Michigan University	420,818	257,467	53,959	2,008		(107,384)
Non-Major	1,301,183	756,214	168,125	19,995		(356,849)
Total	\$ 3,219,038	\$ 1,612,196	\$ 1,068,152	\$ 28,395		\$ (510,295)

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
\$ -	\$ -	\$ -	\$ -	\$ (22,777)	\$ 4,913	\$ (17,865)
18,769	-	-	-	43,645	552,734	596,379
-	-	-	-	100,527	1,432,742	1,533,269
17,109	63,698	10,189	-	12,790	473,768	486,558
12,532	84,951	194	-	27,194	345,273	372,466
7,340	131,267	20,420	-	51,643	575,103	626,746
28,360	390,771	11,829	-	74,112	1,895,313	1,969,425
<u>\$ 84,110</u>	<u>\$ 670,687</u>	<u>\$ 42,633</u>	<u>\$ -</u>	<u>\$ 287,134</u>	<u>\$ 5,279,845</u>	<u>\$ 5,566,979</u>

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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 Land Bank Fast Track Authority receives tax reverted properties, undertakes expedited action to clear their titles, and then ensures the properties' redevelopment.

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 Exposition and Fairgrounds Authority conducts an annual state fair and other exhibits and events for the purpose of promoting all phases of the economy of this State. The fair, exhibits, and events encourage and demonstrate agricultural, industrial, commercial, educational, entertainment, tourism, technological, cultural, and recreational pursuits.

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 component 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 result primarily from providing appropriations to the public universities, including \$85.0 million to Central Michigan University and \$131.3 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.

The State's Governor is responsible for appointing the members of the board of the Venture Michigan Fund, a private non-profit corporation. The State's accountability for this organization does not extend beyond the Governor's appointments. The Michigan Economic Development Corporation, a discretely presented component unit, has loaned \$100,000 to the Venture

Michigan Fund. This loan is to be repaid once the Venture Michigan Fund has raised \$50 million in revenue.

Joint Ventures

As discussed in more detail in Note 7, the State participates in two joint ventures. Their 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 2004-2005, the State awarded contracts totaling \$26.8 million to MPHI.

The City of Detroit, Charter County of Wayne, and the Department of Community Health of the State of Michigan appoint members of the board of the Detroit Wayne County Health Authority (DWCHA), a public agency. DWCHA was established to plan, promote, and coordinate health services for at-risk population in the City of Detroit and Wayne County. The State does not appoint a majority of the board, has no right to the assets, and is not responsible for debts of DWCHA; therefore, the State's accountability for DWCHA does not extend beyond making the appointments. The State did not award contracts to DWCHA during fiscal year 2004-2005.

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 during periods of economic recession.

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, 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 reported on the Statement of Net Assets as "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, 2005 long-term prize awards of \$527.3 million were reported at a present value of \$371.9 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 \$131.7

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, 2005.

The State instituted a banked leave time program in fiscal year 2003-2004 whereby eligible employees work a regular schedule but receive pay for a reduced number of hours. The banked leave time program was continued in fiscal year 2004-2005. 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 fiduciary 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 2004-2005, interest charges on general long-term liabilities totaling \$17.4 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. 108)
State Trunkline Fund* (p. 108)
Michigan Transportation Fund* (p. 108)
Comprehensive Transportation Fund* (p. 108)
Combined State Trunkline Bond Proceeds Fund (p. 109)
Combined Comprehensive Transportation Bond Proceeds Fund (p. 109)
Transportation Related Trust Funds (p. 109)

Conservation, Environment, and Recreation Related:

Game and Fish Protection Fund* (p. 118)
Michigan State Waterways Fund* (p. 118)
Marine Safety Fund* (p. 118)
Game and Fish Protection Trust Fund (p. 118)
State Park Improvement Fund* (p. 118)
Combined Recreation Bond Fund - Local Projects (p. 119)
Combined Environmental Protection Bond Fund (p. 119)
Michigan Nongame Fish and Wildlife Fund* (p. 119)
Forest Development Fund* (p. 119)

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Michigan Underground Storage Tank Financial Assurance Fund (p. 119)
Bottle Deposits Fund (p. 119)

Regulatory and Administrative Related:

Michigan Employment Security Act – Administration Fund* (p. 128)
Safety Education and Training Fund* (p. 128)
State Construction Code Fund* (p. 128)
Homeowner Construction Lien Recovery Fund* (p. 128)
State Casino Gaming Fund* (p. 129)
Second Injury Fund (p. 129)
Silicosis, Dust Disease, and Logging Industry Compensation Fund (p. 129)
Self-Insurers' Security Fund (p. 129)
Utility Consumer Representation Fund (p. 129)

Other State Funds:

School Bond Loan Fund (p. 138)
Tobacco Settlement Trust Fund* (p. 138)
Michigan Merit Award Trust Fund* (p. 138)
Children's Trust Fund* (p. 139)
Assigned Claims Facility and Plan Fund (p. 139)
Military Family Relief Fund (p. 139)
Miscellaneous Special Revenue Funds (p. 139)

Debt Service Funds:

Combined State Trunkline Bond and Interest Redemption Fund (p. 148)
Combined Comprehensive Transportation Bond and Interest Redemption Fund (p. 148)
Recreation and Environmental Protection Bond Redemption Fund (p. 148)
School Loan Bond Redemption Fund (p. 149)
State Building Authority (p. 149)
Michigan Underground Storage Tank Financial Assurance Finance Authority (p. 149)

Capital Projects Funds:

Combined Recreation Bond Fund - State Projects (p. 154)
Advance Financing Funds (p. 154)
State Building Authority (p. 154)

Permanent Funds:

Michigan Natural Resources Trust Fund* (p. 158)
Michigan State Parks Endowment Fund* (p. 158)
Michigan Civilian Conservation Corps Endowment Fund* (p. 158)
Michigan Veterans' Trust Fund* (p. 158)

Proprietary:

Enterprise Funds:

Liquor Purchase Revolving Fund (p. 164)
Attorney Discipline System (p. 164)

Internal Service Funds:

Correctional Industries Revolving Fund (p. 168)
Motor Transport Fund (p. 168)
Office Services Revolving Fund (p. 168)
Information Technology Fund (p. 169)
Risk Management Fund (p. 169)
State Sponsored Group Insurance Fund (p. 169)

Fiduciary:

Pension (and other employee benefit) Trust Funds:

State Employees' Deferred Compensation Funds (p. 176)
Legislative Retirement Fund (p. 176)
State Police Retirement Fund (p. 176)
State Employees' Retirement Fund (p. 177)
Public School Employees' Retirement Fund (p. 177)
Judges' Retirement Fund (p. 177)
State Employees' Defined Contribution Retirement Fund (p. 177)

Private Purpose Trust Funds:

Escheats Fund (p. 182)
Gifts, Bequests, and Deposits Investment Fund (p. 182)
Hospital Patients' Trust Fund (p. 182)
Michigan Education Savings Program (p. 182)

Agency Funds:

Environmental Quality Deposits Fund (p. 185)
Insurance Carrier Deposits Fund (p. 185)
State Treasurer's Escrow and Paying Agent Fund (p. 185)
Child Support Collection Fund (p. 185)

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:

Land Bank Fast Track Authority (p. 190)
Mackinac Bridge Authority (p. 190)
Mackinac Island State Park Commission (p. 190)
Michigan Broadband Development Authority (p. 190)
Michigan Economic Development Corporation (p. 190)
Michigan Exposition and Fairgrounds Authority (p. 190)
Michigan Higher Education Assistance Authority (p. 191)
Michigan Higher Education Facilities Authority (p. 191)
Michigan Higher Education Student Loan Authority (p. 191)
Michigan Public Educational Facilities Authority (p. 191)
Michigan State Hospital Finance Authority (p. 191)
Michigan Strategic Fund (p. 191)
State Bar of Michigan (p. 191)

State Universities (1):

Major Funds:

Central Michigan University (p. 37)
Western Michigan University (p. 37)

Non-Major Funds:

Eastern Michigan University (p. 196)
Ferris State University (p. 196)
Grand Valley State University (p. 196)
Lake Superior State University (p. 196)
Michigan Technological University (p. 197)
Northern Michigan University (p. 197)
Oakland University (p. 197)
Saginaw Valley State University (p. 197)

(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 2004-2005 are not yet complete. For fiscal year 2003-2004, 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 62.1%, reflecting payments that exceeded the minimum required by \$3.3 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 2004-2005.

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 2004-2005 are not final. For fiscal year 2003-2004, the most recent year for which final calculations are available, total State revenues subject to this limitation were beneath the constitutional limit by \$4.4 billion. The State expects that total State revenues subject to the limitation will not exceed the limit for fiscal year 2004-2005.

Budget Stabilization Fund

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund") was created in 1977 to assist in stabilizing revenue during periods of economic recession. This fund currently operates under Article 3 of P.A. 431 of 1984, as amended. 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 2004-2005 (in millions):

Beginning unreserved fund balance	\$ 81.3
Interest Income	2.0
Transfer to General Fund	<u>(81.3)</u>
Ending unreserved fund balance	<u>\$ 2.0</u>

The transfer to the General Fund was pursuant to P.A. 188 of 2005, Section 353c (16). This transfer was made to ensure a balanced General Fund budget.

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	
Human Services	\$ 8.0
General Fund Total	<u>\$ 8.0</u>

NOTE 4 – ACCOUNTING CHANGES AND RESTATEMENTS

Reclassification of the Children's Trust Fund

The Children's Trust Fund, formerly reported as a permanent fund, was reclassified to the special revenue fund type because of legislative changes occurring during fiscal year 2004-2005 that impacted the amount required to be maintained in the fund and the amount available for appropriation.

The effect of this change as of October 1, 2004, was to decrease permanent fund current assets (\$11.7 million), long-term investments (\$14.3 million), current liabilities (\$4.2 million), and fund balances (\$21.8 million). Special revenue fund assets, liabilities, and fund balances were increased by like amounts.

Michigan Exposition and Fairgrounds Authority

Public Act 468 of 2004 created the Michigan Exposition and Fairgrounds Authority (MEFA), a discretely presented component unit. In previous years, the State reported state fair activities in a subfund of the General Fund. Net assets of \$.3 million were transferred from the General Fund to the MEFA, as well as capital

assets, accumulated depreciation, and compensated absences liabilities totaling \$15.7 million, \$6.7 million, and \$.1 million respectively which were previously reported in the primary government's portion of the Statement of Net Assets. This change has been reported as a beginning balance restatement.

Net Pension Obligation

The beginning balance of the net pension obligation, reported on the Statement of Net Assets line titled "Noncurrent portion of other long-term obligations," was reduced by \$24.3 million based on revised actuarial reports.

Capital Assets

Beginning balances were restated for capital assets to correct prior period errors in infrastructure and construction in progress. Infrastructure was increased by \$48.0 million; construction in progress was increased by \$31.6 million; and net assets invested capital assets, net of related debt was increased by \$79.5 million.

NOTE 5 – TREASURER'S COMMON CASH

A. General Accounting Policies

The State Treasurer manages the State's Common Cash pool, which is used by most state funds. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund; rather, each contributing fund's balance is treated as equity in the pool, 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 (cash equivalents), 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 2004-2005.

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

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, 2005, was \$48.6 million. The interest rate is reset July 1 of each year in accordance with the loan agreement. 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 taxes collected on cigarette sales. There were no repayments on the loans in fiscal year 2004-2005.

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

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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, 2005, was \$127.5 thousand; repayments during the year were \$73.2 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, 2005, the loans outstanding totaled \$4.5 million and mature on 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) a 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, 2005, the State had deposited a total of \$2.9 million with three different financial institutions. Subsidy payments totaled \$3.2 million and repayments totaled \$37.9 million.

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

Assets	
Cash on hand	\$ -
Demand deposits	238.5
Time deposits - regular	-
Time deposits - Marina Loan Programs	.1
Time deposits - Agricultural Loan Program	2.9
Prime commercial paper - at cost	1,237.3
Interest receivable	1.6
Emergency loans to local units - at cost	49.6
Michigan Sugar Beet Loan Program	4.5
Total assets	<u>\$ 1,534.6</u>
Equities	
Fund equities (net) in Common Cash (1):	
Governmental activities	\$ 1,122.5
Business-type activities	71.0
Fiduciary funds	233.6
Discretely presented component units	107.4
Net fund equities	<u>\$ 1,534.6</u>

(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 as amended by Statement No. 40. Please see Note 8 for information about deposits and investments that are not part of the Common Cash pool.

C. Common Cash Deposits

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State's deposits may not be recovered.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

Uncollateralized

Collateralized with securities held by the pledging financial institution, or

Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

The State Treasurer's policy requires the following criteria to lessen the custodial credit risk: all financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits, to secure the State funds. A bank, savings and loan association or credit union holding State funds must be organized under the law of Michigan or federal law and maintain a principal office or branch office in the State of Michigan. No deposit in any financial organization may be in excess of 50 percent of the net worth of the organization.

At September 30, 2005, the carrying amount of deposits, including time and demand deposits, was \$241.6 million. The deposits were reflected in the accounts of the banks at \$241.6 million. Of the bank balance, \$4.3 million was covered by federal depository insurance, \$236.8 million was collateralized with securities held by the State's agent in the State's name, and \$5 million of demand deposits was exposed to custodial credit risk and was uninsured and uncollateralized. Compensating balances kept in demand deposit accounts to avoid service charges totaled \$164.2 million at September 30, 2005.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of deposits.

Public Act 35 of 1997 requires State deposits be held in a financial institution which maintains a principal office or branch office located in the State of Michigan. The State had no Common Cash deposits subject to foreign currency risk at September 30, 2005.

D. Common Cash Investments

Types of Investments

Common Cash investments include prime commercial paper, corporate notes, and emergency municipal loans.

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Risk

In accordance with GASB Statement No. 40, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. Custodial credit risk, credit risk, and interest rate risk are discussed in the following paragraphs.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:

The counterparty, or

The counterparty's trust department or agent but not in the government's name.

The State Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2005 Common Cash investments were not exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligations.

Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services

Standard and Poor's (A-1), and Moody's (P-1). Borrowers must have at least \$400.0 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of a borrower's outstanding debt. The investments are further limited to \$200.0 million in any borrower, unless the borrower has an A-1+ rating, in which case the investment is not to exceed \$300.0 million. The sugar beet loans are evidenced by unrated zero interest promissory notes.

Emergency municipal loans are evidenced by unrated notes held by the State in the State's name. At September 30, 2005, prime commercial paper investments were rated at A-1 or P-1.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2005, the fair value of prime commercial paper was \$1.2 billion; the weighted average maturity was 14 days.

The State Treasurer does not have a policy for controlling interest rate risk regarding the Common Cash special loan programs described earlier. These loan programs are investments created through legislation. Although some interest rate risk exposure exists, this risk is not a consideration when entering into these loan programs.

NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent amounts due to the State at September 30, for revenues earned in fiscal year 2004-2005, 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 are accrued if the levy date occurred prior to October 1.

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). Delinquent taxes are recognized to the extent that they are collected within 12 months. The remainder is recorded as deferred revenue.

Local units of government, as agents for the State, assess the State education tax, a state-wide property tax. The State education tax is levied on July 1 and is due and payable at the same time as local unit taxes levied on July 1. The State accrues state education tax revenue received by the State or the local units, on its behalf, during October and November. The accrued telephone and telegraph taxes are due December 1 and were received at approximately that time.

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

Tax	General Fund	Special Revenue Funds	Total
Sales & use	\$ 333.4	\$ 661.7	\$ 995.1
Individual income	1,654.2	203.2	1,857.5
Single business	1,559.8	-	1,559.8
State education (property)	-	1,371.6	1,371.6
Telephone & telegraph	49.0	-	49.0
Motor fuel	-	229.1	229.1
Insurance - retaliatory	70.8	-	70.8
Estate & inheritance	4.3	-	4.3
Tobacco products	101.6	68.1	169.7
Quality assurance assessment	70.7	-	70.7
Other	35.7	50.5	86.1
Penalties and interest	1,146.3	-	1,146.3
Gross taxes receivable	5,025.7	2,584.2	7,609.9
Less allowance for uncollectibles	2,053.3	458.0	2,511.3
Total taxes receivable (net)	<u>\$ 2,972.4</u>	<u>\$ 2,126.1</u>	<u>\$ 5,098.6</u>
<u>As reported on the financial statements</u>			
Current taxes receivable	\$ 2,737.9	\$ 2,077.0	\$ 4,814.9
Noncurrent taxes receivable	234.5	49.1	283.7
Total taxes receivable (net)	<u>\$ 2,972.4</u>	<u>\$ 2,126.1</u>	<u>\$ 5,098.6</u>

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)

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, 2004 (the Authority's most recently audited financial statements), its net assets increased by approximately \$.8 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 \$6.9 million is reflected as an asset in the government-wide statements.

NOTE 8 – DEPOSITS AND INVESTMENTS

This note provides information for all deposits and investments except those of the Common Cash pool, which are described in Note 5.

A. Deposits - Primary Government

Custodial Credit Risk

In addition to equity in the Common Cash pool, some State funds maintain deposits with financial institutions. At present, only the Michigan Unemployment Compensation Funds (MUCF), the State Treasurer's Escrow and Paying Agent Fund, and the Michigan Educational Savings Plan maintain these deposits and are exposed to custodial credit risk.

The Michigan Employment Security Commission (MESC) administers, under the auspices of the federal government, the deposits of the MUCF. Tax collections are deposited in a clearing account as required by the Michigan Employment Security Act. Refunds are paid from that account; after the clearance of vouchers for refunds, all other money remaining in the fund, less amounts needed for refunds and judgments, must be deposited with the secretary of the treasury of the United States of America to the credit of the State in the Unemployment Trust Fund, established and maintained pursuant to Section 904 of the Social Security Act, 42 USC 1104. These deposits are maintained in the Federal Reserve Bank. At year-end, the carrying amount of these deposits, excluding those classified as investments, was negative \$9.4

million, which was caused by a net book cash overdraft. The bank balance of the deposits was \$15.9 million, of which \$.1 million was covered by federal depository insurance and \$15.8 was book-entry securities held by pledging custodial banks at the Federal Reserve Bank in the State's name.

The deposits of the State Treasurer's Escrow and Paying Agent Fund were reflected in bank accounts at \$1.6 million; these deposits were uninsured and uncollateralized, and were therefore exposed to custodial credit risk. This fund was administratively created and is used to account for investments held in escrow by the State Treasurer as fiscal agent for hospitals that have defeased Michigan State Hospital Finance Authority (MSHFA) bonds. MCL 331.73g(1) allows that the deposits shall be held in trust by the State Treasurer or by a financial institution qualified to serve as trustee pursuant to a trust agreement entered into between the authority issuing the refunding bonds and the State Treasurer or the financial institution providing for the investment and disposition of the funds.

The deposits of the Michigan Educational Savings Program were reflected in bank accounts at \$.6 million; \$.1 million was insured and \$.5 million was exposed to custodial credit risk. The program has no policy for controlling this risk.

B. Investments - Primary Government

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, 2005:

Primary Government Total Investments (In millions)				
Investment Types	Pension Funds	Deferred Compensation/ Defined Benefit Funds	Other Funds	Total
Commercial paper	\$ 2,774.2	\$ -	\$ -	\$ 2,774.2
Government securities	4,031.8	-	1,466.9	5,498.6
Money market accounts	-	-	210.6	210.6
Money market funds	-	182.7	42.6	225.3
Corporate bonds and notes	4,105.9	-	132.8	4,238.7
Mutual funds	105.7	1,885.2	875.7	2,866.6
Pooled investment funds	-	1,916.9	-	1,916.9
Equities	24,374.5	-	150.7	24,525.2
Guaranteed investment contracts	-	-	6.0	6.0
Funding agreements	-	-	150.5	150.5
International	6,160.5	-	-	6,160.5
Real estate	3,842.5	-	-	3,842.5
Alternative	5,807.8	-	-	5,807.8
Accrued income	125.8	-	-	125.8
Cash collateral	(174.4)	-	-	(174.4)
Unsettled investments	(54.6)	-	-	(54.6)
Total	\$ 51,099.8	\$ 3,984.8	\$ 3,035.8	\$ 58,120.3
As reported on the Statement				
Of Net Assets				
Current investments	\$ 936.8			
Noncurrent investments	972.8			
Total Investments	\$ 1,909.6			

Michigan
Notes to the Financial Statements

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

	Current Investments	Noncurrent Investments	Total
Governmental Activities	\$ 210.6	\$ 551.9	\$ 762.5
Business-type activities	726.2	420.9	1,147.1
Fiduciary funds	1,786.1	54,424.6	56,210.7
Total Investments	\$ 2,723.0	\$ 55,397.4	\$ 58,120.3

Authority

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 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 2004-2005, the deferred compensation plans' investment activities were managed by a private investment firm, which invests as directed by members of the plan.

Derivatives

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 & Poor's 500 and Standard & Poor's Midcap Index futures contracts during the year. At September 30, 2005, there was \$174.8 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 approximately 10.0% of the total portfolio.

Investment Pools

In July 2004, four state retirement systems' (State Employees', State Police, Public School Employees', and Judges') investments were contributed to an investment pool structure. A pro rata share of the entire pool represents each system's ownership of a portion of the investments in the State's pool.

Repurchase Agreements

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.

Risk

GASB Statement No. 40 requires certain disclosures regarding policies and practices with respect to the risks associated with investments. The custodial credit risk, the credit risk, the interest rate risk, the foreign currency risk and concentration of credit risk are discussed in the following paragraphs.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either the counterparty, or the counterparty's trust department or agent, but not in the government's name.

The State Treasurer does not have a policy for limiting custodial credit risk. As of September 30, 2005, government securities with a market value of \$50.0 million were exposed to custodial credit risk. These securities were held by the counterparty, not in the name of the retirement systems.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Short-term investment for the pensions funds are in prime commercial paper and follow the same policy described in Note 5 for this type of investment. The ratings at September 30 are included in the rated debt investment table.

All long-term fixed income investments, unless unrated, must be investment-grade at the time of purchase. Investment grade, as defined in P.A. 314 of 1965, as amended, includes: investments in the top four major grades, rated by two national rating services. The State Treasurer's policy is to use Standard & Poor's (AAA, AA, A, BBB); and Moody's (Aaa, Aa, A, Baa). The primary government's rated debt investments as of September 30, 2005, are presented below. Note that securities backed by the full faith and credit of the United States Government are excluded.

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Notes to the Financial Statements

Investment Type	Debt Investments (In millions)			
	Fair Value	Rating S & P	Fair Value	Rating Moody's
Pension (and Other Employee Benefit) Trust Funds:				
Retirement Systems:				
Commercial paper	\$ 2,191.5	A-1	\$ 2,400.9	P-1
	99.4	A-2	99.4	P-2
	483.2	Unrated	273.9	Unrated
Government securities				
U.S. agencies – sponsored	2,499.1	AAA	2,499.1	Aaa
Corporate bonds & notes				
	698.6	AAA	698.6	Aaa
	951.6	AA	1,131.4	Aa
	1,681.8	A	1,475.2	A
	393.2	BBB	495.4	Baa
	316.7	BB	140.0	Ba
	64.0	Unrated	165.2	Unrated
International*				
	859.7	AAA	859.7	Aaa
	984.8	AA	1,684.7	Aa
	2,059.5	A	1,329.6	A
	100.0	BB	100.0	Ba
			30.0	Unrated
Equity*				
	50.0	AA	100.0	Aa
	50.0	A	-	-
Mutual funds	68.5	Unrated	68.5	Unrated
Total	<u>13,551.7</u>		<u>13,551.7</u>	
Deferred Compensation/Defined Contribution:				
Common trust funds	\$ 1,053.1	AAA	\$ 1,060.6	Aaa
	269.9	AA	269.9	Aa
	20.0	Unrated	12.4	Unrated
Mutual funds	53.1	AA	53.0	Unavailable
Money market funds	182.7	AI	182.7	Unavailable
Total	<u>1,578.7</u>		<u>1,578.7</u>	
Other Primary Government Funds:				
Government securities				
U.S. agencies – sponsored	\$ 259.6	AAA	\$ 259.6	Aaa
	6.8	Unrated	6.8	Unrated
Corporate bonds & notes				
	69.4	AAA	75.0	Aaa
	15.2	AA	-	-
	45.2	A	57.8	A
	3.0	BBB	-	-
Guaranteed investment contract	6.0	Unrated	6.0	Unrated
Mutual funds				
	212.8	AAA	212.8	Unavailable
	69.4	AA	69.4	Unavailable
	1.9	Unrated	1.9	Unrated
Treasury trust fund pool	631.0	Unrated	631.0	Unrated
Total	<u>1,320.2</u>		<u>1,320.2</u>	
Total Primary Government	<u>\$ 16,450.6</u>		<u>\$ 16,450.6</u>	

*International and Equity Investment types consist of domestic floating rate notes that are used as part of a Swap strategy.

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Notes to the Financial Statements

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of those investments.

The State Treasurer's policy states that cash equivalents are invested in short term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2005, the fair value of prime commercial paper was \$2.8 billion; the weighted average maturity was 38 days.

The State Treasurer does not have a policy regarding interest rate risk for long-term debt investments. However, the pension

trust funds are invested with a long-term strategy with no investments with a maturity of less than one year at the time of purchase. The goal is to balance higher returns while accepting minimum risk for the return. Analyzing the yield curve on individual securities as compared to U.S. Treasuries determines, in part, what is an acceptable risk for the return. Therefore, market conditions such as lower interest rates result in shorter duration; higher interest rates result in longer duration.

As of September 30, 2005, the pension trust funds had the following long-term debt securities:

Pension (and Other Employee Benefit) Trust Funds Debt Securities (In millions)		
	Fair Value	Duration In Years
Retirement Systems:		
Governmental		
U.S. Treasury	\$ 398.3	4.3
U.S. Agency - Backed	1,134.3	5.3
U.S. Agency - Sponsored	2,499.1	2.5
Total Government	4,031.8	
Corporate		
	4,105.9	4.1
International*		
U.S. Agency - Sponsored	50.0	.1
Corporate	3,954.1	.2
Total International	4,004.1	
Equities*		
	100.0	.2
Mutual fund - fixed income		
	68.5	4.4
Total	\$12,310.1	
Deferred Compensation/Defined Benefit:		
Common trust funds		
Traditional GIC/BICs	\$ 199.9	1.4
Buy and hold synthetics	43.3	1.9
Global wrap synthetic contracts	1,029.8	3.1
SSgA daily bond market index fund	70.1	4.4
Money market funds		
	182.7	.1
Mutual fund		
	53.0	5.1
Total	1,578.7	
Total Pension (and Other Employee Benefit) Trust Funds	\$13,888.9	

*International and Equities contain Domestic Government and Corporate Securities as a part of their derivative strategies. The interest rates reset on a quarterly basis for these securities.

For the other primary government funds, fixed income is invested in a laddered, time-segmented structure allowing for intermittent cash flows as needed.

As of September 30, 2005, the primary government, excluding pension trust funds, had the following long-term debt securities:

Michigan
Notes to the Financial Statements

Investment Type	Other Funds Debt Securities (In millions)				
	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1 To 5	6 To 10	More Than 10
U.S. Treasury SLGS	\$ 44.8	\$ 11.1	\$ 33.8	\$ -	\$ -
U.S. Treasury bonds	514.3	93.4	261.1	126.8	33.0
U.S. Bonds - backed	10.4	-	.4	1.6	8.4
U.S. Agency bonds - sponsored	266.4	-	28.7	173.9	63.8
Corporate bonds	132.8	-	25.15	57.9	49.8
Guaranteed investment contracts	6.0	-	6.0	-	-
Mutual funds	284.0	1.9	-	212.8	69.4
Total	\$ 1,258.8	\$ 106.3	\$ 355.0	\$ 573.1	\$ 224.4

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments or deposits.

The pension trust funds invest in various foreign securities. These investments are limited to 20% of the total assets of the system, and are additionally limited to 5% of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State

Department as engaging in or sponsoring terrorism. These limits are set forth in P.A. 314 of 1965, as amended. The types of foreign securities include equities, fixed income, mutual funds, and limited partnerships. At September 30, 2005, foreign investments were less than 5% of total assets of the systems; total foreign investments were \$2.3 billion. As of September 30, 2005, the pension (and other employee benefits) trust funds held the following investments subject to foreign currency risk:

Pension (and Other Employee Benefit) Trust Funds
Foreign Currency Risk
(In millions)

Currency	Country	Market Value (In U.S. Dollars)			
		Alternative Investments	Equities	Equities - International	
				Equities	Derivatives*
Retirement Systems:					
Americas					
Real	Brazil	\$ -	\$.4	\$ -	\$ -
Peso	Mexico	-	260.1	-	-
Europe					
Euro	European Union	338.9	1.4	67.9	168.7
Franc	Switzerland	-	32.2	-	25.8
Krona	Sweden	-	-	.4	15.0
Krone	Denmark	-	-	1.6	9.3
Krone	Norway	-	-	1.8	9.0
Sterling	United Kingdom	29.8	177.1	41.6	94.1
Asia/Pacific					
Dollar	Australia	-	-	.4	42.1
Dollar	Hong Kong	-	-	6.1	11.3
Yen	Japan	8.6	-	4.5	128.2
Dollar	New Zealand	-	-	-	1.9
Won	Singapore	-	-	-	6.3
Won	South Korea	-	-	-	24.7
Mutual Funds					
Various	Various	-	20.3	757.7	-
Total		\$ 377.3	\$ 491.5	\$ 882.0	\$ 536.2
Deferred Compensation/Defined Contribution:					
Mutual Funds					
Various	Various	\$ -	\$ 302.0	\$ -	\$ -
Total		\$ 377.3	\$ 793.5	\$ 882.0	\$ 536.2

*International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2005 through September 2008, with an average maturity of 1.5 years. For more information, see the derivatives section of this note.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investments with a single issuer.

Other than obligations issued that are assumed or guaranteed by the United States, its agencies, or United States government-sponsored enterprises, the pension systems are prohibited by P.A. 314 of 1965, as amended, from investing in more than 5% of the outstanding obligations of any one issuer or investing more than 5% of a system's assets in the obligations of any one issuer.

At September 30, 2005, there were no investments in any single issuer more than 5% of the system's assets, nor were there any investments totaling more than 5% of the obligations of any one issuer, other than U.S. Government Securities as described above.

Pension trust fund investments represent 94.8% 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, \$514.3 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. The agent bank indemnified the State by agreeing to purchase replacement securities, or return cash collateral in the event the borrower failed to return the loaned securities or pay distributions thereon. There were no such 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 in a collective investment pool along with the cash collateral of other qualified and non-qualified tax-exempt plan lenders. As of September 30, 2005, the investment pool had an average duration of 45 days and an average expected maturity of 404 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. At September 30, 2005, 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, 2005, were \$3.4 billion and \$3.3 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 \$158.4 million. The deposits were reflected in the accounts of the banks at \$164.9 million. Of the bank balance, \$143.9 million was uninsured and uncollateralized and therefore exposed to custodial credit risk.

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 that 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 that 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 \$346.8 million, represent amounts that are pledged toward the payment of outstanding bonds and notes.

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Notes to the Financial Statements

The following table summarizes the investment maturities reported by the discretely presented component units (in millions):

	Investment Maturities (In Years)					
	Fair Market Value	Less Than 1	1 To 5	6 To 10	More Than 10	N/A
Deposits:						
Time deposits	\$ 49.4	\$ 41.7	\$ 7.6	\$ -	\$ -	\$ -
Government money market accounts	71.0	71.0	-	-	-	-
Investments:						
Commercial paper	128.0	128.0	-	-	-	-
Short-term notes	98.8	95.2	1.5	1.9	.2	-
Repurchase agreements	326.5	15.6	300.8	-	10.2	-
Government securities	1,949.3	1,037.9	499.0	210.7	200.6	1.2
Insured mortgage backed securities	217.4	2.2	6.2	.3	208.7	-
Government backed securities	190.3	18.6	4.2	2.1	165.5	-
Investment agreements	31.0	10.3	-	-	20.7	-
Corporate bonds and notes	296.7	16.0	117.6	143.6	19.4	.1
Preferred stock	1.1	-	-	-	.9	.2
Equities	92.7	30.6	2.5	-	14.4	45.1
Real estate	3.6	.7	-	-	2.8	.1
Venture capital & leveraged buyouts	18.0	-	-	11.7	6.3	-
Government money market funds	11.5	6.8	4.7	-	-	-
Mutual Bond Funds	339.1	171.2	133.6	34.1	.2	-
Mutual Equity Funds	693.7	234.2	-	-	228.0	231.5
Guaranteed investment contracts	943.0	-	426.7	6.9	509.4	-
Pooled investment funds	22.1	22.1	-	-	-	-
Other investments	15.6	.8	-	-	13.6	1.2
Total Investments	\$ 5,498.8	\$ 1,902.8	\$ 1,504.4	\$ 411.3	\$ 1,400.9	\$ 279.4

Less Investments Reported as "Cash" on Statement of Net Assets	
Net Assets	477.5
Total Investments	<u>\$ 5,021.3</u>

As Reported on Statement of Net Assets

Current investments	\$ 1,318.4
Noncurrent restricted investments	346.8
Noncurrent investments	3,356.2
Total Investments	<u>\$ 5,021.3</u>

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.

Michigan
Notes to the Financial Statements

Items not capitalized and depreciated

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets are held for public exhibition, education, or research in furtherance of public service, rather than financial gain. 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:

<u>Asset</u>	<u>Years</u>
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, 2005, were as follows (in millions):

	<u>Beginning Balance (restated)*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments and Reclass- ifications</u>	<u>Ending Balance</u>
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,113.7	\$ 66.4	\$ (2.0)	\$.4	\$ 3,178.5
Land improvements	17.2	-	-	-	17.2
Construction in progress	1,327.1	375.7	(561.4)	(122.3)	1,019.1
Infrastructure	11,747.3	507.3	(108.9)	-	12,145.7
Mineral rights	19.8	-	-	-	19.8
Total capital assets, not being depreciated	<u>16,225.1</u>	<u>949.4</u>	<u>(672.3)</u>	<u>(121.9)</u>	<u>16,380.3</u>
Capital assets, being depreciated:					
Land improvements	111.0	.8	(1.5)	-	110.3
Equipment and vehicles	695.2	127.3	(93.9)	(34.7)	693.8
Buildings	3,150.7	144.9	(60.4)	39.4	3,274.7
Infrastructure	624.5	18.3	(2.5)	-	640.3
Total capital assets, being depreciated	<u>4,581.4</u>	<u>291.3</u>	<u>(158.3)</u>	<u>4.7</u>	<u>4,719.2</u>
Less accumulated depreciation for:					
Land improvements	(41.7)	(3.3)	1.1	-	(43.9)
Equipment and vehicles	(550.8)	(55.8)	38.2	5.8	(562.7)
Buildings	(1,108.9)	(94.4)	47.8	(1.1)	(1,156.7)
Infrastructure	(359.2)	(23.5)	2.4	-	(380.3)
Total accumulated depreciation	<u>(2,060.5)</u>	<u>(177.1)</u>	<u>89.4</u>	<u>4.7</u>	<u>(2,143.6)</u>
Total capital assets, being depreciated, net	<u>2,520.9</u>	<u>114.2</u>	<u>(68.8)</u>	<u>9.4</u>	<u>2,575.6</u>
Governmental activity capital assets, net	<u>\$ 18,746.0</u>	<u>\$ 1,063.6</u>	<u>\$ (741.1)</u>	<u>\$ (112.6)</u>	<u>\$ 18,955.9</u>

*Beginning balances for land, buildings, and equipment and vehicles in Governmental Activities were restated due to the transfer of the State Fair in the Department of Agriculture to a newly created component unit, Michigan Exposition and Fairgrounds Authority. Beginning balances for construction in progress and infrastructure were restated due to prior period errors. See Note 4 for additional information on these restatements.

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Notes to the Financial Statements

Business-type Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclas- sifications	Ending Balance
Capital assets, being depreciated:					
Buildings	\$ -	\$ -	\$ -	\$ -	\$ -
Equipment	4.8	.2	(.3)	-	4.7
Total capital assets, being depreciated	4.8	.2	(.3)	-	4.7
Less accumulated depreciation for:					
Buildings	-	-	-	-	-
Equipment	(4.3)	(.2)	.3	-	(4.2)
Total accumulated depreciation	(4.3)	(.2)	.3	-	(4.2)
Total capital assets, being depreciated, net	.6	-	-	-	.6
Business-type activity capital assets, net	\$.6	\$ -	\$ -	\$ -	\$.6

Depreciation expense was charged to functions of the primary government as follows (in millions):

	Amount
Governmental Activities:	
General Government	\$ 22.4
Education	.3
Human Services	12.0
Public Safety and Corrections	50.1
Conservation, Environment, Recreation, and Agriculture	9.5
Labor, Commerce, and Regulatory	1.6
Health Services	6.2
Transportation	31.7
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.	43.2
Total Depreciation Expense – Governmental Activities	\$ 177.1
Business-type Activities:	
Enterprise	.2
Total Depreciation Expense – Business-type Activities	\$.2

Michigan
Notes to the Financial Statements

B. Discretely Presented Component Units

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

	<u>Amount</u>
State Universities:	
Land and other non-depreciable assets	\$ 97.6
Buildings, equipment, and other depreciable assets	4,047.5
Infrastructure	132.6
Construction in progress	<u>87.9</u>
Total	4,365.5
Less accumulated depreciation	<u>(1,505.4)</u>
Capital Assets, net – State Universities	2,860.1
Capital Assets, net – Authorities	<u>143.3</u>
Capital Assets, Total – Discretely Presented Component Units	<u><u>\$ 3,003.4</u></u>

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	1,048	30,974	118,520	292	1,210
Nonvested	1	665	2,796	202,537	10	9,930
Retirees & beneficiaries receiving benefits	268	2,726	45,801	151,706	552	2,934
Terminated members with vested deferred benefits	62	140	7,200	15,286	18	1,092

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, 2004.

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Notes to the Financial Statements

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):

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>MRP</u>
Required contribution rates:				
State	-	26.86%	16.31%	- ^{**}
Plan Members	***	-	-	-
Annual Pension Cost and Net Pension Obligation:				
Annual required contribution	\$ -	\$ 32.15	\$ 308.21	\$ 3.61
Interest on net pension asset	(.13)	1.34	21.29	.77
Adjustment to annual required contribution	.23	(.96)	(22.40)	(.82)
Annual pension cost	.10	32.53	307.10	3.56
Contributions made	-	26.61	256.43	2.80
Change in net pension asset/obligation	.10	5.92	50.67	.76
Net pension (asset) obligation at beginning of fiscal year****	(1.86)	16.71	266.15	8.99
Net pension (asset) obligation at end of fiscal year	<u>\$ (1.76)</u>	<u>\$ 22.64</u>	<u>\$ 316.82</u>	<u>\$ 9.75</u>
Significant Actuarial Assumptions used include:				
Latest actuarial valuation date	9/30/05	9/30/04	9/30/04	9/30/05
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	5 years	32 years	32 years	31 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%	3.5 – 93.5%	3.5-14.4%	4%
Includes inflation at	4%	3.5%	3.5%	3.5%
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	3.5% 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.

****For SERS and MRP, the beginning balance was restated based on revised actuarial reports.

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Notes to the Financial Statements

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

	<u>PSERS</u>	<u>JRS</u>
Required contribution rates:		
State	N/A	**
Plan Members	3.9*	5.93
Number of participating employers	717	165

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):

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
LRS						
9/30/05	\$ 157.5	\$ 154.7	\$ (2.8)	101.8%	\$ 2.0	(139.2)%
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)
SPRS**						
9/30/04	1,117.7	1,255.8	138.1	89.0	119.7	115.4
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)
SERS**						
9/30/04	10,149.3	12,004.0	1,854.7	84.5	1,889.4	98.2
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
PSERS**						
9/30/04	38,784.0	46,317.0	7,533.0	83.7	10,407.0	72.4
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
JRS						
9/30/05	278.4	243.4	(35.0)	114.4	34.9	(100.3)
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)
MRP*						
9/30/05	-	40.6	40.6	-	.5	8,120.0
9/30/03	-	41.3	41.3	-	.6	6,883.0
9/30/01	-	38.0	38.0	-	.5	8,049.6

*Actuarial valuation performed biennially.

**The most recent actuarial valuation was performed as of September 30, 2004.

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Notes to the Financial Statements

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				
	2002-03	.1	-	(2.0)
	2003-04	.1	-	(1.9)
	2004-05	.1	-	(1.8)
SPRS				
	2002-03	27.1	95.9	14.1
	2003-04	27.4	90.5	16.7
	2004-05	32.5	81.8	22.6
SERS				
	2002-03	184.2	33.6	132.4
	2003-04	262.1	39.6	266.2
	2004-05	307.1	83.5	316.8
MRP				
	2002-03	3.3	79.5	8.0
	2003-04	3.6	74.7	9.0
	2004-05	3.6	77.5	9.8

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			
	2002-03	812.9	85.9
	2003-04	978.0	71.3
	2004-05	1,023.3	75.7
JRS			
	2002-03	-	-
	2003-04	-	-
	2004-05	-	-

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)
9/30/01	-	38.0	38.0	-	.5	8,049.6
9/30/03	-	41.3	41.3	-	.6	6,883.0
9/30/05	-	40.6	40.6	-	.5	8,120.0

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
2005	3.6	77.5
2004	3.6	74.7
2003	3.3	79.5
2002	3.3	73.1
2001	3.0	76.1
2000	3.0	74.6

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 \$62.9 million. Participant contributions to the plan were \$23.1 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.

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 \$.4 million for the year ended September 30, 2005.

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

The following investments represent 5% or more of net plan assets at September 30, 2005: Common Trust Funds: Traditional GICs/BICs, \$56.5 million; Buy & Hold Synthetics, \$15.2 million; Global Wrap Synthetic Contracts, \$276.5 million; SSGA Daily Bond Market Index Fund, \$48.2 million; Money Market Funds, \$151.1 million; Mutual Funds, \$35.8 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 \$70.1 million for the year ending June 30, 2005.

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, 2005, the actuarial accrued liability for life insurance premiums was \$7.8 million with net assets available for benefits of \$15.6 million. The expense for life insurance premiums was \$.3 million in fiscal year 2004-2005.

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 2004-2005, there were no pension contributions transferred to the subaccount.

Michigan
Notes to the Financial Statements

Following is a brief summary of the other postemployment benefits as of September 30, 2005:

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>JRS</u>	<u>PSERS</u>	<u>TOTAL</u>
Participants eligible for benefits	349	2,726	45,801	552	151,706	201,134
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)	\$ 4.2	\$26.8	\$322.8	\$.6	\$706.0	\$1,060.4
Net assets available for benefits (in millions)	11.9	3.2	48.8	(.1)	523.9	587.7

*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 \$73.6 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totaled \$24.6 million, \$28.6 million, and \$15.3 million, respectively.

