

# State of Michigan

## Comprehensive Annual Financial Report



**Fiscal Year Ended September 30, 2008**

**Jennifer M. Granholm, Governor**  
*Prepared by Office of the State Budget*

About the Cover: Shown on the cover is a view from the shore of Higgins Lake, one of Michigan's 11,000 inland lakes. Located in our lower peninsula, it is known for its deep, crystal clear waters and has been described as one of the world's most beautiful lakes.

Within Michigan's shores, many visitors have enjoyed Michigan's exceptional recreational facilities included for both summer and winter activities alike. We invite you to explore Michigan recreational opportunities at [www.michigan.org](http://www.michigan.org).

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This document and other related information may be accessed via the Internet at [www.michigan.gov/ofm](http://www.michigan.gov/ofm).



*State of Michigan*  
*Comprehensive Annual Financial Report*

Fiscal Year Ended September 30, 2008

**JENNIFER M. GRANHOLM**  
Governor

**ROBERT L. EMERSON**  
State Budget Director

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

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JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
OFFICE OF THE STATE BUDGET  
LANSING

ROBERT L. EMERSON  
DIRECTOR

December 31, 2008

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, 2008.

### **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 four major sections: introductory, financial, statistical, and other information:

- 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 provides 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.
- The other information section includes General Fund and Special Revenue Funds revenue and expenditure schedules and General Fund source and disposition of spending authorization schedules.

**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 of Michigan Deferred Compensation Funds, the State of Michigan 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 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.

Internal Auditors: Pursuant to Executive Order 2007-31, the Office of the State Budget provides internal audit services to executive branch departments and agencies. Office of the State Budget internal audit staff perform periodic financial, performance, and compliance audits of department and agency programs and organizational units. In addition to periodic audits, Office of the State Budget internal audit staff also review department and agency management's processes for establishing, monitoring, and reporting on internal controls; advise department and agency management on internal control matters; and assist department and agency management with investigations of alleged fraud or other irregularities.

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, 2008 are free of material misstatements. The OAG concluded that the Basic Financial Statements for the fiscal year ended September 30, 2008 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 Amendments of 1996. 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 26<sup>th</sup> state in 1837. The State is governed under the Constitution of 1963, as amended.

Executive Branch: The Executive Branch consists of 18 principal departments. Fifteen principal departments are headed by commissions and/or directors appointed by the elected governor. Elected officials head two principal departments, Attorney General and State, 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 budget projects revenues and expenditures and calculates fund balances 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 a Statewide Authorization Dispositions report that provides line item appropriation details, the legal level of budgetary control, for the General Fund and budgeted operating funds.

## MAJOR INITIATIVES AND FUTURE PROJECTS

A Job For Every Worker: Rebuilding Michigan's economy requires continued efforts to diversify into new sectors where Michigan has a natural advantage, including alternative energy, life sciences, advanced manufacturing and homeland security. We must continue to ensure that workers have the skills they need to be competitive by providing access to education and training. And we must ensure that we can compete with other states and nations for jobs and investment by expanding our economic development toolbox.

Michigan's \$2 billion 21<sup>st</sup> Century Jobs Fund, our new Centers of Energy Excellence program and a host of new economic development tools brought more than \$5 billion in investment to Michigan this year, creating thousands of new jobs.

In fiscal year 2009, an additional \$15 million in state funding was added to the federal funding for No Worker Left Behind, an innovative program to help displaced workers connect to new careers by providing free training. Through November 2008, the program has enrolled more than 50,000 participants in training in high-demand fields.

Health Care for Every Family: During fiscal year 2008, the two departments primarily responsible for providing services to Michigan's most vulnerable citizens, the Department of Human Services and the Department of Community Health, saw the demand for their services increase as the economy grew more challenged. Despite a tight budget, no eligible citizen was denied health care, despite an increase in the average number of citizens eligible for Medicaid services of 43,000 per month.

In addition, more than 500 nursing home residents were transitioned back to community living as a result of the state's efforts to reform the long-term care system.

Quality Education for Every Child: The State is committed to providing every child with a quality education. As the foundation of our economic plan, over \$15.5 billion or 34.8% of the State's total fiscal year 2009 budget is devoted to educating Michigan's citizens through its public schools, community colleges, and universities.

The School Aid Budget, totaling \$13.4 billion, reflects the commitment to provide all students in the K-12 education system with the tools they need to succeed in a global economy. For fiscal year 2009, the minimum foundation allowance was increased to \$7,316 per pupil and an additional \$10 million was provided to make quality preschool accessible to more children.

The fiscal year 2009 budget also provided funding for the 21<sup>st</sup> Century Schools Fund to help Michigan school districts replace large, impersonal high schools that have low academic achievement and high dropout rates, with small high schools that use relationships, discipline, and relevance to help at-risk kids achieve.

To help make Michigan competitive, the fiscal year 2009 budget continues to invest in one of the state's largest economic catalysts – our universities. State colleges and universities will receive \$2.1 billion. In addition, more than \$230 million in grants and scholarships were made available to assist students in paying for higher education.

Efficient and Effective Government: During fiscal year 2008, the Granholm Administration continued their efforts to streamline government, reduce costs and improve efficiency. Through Executive Directive in 2007, Governor Granholm set a goal of reducing energy usage at state facilities by 10 percent by the end of 2008. Already, the state has reduced energy usage by nearly 18 percent, saving \$21 million. The state has also joined the Climate Savers Computing Initiative to reduce energy usage by the state's 55,000 desktop computers and 3,700 servers, saving an additional \$1 million.

Additional technology usage is improving customer service, reducing permitting time and saving the state money. The new CHAMPS and BRIDGES databases for Medicaid and cash assistance programs, respectively, will help improve data collection and sharing, reduce paperwork and speed eligibility determination. In addition, a new web portal in the Department of Treasury helps local units of government file audit information easier and quicker while new technology at the Department of Agriculture has reduced permitting time for businesses including grocery stores, restaurants and gas stations by 50 percent.

## 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, 2007. 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 21 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,



Robert L. Emerson  
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, 2007

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.



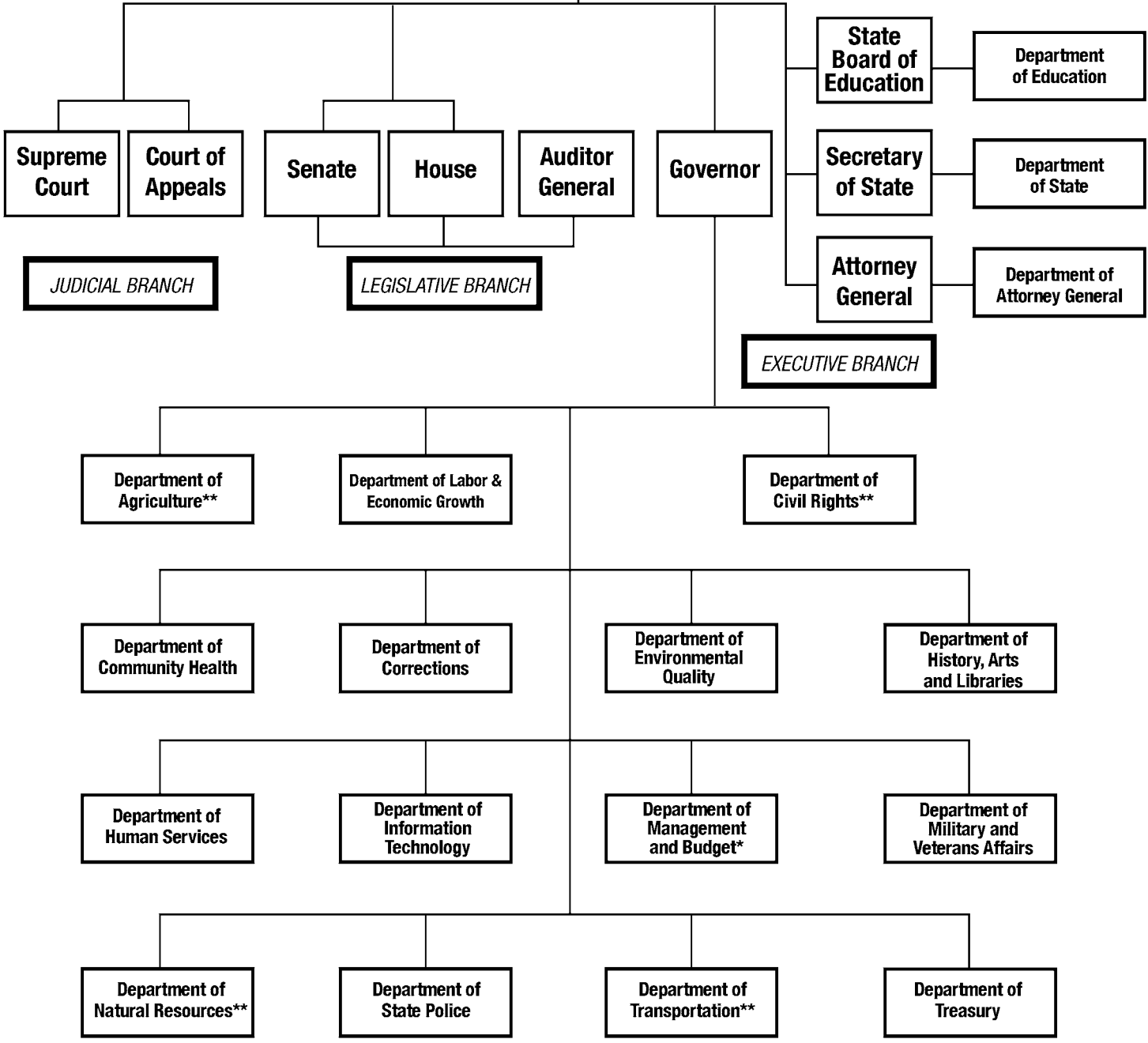
A handwritten signature in black ink, appearing to read "M. L. Rut".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emsw".

Executive Director

# STATE OF MICHIGAN ORGANIZATIONAL STRUCTURE



\* Includes Civil Service Commission appointed by Governor  
 \*\* Has Commission appointed by Governor, confirmed by Senate

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 Michael D. Bishop  
Majority Leader of the Senate  
  
Honorable Andy Dillon  
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  
Casandra E. Ulbrich  
Honorable Jennifer M. Granholm (Ex Officio)  
Michael P. Flanagan  
Superintendent of Public Instruction  
  
Michigan Commission of Agriculture  
James E. Byrum, Chair  
Donald M. Coe  
Ann Jousma-Miller  
Dale N. Norton  
Todd J. Regis  
Donald W. Koivisto, Director, Department of Agriculture  
  
Civil Rights Commission  
Kelvin W. Scott, Chair  
Mohammed Abdrabboh  
Mark Bernstein  
Lisa Peeples-Hurst  
Karen Henry Stokes  
Matthew Wesaw  
J. Michael Zelley  
Vacant  
Linda V. Parker, Director, Department of Civil Rights  
  
Civil Service Commission  
Andrew P. Abood  
Kelly G. Keenan  
Sherry L. McMillan  
Thomas M. Wardrop  
Janet McClelland, Acting State Personnel Director  
  
Janet Olszewski, Director  
Department of Community Health  
  
Patricia L. Caruso, Director  
Department of Corrections  
  
Steven E. Chester, Director  
Department of Environment Quality

William A. Anderson, Director  
Department of History, Arts and Libraries  
  
Ismael Ahmed, Director  
Department of Human Services  
  
Kenneth D. Theis, Director  
Department of Information Technology  
  
Stanley Pruss, Director  
Department of Labor & Economic Growth  
  
Lisa Webb Sharpe, Director  
Department of Management and Budget  
  
Robert L. Emerson, 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  
Hurley J. Coleman, Jr.  
Darnell Earley  
John M. Madigan  
J. R. Richardson  
Franklin C. Wheatlake  
Rebecca A. Humphries, Director  
Department of Natural Resources  
  
Colonel Peter C. Munoz, Director  
Department of State Police  
  
Transportation Commission  
Ted B. Wahby, Chair  
Linda Miller Atkinson  
Maureen Miller Brosnan  
Steven K. Girard  
Jerrold M. Jung  
James S. Scalici  
Kirk T. Steudle, Director  
Department of Transportation  
  
Robert J. Kleine, State Treasurer



## **II. FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
BASIC FINANCIAL STATEMENTS  
REQUIRED SUPPLEMENTARY INFORMATION**



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, 2008, 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 of Michigan Deferred Compensation Funds, State Police Pension Benefits Fund, State Police Other Postemployment Benefits Fund, State Employees' Pension Benefits Fund, State Employees' Other Postemployment Benefits Fund, Public School Employees' Pension Benefits Fund, Public School Employees' Other Postemployment Benefits Fund, Judges' Pension Benefits Fund, Judges' Other Postemployment Benefits Fund, State of Michigan Defined Contribution Retirement Fund, Michigan Education Savings Program, Michigan State Housing Development Authority, Michigan Municipal Bond Authority, Farm Produce Insurance 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	1.5%	0.4%
Business-type activities	94.1%	84.9%
Aggregate discretely presented component units	92.7%	93.7%
State Lottery Fund	100.0%	100.0%
Michigan Unemployment Compensation Funds	100.0%	100.0%
Aggregate remaining fund information	93.8%	75.4%

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.





STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL

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

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

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, 2008, 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.

As discussed in Notes 6 and 23 to the basic financial statements, the State of Michigan replaced its Single Business Tax with the Michigan Business Tax. The State has not fully estimated the amount of future collections and refunds related to the Michigan Business Tax because the necessary data is not available.

As discussed in Note 4 to the basic financial statements, the State adopted Governmental Accounting Standards Board Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

The management's discussion and analysis on pages 5 through 13, budgetary comparison schedules and corresponding notes on pages 100 through 103, and information about infrastructure assets reported using the modified approach on pages 104 and 105 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, statistical, and other information 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".

Thomas H. McTavish, C.P.A.  
Auditor General  
December 31, 2008



## 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, 2008. 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, 2008, the State's assets exceeded its liabilities by \$15.7 billion.
- The State's unrestricted net assets were (\$2.9) billion 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.
- Revenues of \$47.3 billion, along with beginning net assets, supported expenses of \$47.8 billion during fiscal year 2008. As a result, the State's total net assets decreased by \$495.8 million (3.1 percent). The decrease relates mostly to continued high unemployment expenses reported in the business activities. In addition, the State began reporting other postemployment benefit obligations which totaled \$609.5 million at the end of the fiscal year.

#### **Fund Level**

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$3.9 billion. Of this amount, \$1.1 billion is *unreserved fund balance* in the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds and, therefore, available to fund general-purpose expenditures of those funds in future years. The remaining \$2.8 billion is reserved for specific purposes, such as education and transportation.
- The State's three major governmental funds, the General Fund, Counter-Cyclical Budget and Economic Stabilization Fund (BSF), and the School Aid Fund (SAF), closed the fiscal year with a combined total fund balance of \$1.5 billion. The General Fund and the Counter-Cyclical Budget and Economic Stabilization Fund ended the year with unreserved fund balances of \$457.9 million and \$2.2 million, respectively. In addition, another \$833.1 million is reserved for specific purposes such as multi-year projects and restrictively financed programs. In the School Aid Fund, the entire fund balance of \$254.6 million is reserved for specific purposes.
- The State's proprietary funds reported net assets at year-end of (\$48.3 million). This represents a decrease of \$412.2 million (113.3 percent) compared to the prior year-end, mostly resulting from the increase in unemployment benefits paid from the Michigan Unemployment Compensation Funds.

#### **Long-term Debt**

- The State's total long-term debt (bonds and notes payable) as of September 30, 2008, was \$8.2 billion, a slight increase of \$1.5 million from the prior year. 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 8.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which comprise of 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.

## Michigan

The Statement of Net Assets (pages 16 and 17) 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 declining.

The Statement of Activities (pages 18 and 19) 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 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 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 18 authorities and 10 universities that are reported as discretely presented component units of the State.

This report includes two schedules (pages 23 and 25) that reconcile the amounts reported on the governmental fund financial statements, which are prepared using the modified accrual basis of accounting, with the governmental activities in the government-wide statements, which are prepared using the accrual basis of accounting. The following table summarizes the differences between modified accrual and full accrual accounting:

Description	Reported in Governmental Fund Financial Statements (modified accrual basis)	Reported in Government- Wide Financial Statements (accrual basis)
Capital assets of the general government (e.g. land, buildings, and infrastructure)	No	Yes
Liability for earned but deferred revenue	Yes	No
Assets and liabilities of internal service funds that primarily serve governmental funds	No	Yes
Net pension assets in excess of the annual required contribution	No	Yes
Deferred charges for debt issuance costs	No	Yes
Unmatured long-term debt (e.g. bonds, notes, capital lease obligations) net of unamortized premiums, discounts, and similar items	No	Yes
Certain accrued obligations not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period (i.e. claims and judgments, compensated absences, and net pension obligations)	No	Yes
Accrued interest on long-term debt	No	Yes
Liability for unearned deferred revenue	Yes	Yes

## Michigan

Description	Reported in Governmental Fund Financial Statements (modified accrual basis)	Reported in Government- Wide Financial Statements (accrual basis)
Capital outlay spending	Yes	No
Debt service principal payments and refunding payments	Yes	No
Other financial sources, uses, and expenditures resulting from debt issuance	Yes	No
Sales of capital assets	Yes, in the amount of the proceeds of the sale	Yes, gain or loss on the sale
Revenues earned during the period but not yet available	No	Yes
Expenses incurred during the period, but not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period	No	Yes
Depreciation	No	Yes
Revenues and expenditures related to prior periods	Yes	No
Amortization of issuance costs, premiums, discounts, and similar items	No	Yes
Activities of internal service funds properly included within governmental activities	No	Yes

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 42 of this report.

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

The fund financial statements begin on page 22 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 108 begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

- Governmental funds** - Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund and special revenue, capital project, debt service, and permanent funds.
- Proprietary funds** - When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary (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 - such as risk management and state sponsored group insurance activities. 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 34. 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 (RSI)**

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 fund balances at fiscal year-end, and condition and maintenance data regarding certain portions of the State's infrastructure.

**Other Supplementary Information**

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

**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE**

The State's combined net assets decreased \$495.8 million (3.1 percent) over the course of this fiscal year's operations. The net assets of the governmental activities decreased \$83.6 million (0.5 percent) and business-type activities had a decrease of \$412.2 million (113.3 percent).

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007 *	2008	2007	2008	2007 *
Current and other non-current assets	\$11,053.3	\$10,297.2	\$ 838.4	\$ 1,276.4	\$11,891.6	\$11,573.6
Capital assets	19,839.2	19,436.6	.8	.4	19,840.0	19,437.0
<b>Total assets</b>	<u>30,892.4</u>	<u>29,733.8</u>	<u>839.2</u>	<u>1,276.8</u>	<u>31,731.6</u>	<u>31,010.6</u>
Current liabilities	4,957.3	4,658.4	247.2	594.9	5,204.5	5,253.4
Long-term liabilities	10,214.5	9,271.2	640.3	318.0	10,854.7	9,589.2
<b>Total liabilities</b>	<u>15,171.8</u>	<u>13,929.6</u>	<u>887.5</u>	<u>912.9</u>	<u>16,059.3</u>	<u>14,842.5</u>
Net assets:						
Invested in capital assets, net of related debt	15,909.3	15,739.1	.8	.4	15,910.1	15,739.5
Restricted	2,599.8	2,292.8	72.7	358.7	2,672.4	2,651.5
Unrestricted	(2,788.4)	(2,227.7)	(121.8)	4.8	(2,910.2)	(2,222.9)
<b>Total net assets</b>	<u>\$15,720.6</u>	<u>\$15,804.2</u>	<u>\$ (48.3)</u>	<u>\$ 363.9</u>	<u>\$15,672.3</u>	<u>\$16,168.1</u>

\* The prior year columns have been restated. More detailed information regarding the restatements can be found on page 53.

The largest component of the State's net assets (\$15.9 billion) 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 \$2.7 billion of the total. 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 (\$2.9) billion 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.

## Michigan

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

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

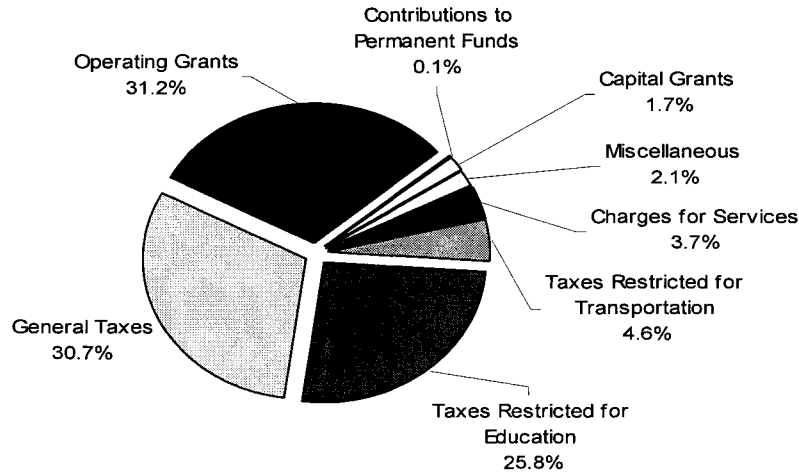
	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007 *	2008	2007	2008	2007 *
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 1,562.3	\$ 1,947.0	\$ 5,122.3	\$ 4,876.6	\$ 6,684.7	\$ 6,823.6
Operating grants	12,963.5	12,300.1	44.3	55.8	13,007.8	12,355.9
Capital grants	719.5	627.1	-	-	719.5	627.1
General revenues						
General taxes	13,162.8	12,077.0	13.7	13.1	13,176.4	12,090.1
Taxes restricted for educational purposes	10,884.2	10,456.2	-	-	10,884.2	10,456.2
Taxes restricted for transportation purposes	1,935.0	1,965.3	-	-	1,935.0	1,965.3
Unrestricted investment and interest earnings	7.6	12.1	2.2	5.1	9.8	17.2
Miscellaneous	865.4	1,124.8	-	-	865.4	1,124.8
<b>Total revenues</b>	<u>42,100.4</u>	<u>40,509.5</u>	<u>5,182.5</u>	<u>4,950.6</u>	<u>47,282.8</u>	<u>45,460.0</u>
<b>Expenses</b>						
General government	1,671.9	2,205.7	-	-	1,671.9	2,205.7
Education	15,080.9	14,660.2	-	-	15,080.9	14,660.2
Human Services	4,699.0	4,453.5	-	-	4,699.0	4,453.5
Public safety and corrections	2,895.1	2,583.9	-	-	2,895.1	2,583.9
Conservation, environment, etc.	572.8	597.0	-	-	572.8	597.0
Labor, commerce, and regulatory	995.7	963.4	-	-	995.7	963.4
Health services	11,623.0	10,832.9	-	-	11,623.0	10,832.9
Transportation	3,235.4	3,191.8	-	-	3,235.4	3,191.8
Tax expenditures	931.6	883.4	-	-	931.6	883.4
Intergovernmental - revenue sharing	1,076.4	1,071.1	-	-	1,076.4	1,071.1
Interest on long-term debt	387.8	345.4	-	-	387.8	345.4
Liquor Purchase Revolving Fund	-	-	622.0	602.3	622.0	602.3
State Lottery Fund	-	-	1,636.9	1,654.8	1,636.9	1,654.8
Attorney Discipline System	-	-	5.0	4.3	5.0	4.3
Michigan Unemployment Compensation Funds	-	-	2,403.0	2,012.1	2,403.0	2,012.1
<b>Total expenses</b>	<u>43,169.7</u>	<u>41,788.3</u>	<u>4,666.9</u>	<u>4,273.5</u>	<u>47,836.5</u>	<u>46,061.7</u>
Excess (deficiency) Before Contributions and Transfers	(1,069.3)	(1,278.8)	515.6	677.1	(553.7)	(601.7)
Contributions to permanent fund principal	57.9	26.2	-	-	57.9	26.2
Transfers	927.8	943.5	(927.8)	(943.5)	-	-
<b>Increase (decrease) in net assets</b>	(83.6)	(309.2)	(412.2)	(266.3)	(495.8)	(575.5)
Net assets – beginning – restated	15,804.2	16,113.4	363.9	630.2	16,168.1	16,743.6
Net assets – ending	<u>\$15,720.6</u>	<u>\$15,804.2</u>	<u>\$ (48.3)</u>	<u>\$ 363.9</u>	<u>\$ 15,672.3</u>	<u>\$ 16,168.1</u>

\* The prior year columns have been restated. More detailed information regarding the restatements can be found on page 53.