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

Year Ended September 30	Capital Leases				
	Operating Leases	Principal	Interest	Executory Costs	Total
2006	\$ 29.3	\$ 31.6	\$ 35.5	\$ 26.0	\$ 93.1
2007	22.7	28.1	33.8	24.9	86.9
2008	17.9	23.6	31.6	24.2	79.4
2009	14.2	19.6	29.5	22.5	71.6
2010	9.2	19.0	27.6	21.3	68.0
2011-2015	13.7	74.6	116.3	89.1	280.1
2016-2020	6.4	73.6	81.4	74.6	229.6
2021-2025	2.2	70.2	49.0	62.9	182.1
Thereafter	-	65.8	17.8	69.5	153.2
Total	<u>\$ 115.5</u>	<u>\$ 406.3</u>	<u>\$ 422.6</u>	<u>\$ 415.0</u>	<u>\$ 1,243.9</u>

Michigan
Notes to the Financial Statements

The above capital leases relate to governmental activities which include the General Fund, special revenue funds, and the internal service funds. A liability of \$406.3 million has been recorded in the government-wide statements for the capital lease principal. The historical cost of assets acquired under capital leases are included in capital assets on the government-wide statements at September 30 follows (in millions):

Land	\$ 70.0
Buildings	425.4
Equipment	86.2
Total	581.7
Accumulated Depreciation	(214.8)
Net Land, Buildings, and Equipment	<u>\$ 366.8</u>

B. Primary Government – Business-Type Activities

Rental expense incurred under operating leases totaled \$4 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
2006	\$.5
2007	.5
2008	.3
2009	.2
2010	.1
	<u>\$ 1.4</u>

C. Discretely Presented Component Units

Operating lease commitments for universities and authorities totaled \$57.9 million. Total capital lease obligations were \$10.1 million, \$2.5 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 2004-2005, 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, 2005, 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, 2005, principal payments of \$428.0 million have been made on the notes. The amount outstanding at September 30, 2005, \$172.0 million, is not disclosed in the table below.

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, 2005, follows (in billions):

	Beginning Balance	Draws	Repayments	Ending Balance
Commercial Paper Notes	\$.4	\$ 2.8	\$ 2.9	\$.3

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

Michigan
Notes to the Financial Statements

Bonds Issued and Outstanding

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

	Amounts Issued	Outstanding 9/30/2005	Fiscal Year Maturities		Average Interest Rate Percentage
			First Year	Last Year	
General Obligation Bonded Debt					
General Obligation Refunding Debt:					
Series 2001 (Refunding)	\$ 183.3	\$ 171.2	2002	2016	4.76
Series 2002 (Refunding)	300.7	300.2	2004	2017	4.41
Series 2005 A (Refunding) (3)	86.8	86.8	2017	2021	5.00
Series 2005 B (Refunding) (3)	82.8	82.8	2013	2021	5.00
Series 2005 C (Refunding) (3)	21.1	21.1	2008	2013	4.17
Recreation and Environmental Protection:					
Series 1989 (1)	75.0	19.2	1991	2012	6.81
Series 1992 (1)	246.3	85.4	1994	2013	5.86
College Savings Bonds - Series 1992 Mini-bonds (1)	.5	1.1	2012	2012	6.50
Series 1992 A (1)(2)	13.9	6.5	1995	2013	6.17
Series 1993 (1)(2)	16.7	9.2	1996	2014	5.00
Series 1995 (1)	234.3	18.2	1997	2010	5.28
Series 1998 (1)	90.0	16.3	1999	2009	4.87
Series 1999 A (3)	81.8	19.1	2004	2010	5.47
Series 2000 (1)	60.0	14.9	2002	2011	5.24
Series 2001 (3)	56.8	31.9	2004	2012	4.82
Series 2003 (5)	10.0	10.0	2054	2054	0.00
Series 2003 A (1)(3)	200.0	200.0	2007	2021	5.00
School Loan Bonds:					
Series 1995	180.0	17.0	1997	2007	5.64
Series 1998	160.0	58.8	2001	2012	4.80
Series 2005 B (4)	362.5	362.5	2008	2025	variable
Series 2005 C (4)	113.1	113.1	2020	2024	variable
Total General Obligation Bonded Debt	2,575.5	1,645.1			
Revenue Dedicated Bonded Debt					
<u>State Park Related:</u>					
2002 – Gross Revenue Bonds	15.5	14.5	2004	2023	3.58
Total Revenue Dedicated Bonded Debt - State Park Related	15.5	14.5			
<u>Transportation Related:</u>					
Tax Dedicated Bonds:					
Michigan Comprehensive Transportation:					
Series 1996 (Series A Refunding)	22.7	19.1	1998	2014	5.07
Series 1998 (Series A Refunding)	38.6	37.6	2005	2011	4.81
Series 2001 (Series A Refunding)	27.8	27.8	2008	2022	5.01
Series 2002 (Series A Refunding)	89.6	56.3	2003	2011	5.07
Series 2002 (Series B)	82.3	23.9	2004	2012	5.13
Series 2003	35.0	22.3	2004	2023	3.61
Series 2005 (Refunding)	62.2	62.2	2009	2023	5.15
State Trunkline Fund Bonds:					
Series 1989 (Series A)	135.8	20.3	1994	2009	6.75
Series 1992 (Series A Refunding)	253.6	67.8	2000	2013	5.76
Series 1992 (Series B Refunding)	99.6	10.4	2000	2013	5.68
Series 1996 (Series A)	54.5	2.3	1998	2007	5.76
Series 1998 (Series A Refunding)	377.9	377.9	2006	2027	5.03
Series 2001 (Series A)	308.2	45.2	2003	2012	4.96
Series 2002 (Refunding)	97.9	73.4	2004	2022	4.71
Series 2004 (Refunding)	103.5	103.5	2006	2022	4.13
Series 2004	185.7	100.5	2008	2019	4.36
Series 2005 (Refunding)	223.0	223.0	2010	2023	5.10
Series 2005 B (Refunding)	378.3	378.3	2010	2019	4.81
Total Revenue Dedicated Bonded Debt - Transportation Related	2,576.1	1,651.8			

Michigan
Notes to the Financial Statements

	Amounts Issued	Outstanding 9/30/2005	Fiscal Year Maturities		Average Interest Rate Percentage
			First Year	Last Year	
<u>State Building Authority:</u>					
1998 Series I Bonds (Refunding)	330.4	273.1	1999	2022	4.75
2000 Series I Bonds	147.9	128.9	2000	2022	5.24
2001 Series I Bonds (Refunding)	419.7	387.5	2003	2026	5.26
2002 Series III (Refunding)	215.2	205.1	2004	2027	4.56
2003 Series I (Refunding)	659.4	598.5	2004	2018	3.64
2003 Series II (Refunding)	392.6	386.5	2005	2030	4.42
2004 Series I	155.4	152.1	2005	2020	4.08
2005 Series I Multi Modal (4)	189.3	189.3	2006	2040	variable
2005 Series I (Refunding)	293.4	293.4	2006	2034	3.96
Total State Building Authority Bonded Debt	<u>2,803.3</u>	<u>2,614.5</u>			
Total Revenue Dedicated Bonded Debt	<u>5,394.8</u>	<u>4,280.8</u>			
Total General Obligation and Revenue Dedicated Bonded Debt	<u>\$ 7,970.3</u>	<u>\$ 5,925.9</u>			

(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, 2005, \$765.1 million of such bond proceeds had been received, leaving remaining authorization of \$34.9 million. Sum of amounts issued in table differs by amount of bonds refunded or redeemed, premiums and discounts, and other issuance costs.

(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, 2005, \$414.9 million of such bond proceeds had been received, leaving remaining authorization of \$260.1 million. Sum of amounts issued in table differs by amount of bonds refunded or redeemed, premiums and discounts, and other issuance costs.

(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, 2005.

(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.

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Notes to the Financial Statements

Capital Appreciation Bonds

Capital appreciation and convertible capital appreciation bonds are recorded in the preceding table and Section B at their

accrued year-end book value. The table that follows summarizes capital appreciation bonds (in millions):

	Accrued Book Value	Ultimate Maturity Value	Fiscal Year Maturities	
			First Year	Last Year
General Obligation Bonds:				
Series 1989	\$ 19.2	\$ 23.6	1999	2012
Series 1992	15.7	20.0	2000	2012
College Savings Bonds - Series 1992 Mini-bonds	1.1	1.8	2012	2012
Series 1995	13.2	16.1	2001	2010
Revenue Dedicated – Transportation Related:				
State Trunkline – Series 1989 A	20.3	23.8	2004	2009
State Trunkline – Series 1992 A	67.8	84.9	2006	2013
State Trunkline – Series 1992 B	10.4	12.8	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 State has defeased certain bonds by placing cash with an escrow agent in a trust to be used for future payment on the debt.

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

	Amounts Outstanding
Recreation and Environmental Protection:	
Series 1995	\$ 157.5
Series 1998	50.4
Series 1999 A	56.1
Series 2000 (partial)	37.4
Series 2001	22.3
Series 2004 A	39.4
Series 2004 B	15.1
Total Recreation and Environmental	<u>\$ 378.2</u>
School Loan Bonds:	
Series 1995	\$ 103.3
Series 1998	69.1
Series 2001 C	45.9
Series 2002 A	30.9
Series 2002 B	46.5
Series 2003 B	3.3
Series 2004 A	203.2
Series 2004 B	25.4
Series 2004 C	22.0
Series 2005 A	59.2
Total School Loan Bonds	<u>\$ 608.7</u>
MUSTFA Related:	
Series 1996-1	\$ 104.8
Total MUSTFA Related	<u>\$ 104.8</u>
Comprehensive Transportation Fund Bonds:	
Series 2002 B (partial)	\$ 52.9
Series 2003	9.9
	<u>\$ 62.9</u>
State Trunkline Fund Bonds:	
Series 1996 A (partial)	\$ 45.2
Series 2001 A (partial)	245.8
Series 2004 (partial)	85.2
	<u>\$ 376.3</u>
Total Transportation Related	<u>\$ 439.2</u>

Michigan
Notes to the Financial Statements

	Amounts Outstanding
State Building Authority:	
1994 Series II	\$ 11.7
1996 Series I	42.7
1997 Series I	70.3
1997 Series II	243.8
1998 Series I	75.2
1997 Series A	4.3
2000 (MSP Phase II)	31.1
2001 (MSP Phase III)	41.6
2002 (MSP Phase IV)	29.9
1991 Series I	61.9
2001 Series I	103.0
2001 Series II	150.1
Total State Building Authority	\$ 865.6

General Obligation

During the year, the State of Michigan issued \$190.7 million of General Obligation Bonds Series 2005 A, B, & C maturing in years 2008 through 2021 with fixed interest rates to advance refund four prior bond series. From the proceeds, \$22.3 million, was used to refund principal on General Obligation Series 2001, \$54.4 million was used to refund principal on General Obligation Series 1995, \$39.4 million was used to refund General Obligation Series 2004 A, \$15.1 million was used to refund General Obligation Series 2004 B, and \$59.5 million was deposited into the Combined Environmental Protection Bond Fund to fund environmental protection programs. As a result of these refundings, the State's debt service increased by \$2.7 million over the next 20 years. The State achieved an economic gain of \$5.3 million through these refundings.

Also during the year, the State of Michigan issued \$475.6 million of School Loan Multi-Modal Bonds Series 2005 B & C maturing in years 2008 through 2025 with a variable interest rate. The maximum interest rate applicable to the Series 2005 B is 15% annually and the maximum interest rate applicable to the Series 2005 C bonds is 12% annually. From the proceeds, \$436.3 million was used to refund principal on School Loan Bonds Series 2001 C, 2002 A, 2002 B, 2003 B, 2004 A, 2004 B, 2004 C, and 2005 A. \$39.3 million was deposited into the School Bond Loan Fund to make loans to local school districts.

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

Revenue Dedicated

During the year, the State issued fixed rate State Trunk Line Refunding Bonds Series 2005 and 2005 B for \$601.3 million. The new bonds mature in years 2010 through 2023. The proceeds were used to refund \$146.5 million in outstanding principal on State Trunk Line Series 2001 A, \$85.2 million in outstanding principal on State Trunk Line Series 2004, and to retire \$400.0 million of Series 2001 Grant Anticipation Notes. As a result of these refundings, the State's debt service decreased by \$58.5 million over the next 27 years and the State achieved an economic gain of \$12.5 million.

Also during the year, the State issued fixed rate Comprehensive Transportation Refunding Bonds Series 2005 for \$62.2 million. The new bond matures in years 2009 and 2013 through 2023. The bond was issued to refund \$55.2 million in outstanding principal on Comprehensive Transportation Series 2002 B and \$9.9 million in outstanding principal on Comprehensive Transportation Series 2003. As a result of these refundings, the State's debt service decreased by \$2.5 million over the next 19 years and the State achieved an economic gain of \$2.4 million.

During the year, the State Building Authority (SBA) issued \$293.4 million of revenue refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust, along with \$27.4 million of SBA cash and \$21.3 million of issuance premium, for the purpose of generating resources for all future debt service payments of \$315.0 million of bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$17.6 million. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This advance refunding was undertaken to secure more favorable interest rates, reduce debt service payments during the first 13 years of the 28-year bond amortization, and produce an economic gain of \$24.4 million; however, if serviced serially through the maturity date of October 15, 2033, total payments under the refunding bond would exceed those of the refunded bonds by \$117.0 million.

Michigan
Notes to the Financial Statements

Debt Service Requirements

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

Fiscal Years Ending	General Obligation			State Park, and Transportation Related		State Building Authority		Total Principal And Interest
	Principal	Fixed Interest	*Estimated Interest	Principal	Fixed Interest	Principal	Interest	
2006	\$ 56.4	\$ 54.1	\$ 16.7	\$ 49.5	\$ 77.8	\$ 82.1	\$ 132.9	\$ 469.5
2007	68.2	53.8	16.7	51.0	76.5	100.5	130.1	496.7
2008	77.5	50.8	16.7	64.7	74.8	105.1	125.3	514.8
2009	79.3	47.6	16.6	67.0	72.5	110.0	120.1	513.1
2010	85.1	44.1	16.6	99.8	69.9	115.5	114.5	545.5
2011-2015	493.0	150.8	82.3	505.6	283.2	666.1	475.1	2,656.0
2016-2020	417.8	45.1	76.3	555.2	148.6	589.8	298.8	2,131.5
2021-2025	370.2	1.8	30.4	289.4	27.2	370.4	181.8	1,271.2
2026-2030	-	-	-	7.2	.4	216.9	111.0	335.4
2031-2035	-	-	-	-	-	72.9	76.8	149.7
2036-2040	-	-	-	-	-	185.3	42.3	227.6
Thereafter	10.0	-	-	-	-	-	-	10.0
Total	\$1,657.4	\$ 448.0	\$ 272.1	\$1,689.3	\$ 830.9	\$2,614.5	\$1,808.8	\$ 9,321.0

*Interest for Multi-Modal Bonds future debt service requirements was estimated at the rate in effect at September 30, 2005.

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 \$193.6 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, 2005, are summarized as follows (in millions):

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds Payable:						
General obligation debt	\$ 1,527.5	\$ 750.8	\$ 633.3	\$ 1,645.1	\$ 56.4	\$ 1,588.7
Revenue bonds	1,443.1	669.8	446.7	1,666.3	49.5	1,616.8
State Building Authority	2,544.6	482.7	412.8	2,614.5	82.1	2,532.4
Notes Payable:						
Transportation related	600.0	-	428.0	172.0	-	172.0
Deferred Loss on Refundings:						
General obligation debt	(27.7)	(12.2)	2.6	(37.3)	-	(37.3)
Revenue dedicated debt	(13.2)	(21.0)	1.4	(32.8)	-	(32.8)
State Building Authority	(56.9)	(17.6)	7.5	(66.9)	-	(66.9)
Unamortized Premiums:						
General obligation debt	48.9	17.9	4.1	62.8	-	62.8
Revenue dedicated debt	46.2	58.6	4.1	100.8	-	100.8
State Building Authority	130.1	21.3	8.6	142.8	-	142.8
Total bonds and notes payable	\$ 6,242.7	\$ 1,950.4	\$ 1,892.3	\$ 6,267.1	\$ 187.9	\$ 6,079.2

Plus State Building Authority commercial paper notes reported as "Current Liabilities: Bonds and notes payable" on the Statement of Net Assets

334.2 334.2 -

As reported on the Statement of Net Assets

\$ 6,601.3 \$ 522.1 \$ 6,079.2

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
2006	\$ 382.7	\$ 341.1	\$ 5.4	\$ 729.1
2007	274.6	331.2	5.3	611.0
2008	298.4	319.9	5.1	623.4
2009	315.3	295.3	4.9	615.5
2010	360.6	281.8	4.7	647.1
	<u>1,631.6</u>	<u>1,569.2</u>	<u>25.4</u>	<u>3,226.1</u>
2011-2015	1,494.8	1,192.0	20.4	2,707.2
2016-2020	1,487.0	849.7	14.2	2,350.9
2021-2025	893.0	521.5	8.9	1,423.3
2026-2030	640.5	353.4	4.2	998.0
2031-2035	478.0	235.0	.3	713.4
2036-2040	1,420.6	121.8	-	1,542.4
	<u>6,413.9</u>	<u>3,273.3</u>	<u>47.9</u>	<u>9,735.2</u>
Total	8,045.6	\$ 4,842.5	\$ 73.3	\$ 12,961.4
Deferred amount on refunding	(86.2)			
Unamortized discount	(.1)			
Unamortized premium	158.1			
Total principal	<u>\$ 8,117.4</u>			

Included in the table above is \$576.0 million of demand bonds comprised of the Michigan Higher Education Student Loan Authority, \$56.4 million, and the Michigan State Housing Development Authority, \$519.6 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.

Notes Payable

The Michigan Municipal Bond Authority has short-term notes outstanding of \$832.6 million as of September 30, 2005.

The Land Bank Fast Track Authority has long-term notes outstanding of \$.2 million as of September 30, 2005. Grand Valley State University has short-term notes outstanding of \$.2 million and long-term notes outstanding of \$.4 million as of June 30, 2005.

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, 2005, MHEFA had bonds outstanding of \$400.7 million. Of the above amount, \$6.8

million of bonds have been defeased in substance, leaving a remaining undefeased balance of \$393.8 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, 2005, was \$7.0 billion. MSF also issues taxable bonds which are not recorded as liabilities. The amount issued in fiscal year 2004-2005 was \$9.7 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 \$5.7 billion of no commitment bonds as of September 30, 2005. Of the above amount, \$1.3 billion have been defeased in substance, leaving a remaining undefeased balance of \$4.4 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, 2005, limited obligation bonds had been issued totaling \$659.2 million, of which fourteen issues totaling \$131.0 million had been retired.

MSHDA entered into several interest rate exchange agreements for a total of \$481.2 million as of June 30, 2005, representing several bond series. In accordance with the exchange agreements, MSHDA pays fixed rates ranging from 3.5% to 7.7%.

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Notes to the Financial Statements

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, 2005, MPEFA had bonds outstanding of \$6.2 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, 2005, was as follows (in millions):

	Beginning Balance	Draws	Payments	Ending Balance
Line of Credit	\$ 6.9	\$ 6.8	\$ 4.6	\$ 9.1

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.

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 \$4 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.

Capital Leases

This liability is described in more detail in Note 11.

The liability recorded for other claims and judgments within business-type activities represents overpayments by employers to the Michigan Unemployment Compensation Fund totaling \$43.4 million.

Compensated Absences

This liability is described in Note 1.

Workers' Compensation

The gross amount of workers' compensation liability, \$158.7 million at September 30, 2005, has been recorded at its discounted present value of \$106.6 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 2004-2005 State agencies paid reimbursement for actual workers' compensation claims and administrative fees totaling \$41.6 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 \$331.7 million at September 30, 2005. 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.

Net Pension Obligation

This liability is described in Note 10.

Other Claims & Judgments

The governmental activity estimated liability for other claims and litigation losses, \$443.5 million at September 30, 2005, includes amounts for litigation, such as damages in tort cases and refund claims in cases involving State taxes, transportation

Michigan
Notes to the Financial Statements

Changes in Other Long-Term Obligations

Changes in long-term liabilities for the year ended September 30, 2005, are summarized as follows (in millions):

	Beginning Balance (restated)	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Other Long-term Obligations:						
Capital lease obligations	\$ 423.0	\$ 19.1	\$ 35.9	\$ 406.3	\$ 31.6	\$ 374.7
Compensated absences	494.3	323.3	269.2	548.4	50.7	497.7
Workers' compensation	106.5	23.8	23.7	106.6	23.7	82.9
Net pension obligations	291.8	57.4	-	349.2	-	349.2
Other claims & judgments	414.9	49.7	21.2	443.5	84.0	359.5
Durant settlement	353.6	34.9	56.8	331.7	66.5	265.2
Total Governmental Activities	<u>\$ 2,084.2</u>	<u>\$ 508.3</u>	<u>\$ 406.7</u>	<u>\$ 2,185.8</u>	<u>\$ 256.6</u>	<u>\$ 1,929.2</u>
Business-type Activities						
Other Long-term Obligations:						
Lottery prize awards*	\$ 530.0	\$ 36.9	\$ 103.6	\$ 463.4	\$ 91.4	\$ 371.9
Compensated absences	2.8	1.6	1.2	3.2	.4	2.8
Other claims & judgments	42.9	43.4	42.9	43.4	-	43.4
Total Business-type Activities	<u>\$ 575.7</u>	<u>\$ 81.9</u>	<u>\$ 147.7</u>	<u>\$ 509.9</u>	<u>\$ 91.8</u>	<u>\$ 418.1</u>

*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.

tuition obligations to be \$549.5 million, as compared to the actuarially determined market value of assets available of \$576.0 million. The actuarial assumptions used include: a projected tuition increase rate of 7% for the years through 2011 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, 2005, shows the actuarial present value of future tuition obligations to be \$445.1 million, as compared to the actuarially determined market value of assets available of \$400.8 million. The actuarial assumptions used include: a projected tuition increase rate of 7% for the years through 2011 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.

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, 2005, shows the actuarial present value of future

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	\$ 440.7
Senior citizens	307.5
Farmland preservation	30.0
Other property tax credits	35.6
Subtotal - property tax credits	813.8
Adoption credit	1.5
Total tax expenditures	\$ 815.3

B. Income Tax Refunds Payable

The \$681.7 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, 2005, were \$1.9 and \$1.6 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 From	Due To						Total
	General Fund	School Aid Fund	Non-major Governmental Funds	Unemployment Compensation Funds	Internal Service Funds	Fiduciary Funds	
General Fund	\$ -	\$ -	\$ 781.1	\$ 1.4	\$ 8.5	\$ 28.7	\$ 819.6
School Aid Fund	1,549.3	-	-	-	-	-	1,549.3
Non-major Governmental Funds	17.4	-	107.0	.1	1.1	3.6	129.2
State Lottery Fund	-	10.6	-	-	-	.1	10.7
Unemployment Compensation Funds	5.8	-	.2	3.5	-	-	9.5
Non-major Enterprise Funds	-	-	-	-	-	.1	.1
Internal Service Funds	-	-	-	-	7.4	1.4	8.8
Fiduciary Funds	1.1	-	-	-	-	-	1.1
Total	<u>\$ 1,573.6</u>	<u>\$ 10.6</u>	<u>\$ 888.3</u>	<u>\$ 5.0</u>	<u>\$ 17.0</u>	<u>\$ 33.9</u>	<u>\$ 2,528.3</u>

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: \$7.0 million due from the Correctional Industries Revolving Fund (an internal service fund) to the General Fund for amounts loaned for capital construction and \$19.8 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, 2005, the Authority has repaid a total of \$10.5 million of the advance from the Michigan Transportation Fund, leaving a balance of \$52.5 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, 2005, consisted of the following (in millions):

Transferred From	Transferred To			Total
	General Fund	School Aid Fund	Non-major Governmental Funds	
General Fund	\$ -	\$ 164.1	\$ 311.8	\$ 475.9
Budget Stabilization Fund	81.3	-	-	81.3
School Aid Fund	-	-	41.1	41.1
Non-major Governmental Funds	197.3	-	1,267.9	1,465.2
State Lottery Fund	12.7	667.6	-	680.3
Unemployment Compensation Funds	26.2	-	6.4	32.6
Non-major Enterprise Funds	146.3	-	-	146.3
Internal Service Funds	1.3	-	-	1.3
Fiduciary Funds	.1	-	-	.1
Total	\$ 465.2	\$ 831.7	\$ 1,627.2	\$ 2,924.1

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, 2005, the State recorded transfers of \$81.3 million from the Counter-Cyclical Budget and Economic Stabilization Fund to the General Fund. These transfers were made in accordance with P.A. 188 of 2005, Section 353c (16), to help balance the General Fund budget.

NOTE 20 – FUND DEFICITS

A. Primary Government

Governmental Funds

The Advance Financing Funds, a capital projects fund, had a fund balance deficit of \$24.1 million. The deficit was caused by expenditures for projects for which bonds have not yet been issued and for expenditures incurred to improve State-owned sites that have not been sold.

The State Building Authority, a capital projects fund, had a fund balance deficit of \$327.5 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 Information Technology Fund, an internal service fund, had a fund balance deficit of \$.2 million. The deficit resulted because rates charged were insufficient to cover expenses incurred.

The Office Services Revolving Fund, an internal service fund, had a fund balance deficit of \$4.6 million. The deficit resulted because rates charged were insufficient to cover expenses incurred. The rates were increased in fiscal year 2006 to eliminate the deficit.

B. Discretely Presented Component Units

All discretely presented component units have positive net asset balances as of September 30, 2005, with the exception of the Michigan Education Trust (MET) and Michigan Broadband Development Authority (MBDA). MET's fund deficit of \$17.9 million was caused by interest earnings in the last year that were less than expected, and tuition and fee increases in the last year that were greater than expected. MBDA's fund deficit of \$14.5 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	\$ 37.8	\$.7	\$ 132.9	\$ -	\$ 23.3	\$ 194.7
Restricted revenues	568.1	93.7	252.4	-	-	914.2
Multi-year projects (capital outlay and work projects)	41.8	-	431.0	-	33.0	505.7
Construction and debt service	-	-	83.9	-	-	83.9
Revolving loan programs	5.0	-	49.5	-	-	54.5
Funds held as permanent investments	-	-	150.9	-	475.0	625.9
Noncurrent assets	580.2	3.6	29.4	-	-	613.1
Other purposes	-	-	-	.3	-	.3
Total Reserved Fund Balances	\$ 1,232.9	\$ 98.0	\$ 1,130.0	\$.3	\$ 531.2	\$ 2,992.3

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 Refined Petroleum Fund in the amount of \$82.8 million. The \$41.8 million of multi-year projects in the General Fund includes \$7.1 million of capital outlay and \$34.6 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 and pollution prevention 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 \$77.5 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 Governmental Funds	Other Funds	State Lottery Fund	Michigan Unemployment Compensation Funds	Non-major Enterprise Funds	Total
Medicaid Programs	\$ 528.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 528.3
Non-Medicaid Health Programs	148.2	-	.8	-	-	-	-	149.0
Human Services Programs	178.8	-	.1	-	-	-	-	178.9
Transportation Programs	-	-	445.9	-	-	-	-	445.9
School Aid Programs	-	121.2	-	-	-	-	-	121.2
Other State Programs	236.2	-	54.9	-	-	-	-	291.1
Merit Award Scholarships	-	-	20.3	-	-	-	-	20.3
Payroll and Withholdings	151.5	.1	19.3	-	.6	-	.4	171.9
Tax Refunds other than Income Tax	78.0	2.8	4.7	-	-	-	-	85.5
Unearned Receipts	47.1	-	16.7	-	-	-	-	63.8
Amounts Held for Others	29.7	-	13.2	-	1.3	-	-	44.2
Capital Project Related	-	-	17.3	-	-	-	-	17.3
Prize Awards	-	-	-	-	131.7	-	-	131.7
Liquor Purchase	-	-	-	-	-	-	60.9	60.9
Unemployment Payments	-	-	-	-	-	21.6	-	21.6
Internal Service Fund Liabilities	-	-	-	64.5	-	-	-	64.5
Due to Fiduciary Funds*	-	-	-	33.9	-	-	-	33.9
Miscellaneous	-	-	-	-	8.3	-	.2	8.5
Total	\$ 1,397.9	\$ 124.1	\$ 593.0	\$ 98.4	\$ 141.9	\$ 21.6	\$ 61.5	\$ 2,438.5

*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 388.1752; 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.

On August 4, 2005, the Court of Appeals held that the school districts failed to present documentary support from which it can be inferred that either MCL 388.1752 or Executive Order 2000-9 mandates the school districts to actively participate in the maintenance of data that the State requires for its purposes. Further, the record keeping claim cannot survive summary disposition in the absence of any factual support, either expressed or implied, demonstrating that a genuine issue of material fact exists with regard to whether the dictates of the statute and the EO impermissibly shift a State obligation to the school districts to avoid the costs of obligation. The Court of Appeals granted summary disposition in the State's favor.

Plaintiffs estimated their claim to be \$30 million plus ongoing costs. The plaintiff school districts filed an application for leave to appeal with the Michigan Supreme Court. A brief in opposition was filed on October 11, 2005.

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.

On November 8, 2005, the Michigan Supreme Court affirmed the State's position that the Governor properly transferred \$12.8 million from the CTF to the General Fund for purposes of balancing the State's budget. Under Article 5, Section 20, of the State Constitution, the Governor may reduce expenditures, but may not do so "from funds constitutionally dedicated for specific purposes." Both the Supreme Court and the Court of Appeals agreed that Article 9, Section 9, which establishes the CTF, does not constitutionally dedicate funds to the CTF and, thus, Executive Order 2001-9 did not impermissibly transfer funds. The other appeals remain pending and the total amount sought approximates \$47.0 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 granted by 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, 2005, 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 \$27.6 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. A settlement was reached which includes several major provisions: (1) legislation passed (2005 P.A. 187) that will make the tax assessable on non-Medicare days rather than licensed beds and make two different payment levels, approximately \$2 and \$11, depending on the size of the home; (2) Department of Human Services (DHS) will attempt to obtain federal approval of a State Plan amendment to implement these changes; (3) the homes will be releasing an estimated \$6 million escrow back to the State; and (4) the State will make payment of about \$2.7 million total to the homes for attorney and expert fees. Appropriate orders were entered with the courts dismissing all of the actions in November 2005.

Gain Contingencies

Certain contingent receivables related to the DHS are not recorded as assets in these statements. Amounts recoverable from DHS 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, 2005, the balances remaining in these contracts equaled \$558.1 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, 2005, the principal amount of qualified bonds outstanding was \$13.8 billion. Total debt service requirements on these bonds including interest will approximate \$1.3 billion in 2006. 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, 2005, is \$600.7 million. Interest due on these loans as of September 30, 2005, is \$98.6 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, 2005. As a result, the federal government's reinsurance rate for defaults for the fiscal year ended September 30, 2005, 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, 2005, is \$845.4 million.

MHEAA entered into commitment agreements with all lenders that provide, among other things, that MHEAA will maintain cash and marketable securities at an amount sufficient to guarantee loans in accordance with the Higher Education Act of 1965, as amended. MHEAA was in compliance with this requirement as of September 30, 2005.

Multi-Family Mortgage Loans

As of June 30, 2005, the Michigan State Housing Development Authority (MSHDA) has commitments to issue multi-family mortgage loans in the amount of \$78.5 million and single-family mortgage loans in the amount of \$15.6 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 Insurance Agency (UIA) 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 UIA through September 30. During the 2004-2005 fiscal year, expenditures

for payments to former State employees (not including university employees) totaled \$13.8 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 \$5.9 million. This includes a long-term portion, which is recorded at \$3.0 million. Changes in the Risk Management Fund's claims for automobile liability for the fiscal years ending September 30, 2005 and 2004 are as follows (in millions):

	2005	2004
Balance - beginning	\$ 7.5	\$ 7.6
Current year claims and changes in estimates	1.3	1.7
Claim payments	(2.9)	(1.7)
Balance - ending	<u>\$ 5.9</u>	<u>\$ 7.5</u>

Michigan
Notes to the Financial Statements

Workers' compensation payments for State agencies are processed centrally through the Risk Management Fund. Changes in Workers' Compensation claims for the fiscal years ending September 30, 2005 and 2004, are as follows (in millions):

	2005	2004
Balance - beginning	\$ 106.5	\$ 105.5
Current year claims and changes in estimates	23.8	24.5
Claim payments	(23.7)	(23.5)
Balance - ending	<u>\$ 106.6</u>	<u>\$ 106.5</u>

Workers' Compensation is further described in Note 14.

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 \$167.3 million. This includes a long-term portion, which is recorded at a discounted present value of \$89.3 million using a discount rate of 10.5% (first 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 through 2005 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 \$77.5 million at September 30, 2005. Unrestricted net assets totaled \$32.9 million at September 30, 2005.

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, 2005 and 2004 are as follows (in millions):

	2005	2004
Balance - beginning	\$ 167.9	\$ 179.2
Current year claims and changes in estimates	889.1	857.8
Claim payments	(889.7)	(869.1)
Balance - ending	<u>\$ 167.3</u>	<u>\$ 167.9</u>

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 2005, the State paid off \$13 million of its Multi-Modal General Obligation Taxable School Loan Bonds, Series 2005B.

In December 2005, the State issued its State of Michigan General Obligation Bonds, Great Lakes Water Quality Bonds, 2003 Strategic Water Quality Initiative Fund Series (Federally Taxable) in the aggregated amount of \$4 million. The bonds have an interest rate of 5% and will mature on October 20, 2006.

In October 2005, the State Building Authority (SBA) issued its 2005 Revenue and Revenue Refunding Series II Bonds for \$242.8 million. This bond issue provided funds for SBA to repay the Department of Treasury for the purchase of Constitution Hall and refunded SBA's 2000 Series I Bonds.

In December 2005, SBA issued its 2005 Multi-Modal Revenue Series II A Bonds for \$343.6 million. The bonds are issued as variable rate debt. This issue will refund SBA's commercial paper program for several completed facilities. Commercial paper outstanding after the issuance of the bonds will be approximately \$17.5 million.

B. Short-Term Borrowing

In November 2005, the State issued its State of Michigan Full Faith and Credit General Obligation Notes in the amount of \$1.3 billion. The notes will mature on September 29, 2006, with an interest rate of 4.5%.

C. Investments

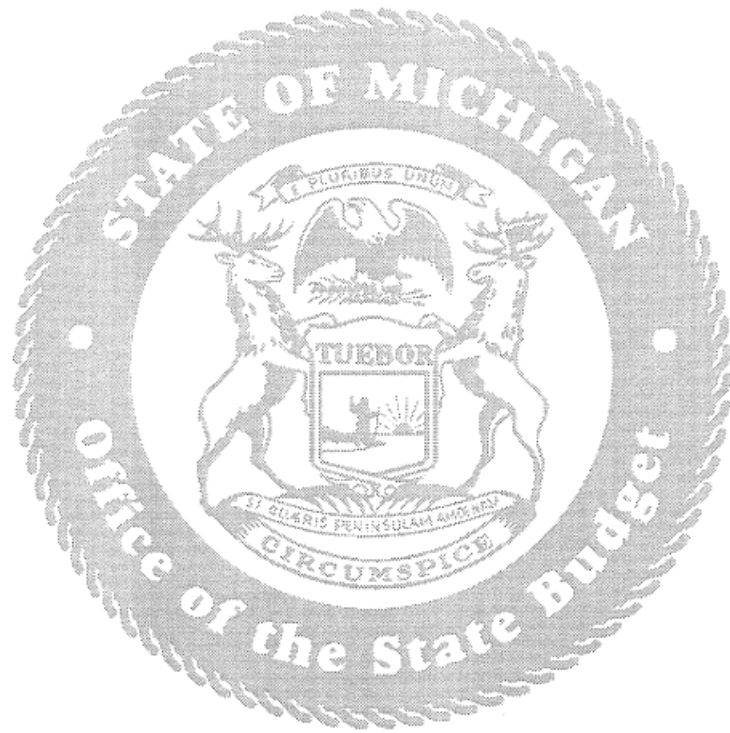
In November 2005, the Michigan State Housing Development Authority (MSHDA) renegotiated its investment in the Michigan Broadband Development Authority (MBDA). As a result, MSHDA will realize a loss on its investment. It is the belief of MSHDA that this write-off will not have a negative material impact on its ability to meet its financial obligations. The renegotiation resulted in a new principal amount of \$35.5 million. MBDA proposes to use the investment for the purpose of making loans and paying operating expenses. The bond matures on December 1, 2015.

D. 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 Higher Education Facilities Authority	\$ 6.5	\$ -
Michigan Higher Education Student Loan Authority	41.1	-
Michigan Public Educational Facilities Authority	3.8	-
Michigan State Hospital Finance Authority	232.6	-
Michigan State Housing Development Authority	193.4	-
Ferris State University	21.2	-
Grand Valley State University	-	15.0
Total	<u>\$ 498.5</u>	<u>\$ 15.0</u>

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, 2005

(In Thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Beginning budgetary fund balance	\$ 630,916	\$ 630,916	\$ 630,916	\$ -
Resources (inflows):				
General Purpose Revenues:				
Taxes	8,213,100	8,399,202	8,399,202	-
Federal	30,000	35,707	35,707	-
Local	1,000	312	312	-
Licenses and permits	18,000	27,351	27,351	-
Services	33,000	19,818	19,818	-
Miscellaneous	80,200	235,352	235,352	-
Proceeds from sale of capital assets	52,000	-	-	-
Transfers in	139,000	323,066	323,066	-
Restricted Revenues:				
Taxes	2,600,378	3,298,950	3,298,950	-
Federal	9,551,551	9,389,110	9,389,110	-
Local	653,771	574,898	574,898	-
Licenses and permits	293,715	237,208	237,208	-
Services	232,241	241,969	241,969	-
Miscellaneous	730,920	430,566	430,566	-
Proceeds from sale of capital assets	-	3,037	3,037	-
Transfers in	40,003	142,108	142,108	-
Total Revenue Inflows	<u>22,668,878</u>	<u>23,358,653</u>	<u>23,358,653</u>	<u>-</u>
Amounts Available for Appropriation	<u>23,299,795</u>	<u>23,989,569</u>	<u>23,989,569</u>	<u>-</u>
Charges to Appropriations (outflows):				
Legislative Branch	138,199	125,267	124,070	1,198
Judicial Branch	257,108	246,012	245,553	459
Executive Branch:				
Agriculture	126,430	99,545	99,480	65
Attorney General	64,254	60,626	59,397	1,229
Civil Rights	12,728	13,337	13,159	178
Civil Service	35,433	27,652	26,871	781
Colleges and Universities Grants	1,888,059	1,923,752	1,922,767	985
Community Health	9,996,568	10,345,848	10,309,146	36,701
Corrections	1,794,116	1,757,558	1,755,577	1,981
Education	265,066	252,991	251,569	1,422
Environmental Quality	297,820	179,112	179,021	91
Executive Office	5,206	5,206	5,170	36
History, Arts & Libraries	57,232	56,916	56,112	804
Human Services	4,298,555	4,143,753	4,143,583	170
Labor and Economic Growth	838,674	741,854	741,526	328
Management and Budget	173,408	452,837	446,092	6,744
Military and Veterans Affairs	105,576	106,897	104,085	2,812
Natural Resources	95,980	81,645	81,456	189
State	194,383	194,943	193,563	1,380
State Police	477,636	457,298	456,504	794
Transportation	-	-	-	-
Treasury	1,527,687	2,431,725	2,424,824	6,901
Intrafund expenditure reimbursements	-	(526,661)	(526,661)	-
Total Charges to Appropriations	<u>22,650,117</u>	<u>23,178,112</u>	<u>23,112,864</u>	<u>65,249</u>
Reconciling Items:				
Encumbrances at September 30	-	37,785	37,785	-
Change in noncurrent assets	-	(41,253)	(41,253)	-
Net Reconciling Items	-	(3,468)	(3,468)	-
Ending Budgetary Fund Balance	<u>\$ 649,678</u>	<u>\$ 807,988</u>	<u>\$ 873,237</u>	<u>\$ 65,249</u>

Michigan

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
\$ 81,258	\$ 81,258	\$ 81,258	\$ -	\$ 72,945	\$ 72,945	\$ 72,945	\$ -
-	-	-	-	10,371,760	10,242,334	10,242,334	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
154	1,995	1,995	-	-	21,355	21,355	-
-	-	-	-	-	-	-	-
-	-	-	-	637,000	667,585	667,585	-
-	-	-	-	-	-	-	-
-	-	-	-	1,353,540	1,321,710	1,321,710	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	41,100	41,100	-
-	-	-	-	-	-	-	-
-	-	-	-	165,200	164,137	164,137	-
154	1,995	1,995	-	12,527,500	12,458,221	12,458,221	-
81,412	83,253	83,253	-	12,600,445	12,531,167	12,531,167	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	12,527,950	12,444,503	12,435,069	9,434
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	81,300	81,300	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	81,300	81,300	-	12,527,950	12,444,503	12,435,069	9,434
-	-	-	-	-	745	745	-
-	-	-	-	-	(2,430)	(2,430)	-
-	-	-	-	-	(1,684)	(1,684)	-
<u>\$ 81,412</u>	<u>\$ 1,953</u>	<u>\$ 1,953</u>	<u>\$ -</u>	<u>\$ 72,495</u>	<u>\$ 84,979</u>	<u>\$ 94,414</u>	<u>\$ 9,434</u>

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION

SEPTEMBER 30, 2005

(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.	\$ 23,989,569	\$ 83,253	\$ 12,531,167
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.	(630,916)	(81,258)	(72,945)
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes.	(3,037)	-	-
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(465,174)	-	(831,722)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 22,890,442</u>	<u>\$ 1,995</u>	<u>\$ 11,626,499</u>
Uses/outflows of resources			
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 23,112,864	\$ 81,300	\$ 12,435,069
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.	(37,785)	-	(745)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(475,940)	(81,300)	(41,091)
Capital lease acquisitions are not outflows of budgetary resources but are recorded as current expenditures and other financing sources under GAAP.	6,778	-	-
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 22,605,917</u>	<u>\$ -</u>	<u>\$ 12,393,232</u>

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 2004-2005, 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, 2004, 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.

Statewide Authorization Dispositions

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.