**Governmental Activities**

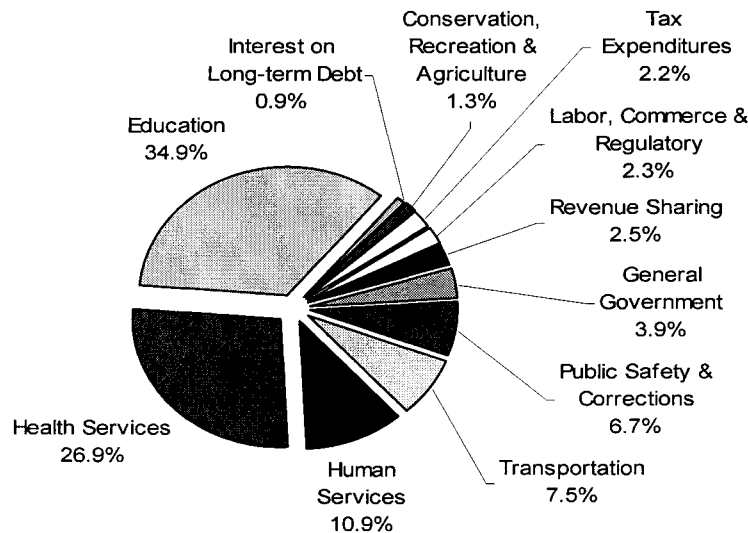
Revenues to fund governmental activities totaled \$42.2 billion for fiscal year 2008. Fund balances and other State assets were also used to support governmental activities. As shown in the accompanying chart, 31.2 percent of the governmental activities' revenue came from operating grants, primarily from the federal government, and were earmarked for specific uses, such as highway construction and health and human services programs. In addition, the State Constitution and other statutory restrictions earmarked 30.4 percent for educational and transportation purposes. Only 30.7 percent of the revenues were available for general use.

**Revenues - Governmental Activities for  
Fiscal Year Ending September 30, 2008**  
(\$42.2 billion)



Expenses related to governmental activities totaled \$43.2 billion during fiscal year 2008. The expenses include spending appropriated in prior years, such as capital outlay and work project authorization. As evidenced by the accompanying chart, education and health services represent the governmental activities' largest spending categories, accounting for 61.8 percent of the spending.

**Expenses - Governmental Activities for  
Fiscal Year Ending September 30, 2008**  
(\$43.2 billion)





### Business-type Activities

The business-type activities' net assets decreased by \$412.2 million (113.3 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 \$417.2 million (127.6 percent).
- The State Lottery Fund's net assets increased by \$4.9 million (15.4 percent), which resulted from fewer prize award expenses during the fiscal year.

### FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As the State completed the year, its governmental funds reported fund balances of \$3.9 billion. Of this total amount, \$1.1 billion constitutes unreserved fund balance, which is available for appropriation for the general purposes of the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. The transportation-related funds (\$108.6 million) and the other State funds (\$418.1 million) comprise a significant portion of the unreserved fund balance. Although reported as unreserved fund balances, these amounts are dedicated to those specific funds and can only be used for specific activities. 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 2008, the General Fund unreserved fund balance was \$457.9 million and the reserved fund balance was \$833.1 million. Fund balance increased by \$308.9 million (31.5 percent) as a result of controlled spending and higher than expected general purpose tax revenues.

#### General Fund Budgetary Highlights:

On October 1, 2007, the Governor signed a 30-day continuation budget to allow the Legislature more time to pass individual budgets for fiscal year 2008. As a result, the General Fund original budget was only \$2.5 billion. The Legislature passed full budgets for each state agency and department in late October 2007.

For fiscal year 2008, the Legislature enacted gross appropriations for all funds totaling \$43.9 billion. The general fund-general purpose appropriations totaled \$10.1 billion, which included certain boilerplate appropriations totaling \$100.8 million.

General purpose tax revenues of \$9.6 billion were \$2.8 billion more than the original estimate of \$6.8 billion. A portion of the increase is attributed to the change in the legislation for business taxes. Effective January 1, 2008, the Single Business Tax was replaced by the Michigan Business Tax. The State recognized \$1.6 billion in Michigan Business Tax revenues during fiscal year 2008 in the General Fund.

Differences between the final budget and actual spending result from spending authority lapses of \$159.2 million and restricted revenue authorized, but not spent, of \$9.3 million. At fiscal year-end, excess restricted revenues of \$434.2 million carried forward into fiscal year 2009 and are available upon appropriation.

All agencies finished the year with net lapses. However, State Police reported line item over-expenditures of \$1.4 million.

#### School Aid Fund

Fund balance at September 30, 2008, totaled \$254.6 million, an increase of \$160.6 million from the prior year. Revenues and transfers to the fund totaled \$13.0 billion, up \$143.1 million from the prior year. Beginning in fiscal year 2008, the fund received Michigan Business Tax revenues, totaling \$341.0 million. Expenditures totaled \$12.8 billion, an increase of \$69.1 million over the previous year. The School Aid Stabilization Fund ended the year with \$247.1 million in reserved fund balance.

#### Counter-Cyclical Budget and Economic Stabilization Fund

During the year, the BSF received \$66 thousand in interest earnings. As a result, fund balance increased to \$2.2 million.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets: At the end of the fiscal year 2008, the State had invested \$19.8 billion, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$184.4 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Land	\$ 3,344.2	\$ 3,235.2	\$ -	\$ -	\$ 3,344.2	\$ 3,235.2
Land improvements	88.9	84.0	-	-	88.9	84.0
Buildings and improvements	2,113.1	2,075.0	-	-	2,113.1	2,075.0
Equipment	224.4	199.0	.8	.4	225.2	199.4
Infrastructure	12,895.9	12,814.9	-	-	12,895.9	12,814.9
Other	19.8	19.8	-	-	19.8	19.8
Subtotal	18,686.3	18,427.9	.8	.4	18,687.1	18,428.2
Construction in progress	1,152.9	1,008.8	-	-	1,152.9	1,008.8
Total	<u>\$19,839.2</u>	<u>\$19,436.6</u>	<u>\$ .8</u>	<u>\$ .4</u>	<u>\$19,840.0</u>	<u>\$19,437.0</u>

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

As allowed by Governmental Accounting Standards Board (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 27,478 lane miles of roads and 4,761 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 more than 70% of roads in fair to excellent condition. The most recent condition assessment, completed for calendar year 2007, indicated that 83.6% of roads were considered fair or better.

The State's bridges have assessed conditions that are better than the established benchmarks. The most recent assessment (2007) indicated that the condition of the bridges had improved from the condition reported for 2006. For calendar year 2007, 88.6% of the bridges were assessed as structurally fair or better.

The Legislature passed capital outlay appropriations of \$250.0 million for fiscal year 2009. In addition, \$329.2 million of unspent capital outlay authorizations that existed at September 30, 2008, are available to spend in fiscal year 2009. 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) and the Michigan Tobacco Settlement Finance Authority (MTSFA), blended component units 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 or MTSFA. 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. MTSFA's bonds provided funding to the 21<sup>st</sup> Century Jobs Fund for economic development initiatives and to support General Fund and School Aid Fund programs. More detailed information regarding the State's long-term obligations is presented in Notes 13 and 15 to the financial statements.

## Michigan

### Outstanding Bonded Debt as of September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
General obligation bonds (backed by the State)	\$1,487.4	\$1,487.5	\$ -	\$ -	\$1,487.4	\$1,487.5
Revenue bonds and notes (backed by specific tax and fee revenues)	6,727.4	6,725.9	-	-	6,727.4	6,725.9
Total	<u>\$8,214.8</u>	<u>\$8,213.3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,214.8</u>	<u>\$8,213.3</u>

During the year, the State and the MTSFA issued refunding bonds of \$436.2 million and paid \$361.9 million to a refunded bond escrow agent to cover future debt service payments. In addition, the SBA issued \$96.5 million in new bonds for construction of state and university buildings.

#### Bond Ratings

The State's general obligations are rated AA- stable outlook by Standard & Poors and Aa3 stable outlook 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 2008, the State issued and repaid short-term borrowing totaling \$1.4 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 weak manufacturing employment performance, declining vehicle production, continued declines in Big 3 market share, and 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 below average employment performance.

For 2008, Michigan employment is estimated to have declined by 77,000 jobs (1.8 percent) – the eighth straight year that Michigan employment has declined. From Michigan's employment peak in June 2000, Michigan has lost approximately 520,000 jobs. In contrast, Michigan employment had increased approximately 560,000 jobs above its pre-recession peak by this time after the 1990-1991 recession.

Personal income was up an estimated 1.4 percent and wages and salaries income were essentially flat – up just an estimated 0.1 percent in 2008. Both personal income and wages and salaries failed to keep pace with the increase in consumer prices as measured by the Detroit consumer price index (2.9 percent).

Several factors are weighing on the national economy including sharp declines in the housing market and worsening credit markets. As a result, the U.S. economic growth will remain tepid. Given this, Michigan employment is expected to decline in 2009 – although less so than in 2008, with 2009 employment falling by 1.5 percent. In 2009, Michigan personal income is projected to rise 1.9 percent, while wages and salaries are expected to increase 0.7 percent. With 2.5 percent inflation, real (inflation adjusted) personal income is forecast to increase while real wages and salaries are expected to decline in 2009.

### 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](http://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.





## **II. FINANCIAL SECTION**

### **BASIC FINANCIAL STATEMENTS**

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2008

(In Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 8,463	\$ 8,312	\$ 16,774	\$ 1,036,826
Equity in common cash (Note 5)	1,526,476	61,451	1,587,927	118,965
Taxes, interest, and penalties receivable (Note 6)	5,200,682	-	5,200,682	-
Internal balances	11,613	(11,613)	-	-
Amounts due from component units	3,797	341	4,137	27,717
Amounts due from primary government	-	-	-	191,746
Amounts due from federal government	1,047,956	17,712	1,065,668	30,828
Amounts due from local units	319,271	31,403	350,674	992,200
Inventories	38,735	12,624	51,359	22,675
Investments (Note 8)	311,463	109,162	420,625	1,405,816
Other current assets	557,698	334,199	891,896	545,534
Total Current Assets	9,026,154	563,589	9,589,743	4,372,308
Restricted Assets:				
Cash and cash equivalents	-	-	-	26,647
Investments	-	-	-	429,492
Mortgages and loans receivable	-	-	-	49,946
Taxes, interest, and penalties receivable (Note 6)	325,895	-	325,895	-
Advances to primary government	-	-	-	558,234
Amounts due from federal government	4,061	-	4,061	-
Amounts due from local units	938,566	-	938,566	2,744,959
Mortgages and loans receivable	-	-	-	4,391,192
Investments (Note 8)	667,164	251,479	918,644	2,897,382
Capital Assets (Note 9):				
Land and other non-depreciable assets	3,380,157	-	3,380,157	119,612
Buildings, equipment, and other depreciable assets	5,110,969	4,565	5,115,534	4,730,194
Less accumulated depreciation	(2,441,769)	(3,758)	(2,445,527)	(1,849,231)
Infrastructure	12,636,941	-	12,636,941	102,722
Construction in progress	1,152,866	-	1,152,866	136,462
Total capital assets	19,839,163	807	19,839,970	3,239,757
Interest in joint ventures (Note 7)	32,856	-	32,856	-
Other noncurrent assets	58,557	23,300	81,857	359,968
Total Assets	\$ 30,892,417	\$ 839,175	\$ 31,731,592	\$ 19,069,885
<b>LIABILITIES</b>				
Current Liabilities:				
Warrants outstanding	\$ 169,336	\$ 5,593	\$ 174,929	\$ 260
Accounts payable and other liabilities	2,654,712	239,923	2,894,634	346,186
Income tax refunds payable (Note 16)	681,916	-	681,916	-
Amounts due to component units	77,998	-	77,998	27,700
Amounts due to primary government	-	-	-	5,097
Amounts due to federal government	-	-	-	137
Bonds and notes payable (Notes 13 and 14)	477,300	-	477,300	1,064,669
Interest payable	131,093	-	131,093	107,826
Deferred revenue	126,184	740	126,924	74,473
Current portion of other long-term obligations (Note 15)	638,772	958	639,730	149,608
Total Current Liabilities	4,957,310	247,213	5,204,523	1,775,956
Advances from component units	474,205	-	474,205	-
Advances from federal government	-	362,400	362,400	-
Prize awards payable (Note 15)	-	220,001	220,001	-
Deferred revenue	15,833	-	15,833	4,385
Bonds and notes payable (Notes 13 and 14)	7,641,321	-	7,641,321	9,360,594
Noncurrent portion of other long-term obligations (Note 15)	2,083,115	57,855	2,140,970	1,650,299
Total Liabilities	\$ 15,171,785	\$ 887,469	\$ 16,059,254	\$ 12,791,234