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 expends 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 27,557 lane miles of roads and 4,734 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	2004	2003	2002	2001	2000
Good	81.0%	80.0%	78.1%	78%	78%
Poor	19.0%	20.0%	21.9%	22%	22%

Michigan

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:

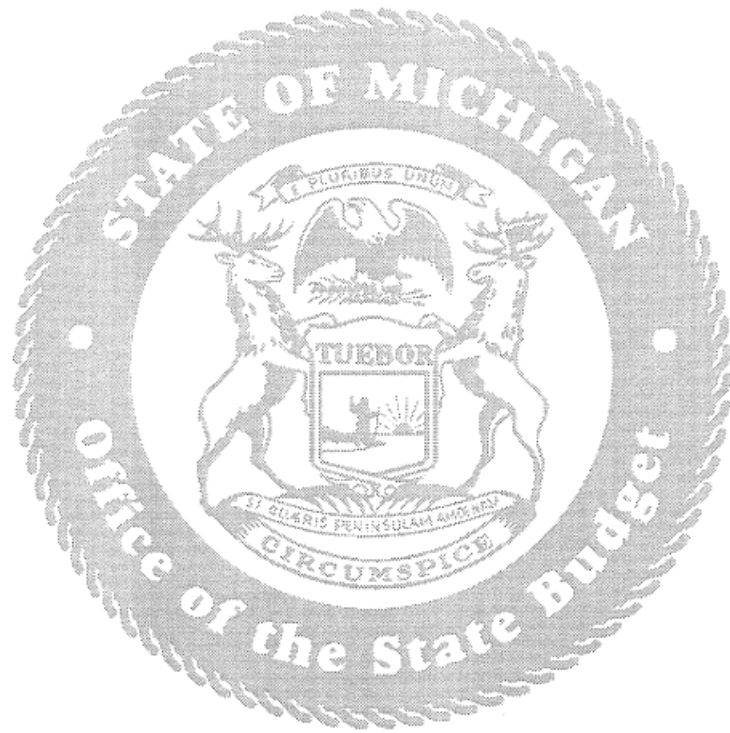
Calendar Year	Structurally Deficient
2004	15.8%
2003	16.6%
2002	20.3%
2001	20.9%
2000	22.5%

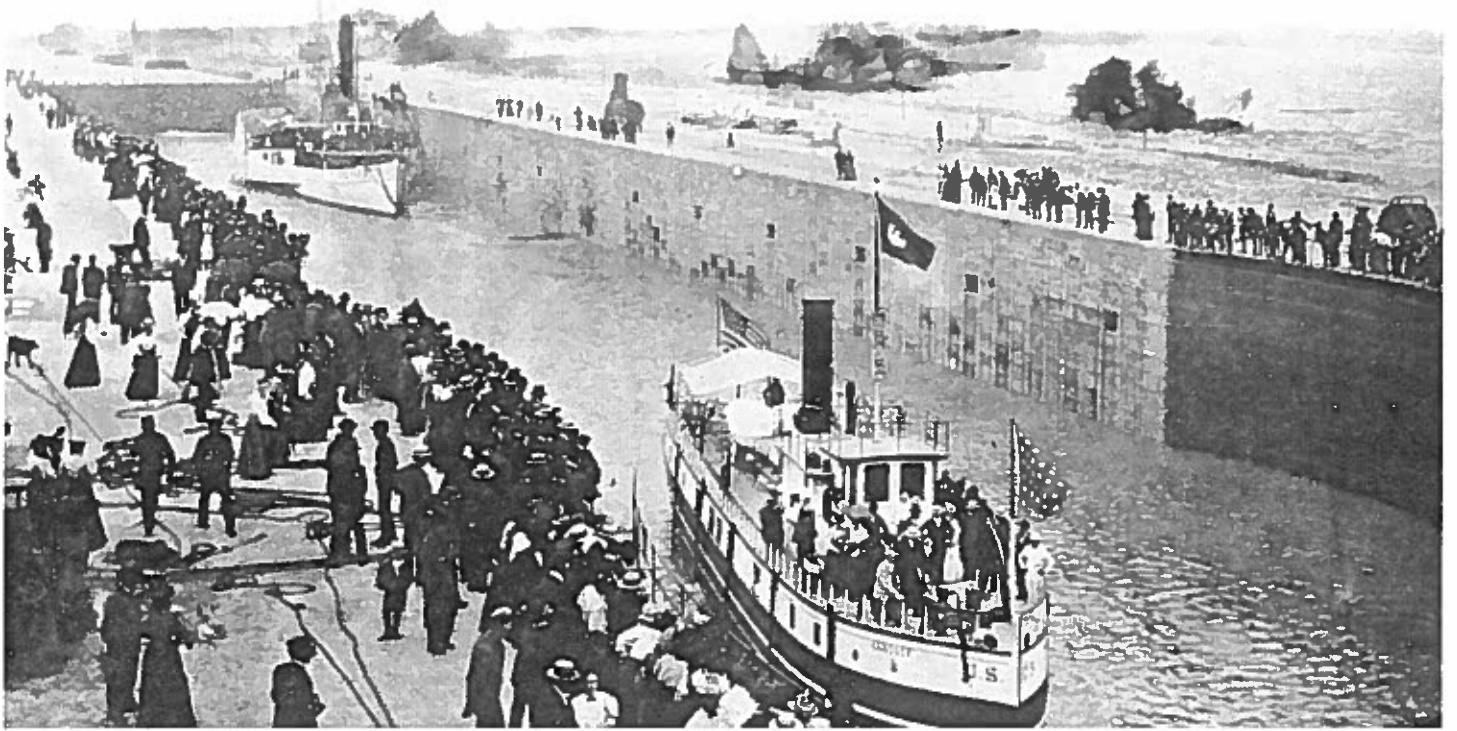
Budgeted and Estimated Costs to Maintain

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
2005-2006	\$1,109.0	-
2004-2005	\$932.0	\$1,072.3
2003-2004	\$921.0	\$857.6
2002-2003	\$873.6	\$791.3
2001-2002	\$993.3	\$798.2
2000-2001	\$984.3	\$915.2

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.





The opening of the Poe Lock in 1896.



Excavation of the Davis Lock, early 1900's.



II FINANCIAL SECTION

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

BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
 SEPTEMBER 30, 2005
 (In Thousands)

	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 290	\$ -	\$ -	\$ 1	\$ 291
Equity in common cash	747,568	1,625	1,996	143,080	894,268
Taxes, interest, and penalties receivable	112,359	-	-	-	112,359
Amounts due from other funds	872,684	6	15,624	-	888,314
Amounts due from component units	822	-	1,779	-	2,601
Amounts due from federal agencies	182,992	-	-	-	182,992
Amounts due from local units	81,518	-	1,356	52	82,926
Inventories	6,590	-	-	-	6,590
Investments	-	187,308	23,317	-	210,625
Securities lending collateral	2,899	-	-	18,955	21,855
Other current assets	239,804	467	1,975	14,014	256,261
Total Current Assets	2,247,526	189,406	46,047	176,101	2,659,081
Taxes, interest, and penalties receivable	1,707	-	-	-	1,707
Advances to other funds	19,783	-	-	-	19,783
Amounts due from local units	45,752	-	-	-	45,752
Investments	120,925	6,000	-	424,942	551,867
Other noncurrent assets	5,001	-	-	-	5,001
Total Assets	\$ 2,440,694	\$ 195,406	\$ 46,047	\$ 601,043	\$ 3,283,191
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 53,022	\$ 268	\$ 647	\$ 250	\$ 54,186
Obligations under security lending	2,899	-	-	18,955	21,855
Accounts payable and other liabilities	561,681	252	27,256	3,796	592,985
Amounts due to other funds	96,407	-	32,727	64	129,198
Amounts due to component units	-	-	-	106	106
Bonds and notes payable	-	-	334,177	-	334,177
Interest payable	-	-	883	-	883
Deferred revenue	257,523	-	-	3,384	260,907
Total Current Liabilities	971,532	520	395,690	26,555	1,394,297
Long-Term Liabilities:					
Advances from other funds	19,783	-	-	-	19,783
Deferred revenue	18,140	-	-	-	18,140
Total Liabilities	1,009,455	520	395,690	26,555	1,432,220
Fund Balances:					
Reserved fund balance	1,129,965	300	-	531,229	1,661,495
Unreserved fund balance (deficit)	301,274	194,586	(349,643)	43,259	189,477
Total Fund Balances	1,431,239	194,886	(349,643)	574,489	1,850,971
Total Liabilities and Fund Balances	\$ 2,440,694	\$ 195,406	\$ 46,047	\$ 601,043	\$ 3,283,191

Michigan

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT FUNDS	TOTALS
REVENUES					
Taxes	\$ 1,996,478	\$ -	\$ -	\$ -	\$ 1,996,478
From federal agencies	1,227,479	-	-	-	1,227,479
From local agencies	155,635	-	-	-	155,635
From services	3,170	-	-	-	3,170
From licenses and permits	158,941	-	-	-	158,941
Miscellaneous	641,631	4,514	5,543	93,321	745,009
Total Revenues	4,183,334	4,514	5,543	93,321	4,286,712
EXPENDITURES					
Current:					
General government	156,589	3,383	486	510	160,968
Education	90,071	3,215	64,947	-	158,233
Human services	2,479	-	-	-	2,479
Public safety and corrections	12	-	-	2,778	2,790
Conservation, environment, recreation, and agriculture	257,800	-	-	16,009	273,809
Labor, commerce, and regulatory	186,297	-	-	-	186,297
Health services	169,243	-	-	-	169,243
Transportation	2,163,688	4,201	-	-	2,167,888
Capital outlay	1,194,937	-	20,321	24,391	1,239,649
Debt Service:					
Bond principal retirement	-	354,711	-	-	354,711
Bond interest and fiscal charges	-	276,216	-	-	276,216
Capital lease payments	461	-	-	-	461
Total Expenditures	4,221,576	641,726	85,754	43,688	4,992,744
Excess of Revenues over (under) Expenditures	(38,243)	(637,212)	(80,211)	49,633	(706,033)
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	175,864	-	189,300	-	365,164
Premium on bond issuance	6,577	91,280	-	-	97,857
Refunding bonds issued	-	1,528,539	-	-	1,528,539
Payment to refunded bond escrow agent	-	(1,609,886)	-	-	(1,609,886)
Proceeds from sale of capital assets	7,304	-	58	245	7,606
Transfers from other funds	1,092,523	516,101	8,564	10,000	1,627,187
Transfers to other funds	(1,378,631)	(60,078)	(16,293)	(10,159)	(1,465,161)
Total Other Financing Sources (Uses)	(96,364)	465,956	181,628	86	551,306
Excess of Revenues and Other Sources over (under) Expenditures Other Uses	(134,607)	(171,255)	101,417	49,718	(154,726)
Fund Balances - Beginning of fiscal year restated	1,565,846	366,141	(451,060)	524,770	2,005,697
Fund Balances - End of fiscal year	\$ 1,431,239	\$ 194,886	\$ (349,643)	\$ 574,489	\$ 1,850,971

Michigan

BALANCE SHEET
SPECIAL REVENUE FUNDS - BY CLASSIFICATION
 SEPTEMBER 30, 2005
 (In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 175	\$ 115	\$ -	\$ -	\$ 290
Equity in common cash	348,021	263,504	69,561	66,482	747,568
Taxes, interest, and penalties receivable	112,154	205	-	-	112,359
Amounts due from other funds	863,387	-	6,314	2,982	872,684
Amounts due from component units	808	11	-	3	822
Amounts due from federal agencies	171,469	620	10,903	-	182,992
Amounts due from local units	80,280	1,238	-	-	81,518
Inventories	6,447	143	-	-	6,590
Securities lending collateral	-	887	-	2,013	2,899
Other current assets	16,212	6,894	935	215,762	239,804
Total Current Assets	<u>1,598,953</u>	<u>273,618</u>	<u>87,713</u>	<u>287,242</u>	<u>2,247,526</u>
Taxes, interest, and penalties receivable	1,707	-	-	-	1,707
Advances to other funds	19,783	-	-	-	19,783
Amounts due from local units	41,463	4,289	-	-	45,752
Investments	-	99,726	-	21,199	120,925
Other noncurrent assets	2,313	1,385	-	1,304	5,001
Total Assets	<u>\$ 1,664,219</u>	<u>\$ 379,017</u>	<u>\$ 87,713</u>	<u>\$ 309,745</u>	<u>\$ 2,440,694</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 16,701	\$ 1,203	\$ 422	\$ 34,696	\$ 53,022
Obligations under security lending	-	887	-	2,013	2,899
Accounts payable and other liabilities	471,123	46,091	15,542	28,925	561,681
Amounts due to other funds	85,255	1,502	7,197	2,452	96,407
Deferred revenue	44,535	685	7,070	205,233	257,523
Total Current Liabilities	<u>617,614</u>	<u>50,368</u>	<u>30,232</u>	<u>273,318</u>	<u>971,532</u>
Long-Term Liabilities:					
Advances from other funds	19,783	-	-	-	19,783
Deferred revenue	16,390	1,385	-	366	18,140
Total Liabilities	<u>653,787</u>	<u>51,752</u>	<u>30,232</u>	<u>273,684</u>	<u>1,009,455</u>
Fund Balances:					
Reserves For:					
Budgetary Carry-Forwards:					
Encumbrances	117,916	14,544	403	-	132,864
Restricted revenues	175,579	60,624	16,217	-	252,420
Multi-year projects	403,769	27,217	-	-	430,985
Construction and debt service	83,917	-	-	-	83,917
Revolving loan programs	28,937	20,569	-	-	49,505
Funds held as permanent investments	-	130,401	-	20,458	150,859
Noncurrent assets	28,477	-	-	937	29,414
Total Reserved	<u>838,594</u>	<u>253,355</u>	<u>16,620</u>	<u>21,395</u>	<u>1,129,965</u>
Unreserved	<u>171,838</u>	<u>73,909</u>	<u>40,861</u>	<u>14,665</u>	<u>301,274</u>
Total Fund Balances	<u>1,010,433</u>	<u>327,265</u>	<u>57,481</u>	<u>36,060</u>	<u>1,431,239</u>
Total Liabilities and Fund Balances	<u>\$ 1,664,219</u>	<u>\$ 379,017</u>	<u>\$ 87,713</u>	<u>\$ 309,745</u>	<u>\$ 2,440,694</u>

Michigan

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS - BY CLASSIFICATION

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
REVENUES					
Taxes	\$ 1,996,149	\$ 329	\$ -	\$ -	\$ 1,996,478
From federal agencies	1,104,363	2,478	119,658	980	1,227,479
From local agencies	155,635	-	-	-	155,635
From services	3,170	-	-	-	3,170
From licenses and permits	50,494	98,286	10,161	-	158,941
Miscellaneous	91,376	83,605	74,128	392,523	641,631
Total Revenues	3,401,187	184,698	203,946	393,503	4,183,334
EXPENDITURES					
Current:					
General government	-	1,024	16,455	139,110	156,589
Education	-	-	-	90,071	90,071
Human services	-	-	-	2,479	2,479
Public safety and corrections	-	-	-	12	12
Conservation, environment, recreation, and agriculture	-	257,800	-	-	257,800
Labor, commerce, and regulatory	-	-	176,122	10,175	186,297
Health services	-	6	-	169,237	169,243
Transportation	2,163,688	-	-	-	2,163,688
Capital outlay	1,182,132	12,805	-	-	1,194,937
Debt Service:					
Capital lease payments	160	-	302	-	461
Total Expenditures	3,345,979	271,635	192,879	411,084	4,221,576
Excess of Revenues over (under) Expenditures	55,208	(86,937)	11,068	(17,581)	(38,243)
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	-	64,935	-	110,929	175,864
Premium on bond issuance	-	6,577	-	-	6,577
Proceeds from sale of capital assets	7,304	-	-	-	7,304
Transfers from other funds	1,060,250	25,837	6,436	-	1,092,523
Transfers to other funds	(1,240,316)	(33,029)	(12,962)	(92,324)	(1,378,631)
Total Other Financing Sources (Uses)	(172,763)	64,320	(6,526)	18,605	(96,364)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(117,555)	(22,617)	4,541	1,023	(134,607)
Fund Balances - Beginning of fiscal year - restated	1,127,988	349,881	52,940	35,037	1,565,846
Fund Balances - End of fiscal year	\$ 1,010,433	\$ 327,265	\$ 57,481	\$ 36,060	\$ 1,431,239

Michigan

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

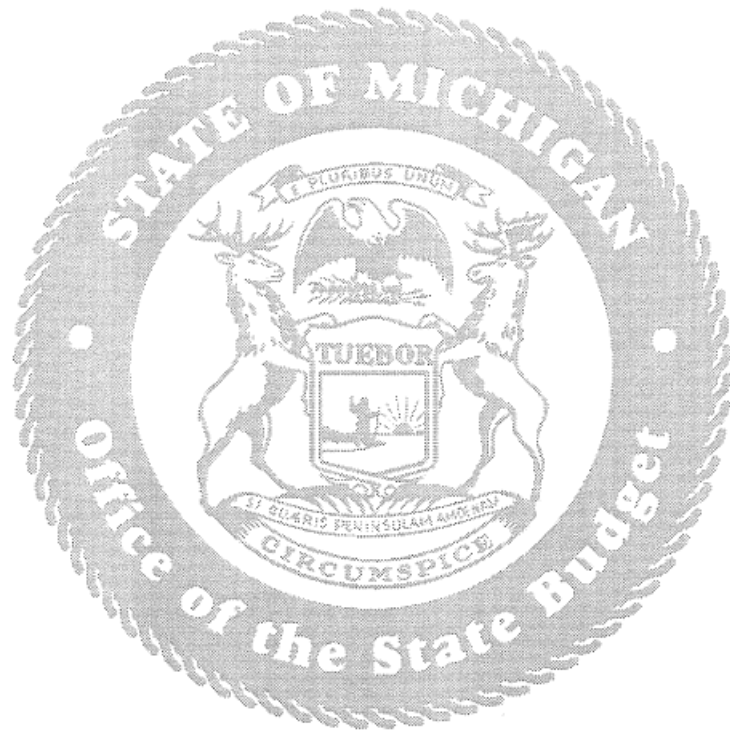
FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>TRANSPORTATION RELATED</u>			<u>CONSERVATION, ENVIRONMENT, AND RECREATION RELATED</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES						
Taxes	\$ 1,996,149	\$ 1,996,149	\$ -	\$ 329	\$ 329	\$ -
From federal agencies	898,136	898,136	-	2,300	2,300	-
From local agencies	70,288	70,288	-	-	-	-
From services	3,170	3,170	-	-	-	-
From licenses and permits	50,494	50,494	-	98,286	98,286	-
Miscellaneous	82,448	82,448	-	39,461	39,461	-
Proceeds from sale of capital assets	7,304	7,304	-	-	-	-
Transfers in	1,031,063	1,031,063	-	25,837	25,837	-
Total Revenues and Other Sources	4,139,052	4,139,052	-	166,214	166,214	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Attorney General	-	-	-	-	-	-
Colleges and Universities Grants	-	-	-	-	-	-
Community Health	-	-	-	-	-	-
Education	-	-	-	-	-	-
Human Services	-	-	-	-	-	-
Labor and Economic Growth	-	-	-	-	-	-
Military and Veterans Affairs	-	-	-	-	-	-
Natural Resources	-	-	-	187,640	178,160	9,480
Transportation	4,425,083	4,208,798	216,284	-	-	-
Treasury	-	-	-	11	11	-
Total Expenditures, Transfers Out, and Encumbrances	4,425,083	4,208,798	216,284	187,651	178,170	9,480
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (286,031)</u>	<u>(69,746)</u>	<u>\$ 216,284</u>	<u>\$ (21,437)</u>	<u>(11,956)</u>	<u>\$ 9,480</u>
Reconciling Items:						
Encumbrances at September 30		117,916			11,298	
Funds not annually budgeted		<u>(165,725)</u>			<u>(21,958)</u>	
Net Reconciling Items		<u>(47,809)</u>			<u>(10,661)</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(117,555)</u>			<u>(22,617)</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances - restated		<u>1,127,988</u>			<u>349,881</u>	
Ending balances (GAAP Basis)		<u>\$ 1,010,433</u>			<u>\$ 327,265</u>	

Michigan

REGULATORY AND ADMINISTRATIVE RELATED			OTHER STATE FUNDS			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,996,478	\$ 1,996,478	\$ -
119,658	119,658	-	980	980	-	1,021,074	1,021,074	-
-	-	-	-	-	-	70,288	70,288	-
-	-	-	-	-	-	3,170	3,170	-
10,161	10,161	-	-	-	-	158,941	158,941	-
44,561	44,561	-	285,155	285,155	-	451,626	451,626	-
-	-	-	-	-	-	7,304	7,304	-
6,436	6,436	-	-	-	-	1,063,336	1,063,336	-
<u>180,815</u>	<u>180,815</u>	<u>-</u>	<u>286,135</u>	<u>286,135</u>	<u>-</u>	<u>4,772,217</u>	<u>4,772,217</u>	<u>-</u>
-	-	-	368	368	-	368	368	-
-	-	-	85,150	80,287	4,863	85,150	80,287	4,863
-	-	-	169,800	169,237	563	169,800	169,237	563
-	-	-	13,774	13,737	37	13,774	13,737	37
-	-	-	4,279	2,481	1,798	4,279	2,481	1,798
153,309	149,408	3,900	10,175	10,175	-	163,484	159,583	3,900
-	-	-	500	12	488	500	12	488
-	-	-	-	-	-	187,640	178,160	9,480
-	-	-	-	-	-	4,425,083	4,208,798	216,284
27,618	27,616	2	10,359	9,228	1,131	37,987	36,854	1,133
<u>180,927</u>	<u>177,024</u>	<u>3,902</u>	<u>294,405</u>	<u>285,525</u>	<u>8,879</u>	<u>5,088,065</u>	<u>4,849,518</u>	<u>238,546</u>
<u>\$ (111)</u>	<u>3,791</u>	<u>\$ 3,902</u>	<u>\$ (8,269)</u>	<u>610</u>	<u>\$ 8,879</u>	<u>\$ (315,848)</u>	<u>(77,301)</u>	<u>\$ 238,546</u>
	403			-			129,617	
	347			413			(186,923)	
	<u>750</u>			<u>413</u>			<u>(57,306)</u>	
	4,541			1,023			(134,607)	
	<u>52,940</u>			<u>35,037</u>			<u>1,565,846</u>	
	<u>\$ 57,481</u>			<u>\$ 36,060</u>			<u>\$ 1,431,239</u>	



SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED

STATE AERONAUTICS FUND

Established pursuant to P.A. 327 of 1945, as amended, this fund accounts for airport improvement projects. Financing consists primarily of aviation fuel taxes and federal and local contributions. Although subject to change in the future, annual appropriation acts have allowed any unobligated and unexpended balance at fiscal year-end to lapse and revert to the fund for appropriation in the following year.

STATE TRUNKLINE FUND

Established pursuant to Section 11 of P.A. 51 of 1951, as amended, this fund accounts for highway construction and maintenance. Its annual budget is subject to legislative review and appropriation, but the Transportation Commission has significant discretion in determining the funding of individual projects. Financing consists primarily of federal aid, local participation, and transfers from the Michigan Transportation Fund. Expenditures and transfers are for administration, highway maintenance and construction, debt service, and various contractual obligations. Although subject to change in the future, annual appropriation acts have allowed for any fund balance not otherwise reserved at fiscal year-end to be reserved for road and bridge construction.

This fund also is used to record loans made to local units of government for reconstructing and resurfacing roadways. Activities of the Blue Water Bridge program, segregated as a separate fund within the accounting system, are also reported within the State Trunkline Fund. A portion of the receivables and payables between the State Trunkline Fund and the Blue Water Bridge Fund are classified as current and are presented as "Amounts due from other funds" and "Amounts due to other funds." The remainder is classified as long-term "Advances from other funds" and "Advances to other funds" because repayment will not occur within the next 12 months.

MICHIGAN TRANSPORTATION FUND

Established pursuant to Section 10 of P.A. 51 of 1951, as amended, this fund accounts for the receipt and distribution of several tax revenues dedicated for highway purposes. Transfers are made to the General Fund, State Trunkline Fund, and the Comprehensive Transportation Fund. Expenditures include grants to counties, cities, and villages for highway purposes.

COMPREHENSIVE TRANSPORTATION FUND

This fund operates under Section 10(b) of P.A. 51 of 1951, as amended, and accounts for the planning and development of public transportation systems within the State. Federal and local revenues, vehicle-related sales tax, and transfers from the Michigan Transportation Fund provide financing for expenditures. In accordance with statutory provisions, any unencumbered balance at fiscal year-end lapses and reverts to the fund for appropriation in the following year.

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND

Established pursuant to Section 18(b) of P.A. 51 of 1951, as amended, this fund accounts for the proceeds of State trunkline revenue dedicated bonds. These bonds are used in part to finance the costs of road and bridge construction.

COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND

Established pursuant to Section 18(b) of P.A. 51 of 1951, as amended, this fund accounts for the proceeds of comprehensive transportation revenue dedicated bonds. These bonds are used in part to finance the costs of comprehensive transportation projects.

TRANSPORTATION RELATED TRUST FUNDS

The transportation related trust funds reflects the activities of five sub-funds: the Special Federal Bridge Replacement Fund, the Federal County Road Fund, the Federal Urban Transportation System Fund, the Highway Topics and Safety Program Fund, and the Metropolitan Planning Fund. The Michigan Department of Transportation is recognized as the legal representative of the State, including all governmental subdivisions, in the administration of these programs. The financing accounted for in these funds consists primarily of local and federal matching funds with very little State funds. Financing provided prior to expenditures being incurred is recorded as deferred revenue and revenue is recognized as expenditures are made. As a result, the fund balances of these funds are usually zero.

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED

SEPTEMBER 30, 2005

(In Thousands)

	STATE AERONAUTICS FUND	STATE TRUNKLINE FUND	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND
ASSETS				
Current Assets:				
Cash	\$ -	\$ 166	\$ -	\$ 8
Equity in common cash	17,350	-	114,897	38,432
Taxes, interest, and penalties receivable	741	-	111,413	-
Amounts due from other funds	-	781,681	70,063	11,644
Amounts due from component units	-	808	-	-
Amounts due from federal agencies	31,957	108,142	-	5,414
Amounts due from local units	17,457	27,801	-	958
Inventories	-	6,447	-	-
Other current assets	10	8,712	6,975	483
Total Current Assets	<u>67,516</u>	<u>933,757</u>	<u>303,347</u>	<u>56,939</u>
Taxes, interest, and penalties receivable	-	-	1,707	-
Advances to other funds	-	19,783	-	-
Amounts due from local units	522	35,265	-	5,676
Other noncurrent assets	-	956	-	1,357
Total Assets	<u>\$ 68,038</u>	<u>\$ 989,761</u>	<u>\$ 305,054</u>	<u>\$ 63,971</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 482	\$ 11,911	\$ 718	\$ 1,455
Accounts payable and other liabilities	29,639	160,649	231,920	10,757
Amounts due to other funds	51	4,464	52,619	70
Deferred revenue	15,797	8,075	18,089	-
Total Current Liabilities	<u>45,969</u>	<u>185,099</u>	<u>303,347</u>	<u>12,282</u>
Long-Term Liabilities:				
Advances from other funds	-	19,783	-	-
Deferred revenue	-	13,326	1,707	1,357
Total Liabilities	<u>45,969</u>	<u>218,209</u>	<u>305,054</u>	<u>13,638</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	2,236	87,834	-	27,846
Restricted revenues	-	168,620	-	6,959
Multi-year projects	16,238	387,531	-	-
Construction and debt service	-	83,917	-	-
Revolving loan programs	2,200	15,174	-	11,563
Noncurrent assets	-	28,477	-	-
Total Reserved	<u>20,673</u>	<u>771,553</u>	<u>-</u>	<u>46,369</u>
Unreserved	<u>1,396</u>	<u>-</u>	<u>-</u>	<u>3,964</u>
Total Fund Balances	<u>22,069</u>	<u>771,553</u>	<u>-</u>	<u>50,333</u>
Total Liabilities and Fund Balances	<u>\$ 68,038</u>	<u>\$ 989,761</u>	<u>\$ 305,054</u>	<u>\$ 63,971</u>

Michigan

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS
\$ 1	\$ -	\$ -	\$ 175
103,384	73,958	-	348,021
-	-	-	112,154
-	-	-	863,387
-	-	-	808
3,529	-	22,427	171,469
4,019	-	30,044	80,280
-	-	-	6,447
-	-	33	16,212
110,933	73,958	52,504	1,598,953
-	-	-	1,707
-	-	-	19,783
-	-	-	41,463
-	-	-	2,313
\$ 110,933	\$ 73,958	\$ 52,504	\$ 1,664,219
\$ 13	\$ 376	\$ 1,747	\$ 16,701
12,668	4,482	21,008	471,123
-	-	28,051	85,255
875	-	1,698	44,535
13,555	4,858	52,504	617,614
-	-	-	19,783
-	-	-	16,390
13,555	4,858	52,504	653,787
-	-	-	117,916
-	-	-	175,579
-	-	-	403,769
-	-	-	83,917
-	-	-	28,937
-	-	-	28,477
-	-	-	838,594
97,379	69,100	-	171,838
97,379	69,100	-	1,010,433
\$ 110,933	\$ 73,958	\$ 52,504	\$ 1,664,219

Michigan

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	STATE AERONAUTICS FUND	STATE TRUNKLINE FUND	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND
REVENUES				
Taxes	\$ 6,719	\$ -	\$ 1,932,507	\$ 56,924
From federal agencies	123,823	753,863	-	20,450
From local agencies	23,490	46,788	-	10
From services	400	15	2,754	-
From licenses and permits	300	15,339	34,579	277
Miscellaneous	3,842	66,480	6,587	5,539
Total Revenues	<u>158,574</u>	<u>882,484</u>	<u>1,976,427</u>	<u>83,200</u>
EXPENDITURES				
Current:				
Transportation	163,945	547,788	968,977	226,964
Capital outlay	279	1,022,775	-	-
Debt service:				
Capital lease payments	-	160	-	-
Total Expenditures	<u>164,224</u>	<u>1,570,722</u>	<u>968,977</u>	<u>226,964</u>
Excess of Revenues over (under) Expenditures	<u>(5,650)</u>	<u>(688,238)</u>	<u>1,007,451</u>	<u>(143,764)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	7,304	-	-
Transfers from other funds	6,000	855,608	371	169,084
Transfers to other funds	(2,729)	(122,957)	(1,007,822)	(26,487)
Total Other Financing Sources (Uses)	<u>3,271</u>	<u>739,954</u>	<u>(1,007,451)</u>	<u>142,597</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	<u>(2,379)</u>	<u>51,716</u>	<u>-</u>	<u>(1,167)</u>
Fund Balances - Beginning of fiscal year	<u>24,448</u>	<u>719,837</u>	<u>-</u>	<u>51,500</u>
Fund Balances - End of fiscal year	<u>\$ 22,069</u>	<u>\$ 771,553</u>	<u>\$ -</u>	<u>\$ 50,333</u>

Michigan

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ 1,996,149
51,467	-	154,760	1,104,363
4,369	-	80,978	155,635
-	-	-	3,170
-	-	-	50,494
6,051	2,532	345	91,376
<u>61,888</u>	<u>2,532</u>	<u>236,082</u>	<u>3,401,187</u>
599	16,201	239,215	2,163,688
159,078	-	-	1,182,132
-	-	-	160
<u>159,676</u>	<u>16,201</u>	<u>239,215</u>	<u>3,345,979</u>
<u>(97,789)</u>	<u>(13,669)</u>	<u>(3,133)</u>	<u>55,208</u>
-	-	-	7,304
25,866	-	3,321	1,060,250
(80,129)	(4)	(188)	(1,240,316)
<u>(54,263)</u>	<u>(4)</u>	<u>3,133</u>	<u>(172,763)</u>
(152,052)	(13,673)	-	(117,555)
<u>249,430</u>	<u>82,773</u>	<u>-</u>	<u>1,127,988</u>
<u>\$ 97,379</u>	<u>\$ 69,100</u>	<u>\$ -</u>	<u>\$ 1,010,433</u>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>STATE AERONAUTICS FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES			
Taxes	\$ 6,719	\$ 6,719	\$ -
From federal agencies	123,823	123,823	-
From local agencies	23,490	23,490	-
From services	400	400	-
From licenses and permits	300	300	-
Miscellaneous	3,842	3,842	-
Proceeds from sale of capital assets	-	-	-
Transfers in	6,000	6,000	-
	<u>164,574</u>	<u>164,574</u>	<u>-</u>
Total Revenues and Other Sources			
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Transportation	<u>171,144</u>	<u>169,189</u>	<u>1,955</u>
Total Expenditures, Transfers Out, and Encumbrances	<u>171,144</u>	<u>169,189</u>	<u>1,955</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (6,569)</u>	<u>(4,615)</u>	<u>\$ 1,955</u>
Reconciling Items:			
Encumbrances at September 30		2,236	
Funds not annually budgeted		<u>-</u>	
Net Reconciling Items		<u>2,236</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(2,379)</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances		<u>24,448</u>	
Ending balances (GAAP Basis)		<u>\$ 22,069</u>	

Michigan

STATE TRUNKLINE FUND			MICHIGAN TRANSPORTATION FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 1,932,507	\$ 1,932,507	\$ -
753,863	753,863	-	-	-	-
46,788	46,788	-	-	-	-
15	15	-	2,754	2,754	-
15,339	15,339	-	34,579	34,579	-
66,480	66,480	-	6,587	6,587	-
7,304	7,304	-	-	-	-
855,608	855,608	-	371	371	-
1,745,395	1,745,395	-	1,976,798	1,976,798	-
1,925,548	1,781,513	144,035	2,033,195	1,976,798	56,396
1,925,548	1,781,513	144,035	2,033,195	1,976,798	56,396
\$ (180,153)	(36,118)	\$ 144,035	\$ (56,396)	-	\$ 56,396
	87,834			-	
	-			-	
	87,834			-	
	51,716			-	
	719,837			-	
	\$ 771,553			\$ -	

This schedule continued on next page.

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

Statutory/Budgetary Basis	COMPREHENSIVE TRANSPORTATION FUND		
	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES			
Taxes	\$ 56,924	\$ 56,924	\$ -
From federal agencies	20,450	20,450	-
From local agencies	10	10	-
From services	-	-	-
From licenses and permits	277	277	-
Miscellaneous	5,539	5,539	-
Proceeds from sale of capital assets	-	-	-
Transfers in	169,084	169,084	-
Total Revenues and Other Sources	<u>252,284</u>	<u>252,284</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Transportation	<u>295,196</u>	<u>281,298</u>	<u>13,898</u>
Total Expenditures, Transfers Out, and Encumbrances	<u>295,196</u>	<u>281,298</u>	<u>13,898</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (42,912)</u>	<u>(29,014)</u>	<u>\$ 13,898</u>
Reconciling Items:			
Encumbrances at September 30		27,846	
Funds not annually budgeted		-	
Net Reconciling Items		<u>27,846</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(1,167)</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances		<u>51,500</u>	
Ending balances (GAAP Basis)		<u>\$ 50,333</u>	

FUNDS NOT ANNUALLY BUDGETED

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS		
			BUDGET	ACTUAL	VARIANCE
ACTUAL	ACTUAL	ACTUAL			
\$ -	\$ -	\$ -	\$ 1,996,149	\$ 1,996,149	\$ -
-	-	-	898,136	898,136	-
-	-	-	70,288	70,288	-
-	-	-	3,170	3,170	-
-	-	-	50,494	50,494	-
-	-	-	82,448	82,448	-
-	-	-	7,304	7,304	-
-	-	-	1,031,063	1,031,063	-
-	-	-	4,139,052	4,139,052	-
-	-	-	4,425,083	4,208,798	216,284
-	-	-	4,425,083	4,208,798	216,284
-	-	-	<u>\$ (286,031)</u>	<u>(69,746)</u>	<u>\$ 216,284</u>
-	-	-		117,916	
<u>(152,052)</u>	<u>(13,673)</u>	-		<u>(165,725)</u>	
<u>(152,052)</u>	<u>(13,673)</u>	-		<u>(47,809)</u>	
<u>(152,052)</u>	<u>(13,673)</u>	-		<u>(117,555)</u>	
<u>249,430</u>	<u>82,773</u>	-		<u>1,127,988</u>	
<u>\$ 97,379</u>	<u>\$ 69,100</u>	<u>\$ -</u>		<u>\$ 1,010,433</u>	

SPECIAL REVENUE FUNDS – CONSERVATION, ENVIRONMENT, AND RECREATION RELATED

GAME AND FISH PROTECTION FUND

Established in 1921, this fund currently operates under Part 435 of P.A. 451 of 1994, as amended, and is financed principally by the sale of hunting and fishing licenses. The license fees are set by statute and their purpose is to support the conservation program for preservation and control of fish and wildlife. The fund also receives funding from the Game and Fish Protection Trust Fund. The fund provides financial support for statewide hunting and fishing programs, including resource management, research, enforcement of hunting and fishing laws, and acquisition of lands to be used for hunting and fishing purposes.

MICHIGAN STATE WATERWAYS FUND

Established in 1947, this fund currently operates under Part 781 of P.A. 451 of 1994, as amended. The fund receives portions of watercraft registration fees and gasoline taxes, some of which are collected by other State agencies and transferred to this fund. The fund provides for improvement of lake harbors and inland waterways; construction, operation, and maintenance of recreational boating facilities; property acquisition; and administration.

In fiscal year 2002-2003, P.A. 746 of 2002, Section 1602 required the transfer of \$7.8 million from this fund to the General Fund. Section 1602(3) states that "It is the intent of the legislature that in the future the General Fund reimburse the State Waterways Fund." No receivable is recorded in this fund for this commitment because there is no repayment schedule and the repayment is considered long-term and budgetary in nature.

MARINE SAFETY FUND

Established in 1967, this fund currently operates under Part 801 of P.A. 451 of 1994, as amended. The fund is financed principally by 49% of watercraft registration fees imposed by this act. The fund provides for water safety education programs, law enforcement, and regulation of watercraft on the waters of this State.

GAME AND FISH PROTECTION TRUST FUND

This fund was established in 1986 and presently operates under Part 437 of P.A. 451 of 1994, as amended, to restrict certain assets for the purpose of generating interest and earnings for transfer to the Game and Fish Protection Fund. In addition, the Legislature may appropriate up to \$6 million annually for use by the Game and Fish Protection Fund. Mineral royalties from lands acquired by the Game and Fish Protection Fund; direct sale proceeds; and other revenues, which, by statute, are retained for permanent investment, provide additional investment funding.

STATE PARK IMPROVEMENT FUND

Established in 1960, this fund currently operates under Part 741 of P.A. 451 of 1994, as amended. The fund is primarily financed by State park use and concession fees and motor vehicle permit fees necessary for entry by motor vehicles into designated State parks. These fees are the primary funding source for the operation, maintenance, debt service, and improvements of the State Park system. Revenues of this fund are pledged as necessary for repayment of State Park Gross Revenue Bonds.

COMBINED RECREATION BOND FUND - LOCAL PROJECTS

Established in 1988, this fund presently operates under Parts 196 and 715 of P.A. 451 of 1994, as amended. The residual balances in this fund reflect proceeds and investment earnings remaining from two bond packages: \$70 million of general obligation bonds approved by voters in November 1988, as part of a \$140 million bond package for financing state and local public recreation projects, and \$50 million of general obligation bonds approved by voters in November of 1998, as part of a \$675 million bond package known as the "Clean Michigan Initiative." Proceeds from the 1988 bond package provide grants and loans to local units of government in the amounts of \$65 million for local recreation projects and \$5 million to discourage development of open space and underdeveloped lands. Proceeds from the 1998 bond package also provided grants to local units of government for local recreation projects pursuant to Part 716 of P.A. 451 of 1994.

COMBINED ENVIRONMENTAL PROTECTION BOND FUND

Established by P.A. 328 of 1988, this fund accounts for the proceeds of \$660 million of general obligation bonds approved by Michigan voters in November 1988 to finance environmental protection programs. This approval was obtained under the general authority of Article 9, Section 15, of the 1963 State Constitution. Public Act 328 of 1988 specifies that not more than \$425 million of the bond proceeds be available to clean up sites of toxic and other environmental contamination; not more than \$150 million be available for solid waste projects; not more than \$60 million be available to capitalize the State Water Pollution Control Loan Fund; and not more than \$25 million be available to fund Michigan's participation in a regional Great Lakes Protection Fund.

Public Act 284 of 1998 expanded this fund to account for the proceeds of \$570 million of general obligation bonds approved by Michigan voters in November 1998. Public Act 288 of 1998 directs that not more than \$335 million be used for environmental response activities; not more than \$50 million for waterfront improvements; not more than \$25 million for remediation of contaminated lake and river sediments; not more than \$50 million for nonpoint source pollution prevention and control projects or wellhead protection projects; not more than \$90 million for water quality monitoring and water resources protection and pollution control activities; and not more than \$20 million for pollution prevention programs.

MICHIGAN NONGAME FISH AND WILDLIFE FUND

Established in 1983, the fund currently operates under Part 439 of P.A. 451 of 1994, as amended. Fund revenues are used to finance research and management of nongame fish and wildlife, designated endangered species, and designated plant species of this State. The fund may receive transfers from other funds, donations, investment income, and revenue from specialty license plate sales.

FOREST DEVELOPMENT FUND

This fund was established in 1993, along with the Michigan Forest Finance Authority, and presently operates under Part 505 of P.A. 451 of 1994, as amended. The Authority is authorized to acquire standing timber, timber cutting rights, and the State's interest in contracts granting cutting rights on State tax reverted lands and on other lands in the State forest system. Revenues are derived from the sale of forest products, and are pledged to provide debt service on any bonds or notes that might be issued by the Authority. Revenues not used for debt service are major funding sources for the Forest Management Division and are used for forest management operations and practices. The Authority may, but thus far has not, issued bonds.

MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FUND

The Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA) was established by P.A. 518 of 1988 to assist certain owners and operators of underground storage tank systems in meeting their financial responsibility requirements provided for in the Solid Waste Disposal Act. All claims submitted under this statute have been settled and paid.

Public Act 390 of 2004 extended the sunset on the 7/8 cent environmental protection regulatory fee and redirected the revenue to the newly created Refined Petroleum Fund, which was established as a restricted sub-fund within the General Fund. The remaining fund balance from the original MUSTFA program was transferred from the MUSTFA Fund to the Refined Petroleum Fund during fiscal year 2004-2005.

BOTTLE DEPOSITS FUND

This fund was created in P.A. 384 of 1996 to provide for the disposition of unredeemed bottle deposits. The Department of Treasury and the Department of Environmental Quality jointly administer the fund. The law mandates that an annual distribution of the funds be made as follows: 25% returned to the dealers and 75% to fund several sub-funds.

The 75% distribution to the Department of Environmental Quality is initially deposited into the Cleanup and Redevelopment Trust Sub-Fund (CRTF), and if not further distributed, remains there until the principal amount reaches \$200 million. Of funds received annually by the CRTF, 80% is allocated to the Cleanup and Redevelopment Sub-Fund (CRF) and 10% to the Community Pollution Prevention Sub-Fund (CPPF).

Public Act 380 of 1996 moved the former Environmental Response Fund (ERF) to a sub-fund of the CRF. The law mandates that proceeds of all cost recovery actions taken and settlements entered into pursuant to the ERF (excluding natural resource damages) by the department or the Attorney General, or both, shall be credited to the ERF.

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
 SEPTEMBER 30, 2005
 (In Thousands)

	GAME AND FISH PROTECTION FUND	MICHIGAN STATE WATERWAYS FUND	MARINE SAFETY FUND	GAME AND FISH PROTECTION TRUST FUND	STATE PARK IMPROVEMENT FUND
ASSETS					
Current Assets:					
Cash	\$ 3	\$ 7	\$ -	\$ -	\$ 100
Equity in common cash	24,585	38,272	2,622	11,441	7,857
Taxes, interest, and penalties receivable	-	205	-	-	-
Amounts due from component units	-	-	-	-	-
Amounts due from federal agencies	435	-	185	-	-
Amounts due from local units	-	-	-	-	-
Inventories	-	143	-	-	-
Securities lending collateral	280	-	-	468	-
Other current assets	3,762	27	-	1,803	60
Total Current Assets	<u>29,066</u>	<u>38,653</u>	<u>2,807</u>	<u>13,712</u>	<u>8,017</u>
Amounts due from local units	-	-	-	-	-
Investments	1,756	-	-	92,111	-
Other noncurrent assets	-	-	-	-	-
Total Assets	<u>\$ 30,822</u>	<u>\$ 38,653</u>	<u>\$ 2,807</u>	<u>\$ 105,823</u>	<u>\$ 8,017</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 296	\$ 88	\$ 1	\$ -	\$ 57
Obligations under security lending	280	-	-	468	-
Accounts payable and other liabilities	3,552	1,607	1,785	-	1,537
Amounts due to other funds	448	90	10	-	606
Deferred revenue	-	-	-	-	439
Total Current Liabilities	<u>4,577</u>	<u>1,785</u>	<u>1,796</u>	<u>468</u>	<u>2,640</u>
Long-Term Liabilities:					
Deferred revenue	-	-	-	-	-
Total Liabilities	<u>4,577</u>	<u>1,785</u>	<u>1,796</u>	<u>468</u>	<u>2,640</u>
Fund Balances:					
Reserves for:					
Budgetary Carry-Forwards:					
Encumbrances	2,651	5,898	35	-	429
Restricted revenues	13,295	4,641	-	-	33
Multi-year projects	758	16,109	-	-	1,282
Revolving loan programs	-	-	-	-	-
Funds held as permanent investments	1,718	-	-	99,355	-
Total Reserved	<u>18,422</u>	<u>26,648</u>	<u>35</u>	<u>99,355</u>	<u>1,745</u>
Unreserved	<u>7,824</u>	<u>10,220</u>	<u>976</u>	<u>6,000</u>	<u>3,632</u>
Total Fund Balances	<u>26,245</u>	<u>36,868</u>	<u>1,011</u>	<u>105,355</u>	<u>5,377</u>
Total Liabilities and Fund Balances	<u>\$ 30,822</u>	<u>\$ 38,653</u>	<u>\$ 2,807</u>	<u>\$ 105,823</u>	<u>\$ 8,017</u>

Michigan

COMBINED RECREATION BOND FUND- LOCAL PROJECTS	COMBINED ENVIRONMENTAL PROTECTION BOND FUND	MICHIGAN NONGAME FISH AND WILDLIFE FUND	FOREST DEVELOPMENT FUND	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ 3	\$ -	\$ 1	\$ -	\$ 2	\$ 115
2,436	58,022	448	18,003	-	99,818	263,504
-	-	-	-	-	-	205
-	11	-	-	-	-	11
-	-	-	-	-	-	620
-	900	-	-	-	338	1,238
-	-	-	-	-	-	143
-	-	139	-	-	-	887
-	-	59	164	-	1,019	6,894
<u>2,436</u>	<u>58,936</u>	<u>646</u>	<u>18,168</u>	<u>-</u>	<u>101,177</u>	<u>273,618</u>
-	-	-	-	-	4,289	4,289
-	-	5,859	-	-	-	99,726
-	-	-	-	-	1,385	1,385
<u>\$ 2,436</u>	<u>\$ 58,936</u>	<u>\$ 6,505</u>	<u>\$ 18,168</u>	<u>\$ -</u>	<u>\$ 106,851</u>	<u>\$ 379,017</u>
\$ -	\$ 371	\$ 3	\$ 180	\$ -	\$ 207	\$ 1,203
-	-	139	-	-	-	887
406	27,310	59	2,800	-	7,034	46,091
1	25	3	175	-	143	1,502
-	-	-	-	-	245	685
<u>408</u>	<u>27,707</u>	<u>204</u>	<u>3,155</u>	<u>-</u>	<u>7,628</u>	<u>50,368</u>
-	-	-	-	-	1,385	1,385
<u>408</u>	<u>27,707</u>	<u>204</u>	<u>3,155</u>	<u>-</u>	<u>9,013</u>	<u>51,752</u>
-	-	19	2,264	-	3,247	14,544
-	-	-	-	-	42,655	60,624
-	-	-	1,071	-	7,997	27,217
-	-	-	-	-	20,569	20,569
-	-	5,959	-	-	23,369	130,401
-	-	5,978	3,335	-	97,838	253,355
<u>2,028</u>	<u>31,229</u>	<u>323</u>	<u>11,678</u>	<u>-</u>	<u>-</u>	<u>73,909</u>
<u>2,028</u>	<u>31,229</u>	<u>6,301</u>	<u>15,013</u>	<u>-</u>	<u>97,838</u>	<u>327,265</u>
<u>\$ 2,436</u>	<u>\$ 58,936</u>	<u>\$ 6,505</u>	<u>\$ 18,168</u>	<u>\$ -</u>	<u>\$ 106,851</u>	<u>\$ 379,017</u>

Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
 FISCAL YEAR ENDED SEPTEMBER 30, 2005
 (In Thousands)

	GAME AND FISH PROTECTION FUND	MICHIGAN STATE WATERWAYS FUND	MARINE SAFETY FUND	GAME AND FISH PROTECTION TRUST FUND	STATE PARK IMPROVEMENT FUND
REVENUES					
Taxes	\$ -	\$ 329	\$ -	\$ -	\$ -
From federal agencies	1,949	161	185	-	-
From licenses and permits	49,425	7,277	5,137	-	36,445
Miscellaneous	2,842	2,252	239	17,891	251
Total Revenues	<u>54,216</u>	<u>10,018</u>	<u>5,561</u>	<u>17,891</u>	<u>36,696</u>
EXPENDITURES					
Current:					
General government	7	-	-	19	-
Conservation, environment, recreation, and agriculture	64,384	17,948	3,902	-	34,442
Health services	-	-	-	-	-
Capital outlay	3,231	7,718	-	-	1,374
Total Expenditures	<u>67,622</u>	<u>25,666</u>	<u>3,902</u>	<u>19</u>	<u>35,815</u>
Excess of Revenues over (under) Expenditures	<u>(13,407)</u>	<u>(15,648)</u>	<u>1,659</u>	<u>17,871</u>	<u>880</u>
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	-	-	-	-	-
Premium on bond issuance	-	-	-	-	-
Transfers from other funds	11,100	14,737	-	-	-
Transfers to other funds	(901)	(291)	(1,169)	(10,627)	(1,309)
Total Other Financing Sources (Uses)	<u>10,198</u>	<u>14,446</u>	<u>(1,169)</u>	<u>(10,627)</u>	<u>(1,309)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	<u>(3,208)</u>	<u>(1,202)</u>	<u>490</u>	<u>7,244</u>	<u>(428)</u>
Fund Balances - Beginning of fiscal year	<u>29,453</u>	<u>38,070</u>	<u>521</u>	<u>98,111</u>	<u>5,805</u>
Fund Balances - End of fiscal year	<u>\$ 26,245</u>	<u>\$ 36,868</u>	<u>\$ 1,011</u>	<u>\$ 105,355</u>	<u>\$ 5,377</u>

Michigan

COMBINED RECREATION BOND FUND- LOCAL PROJECTS	COMBINED ENVIRONMENTAL PROTECTION BOND FUND	MICHIGAN NONGAME FISH AND WILDLIFE FUND	FOREST DEVELOPMENT FUND	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 329
-	-	-	6	-	178	2,478
-	-	1	1	-	-	98,286
<u>149</u>	<u>3,061</u>	<u>506</u>	<u>33,372</u>	<u>7</u>	<u>23,036</u>	<u>83,605</u>
<u>149</u>	<u>3,061</u>	<u>507</u>	<u>33,380</u>	<u>7</u>	<u>23,213</u>	<u>184,698</u>
50	820	4	-	124	-	1,024
1,002	73,380	651	27,936	7	34,148	257,800
-	6	-	-	-	-	6
<u>-</u>	<u>-</u>	<u>-</u>	<u>483</u>	<u>-</u>	<u>-</u>	<u>12,805</u>
<u>1,052</u>	<u>74,206</u>	<u>654</u>	<u>28,418</u>	<u>132</u>	<u>34,148</u>	<u>271,635</u>
<u>(903)</u>	<u>(71,145)</u>	<u>(147)</u>	<u>4,962</u>	<u>(124)</u>	<u>(10,935)</u>	<u>(86,937)</u>
-	64,935	-	-	-	-	64,935
-	6,577	-	-	-	-	6,577
-	-	-	-	-	-	25,837
<u>(3)</u>	<u>(21)</u>	<u>(3)</u>	<u>(1,122)</u>	<u>(1,651)</u>	<u>(15,933)</u>	<u>(33,029)</u>
<u>(3)</u>	<u>71,491</u>	<u>(3)</u>	<u>(1,122)</u>	<u>(1,651)</u>	<u>(15,933)</u>	<u>64,320</u>
(906)	347	(150)	3,840	(1,775)	(26,868)	(22,617)
<u>2,934</u>	<u>30,883</u>	<u>6,451</u>	<u>11,173</u>	<u>1,775</u>	<u>124,705</u>	<u>349,881</u>
<u>\$ 2,028</u>	<u>\$ 31,229</u>	<u>\$ 6,301</u>	<u>\$ 15,013</u>	<u>\$ -</u>	<u>\$ 97,838</u>	<u>\$ 327,265</u>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

Statutory/Budgetary Basis	GAME AND FISH PROTECTION FUND			MICHIGAN STATE WATERWAYS FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ 329	\$ 329	\$ -
From federal agencies	1,949	1,949	-	161	161	-
From licenses and permits	49,425	49,425	-	7,277	7,277	-
Miscellaneous	2,842	2,842	-	2,252	2,252	-
Transfers in	11,100	11,100	-	14,737	14,737	-
Total Revenues and Other Sources	65,315	65,315	-	24,756	24,756	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Natural Resources	73,170	71,168	2,003	37,097	31,856	5,241
Treasury	7	7	-	-	-	-
Total Expenditures, Transfers Out and Encumbrances	73,178	71,175	2,003	37,097	31,856	5,241
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (7,862)	(5,860)	\$ 2,003	\$ (12,341)	(7,100)	\$ 5,241
Reconciling Items:						
Encumbrances at September 30		2,651			5,898	
Funds not annually budgeted		-			-	
Net Reconciling Items		2,651			5,898	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		(3,208)			(1,202)	
FUND BALANCES (GAAP BASIS)						
Beginning balances		29,453			38,070	
Ending balances (GAAP Basis)		\$ 26,245			\$ 36,868	

Michigan

MARINE SAFETY FUND			STATE PARK IMPROVEMENT FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
185	185	-	-	-	-
5,137	5,137	-	36,445	36,445	-
239	239	-	251	251	-
-	-	-	-	-	-
5,561	5,561	-	36,696	36,696	-
5,676	5,106	571	38,001	37,553	448
-	-	-	-	-	-
5,676	5,106	571	38,001	37,553	448
\$ (116)	455	\$ 571	\$ (1,306)	(858)	\$ 448
	35			429	
	-			-	
	35			429	
	490			(428)	
	521			5,805	
	\$ 1,011			\$ 5,377	

This schedule continued on next page.

Michigan

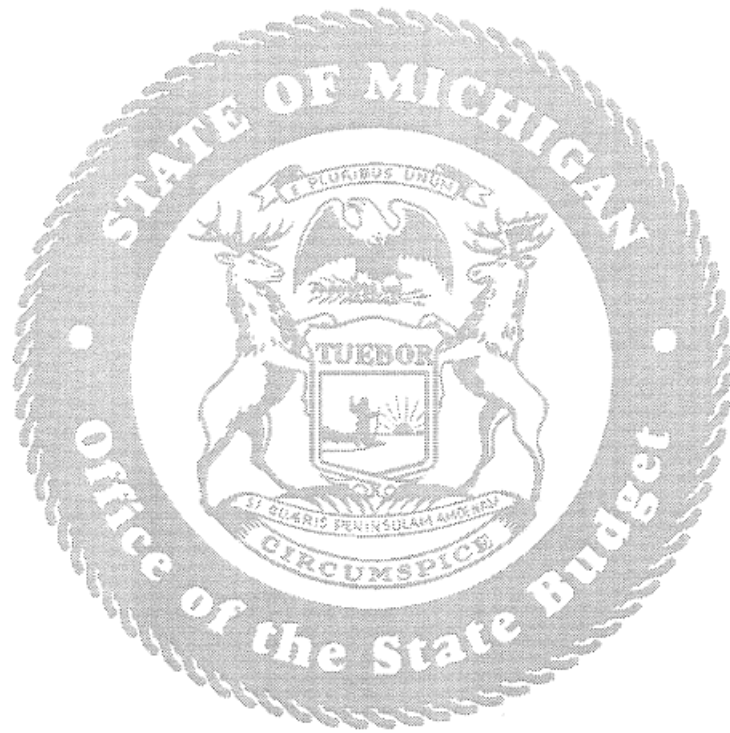
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

Statutory/Budgetary Basis	MICHIGAN NONGAME FISH AND WILDLIFE FUND			FOREST DEVELOPMENT FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From federal agencies	-	-	-	6	6	-
From licenses and permits	1	1	-	1	1	-
Miscellaneous	506	506	-	33,372	33,372	-
Transfers in	-	-	-	-	-	-
Total Revenues and Other Sources	<u>507</u>	<u>507</u>	<u>-</u>	<u>33,380</u>	<u>33,380</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Natural Resources	694	672	22	33,001	31,805	1,196
Treasury	<u>4</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures, Transfers Out and Encumbrances	<u>698</u>	<u>676</u>	<u>22</u>	<u>33,001</u>	<u>31,805</u>	<u>1,196</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (191)</u>	<u>(169)</u>	<u>\$ 22</u>	<u>\$ 379</u>	<u>1,575</u>	<u>\$ 1,196</u>
Reconciling Items:						
Encumbrances at September 30		19			2,264	
Funds not annually budgeted		-			-	
Net Reconciling Items		<u>19</u>			<u>2,264</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(150)</u>			<u>3,840</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		<u>6,451</u>			<u>11,173</u>	
Ending balances (GAAP Basis)		<u>\$ 6,301</u>			<u>\$ 15,013</u>	

Michigan

FUNDS NOT ANNUALLY BUDGETED

GAME AND FISH PROTECTION TRUST FUND	COMBINED RECREATION BOND FUND- LOCAL PROJECTS	COMBINED ENVIRONMENTAL PROTECTION BOND FUND	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FUND	BOTTLE DEPOSITS FUND	TOTALS		
					BUDGET	ACTUAL	VARIANCE
ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL			
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 329	\$ 329	\$ -
-	-	-	-	-	2,300	2,300	-
-	-	-	-	-	98,286	98,286	-
-	-	-	-	-	39,461	39,461	-
-	-	-	-	-	25,837	25,837	-
-	-	-	-	-	166,214	166,214	-
-	-	-	-	-	187,640	178,160	9,480
-	-	-	-	-	11	11	-
-	-	-	-	-	187,651	178,170	9,480
-	-	-	-	-	<u>\$ (21,437)</u>	<u>(11,956)</u>	<u>\$ 9,480</u>
-	-	-	-	-		11,298	
7,244	(906)	347	(1,775)	(26,868)		(21,958)	
7,244	(906)	347	(1,775)	(26,868)		(10,661)	
7,244	(906)	347	(1,775)	(26,868)		(22,617)	
98,111	2,934	30,883	1,775	124,705		349,881	
<u>\$ 105,355</u>	<u>\$ 2,028</u>	<u>\$ 31,229</u>	<u>\$ -</u>	<u>\$ 97,838</u>		<u>\$ 327,265</u>	



SPECIAL REVENUE FUNDS – REGULATORY AND ADMINISTRATIVE RELATED

MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND

Public Act 1 of 1936 (Extra Session) created this fund to account for administrative costs of the Bureau of Worker's and Unemployment Compensation, which is administered by the Department of Labor and Economic Growth. The fund derives most of its revenue from federal grants. It also receives transfers from the Michigan Employment Security Act Contingent Fund (reported as part of the Michigan Unemployment Compensation Funds, an enterprise fund). Expenditures for administration are subject to legislative appropriation.

Unemployment benefit payments to individuals are made directly from funds accumulated from employer premiums. These activities are reported in the Michigan Unemployment Compensation Funds.

SAFETY EDUCATION AND TRAINING FUND

Public Act 154 of 1974, as amended, imposes an annual levy on each insurance carrier licensed to write workers' disability compensation business in the State and on each self-insured employer. Public Act 24 of 1977 established the Safety Education and Training Fund to receive these assessments for support of the Department of Labor and Economic Growth's Consultation Education and Training Division.

STATE CONSTRUCTION CODE FUND

Public Act 230 of 1972, as amended, created the State Construction Code Fund. Fees received for building permit applications and other funds collected under this act are appropriated by the Legislature for the operation of the Department of Labor and Economic Growth's Bureau of Construction Codes and Fire Safety and related indirect overhead expenditures.

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND

Established by P.A. 497 of 1980, the Homeowner Construction Lien Recovery Fund allows contractors, subcontractors, suppliers, and laborers to collect payments for work done if they have not been paid, despite filing a residential lien. The fund is self-sustaining and is financed by fees assessed on builders, electrical and plumbing contractors, and laborers.

STATE CASINO GAMING FUND

Created by P.A. 69 of 1997, this fund provides the licensing, regulation, and control of casino gaming activities in Michigan. The five-member gaming control board is vested with the authority for licensing, regulating, and controlling casino gaming operations; manufacturers and distributors of gaming equipment and supplies; and persons who participate in gaming. Activities financed by casino gaming revenue are legally restricted for specific purposes.

SECOND INJURY FUND

Public Act 317 of 1969, as amended, created the Second Injury Fund to insure carriers and self-insured employers against certain workers' compensation losses. The administrator, appointed by the fund's Board of Trustees, supervises the fund. The fund's revenue consists of assessments, calculated under provisions of the act, which are assessed to insurance carriers and self-insured employers licensed or authorized in Michigan.

SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND

Established by P.A. 317 of 1969, as amended, the Silicosis, Dust Disease, and Logging Industry Compensation Fund reimburses insurance carriers who pay benefits to employees injured from certain dust diseases, and employees who have sustained personal injury or death while being employed in the logging industry. Revenues are generated through annual assessments of insurance carriers.

SELF-INSURERS' SECURITY FUND

Established by P.A. 317 of 1969, as amended, the Self-Insurers' Security Fund pays workers' compensation benefits to injured employees of insolvent, private self-insured employers. Revenues are generated through annual assessments of insurance carriers.

Funds held in trust per court orders to pay obligations due under the Michigan Workers' Disability Compensation Act are reported as liabilities of this fund.

UTILITY CONSUMER REPRESENTATION FUND

Established by P.A. 304 of 1982, as amended, the Utility Consumer Representation Fund provides funding, on behalf of residential gas, fuel, and electric customers, for energy cost recovery hearings before the Michigan Public Service Commission. Revenues are generated through annual assessments of regulated utility companies.

Michigan

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED
 SEPTEMBER 30, 2005
 (In Thousands)

	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	STATE CONSTRUCTION CODE FUND	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND
ASSETS				
Current Assets:				
Equity in common cash	\$ -	\$ 5,485	\$ 6,208	\$ 4,511
Amounts due from other funds	208	-	-	-
Amounts due from federal agencies	10,903	-	-	-
Other current assets	9	-	182	-
Total Current Assets	<u>11,120</u>	<u>5,485</u>	<u>6,390</u>	<u>4,511</u>
Total Assets	<u>\$ 11,120</u>	<u>\$ 5,485</u>	<u>\$ 6,390</u>	<u>\$ 4,511</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 79	\$ 18	\$ 18	\$ 28
Accounts payable and other liabilities	4,071	228	444	38
Amounts due to other funds	6,970	41	87	1
Deferred revenue	-	-	-	-
Total Current Liabilities	<u>11,120</u>	<u>286</u>	<u>548</u>	<u>67</u>
Total Liabilities	<u>11,120</u>	<u>286</u>	<u>548</u>	<u>67</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	-	281	122	-
Restricted revenues	-	-	-	-
Total Reserved	<u>-</u>	<u>281</u>	<u>122</u>	<u>-</u>
Unreserved	<u>-</u>	<u>4,918</u>	<u>5,719</u>	<u>4,444</u>
Total Fund Balances	<u>-</u>	<u>5,199</u>	<u>5,841</u>	<u>4,444</u>
Total Liabilities and Fund Balances	<u>\$ 11,120</u>	<u>\$ 5,485</u>	<u>\$ 6,390</u>	<u>\$ 4,511</u>

Michigan

STATE CASINO GAMING FUND	SECOND INJURY FUND	SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	SELF-INSURERS' SECURITY FUND	UTILITY CONSUMER REPRESENTATION FUND	TOTALS
\$ 17,794	\$ 11,597	\$ 3,083	\$ 17,422	\$ 3,461	\$ 69,561
-	6,106	-	-	-	6,314
-	-	-	-	-	10,903
89	386	22	248	-	935
<u>17,883</u>	<u>18,089</u>	<u>3,105</u>	<u>17,669</u>	<u>3,461</u>	<u>87,713</u>
<u>\$ 17,883</u>	<u>\$ 18,089</u>	<u>\$ 3,105</u>	<u>\$ 17,669</u>	<u>\$ 3,461</u>	<u>\$ 87,713</u>
\$ 5	\$ 148	\$ 75	\$ 51	\$ -	\$ 422
423	2,123	506	7,626	85	15,542
71	12	5	7	3	7,197
42	3,935	649	2,444	-	7,070
<u>541</u>	<u>6,219</u>	<u>1,234</u>	<u>10,129</u>	<u>87</u>	<u>30,232</u>
541	6,219	1,234	10,129	87	30,232
-	-	-	-	-	403
<u>16,217</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,217</u>
<u>16,217</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,620</u>
1,126	11,870	1,871	7,541	3,373	40,861
<u>17,342</u>	<u>11,870</u>	<u>1,871</u>	<u>7,541</u>	<u>3,373</u>	<u>57,481</u>
<u>\$ 17,883</u>	<u>\$ 18,089</u>	<u>\$ 3,105</u>	<u>\$ 17,669</u>	<u>\$ 3,461</u>	<u>\$ 87,713</u>

Michigan

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED**

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	STATE CONSTRUCTION CODE FUND	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
REVENUES				
From federal agencies	\$ 119,658	\$ -	\$ -	\$ -
From licenses and permits	-	-	9,373	-
Miscellaneous	495	7,100	2,296	5,017
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	120,153	7,100	11,669	5,017
EXPENDITURES				
Current:				
General government	-	-	-	-
Labor, commerce, and regulatory	125,113	7,151	13,859	1,187
Debt Service:				
Capital lease payments	302	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	125,414	7,151	13,859	1,187
Excess of Revenues over (under) Expenditures	<u>(5,261)</u>	<u>(51)</u>	<u>(2,190)</u>	<u>3,829</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	6,434	-	-	-
Transfers to other funds	(1,173)	(38)	(182)	(1)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Other Financing Sources (Uses)	5,261	(38)	(182)	(1)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	(88)	(2,372)	3,829
Fund Balances - Beginning of fiscal year	<u>-</u>	<u>5,287</u>	<u>8,213</u>	<u>616</u>
Fund Balances - End of fiscal year	<u>\$ -</u>	<u>\$ 5,199</u>	<u>\$ 5,841</u>	<u>\$ 4,444</u>

Michigan

STATE CASINO GAMING FUND	SECOND INJURY FUND	SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	SELF-INSURERS' SECURITY FUND	UTILITY CONSUMER REPRESENTATION FUND	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 119,658
788	-	-	-	-	10,161
<u>29,652</u>	<u>14,480</u>	<u>2,398</u>	<u>11,593</u>	<u>1,096</u>	<u>74,128</u>
<u>30,440</u>	<u>14,480</u>	<u>2,398</u>	<u>11,593</u>	<u>1,096</u>	<u>203,946</u>
16,092	-	-	-	364	16,455
-	16,220	2,707	9,473	413	176,122
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>302</u>
<u>16,092</u>	<u>16,220</u>	<u>2,707</u>	<u>9,473</u>	<u>776</u>	<u>192,879</u>
<u>14,349</u>	<u>(1,740)</u>	<u>(309)</u>	<u>2,120</u>	<u>320</u>	<u>11,068</u>
2	-	-	-	-	6,436
<u>(11,524)</u>	<u>(22)</u>	<u>(8)</u>	<u>(11)</u>	<u>(3)</u>	<u>(12,962)</u>
<u>(11,523)</u>	<u>(22)</u>	<u>(8)</u>	<u>(11)</u>	<u>(3)</u>	<u>(6,526)</u>
2,826	(1,761)	(317)	2,109	317	4,541
<u>14,516</u>	<u>13,631</u>	<u>2,188</u>	<u>5,432</u>	<u>3,057</u>	<u>52,940</u>
<u>\$ 17,342</u>	<u>\$ 11,870</u>	<u>\$ 1,871</u>	<u>\$ 7,541</u>	<u>\$ 3,373</u>	<u>\$ 57,481</u>

Michigan

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND</u>			<u>SAFETY EDUCATION AND TRAINING FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES						
From federal agencies	\$ 119,658	\$ 119,658	\$ -	\$ -	\$ -	\$ -
From licenses and permits	-	-	-	-	-	-
Miscellaneous	495	495	-	7,100	7,100	-
Transfers in	6,434	6,434	-	-	-	-
Total Revenues and Other Sources	<u>126,587</u>	<u>126,587</u>	<u>-</u>	<u>7,100</u>	<u>7,100</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Labor and Economic Growth	126,587	126,587	-	8,356	7,470	887
Treasury	-	-	-	-	-	-
Total Expenditures, Transfers Out, and Encumbrances	<u>126,587</u>	<u>126,587</u>	<u>-</u>	<u>8,356</u>	<u>7,470</u>	<u>887</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (1,256)</u>	<u>(369)</u>	<u>\$ 887</u>
Reconciling Items:						
Encumbrances at September 30		-			281	
Funds not annually budgeted		-			-	
Net Reconciling Items		-			281	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		-			(88)	
FUND BALANCES (GAAP BASIS)						
Beginning balances		-			5,287	
Ending balances (GAAP Basis)		<u>\$ -</u>			<u>\$ 5,199</u>	

Michigan

STATE CONSTRUCTION CODE FUND			HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9,373	9,373	-	-	-	-
2,296	2,296	-	5,017	5,017	-
-	-	-	-	-	-
11,669	11,669	-	5,017	5,017	-
16,831	14,163	2,668	1,534	1,188	346
-	-	-	-	-	-
16,831	14,163	2,668	1,534	1,188	346
\$ (5,162)	(2,494)	\$ 2,668	\$ 3,483	3,829	\$ 346
	122			-	
	-			-	
	122			-	
	(2,372)			3,829	
	8,213			616	
	\$ 5,841			\$ 4,444	

This schedule continued on next page.

Michigan

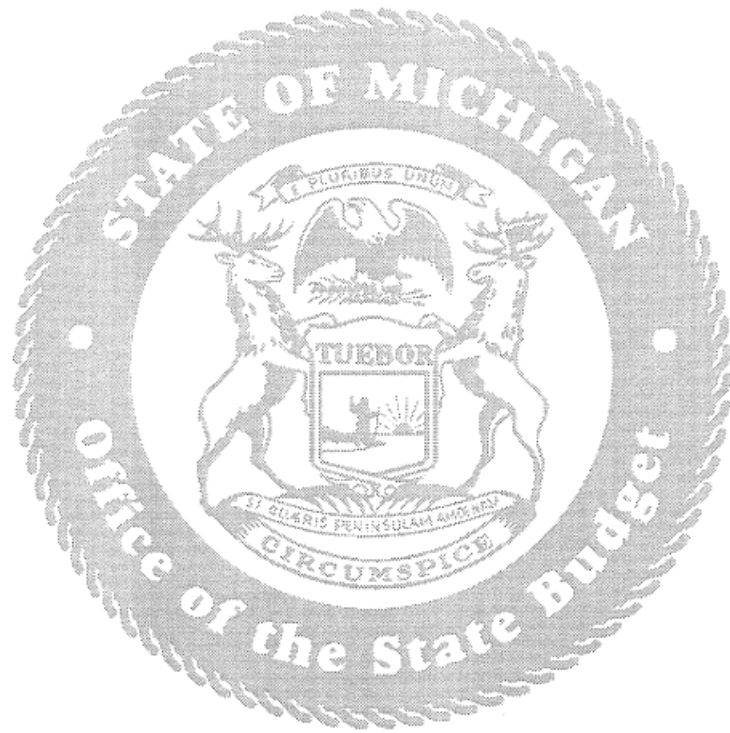
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>STATE CASINO GAMING FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES			
From federal agencies	\$ -	\$ -	\$ -
From licenses and permits	788	788	-
Miscellaneous	29,652	29,652	-
Transfers in	2	2	-
Total Revenues and Other Sources	<u>30,442</u>	<u>30,442</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Labor and Economic Growth	-	-	-
Treasury	27,618	27,616	2
Total Expenditures, Transfers Out, and Encumbrances	<u>27,618</u>	<u>27,616</u>	<u>2</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 2,824</u>	<u>2,826</u>	<u>\$ 2</u>
Reconciling Items:			
Encumbrances at September 30		-	
Funds not annually budgeted		-	
Net Reconciling Items		<u>-</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>2,826</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances		<u>14,516</u>	
Ending balances (GAAP Basis)		<u>\$ 17,342</u>	

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FUNDS NOT ANNUALLY BUDGETED

SECOND INJURY FUND	SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	SELF-INSURERS' SECURITY FUND	UTILITY CONSUMER REPRESENTATION FUND	TOTALS		
				BUDGET	ACTUAL	VARIANCE
ACTUAL	ACTUAL	ACTUAL	ACTUAL			
\$ -	\$ -	\$ -	\$ -	\$ 119,658	\$ 119,658	\$ -
-	-	-	-	10,161	10,161	-
-	-	-	-	44,561	44,561	-
-	-	-	-	6,436	6,436	-
-	-	-	-	180,815	180,815	-
-	-	-	-	153,309	149,408	3,900
-	-	-	-	27,618	27,616	2
-	-	-	-	180,927	177,024	3,902
-	-	-	-	<u>\$ (111)</u>	3,791	<u>\$ 3,902</u>
-	-	-	-		403	
(1,761)	(317)	2,109	317		347	
(1,761)	(317)	2,109	317		750	
(1,761)	(317)	2,109	317		4,541	
13,631	2,188	5,432	3,057		52,940	
<u>\$ 11,870</u>	<u>\$ 1,871</u>	<u>\$ 7,541</u>	<u>\$ 3,373</u>		<u>\$ 57,481</u>	



SPECIAL REVENUE FUNDS – OTHER STATE FUNDS

SCHOOL BOND LOAN FUND

Article 9, Section 16, of the State Constitution, P.A. 74 of 1955, and P.A. 112 of 1961 authorized the issuance of State general obligation bonds to provide funds for loans to school districts. Loans are made for the payment of principal and interest on school district bonds under prescribed circumstances. State bond proceeds are credited to the fund as an "Other Financing Source." When loans are made, transfers are recorded to the General Fund, which receives loan payments and provides financing for debt service. In the General Fund, loans receivable are recorded as assets.

TOBACCO SETTLEMENT TRUST FUND

Public Act 489 of 2000 created this fund to account for a portion of the revenue from the master settlement agreement between tobacco manufacturers and the State. The settlement reimburses the State for health care costs, which result from the use of tobacco products. Fund expenditures are used for a variety of programs as determined by the Legislature.

MICHIGAN MERIT AWARD TRUST FUND

This fund was created by P.A. 94 of 1999 to account for a portion of the revenue from the master settlement agreement between tobacco manufacturers and the State. The settlement reimburses the State for health care costs, which result from the use of tobacco products. The fund also consists of interest and earnings from trust fund investments and donations. Fund expenditures are used for the Michigan Merit Award Scholarship and other programs as determined by the Legislature.

CHILDREN'S TRUST FUND

Public Act 249 of 1982, as amended, established the Children's Trust Fund to support the State Child Abuse and Neglect Prevention Board. The Board was established under P.A. 250 of 1982 to coordinate and fund activities for the prevention of child abuse and neglect in the State.

Public Act 291 of 2000 provided for a transfer of \$13.1 million from the General Fund during fiscal year 1999-2000 to bring the fund's assets to an amount exceeding \$20 million. Public Act 119 of 2005, enacted September 22, 2005, removed the requirement that the assets of the fund must exceed \$20 million and made available for disbursement not more than one-half of the money contributed to the trust fund each year, plus the interest and earnings, excluding unrealized gains and losses, credited to the trust fund during the previous fiscal year. Money granted or received as gifts or donations to the trust fund shall be available for disbursement upon appropriation. Funds that are not available for disbursement are reserved as funds held for permanent investment.

In prior years, this fund was classified as a permanent fund but the recent changes in legislation have resulted in the reclassification of this fund to a special revenue fund.

ASSIGNED CLAIMS FACILITY AND PLAN FUND

Michigan Compiled Laws Section 500.3171 requires the Secretary of State to organize and maintain the Assigned Claims Facility and Plan Fund to provide personal protection insurance benefits to persons injured by uninsured motorists, when coverage is not available from other sources. The Facility administers the Plan through servicing insurers. Assessments to self-insurers and no-fault insurers cover the costs incurred by the Facility and Plan.

MILITARY FAMILY RELIEF FUND

Public Act 363 of 2004 created this fund to provide assistance to families of certain members of the reserve components of the United States armed forces on active duty. A qualified individual or the individual's family shall apply to the Department of Military and Veterans Affairs for a grant from the fund. Funds are received primarily from taxpayer contributions on his or her annual State tax return designating \$1.00 or more of his or her refund to be credited to this fund.

MISCELLANEOUS SPECIAL REVENUE FUNDS

The miscellaneous special revenue funds column reflects the activities of the following funds: Vietnam Veterans' Memorial Monument, Law Enforcement Officers Memorial, Children's Institute Trust, and Special Assessment Deferment.

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
 SEPTEMBER 30, 2005
 (In Thousands)

	SCHOOL BOND LOAN FUND	TOBACCO SETTLEMENT TRUST FUND	MICHIGAN MERIT AWARD TRUST FUND
ASSETS			
Current Assets:			
Equity in common cash	\$ 1,226	\$ -	\$ 25,238
Amounts due from other funds	-	563	2,419
Amounts due from component units	-	-	3
Securities lending collateral	-	-	-
Other current assets	-	53,564	154,994
Total Current Assets	<u>1,226</u>	<u>54,127</u>	<u>182,654</u>
Investments	-	-	-
Other noncurrent assets	-	-	-
Total Assets	<u>\$ 1,226</u>	<u>\$ 54,127</u>	<u>\$ 182,654</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Warrants outstanding	\$ -	\$ 62	\$ 190
Obligations under security lending	-	-	-
Accounts payable and other liabilities	712	766	20,313
Amounts due to other funds	-	2,423	24
Deferred revenue	-	50,875	152,625
Total Current Liabilities	<u>712</u>	<u>54,127</u>	<u>173,153</u>
Deferred revenue	-	-	-
Total Liabilities	<u>712</u>	<u>54,127</u>	<u>173,153</u>
Fund Balances:			
Reserves for:			
Funds held as permanent investments	-	-	-
Noncurrent assets	-	-	-
Total Reserved	<u>-</u>	<u>-</u>	<u>-</u>
Unreserved	<u>515</u>	<u>-</u>	<u>9,501</u>
Total Fund Balances	<u>515</u>	<u>-</u>	<u>9,501</u>
Total Liabilities and Fund Balances	<u>\$ 1,226</u>	<u>\$ 54,127</u>	<u>\$ 182,654</u>

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CHILDREN'S TRUST FUND	ASSIGNED CLAIMS FACILITY AND PLAN FUND	MILITARY FAMILY RELIEF FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	TOTALS
\$ 1,056	\$ 36,057	\$ 1,233	\$ 1,673	\$ 66,482
-	-	-	-	2,982
-	-	-	-	3
2,013	-	-	-	2,013
290	6,424	-	491	215,762
<u>3,358</u>	<u>42,481</u>	<u>1,233</u>	<u>2,164</u>	<u>287,242</u>
21,199	-	-	-	21,199
-	-	-	1,304	1,304
<u>\$ 24,557</u>	<u>\$ 42,481</u>	<u>\$ 1,233</u>	<u>\$ 3,467</u>	<u>\$ 309,745</u>
\$ 4	\$ 34,436	\$ -	\$ 3	\$ 34,696
2,013	-	-	-	2,013
71	7,063	-	-	28,925
5	-	-	-	2,452
750	982	-	-	205,233
<u>2,843</u>	<u>42,481</u>	<u>-</u>	<u>3</u>	<u>273,318</u>
-	-	-	366	366
<u>2,843</u>	<u>42,481</u>	<u>-</u>	<u>370</u>	<u>273,684</u>
20,458	-	-	-	20,458
-	-	-	937	937
<u>20,458</u>	<u>-</u>	<u>-</u>	<u>937</u>	<u>21,395</u>
1,257	-	1,233	2,160	14,665
<u>21,715</u>	<u>-</u>	<u>1,233</u>	<u>3,098</u>	<u>36,060</u>
<u>\$ 24,557</u>	<u>\$ 42,481</u>	<u>\$ 1,233</u>	<u>\$ 3,467</u>	<u>\$ 309,745</u>

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COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS - OTHER STATE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	SCHOOL BOND LOAN FUND	TOBACCO SETTLEMENT TRUST FUND	MICHIGAN MERIT AWARD TRUST FUND
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
From federal agencies	\$ -	\$ -	\$ -
Miscellaneous	<u>-</u>	<u>70,279</u>	<u>212,198</u>
Total Revenues	<u>-</u>	<u>70,279</u>	<u>212,198</u>
EXPENDITURES			
Current:			
General government	30,330	368	2,213
Education	-	-	90,071
Human services	-	-	-
Public safety and corrections	-	-	-
Labor, commerce, and regulatory	-	10,175	-
Health services	<u>-</u>	<u>63,662</u>	<u>105,575</u>
Total Expenditures	<u>30,330</u>	<u>74,205</u>	<u>197,859</u>
Excess of Revenues over (under) Expenditures	<u>(30,330)</u>	<u>(3,926)</u>	<u>14,340</u>
OTHER FINANCING SOURCES (USES)			
Bonds and notes issued	110,929	-	-
Transfers to other funds	<u>(80,568)</u>	<u>(1,750)</u>	<u>(9,218)</u>
Total Other Financing Sources (Uses)	<u>30,361</u>	<u>(1,750)</u>	<u>(9,218)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	31	(5,676)	5,121
Fund Balances - Beginning of fiscal year - restated	<u>484</u>	<u>5,676</u>	<u>4,379</u>
Fund Balances - End of fiscal year	<u>\$ 515</u>	<u>\$ -</u>	<u>\$ 9,501</u>

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<u>CHILDREN'S TRUST FUND</u>	<u>ASSIGNED CLAIMS FACILITY AND PLAN FUND</u>	<u>MILITARY FAMILY RELIEF FUND</u>	<u>MISCELLANEOUS SPECIAL REVENUE FUNDS</u>	<u>TOTALS</u>
\$ 980	\$ -	\$ -	\$ -	\$ 980
<u>1,433</u>	<u>106,973</u>	<u>1,245</u>	<u>394</u>	<u>392,523</u>
<u>2,413</u>	<u>106,973</u>	<u>1,245</u>	<u>394</u>	<u>393,503</u>
-	106,191	-	8	139,110
-	-	-	-	90,071
2,476	-	-	4	2,479
-	-	12	-	12
-	-	-	-	10,175
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>169,237</u>
<u>2,476</u>	<u>106,191</u>	<u>12</u>	<u>12</u>	<u>411,084</u>
<u>(62)</u>	<u>782</u>	<u>1,233</u>	<u>383</u>	<u>(17,581)</u>
-	-	-	-	110,929
<u>(6)</u>	<u>(782)</u>	<u>-</u>	<u>-</u>	<u>(92,324)</u>
<u>(6)</u>	<u>(782)</u>	<u>-</u>	<u>-</u>	<u>18,605</u>
(68)	-	1,233	383	1,023
<u>21,782</u>	<u>-</u>	<u>-</u>	<u>2,715</u>	<u>35,037</u>
<u>\$ 21,715</u>	<u>\$ -</u>	<u>\$ 1,233</u>	<u>\$ 3,098</u>	<u>\$ 36,060</u>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

Statutory/Budgetary Basis	TOBACCO SETTLEMENT TRUST FUND			MICHIGAN MERIT AWARD TRUST FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
From federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	70,279	70,279	-	212,198	212,198	-
Total Revenues and Other Sources	70,279	70,279	-	212,198	212,198	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Attorney General	368	368	-	-	-	-
Colleges and Universities Grants	-	-	-	85,150	80,287	4,863
Community Health	64,225	63,662	563	105,575	105,575	-
Education	-	-	-	13,774	13,737	37
Human Services	-	-	-	-	-	-
Labor and Economic Growth	10,175	10,175	-	-	-	-
Military and Veterans Affairs	-	-	-	-	-	-
Treasury	1,750	1,750	-	8,609	7,478	1,131
Total Expenditures, Transfers Out, and Encumbrances	76,518	75,955	563	213,108	207,077	6,031
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (6,239)</u>	<u>(5,676)</u>	<u>\$ 563</u>	<u>\$ (909)</u>	<u>5,121</u>	<u>\$ 6,031</u>
Reconciling Items:						
Funds not annually budgeted		-			-	
Net Reconciling Items		-			-	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(5,676)</u>			<u>5,121</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances - restated		<u>5,676</u>			<u>4,379</u>	
Ending balances (GAAP Basis)		<u>\$ -</u>			<u>\$ 9,501</u>	

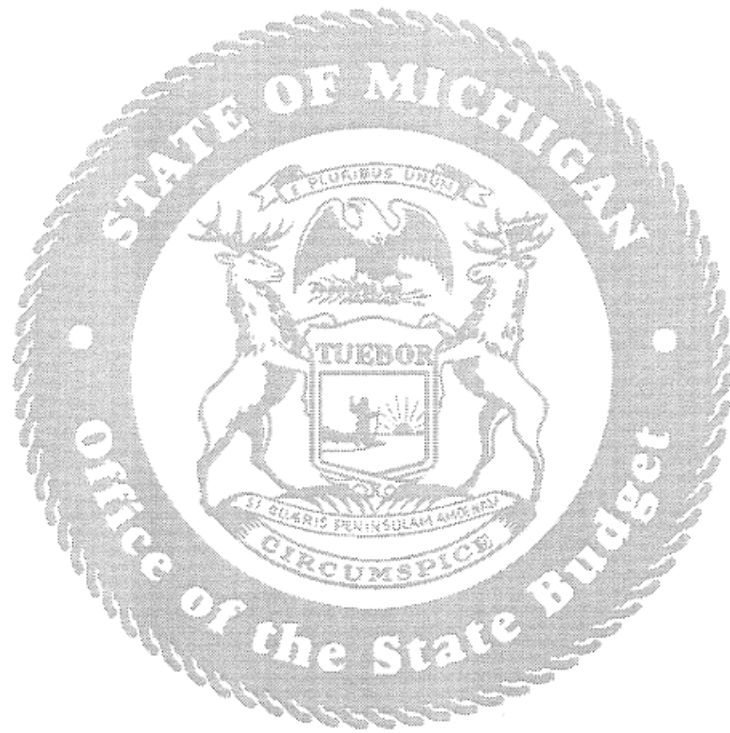
Michigan

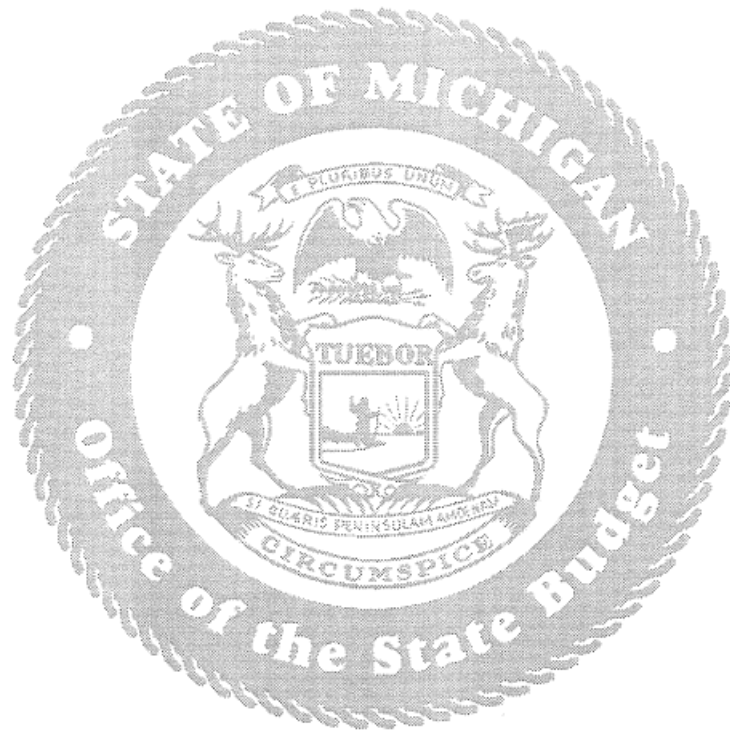
						FUNDS NOT ANNUALLY BUDGETED		
CHILDREN'S TRUST FUND			MILITARY FAMILY RELIEF FUND			SCHOOL BOND LOAN FUND	ASSIGNED CLAIMS FACILITY AND PLAN FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	ACTUAL	ACTUAL	ACTUAL
\$ 980	\$ 980	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,433	1,433	-	1,245	1,245	-	-	-	-
2,413	2,413	-	1,245	1,245	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
4,279	2,481	1,798	-	-	-	-	-	-
-	-	-	500	12	488	-	-	-
-	-	-	-	-	-	-	-	-
4,279	2,481	1,798	500	12	488	-	-	-
\$ (1,866)	(68)	\$ 1,798	\$ 745	1,233	\$ 488	-	-	-
-	-	-	-	-	-	31	-	383
-	-	-	-	-	-	31	-	383
(68)	-	-	-	1,233	-	31	-	383
21,782	-	-	-	-	-	484	-	2,715
\$ 21,715	\$ 21,715	-	\$ 1,233	\$ 1,233	-	\$ 515	\$ -	\$ 3,098

This schedule continued on next page.