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

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 15,909,317	\$ 807	\$ 15,910,124	\$ 1,956,960
Restricted For:				
Education	496,173	-	496,173	206,595
Construction and debt service	-	-	-	354,391
Public safety and corrections	17,938	-	17,938	-
Conservation, environment, recreation, and agriculture	368,866	-	368,866	-
Health and human services	50,070	-	50,070	-
Transportation	766,873	-	766,873	-
Unemployment compensation	-	35,899	35,899	-
Labor and economic growth	99,905	-	99,905	-
Other purposes	102,441	36,772	139,213	2,048,066
Funds Held as Permanent Investments:				
Expendable	132,581	-	132,581	61,049
Nonexpendable	564,915	-	564,915	248,176
Unrestricted	(2,788,445)	(121,773)	(2,910,218)	1,403,414
Total Net Assets	<u>\$ 15,720,632</u>	<u>\$ (48,294)</u>	<u>\$ 15,672,338</u>	<u>\$ 6,278,651</u>

# Michigan

## STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

<u>Functions/Programs</u>	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<b>Primary Government:</b>				
Governmental Activities:				
General government	\$ 1,671,941	\$ 590,493	\$ 63,538	\$ 9,686
Education	15,080,883	6,616	1,538,299	-
Human services	4,699,046	57,963	3,168,929	-
Public safety and corrections	2,895,133	168,789	161,140	-
Conservation, environment, recreation, and agriculture	572,755	282,008	114,160	4,111
Labor, commerce, and regulatory	995,714	304,145	624,264	-
Health services	11,622,966	79,683	6,768,236	-
Transportation	3,235,394	72,651	524,971	705,722
Tax expenditures (Note 16)	931,600	-	-	-
Intergovernmental-revenue sharing	1,076,445	-	-	-
Interest on long-term debt	387,800	-	-	-
Total governmental activities	43,169,677	1,562,346	12,963,536	719,518
Business-type Activities:				
Liquor Purchase Revolving Fund	621,991	768,085	-	-
State Lottery Fund	1,636,858	2,351,082	43,035	-
Attorney Discipline System	4,976	4,885	-	-
Michigan Unemployment Compensation Funds	2,403,043	1,998,292	1,227	-
Total business-type activities	4,666,868	5,122,344	44,262	-
Total primary government	\$ 47,836,545	\$ 6,684,690	\$ 13,007,799	\$ 719,518
<b>Component Units:</b>				
Authorities:				
Michigan Education Trust	\$ 47,437	\$ 156	\$ (61,190)	\$ -
Michigan State Housing Development Authority	646,305	181,217	458,951	-
Michigan Municipal Bond Authority	220,950	147,452	185,764	-
Non-Major	577,785	170,409	278,411	-
State Universities:				
Central Michigan University	356,330	250,970	17,628	2,078
Western Michigan University	516,109	279,593	19,636	7,107
Non-Major	1,549,599	935,807	142,518	18,395
Total component units	\$ 3,914,515	\$ 1,965,604	\$ 1,041,718	\$ 27,580
General Revenues:				
Taxes:				
General:				
Sales and use				
Personal income				
Single business and Michigan business				
Other				
Restricted For Educational Purposes:				
Sales and use				
Personal income				
Michigan business				
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
\$ (1,008,225)	\$ -	\$ (1,008,225)	\$ -
(13,535,969)	-	(13,535,969)	-
(1,472,155)	-	(1,472,155)	-
(2,565,204)	-	(2,565,204)	-
(172,476)	-	(172,476)	-
(67,305)	-	(67,305)	-
(4,775,047)	-	(4,775,047)	-
(1,932,051)	-	(1,932,051)	-
(931,600)	-	(931,600)	-
(1,076,445)	-	(1,076,445)	-
(387,800)	-	(387,800)	-
<u>(27,924,276)</u>	<u>-</u>	<u>(27,924,276)</u>	<u>-</u>
-	146,094	146,094	-
-	757,259	757,259	-
-	(91)	(91)	-
<u>-</u>	<u>(403,524)</u>	<u>(403,524)</u>	<u>-</u>
<u>-</u>	<u>499,738</u>	<u>499,738</u>	<u>-</u>
<u>(27,924,276)</u>	<u>499,738</u>	<u>(27,424,538)</u>	<u>-</u>
-	-	-	(108,470)
-	-	-	(6,137)
-	-	-	112,265
-	-	-	(128,965)
-	-	-	(85,654)
-	-	-	(209,772)
-	-	-	(452,879)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(879,612)</u>
2,701,052	-	2,701,052	-
6,229,339	-	6,229,339	-
1,715,861	-	1,715,861	-
2,516,526	13,663	2,530,189	-
5,424,253	-	5,424,253	-
2,174,393	-	2,174,393	-
341,000	-	341,000	-
2,266,377	-	2,266,377	-
678,157	-	678,157	-
82,114	-	82,114	-
992,502	-	992,502	-
854,736	-	854,736	-
5,675	-	5,675	-
7,595	2,192	9,787	54,703
865,407	-	865,407	191,881
57,937	-	57,937	-
-	-	-	769,580
927,763	(927,763)	-	-
<u>27,840,688</u>	<u>(911,909)</u>	<u>26,928,780</u>	<u>1,016,164</u>
(83,588)	(412,171)	(495,759)	136,552
15,804,220	363,877	16,168,096	6,142,099
<u>\$ 15,720,632</u>	<u>\$ (48,294)</u>	<u>\$ 15,672,338</u>	<u>\$ 6,278,651</u>



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## GOVERNMENTAL FUND FINANCIAL STATEMENTS



### Major Funds

#### GENERAL FUND

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

#### COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND

This fund, commonly referred to as the "Budget Stabilization Fund" or "Rainy Day Fund," was created by Michigan Compiled Laws Section 18.1351 to assist in stabilizing revenue during periods of economic recession. 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. Michigan Compiled Laws Section 388.1611a, 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 108.

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
 SEPTEMBER 30, 2008  
 (In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 7,107	\$ -	\$ -	\$ 859	\$ 7,966
Equity in common cash (Note 5)	-	2,156	-	1,289,642	1,291,797
Taxes, interest, and penalties receivable (Note 6)	2,890,289	-	2,214,040	96,354	5,200,682
Amounts due from other funds (Note 18)	991,646	-	11,735	532,686	1,536,067
Amounts due from component units	2,122	-	-	1,520	3,642
Amounts due from federal agencies	799,050	-	48,881	200,025	1,047,956
Amounts due from local units	47,966	-	47,613	169,783	265,362
Inventories	17,226	-	-	5,792	23,018
Investments (Note 8)	-	-	-	311,463	311,463
Other current assets	292,161	-	97	245,681	537,940
Total Current Assets	<u>5,047,567</u>	<u>2,156</u>	<u>2,322,366</u>	<u>2,853,806</u>	<u>10,225,895</u>
Taxes, interest, and penalties receivable (Note 6)	253,346	-	66,730	5,819	325,895
Advances to other funds (Note 18)	7,548	-	-	-	7,548
Amounts due from federal agencies	4,061	-	-	-	4,061
Amounts due from local units	883,583	-	4,208	50,775	938,566
Investments (Note 8)	-	-	-	667,164	667,164
Other noncurrent assets	4,853	-	-	5,519	10,372
Total Assets	<u>\$ 6,200,958</u>	<u>\$ 2,156</u>	<u>\$ 2,393,305</u>	<u>\$ 3,583,083</u>	<u>\$ 12,179,501</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Current Liabilities:					
Warrants outstanding	\$ 160,591	\$ -	\$ 695	\$ 7,441	\$ 168,726
Accounts payable and other liabilities (Note 23)	1,659,556	-	155,948	683,474	2,498,977
Income tax refunds payable (Note 16)	681,916	-	-	-	681,916
Amounts due to other funds (Note 18)	47,600	-	1,444,626	83,967	1,576,193
Amounts due to component units	2,639	-	-	-	2,639
Bonds and notes payable	-	-	-	210,310	210,310
Interest payable	-	-	-	457	457
Deferred revenue	1,453,908	-	470,711	226,705	2,151,324
Total Current Liabilities	<u>4,006,210</u>	<u>-</u>	<u>2,071,979</u>	<u>1,212,354</u>	<u>7,290,543</u>
Long-Term Liabilities:					
Advances from component units	474,205	-	-	-	474,205
Deferred revenue	429,569	-	66,730	10,662	506,961
Total Liabilities	<u>4,909,984</u>	<u>-</u>	<u>2,138,710</u>	<u>1,223,016</u>	<u>8,271,709</u>
Fund Balances:					
Reserved fund balance (Note 22)	833,104	-	254,595	1,714,186	2,801,885
Unreserved fund balance reported in:					
General Fund	457,870	-	-	-	457,870
Special revenue funds	-	2,156	-	609,292	611,448
Debt service funds	-	-	-	220,517	220,517
Capital projects funds	-	-	-	(238,718)	(238,718)
Permanent funds	-	-	-	54,791	54,791
Total Fund Balances	<u>1,290,974</u>	<u>2,156</u>	<u>254,595</u>	<u>2,360,067</u>	<u>3,907,792</u>
Total Liabilities and Fund Balances	<u>\$ 6,200,958</u>	<u>\$ 2,156</u>	<u>\$ 2,393,305</u>	<u>\$ 3,583,083</u>	<u>\$ 12,179,501</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, 2008

(In Thousands)

Total fund balances for governmental funds		\$ 3,907,792
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	3,370,987	
Buildings, equipment, and other depreciable assets	4,401,550	
Infrastructure	12,636,941	
Construction in progress	1,152,866	
Interest in joint ventures	32,856	
Accumulated depreciation	<u>(1,954,668)</u>	19,640,533
Certain tax revenues are earned but not available and therefore are not reported in the funds.		2,190,521
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		375,356
Amounts due to component units for long-term loans.		(75,359)
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.		169,845
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)		990
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.		44,544
Recoveries of prior year expenditures related to long-term liabilities.		53,909
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 15)		
Capital lease obligations	(313,165)	
Compensated absences	(467,699)	
Workers' compensation	(111,536)	
Litigation	(505,644)	
Net pension obligations	(537,353)	
Net other post employment benefits	(609,482)	
Other long-term liabilities	<u>(3,676)</u>	(2,548,553)
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 13)		
Bonds and notes payable	(8,214,803)	
Unamortized premiums	(278,555)	
Less unamortized discounts	474,193	
Less deferred loss amount on refundings	110,853	
Accrued interest payable	<u>(130,636)</u>	(8,038,947)
Net assets of governmental activities		<u>\$ 15,720,632</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, 2008

(In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
<b>REVENUES</b>					
Taxes	\$ 13,370,761	\$ -	\$ 10,772,286	\$ 1,932,088	\$ 26,075,135
From federal agencies	10,731,491	-	1,377,664	1,323,483	13,432,638
From local agencies	113,572	-	-	12,978	126,550
From services	287,790	-	-	3,590	291,380
From licenses and permits	284,382	-	-	157,024	441,407
Special Medicaid reimbursements	115,797	-	-	-	115,797
Miscellaneous	758,947	66	30,864	863,183	1,653,059
<b>Total Revenues</b>	<b>25,662,741</b>	<b>66</b>	<b>12,180,814</b>	<b>4,292,346</b>	<b>42,135,966</b>
<b>EXPENDITURES</b>					
Current:					
General government	1,285,127	-	-	270,824	1,555,951
Education	2,155,080	-	12,786,351	158,160	15,099,591
Human services	4,590,802	-	-	18,679	4,609,481
Public safety and corrections	2,614,586	-	-	2,462	2,617,048
Conservation, environment, recreation, and agriculture	341,488	-	-	255,778	597,267
Labor, commerce, and regulatory	772,305	-	-	193,786	966,091
Health services	11,518,307	-	-	69,900	11,588,207
Transportation	-	-	-	2,338,907	2,338,907
Tax expenditures (Note 16)	931,600	-	-	-	931,600
Capital outlay	16,187	-	-	1,212,915	1,229,102
Intergovernmental-revenue sharing	1,076,445	-	-	-	1,076,445
Debt service:					
Bond principal retirement	-	-	-	238,371	238,371
Bond interest and fiscal charges	-	-	-	339,237	339,237
Capital lease payments	48,686	-	-	1,490	50,176
<b>Total Expenditures</b>	<b>25,350,613</b>	<b>-</b>	<b>12,786,351</b>	<b>5,100,510</b>	<b>43,237,473</b>
Excess of Revenues over (under) Expenditures	312,128	66	(605,537)	(808,164)	(1,101,507)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bonds and notes issued	-	-	-	185,242	185,242
Refunding bonds issued	-	-	-	347,446	347,446
Premium on bond issuance	-	-	-	16,811	16,811
Discount on bond issuance	-	-	-	(3,309)	(3,309)
Payment to refunded bond escrow agent	-	-	-	(361,879)	(361,879)
Capital lease acquisitions	106,248	-	-	4,590	110,838
Proceeds from sale of capital assets	27,381	-	-	3,124	30,505
Transfers from other funds (Note 20)	279,738	-	769,969	1,774,781	2,824,489
Transfers to other funds (Note 20)	(416,549)	-	(3,833)	(1,496,465)	(1,916,847)
<b>Total Other Financing Sources (Uses)</b>	<b>(3,182)</b>	<b>-</b>	<b>766,136</b>	<b>470,342</b>	<b>1,233,296</b>
<b>Net changes in fund balances</b>	<b>308,946</b>	<b>66</b>	<b>160,599</b>	<b>(337,823)</b>	<b>131,789</b>
Fund Balances - Beginning of fiscal year	982,028	2,090	93,996	2,697,890	3,776,004
Fund Balances - End of fiscal year	<u>\$ 1,290,974</u>	<u>\$ 2,156</u>	<u>\$ 254,595</u>	<u>\$ 2,360,067</u>	<u>\$ 3,907,792</u>

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, 2008

(In Thousands)

Net change in fund balance - total governmental funds		\$	131,789
<p>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)</p>			
Land and other non-depreciable assets	108,258		
Buildings, equipment, and other depreciable assets	42,963		
Infrastructure additions	100,220		
Construction in progress	144,083		
Gain on disposal of capital assets	30,505		
Accumulated depreciation	<u>(136,520)</u>		289,509
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.			15,886
Amount due to component units for long-term loans are not reported in the funds as they are not due and payable.			(7,824)
Increase in equity interest in joint ventures. (Note 7)			422
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.			(84,961)
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.			37,267
<p>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 13)</p>			
Bond proceeds and premiums received	(549,499)		
Repayment of bond principal	238,371		
Payment to refunded bond escrow agent	361,879		
Discount on bond issuances	3,309		
Accrued interest and amortization	(19,667)		
Deferred issue costs	<u>4,793</u>		39,186
<p>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 15)</p>			
Net pension obligation	50,188		
Net other postemployment benefit obligation	(609,482)		
Capital lease payments	17,580		
Compensated absences payments	6,553		
Litigation recoveries, settlements and payments	22,384		
Workers' compensation	1,360		
Other	<u>6,557</u>		(504,861)
Change in net assets of governmental activities		\$	<u>(83,588)</u>

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





## PROPRIETARY FUND FINANCIAL STATEMENTS



### Major Funds

#### STATE LOTTERY FUND

Michigan Compiled Laws (MCL) Section 432.41 established the State Lottery Fund and MCL Section 432.5 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 1991. 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 Unemployment Insurance Agency 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 Michigan Compiled Laws (MCL) Section 421.10 to receive a special temporary unemployment tax surcharge, known as the solvency tax. The fund also receives interest and penalty charges on late contributions. MCL Section 421.10 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 170.

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page 174.

**Michigan**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2008  
(In Thousands)**

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 2	\$ 7,417	\$ 893	\$ 8,312	\$ 496
Equity in common cash (Note 5)	3,508	2,886	55,057	61,451	234,679
Amounts due from other funds (Note 18)	-	7,581	-	7,581	22,412
Amounts due from component units	-	341	-	341	154
Amounts due from federal agencies	-	17,712	-	17,712	-
Amounts due from local units	-	31,403	-	31,403	-
Inventories	3,851	-	8,773	12,624	15,717
Investments (Note 8)	69,508	35,289	4,364	109,162	-
Other current assets	75,846	253,524	4,829	334,199	19,375
Total Current Assets	<u>152,715</u>	<u>356,153</u>	<u>73,915</u>	<u>582,784</u>	<u>292,834</u>
Investments (Note 8)	251,479	-	-	251,479	-
Capital Assets (Note 9):					
Land and other non depreciable assets	-	-	-	-	9,170
Buildings and equipment	4,194	-	371	4,565	709,419
Allowance for depreciation	(3,405)	-	(353)	(3,758)	(487,102)
Total capital assets	<u>790</u>	<u>-</u>	<u>17</u>	<u>807</u>	<u>231,487</u>
Other noncurrent assets	-	23,300	-	23,300	2,650
Total Assets	<u>\$ 404,984</u>	<u>\$ 379,453</u>	<u>\$ 73,933</u>	<u>\$ 858,370</u>	<u>\$ 526,971</u>
<b>LIABILITIES</b>					
Current Liabilities:					
Warrants outstanding	\$ 1,937	\$ -	\$ 3,656	\$ 5,593	\$ 609
Accounts payable and other liabilities (Note 23)	132,230	44,509	62,984	239,723	119,669
Amounts due to other funds (Note 18)	11,898	7,355	142	19,394	6,356
Deferred revenue	-	345	395	740	49,610
Current portion of other long-term obligations (Note 15)	638	-	319	958	62,140
Total Current Liabilities	<u>146,703</u>	<u>52,209</u>	<u>67,496</u>	<u>266,408</u>	<u>238,384</u>
Long-Term Liabilities:					
Advances from other funds (Note 18)	-	-	-	-	7,548
Advances from federal government	-	362,400	-	362,400	-
Prize awards payable	220,001	-	-	220,001	-
Noncurrent portion of other long-term obligations (Note 15)	1,508	55,203	1,144	57,855	111,193
Total Liabilities	<u>368,212</u>	<u>469,812</u>	<u>68,640</u>	<u>906,664</u>	<u>357,126</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	\$ 790	\$ -	\$ 17	\$ 807	\$ 223,910
Restricted For:					
Unemployment compensation	-	35,899	-	35,899	-
Other purposes	36,772	-	-	36,772	4,026
Unrestricted	(790)	(126,259)	5,275	(121,773)	(58,091)
Total Net Assets	<u>\$ 36,772</u>	<u>\$ (90,359)</u>	<u>\$ 5,293</u>	<u>\$ (48,294)</u>	<u>\$ 169,845</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, 2008

(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			NON-MAJOR	TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS				
<b>OPERATING REVENUES</b>						
Operating revenues	\$ 2,351,082	\$ 1,998,292	\$ 772,970	\$ 5,122,344	\$ 1,399,957	
Total Operating Revenues	2,351,082	1,998,292	772,970	5,122,344	1,399,957	
<b>OPERATING EXPENSES</b>						
Salaries, wages, and other administrative	282,421	3	64,489	346,913	521,168	
Interest expense	-	-	-	-	1	
Depreciation	134	-	9	143	47,770	
Purchases for resale	-	-	561,269	561,269	82,328	
Purchases for prison industries	-	-	-	-	17,826	
Lottery prize awards	1,323,341	-	-	1,323,341	-	
Premiums and claims	-	-	38	38	659,085	
Unemployment benefits	-	2,063,969	-	2,063,969	-	
Other operating expenses	-	324,624	1,161	325,785	50,264	
Total Operating Expenses	1,605,896	2,388,596	626,967	4,621,458	1,378,441	
Operating Income (Loss)	745,186	(390,303)	146,003	500,885	21,516	
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Specific tax on spirits	-	-	13,663	13,663	-	
Interest revenue	3,063	-	2,192	5,255	-	
Investment revenue (expense) - net	39,972	1,227	-	41,199	-	
Other nonoperating revenues	-	-	-	-	3,629	
Amortization of prize award obligation discount	(20,700)	-	-	(20,700)	-	
Interest expense	(10,262)	(14,448)	-	(24,709)	(624)	
Other nonoperating expense	-	-	-	-	(13)	
Total Nonoperating Revenues (Expenses)	12,073	(13,221)	15,854	14,707	2,992	
Income (Loss) Before Transfers	757,259	(403,524)	161,857	515,592	24,508	
<b>TRANSFERS</b>						
Transfers from other funds	-	-	-	-	14,093	
Transfers To:						
School Aid Fund	(740,735)	-	-	(740,735)	-	
Other funds	(11,628)	(13,670)	(161,730)	(187,028)	(1,333)	
Total transfers to other funds	(752,364)	(13,670)	(161,730)	(927,763)	(1,333)	
Change in net assets	4,895	(417,194)	127	(412,171)	37,267	
Total net assets - Beginning of fiscal year - restated	31,877	326,834	5,165	363,877	132,578	
Total net assets - End of fiscal year	\$ 36,772	\$ (90,359)	\$ 5,293	\$ (48,294)	\$ 169,845	