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 2005
(In Thousands)

	TOTALS		
Statutory/Budgetary Basis	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES			
From federal agencies	\$ 980	\$ 980	\$ -
Miscellaneous	<u>285,155</u>	<u>285,155</u>	<u>-</u>
Total Revenues and Other Sources	<u>286,135</u>	<u>286,135</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Attorney General	368	368	-
Colleges and Universities Grants	85,150	80,287	4,863
Community Health	169,800	169,237	563
Education	13,774	13,737	37
Human Services	4,279	2,481	1,798
Labor and Economic Growth	10,175	10,175	-
Military and Veterans Affairs	500	12	488
Treasury	<u>10,359</u>	<u>9,228</u>	<u>1,131</u>
Total Expenditures, Transfers Out, and Encumbrances	<u>294,405</u>	<u>285,525</u>	<u>8,879</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (8,269)</u>	<u>610</u>	<u>\$ 8,879</u>
Reconciling Items:			
Funds not annually budgeted		<u>413</u>	
Net Reconciling Items		<u>413</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>1,023</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances - restated		<u>35,037</u>	
Ending balances (GAAP Basis)		<u>\$ 36,060</u>	





DEBT SERVICE FUNDS

COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND

This fund was established pursuant to P.A. 51 of 1951, as amended, to account for debt service on all State Trunkline Fund-related bond issues. The bonds are not general obligations of the State. The bonds are payable solely out of funds restricted for transportation purposes by Article 9, Section 9, of the Michigan State Constitution and irrevocably pledged by law for deposit in the State Trunkline Fund. Debt service requirements are funded by annual appropriations in the State Trunkline Fund.

COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND

This fund was established pursuant to P.A. 51 of 1951, as amended, to account for debt service on all Comprehensive Transportation Fund-related bond issues. The bonds are not general obligations of the State. The bonds are payable solely out of funds restricted for comprehensive transportation purposes by Article 9, Section 9, of the Michigan State Constitution and irrevocably pledged by law for deposit in the Comprehensive Transportation Fund. Debt service requirements are funded by annual appropriations in the Comprehensive Transportation Fund.

RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND

Public Acts 326 and 327 of 1988 established this fund to service bond issues of the Recreation Bond Fund-Local Projects, Recreation Bond Fund-State Projects, and the Environmental Protection Bond Fund. Also pursuant to P.A. 284 of 1998 and Part 196 of P.A. 451 of 1994, the fund services bond issues of the Clean Michigan Initiative Bond Fund-Local Projects, Clean Michigan Initiative Bond Fund-State Projects, and Clean Michigan Initiative Bond Fund-Environmental Projects. This fund also reflects debt service transactions related to State Park Improvement Fund revenue bonds, issued pursuant to Part 741 of P.A. 451 of 1994, as amended.

Financing of debt retirement, interest expense, and paying agent fees is provided by annual legislative appropriation from the General Fund, transfers from the State Park Improvement Fund representing state park revenues pledged for the payment of State Park Gross Revenue Bonds, and transfers from other funds as required by legislative appropriation or executive order.

Reserved fund balance of \$300 thousand on the Balance Sheet represents a reserve account required by the State Park Gross Revenue Bonds document for additional security to pay bond principal and interest.

SCHOOL LOAN BOND REDEMPTION FUND

Public Act 74 of 1955 and P.A. 112 of 1961 created this fund to account for debt service on general obligation bonds issued to finance loans to local school districts. The School Bond Loan Fund, a special revenue fund, receives the State bond proceeds and makes the loans. Financing of debt retirement, interest expense, and paying agent fees is provided by annual legislative appropriation from the General Fund.

STATE BUILDING AUTHORITY

The State Building Authority was created pursuant to P.A. 183 of 1964, as amended, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education. Public Act 248 of 1988 also permits Authority bonding of state equipment.

The Authority's projects are financed by revenue bonds, the proceeds of which can only be used for construction and debt service on projects related to particular bond issues. During construction, debt service requirements are financed by a portion of the bond proceeds that are dedicated for that purpose. For completed projects, the resources to finance bond interest and redemption are provided by transfers from the General Fund and from investment earnings of this fund. When a project is completed, the remaining net assets are transferred to this fund where they are invested and used for debt service. Excess balances related to a particular bond series remaining in the fund after the final payment on the bond series are transferred to the General Fund.

MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FINANCE AUTHORITY

The Michigan Underground Storage Tank Financial Assurance Finance Authority was established in 1993 and operated under Part 215 of P.A. 451 of 1994, as amended, to provide financing for the activities of the Michigan Underground Storage Tank Financial Assurance Fund. Pursuant to P. A. 390, 2004, the fund financed the defeasement of principal and interest due on bonds issued by the authority, and all remaining money in the fund transferred to the Refined Petroleum Fund (a subfund of the General Fund) created in MCL 324.21506a. The remaining balance represents funds that may be needed to pay residual costs related to the defeasement.

COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
 SEPTEMBER 30, 2005
 (In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
ASSETS			
Current Assets:			
Equity in common cash	\$ 455	\$ -	\$ 1,169
Amounts due from other funds	-	-	-
Investments	-	-	-
Other current assets	-	-	-
Total Current Assets	<u>455</u>	<u>-</u>	<u>1,169</u>
Investments	-	-	-
Total Assets	<u>\$ 455</u>	<u>\$ -</u>	<u>\$ 1,169</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Warrants outstanding	\$ 267	\$ -	\$ 1
Accounts payable and other liabilities	<u>188</u>	<u>-</u>	<u>21</u>
Total Current Liabilities	<u>455</u>	<u>-</u>	<u>21</u>
Total Liabilities	<u>455</u>	<u>-</u>	<u>21</u>
Fund Balances:			
Reserved for other purposes	-	-	300
Unreserved	-	-	<u>848</u>
Total Fund Balances	<u>-</u>	<u>-</u>	<u>1,148</u>
Total Liabilities and Fund Balances	<u>\$ 455</u>	<u>\$ -</u>	<u>\$ 1,169</u>

Michigan

SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FINANCE AUTHORITY	TOTALS
\$ -	\$ -	\$ -	\$ 1,625
-	6	-	6
-	187,217	91	187,308
-	467	-	467
-	187,691	91	189,406
-	6,000	-	6,000
\$ -	\$ 193,691	\$ 91	\$ 195,406
\$ -	\$ -	\$ -	\$ 268
-	43	-	252
-	43	-	520
-	43	-	520
-	-	-	300
-	193,648	91	194,586
-	193,648	91	194,886
\$ -	\$ 193,691	\$ 91	\$ 195,406

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

DEBT SERVICE FUNDS

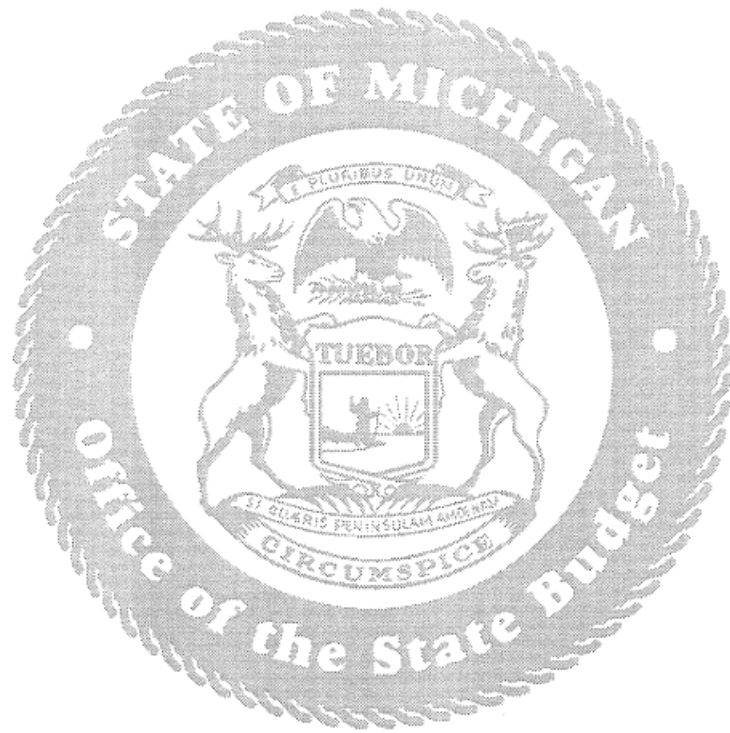
FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
REVENUES			
Miscellaneous	\$ 1	\$ -	\$ 19
Total Revenues	1	-	19
EXPENDITURES			
Current:			
General government	-	-	975
Education	-	-	-
Transportation	3,621	580	-
Debt Service:			
Bond principal retirement	53,026	15,565	36,650
Bond interest and fiscal charges	63,599	13,376	45,865
Total Expenditures	120,247	29,520	83,490
Excess of Revenues over (under) Expenditures	(120,246)	(29,520)	(83,471)
OTHER FINANCING SOURCES (USES)			
Premium on bond issuance	50,815	7,815	11,349
Refunding bonds issued	601,270	62,180	125,750
Payment to refunded bond escrow agent	(648,464)	(69,415)	(136,124)
Transfers from other funds	116,626	28,941	82,534
Transfers to other funds	-	-	-
Total Other Financing Sources (Uses)	120,246	29,520	83,509
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	38
Fund Balances - Beginning of fiscal year	-	-	1,110
Fund Balances - End of fiscal year	\$ -	\$ -	\$ 1,148

Michigan

SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FINANCE AUTHORITY	TOTALS
\$ -	\$ 3,291	\$ 1,204	\$ 4,514
-	3,291	1,204	4,514
2,288	-	120	3,383
-	3,215	-	3,215
-	-	-	4,201
24,755	119,934	104,780	354,711
16,336	128,675	8,366	276,216
43,379	251,825	113,266	641,726
(43,379)	(248,534)	(112,061)	(637,212)
-	21,302	-	91,280
445,944	293,395	-	1,528,539
(443,657)	(312,227)	-	(1,609,886)
41,091	246,910	-	516,101
-	(706)	(59,372)	(60,078)
43,379	248,674	(59,372)	465,956
-	140	(171,433)	(171,255)
-	193,507	171,524	366,141
\$ -	\$ 193,648	\$ 91	\$ 194,886



CAPITAL PROJECTS FUNDS

COMBINED RECREATION BOND FUND - STATE PROJECTS

Established in 1988, this fund currently operates under Parts 196, 715, and 741 of P.A. 451 of 1994, as amended. The balances in the fund reflect proceeds and investment earnings remaining from two bond packages: \$70 million of general obligation bonds approved by voters in November 1988 as part of a \$140 million bond package for financing State and local public recreation projects and \$50 million of general obligation bonds approved by voters in November 1998 as part of a \$675 million bond package known as the "Clean Michigan Initiative."

Proceeds from the 1988 bond package were used to construct, expand, and develop recreational facilities at State parks. Proceeds from the 1998 bond package were used for infrastructure improvements at State parks with the installation or upgrade of drinking water systems or restroom facilities as a first priority.

ADVANCE FINANCING FUNDS

The Advance Financing Funds reflects the activities of two sub-funds: the State Building Authority Advance Financing Fund and the Site Preparation Economic Development Fund.

The State Building Authority Advance Financing Fund was administratively established to account for expenditures incurred for equipment, higher education, and State projects prior to the issuance of State Building Authority bonds. Appropriation acts and concurrent resolutions provide temporary financing of such expenditures for legislatively authorized projects. Expenditures on behalf of the State Building Authority are recorded when incurred. At year-end, any deficit in the common cash pool is reclassified as a payable to the General Fund. In addition to advance expenditures, expenditures financed by the General Fund or other sources related to State Building Authority projects are recorded in this fund.

The State Building Authority, in its separately issued statements, does not recognize liabilities for these projects until bonds or commercial paper are issued; therefore, no receivable from the Authority is recognized in this fund prior to bond or commercial paper issuance. This results in the fund showing a year-end fund balance deficit. The Authority will reimburse this fund by recording a transfer and the deficit attributable to the bonded projects will be eliminated when the Authority issues bonds or obtains commercial paper.

The Site Preparation Economic Development Fund was created by P.A. 265 of 1999 to account for expenditures incurred to prepare and sell State owned sites declared as surplus that would provide economic benefit to the area or State. Expenditures are recorded when incurred. Sale proceeds of fund properties are deposited into the fund.

STATE BUILDING AUTHORITY

The State Building Authority was created pursuant to P.A. 183 of 1964, as amended, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education. Public Act 248 of 1988 also permits Authority bonding of State equipment. The Authority's five board members are appointed by the Governor.

This capital projects fund accounts for the construction of State projects, certain equipment financing, and higher education related projects. Transfers out reflect transfers to the debt service fund of proceeds dedicated for debt service during construction, reimbursements of expenditures to the State Building Authority Advance Financing Fund, and the transfer of net assets remaining after the completion of a project to the debt service fund. In the State's Government-wide Financial Statements, accumulated expenditures for incomplete projects are reflected as "construction in progress" and completed projects are recorded as "buildings."

**COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS**

SEPTEMBER 30, 2005

(In Thousands)

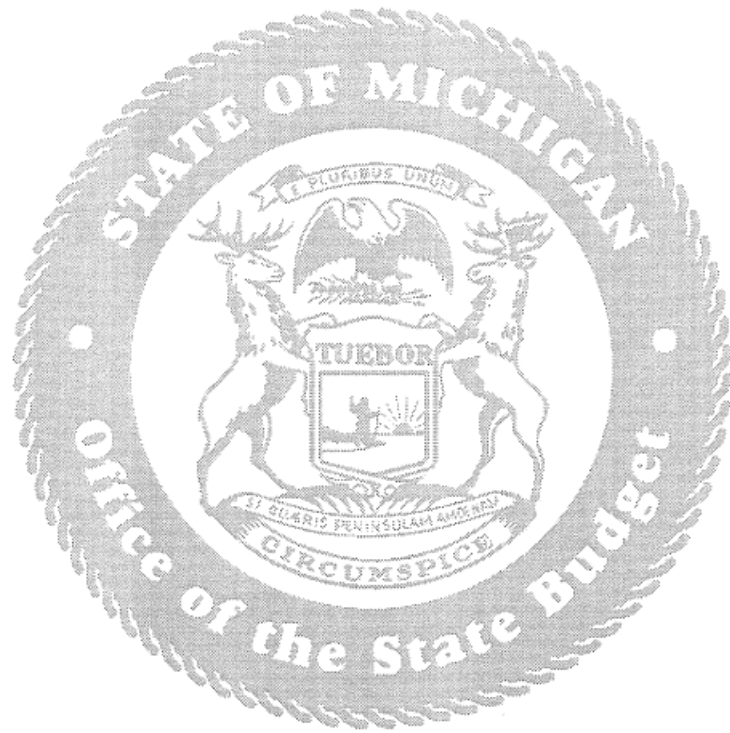
	COMBINED RECREATION BOND FUND- STATE PROJECTS	ADVANCE FINANCING FUNDS	STATE BUILDING AUTHORITY	TOTALS
ASSETS				
Current Assets:				
Equity in common cash	\$ 1,996	\$ -	\$ -	\$ 1,996
Amounts due from other funds	-	15,624	-	15,624
Amounts due from component units	-	1,779	-	1,779
Amounts due from local units	-	1,356	-	1,356
Investments	-	-	23,317	23,317
Other current assets	-	1,907	69	1,975
Total Current Assets	<u>1,996</u>	<u>20,665</u>	<u>23,386</u>	<u>46,047</u>
Total Assets	<u>\$ 1,996</u>	<u>\$ 20,665</u>	<u>\$ 23,386</u>	<u>\$ 46,047</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ 647	\$ -	\$ 647
Accounts payable and other liabilities	53	27,000	203	27,256
Amounts due to other funds	-	17,103	15,624	32,727
Bonds and notes payable	-	-	334,177	334,177
Interest payable	-	-	883	883
Total Current Liabilities	<u>53</u>	<u>44,750</u>	<u>350,887</u>	<u>395,690</u>
Total Liabilities	<u>53</u>	<u>44,750</u>	<u>350,887</u>	<u>395,690</u>
Fund Balances:				
Unreserved	<u>1,943</u>	<u>(24,085)</u>	<u>(327,501)</u>	<u>(349,643)</u>
Total Fund Balances	<u>1,943</u>	<u>(24,085)</u>	<u>(327,501)</u>	<u>(349,643)</u>
Total Liabilities and Fund Balances	<u>\$ 1,996</u>	<u>\$ 20,665</u>	<u>\$ 23,386</u>	<u>\$ 46,047</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**CAPITAL PROJECTS FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	COMBINED RECREATION BOND FUND- STATE PROJECTS	ADVANCE FINANCING FUNDS	STATE BUILDING AUTHORITY	TOTALS
REVENUES				
Miscellaneous	\$ 65	\$ 261	\$ 5,217	\$ 5,543
Total Revenues	65	261	5,217	5,543
EXPENDITURES				
Current:				
General government	-	486	-	486
Education	-	10,029	54,918	64,947
Capital outlay	991	2,637	16,694	20,321
Total Expenditures	991	13,152	71,612	85,754
Excess of Revenues over (under) Expenditures	(925)	(12,891)	(66,395)	(80,211)
OTHER FINANCING SOURCES (USES)				
Bonds and notes issued	-	-	189,300	189,300
Proceeds from sale of capital assets	-	58	-	58
Transfers from other funds	-	7,858	706	8,564
Transfers to other funds	(1)	(738)	(15,554)	(16,293)
Total Other Financing Sources (Uses)	(1)	7,178	174,452	181,628
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(926)	(5,713)	108,057	101,417
Fund Balances - Beginning of fiscal year	2,869	(18,371)	(435,558)	(451,060)
Fund Balances - End of fiscal year	\$ 1,943	\$ (24,085)	\$ (327,501)	\$ (349,643)



PERMANENT FUNDS

MICHIGAN NATURAL RESOURCES TRUST FUND

The State Constitution was amended in 1984 to provide for the Michigan Natural Resources Trust Fund. The fund, established in 1985, operates under Part 19 of P.A. 451 of 1994, as amended. Most rentals, royalties, and other revenues derived from mineral, coal, oil, and gas interests on State-owned land are credited to the fund. Public Act 451 of 1994 directs a portion (50%, up to \$10 million per year) of these revenues to the Michigan State Parks Endowment Fund. The voters approved a constitutional amendment in August 2002, which increased the amount that can be accumulated to \$500 million, modified the distribution formula, and allows the State Treasurer to invest in equity securities and other types of investments.

In accordance with statutory provisions, this fund is to accumulate up to \$500 million in reserves for permanent investments. The amount accumulated toward this cap is shown as a reservation of fund balance. Investment earnings and one-third of royalty earnings are available for appropriation. Two-thirds of royalty earnings, less the portion transferred to the Michigan State Parks Endowment Fund, are added to amounts held for permanent investments until the investment reserve reaches \$500 million. After that time, all royalties, less the portion transferred to the Michigan State Parks Endowment Fund, are restricted for investment and only interest is available for appropriation. Appropriations are used to fund grants to local units of government as well as State agencies to acquire land or develop public recreation facilities and to pay property taxes on State lands acquired by the fund.

MICHIGAN STATE PARKS ENDOWMENT FUND

Established in 1994, this fund operates under Part 741 of P.A. 451 of 1994, as amended, to finance operations, maintenance, and capital improvements at Michigan State parks. The voters approved a constitutional amendment in August 2002 that changed the distribution formula and allows the State Treasurer to invest in equity securities and other types of investments.

The fund was established with a \$40 million transfer from the sale of the Accident Fund of Michigan to provide funds for permanent investment. By statute, up to \$10 million per year of revenues from oil and gas bonuses, rentals, and royalties from State-owned land are deposited into this fund until the Michigan Natural Resources Trust Fund reaches an accumulated principal of \$500 million after which time all revenue previously going to that fund will go to this fund. The fund's investment reserve will be capped at \$800 million. The legislature is limited to appropriating no more than 50% of the amount transferred from the Michigan Natural Resources Trust Fund plus interest and investment earnings. When the fund's reserve reaches \$800 million, only the interest and earnings in excess of the amount needed to maintain the \$800 million principal limit may be expended.

MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND

Public Act 394 of 1994, as amended, established this fund for the purpose of conserving, improving, and developing the State's natural resources, and for enhancing, preserving, and maintaining public lands and waters through the employment of residents of this State in work training programs.

Twenty million dollars earmarked from the sale of the Accident Fund of Michigan provided the fund's permanent investment reserve. Only the interest and earnings of the fund can be expended.

MICHIGAN VETERANS' TRUST FUND

Public Act 9 of 1946 (First Extra Session) created this fund to finance programs to assist veterans and their beneficiaries. A seven-member board of trustees governs the fund. Resources are provided by investment and common cash earnings. Expenditures and transfers out reflect grants to veterans and their widows or dependents, and administrative costs at both the State and local level. The fund is administered within the Department of Military and Veterans Affairs.

Michigan

COMBINING BALANCE SHEET

PERMANENT FUNDS

SEPTEMBER 30, 2005

(In Thousands)

	MICHIGAN NATURAL RESOURCES TRUST FUND	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND	MICHIGAN VETERANS' TRUST FUND	TOTALS
ASSETS					
Current Assets:					
Cash	\$ -	\$ 1	\$ -	\$ -	\$ 1
Equity in common cash	121,461	18,654	619	2,346	143,080
Amounts due from local units	-	-	-	52	52
Securities lending collateral	4,262	2,213	3,615	8,866	18,955
Other current assets	12,299	1,057	194	465	14,014
Total Current Assets	<u>138,022</u>	<u>21,924</u>	<u>4,428</u>	<u>11,728</u>	<u>176,101</u>
Investments	<u>249,696</u>	<u>111,438</u>	<u>19,185</u>	<u>44,623</u>	<u>424,942</u>
Total Assets	<u>\$ 387,718</u>	<u>\$ 133,362</u>	<u>\$ 23,613</u>	<u>\$ 56,351</u>	<u>\$ 601,043</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 180	\$ 66	\$ 3	\$ 1	\$ 250
Obligations under security lending	4,262	2,213	3,615	8,866	18,955
Accounts payable and other liabilities	2,379	924	57	436	3,796
Amounts due to other funds	14	41	2	7	64
Amounts due to component units	-	-	-	106	106
Deferred revenue	3,384	-	-	-	3,384
Total Current Liabilities	<u>10,219</u>	<u>3,244</u>	<u>3,677</u>	<u>9,415</u>	<u>26,555</u>
Total Liabilities	<u>10,219</u>	<u>3,244</u>	<u>3,677</u>	<u>9,415</u>	<u>26,555</u>
Fund Balances:					
Reserves For:					
Budgetary Carry-Forwards:					
Encumbrances	21,548	1,710	-	-	23,258
Multi-year projects	32,786	193	-	-	32,979
Funds held as permanent investments	289,044	117,362	19,586	49,000	474,993
Total Reserved	<u>343,377</u>	<u>119,266</u>	<u>19,586</u>	<u>49,000</u>	<u>531,229</u>
Unreserved	<u>34,122</u>	<u>10,852</u>	<u>349</u>	<u>(2,064)</u>	<u>43,259</u>
Total Fund Balances	<u>377,499</u>	<u>130,118</u>	<u>19,936</u>	<u>46,936</u>	<u>574,489</u>
Total Liabilities and Fund Balances	<u>\$ 387,718</u>	<u>\$ 133,362</u>	<u>\$ 23,613</u>	<u>\$ 56,351</u>	<u>\$ 601,043</u>

Michigan

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
PERMANENT FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	MICHIGAN NATURAL RESOURCES TRUST FUND	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND	MICHIGAN VETERANS' TRUST FUND	TOTALS
REVENUES					
Miscellaneous	\$ 83,430	\$ 6,883	\$ 693	\$ 2,315	\$ 93,321
Total Revenues	<u>83,430</u>	<u>6,883</u>	<u>693</u>	<u>2,315</u>	<u>93,321</u>
EXPENDITURES					
Current:					
General government	201	80	56	173	510
Public safety and corrections	-	-	-	2,778	2,778
Conservation, environment, recreation, and agriculture	2,536	12,498	974	-	16,009
Capital outlay	<u>21,216</u>	<u>3,175</u>	<u>-</u>	<u>-</u>	<u>24,391</u>
Total Expenditures	<u>23,954</u>	<u>15,752</u>	<u>1,030</u>	<u>2,952</u>	<u>43,688</u>
Excess of Revenues over (under) Expenditures	<u>59,476</u>	<u>(8,869)</u>	<u>(337)</u>	<u>(637)</u>	<u>49,633</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	245	-	-	-	245
Transfers from other funds	-	10,000	-	-	10,000
Transfers to other funds	<u>(10,049)</u>	<u>(71)</u>	<u>(4)</u>	<u>(34)</u>	<u>(10,159)</u>
Total Other Financing Sources (Uses)	<u>(9,804)</u>	<u>9,929</u>	<u>(4)</u>	<u>(34)</u>	<u>86</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	49,672	1,059	(341)	(671)	49,718
Fund Balances - Beginning of fiscal year - restated	<u>327,827</u>	<u>129,058</u>	<u>20,277</u>	<u>47,608</u>	<u>524,770</u>
Fund Balances - End of fiscal year	<u><u>\$ 377,499</u></u>	<u><u>\$ 130,118</u></u>	<u><u>\$ 19,936</u></u>	<u><u>\$ 46,936</u></u>	<u><u>\$ 574,489</u></u>

Michigan

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
PERMANENT FUNDS**

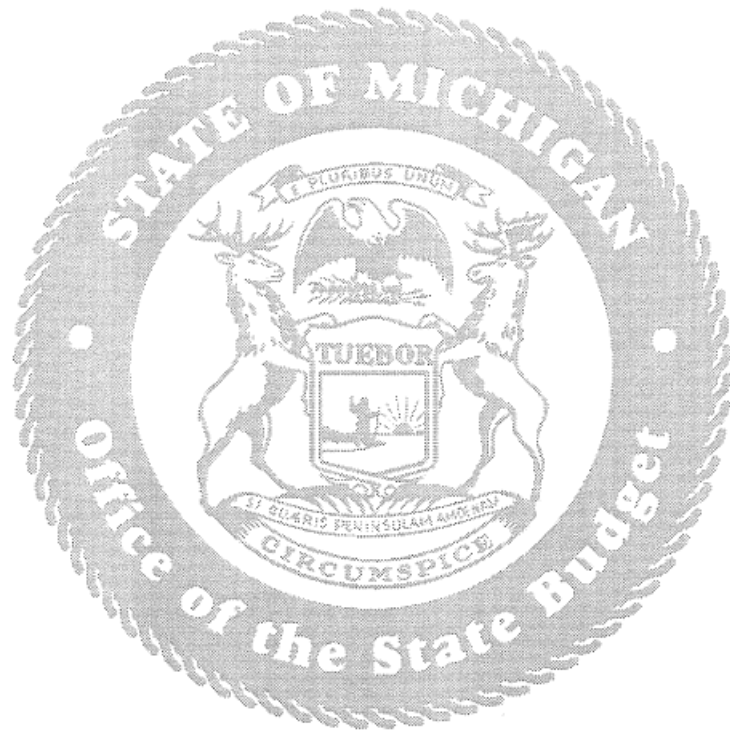
FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>MICHIGAN NATURAL RESOURCES TRUST FUND</u>			<u>MICHIGAN STATE PARKS ENDOWMENT FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES						
Miscellaneous	\$ 83,430	\$ 83,430	\$ -	\$ 6,883	\$ 6,883	\$ -
Proceeds from sale of capital assets	245	245	-	-	-	-
Transfers in	-	-	-	10,000	10,000	-
	<u>83,674</u>	<u>83,674</u>	<u>-</u>	<u>16,883</u>	<u>16,883</u>	<u>-</u>
Total Revenues and Other Sources						
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Military and Veterans Affairs	-	-	-	-	-	-
Natural Resources	58,498	55,349	3,149	17,632	17,454	177
Treasury	201	201	-	80	80	-
	<u>58,699</u>	<u>55,550</u>	<u>3,149</u>	<u>17,711</u>	<u>17,534</u>	<u>177</u>
Total Expenditures, Transfers Out, and Encumbrances						
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 24,975</u>	<u>28,124</u>	<u>\$ 3,149</u>	<u>\$ (828)</u>	<u>(651)</u>	<u>\$ 177</u>
Reconciling Items:						
Encumbrances at September 30		<u>21,548</u>			<u>1,710</u>	
Net Reconciling Items		<u>21,548</u>			<u>1,710</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>49,672</u>			<u>1,059</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances - restated		<u>327,827</u>			<u>129,058</u>	
Ending balances (GAAP Basis)		<u>\$ 377,499</u>			<u>\$ 130,118</u>	

Michigan

MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND			MICHIGAN VETERANS' TRUST FUND			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ 693	\$ 693	\$ -	\$ 2,315	\$ 2,315	\$ -	\$ 93,321	\$ 93,321	\$ -
-	-	-	-	-	-	245	245	-
-	-	-	-	-	-	10,000	10,000	-
<u>693</u>	<u>693</u>	<u>-</u>	<u>2,315</u>	<u>2,315</u>	<u>-</u>	<u>103,566</u>	<u>\$ 103,566</u>	<u>\$ -</u>
-	-	-	4,829	2,813	2,017	4,829	2,813	2,017
1,099	978	120	-	-	-	77,228	73,782	3,446
<u>56</u>	<u>56</u>	<u>-</u>	<u>173</u>	<u>173</u>	<u>-</u>	<u>510</u>	<u>510</u>	<u>-</u>
<u>1,155</u>	<u>1,034</u>	<u>120</u>	<u>5,003</u>	<u>2,986</u>	<u>2,017</u>	<u>82,568</u>	<u>77,105</u>	<u>5,463</u>
<u>\$ (461)</u>	<u>(341)</u>	<u>\$ 120</u>	<u>\$ (2,688)</u>	<u>(671)</u>	<u>\$ 2,017</u>	<u>\$ 20,998</u>	<u>26,461</u>	<u>\$ (5,463)</u>
	-			-			23,258	
	-			-			23,258	
	<u>(341)</u>			<u>(671)</u>			<u>49,718</u>	
	<u>20,277</u>			<u>47,608</u>			<u>524,770</u>	
	<u>\$ 19,936</u>			<u>\$ 46,936</u>			<u>\$ 574,489</u>	



ENTERPRISE FUNDS

LIQUOR PURCHASE REVOLVING FUND

Public Act 8 of 1933 and later superseded by P.A. 58 of 1998 authorized the Liquor Control Commission, within the Department of Labor and Economic Growth, to maintain a revolving fund that is to be derived from the money deposited to the credit of the commission with the State Treasurer. Under State monopoly, liquor is sold at wholesale through a State controlled, privately operated distribution system. The fund accounts for the sales of and the replenishing and transporting of the liquor stock. Administrative, warehousing, and delivery costs are paid for through the fund. At the end of each fiscal year, the "net income" of the fund is transferred to the General Fund in accordance with P.A. 431 of 1984.

ATTORNEY DISCIPLINE SYSTEM

The Attorney Discipline System consists of the Attorney Grievance Commission and the Attorney Discipline Board. This system provides the courts, legal profession, and the general public with a means to ensure that complaints against attorneys for potential violations of the Court Rules and the Michigan Rules of Professional Conduct are properly heard and investigated, and that sanctions are imposed where required. The Attorney Discipline System is under the supervision of the Michigan Supreme Court.

The Attorney Discipline System receives revenue in the form of mandatory annual assessments on members of the State Bar of Michigan, provided for by Court Rules. This system also receives other revenue, primarily through the assessment of administrative fees and the recovery of costs, including subpoena fees and transcript costs.

COMBINING STATEMENT OF NET ASSETS**ENTERPRISE FUNDS**

SEPTEMBER 30, 2005

(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	ATTORNEY DISCIPLINE SYSTEM	TOTALS
ASSETS			
Current Assets:			
Cash	\$ 1	\$ 1,062	\$ 1,063
Equity in common cash	57,477	-	57,477
Inventories	3,214	-	3,214
Investments	-	1,869	1,869
Other current assets	7,287	101	7,387
Total Current Assets	<u>67,978</u>	<u>3,032</u>	<u>71,010</u>
Capital Assets:			
Buildings and equipment	-	722	722
Allowance for depreciation	-	(684)	(684)
Total capital assets	<u>-</u>	<u>38</u>	<u>38</u>
Total Assets	<u>\$ 67,978</u>	<u>\$ 3,070</u>	<u>\$ 71,048</u>
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ 653	\$ -	\$ 653
Accounts payable and other liabilities	61,337	188	61,525
Amounts due to other funds	113	-	113
Deferred revenue	-	285	285
Current portion of other long-term obligations	172	-	172
Total Current Liabilities	<u>62,275</u>	<u>473</u>	<u>62,748</u>
Long-Term Liabilities:			
Noncurrent portion of other long-term obligations	828	-	828
Total Liabilities	<u>63,102</u>	<u>473</u>	<u>63,575</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ -	\$ 38	\$ 38
Unrestricted	4,876	2,559	7,434
Total Net Assets	<u>\$ 4,876</u>	<u>\$ 2,597</u>	<u>\$ 7,472</u>

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**ENTERPRISE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	ATTORNEY DISCIPLINE SYSTEM	TOTALS
OPERATING REVENUES			
Operating revenues	\$ 688,927	\$ 4,588	\$ 693,516
Total Operating Revenues	<u>688,927</u>	<u>4,588</u>	<u>693,516</u>
OPERATING EXPENSES			
Salaries, wages, and other administrative	52,791	3,841	56,632
Depreciation	-	15	15
Purchases for resale	503,364	-	503,364
Premiums and claims	134	-	134
Other operating expenses	1,087	-	1,087
Total Operating Expenses	<u>557,377</u>	<u>3,856</u>	<u>561,233</u>
Operating Income (Loss)	<u>131,551</u>	<u>732</u>	<u>132,283</u>
NONOPERATING REVENUES (EXPENSES)			
Specific tax on spirits	12,194	-	12,194
Interest revenue	2,520	99	2,618
Investment revenue (expense) - net	-	165	165
Other nonoperating revenues	51	-	51
Total Nonoperating Revenues (Expenses)	<u>14,765</u>	<u>264</u>	<u>15,029</u>
Income (Loss) Before Capital Contributions and Transfers	<u>146,315</u>	<u>996</u>	<u>147,312</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Transfers to other funds	<u>(146,315)</u>	<u>-</u>	<u>(146,315)</u>
Total Capital Contributions and Transfers In (Out)	<u>(146,315)</u>	<u>-</u>	<u>(146,315)</u>
Change in net assets	<u>-</u>	<u>996</u>	<u>996</u>
Total net assets - Beginning of fiscal year	<u>4,876</u>	<u>1,600</u>	<u>6,476</u>
Total net assets - End of fiscal year	<u>\$ 4,876</u>	<u>\$ 2,597</u>	<u>\$ 7,472</u>

**COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	ATTORNEY DISCIPLINE SYSTEM	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 688,927	\$ -	\$ 688,927
Membership dues	-	4,050	4,050
Payments to employees	(11,841)	(2,917)	(14,758)
Payments to suppliers	(541,284)	(587)	(541,871)
Other receipts	406	128	534
Other payments	(1,221)	(363)	(1,584)
Net cash provided (used) by operating activities	<u>\$ 134,988</u>	<u>\$ 311</u>	<u>\$ 135,299</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Other nonoperating revenues	\$ 51	\$ -	\$ 51
Specific tax on spirits	12,194	-	12,194
Transfers to other funds	(146,315)	-	(146,315)
Net cash provided (used) by noncapital financing activities	<u>\$ (134,071)</u>	<u>\$ -</u>	<u>\$ (134,071)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds (purchases) from sale and maturities of investment securities	\$ -	\$ (540)	\$ (540)
Interest and dividends on investments	2,520	99	2,618
Net cash provided (used) by investing activities	<u>\$ 2,520</u>	<u>\$ (441)</u>	<u>\$ 2,078</u>
Net cash provided (used) - all activities	\$ 3,437	\$ (131)	\$ 3,307
Cash and cash equivalents at beginning of year	53,387	1,193	54,580
Cash and cash equivalents at end of year	<u><u>\$ 56,825</u></u>	<u><u>\$ 1,062</u></u>	<u><u>\$ 57,887</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Per Statement of Net Assets Classifications:			
Cash	\$ 1	\$ 1,062	\$ 1,063
Equity in common cash	57,477	-	57,477
Warrants outstanding	(653)	-	(653)
Cash and cash equivalents at end of year	<u><u>\$ 56,825</u></u>	<u><u>\$ 1,062</u></u>	<u><u>\$ 57,887</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 131,551	\$ 732	\$ 132,283
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	-	15	15
Net Changes in Assets and Liabilities:			
Inventories	287	-	287
Other assets (net)	83	(43)	40
Accounts payable and other liabilities	3,067	16	3,084
Deferred revenue	-	(410)	(410)
Net cash provided (used) by operating activities	<u><u>\$ 134,988</u></u>	<u><u>\$ 311</u></u>	<u><u>\$ 135,299</u></u>

INTERNAL SERVICE FUNDS

CORRECTIONAL INDUSTRIES REVOLVING FUND

Created by P.A. 210 of 1935 and continued by P.A. 15 of 1968, this fund accounts for the financial transactions of a manufacturing and processing industry, employing inmates incarcerated in Michigan's correctional institutions. Public Act 245 of 1980 expanded the fund's sales market to include institutions of this or any other state or political subdivision thereof, the federal government or its agencies, and certain tax-exempt organizations.