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

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2008  
(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from federal and local agencies	\$ -	\$ 308,568	\$ -	\$ 308,568	\$ -
Receipts from customers	2,341,730	1,611,452	768,085	4,721,266	1,435,285
Membership dues	-	-	4,629	4,629	-
Payments to employees	(15,195)	-	(16,970)	(32,165)	(204,644)
Payments to suppliers	(51,559)	-	(613,674)	(665,233)	(639,894)
Payments to prize winners	(1,391,666)	-	-	(1,391,666)	-
Payments for commissions to retailers	(215,860)	-	-	(215,860)	-
Claims paid	-	(2,369,584)	-	(2,369,584)	(426,913)
Other receipts	-	33,916	227	34,143	178
Other payments	-	(3)	(1,597)	(1,600)	(8,114)
Net cash provided (used) by operating activities	\$ 667,450	\$ (415,652)	\$ 140,699	\$ 392,497	\$ 155,897
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Advances from federal government	\$ -	\$ 1,079,400	\$ -	\$ 1,079,400	\$ -
Advance repayments to federal government	-	(717,000)	-	(717,000)	-
Interest paid	-	(10,812)	-	(10,812)	-
Loans or loan repayments from other funds	-	-	-	-	5,407
Loans or loan repayments to other funds	-	-	-	-	(14,152)
Specific tax on spirits	-	-	13,663	13,663	-
Transfers from other funds	-	-	-	-	14,093
Transfers to other funds	(751,529)	(13,683)	(161,730)	(926,942)	(1,333)
Net cash provided (used) by noncapital financing activities	\$ (751,529)	\$ 337,905	\$ (148,067)	\$ (561,691)	\$ 4,015
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition and construction of capital assets	\$ (583)	\$ -	\$ -	\$ (583)	\$ (67,756)
Interest paid	-	-	-	-	(252)
Capital lease payments (including imputed interest expense)	-	-	-	-	(3,000)
Proceeds from sale of capital assets	-	-	-	-	64
Net cash provided (used) by capital and related financing activities	\$ (583)	\$ -	\$ -	\$ (583)	\$ (70,944)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investment securities	\$ 76,870	\$ 68,340	\$ -	\$ 145,210	\$ -
Purchases of investment securities	-	-	(1,088)	(1,088)	-
Interest and dividends on investments	3,063	1,227	2,192	6,482	3,521
Income from securities lending activities	13,009	-	-	13,009	-
Expenses from securities lending activities	(10,262)	-	-	(10,262)	-
Net cash provided (used) by investing activities	\$ 82,680	\$ 69,566	\$ 1,104	\$ 153,350	\$ 3,521
Net cash provided (used) - all activities	\$ (1,981)	\$ (8,180)	\$ (6,264)	\$ (16,426)	\$ 92,489
Cash and cash equivalents at beginning of year - restated	3,555	18,483	58,558	80,596	142,078
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,573</u>	<u>\$ 10,303</u>	<u>\$ 52,293</u>	<u>\$ 64,170</u>	<u>\$ 234,566</u>

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

BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
MAJOR					
STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS		
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>					
Per Statement of Net Assets Classifications:					
Cash	\$ 2	\$ 7,417	\$ 893	\$ 8,312	\$ 496
Equity in common cash	3,508	2,886	55,057	61,451	234,679
Warrants outstanding	(1,937)	-	(3,656)	(5,593)	(609)
Cash and cash equivalents at end of year	<u>\$ 1,573</u>	<u>\$ 10,303</u>	<u>\$ 52,293</u>	<u>\$ 64,170</u>	<u>\$ 234,566</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ 745,186	\$ (390,303)	\$ 146,003	\$ 500,885	\$ 21,516
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation expense	134	-	9	143	47,770
Amortization of prize award obligation discount	(20,700)	-	-	(20,700)	-
Other reconciling items	120	-	-	120	4
Net Changes in Assets and Liabilities:					
Inventories	198	-	(4,361)	(4,163)	2,088
Other assets (net)	(9,352)	(53,489)	4,327	(58,514)	775
Accounts payable and other liabilities	(511)	28,134	(5,205)	22,418	83,745
Prize awards payable	(47,624)	-	-	(47,624)	-
Deferred revenue	-	7	(74)	(67)	-
Net cash provided (used) by operating activities	<u>\$ 667,450</u>	<u>\$ (415,652)</u>	<u>\$ 140,699</u>	<u>\$ 392,497</u>	<u>\$ 155,897</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>					
Cost of capital assets acquisitions financed by capital leases	\$ -	\$ -	\$ -	\$ -	\$ 4,990
Capital lease liabilities entered into during the year	-	-	-	-	(4,990)
Increase (decrease) in fair value of investments	4,895	-	-	4,895	-
Transfers to other funds (accrual)	(11,735)	(993)	-	(12,728)	-
Gain (loss) on disposal of capital assets	-	3,636	-	3,636	(11)
Total noncash investing, capital, and financing activities	<u>\$ (6,840)</u>	<u>\$ 2,643</u>	<u>\$ -</u>	<u>\$ (4,197)</u>	<u>\$ (11)</u>



## FIDUCIARY FUND FINANCIAL STATEMENTS



Individual fund financial statements begin on the following pages:  
Pension (and Other Employee Benefit) Trust Funds, page 182.  
Private Purpose Trust Funds, page 190.  
Agency Funds, page 193.

**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2008**  
(In Thousands)

ASSETS	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
Cash	\$ 23	\$ 1,685	\$ 54,759
Equity in common cash (Note 5)	834,484	92,964	5,608
Receivables:			
From participants	220,976	-	-
From employers	511,828	-	-
Other	463	-	-
Interest and dividends	1,392	2,221	-
Due from other funds (Note 18)	36,268	-	-
Due from component unit	325	-	-
Due from other governmental	4,026	-	-
Sale of investments	337	-	-
Investments at Fair Value (Note 8):			
Short term investments	425,922	-	6,866
Bonds, notes, mortgages, and preferred stock	9,056,471	17,391	-
Common stock	22,331,713	216	-
Real estate	5,854,736	-	-
Alternative investments	9,791,534	-	-
International investments	4,717,714	-	-
Mutual funds	1,859,094	1,647,688	-
Pooled investment funds	2,076,286	-	-
Money market funds	336,624	-	-
Guaranteed funding agreements	-	188,282	-
Securities lending collateral (Note 8)	6,847,491	-	-
Other current assets	-	9,014	219
Other noncurrent assets	-	700	380,831
<b>Total assets</b>	<b>\$ 64,907,705</b>	<b>\$ 1,960,160</b>	<b>\$ 448,283</b>
<b>LIABILITIES</b>			
Warrants outstanding	\$ 8,632	\$ 2,112	\$ 273
Accounts payable and other liabilities	322,365	6,210	66,799
Amounts due to other funds (Note 18)	4	-	381
Obligations under security lending	8,935,229	-	-
Other long-term liabilities	-	-	380,831
<b>Total liabilities</b>	<b>\$ 9,266,228</b>	<b>\$ 8,321</b>	<b>\$ 448,283</b>
<b>NET ASSETS</b>			
Net assets held in trust for pension, postemployment health-care, deferred compensation participants, and other purposes	<b>\$ 55,641,476</b>	<b>\$ 1,951,839</b>	
Reconciliation of Net Assets Held in Trust:			
Pension benefits (Note 10)	\$ 51,191,131	\$ -	
Postemployment health-care benefits (Note 11)	886,531	-	
Deferred compensation participants (Note 17)	3,563,814	-	
Other purposes	-	1,951,839	
<b>Total net assets held in trust for benefits and other purposes</b>	<b>\$ 55,641,476</b>	<b>\$ 1,951,839</b>	

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, 2008**  
(In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
<b>ADDITIONS</b>		
Contributions:		
From participants	\$ 728,280	\$ 363,026
From employers	2,495,381	-
From clients	-	65,206
From gifts, bequests, and endowments	-	23,473
From other plans	761	-
From other governmental	23,537	-
Investment Income:		
Net appreciation (depreciation) in fair value of investments	(11,736,002)	(337,882)
Interest, dividends, and other	1,488,553	97,207
Securities lending income	406,386	227
Less Investment Expense:		
Investment activity expense	126,426	-
Securities lending expense	345,355	200
Net investment income (loss)	(10,312,844)	(240,648)
Escheated property	-	60,794
Miscellaneous income	6,106	302
Transfers from other funds	7,450	-
Total Additions	<u>(7,051,329)</u>	<u>272,152</u>
<b>DEDUCTIONS</b>		
Benefits paid to participants or beneficiaries	4,368,921	112,774
Medical, dental, and life insurance for retirees	1,079,075	-
Refunds and transfers to other systems	72,564	-
Amounts distributed to clients, claimants, or third parties	-	152,977
Administrative expense	128,199	6,356
Transfers to other funds	88	-
Total Deductions	<u>5,648,846</u>	<u>272,107</u>
Net increase (decrease)	(12,700,175)	45
Net assets - Beginning of fiscal year - restated	<u>68,341,652</u>	<u>1,951,794</u>
Net assets - End of fiscal year	<u>\$ 55,641,476</u>	<u>\$ 1,951,839</u>
Reconciliation of Net Increase in Assets:		
Net increase (decrease) in assets held in trust for pension benefits	\$ (12,059,501)	\$ -
Net increase (decrease) in assets held in trust for postemployment benefits	11,999	-
Net increase (decrease) in assets held in trust for deferred compensation participants	(652,673)	-
Net increase (decrease) in assets held in trust for other purposes	-	45
Total net increase (decrease)	<u>\$ (12,700,175)</u>	<u>\$ 45</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.

Michigan Compiled Laws Section 390.1425, the Michigan Education Trust Act, 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 law 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 law. The law 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

Michigan Compiled Laws Section 125.1421 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

Michigan Compiled Laws Section 141.1054 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 four 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 198.

The non-major component unit - State universities are presented beginning on page 206.

**STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
 SEPTEMBER 30, 2008  
 (In Thousands)

	AUTHORITIES			
	MICHIGAN EDUCATION TRUST	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN MUNICIPAL BOND AUTHORITY	NON-MAJOR
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 244,854	\$ 350,465	\$ 12	\$ 145,024
Equity in common cash (Note 5)	-	-	68,293	50,672
Amounts due from component units	-	-	-	27,699
Amounts due from primary government	2,551	-	2,086	6,426
Amounts due from federal government	-	-	-	15,590
Amounts due from local units	-	-	975,274	16,607
Inventories	-	-	-	634
Investments (Note 8)	-	210,199	955,988	95,124
Other current assets	21,950	63,292	499	352,968
Total Current Assets	<u>269,355</u>	<u>623,956</u>	<u>2,002,153</u>	<u>710,744</u>
Restricted Assets:				
Cash and cash equivalents	-	-	-	6,656
Investments	-	-	-	2,479
Mortgages and loans receivable	-	-	-	-
Advances to primary government	-	-	558,234	-
Amounts due from local units	-	-	2,744,959	-
Mortgages and loans receivable	-	2,309,994	-	2,046,938
Investments (Note 8)	608,457	580,650	1,029,188	72,003
Capital Assets (Note 9):				
Land and other non-depreciable assets	-	-	-	13,002
Buildings, equipment, and other depreciable assets	-	-	-	61,377
Less accumulated depreciation	-	-	-	(33,285)
Infrastructure	-	-	-	102,722
Construction in progress	-	-	-	-
Total capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,815</u>
Other noncurrent assets	47,362	59,428	104,969	96,150
Total Assets	<u>\$ 925,174</u>	<u>\$ 3,574,028</u>	<u>\$ 6,439,503</u>	<u>\$ 3,078,786</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Warrants outstanding	\$ -	\$ -	\$ -	\$ 260
Accounts payable and other liabilities	5	38,941	4,803	40,347
Amounts due to component units	-	-	-	27,700
Amounts due to primary government	-	-	219	2,439
Amounts due to federal government	-	-	-	137
Bonds and notes payable (Note 14)	-	59,246	883,010	82,223
Interest payable	-	14,096	75,589	10,917
Deferred revenue	-	-	3,366	3,416
Current portion of other long-term obligations	124,008	-	-	6,553
Total Current Liabilities	<u>124,012</u>	<u>112,283</u>	<u>966,988</u>	<u>173,992</u>
Deferred revenue	-	-	-	-
Bonds and notes payable (Note 14)	-	2,337,725	3,463,865	2,302,534
Noncurrent portion of other long-term obligations	898,662	443,594	37,178	43,435
Total Liabilities	<u>\$ 1,022,674</u>	<u>\$ 2,893,602</u>	<u>\$ 4,468,031</u>	<u>\$ 2,519,962</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ 142,776
Restricted For:				
Education	-	-	-	-
Construction and debt service	-	295,132	-	17,381
Other purposes	-	-	1,958,766	24,542
Funds Held as Permanent Investments:				
Expendable	-	-	-	-
Nonexpendable	-	-	-	-
Unrestricted	(97,500)	385,295	12,706	374,125
Total Net Assets	<u>\$ (97,500)</u>	<u>\$ 680,426</u>	<u>\$ 1,971,472</u>	<u>\$ 558,824</u>

## STATE UNIVERSITIES

CENTRAL MICHIGAN UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	NON-MAJOR	TOTALS
\$ 17,166	\$ 36,759	\$ 242,545	\$ 1,036,826
-	-	-	118,965
-	-	18	27,717
54,835	10,193	115,654	191,746
923	1,943	12,371	30,828
-	134	185	992,200
5,465	5,126	11,449	22,675
-	8,025	136,481	1,405,816
17,873	29,679	59,274	545,534
<u>96,263</u>	<u>91,859</u>	<u>577,977</u>	<u>4,372,308</u>
5	-	19,986	26,647
48,288	185,421	193,304	429,492
8,691	-	41,255	49,946
-	-	-	558,234
-	-	-	2,744,959
-	10,010	24,250	4,391,192
181,698	57,595	367,792	2,897,382
11,061	14,252	81,297	119,612
613,020	1,010,788	3,045,008	4,730,194
(269,018)	(366,980)	(1,179,948)	(1,849,231)
-	-	-	102,722
27,217	10,294	98,950	136,462
<u>382,280</u>	<u>668,354</u>	<u>2,045,307</u>	<u>3,239,757</u>
-	14,968	37,091	359,968
<u>\$ 717,226</u>	<u>\$ 1,028,207</u>	<u>\$ 3,306,961</u>	<u>\$ 19,069,885</u>
\$ -	\$ -	\$ -	\$ 260
55,761	44,011	162,318	346,186
-	-	-	27,700
473	35	1,930	5,097
-	-	-	137
6,585	6,240	27,365	1,064,669
1,551	1,972	3,701	107,826
11,698	8,068	47,925	74,473
-	6,132	12,916	149,608
<u>76,068</u>	<u>66,457</u>	<u>256,156</u>	<u>1,775,956</u>
-	-	4,385	4,385
165,742	277,955	812,773	9,360,594
17,936	137,460	72,035	1,650,299
<u>\$ 259,745</u>	<u>\$ 481,872</u>	<u>\$ 1,145,349</u>	<u>\$ 12,791,234</u>
\$ 209,953	\$ 373,754	\$ 1,230,476	\$ 1,956,960
56,615	9,554	140,426	206,595
3,897	-	37,981	354,391
-	34,284	30,475	2,048,066
-	-	61,049	61,049
-	64,391	183,785	248,176
187,016	64,352	477,419	1,403,414
<u>\$ 457,481</u>	<u>\$ 546,335</u>	<u>\$ 2,161,612</u>	<u>\$ 6,278,651</u>

## STATEMENT OF ACTIVITIES

## COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	
Authorities:					
Michigan Education Trust	\$ 47,437	\$ 156	\$ (61,190)	\$ -	\$ (108,470)
Michigan State Housing Development Authority	646,305	181,217	458,951	-	(6,137)
Michigan Municipal Bond Authority	220,950	147,452	185,764	-	112,265
Non-Major	577,785	170,409	278,411	-	(128,965)
State Universities:					
Central Michigan University	356,330	250,970	17,628	2,078	(85,654)
Western Michigan University	516,109	279,593	19,636	7,107	(209,772)
Non-Major	1,549,599	935,807	142,518	18,395	(452,879)
Total	<u>\$ 3,914,515</u>	<u>\$ 1,965,604</u>	<u>\$ 1,041,718</u>	<u>\$ 27,580</u>	<u>\$ (879,612)</u>

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

GENERAL REVENUES

<u>INTEREST AND INVESTMENT EARNINGS (LOSS)</u>	<u>PAYMENTS FROM STATE OF MICHIGAN</u>	<u>OTHER</u>	<u>CHANGE IN NET ASSETS</u>	<u>NET ASSETS BEGINNING OF YEAR RESTATED</u>	<u>NET ASSETS END OF YEAR</u>
\$ -	\$ -	\$ -	\$ (108,470)	\$ 10,970	\$ (97,500)
34,259	-	-	28,122	652,304	680,426
-	-	-	112,265	1,859,207	1,971,472
10,020	123,667	45,900	50,623	508,202	558,824
(1,746)	92,087	13,239	17,926	439,554	457,481
(1,917)	130,610	54,999	(26,080)	572,416	546,335
14,087	423,216	77,742	62,166	2,099,446	2,161,612
<u>\$ 54,703</u>	<u>\$ 769,580</u>	<u>\$ 191,881</u>	<u>\$ 136,552</u>	<u>\$ 6,142,099</u>	<u>\$ 6,278,651</u>

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## Michigan

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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. Following is a summary of the significant policies:

### **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 No. 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 Tobacco Settlement 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 financial 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 Farm Produce Insurance Authority provides reimbursements to participating producers for losses suffered in the event of a grain dealer's financial failure.

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 Early Childhood Investment Corporation participates with intermediate school districts to establish standards and guidelines for early childhood development activities.

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.

**Michigan**  
**Notes to the Financial Statements**

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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 financial 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 \$92.1 million to Central Michigan University and \$130.6 million to Western Michigan University.

**Availability of Financial Statements**

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

### **Related Organizations**

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

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.

### **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 2008, the State awarded contracts totaling \$32.7 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. The 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. During fiscal year 2008, the State awarded contracts totaling \$3.8 million to DWCHA.

## ***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 financial 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.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements except for agency funds which have no measurement focus. 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. The FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.

Governmental fund financial 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, generally within 60 days. Significant revenues susceptible to accrual include tax revenues and federal grants. Revenues that the State earns by incurring obligations are recognized in the period when all applicable eligibility requirements have been met.

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 "Budget Stabilization Fund" or "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 financial 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.

**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 and the Farm Produce Insurance Authority which has a December 31 year-end.

**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 (i.e., roads, bridges, ramps, and similar items), are reported in the government-wide financial statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide financial 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 12, respectively.

**Warrants Outstanding**

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

**Income Tax Refunds Payable**

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

**Prize Awards Payable**

The State Lottery Fund makes long-term prize awards for certain games, most notably the lotto games. At September 30, 2008, long-term prize awards of \$305.2 million were reported at a present value of \$220.0 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 \$118.8 million, are included with "Accounts payable and other liabilities" on the Statement of Net Assets.

**Deferred Revenue**

In the government-wide financial 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 financial 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 13, 14, and 15.

**Compensated Absences**

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

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Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 296 to 356 hours. The maximum accumulation that may be paid off is 40 hours less than the total hours that may be accumulated. Employees receive a 100% termination payment upon separation based upon their final rate of pay. The liability for annual leave is recorded at the maximum accumulation amounts in accordance with generally accepted accounting principles, as it is probable that the State will compensate employees through paid time off, for the hours earned in excess of the total that may be paid off. 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, 2008.

The State instituted a banked leave time program in fiscal year 2004 whereby eligible employees work a regular schedule but receive pay for a reduced number of hours. The banked leave time program was continued in fiscal years 2005 and 2006. The program was discontinued in fiscal year 2006. 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 financial statements, and "Fund Balance" on governmental fund financial 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 22 provides a disaggregation of reserved fund balances.

**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 (i.e., 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 2008, interest charges on general long-term liabilities totaling \$11.8 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 (i.e., 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 16.

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.

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Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (i.e., 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.

***Interfund Activity and Balances***

**Interfund Activity**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial 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 the General Fund and the State 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 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. 22)  
Counter-Cyclical Budget and Economic Stabilization Fund\* (p. 22)  
School Aid Fund\* (p. 22)

**Proprietary:**

State Lottery Fund (p. 28)  
Michigan Unemployment Compensation Funds (p. 28)



**NON-MAJOR FUNDS**

**Governmental:**

**Special Revenue Funds:**

**Transportation Related:**

State Aeronautics Fund\* (p. 116)  
State Trunkline Fund\* (p. 116)  
Michigan Transportation Fund\* (p. 116)  
Comprehensive Transportation Fund\* (p. 116)  
Combined State Trunkline Bond Proceeds Fund (p. 117)  
Combined Comprehensive Transportation Bond Proceeds Fund (p. 117)  
Transportation Related Trust Funds (p. 117)

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

Michigan Conservation and Recreation Legacy Fund\*(p. 126)  
Michigan Game and Fish Protection Trust Fund (p. 126)  
Combined Recreation Bond Fund - Local Projects (p. 126)  
Combined Environmental Protection Bond Fund (p. 127)  
Michigan Nongame Fish and Wildlife Trust Fund\* (p. 127)  
Michigan Civilian Conservation Corps Endowment Fund\* (p. 127)  
Forest Development Fund\* (p. 127)  
Bottle Deposits Fund (p. 127)

**Regulatory and Administrative Related:**

Michigan Employment Security Act - Administration Fund\* (p. 136)  
Safety Education and Training Fund\* (p. 136)  
State Construction Code Fund\* (p. 136)  
Homeowner Construction Lien Recovery Fund\* (p. 136)  
State Casino Gaming Fund\* (p. 137)  
Second Injury Fund (p. 137)  
Silicosis, Dust Disease, and Logging Industry Compensation Fund (p. 137)  
Self-Insurers' Security Fund (p. 137)  
Utility Consumer Representation Fund (p. 137)

**Other State Funds:**

School Bond Loan Fund (p. 146)  
21<sup>st</sup> Century Jobs Trust Fund\* (p. 146)  
Michigan Tobacco Settlement Finance Authority\* (p. 146)  
Michigan Merit Award Trust Fund\* (p. 146)  
Children's Trust Fund\* (p. 147)  
Assigned Claims Facility and Plan Fund (p. 147)  
Military Family Relief Fund\* (p. 147)  
Miscellaneous Special Revenue Funds (p. 147)

**Debt Service Funds:**

Combined State Trunkline Bond and Interest Redemption Fund (p. 154)  
Combined Comprehensive Transportation Bond and Interest Redemption Fund (p. 154)  
Recreation and Environmental Protection Bond Redemption Fund (p. 154)  
School Loan Bond Redemption Fund (p. 155)  
Michigan Tobacco Settlement Finance Authority (p. 155)  
State Building Authority (p. 155)

**Capital Projects Funds:**

Combined Recreation Bond Fund – State Projects (p. 160)  
Advance Financing Funds (p. 160)  
State Building Authority (p. 160)

**Permanent Funds:**

Michigan Natural Resources Trust Fund\* (p. 164)  
Michigan State Parks Endowment Fund\* (p. 164)  
Michigan Veterans' Trust Fund\* (p. 164)

**Proprietary:**

**Enterprise Funds:**

Liquor Purchase Revolving Fund (p. 170)  
Attorney Discipline System (p. 170)

**Internal Service Funds:**

Correctional Industries Revolving Fund (p. 174)  
Motor Transport Fund (p. 174)  
Office Services Revolving Fund (p. 174)  
Information Technology Fund (p. 175)  
Risk Management Fund (p. 175)  
State Sponsored Group Insurance Fund (p. 175)

**Fiduciary:**

**Pension (and other employee benefit) Trust Funds:**

State of Michigan Deferred Compensation Funds (p. 182)  
Legislative Pension Benefits Fund (p. 182)  
Legislative Other Postemployment Benefits Fund (p. 182)  
State Police Pension Benefits Fund (p. 182)  
State Police Other Postemployment Benefits Fund (p. 183)  
State Employees' Pension Benefits Fund (p. 183)  
State Employees' Other Postemployment Benefits Fund (p. 183)  
Public School Employees' Pension Benefits Fund (p. 183)  
Public School Employees' Other Postemployment Benefits Fund (p. 183)  
Judges' Pension Benefits Fund (p. 183)  
Judges' Other Postemployment Benefits Fund (p. 184)  
State of Michigan Defined Contribution Retirement Fund (p. 184)

**Private Purpose Trust Funds:**

Escheats Fund (p. 190)  
Gifts, Bequests, and Deposits Investment Fund (p. 190)  
Hospital Patients' Trust Fund (p. 190)  
Michigan Education Savings Program (p. 190)

**Agency Funds:**

Environmental Quality Deposits Fund (p. 193)  
Insurance Carrier Deposits Fund (p. 193)  
State Treasurer's Escrow and Paying Agent Fund (p. 193)  
Child Support Collection Fund (p. 193)

**DISCRETELY PRESENTED COMPONENT UNITS:**

**Authorities:**

**Major Funds:**

Michigan Education Trust (p. 38)  
Michigan State Housing Development Authority (p. 38)  
Michigan Municipal Bond Authority (p. 38)

**Non-Major Funds:**

Farm Produce Insurance Authority (p. 198)  
Land Bank Fast Track Authority (p. 198)  
Mackinac Bridge Authority (p. 198)  
Mackinac Island State Park Commission (p. 199)  
Michigan Broadband Development Authority (p. 199)  
Michigan Early Childhood Investment Corporation (p. 199)  
Michigan Economic Development Corporation (p. 199)  
Michigan Exposition and Fairgrounds Authority (p. 199)  
Michigan Higher Education Assistance Authority (p. 200)  
Michigan Higher Education Facilities Authority (p. 200)  
Michigan Higher Education Student Loan Authority (p. 200)  
Michigan Public Educational Facilities Authority (p. 201)  
Michigan State Hospital Finance Authority (p. 201)  
Michigan Strategic Fund (p. 201)  
State Bar of Michigan (p. 201)

**State Universities (1):**

**Major Funds:**

Central Michigan University (p. 39)  
Western Michigan University (p. 39)

**Non-Major Funds:**

Eastern Michigan University (p. 206)  
Ferris State University (p. 206)  
Grand Valley State University (p. 206)  
Lake Superior State University (p. 206)  
Michigan Technological University (p. 207)  
Northern Michigan University (p. 207)  
Oakland University (p. 207)  
Saginaw Valley State University (p. 207)

(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, The Financial Reporting Entity criteria, they are considered fiscally independent special-purpose governments.