Public Act 205 of 1986 stipulates that the fund repay the General Fund for the cost of building and equipping prison factories included as part of new prison construction. The costs of buildings and equipment are to be repaid over 30 years and 10 years respectively. The repayment provisions, as stipulated in Executive Order 1992-13, resulted in no required payment in fiscal year 2004-2005.

MOTOR TRANSPORT FUND

This fund was created by P.A. 260 of 1947 and continued by P.A. 431 of 1984 to provide vehicle and travel services for State agencies. Activities include lease, purchase, replacement, and maintenance of automotive equipment. Vehicles are available to agencies on a permanently assigned basis or through the motor pool for short-term usage and are furnished to agencies at a rate sufficient to cover all costs of operation and maintenance. Agencies are billed on a monthly basis for services rendered.

OFFICE SERVICES REVOLVING FUND

Created by P.A. 262 of 1952, this fund provides services in the following areas: printing, reproduction, microfilm, mailing, distribution of federal and state surplus property, and materials management. The cost of the services or supplies is charged to user departments and agencies. Resultant revenue is credited to the revolving fund and is used for administration and operation of the program, including purchase of necessary equipment. During fiscal year 2001-2002, the use of the fund was expanded to account for the purchase of bulk gas used by State agencies.

INFORMATION TECHNOLOGY FUND

This fund was created by administrative decision to provide telecommunication and information technology services for State agencies. User agencies are billed for the cost of such services. During fiscal year 2001-2002, the use of this fund was expanded to account for all information technology activities of the executive branch as prescribed in Executive Order 2001-03.

RISK MANAGEMENT FUND

Administratively established, this fund accounts for certain centralized risk management functions performed by the Department of Management and Budget for other State agencies. Currently, the fund has assumed a degree of risk for the automotive liability. This activity and administrative functions are recorded as operating activity of the fund. An activity of the fund for which the fund assumes no risk is the centralized processing of workers' compensation payments for State agencies. Workers' compensation long-term claim liabilities are recorded in the Government-wide Financial Statements and the related current year workers' compensation expenditures are recorded in the applicable funds.

STATE SPONSORED GROUP INSURANCE FUND

This fund was administratively established to reflect the financial transactions of the State sponsored insurance plans that provide health, long-term disability, life, vision, and dental coverage for participating employees and retirees. The plans' funding methods range from those where the State is fully self-insured to those where an outside carrier assumes partial risk on a contracted basis. A note to the Government-wide Financial Statements entitled "Risk Management" provides additional information about this fund.

The amounts reflected as amounts due from other funds include reclassifications of other funds' negative balances in the common cash pool.

**COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS**

SEPTEMBER 30, 2005

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT FUND	OFFICE SERVICES REVOLVING FUND
ASSETS			
Current Assets:			
Cash	\$ -	\$ 58	\$ 157
Equity in common cash	238	-	211
Amounts due from other funds	-	-	-
Amounts due from component units	-	-	-
Inventories	10,822	382	3,387
Other current assets	515	7,937	3,377
Total Current Assets	<u>11,575</u>	<u>8,377</u>	<u>7,132</u>
Capital Assets:			
Buildings and equipment	49,664	11,112	23,315
Allowance for depreciation	<u>(23,136)</u>	<u>(9,859)</u>	<u>(16,125)</u>
Total capital assets	26,528	1,253	7,190
Total Assets	<u>\$ 38,103</u>	<u>\$ 9,630</u>	<u>\$ 14,322</u>
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ 294	\$ 39	\$ 537
Accounts payable and other liabilities	1,573	3,583	8,787
Amounts due to other funds	165	1,991	5,170
Deferred revenue	-	63	9
Current portion of other long-term obligations	128	27	1,256
Total Current Liabilities	<u>2,159</u>	<u>5,703</u>	<u>15,759</u>
Long-Term Liabilities:			
Advances from other funds	6,956	-	-
Noncurrent portion of other long-term obligations	<u>1,543</u>	<u>455</u>	<u>3,139</u>
Total Liabilities	<u>\$ 10,658</u>	<u>\$ 6,158</u>	<u>\$ 18,899</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 26,528	\$ 1,253	\$ 5,174
Restricted for other purposes	917	2,220	-
Unrestricted	<u>-</u>	<u>-</u>	<u>(9,751)</u>
Total Net Assets	<u>\$ 27,445</u>	<u>\$ 3,472</u>	<u>\$ (4,577)</u>

Michigan

INFORMATION TECHNOLOGY FUND	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS
\$ -	\$ -	\$ 3	\$ 219
28,385	7,984	189,463	226,281
-	-	16,956	16,956
-	-	82	82
175	-	-	14,765
86	1,500	11,083	24,498
<u>28,646</u>	<u>9,484</u>	<u>217,586</u>	<u>282,800</u>
384,336	4	303	468,733
(332,401)	(4)	(303)	(381,828)
51,935	-	-	86,905
<u>\$ 80,581</u>	<u>\$ 9,484</u>	<u>\$ 217,586</u>	<u>\$ 369,706</u>
\$ 738	\$ 8	\$ 5	\$ 1,621
32,496	907	17,157	64,503
1,476	7	-	8,809
7,317	-	260	7,649
9,077	3,004	77,957	91,449
<u>51,105</u>	<u>3,926</u>	<u>95,379</u>	<u>174,031</u>
-	-	-	6,956
29,707	2,975	89,315	127,134
<u>\$ 80,812</u>	<u>\$ 6,900</u>	<u>\$ 184,694</u>	<u>\$ 308,120</u>
\$ 37,422	\$ -	\$ -	\$ 70,376
-	-	-	3,137
(37,653)	2,584	32,892	(11,928)
<u>\$ (231)</u>	<u>\$ 2,584</u>	<u>\$ 32,892</u>	<u>\$ 61,585</u>

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT FUND	OFFICE SERVICES REVOLVING FUND
OPERATING REVENUES			
Operating revenues	\$ 36,454	\$ 59,238	\$ 95,804
Total Operating Revenues	<u>36,454</u>	<u>59,238</u>	<u>95,804</u>
OPERATING EXPENSES			
Salaries, wages, and other administrative	22,202	5,428	29,333
Interest expense	-	-	-
Depreciation	1,512	745	2,248
Purchases for resale	-	-	63,749
Purchases for prison industries	15,060	-	-
Premiums and claims	-	2,436	1
Other operating expenses:			
Leased vehicles expense	-	26,014	-
Vehicle maintenance expense	-	23,939	-
Total other operating expenses	<u>-</u>	<u>49,952</u>	<u>-</u>
Total Operating Expenses	<u>38,773</u>	<u>58,562</u>	<u>95,331</u>
Operating Income (Loss)	<u>(2,319)</u>	<u>677</u>	<u>472</u>
NONOPERATING REVENUES (EXPENSES)			
Other nonoperating revenues	-	129	8
Interest expense	(188)	-	(191)
Other nonoperating expense	<u>(211)</u>	<u>-</u>	<u>(53)</u>
Total Nonoperating Revenues (Expenses)	<u>(399)</u>	<u>129</u>	<u>(237)</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(2,718)</u>	<u>806</u>	<u>236</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Capital contributions from other funds	-	-	-
Transfers to other funds	<u>(208)</u>	<u>(28)</u>	<u>(106)</u>
Total Capital Contributions and Transfers In (Out)	<u>(208)</u>	<u>(28)</u>	<u>(106)</u>
Change in net assets	(2,926)	778	130
Total net assets - Beginning of fiscal year	<u>30,371</u>	<u>2,695</u>	<u>(4,707)</u>
Total net assets - End of fiscal year	<u>\$ 27,445</u>	<u>\$ 3,472</u>	<u>\$ (4,577)</u>

Michigan

INFORMATION TECHNOLOGY FUND	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS
\$ 430,971	\$ 4,765	\$ 909,583	\$ 1,536,815
<u>430,971</u>	<u>4,765</u>	<u>909,583</u>	<u>1,536,815</u>
396,353	2,200	43,791	499,307
2	-	-	2
38,680	-	-	43,185
-	-	-	63,749
-	-	-	15,060
6	1,375	919,626	923,443
-	-	-	26,014
-	-	-	23,939
<u>-</u>	<u>-</u>	<u>-</u>	<u>49,953</u>
<u>435,041</u>	<u>3,574</u>	<u>963,416</u>	<u>1,594,698</u>
<u>(4,071)</u>	<u>1,191</u>	<u>(53,834)</u>	<u>(57,884)</u>
84	-	-	220
(502)	-	-	(881)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(265)</u>
<u>(419)</u>	<u>-</u>	<u>-</u>	<u>(925)</u>
<u>(4,489)</u>	<u>1,191</u>	<u>(53,834)</u>	<u>(58,809)</u>
35	-	-	35
(907)	(13)	-	(1,261)
<u>(872)</u>	<u>(13)</u>	<u>-</u>	<u>(1,226)</u>
(5,361)	1,178	(53,834)	(60,035)
<u>5,130</u>	<u>1,405</u>	<u>86,726</u>	<u>121,620</u>
<u>\$ (231)</u>	<u>\$ 2,584</u>	<u>\$ 32,892</u>	<u>\$ 61,585</u>

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS**

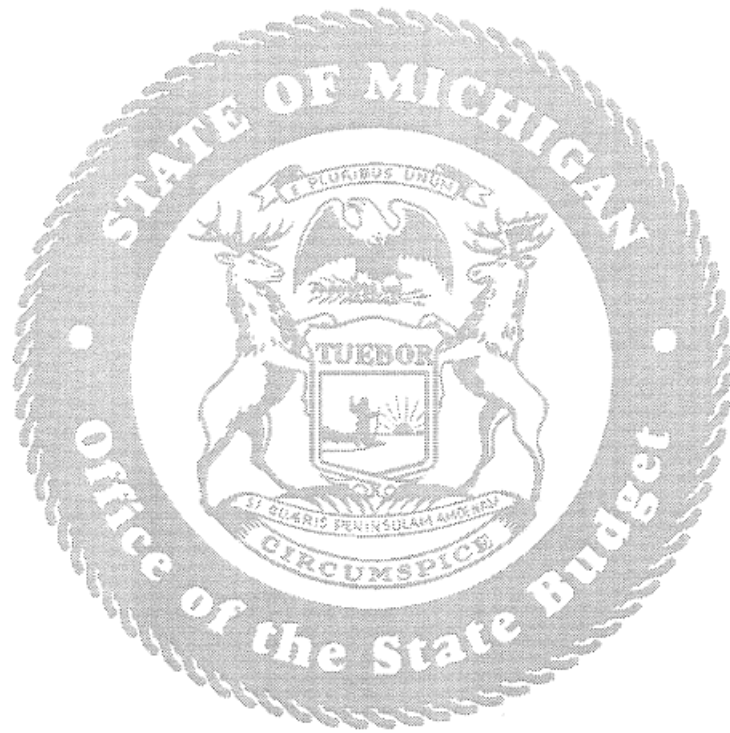
FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT FUND	OFFICE SERVICES REVOLVING FUND
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 36,168	\$ 58,987	\$ 93,188
Payments to employees	(14,413)	(2,807)	(11,709)
Payments to suppliers	(14,883)	(51,318)	(80,056)
Claims paid	-	-	-
Other receipts	-	21	-
Other payments	(7,357)	-	-
Net cash provided (used) by operating activities	<u>\$ (484)</u>	<u>\$ 4,883</u>	<u>\$ 1,423</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Loans or loan repayments from other funds	\$ 188	\$ 1,959	\$ 5,014
Loans or loan repayments to other funds	-	(6,914)	(5,126)
Transfers to other funds	(208)	(28)	(106)
Other receipts	-	-	8
Net cash provided (used) by noncapital financing activities	<u>\$ (20)</u>	<u>\$ (4,983)</u>	<u>\$ (211)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	\$ (544)	\$ -	\$ (61)
Interest paid	(188)	-	-
Capital lease payments (including imputed interest expense)	-	-	(1,340)
Proceeds from sale of capital assets	-	129	1
Net cash provided (used) by capital and related financing activities	<u>\$ (732)</u>	<u>\$ 129</u>	<u>\$ (1,399)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments	\$ -	\$ -	\$ -
Net cash provided (used) by investing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net cash provided (used) - all activities	\$ (1,236)	\$ 30	\$ (187)
Cash and cash equivalents at beginning of year	1,180	(10)	18
Cash and cash equivalents at end of year	<u><u>\$ (56)</u></u>	<u><u>\$ 19</u></u>	<u><u>\$ (169)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Per Statement of Net Assets Classifications:			
Cash	\$ -	\$ 58	\$ 157
Equity in common cash	238	-	211
Warrants outstanding	(294)	(39)	(537)
Cash and cash equivalents at end of year	<u><u>\$ (56)</u></u>	<u><u>\$ 19</u></u>	<u><u>\$ (169)</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (2,319)	\$ 677	\$ 472
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	1,512	745	2,248
Net Changes in Assets and Liabilities:			
Inventories	121	(70)	107
Other assets (net)	(286)	1,762	(1,972)
Accounts payable and other liabilities	488	1,770	567
Net cash provided (used) by operating activities	<u><u>\$ (484)</u></u>	<u><u>\$ 4,883</u></u>	<u><u>\$ 1,423</u></u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Capital contributions	\$ -	\$ -	\$ -
Cost of capital assets acquisitions financed by capital leases	-	-	-
Capital lease liabilities entered into during the year	-	-	-
Gain (loss) on disposal of capital assets	(211)	-	(53)
Total noncash investing, capital, and financing activities	<u><u>\$ (211)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (53)</u></u>

Michigan

INFORMATION TECHNOLOGY FUND	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS
\$ 431,776	\$ 4,765	\$ 920,463	\$ 1,545,348
(144,913)	(664)	-	(174,505)
(252,428)	(1,391)	(259,521)	(659,598)
-	(3,032)	(714,081)	(717,113)
-	-	-	21
-	-	-	(7,357)
<u>\$ 34,435</u>	<u>\$ (321)</u>	<u>\$ (53,139)</u>	<u>\$ (13,203)</u>
\$ -	\$ -	\$ 12,040	\$ 19,201
(907)	-	(6,973)	(19,013)
-	(13)	-	(1,248)
-	-	-	(5)
<u>\$ (907)</u>	<u>\$ (13)</u>	<u>\$ 5,067</u>	<u>\$ (1,065)</u>
(18,388)	\$ -	\$ -	\$ (18,993)
-	-	-	(188)
(11,402)	-	-	(12,741)
-	-	-	130
<u>\$ (29,790)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (31,792)</u>
\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -
\$ 3,739	\$ (334)	\$ (48,072)	\$ (46,060)
23,908	8,310	237,533	270,939
<u>\$ 27,647</u>	<u>\$ 7,976</u>	<u>\$ 189,461</u>	<u>\$ 224,879</u>
\$ -	\$ -	\$ 3	\$ 219
28,385	7,984	189,463	226,281
(738)	(8)	(5)	(1,621)
<u>\$ 27,647</u>	<u>\$ 7,976</u>	<u>\$ 189,461</u>	<u>\$ 224,879</u>
\$ (4,071)	\$ 1,191	\$ (53,834)	\$ (57,884)
38,680	-	-	43,185
(19)	-	-	139
45	1	5,472	5,023
(200)	(1,513)	(4,778)	(3,665)
<u>\$ 34,435</u>	<u>\$ (321)</u>	<u>\$ (53,139)</u>	<u>\$ (13,203)</u>
\$ 35	\$ -	\$ -	\$ 35
8,991	-	-	8,991
(8,991)	-	-	(8,991)
-	-	-	(265)
<u>\$ 35</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (230)</u>



PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

Notes to the financial statements, entitled "Deferred Compensation Plans" and "Pension Benefits and Other Postemployment Benefits," include additional information regarding the following funds and plans.

STATE EMPLOYEES' DEFERRED COMPENSATION FUNDS

The State Employees' Deferred Compensation Fund I (457) and the State Employees' Deferred Compensation Fund II (401k) are combined for reporting purposes. Both funds were administratively established to account for deferred compensation plans that permit State employees to defer a portion of their income until future years. Executive Order 1999-7 transferred administration of the plans from the Department of Treasury to the Department of Management and Budget. However, the State Treasurer continues to oversee investment options.

LEGISLATIVE RETIREMENT FUND

Public Act 261 of 1957 created the Legislative Retirement System (LRS) to provide retirement and other benefits for members of the Legislature, the presiding officers, and their surviving spouses or children. Participants in the system have a deduction from each salary payment to partially finance the fund. Legislative appropriations, interest on fund investments, and court fees complete the financing.

Public Act 486 of 1996 amended LRS' enabling legislation to provide that individuals who first became a legislator or lieutenant governor on or after March 31, 1997, participate in the State's defined contribution plan.

STATE POLICE RETIREMENT FUND

This fund was created by P.A. 251 of 1935 and later superseded by P.A. 182 of 1986. A nine-member board, under the direction of a chairperson elected from the membership, administers the fund to provide retirement benefits for State Police officers. Financing is provided by investment income and by an annual legislative appropriation.

STATE EMPLOYEES' RETIREMENT FUND

This fund was established by P.A. 240 of 1943 and is administered by a nine-member board under the direction of an Executive Secretary. Public Act 216 of 1974 eliminated the requirement for member contributions and provided for financing by legislative appropriation and investment earnings.

Effective March 31, 1997, P.A. 487 of 1996 closed the plan to new applicants. All new employees become members of the State's defined contribution plan. The public act also allows returning employees and members who left state employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND

In accordance with P.A. 300 of 1980, on October 1, 1981, the Public School Employees' Chapter I Retirement Fund merged with the Public School Employees' Chapter II Retirement Fund to establish the Public School Employees' Retirement Fund. Public Acts 136 of 1945 and 259 of 1974, respectively, created the two original funds. An eight-member board governs administrative policy.

Employer contributions and investment earnings provide financing for the fund. Under P.A. 91 of 1985, employees may contribute additional amounts into a "member investment plan."

JUDGES' RETIREMENT FUND

Public Act 234 of 1992 authorized the merger of the Probate Judges' Retirement Fund into the Judges' Retirement Fund by requiring the consolidation of all assets, rights, and obligations under the former Judges' and Probate Judges' Retirement Funds. The Judges' Retirement Board, with the director of the Office of Retirement Systems as the Executive Secretary, administers the consolidated fund. Financing comes from member contributions, court filing fees as provided under law, investment earnings, and legislative appropriations.

Public Act 523 of 1996, effective March 31, 1997, closed the plan to new entrants. Judges or state officials newly appointed or elected on or after March 31, 1997, become members of the State's defined contribution plan.

STATE EMPLOYEES' DEFINED CONTRIBUTION RETIREMENT FUND

This fund was established by P.A. 487 of 1996 as a defined contribution pension plan for all state employees hired after March 31, 1997, and for those members of the State Employees' Retirement (defined benefit) System, Judges' Retirement System, and Legislative Retirement System who elected to transfer to this plan. Executive Order 1999-7 transferred administration of the fund from the Department of Treasury to the Department of Management and Budget. However, the State Treasurer shall continue to oversee investment options.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**

SEPTEMBER 30, 2005

(In Thousands)

	STATE EMPLOYEES' DEFERRED COMPENSATION FUNDS	LEGISLATIVE RETIREMENT FUND	STATE POLICE RETIREMENT FUND
ASSETS			
Cash	\$ -	\$ -	\$ -
Equity in common cash	1,414	2,879	3,890
Receivables:			
Employee	110,730	-	-
Employer	213	112	-
Interest and dividends	-	64	9
Due from other funds	-	-	3,025
Due from component unit	-	-	-
Sale of investments	-	488	-
Investments at Fair Value:			
Short-term investments	-	-	26,853
Bonds, notes, mortgages, and preferred stock	-	-	187,518
Common stock	-	71,061	540,728
Real estate	-	-	91,274
Alternative investments	-	-	131,612
International investments	-	-	138,920
Mutual funds	1,599,681	105,696	-
Pooled investment funds	1,734,017	-	-
Money market funds	82,640	-	-
Securities lending collateral	-	-	63,653
	<u>\$ 3,528,696</u>	<u>\$ 180,301</u>	<u>\$ 1,187,481</u>
LIABILITIES			
Warrants outstanding	\$ -	\$ 10	\$ 140
Accounts payable and other liabilities	-	365	346
Amounts due to other funds	-	3	-
Obligations under security lending	-	-	63,653
	<u>\$ -</u>	<u>\$ 379</u>	<u>\$ 64,139</u>
NET ASSETS			
Net assets held in trust for pension, postemployment health-care, and other employee benefits	<u>\$ 3,528,696</u>	<u>\$ 179,922</u>	<u>\$ 1,123,341</u>
Reconciliation of Net Assets Held in Trust:			
Pension benefits	\$ -	\$ 167,993	\$ 1,120,129
Postemployment health-care benefits	-	11,929	3,213
Other employee benefits	<u>3,528,696</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,528,696</u>	<u>\$ 179,922</u>	<u>\$ 1,123,341</u>

Michigan

STATE EMPLOYEES' RETIREMENT FUND	PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND	JUDGES' RETIREMENT FUND	STATE EMPLOYEES' DEFINED CONTRIBUTION RETIREMENT FUND	TOTALS
\$ 36	\$ 12	\$ -	\$ -	\$ 48
21,428	82,396	1,436	112	113,556
-	-	-	50,514	161,243
94,752	414,304	87	37	509,505
78	304	2	-	457
30,830	-	-	-	33,855
316	-	-	-	316
-	-	-	-	488
349,107	1,391,103	8,027	-	1,775,090
1,612,115	6,507,076	51,499	-	8,358,207
4,918,520	19,182,378	136,403	-	24,849,090
856,146	2,958,414	31,689	-	3,937,522
1,119,253	4,596,675	23,555	-	5,871,095
1,182,265	4,850,485	31,422	-	6,203,092
-	-	-	285,555	1,990,933
-	-	-	182,842	1,916,859
-	-	-	100,043	182,683
566,873	2,222,790	16,974	-	2,870,289
\$ 10,751,718	\$ 42,205,938	\$ 301,094	\$ 619,103	\$ 58,774,330
\$ 1,666	\$ 6,481	\$ 44	\$ -	\$ 8,341
1,564	91,343	1	-	93,619
-	-	-	-	3
566,873	2,222,790	16,974	-	2,870,289
\$ 570,103	\$ 2,320,613	\$ 17,018	\$ -	\$ 2,972,252
\$ 10,181,615	\$ 39,885,324	\$ 284,076	\$ 619,103	\$ 55,802,077
\$ 10,132,826	\$ 39,361,450	\$ 284,205	\$ 619,103	\$ 51,685,705
48,790	523,875	(130)	-	587,677
-	-	-	-	3,528,696
\$ 10,181,615	\$ 39,885,324	\$ 284,076	\$ 619,103	\$ 55,802,077

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**

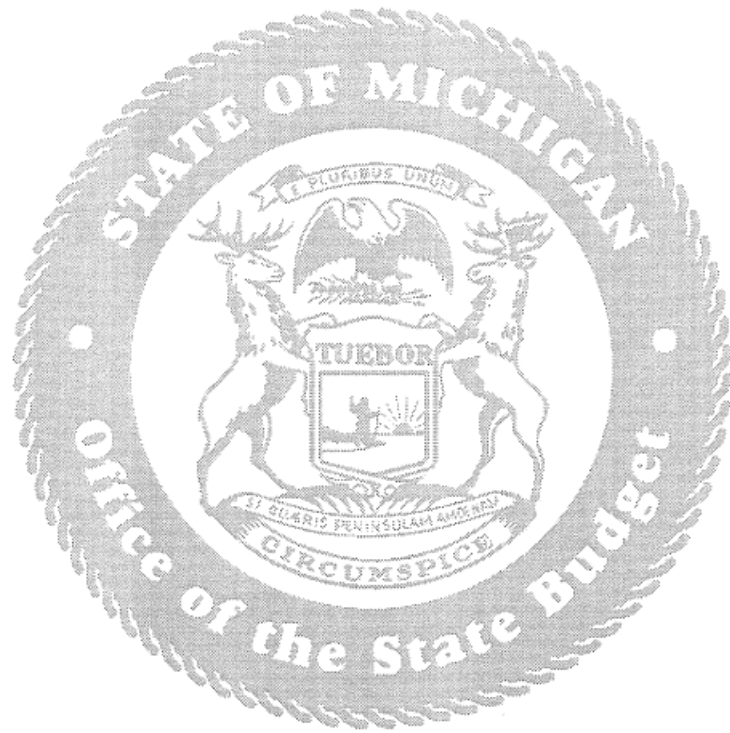
FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	STATE EMPLOYEES' DEFERRED COMPENSATION FUNDS	LEGISLATIVE RETIREMENT FUND	STATE POLICE RETIREMENT FUND
ADDITIONS			
Contributions:			
From participants	\$ 164,421	\$ 200	\$ 1,679
From employers	-	3,275	55,096
From other plans	6,803	-	-
Investment Income:			
Net appreciation (depreciation) in fair value of investments	279,634	14,583	101,322
Interest, dividends, and other	100,670	5,642	31,173
Securities lending income	-	-	1,631
Less Investment Expense:			
Investment activity expense	-	548	1,472
Securities lending expense	-	-	1,543
Net investment income (loss)	<u>380,304</u>	<u>19,677</u>	<u>131,111</u>
Miscellaneous income	<u>898</u>	<u>1,859</u>	<u>-</u>
Total Additions	<u>552,426</u>	<u>25,011</u>	<u>187,886</u>
DEDUCTIONS			
Benefits paid to participants or beneficiaries	198,413	8,736	80,170
Medical, dental, and life insurance for retirees	-	4,240	26,842
Refunds and transfers to other systems	185	4	-
Administrative expense	5,936	326	294
Transfers to other funds	<u>-</u>	<u>-</u>	<u>1</u>
Total Deductions	<u>204,533</u>	<u>13,306</u>	<u>107,306</u>
Net increase (decrease)	347,893	11,706	80,580
Net assets held in trust for pension, postemployment health-care, and other employee benefits - Beginning of fiscal year	<u>3,180,803</u>	<u>168,216</u>	<u>1,042,762</u>
Net assets held in trust for pension, postemployment health-care, and other employee benefits - End of fiscal year	<u>\$ 3,528,696</u>	<u>\$ 179,922</u>	<u>\$ 1,123,341</u>
Reconciliation of Net Increase in Assets:			
Net increase (decrease) in assets held in trust for pension benefits	\$ -	\$ 9,569	\$ 77,367
Net increase (decrease) in assets held in trust for postemployment benefits	-	2,136	3,213
Net increase (decrease) in assets held in trust for other employee benefits	<u>347,893</u>	<u>-</u>	<u>-</u>
Total net increase (decrease)	<u>\$ 347,893</u>	<u>\$ 11,706</u>	<u>\$ 80,580</u>

Michigan

STATE EMPLOYEES' RETIREMENT FUND	PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND	JUDGES' RETIREMENT FUND	STATE EMPLOYEES' DEFINED CONTRIBUTION RETIREMENT FUND	TOTALS
\$ 41,097	\$ 430,748	\$ 2,528	\$ 23,147	\$ 663,821
580,738	1,474,645	-	62,899	2,176,652
120	15	-	4	6,941
904,463	3,534,707	24,092	53,542	4,912,344
279,462	1,084,608	8,162	11,524	1,521,243
14,504	56,949	436	-	73,520
13,318	53,101	301	-	68,740
13,710	53,845	413	-	69,511
<u>1,171,402</u>	<u>4,569,318</u>	<u>31,977</u>	<u>65,066</u>	<u>6,368,856</u>
<u>3</u>	<u>7</u>	<u>250</u>	<u>200</u>	<u>3,216</u>
<u>1,793,359</u>	<u>6,474,732</u>	<u>34,755</u>	<u>151,316</u>	<u>9,219,486</u>
746,673	2,558,018	17,798	29,215	3,639,022
322,834	705,984	510	-	1,060,411
307	22,373	-	2,992	25,861
4,287	75,459	168	1,429	87,899
11	59	-	-	70
<u>1,074,112</u>	<u>3,361,893</u>	<u>18,476</u>	<u>33,637</u>	<u>4,813,263</u>
719,247	3,112,839	16,279	117,680	4,406,223
<u>9,462,368</u>	<u>36,772,485</u>	<u>267,797</u>	<u>501,423</u>	<u>51,395,854</u>
<u>\$ 10,181,615</u>	<u>\$ 39,885,324</u>	<u>\$ 284,076</u>	<u>\$ 619,103</u>	<u>\$ 55,802,077</u>
\$ 704,362	\$ 3,072,943	\$ 16,123	\$ 117,680	\$ 3,998,044
14,885	39,897	156	-	60,286
-	-	-	-	347,893
<u>\$ 719,247</u>	<u>\$ 3,112,839</u>	<u>\$ 16,279</u>	<u>\$ 117,680</u>	<u>\$ 4,406,223</u>



PRIVATE PURPOSE TRUST FUNDS

ESCHEATS FUND

The Escheats Fund operates under the authority of P.A. 29 of 1995 and is used to account for unclaimed property held by the State until claimed by the rightful owners. All property, including any income or increment derived from the property, is subject to the custody of (escheated to) the State when certain criteria contained within the Act are met. Proceeds of the fund pay the administrative costs and prompt claims allowed under the Act.

GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND

This fund was administratively established to account for gifts, bequests, and deposits donated or entrusted to the State. Gifts and donations to the State may only be expended in accordance with applicable external restrictions. This fund earns interest quarterly for its share of the equity in the State Treasurer's Common Cash pool.

HOSPITAL PATIENTS' TRUST FUND

Public Act 258 of 1974 established this fund to account for funds of patients receiving services in State hospitals. The Department of Community Health, in conjunction with the State Treasury, acts as the trustee of this fund. This fund earns interest quarterly for its share of the equity in the State Treasurer's Common Cash pool. The Department of Community Health distributes interest on a monthly basis to patients meeting minimum balance requirements.

MICHIGAN EDUCATION SAVINGS PROGRAM

Public Act 161 of 2000 established the Michigan Education Savings Program (MESP) as an entity within the Department of Treasury. MESP is a college-tuition savings plan that is designed to collect and invest deposits made by contributors, for purposes of financing tuition on behalf of future students. The State makes no monetary contributions into the program. Investment earnings, held in trust by MESP, are Federal and State tax-deferred until the student is ready to attend college. The State offers a tax deduction for contributions made each year.

Michigan

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS**

SEPTEMBER 30, 2005

(In Thousands)

	ESCHEATS FUND	GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND	HOSPITAL PATIENTS' TRUST FUND	MICHIGAN EDUCATION SAVINGS PROGRAM	TOTALS
ASSETS					
Cash	\$ -	\$ 781	\$ 23	\$ 568	\$ 1,372
Equity in common cash	89,893	26,345	167	-	116,406
Receivables:					
Interest and dividends	-	100	-	119	219
Investments at Fair Value:					
Bonds, notes, mortgages, and preferred stock	-	14,282	-	-	14,282
Common stock	-	109	-	-	109
Mutual funds	-	9	-	916,475	916,484
Guaranteed funding agreements	-	-	-	150,458	150,458
Securities lending collateral	-	2,475	-	-	2,475
Other current assets	3,163	2,858	16	726	6,763
Total Assets	\$ 93,056	\$ 46,960	\$ 206	\$ 1,068,347	\$ 1,208,568
LIABILITIES					
Warrants outstanding	\$ 1,090	\$ 855	\$ 16	\$ -	\$ 1,961
Accounts payable and other liabilities	30	5,955	10	1,145	7,140
Obligations under security lending	-	2,475	-	-	2,475
Total Liabilities	\$ 1,120	\$ 9,285	\$ 26	\$ 1,145	\$ 11,576
NET ASSETS					
Net assets held in trust for other purposes	<u>\$ 91,937</u>	<u>\$ 37,675</u>	<u>\$ 179</u>	<u>\$ 1,067,202</u>	<u>\$ 1,196,993</u>

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	ESCHEATS FUND	GIFTS, BEQUESTS AND DEPOSITS INVESTMENT FUND	HOSPITAL PATIENTS' TRUST FUND	MICHIGAN EDUCATION SAVINGS PROGRAM	TOTALS
ADDITIONS					
Contributions:					
From participants	\$ -	\$ -	\$ -	\$ 278,534	\$ 278,534
From clients	-	38,953	1,844	-	40,797
From gifts, bequests, and endowments	-	659	-	-	659
Investment Income:					
Net appreciation (depreciation) in fair value of investments	-	(178)	-	55,104	54,926
Interest, dividends, and other	-	1,025	6	34,044	35,075
Securities lending income	-	36	-	-	36
Less Investment Expense:					
Investment activity expense	-	-	-	4,048	4,048
Securities lending expense	-	35	-	-	35
Net investment income (loss)	-	848	6	85,100	85,953
Escheated property	91,562	-	-	-	91,562
Miscellaneous income	-	2,750	-	-	2,750
Total Additions	91,562	43,210	1,849	363,634	500,255
DEDUCTIONS					
Benefits paid to participants or beneficiaries	-	-	-	40,244	40,244
Amounts distributed to clients, claimants, or third parties	34,048	39,560	1,908	-	75,516
Administrative expense	10,948	1,723	-	-	12,671
Total Deductions	44,997	41,282	1,908	40,244	128,431
Net increase (decrease)	46,566	1,927	(58)	323,390	371,825
Net assets held in trust for others - Beginning of fiscal year	45,371	35,748	237	743,812	825,168
Net assets held in trust for others End of fiscal year	\$ 91,937	\$ 37,675	\$ 179	\$ 1,067,202	\$ 1,196,993
Reconciliation of Net Increase in Assets:					
Net increase (decrease) in assets held in trust for other purposes	\$ 46,566	\$ 1,927	\$ (58)	\$ 323,390	\$ 371,825
Total net increase (decrease)	\$ 46,566	\$ 1,927	\$ (58)	\$ 323,390	\$ 371,825

AGENCY FUNDS

ENVIRONMENTAL QUALITY DEPOSITS FUND

This fund was established to account for deposits for which the Department of Environmental Quality has legal custody as provided by various statutes.

INSURANCE CARRIER DEPOSITS FUND

This fund was administratively established to account for deposits held by the State Treasurer on behalf of insurance carriers who are licensed or authorized to write insurance in the State and are required by P.A. 218 of 1956, as amended, to provide such deposits. All deposits are in the form of various securities and other acceptable assets.

STATE TREASURER'S ESCROW AND PAYING AGENT FUND

This fund was administratively created and is used to account for investments held in escrow by the State Treasurer as fiscal agent for hospitals, which have defeased Michigan State Hospital Finance Authority (MSHFA) bonds.

CHILD SUPPORT COLLECTION FUND

This fund was administratively established to account for the activity of the Michigan State Disbursement Unit (MISDU). MISDU, administered by the Department of Human Services, was created to provide a single location within the State for the receipt and disbursement of child support payments.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS**AGENCY FUNDS**

SEPTEMBER 30, 2005

(In Thousands)

	ENVIRONMENTAL QUALITY DEPOSITS FUND	INSURANCE CARRIER DEPOSITS FUND	STATE TREASURER'S ESCROW AND PAYING AGENT FUND	CHILD SUPPORT COLLECTION FUND	TOTALS
ASSETS					
Cash	\$ -	\$ -	\$ 1,557	\$ 67,920	\$ 69,477
Equity in common cash	2,775	910	-	-	3,685
Investments at Fair Value:					
Short-term investments	-	-	11,051	-	11,051
Bonds, notes, mortgages, and preferred stock	-	-	33,789	-	33,789
Other current assets	-	-	1,704	152	1,856
Other noncurrent assets	-	379,745	-	-	379,745
Total Assets	<u>\$ 2,775</u>	<u>\$ 380,655</u>	<u>\$ 48,101</u>	<u>\$ 68,072</u>	<u>\$ 499,603</u>
LIABILITIES					
Warrants outstanding	\$ -	\$ 42	\$ -	\$ -	\$ 42
Accounts payable and other liabilities	2,775	588	14,286	66,993	84,641
Amounts due to other funds	-	-	-	1,079	1,079
Other long-term liabilities	-	380,025	33,815	-	413,840
Total Liabilities	<u>\$ 2,775</u>	<u>\$ 380,655</u>	<u>\$ 48,101</u>	<u>\$ 68,072</u>	<u>\$ 499,603</u>

**COMBINING STATEMENT OF CHANGES IN ASSETS AND
LIABILITIES - AGENCY FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

	BALANCE OCTOBER 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2005
ENVIRONMENTAL QUALITY DEPOSITS FUND				
ASSETS				
Equity in common cash	\$ 2,875	\$ 105	\$ 205	\$ 2,775
Total Assets	<u>\$ 2,875</u>	<u>\$ 105</u>	<u>\$ 205</u>	<u>\$ 2,775</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 2,875	\$ 105	\$ 205	\$ 2,775
Total Liabilities	<u>\$ 2,875</u>	<u>\$ 105</u>	<u>\$ 205</u>	<u>\$ 2,775</u>
INSURANCE CARRIER DEPOSITS FUND				
ASSETS				
Equity in common cash	\$ 1,220	\$ 59,228	\$ 59,538	\$ 910
Other noncurrent assets	372,614	81,930	74,799	379,745
Total Assets	<u>\$ 373,834</u>	<u>\$ 141,158</u>	<u>\$ 134,337</u>	<u>\$ 380,655</u>
LIABILITIES				
Warrants outstanding	\$ 154	\$ -	\$ 112	\$ 42
Accounts payable and other liabilities	786	59,460	59,658	588
Other long-term liabilities	372,894	81,930	74,799	380,025
Total Liabilities	<u>\$ 373,834</u>	<u>\$ 141,390</u>	<u>\$ 134,569</u>	<u>\$ 380,655</u>
STATE TREASURER'S ESCROW AND PAYING AGENT FUND				
ASSETS				
Cash	\$ 4,042	\$ 23,232	\$ 25,716	\$ 1,557
Investments at Fair Value:				
Short-term investments	15,070	13,179	17,199	11,051
Bonds, notes, mortgages, and preferred stock	44,606	-	10,817	33,789
Other current assets	2,209	5,559	6,064	1,704
Total Assets	<u>\$ 65,927</u>	<u>\$ 41,969</u>	<u>\$ 59,795</u>	<u>\$ 48,101</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 18,599	\$ 25,185	\$ 29,498	\$ 14,286
Other long-term liabilities	47,328	-	13,513	33,815
Total Liabilities	<u>\$ 65,927</u>	<u>\$ 25,185</u>	<u>\$ 43,011</u>	<u>\$ 48,101</u>

Michigan

	BALANCE OCTOBER 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2005
CHILD SUPPORT COLLECTION FUND				
ASSETS				
Cash	\$ 75,665	\$ 1,596,164	\$ 1,603,909	\$ 67,920
Other current assets	3,821	-	3,669	152
Total Assets	\$ 79,486	\$ 1,596,164	\$ 1,607,577	\$ 68,072
LIABILITIES				
Accounts payable and other liabilities	\$ 78,188	\$ 1,596,164	\$ 1,607,358	\$ 66,993
Amounts due to other funds	1,298	2,323	2,542	1,079
Total Liabilities	\$ 79,486	\$ 1,598,487	\$ 1,609,900	\$ 68,072
TOTALS - ALL AGENCY FUNDS				
ASSETS				
Cash	\$ 79,707	\$ 1,619,395	\$ 1,629,625	\$ 69,477
Equity in common cash	4,095	59,333	59,743	3,685
Investments at Fair Value:				
Short-term investments	15,070	13,179	17,199	11,051
Bonds, notes, mortgages, and preferred stock	44,606	-	10,817	33,789
Other current assets	6,029	5,559	9,733	1,856
Other noncurrent assets	372,614	81,930	74,799	379,745
Total Assets	\$ 522,122	\$ 1,779,395	\$ 1,801,915	\$ 499,603
LIABILITIES				
Warrants outstanding	\$ 154	\$ -	\$ 112	\$ 42
Accounts payable and other liabilities	100,448	1,680,913	1,696,720	84,641
Amounts due to other funds	1,298	2,323	2,542	1,079
Other long-term liabilities	420,222	81,930	88,312	413,840
Total Liabilities	\$ 522,122	\$ 1,765,166	\$ 1,787,685	\$ 499,603

COMPONENT UNITS – AUTHORITIES

LAND BANK FAST TRACK AUTHORITY

Public Act 258 of 2003 created the Land Bank Fast Track Authority (LBFTA). The purpose of LBFTA is to assemble or dispose of public property, including tax reverted property, in a coordinated manner to foster the development of the property and to promote economic growth within the State. The LBFTA receives tax reverted properties, undertakes expedited action to clear their titles, and then ensures the properties' redevelopment.

LBFTA's seven-member governing board consists of the Director of the Department of Labor and Economic Growth, the Chief Executive Officer of the Michigan Economic Development Corporation or his or her designee, the Executive Director of the Michigan State Housing Development Authority or his or her designee, and four members appointed by the Governor.

MACKINAC BRIDGE AUTHORITY

Public Act 21 of 1950 created the Mackinac Bridge Authority (MBA). Public Act 214 of 1952, as amended, empowered MBA to construct and operate a bridge between the lower and upper peninsulas of Michigan. Fares and earnings on investments finance the operation and maintenance of the bridge. State statutes require that MBA continue charging bridge tolls and repay State funds for all the subsidies provided in prior years.

MACKINAC ISLAND STATE PARK COMMISSION

Public Act 355 of 1927, as amended, established the Mackinac Island State Park Commission. The Governor, with the advice and consent of the Senate, appoints the seven-member commission. The Commission is responsible for the management of the Mackinac Island and Michilimackinac State Parks and has the authority to issue revenue-dedicated bonds.

MICHIGAN BROADBAND DEVELOPMENT AUTHORITY

Public Act 49 of 2002 created the Michigan Broadband Development Authority (MBDA). The MBDA is a state financing authority that will assist in the build out and utilization of high-speed broadband internet service and infrastructure across the state. It is the responsibility of the authority to remain financially self-sufficient by generating revenues from project lending and joint venture activity.

MBDA's eleven-member governing board consists of the President and CEO of MBDA, the Vice President of MBDA, the State Treasurer, the Executive Director of the Michigan State Housing Development Authority, the head of the Michigan Economic Development Corporation and six fixed-term Governor appointed members.

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

The Michigan Economic Development Corporation (MEDC), under Article VII, Section 28 of the Michigan State Constitution of 1963 and P.A. 7 of the 1967 extra session, is a public body corporation. Created by a ten-year contract (inter-local agreement) between participating local economic development corporations formed under P.A. 338 of 1974 and the Michigan Strategic Fund, MEDC is a separate legal entity whose purpose is to stimulate, coordinate and advance economic development in the State. Under the terms of the agreement, the governance of MEDC resides in an executive committee of 17 members appointed to eight-year, staggered terms.

MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY

Public Act 468 of 2004 created the Michigan Exposition and Fairgrounds Authority (MEFA) as a public body corporate within the Department of Management and Budget. MEFA is responsible for conducting an annual State Fair and other exhibits or events for the purpose of promoting all phases of the economy of the State. Fund revenues are derived from the annual State Fair and other exhibits, leases, rentals, or other charges for the use of the buildings and grounds scheduled during the year.

MEFA's eleven-member governing board consists of the directors of the Department of Agriculture and the Department of Management and Budget, and nine members serving fixed terms appointed by the Governor with the advice and consent of the Senate.

MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY

Public Act 77 of 1960, as amended, created the Michigan Higher Education Assistance Authority (MHEAA). It is governed by a 16-member board, appointed by the Governor, with the advice and consent of the Senate. MHEAA is empowered to guarantee 100% of principal and interest on loans to persons (or their parents) attending eligible post-secondary educational institutions in Michigan and to administer scholarship and grant programs in accordance with State laws. The federal government reimburses MHEAA for losses on purchased loans at varying percentages depending upon rates of defaults. Revenues consist of recovery of loan losses, federal reimbursement, loan guarantee fees, and investment income.

MICHIGAN HIGHER EDUCATION FACILITIES AUTHORITY

Public Act 295 of 1969, as amended, authorized the creation of the Michigan Higher Education Facilities Authority (MHEFA) for the purpose of assisting private nonprofit institutions of higher education in financing their facilities. MHEFA consists of an eleven-member commission, nine are appointed by the Governor with the advice and consent of the Senate and two are ex officio (the Superintendent of Public Instruction and Director of the Department of Management and Budget). Financing for capital improvements is provided by issuance of limited obligation revenue bonds, however these bonds do not constitute an obligation of the State or MHEFA, therefore no liabilities have been recorded. Annual service fees to higher education institutions finance MHEFA's administrative operations.

MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY

Public Act 222 of 1975, as amended, authorized the establishment of the Michigan Higher Education Student Loan Authority (MHESLA) to make loans to qualified students (or their parents) attending participating institutions of higher education. MHESLA may issue revenue-dedicated debt in principal amounts necessary to provide funds for achieving its purpose. A board comprised of the same members as Michigan Higher Education Assistance Authority governs MHESLA. The Governor, with the consent of the Senate, appoints the 16 members. The State Treasurer, an ex officio member, serves as chairman of the board.

MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY

The Michigan Public Educational Facilities Authority was organized by Executive Order 2002-3. The Authority was created in response to the passage of the federal Economic Growth and Tax Relief Reconciliation Act of 2001. This act authorizes the issuance of "qualified public educational facility bonds" as tax exempt facility bonds.

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

MICHIGAN STATE HOSPITAL FINANCE AUTHORITY

The Michigan State Hospital Finance Authority (MSHFA) was organized under P.A. 38 of 1969, as amended, to lend money to nonprofit, nonpublic hospitals and health-care corporations for capital improvements or debt refinancing. The Act also empowers MSHFA to sell bonds and to enter into loan and other agreements to obtain the necessary funds for such loans. MSHFA is comprised of seven members including a chairperson and four public members appointed by the Governor with the advice and consent of the Senate, and two members ex officio (the State Treasurer and the Director of the Department of Community Health). Some of MSHFA's revenue and mortgage bonds have been defeased by the various borrowers by placing proceeds of new bonds in an escrow with the State Treasurer or trustee as escrow agent. Such defeased bonds and related investments are reported in the State Treasurer's Escrow and Paying Agent Fund.

MSHFA no longer performs trustee, fiscal agent, registrar, and paying agent functions for bonds payable. The bonds and related assets have been transferred to financial institutions' trust departments. Since these obligations are, in substance, debts of other entities, MSHFA does not reflect the liabilities, assets, revenues and expenditures related to these bonds in its financial statements.

MICHIGAN STRATEGIC FUND

The Michigan Strategic Fund (MSF) is a public body corporation and politic created by P.A. 270 of 1984 to help diversify the economy of the State and to provide for economic development, primarily by assisting business enterprises to obtain additional sources of financing. Executive Order 1999-1, as amended, transferred all of the economic development functions of the former Department of Commerce and the Michigan Jobs Commission to MSF. The order further placed MSF as an autonomous entity in the Department of Management and Budget. Executive Order 2003-18 transferred MSF from the Department of Management and Budget to the Department of Labor and Economic Growth, where it remains an autonomous entity. MSF is governed by a board of nine members, consisting of the directors of the State Departments of Labor and Economic Growth and Treasury plus seven members appointed by the Governor with the advice and consent of the Senate.

STATE BAR OF MICHIGAN

The State Bar of Michigan is an association of lawyers who are licensed to practice in Michigan. It is organized as a public body corporate. Its financial support comes solely from member dues and income from member services. The State Bar's budget is the responsibility of its Board of Commissioners, and it is not subject to State of Michigan appropriation procedures.

**COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS
AUTHORITIES**

SEPTEMBER 30, 2005

(In Thousands)

	LAND BANK FAST TRACK AUTHORITY	MACKINAC BRIDGE AUTHORITY	MACKINAC ISLAND STATE PARK COMMISSION	MICHIGAN BROADBAND DEVELOPMENT AUTHORITY	MICHIGAN ECONOMIC DEVELOPMENT CORPORATION	MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY
ASSETS						
Current Assets:						
Cash	\$ -	\$ 427	\$ 737	\$ 1,370	\$ 7,523	\$ 4
Equity in common cash	173	-	-	-	75,301	1,400
Amounts due from primary government	-	-	601	-	-	-
Amounts due from federal government	-	-	-	-	622	-
Inventories	-	-	680	-	-	-
Investments	-	23,531	841	1,650	25,740	-
Other current assets	8	17	33	1,438	7,898	777
Total Current Assets	181	23,975	2,892	4,459	117,083	2,180
Restricted Assets:						
Cash and cash equivalents	-	-	1,330	-	4,318	-
Investments	-	-	1,950	-	12	-
Mortgages and loans receivable	-	-	-	9,886	40,899	-
Investments	-	-	-	-	14,988	-
Capital Assets:						
Land and other non-depreciable assets	4,336	125	350	-	-	3,360
Buildings, equipment, and other depreciable assets	-	8,309	9,246	-	16,516	12,331
Less accumulated depreciation	-	(3,623)	(6,229)	-	(5,052)	(7,080)
Infrastructure	-	102,722	-	-	-	-
Total capital assets	4,336	107,532	3,367	-	11,463	8,611
Other noncurrent assets	-	-	-	-	-	-
Total Assets	\$ 4,517	\$ 131,507	\$ 9,540	\$ 14,345	\$ 188,763	\$ 10,791
LIABILITIES						
Current Liabilities:						
Warrants outstanding	\$ 1	\$ -	\$ -	\$ -	\$ 179	\$ 721
Accounts payable and other liabilities	22	2,040	81	59	15,533	1,208
Amounts due to primary government	4	859	-	91	179	10
Bonds and notes payable	-	-	250	-	-	-
Interest payable	-	-	16	4,910	-	-
Deferred revenue	-	763	59	38	285	4
Current portion of other long-term obligations	1	250	-	97	4,437	26
Total Current Liabilities	27	3,912	407	5,195	20,614	1,970
Bonds and notes payable	200	-	1,560	23,444	-	-
Noncurrent portion of other long-term obligations	10	289	-	230	3,268	90
Total Liabilities	\$ 237	\$ 4,200	\$ 1,967	\$ 28,869	\$ 23,882	\$ 2,060
NET ASSETS						
Invested in capital assets, net of related debt	\$ -	\$ 107,532	\$ 1,541	\$ -	\$ 11,463	\$ 8,611
Restricted For:						
Construction and debt service	-	-	1,166	-	-	-
Other purposes	-	-	3,638	2	-	-
Unrestricted	4,280	19,774	1,228	(14,527)	153,418	120
Total Net Assets	\$ 4,280	\$ 127,306	\$ 7,573	\$ (14,525)	\$ 164,882	\$ 8,731

Michigan

<u>MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY</u>	<u>MICHIGAN HIGHER EDUCATION FACILITIES AUTHORITY</u>	<u>MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY</u>	<u>MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY</u>	<u>MICHIGAN STATE HOSPITAL FINANCE AUTHORITY</u>	<u>MICHIGAN STRATEGIC FUND</u>	<u>STATE BAR OF MICHIGAN</u>	<u>TOTALS</u>
\$ 2,856	\$ -	\$ 86,947	\$ 5,054	\$ 409	\$ 50	\$ 2,109	\$ 107,485
-	-	-	-	-	533	-	77,406
189	437	814	-	121	-	-	2,163
3,181	-	-	-	-	16,201	-	20,004
-	-	-	-	-	-	-	680
8,451	-	364,063	-	2,772	-	2,490	429,539
927	34	215,535	20,125	826	96	494	248,207
<u>15,605</u>	<u>471</u>	<u>667,358</u>	<u>25,179</u>	<u>4,129</u>	<u>16,880</u>	<u>5,093</u>	<u>885,484</u>
-	-	-	-	-	-	-	5,648
-	-	-	-	98	-	-	2,059
-	-	1,458,024	-	-	-	-	1,508,809
7,500	-	347,209	-	1,749	-	-	371,446
-	-	-	-	-	-	381	8,551
-	-	-	-	-	-	-	-
2,035	-	-	-	64	-	11,249	59,749
(617)	-	-	-	(53)	-	(5,083)	(27,737)
-	-	-	-	-	-	-	102,722
<u>1,417</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11</u>	<u>-</u>	<u>6,547</u>	<u>143,285</u>
-	-	18,454	-	-	-	-	18,454
<u>\$ 24,522</u>	<u>\$ 471</u>	<u>\$ 2,491,045</u>	<u>\$ 25,179</u>	<u>\$ 5,986</u>	<u>\$ 16,880</u>	<u>\$ 11,640</u>	<u>\$ 2,935,185</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 647	\$ -	\$ 1,548
3	-	2,552	-	32	15,856	522	37,911
519	-	-	-	-	11	-	1,672
-	-	3,825	20,289	-	-	-	24,364
-	-	7,058	98	-	-	-	12,083
-	-	-	-	-	217	645	2,011
21	-	65	-	-	-	-	4,898
<u>543</u>	<u>-</u>	<u>13,501</u>	<u>20,387</u>	<u>32</u>	<u>16,731</u>	<u>1,167</u>	<u>84,487</u>
-	-	2,283,225	-	-	-	-	2,308,429
494	3	50,876	4	447	-	-	55,712
<u>\$ 1,038</u>	<u>\$ 3</u>	<u>\$ 2,347,602</u>	<u>\$ 20,391</u>	<u>\$ 480</u>	<u>\$ 16,731</u>	<u>\$ 1,167</u>	<u>\$ 2,448,627</u>
\$ 1,417	\$ -	\$ -	\$ -	\$ 11	\$ -	\$ 6,547	\$ 137,123
-	-	12,770	-	-	-	-	13,936
22,067	-	-	4,786	-	-	-	30,493
-	468	130,673	2	5,496	149	3,926	305,007
<u>\$ 23,485</u>	<u>\$ 468</u>	<u>\$ 143,443</u>	<u>\$ 4,788</u>	<u>\$ 5,506</u>	<u>\$ 149</u>	<u>\$ 10,473</u>	<u>\$ 486,558</u>

COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - AUTHORITIES

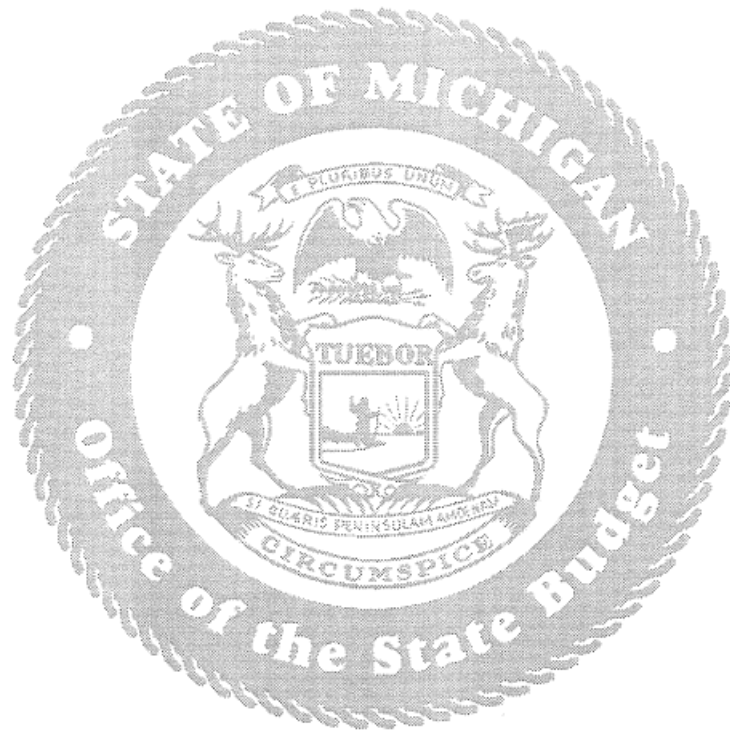
FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	
Land Bank Fast Track Authority	\$ 350	\$ -	\$ -	\$ 4,625	\$ 4,274
Mackinac Bridge Authority	17,816	15,074	-	-	(2,742)
Mackinac Island State Park Commission	4,059	3,841	130	-	(89)
Michigan Broadband Development Authority	3,774	316	484	-	(2,974)
Michigan Economic Development Corporation	80,882	-	67,643	-	(13,239)
Michigan Exposition and Fairgrounds Authority	6,365	-	5,919	-	(446)
Michigan Higher Education Assistance Authority	142,306	19,727	123,472	-	893
Michigan Higher Education Facilities Authority	123	129	-	-	7
Michigan Higher Education Student Loan Authority	86,423	85,508	-	-	(915)
Michigan Public Educational Facilities Authority	53	92	-	-	40
Michigan State Hospital Finance Authority	953	961	-	-	8
Michigan Strategic Fund	116,865	1,730	50,826	-	(64,308)
State Bar of Michigan	9,940	11,226	-	-	1,286
Total	<u>\$ 469,908</u>	<u>\$ 138,604</u>	<u>\$ 248,474</u>	<u>\$ 4,625</u>	<u>\$ (78,205)</u>

Michigan

GENERAL REVENUES						
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	SPECIAL ITEMS	CHANGE IN NET ASSETS	NET ASSETS BEGINNING OF YEAR RESTATED	NET ASSETS END OF YEAR
\$ 5	\$ -	\$ -	-	\$ 4,280	\$ -	\$ 4,280
592	-	-	-	(2,150)	129,457	127,306
94	-	-	-	5	7,568	7,573
47	-	9	-	(2,918)	(11,607)	(14,525)
1,721	-	9,771	-	(1,747)	166,628	164,882
11	-	-	-	(435)	9,166	8,731
-	-	-	-	893	22,591	23,485
12	-	-	-	18	449	468
13,468	-	-	-	12,553	130,890	143,443
510	-	(285)	-	265	4,522	4,788
81	-	-	-	89	5,417	5,506
-	63,698	694	-	83	66	149
568	-	-	-	1,854	8,619	10,473
\$ 17,109	\$ 63,698	\$ 10,189	\$ -	\$ 12,790	\$ 473,768	\$ 486,558



COMPONENT UNITS – STATE UNIVERSITIES

The State has thirteen legally separate public universities, ten of which are included in this report as component units and three of which are excluded. Included are the ten universities whose governing boards are appointed by the Governor and for which the State is legally accountable, as prescribed by GASB Statement No. 14. Excluded are those three that have governing boards whose members are elected by the voters and, therefore, considered separate special purpose governments. The three that are excluded are the largest public universities: Michigan State University, University of Michigan, and Wayne State University. Also excluded are the public community colleges, for which local units of government are legally accountable.

The information presented in this report for the ten universities is based upon their separately issued financial statements for the fiscal year ended on June 30, 2005. The universities include Central Michigan University and Western Michigan University presented as major component units and the following non-major component units: 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.

**COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS
STATE UNIVERSITIES**

JUNE 30, 2005

(In Thousands)

	EASTERN MICHIGAN UNIVERSITY	FERRIS STATE UNIVERSITY	GRAND VALLEY STATE UNIVERSITY	LAKE SUPERIOR STATE UNIVERSITY
ASSETS				
Current Assets:				
Cash	\$ 55,528	\$ 23,122	\$ 11,040	\$ 6,270
Amounts due from component units	-	-	-	-
Amounts due from primary government	18,322	9,312	27,809	2,632
Amounts due from federal government	2,330	1,631	1,682	415
Amounts due from local units	-	-	-	-
Inventories	522	1,218	1,673	269
Investments	-	25,970	6,811	-
Other current assets	19,444	2,605	8,960	983
Total Current Assets	<u>96,145</u>	<u>63,856</u>	<u>57,975</u>	<u>10,570</u>
Restricted Assets:				
Cash and cash equivalents	-	-	455	1,246
Investments	75,298	12,006	3,581	3,411
Mortgages and loans receivable	11,559	18,729	8,129	-
Mortgages and loans receivable	-	-	-	2,639
Investments	-	32,101	107,488	7,107
Capital Assets:				
Land and other non-depreciable assets	10,590	5,498	29,835	2,003
Buildings, equipment, and other depreciable assets	483,074	331,940	527,531	122,940
Less accumulated depreciation	(212,844)	(132,997)	(119,405)	(65,707)
Construction in progress	12,196	18	13,886	17,295
Total capital assets	<u>293,016</u>	<u>204,459</u>	<u>451,846</u>	<u>76,531</u>
Other noncurrent assets	<u>2,456</u>	<u>1,975</u>	<u>5,719</u>	<u>-</u>
Total Assets	<u>\$ 478,473</u>	<u>\$ 333,127</u>	<u>\$ 635,194</u>	<u>\$ 101,503</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 27,418	\$ 10,212	\$ 30,122	\$ 1,362
Amounts due to primary government	566	4	34	304
Bonds and notes payable	4,482	2,560	6,590	870
Interest payable	(1,004)	953	1,434	192
Deferred revenue	5,695	5,420	12,482	818
Current portion of other long-term obligations	-	250	2,829	502
Total Current Liabilities	<u>37,157</u>	<u>19,399</u>	<u>53,490</u>	<u>4,048</u>
Deferred revenue	440	899	-	-
Bonds and notes payable	133,270	76,795	158,653	29,340
Noncurrent portion of other long-term obligations	<u>6,592</u>	<u>6,292</u>	<u>823</u>	<u>2,544</u>
Total Liabilities	<u>\$ 177,459</u>	<u>\$ 103,385</u>	<u>\$ 212,966</u>	<u>\$ 35,932</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 191,492	\$ 128,676	\$ 289,911	\$ 48,177
Restricted For:				
Education	-	23,860	15,851	-
Construction and debt service	22,382	-	1,659	1,316
Other purposes	15,656	-	-	3,133
Funds Held as Permanent Investments:				
Expendable	-	4,267	18,812	7,864
Nonexpendable	41,467	12,006	20,219	3,946
Unrestricted	<u>30,018</u>	<u>60,933</u>	<u>75,776</u>	<u>1,135</u>
Total Net Assets	<u>\$ 301,014</u>	<u>\$ 229,742</u>	<u>\$ 422,228</u>	<u>\$ 65,571</u>

Michigan

MICHIGAN TECHNOLOGICAL UNIVERSITY	NORTHERN MICHIGAN UNIVERSITY	OAKLAND UNIVERSITY	SAGINAW VALLEY STATE UNIVERSITY	TOTALS
\$ 23,159	\$ 20,495	\$ 28,553	\$ 33,573	\$ 201,740
138	78	-	-	216
9,843	11,885	7,924	13,737	101,463
2,378	975	1,255	402	11,066
-	93	53	-	146
1,247	1,356	316	1,496	8,096
27,811	-	-	13	60,604
9,863	5,561	11,092	2,981	61,490
<u>74,439</u>	<u>40,443</u>	<u>49,192</u>	<u>52,202</u>	<u>444,822</u>
10,855	-	-	507	13,062
38,893	19,855	-	-	153,044
-	-	-	-	38,417
12,618	7,907	1,655	52	24,871
4,318	45,523	85,623	26,659	308,820
12,916	5,221	4,325	2,514	72,902
311,379	309,170	362,394	305,643	2,754,071
(106,989)	(103,955)	(136,786)	(94,628)	(973,311)
1,787	1,733	1,603	11,703	60,220
<u>219,094</u>	<u>212,168</u>	<u>231,536</u>	<u>225,232</u>	<u>1,913,882</u>
<u>6,496</u>	<u>1,092</u>	<u>3,439</u>	<u>3,244</u>	<u>24,422</u>
<u>\$ 366,713</u>	<u>\$ 326,988</u>	<u>\$ 371,445</u>	<u>\$ 307,896</u>	<u>\$ 2,921,341</u>
\$ 14,022	\$ 12,377	\$ 12,912	\$ 14,715	\$ 123,140
901	143	259	-	2,210
290	1,977	3,093	1,771	21,633
408	-	239	-	2,222
1,780	3,960	5,299	3,646	39,100
2,834	1,233	2,485	135	10,268
<u>20,234</u>	<u>19,690</u>	<u>24,287</u>	<u>20,268</u>	<u>198,573</u>
-	-	1,274	-	2,613
48,180	84,895	90,636	90,521	712,290
6,158	11,257	2,396	2,377	38,438
<u>\$ 74,572</u>	<u>\$ 115,843</u>	<u>\$ 118,594</u>	<u>\$ 113,165</u>	<u>\$ 951,916</u>
\$ 173,725	\$ 144,691	\$ 143,751	\$ 144,936	\$ 1,265,360
63,386	23,247	20,764	4,790	151,897
-	-	-	20	25,377
-	-	-	-	18,788
-	-	8,142	-	39,085
42,013	-	11,542	22,956	154,149
13,018	43,208	68,652	22,029	314,769
<u>\$ 292,141</u>	<u>\$ 211,146</u>	<u>\$ 252,852</u>	<u>\$ 194,731</u>	<u>\$ 1,969,425</u>

COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - STATE UNIVERSITIES

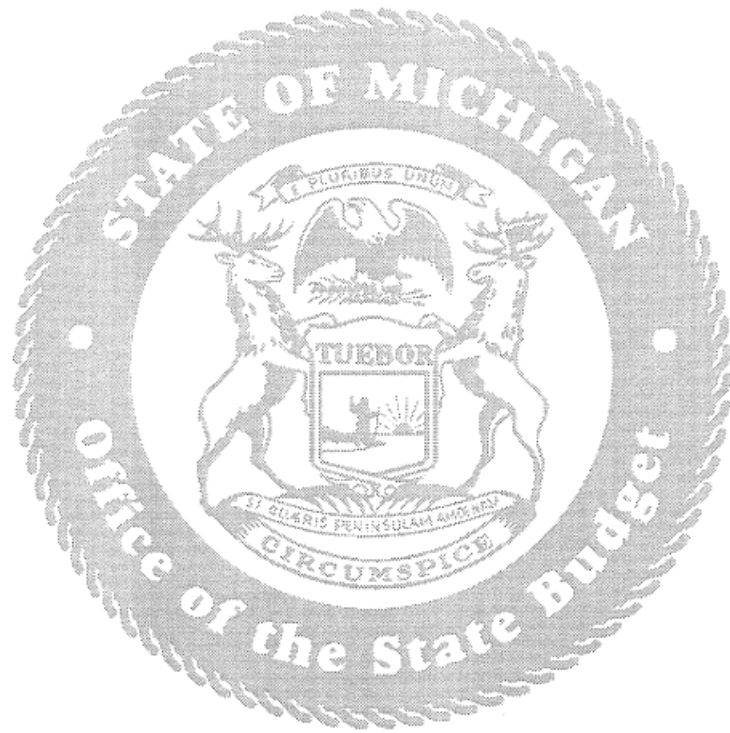
FISCAL YEAR ENDED JUNE 30, 2005

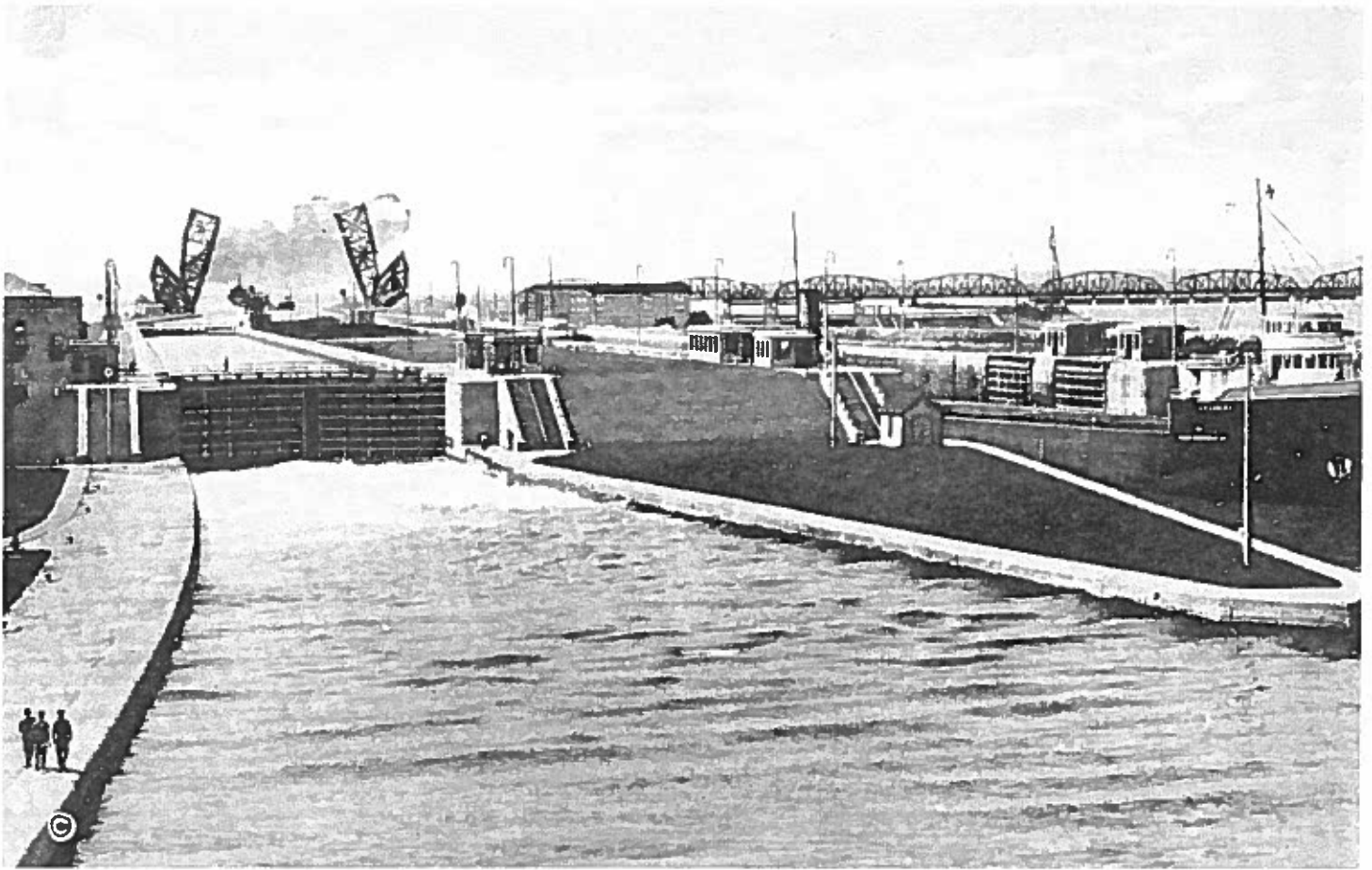
(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	
Eastern Michigan University	\$ 278,849	\$ 177,287	\$ 16,961	\$ 57	\$ (84,543)
Ferris State University	178,076	108,898	19,453	-	(49,726)
Grand Valley State University	249,253	161,639	29,721	3,107	(54,786)
Lake Superior State University	41,913	19,756	7,554	1,063	(13,540)
Michigan Technological University	160,137	66,192	41,459	13,374	(39,112)
Northern Michigan University	133,920	65,732	20,295	1,471	(46,422)
Oakland University	167,965	105,284	21,942	923	(39,816)
Saginaw Valley State University	91,069	51,427	10,740	-	(28,903)
Total	<u>\$ 1,301,183</u>	<u>\$ 756,214</u>	<u>\$ 168,125</u>	<u>\$ 19,995</u>	<u>\$ (356,849)</u>

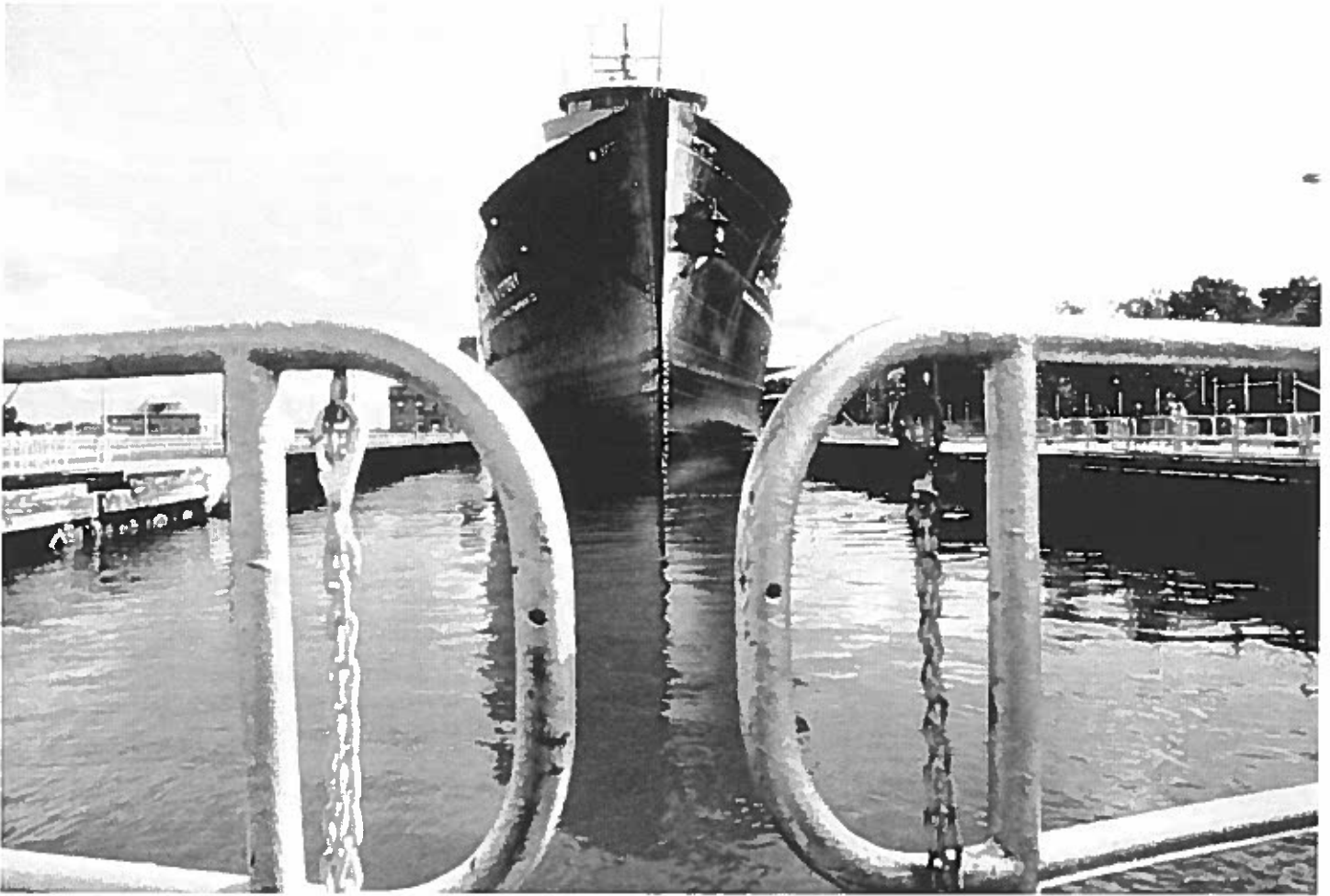
GENERAL REVENUES

INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	CHANGE IN NET ASSETS	NET ASSETS BEGINNING OF YEAR	NET ASSETS END OF YEAR
\$ 2,538	\$ 82,897	\$ 2,744	\$ 3,635	\$ 297,379	\$ 301,014
3,671	50,647	4,023	8,615	221,127	229,742
3,917	60,648	4,794	14,572	407,656	422,228
1,009	12,631	-	100	65,471	65,571
7,928	49,830	-	18,645	273,496	292,141
3,405	58,184	-	15,166	195,980	211,146
3,783	49,052	-	13,018	239,834	252,852
2,111	26,884	269	361	194,370	194,731
<u>\$ 28,360</u>	<u>\$ 390,771</u>	<u>\$ 11,829</u>	<u>\$ 74,112</u>	<u>\$ 1,895,313</u>	<u>\$ 1,969,425</u>





Davis and Sabin Locks, date unknown.



Close up view of a ship in the Soo Locks.



III STATISTICAL SECTION

Michigan

COMBINED SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES

GENERAL AND SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>
TAXES			
Sales	\$ 6,599,138	\$ 1,736,465	\$ 4,862,673
Personal income	6,924,224	4,938,731	1,985,493
Single business	1,907,190	1,907,190	-
Use	1,402,399	934,689	467,711
State education (property)	1,914,629	-	1,914,629
Real estate transfer	313,548	-	313,548
Tobacco products	1,179,871	707,191	472,681
Beer and wine	50,959	50,959	-
Liquor	99,929	66,817	33,112
Horse race wagering	10,924	10,924	-
Casino gaming wagering	145,811	48,202	97,609
Estate and inheritance	101,473	101,473	-
Telephone and telegraph company	99,149	99,149	-
Commercial mobile radio service	29,239	29,239	-
Insurance company	249,524	249,524	-
Motor vehicle registration	866,263	2,896	863,367
Gasoline	922,785	-	922,785
Aviation fuel	6,719	-	6,719
Diesel fuel	146,684	-	146,684
Gas and oil severance	68,055	68,055	-
Industrial facilities	138,244	-	138,244
Convention hotel accommodation	17,251	17,251	-
Airport parking	17,838	17,838	-
Quality assurance assessment	509,857	509,857	-
Penalties and interest	142,703	142,703	-
Other	72,558	59,000	13,559
	<u>23,936,964</u>	<u>11,698,151</u>	<u>12,238,812</u>
FROM FEDERAL AGENCIES			
Department of Health and Human Services	7,332,078	7,329,798	2,280
Department of Education	1,235,100	211,509	1,023,591
Department of Agriculture	1,652,904	1,356,643	296,261
Department of Labor	309,187	189,530	119,658
Department of Housing and Urban Development	7,143	7,143	-
Department of Energy	17,434	17,434	-
Department of Transportation	1,124,540	20,177	1,104,363
Department of Interior	26,310	24,206	2,104
Department of Defense	26,846	26,846	-
Department of Justice	48,737	48,737	-
Environmental Protection Agency	46,879	46,702	178
General Services Administration	3,073	3,073	-
Other	143,774	143,019	755
	<u>11,974,006</u>	<u>9,424,817</u>	<u>2,549,189</u>
FROM LOCAL AGENCIES			
Counties	107,060	88,984	18,075
Cities, villages, and townships	28,903	123	28,780
School districts	1,498	1,498	-
Multi-level governmental units	5,733	-	5,733
Other	119,681	16,634	103,046
	<u>262,875</u>	<u>107,240</u>	<u>155,635</u>
SPECIAL MEDICAID REIMBURSEMENTS			
	<u>467,970</u>	<u>467,970</u>	<u>-</u>
	467,970	467,970	-

Michigan

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>
FROM SERVICES			
Charges for providing vehicle and driver services	\$ 134,732	\$ 131,978	\$ 2,754
Revenue for patient, ward, and inmate care	35,628	35,628	-
Other	94,596	94,180	416
	<u>264,957</u>	<u>261,786</u>	<u>3,170</u>
FROM LICENSES AND PERMITS			
Liquor retailers', manufacturers', and wholesalers' licenses	13,305	13,305	-
Motor vehicle operators' and chauffeurs' licenses	51,345	41,068	10,277
Examination fees - financial institutions and insurance industry	21,905	21,905	-
Concession and privilege fees - State parks	637	-	637
Motor vehicle related	36,840	2,996	33,844
Hunting, fishing, and trapping licenses	49,421	-	49,421
Public utility assessment fees	16,326	16,326	-
Labor and Economic Growth licenses and permits	67,359	57,987	9,373
Auto repair facilities and mechanics licenses and fees	4,131	4,131	-
Corporation franchise fees	20,258	20,258	-
Other	141,973	86,583	55,390
	<u>423,501</u>	<u>264,559</u>	<u>158,941</u>
MISCELLANEOUS			
Income from investments	70,564	14,625	55,939
Tobacco settlement proceeds	277,443	-	277,443
Various fines, fees, and assessments	80,579	51,365	29,215
Court fines, fees, and assessments	212,926	202,706	10,220
Oil and gas royalties, fees, assignments, and rentals	11,715	5,485	6,231
Environmental pollution settlements	13,031	3,906	9,125
Child support	39,608	39,608	-
Other	666,132	348,224	317,908
	<u>1,371,999</u>	<u>665,918</u>	<u>706,080</u>
Total Revenues	<u>38,702,270</u>	<u>22,890,442</u>	<u>15,811,828</u>
OTHER FINANCING SOURCES			
Proceeds from bond issues and bond anticipation notes	182,441	-	182,441
Capital lease acquisitions	6,778	6,778	-
Proceeds from sale of capital assets	10,340	3,037	7,304
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	146,315	146,315	-
From State Lottery Fund	680,298	12,719	667,579
From other funds	1,562,805	306,140	1,256,665
	<u>2,588,978</u>	<u>474,989</u>	<u>2,113,989</u>
Total Other Financing Sources	<u>2,588,978</u>	<u>474,989</u>	<u>2,113,989</u>
Total Revenue and Other Financing Sources (GAAP Basis)	<u>\$ 41,291,248</u>	<u>\$ 23,365,431</u>	<u>\$ 17,925,817</u>

SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES

GENERAL FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

SOURCE	TOTAL	GENERAL PURPOSE	RESTRICTED REVENUES
TAXES			
Sales	\$ 1,736,465	\$ 612,113	\$ 1,124,353
Personal income	4,938,731	4,043,043	895,688
Single business	1,907,190	1,912,419	(5,229)
Use	934,689	934,622	67
Tobacco products	707,191	116,533	590,657
Beer and wine	50,959	50,959	-
Liquor	66,817	33,639	33,178
Horse race wagering	10,924	2,025	8,899
Casino gaming wagering	48,202	42,177	6,025
Estate and inheritance	101,473	101,473	-
Telephone and telegraph company	99,149	99,149	-
Commercial mobile radio service	29,239	-	29,239
Insurance company	249,524	249,521	3
Motor vehicle registration	2,896	-	2,896
Gas and oil severance	68,055	66,652	1,403
Convention hotel accommodation	17,251	-	17,251
Airport parking	17,838	-	17,838
Quality assurance assessment	509,857	-	509,857
Penalties and interest	142,703	133,722	8,981
Other	59,000	1,155	57,845
	<u>11,698,151</u>	<u>8,399,202</u>	<u>3,298,950</u>
FROM FEDERAL AGENCIES			
Department of Health and Human Services	7,329,798	22,152	7,307,646
Department of Education	211,509	382	211,127
Department of Agriculture	1,356,643	2,570	1,354,073
Department of Labor	189,530	173	189,356
Department of Housing and Urban Development	7,143	248	6,896
Department of Energy	17,434	1,329	16,105
Department of Transportation	20,177	436	19,741
Department of Interior	24,206	136	24,069
Department of Defense	26,846	57	26,789
Department of Justice	48,737	250	48,488
Environmental Protection Agency	46,702	3,961	42,741
General Services Administration	3,073	-	3,073
Other	143,019	4,014	139,006
	<u>9,424,817</u>	<u>35,707</u>	<u>9,389,110</u>
FROM LOCAL AGENCIES			
Counties	88,984	-	88,984
Cities, villages, and townships	123	-	123
School districts	1,498	-	1,498
Other	16,634	312	16,322
	<u>107,240</u>	<u>312</u>	<u>106,928</u>
SPECIAL MEDICAID REIMBURSEMENTS			
	<u>467,970</u>	<u>-</u>	<u>467,970</u>
	467,970	-	467,970
FROM SERVICES			
Charges for providing vehicle and driver services	131,978	6,471	125,507
Revenue for patient, ward, and inmate care	35,628	60	35,568
Other	94,180	13,287	80,893
	<u>261,786</u>	<u>19,818</u>	<u>241,969</u>

SOURCE	TOTAL	GENERAL PURPOSE	RESTRICTED REVENUES
FROM LICENSES AND PERMITS			
Liquor retailers', manufacturers', and wholesalers' licenses	\$ 13,305	\$ -	\$ 13,305
Motor vehicle operators' and chauffeurs' licenses	41,068	17,423	23,645
Examination fees - financial institutions and insurance industry	21,905	8	21,897
Motor vehicle related	2,996	85	2,911
Public utility assessment fees	16,326	4	16,322
Labor and Economic Growth licenses and permits	57,987	4,100	53,887
Auto repair facilities and mechanics licenses and fees	4,131	321	3,810
Corporation franchise fees	20,258	4,443	15,816
Other	86,583	967	85,616
	<u>264,559</u>	<u>27,351</u>	<u>237,208</u>
MISCELLANEOUS			
Income from investments	14,625	382	14,244
Various fines, fees, and assessments	51,365	1,179	50,185
Court fines, fees, and assessments	202,706	73,665	129,042
Oil and gas royalties, fees, assignments, and rentals	5,485	-	5,485
Environmental pollution settlements	3,906	-	3,906
Child support	39,608	-	39,608
Other	348,224	160,127	188,097
	<u>665,918</u>	<u>235,352</u>	<u>430,566</u>
 Total Revenues	 <u>22,890,442</u>	 <u>8,717,742</u>	 <u>14,172,700</u>
OTHER FINANCING SOURCES			
Capital lease acquisitions	6,778	-	6,778
Proceeds from sale of capital assets	3,037	-	3,037
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	146,315	142,196	4,119
From State Lottery Fund	12,719	11,729	990
From other funds	306,140	169,140	136,999
	<u>474,989</u>	<u>323,066</u>	<u>151,923</u>
 Total Revenue and Other Financing Sources (GAAP Basis)	 <u>23,365,431</u>	 <u>9,040,808</u>	 <u>14,324,623</u>
BUDGETARY BASIS ADJUSTMENTS			
Capital lease acquisitions	(6,778)	-	(6,778)
 Total Revenue and Other Financing Sources (budgetary basis)	 <u>\$ 23,358,653</u>	 <u>\$ 9,040,808</u>	 <u>\$ 14,317,845</u>

Michigan

SOURCE AND DISPOSITION OF GENERAL FUND AUTHORIZATIONS

FISCAL YEAR ENDED SEPTEMBER 30, 2005

(In Thousands)

<u>BRANCH AND DEPARTMENT</u>	<u>CURRENT LEGISLATIVE APPROPRIATION</u>	<u>BUDGETARY TRANSFERS IN/OUT</u>	<u>BUDGETARY ADJUSTMENT</u>	<u>UNEXPENDED FROM PRIOR YEAR</u>	<u>RESTRICTED REVENUE ADDITIONS</u>	<u>LESS: TIMING DIFFERENCES* RESTRICTED REVENUE NOT AUTHORIZED/USED</u>
Legislative Branch	\$ 122,174	\$ -	\$ 139	\$ 11,586	\$ 5,209	\$ (3)
Judicial Branch	157,547	-	-	18,085	79,348	(8,968)
Executive Branch:						
Agriculture	28,428	2,025	-	8,900	67,401	(7,209)
Attorney General	31,053	-	39	6,239	24,686	(1,390)
Civil Rights	11,568	-	10	35	1,724	-
Civil Service	7,443	-	-	286	19,923	-
Colleges and Universities Grants	1,925,128	-	-	3	2,764	-
Community Health	2,588,837	-	1,703	66,880	7,757,220	(68,793)
Corrections	1,688,886	-	134	34,118	38,635	(4,216)
Education	191,262	-	-	3,411	61,202	(2,884)
Environmental Quality	26,127	-	3,731	93,554	215,243	(159,543)
Executive Office	5,206	-	-	-	-	-
History, Arts & Libraries	45,177	-	-	1,661	10,543	(464)
Human Services	1,080,168	-	22,446	11,117	3,032,459	(2,437)
Labor and Economic Growth	100,128	-	2,652	131,962	628,557	(117,745)
Management and Budget	278,995	-	673	64,897	150,338	(35,117)
Military and Veterans Affairs	36,657	-	264	7,476	64,816	(2,316)
Natural Resources	28,502	-	247	22,656	55,089	(24,849)
State	15,192	-	19	18,296	176,685	(7,246)
State Police	246,375	-	426	30,597	209,198	(24,148)
Transportation	-	-	-	-	-	-
Treasury	187,064	-	-	99,157	2,243,466	(97,962)
Intrafund expenditure reimbursements	-	-	-	-	-	-
TOTAL	\$ 8,801,913	\$ 2,025	\$ 32,484	\$ 630,916	\$ 14,844,506	\$ (565,289)

* Timing differences are subtracted from Gross Spending Authority in order to show an annualized Budget that is comparable to the current year's Actual uses. Timing differences consist of unused authorizations for multi-year projects (capital outlay and work projects) and restricted revenue not authorized/used, which includes Revenues that by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenue is subject to annual legislative appropriation. However, the restricted revenue may also be used in subsequent years to finance expenditures in multi-year appropriations and for encumbrances carried forward.

Restricted revenue balances authorized in the Variances category represent restricted revenue carry-over: that could have been used in the current period but were not

NOTE: This schedule was prepared on the Statutory/Budgetary basis

Michigan

GROSS SPENDING AUTHORITY	LESS: TIMING DIFFERENCES* MULTI-YEAR PROJECTS	"BUDGET"	"ACTUAL"		"VARIANCES"		
		AS PRESENTED IN STATEMENTS	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	RESTRICTED REVENUE BALANCES AUTHORIZED	LAPSES	OVEREXPENDED
\$ 139,106	\$ (13,839)	\$ 125,267	\$ 122,456	\$ 1,613	\$ 106	\$ 1,091	\$ -
246,012	-	246,012	244,780	773	57	403	-
99,545	-	99,545	99,165	315	-	65	-
60,626	-	60,626	57,838	1,558	-	1,229	-
13,337	-	13,337	13,159	-	-	178	-
27,652	-	27,652	26,809	62	-	781	-
1,927,895	(4,143)	1,923,752	1,922,767	-	-	985	-
10,345,848	-	10,345,848	10,307,447	1,699	-	36,701	-
1,757,558	-	1,757,558	1,741,943	13,634	-	1,981	-
252,991	-	252,991	251,473	96	-	1,422	-
179,112	-	179,112	178,928	93	-	91	-
5,206	-	5,206	5,163	6	-	36	-
56,916	-	56,916	56,006	107	781	22	-
4,143,753	-	4,143,753	4,138,168	5,415	-	8,198	(8,028)
745,554	(3,700)	741,854	741,345	181	263	64	-
459,786	(6,949)	452,837	441,602	4,491	-	6,744	-
106,897	-	106,897	104,078	8	2,681	131	-
81,645	-	81,645	80,610	846	-	189	-
202,946	(8,002)	194,943	189,690	3,873	139	1,242	-
462,448	(5,150)	457,298	456,126	378	-	794	-
-	-	-	-	-	-	-	-
2,431,725	-	2,431,725	2,422,188	2,636	3,817	3,084	-
-	-	(526,661)	(526,661)	-	-	-	-
<u>\$ 23,746,556</u>	<u>\$ (41,783)</u>	<u>\$ 23,178,112</u>	<u>\$ 23,075,079</u>	<u>\$ 37,785</u>	<u>\$ 7,844</u>	<u>\$ 65,432</u>	<u>\$ (8,028)</u>

**SOURCE AND DISPOSITION OF
GENERAL FUND/GENERAL PURPOSE AUTHORIZATIONS
APPROPRIATION YEAR 2005
FISCAL YEAR ENDED SEPTEMBER 30, 2005**

(In Thousands)

<u>BRANCH AND DEPARTMENT</u>	<u>CURRENT LEGISLATIVE APPROPRIATION*</u>	<u>BUDGETARY TRANSFERS IN/OUT</u>	<u>BUDGETARY ADJUSTMENT</u>
Legislative Branch	\$ 122,174	\$ -	\$ 139
Judicial Branch	157,547	-	-
Executive Branch:			
Agriculture	28,428	2,025	-
Attorney General	31,053	-	39
Civil Rights	11,568	-	10
Civil Service	7,443	-	-
Colleges and Universities Grants	1,925,128	-	-
Community Health	2,588,837	-	1,703
Corrections	1,688,886	-	134
Education	191,262	-	-
Environmental Quality	26,127	-	3,731
Executive Office	5,206	-	-
History, Arts & Libraries	45,177	-	-
Human Services	1,080,168	-	22,446
Labor and Economic Growth	100,128	-	2,652
Management and Budget	278,995	-	673
Military and Veterans Affairs	36,657	-	264
Natural Resources	28,502	-	247
State	15,192	-	19
State Police	246,375	-	426
Transportation	-	-	-
Treasury	187,064	-	-
	<u>\$ 8,801,913</u>	<u>\$ 2,025</u>	<u>\$ 32,484</u>
TOTAL			

* The amounts in the "Current Legislative Appropriation" column include certain appropriations that do not appear as line-item appropriations in the budget bills. These appropriations are authorized in narrative "boilerplate" language in the budget bills. "Boilerplate" appropriations include interfund borrowing, interest on general obligation notes and bonds, and certain interfund transfers.

"Boilerplate" appropriations accounted for \$99 million of the "Current Legislative Appropriation" for the Appropriation Year 2005.

Michigan

GROSS SPENDING AUTHORITY	"ACTUAL"			"VARIANCES"	
	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	MULTI-YEAR PROJECT BALANCES FORWARD	LAPSES	OVEREXPENDED
\$ 122,313	\$ 110,333	\$ 1,102	\$ 9,826	\$ 1,052	\$ -
157,547	157,357	189	-	2	-
30,453	30,177	248	-	28	-
31,091	30,135	41	-	916	-
11,578	11,400	-	-	178	-
7,443	6,678	7	-	758	-
1,925,128	1,920,002	-	4,141	984	-
2,590,540	2,552,140	1,699	-	36,701	-
1,689,021	1,685,290	2,572	-	1,158	-
191,262	189,746	94	-	1,422	-
29,858	29,770	14	-	74	-
5,206	5,163	6	-	36	-
45,177	45,124	39	-	14	-
1,102,614	1,097,447	5,125	-	8,070	(8,028)
102,780	98,857	177	3,700	46	-
279,668	273,116	183	-	6,369	-
36,920	36,802	5	-	112	-
28,748	28,246	321	-	182	-
15,211	10,445	66	3,466	1,234	-
246,801	240,609	332	5,150	710	-
-	-	-	-	-	-
187,064	184,007	32	-	3,024	-
<u>\$ 8,836,422</u>	<u>\$ 8,742,846</u>	<u>\$ 12,253</u>	<u>\$ 26,284</u>	<u>\$ 63,068</u>	<u>\$ (8,028)</u>

Michigan

**REVENUE, BOND PROCEEDS, AND CAPITAL LEASE ACQUISITIONS
GENERAL AND SPECIAL REVENUE FUNDS**

LAST TEN YEARS
SEPTEMBER 30, 2005
(In Thousands)

<u>SOURCE</u>	<u>1995-1996</u>	<u>1996-1997</u>	<u>1997-1998</u>	<u>1998-1999</u>
TAXES:				
Sales	\$ 5,171,598	\$ 5,389,802	\$ 5,617,331	\$ 5,901,733
Personal Income (net of tax expenditures)	5,438,788	5,930,404	6,316,125	6,907,933
Amount reported as tax expenditures	429,618	470,000	477,000	486,100
Single Business Use	2,187,418	2,224,319	2,349,148	2,360,533
State Education (Property)	1,034,886	1,092,216	1,159,258	1,283,017
Real Estate Transfer	1,272,288	1,348,832	1,256,874	1,273,459
Liquor, Beer, Wine, and Tobacco Products	-	-	227,852	261,696
Casino Gaming Wagering	698,007	662,287	689,451	739,972
Telephone and Telegraph Company	-	-	-	-
Insurance Company	135,412	145,805	151,964	150,334
Motor Vehicle and Fuel	205,996	182,389	142,565	199,463
Quality Assurance Assessment	1,334,349	1,424,963	1,695,068	1,784,970
Other	-	-	-	-
	<u>611,716</u>	<u>569,300</u>	<u>543,391</u>	<u>609,665</u>
TOTAL TAXES	18,520,076	19,440,316	20,626,025	21,958,875
FEDERAL AGENCIES	7,469,416	7,653,495	7,679,490	7,902,699
LOCAL AGENCIES	197,972	168,247	165,443	183,822
SPECIAL MEDICAID REIMBURSEMENTS	598,654	593,402	585,179	690,799
SERVICES	120,415	114,354	107,623	113,415
LICENSES AND PERMITS	353,266	353,492	376,909	383,778
MISCELLANEOUS	<u>701,004</u>	<u>655,963</u>	<u>700,553</u>	<u>769,236</u>
TOTAL REVENUE	<u>27,960,804</u>	<u>28,979,270</u>	<u>30,241,222</u>	<u>32,002,624</u>
PROCEEDS FROM BOND ISSUES AND BOND ANTICIPATION NOTES	6,149	54,021	251,454	-
CAPITAL LEASE ACQUISITIONS	71,810	54,157	29,027	57,609
PROCEEDS FROM SALE OF CAPITAL ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE, BOND PROCEEDS, CAPITAL LEASE ACQUISITIONS, AND PROCEEDS FROM SALE OF CAPITAL ASSETS	<u>\$ 28,038,762</u>	<u>\$ 29,087,448</u>	<u>\$ 30,521,703</u>	<u>\$ 32,060,233</u>

NOTES: (1) Beginning in fiscal year 1996-97, the State began reporting the federal share of child support collections as federal revenue, rather than as miscellaneous revenue. Prior year amounts have been reclassified to include the federal revenue which were previously reported on the "Miscellaneous" line.

(2) Beginning in fiscal year 1997-98, the State began reporting real estate transfer tax separately from State education (property) tax. Amounts of the real estate transfer tax for years prior to 1997-98 are not available.

(3) Beginning in fiscal year 2003-2004, the State began reporting quality assurance assesment revenue as a tax revenue, rather than as miscellaneous revenue. Amounts for years prior to 2003-2004 are not available.

(4) Beginning in fiscal year 2004-2005, the State began reporting charges for providing vehicle and driving services as revenue from services, rather than licenses and permits. Amounts for years prior to 2004-2005 are not available.

Michigan

1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
\$ 6,277,498	\$ 6,352,306	\$ 6,439,894	\$ 6,422,642	\$ 6,473,522	\$ 6,599,138
7,144,211	6,749,373	6,095,989	5,811,843	5,873,365	6,108,924
502,100	532,800	615,100	707,800	702,700	815,300
2,324,868	2,022,882	1,983,795	1,843,072	1,841,010	1,907,190
1,355,389	1,333,607	1,306,365	1,229,838	1,316,504	1,402,399
1,381,420	1,489,552	1,583,660	2,127,513	1,824,493	1,914,629
257,093	252,894	253,075	275,513	317,480	313,548
736,859	732,673	808,225	1,035,322	1,142,217	1,330,759
-	75,415	91,915	90,945	99,455	145,811
149,206	152,523	137,343	124,168	101,315	99,149
191,946	200,756	227,081	231,076	230,272	249,524
1,829,979	1,852,964	1,917,481	1,946,225	2,015,567	1,942,450
-	-	-	-	325,188	509,857
714,899	657,279	610,485	580,001	536,839	598,285
22,865,469	22,405,023	22,070,408	22,425,957	22,799,928	23,936,964
8,571,625	9,566,353	10,202,344	10,812,852	11,579,388	11,974,006
173,882	227,996	248,867	230,728	239,815	262,875
1,059,343	1,155,374	1,109,233	932,658	704,551	467,970
110,294	115,346	121,849	121,198	148,140	264,957
393,006	391,655	408,746	417,786	555,858	423,501
1,032,248	1,281,281	1,150,187	1,390,001	1,109,630	1,371,999
34,205,867	35,143,027	35,311,635	36,331,180	37,137,308	38,702,270
82,099	854,240	424,472	352,254	405,881	182,441
22,330	23,014	237,272	16,052	19,661	6,778
-	-	-	-	11,513	10,340
<u>\$ 34,310,295</u>	<u>\$ 36,020,281</u>	<u>\$ 35,973,378</u>	<u>\$ 36,699,486</u>	<u>\$ 37,574,362</u>	<u>\$ 38,901,829</u>

Michigan

**SCHEDULE OF EXPENDITURES BY FUNCTION
GENERAL AND SPECIAL REVENUE FUNDS - STATE FUNDS**

LAST TEN YEARS
SEPTEMBER 30, 2005
(In Thousands)

	<u>1995 - 1996</u>	<u>1996 - 1997</u>	<u>1997 - 1998</u>	<u>1998 - 1999</u>
Current:				
General government	\$ 1,061,865	\$ 1,060,633	\$ 1,003,062	\$ 1,072,735
Education	10,219,613	10,568,759	11,462,128	11,827,226
Human services (1)	8,619,094	3,496,468	3,262,649	3,229,377
Public safety and corrections	1,683,618	1,738,682	1,720,105	1,908,871
Conservation, environment, recreation, and agriculture	511,459	440,656	446,377	482,901
Labor, commerce, and regulatory	716,571	756,754	763,484	720,070
Health services (1)	1,501,080	6,563,740	6,781,614	7,100,795
Transportation	1,392,778	1,459,704	1,556,082	1,645,123
Tax expenditures	429,618	470,000	477,000	486,100
Capital outlay	608,159	716,835	898,509	1,144,575
Intergovernmental - revenue sharing	1,281,089	1,301,153	1,381,009	1,410,400
Debt service:				
Bond interest and fiscal charges	-	-	-	-
Capital lease payments	<u>44,932</u>	<u>57,562</u>	<u>58,905</u>	<u>59,287</u>
Total Expenditures	<u>\$ 28,069,878</u>	<u>\$ 28,630,947</u>	<u>\$ 29,810,925</u>	<u>\$ 31,087,460</u>

NOTE: (1) Beginning in fiscal year 1996-97 the State consolidated the Medical Services Administration (MSA), the Departments of Public Health and Mental Health to form the Department of Community Health and accounted for the combined operations as "Health services." MSA and Public Health expenditures were previously reported as "Health and welfare," which was renamed to "Family independence services," which then was renamed to "Human services." Prior year amounts have not been restated.

Michigan

<u>1999 - 2000</u>	<u>2000 - 2001</u>	<u>2001 - 2002</u>	<u>2002 - 2003</u>	<u>2003 - 2004</u>	<u>2004 - 2005</u>
\$ 1,071,643	\$ 1,270,363	\$ 1,541,175	\$ 1,207,672	\$ 1,116,072	\$ 1,303,070
12,436,812	13,975,247	14,547,772	14,624,856	14,305,112	14,488,870
3,336,835	3,596,001	3,791,373	3,875,371	3,932,475	4,122,779
1,983,001	2,155,735	2,132,401	2,112,194	2,118,888	2,284,674
564,738	617,703	638,615	581,168	571,909	598,930
740,687	881,069	891,817	891,644	902,903	924,876
7,692,354	8,525,435	8,891,480	9,270,484	9,676,268	10,126,544
1,663,318	2,058,191	2,117,153	2,080,361	2,211,490	2,163,688
502,100	532,800	615,100	707,800	702,700	815,300
1,196,211	1,267,158	1,232,479	1,085,686	1,046,339	1,229,534
1,494,016	1,555,799	1,517,303	1,451,374	1,305,146	1,112,931
-	2,219	1,240	-	-	-
<u>52,027</u>	<u>48,820</u>	<u>51,387</u>	<u>67,723</u>	<u>50,840</u>	<u>49,530</u>
<u>\$ 32,733,741</u>	<u>\$ 36,486,541</u>	<u>\$ 37,969,296</u>	<u>\$ 37,956,335</u>	<u>\$ 37,940,143</u>	<u>\$ 39,220,726</u>

Michigan

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION
BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES AND TRANSFERS**

LAST TEN YEARS

SEPTEMBER 30, 2005

(In Thousands)

<u>FISCAL YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST AND FISCAL CHARGES</u>	<u>TOTAL DEBT SERVICE EXPENDITURES</u>	<u>TOTAL GENERAL FUND EXPENDITURES AND TRANSFERS</u>	<u>RATIO OF DEBT SERVICE EXPENDITURES TO GENERAL FUND EXPENDITURES AND TRANSFERS</u>
1995-1996	\$ 21,097	\$ 33,150	\$ 54,246	\$ 18,755,877	.29 %
1996-1997	29,857	34,143	64,000	18,571,900	.34 %
1997-1998	31,141	32,676	63,817	18,847,724	.34 %
1998-1999	34,751	45,055	79,806	20,027,355	.40 %
1999-2000	36,035	49,584	85,619	20,942,926	.41 %
2000-2001	42,392	49,053	91,445	22,275,036	.41 %
2001-2002	65,811	51,702	117,513	23,048,459	.51 %
2002-2003	27,012	51,915	78,927	22,443,621	.35 %
2003-2004	227,362	59,421	286,783	22,513,124	1.27 %
2004-2005	61,405	62,201	123,606	23,081,857	.54 %

NOTE: Principal and interest on short-term general obligation notes are not included in this bonded debt schedule.

NET GENERAL OBLIGATION BONDED DEBT PER CAPITA

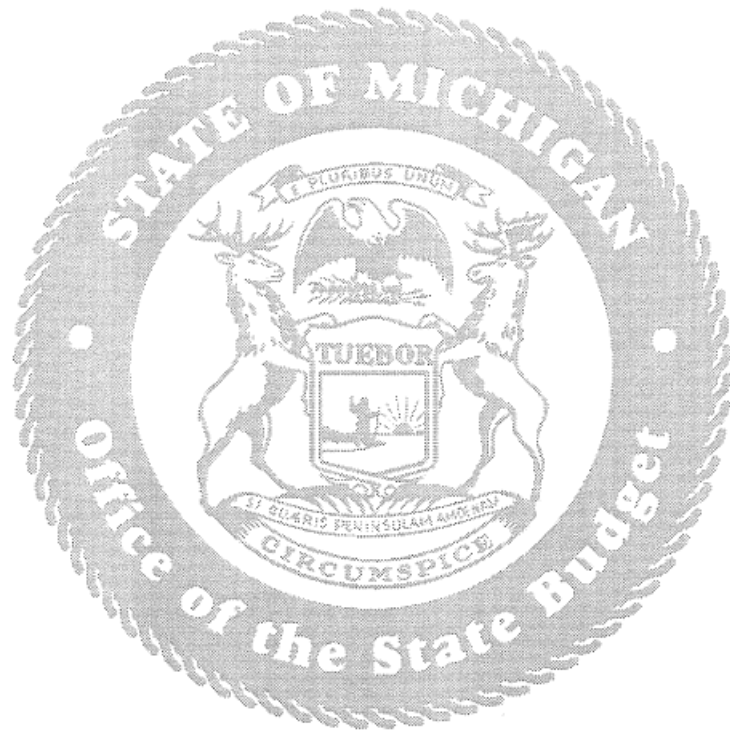
LAST TEN YEARS

SEPTEMBER 30, 2005

(In Thousands)

<u>FISCAL YEAR</u>	<u>POPULATION*</u>	<u>GROSS BONDED DEBT</u>	<u>LESS DEBT SERVICE FUNDS</u>	<u>NET BONDED DEBT</u>	<u>NET BONDED DEBT PER CAPITA (IN DOLLARS)</u>
1995-1996	9,739	\$ 702,486	\$ -	\$ 702,486	\$ 72.13
1996-1997	9,785	677,277	-	677,277	69.22
1997-1998	9,820	901,103	-	901,103	91.76
1998-1999	9,864	869,788	-	869,788	88.18
1999-2000	9,956	930,279	-	930,279	93.44
2000-2001	10,005	1,031,802	-	1,031,802	103.13
2001-2002	10,043	1,119,561	-	1,119,561	111.48
2002-2003	10,082	1,413,443	787	1,412,656	140.12
2003-2004	10,113	1,527,536	810	1,526,726	150.97
2004-2005	Unavailable	1,645,077	848	1,644,229	Unavailable

*SOURCES: U. S. Census Bureau, Population Division.
Department of History, Arts, and Libraries.



STATE BUILDING AUTHORITY (SBA) BONDED DEBT PER CAPITA

LAST TEN YEARS

SEPTEMBER 30, 2005

(In Thousands)

<u>FISCAL YEAR</u>	<u>POPULATION*</u>	<u>SBA GROSS BONDED DEBT</u>	<u>LESS SBA DEBT SERVICE FUNDS</u>	<u>SBA NET BONDED DEBT</u>	<u>SBA NET BONDED DEBT PER CAPITA (IN DOLLARS)</u>
1995-1996	9,739	\$ 1,478,896	\$ 171,244	\$ 1,307,652	134.27
1996-1997	9,785	1,616,700	193,219	1,423,481	145.48
1997-1998	9,820	1,996,787	245,050	1,751,737	178.38
1998-1999	9,864	1,945,086	220,745	1,724,341	174.81
1999-2000	9,956	1,825,918	233,540	1,592,378	159.94
2000-2001	10,005	2,159,314	226,906	1,932,408	193.14
2001-2002	10,043	2,582,134	274,813	2,307,321	229.74
2002-2003	10,082	2,606,760	204,379	2,402,381	238.28
2003-2004	10,113	2,544,580	193,507	2,351,073	232.48
2004-2005	Unavailable	2,614,520	193,648	2,420,872	Unavailable

NOTE: State Building Authority (SBA) bonds are revenue dedicated bonds whose debt service requirements are financed by General Fund appropriations for rent of leased property, excess bond proceeds, and investments earnings. The bonds of the Authority are not considered direct debts or obligations of the State.

*SOURCES: U. S. Census Bureau, Population Division.
Department of History, Arts, and Libraries.

DEBT SERVICE COVERAGE
COMPREHENSIVE TRANSPORTATION FUND RELATED BONDS
 LAST TEN YEARS
 SEPTEMBER 30, 2005
 (In Millions)

	<u>1995-1996</u>	<u>1996-1997</u>	<u>1997-1998</u>	<u>1998-1999</u>
Constitutionally Restricted				
Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 761.7	\$ 821.0	\$ 1,022.7	\$ 1,066.3
Registration Taxes	564.5	596.5	664.8	709.9
Miscellaneous Fees	<u>57.4</u>	<u>54.4</u>	<u>59.1</u>	<u>57.0</u>
Total	1,383.6	1,471.9	1,746.6	1,833.2
Less Deductions	<u>113.4</u>	<u>116.9</u>	<u>117.9</u>	<u>121.2</u>
Remaining Balance	1,270.2	1,355.0	1,628.7	1,712.0
Portion of Balance Credited to Comprehensive Transportation Fund (excluding interest)	<u>129.0</u>	<u>132.2</u>	<u>145.3</u>	<u>153.0</u>
Motor Vehicle Related Sales Tax Revenues	\$ 837.5	\$ 843.4	\$ 864.7	\$ 906.7
Allocation to Comprehensive Transportation Fund	<u>58.4</u>	<u>58.8</u>	<u>60.3</u>	<u>63.2</u>
Constitutionally Restricted Revenues Credited to Comprehensive Transportation Fund	\$ 187.4	\$ 191.0	\$ 205.6	\$ 216.3
Plus Other Revenues (primarily interest)	<u>7.9</u>	<u>5.0</u>	<u>6.1</u>	<u>6.6</u>
Money Available for Debt Service	<u>195.3</u>	<u>196.1</u>	<u>211.7</u>	<u>222.9</u>
Actual Annual Debt Service (1)	<u>23.1</u>	<u>22.5</u>	<u>23.1</u>	<u>21.9</u>
Debt Service Coverage	8.5 x	8.7 x	9.2 x	10.2 x

Note: (1) The table above does not include debt service on refunded bonds.

Source: Michigan Department of Transportation.

Michigan

<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
\$ 1,066.5	\$ 1,067.6	\$ 1,082.8	\$ 1,093.2	\$ 1,073.3	\$ 1,069.1
755.1	777.9	827.3	844.7	933.8	863.4
<u>55.2</u>	<u>54.7</u>	<u>58.0</u>	<u>56.7</u>	<u>51.4</u>	<u>37.3</u>
1,876.7	1,900.2	1,968.1	1,994.5	2,058.4	1,969.8
<u>128.0</u>	<u>132.0</u>	<u>173.4</u>	<u>176.8</u>	<u>110.9</u>	<u>125.4</u>
1,748.7	1,768.2	1,794.7	1,817.8	1,947.6	1,844.4
<u>156.9</u>	<u>159.2</u>	<u>160.5</u>	<u>162.3</u>	<u>166.4</u>	<u>167.3</u>
<u>\$ 999.3</u>	<u>\$ 1,057.0</u>	<u>\$ 1,130.0</u>	<u>\$ 1,708.4</u>	<u>\$ 1,082.7</u>	<u>\$ 1,115.4</u>
<u>69.7</u>	<u>73.7</u>	<u>78.8</u>	<u>79.4</u>	<u>65.0</u>	<u>56.9</u>
\$ 226.6	\$ 232.9	\$ 239.3	\$ 241.8	\$ 231.3	\$ 224.3
<u>3.1</u>	<u>3.5</u>	<u>0.9</u>	<u>1.4</u>	<u>3.6</u>	<u>5.0</u>
<u>229.7</u>	<u>236.4</u>	<u>240.3</u>	<u>243.2</u>	<u>234.9</u>	<u>229.3</u>
<u>21.2</u>	<u>21.7</u>	<u>21.4</u>	<u>23.6</u>	<u>30.3</u>	<u>28.9</u>
10.8 x	10.9 x	11.3 x	10.3 x	7.8 x	7.9 x

**DEBT SERVICE COVERAGE
STATE TRUNKLINE FUND RELATED BONDS**

LAST TEN YEARS
SEPTEMBER 30, 2005
(In Millions)

	<u>1995-1996</u>	<u>1996-1997</u>	<u>1997-1998</u>	<u>1998-1999</u>
Constitutionally Restricted				
Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 761.7	\$ 821.0	\$ 1,022.7	\$ 1,066.3
Registration Taxes	564.5	596.5	664.8	709.9
Miscellaneous Fees	57.4	54.4	59.1	57.0
Total	<u>1,383.6</u>	<u>1,471.9</u>	<u>1,746.6</u>	<u>1,833.2</u>
Less Deductions:				
Critical Bridge Debt Service	1.6	1.6	1.6	1.4
P.A. 51 Dedicated State Trunkline Fund Debt Service (1)	-	-	43.0	43.0
Collection Costs	99.8	101.2	55.4	58.4
Waterways/Recreational Improvement Fund	13.6	14.1	17.9	18.4
Comprehensive Transportation Fund (excluding interest)	129.0	132.2	145.3	153.0
Local Program Fund	33.0	33.0	33.0	33.0
Critical Bridge Fund	5.0	5.0	5.0	5.0
Economic Development Fund	36.8	36.8	40.3	40.3
Total Deductions	<u>318.8</u>	<u>323.9</u>	<u>341.5</u>	<u>352.5</u>
Constitutionally Restricted Revenues				
Available for Distribution	1,064.7	1,148.1	1,405.1	1,480.7
Plus Other Revenues (primarily interest)	18.8	59.7	13.9	11.6
Total Money Available for Distribution	<u>1,083.5</u>	<u>1,207.8</u>	<u>1,419.0</u>	<u>1,492.3</u>
Distributions to:				
Cities and Villages	239.5	270.5	302.7	318.7
County Road Commissions	421.4	477.9	534.3	561.0
State Trunkline Fund	422.7	459.3	582.0	612.7
Money Available for Debt Service				
State Trunkline Fund	422.7	459.3	582.0	612.7
P.A. 51 Dedicated State Trunkline Fund Debt Service (1)	-	-	43.0	43.0
Economic Development Fund	36.8	36.8	40.3	40.3
Local Program Fund	33.0	33.0	33.0	33.0
Critical Bridge Fund	-	-	1.6	1.4
Total Available for Debt Service	<u>492.5</u>	<u>529.0</u>	<u>699.9</u>	<u>730.4</u>
Actual Annual Debt Service (2)	58.2	59.7	61.3	57.8
Debt Service Coverage	8.5 x	8.9 x	11.4 x	12.6 x

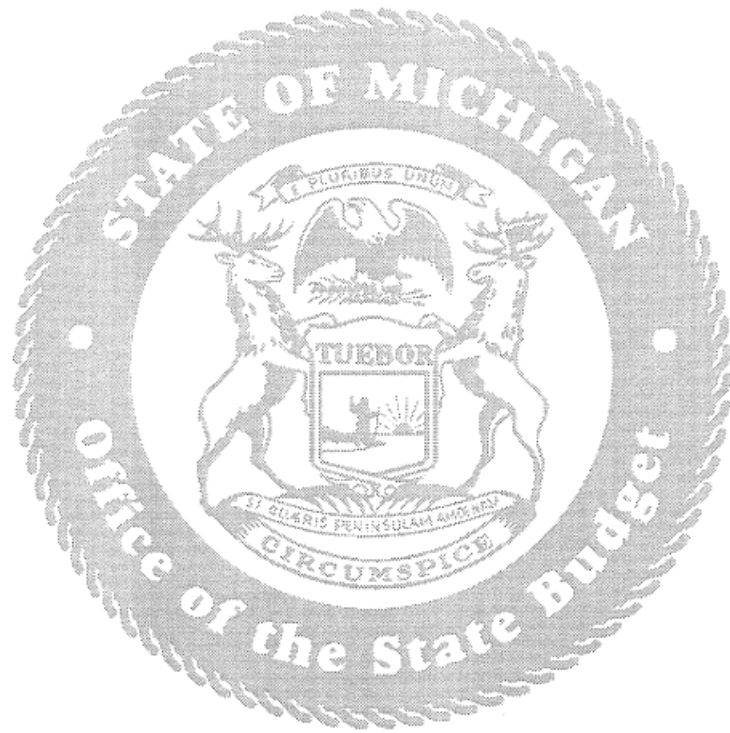
Note: (1) Beginning fiscal year 1997-98, the formula for the tax distribution was revised to apportion and appropriate \$43 million from the Michigan Transportation Fund to the State Trunkline Fund for debt service costs on State of Michigan projects. Prior year amounts are not available.

(2) The table above excludes amounts related to refunded bonds and federally funded debt.

SOURCE: Michigan Department of Transportation.

Michigan

<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
\$ 1,066.5	\$ 1,067.6	\$ 1,082.8	\$ 1,093.2	\$ 1,073.3	\$ 1,069.1
755.1	777.9	827.3	844.7	933.8	863.4
55.2	54.7	58.0	56.7	51.4	37.3
<u>1,876.7</u>	<u>1,900.2</u>	<u>1,968.1</u>	<u>1,994.5</u>	<u>2,058.4</u>	<u>1,969.8</u>
2.4	2.4	2.4	2.2	2.2	2.2
43.0	43.0	43.0	43.0	43.0	43.0
64.0	63.1	109.4	113.1	42.2	44.5
18.6	18.5	18.7	18.5	18.4	18.4
156.9	159.2	160.5	162.3	166.4	167.3
33.0	33.0	33.0	33.0	33.0	33.0
5.0	5.0	5.0	5.0	5.0	17.2
40.3	40.3	40.3	40.3	40.3	40.3
<u>363.2</u>	<u>364.5</u>	<u>412.2</u>	<u>417.4</u>	<u>350.5</u>	<u>366.0</u>
1,513.6	1,535.7	1,555.9	1,577.2	1,707.9	1,603.8
15.8	13.4	6.1	5.9	6.2	7.0
<u>1,529.4</u>	<u>1,549.1</u>	<u>1,562.0</u>	<u>1,583.1</u>	<u>1,714.1</u>	<u>1,610.8</u>
326.7	331.9	332.3	341.6	366.9	348.7
575.0	582.9	588.6	594.7	642.5	611.6
627.7	634.3	641.1	646.7	704.8	650.5
627.7	634.3	641.1	646.7	704.8	650.5
43.0	43.0	43.0	43.0	43.0	43.0
40.3	40.3	40.3	40.3	40.3	40.3
33.0	33.0	33.0	33.0	33.0	33.0
2.4	2.4	2.4	2.2	2.2	2.2
<u>746.4</u>	<u>753.0</u>	<u>759.7</u>	<u>765.1</u>	<u>823.2</u>	<u>769.0</u>
47.2	48.2	59.4	65.7	67.8	74.5
15.8 x	15.6 x	12.8 x	11.6 x	12.1 x	10.3 x

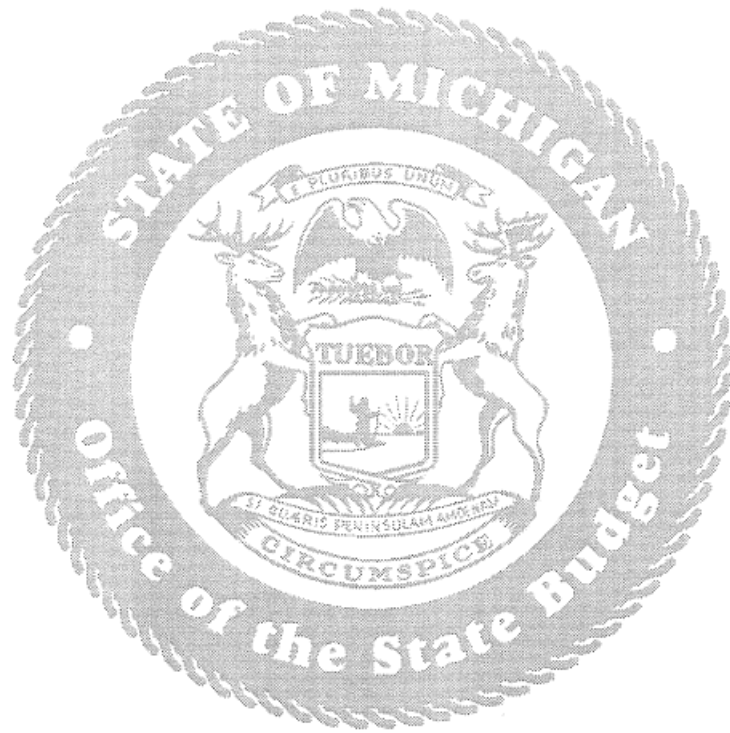




Boat tour leaving the MacArthur Lock.



Two freighters passing through the locks.



Economic and Social Data

GENERAL INFORMATION

On January 26, 1837, Michigan was admitted to the Union as the twenty-sixth state. It is located in the East North Central Census Region and is bordered by Canada and the states of Ohio, Indiana, and Wisconsin. Michigan contains 58,110 square miles of land mass (exclusive of 1,305 square miles of inland water and 38,575 square miles of Great Lakes water area) with 3,288 miles of shoreline on four of the five Great Lakes. A combined water and land area of 97,990 square miles makes it the tenth largest state.

POPULATION

The following table presents estimated population trends for Michigan for the last ten years (in thousands):

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Population	9,660	9,739	9,785	9,820	9,864	9,956	10,005	10,043	10,082	10,113
Percent Change	.8%	.8%	.5%	.4%	.4%	.9%	.5%	.4%	.4%	.3%

Source: U.S. Census Bureau, Population Division.

WEALTH

The following table presents estimated per capita income, retail sales, taxable property, and bank deposits data for the last ten years:

<u>YEAR</u>	<u>Per Capita Income (a)</u>		<u>Retail Sales (b)</u>	<u>State Equalized Value of Taxable Property (c)</u>	<u>Bank Deposits (d)</u>
	<u>MI</u>	<u>U.S.</u>	<u>(In Billions)</u>	<u>(In Billions)</u>	<u>(In Billions)</u>
1995	23,508	23,076	2,207.5	186.4	117.4
1996	24,306	24,175	2,350.3	200.3	116.9
1997	25,367	25,334	2,456.0	216.7	118.2
1998	26,919	26,883	2,572.3	237.4	123.4
1999	28,095	27,939	2,797.9	261.0	122.3
2000	29,552	29,845	2,983.0	284.4	136.5
2001	29,940	30,575	3,069.8	312.9	137.1
2002	30,225	30,814	3,141.5	343.7	129.7
2003	31,589	31,487	3,275.4	369.5	162.0
2004	32,052	33,041	3,521.7	392.6	165.4

Sources:

- (a) U.S. Department of Commerce, Bureau of Economic Analysis, September 2005 release.
 - (b) U.S. Census Bureau, Annual Retail Trade Survey, revised November 2005.
 - (c) State of Michigan, Department of Treasury, Bureau of Local Government Services.
 - (d) State of Michigan, Department of Labor & Economic Growth, Office of Financial and Insurance Services, Office of Financial Evaluation, Bank and Trust Division.
- The amounts shown include state and national banks, state and federal credit unions, state and federal savings banks, and saving and loan associations.

Economic and Social Data (Continued)

EMPLOYMENT

The following table presents estimated employment data (in thousands) for the State of Michigan for the last ten calendar years:

Year	Total Labor Force	Total Employment	Unemployment	Unemployment Rate
1995	4,835	4,577	258	5.3%
1996	4,888	4,647	241	4.9%
1997	4,963	4,749	214	4.3%
1998	5,008	4,810	198	4.0%
1999	5,089	4,897	192	3.8%
2000	5,157	4,967	190	3.7%
2001	5,132	4,865	267	5.2%
2002	5,039	4,724	315	6.3%
2003	5,054	4,695	358	7.1%
2004	5,079	4,719	360	7.1%

Source: Michigan Department of Labor & Economic Growth and U.S. Department of Labor, Bureau of Labor Statistics.

Estimated wage and salary employees for the last five calendar years consisted of the following (in thousands):

<u>Wage and Salary Employment</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Goods Producing:					
Natural Resources and Mining	9.5	9.3	8.6	8.1	8.1
Construction	209.6	206.1	199.6	190.6	190.3
Manufacturing	<u>896.7</u>	<u>819.6</u>	<u>760.0</u>	<u>716.3</u>	<u>695.8</u>
Total Goods Producing	<u>1,115.7</u>	<u>1,035.0</u>	<u>968.2</u>	<u>915.0</u>	<u>894.2</u>
Service-Providing:					
Trade, Transportation, and Utilities:					
Wholesale Trade	186.0	180.4	175.4	172.6	170.9
Retail Trade	559.8	548.8	530.7	518.7	515.0
Transportation and Utilities	135.4	132.0	128.2	125.6	124.4
Information	76.7	75.8	73.8	70.3	68.0
Financial Activities:					
Finance and Insurance	152.8	154.8	159.2	162.3	161.1
Real Estate and Rental and Leasing	56.6	55.5	55.7	56.0	56.5
Professional and Business Services:					
Professional, Scientific, and Technical Services	276.1	266.7	256.2	249.7	245.5
Management of Companies and Enterprises	70.5	69.1	69.5	68.6	68.5
Administrative and Support Services	279.7	256.8	257.0	256.4	258.5
Other/Waste Management Etc.	12.5	11.9	11.7	11.6	11.4
Educational and Health Services:					
Educational Services	54.3	59.5	65.9	68.4	68.9
Health Care and Social Assistance	447.9	453.9	467.6	474.6	484.0
Leisure and Hospitality:					
Accommodation and Food Services	336.4	332.7	336.2	335.9	341.1
Other	64.0	61.6	61.7	62.2	62.2
Other Services	<u>168.1</u>	<u>175.1</u>	<u>174.2</u>	<u>176.4</u>	<u>178.6</u>
Total Private Service Providing	<u>2,876.6</u>	<u>2,834.6</u>	<u>2,823.0</u>	<u>2,809.2</u>	<u>2,814.5</u>
Government	<u>681.6</u>	<u>686.3</u>	<u>686.6</u>	<u>685.4</u>	<u>682.1</u>
Total Service-Providing	<u>3,558.2</u>	<u>3,520.9</u>	<u>3,509.6</u>	<u>3,494.6</u>	<u>3,496.7</u>
Total Wage and Salary Employment	<u><u>4,673.9</u></u>	<u><u>4,555.9</u></u>	<u><u>4,477.8</u></u>	<u><u>4,409.6</u></u>	<u><u>4,390.8</u></u>

Source: Michigan Department of Labor & Economic Growth (wage and salary benchmark of March 2004) and U.S. Department of Labor, Bureau of Labor Statistics.

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