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

***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 1993, is 48.97%.

Final calculations establishing the State's compliance with this constitutional provision for fiscal year 2008 are not yet complete. For fiscal year 2007, 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 58.2%, reflecting payments that exceeded the minimum required by \$2.5 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 2008.

**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 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 Michigan business tax. If the limit is exceeded by an amount

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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 2008 are not final. For fiscal year 2007, the most recent year for which final calculations are available, total State revenues subject to this limitation were beneath the constitutional limit by \$5.3 billion. The State expects that total State revenues subject to the limitation will not exceed the limit for fiscal year 2008.

**Budget Stabilization Fund**

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund" or "Rainy Day Fund") was created in 1977 to assist in stabilizing revenue during periods of economic recession. This fund currently operates under Sections 18.1351 - 18.1359 of the Michigan Compiled Laws, 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 2008 (in millions):

Beginning unreserved fund balance	\$ 2.1
Interest income	.1
Transfer to General Fund	-
Ending unreserved fund balance	\$ 2.2

**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	
State Police	\$ 1.4
General Fund Total	\$ 1.4

**NOTE 4 – ACCOUNTING CHANGES AND RESTATEMENTS**

**Implementation of GASB Statement No. 45**

During fiscal year 2008, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement establishes standards of accounting and financial reporting for other postemployment benefits (OPEB) expense/expenditures and related OPEB liabilities or assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers. The effects of applying this standard are disclosed in Note 11. The State implemented the requirements for reporting the net OPEB obligation prospectively, which resulted in a zero net OPEB obligation at transition.

As a result of the implementation of GASB Statement No. 45, the retiree insurance benefits programs are now accounted for in the General Fund and several OPEB funds, rather than the State Sponsored Group Insurance Fund (SSGIF). Accordingly, beginning net assets were reduced in SSGIF by \$54.4 million and increased in the State Police, State Employees', and Judges' OPEB funds by \$4.0 million, \$50.2 million, and \$.1 million, respectively.

Western Michigan University, a discretely presented component unit, applied GASB Statement No. 45 retroactively. Accordingly, beginning net assets were reduced by \$113.3 million.

**Implementation of GASB Statement No. 48**

During fiscal year 2008, the State implemented GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, which resulted in the State recognizing amounts due to component units for receivables that were previously assigned to the Michigan Municipal Bond Authority. In fiscal year 2007, the State removed the receivables from local units from the State's financial statements. However, these loans are considered collateralized borrowings of the State rather than a sale. As a result, the State recorded receivables from local units (school districts) with corresponding amounts due to component units, totaling \$511.5 million, for balances as of September 30, 2007.

**Eastern Michigan University and Ferris State University**

Eastern Michigan University and Ferris State University, discretely presented component units, reduced beginning net assets by \$10.8 million and \$14.0 million, respectively, to reflect a change in classification of balances associated with Federal Perkins loans.

**Michigan Economic Development Corporation**

Michigan Economic Development Corporation, a discretely presented component unit, increased its beginning net assets by \$26.9 million to reflect prior period adjustments related to a court settlement.

**Michigan Early Childhood Investment Corporation**

Beginning net assets were increased by \$1.6 million for prior period errors.

**NOTE 5 – TREASURER’S COMMON CASH**

***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. The State Treasurer has placed a “cap,” or limit, on the amount of interest that can be earned by some State funds. These “capped” funds are limited to a maximum rate determined by the State Treasurer. For the remaining “uncapped” funds, 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.

***Investments and Deposits***

The investment authority for the Common Cash pool is found in Sections 21.141 - 21.147 of the Michigan Compiled Laws (MCL). The State Treasurer may invest surplus funds belonging to the State in 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 or cash equivalents. 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 2008.

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. To date, these programs have not resulted in any principal losses.

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 MCL Section 141.932, 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 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, 2008 was \$52.9 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 principal repayments on the loans in fiscal year 2008.

Michigan Sugar Beet Loan Program: MCL Section 21.142e 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.

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The loans may not exceed \$5.0 million in total. MCL Section 21.142e was amended, effective March 22, 2007, to extend the loan periods to a maximum of 10 years. As of September 30, 2008, loans outstanding totaled \$1.8 million and will mature on October 11, 2011.

The State Treasurer, as part of a modification to the loan, is required 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. However, the amendment to MCL Section 21.142e also provides that if a quarterly payment is missed by the borrower after February 15, 2007, the entire loan is in default and is due and payable immediately, in full.

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

Assets	
Cash on hand	\$ -
Demand deposits	801.9
Time deposits - regular	135.0
Prime commercial paper - at cost	1,641.4
Interest receivable	1.9
Emergency loans to local units - at cost	57.9
Michigan Sugar Beet Loan Program	1.8
Total assets	\$ 2,639.9
Equities	
Fund equities (net) in common cash (1):	
Governmental activities	\$ 1,526.5
Business-type activities	61.5
Fiduciary funds	933.1
Discretely presented component units	119.0
Net fund equities	\$ 2,639.9

(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 18 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, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements as amended by GASB Statement No. 40, Deposit and Investment Risk Disclosures. Please see Note 8 for information about deposits and investments that are not part of the Common Cash pool.

**Common Cash Deposits**

**Custodial Credit Risk**

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 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's funds. A bank, savings and loan association, or credit union holding State funds must be organized under the laws 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, 2008, the carrying amount of deposits, including time and demand deposits, was \$937.0 million. The deposits were reflected in the accounts of the banks at \$937.0 million. Of the bank balance, \$3.4 million was covered by

federal depository insurance, \$933.1 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 \$182.8 million at September 30, 2008.

**Foreign Currency Risk**

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

MCL Section 487.714 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, 2008.

**Common Cash Investments**

**Types of Investments**

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

**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, 2008, 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, 2008, 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, 2008, the fair value of cash equivalents was \$1.8 billion; the weighted average maturity was 15 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 2008, which will be collected sometime in the future. Amounts expected to be collected in the next fiscal year are classified as "current" and amounts

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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, Michigan 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.

Local units of government, as agents for the State, assess the state education tax, a statewide 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.

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.

Effective January 1, 2008, the State replaced the single business tax with the Michigan Business Tax (MBT). Due to the change in the law, taxpayers have until April 2009 to submit their final MBT tax returns indicating the total tax liability incurred. As a result, the State is unable to estimate an accrual beyond the 60-day period as the data needed to compare tax payments received to the total tax liability is not available. Therefore, the accrual and related revenue expected to be collected beyond the 60-day period is not measurable and has not been recorded in this fiscal year.

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

<u>Tax</u>	General Fund	Special Revenue Funds	Total
Sales & use	\$ 345.9	\$ 686.0	\$ 1,031.9
Individual income	2,149.6	322.3	2,471.9
Single business	696.8	-	696.8
Michigan business	477.4	-	477.4
State education (property)	-	1,550.2	1,550.2
Telephone & telegraph	38.0	-	38.0
Motor fuel	-	193.1	193.1
Insurance - retaliatory	68.5	-	68.5
Tobacco products	80.2	51.2	131.4
Quality assurance assessment	122.0	-	122.0
Other	33.5	41.8	75.3
Penalties and interest	1,063.9	-	1,063.9
Gross taxes receivable	5,075.7	2,844.6	7,920.3
Less allowance for uncollectibles	1,932.1	461.7	2,393.8
Total taxes receivable (net)	<u>\$ 3,143.6</u>	<u>\$ 2,382.9</u>	<u>\$ 5,526.6</u>
 <u>As reported on the financial statements</u>			
Current Taxes Receivable	\$ 2,890.3	\$ 2,310.4	\$ 5,200.7
Noncurrent Taxes Receivable	253.3	72.5	325.9
Total Taxes Receivable (net)	<u>\$ 3,143.6</u>	<u>\$ 2,382.9</u>	<u>\$ 5,526.6</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 generally accepted accounting principles 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

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

Contribution requirements were established based upon water consumption and usage. Contributions to GLPF are permanently restricted and are not available for disbursement. Michigan is the largest contributor, having made a contribution of \$25.0 million,

constituting approximately 31% of the total. Michigan made its required contribution by issuing GLPF a general obligation bond authorized as part of the State's environmental protection bond program. No additional contributions from Michigan will be required.

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

#### **Joint International Bridge Authority**

The International Bridge in Sault Ste. Marie, Michigan is a joint venture of the State and Canadian governments. The Joint International Bridge Authority (JIBA) consists of six people, three appointed by each government. JIBA 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. JIBA reimburses the State for costs incurred to provide these services.

For the period ending December 31, 2007 (JIBA's most recently audited financial statements), its net assets increased by approximately \$.7 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 JIBA that are not covered by insurance or existing resources. The State's equity interest of \$7.9 million is reflected as an asset in the government-wide financial 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.

### ***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 (STEPAF), the Attorney Discipline System (ADS), and the Michigan Education Savings Plan (MESP) maintain these deposits and are exposed to custodial credit risk.

The Unemployment Insurance Agency 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 \$28.6 million, which was caused by a net book cash overdraft. The bank balance of the deposits was \$17.0 million, of which \$.1 million was covered by federal depository insurance and \$16.9 million was book-entry securities held by pledging custodial banks at the Federal Reserve Bank in the State's name.

The deposits of the STEPAF were reflected in bank accounts at \$.1 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 bonds. Michigan Compiled Laws Section 331.73g 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 bank deposits of the ADS were \$.2 million; these deposits were not covered by Federal Deposit Insurance Corporation (FDIC) insurance, and were uninsured and uncollateralized. ADS has no policy to address custodial credit risk. It assesses financial institutions' risk levels; only those with acceptable levels of risk are used as depositories.

The deposits of the MESP were reflected in bank accounts at \$.8 million; \$.1 million was insured and \$.7 million was uninsured and uncollateralized. The level of risk for each financial institution is evaluated and assessed; only those with an acceptable estimated risk level are used as depositories. MESP has no other policy for controlling this risk.



**Michigan**  
**Notes to the Financial Statements**

**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 at September 30, 2008:

Primary Government Total Investments (In millions)				
Investment Types	Retirement Systems	Deferred Compensation And Defined Contribution Funds	Other Funds	Total
Commercial paper	\$ 1,434.2	\$ -	\$ 33.3	\$ 1,467.6
Money market accounts	-	336.6	372.4	709.1
Government securities	3,487.7	-	712.3	4,200.0
Corporate bonds and notes	5,260.4	56.4	761.7	6,078.5
Mutual funds	95.3	1,707.4	1,093.6	2,896.4
Pooled investment funds	-	2,076.3	-	2,076.3
Equities	21,850.8	-	.2	21,851.0
Guaranteed investment contracts	-	-	37.8	37.8
Funding agreements	-	-	188.3	188.3
International	4,632.0	-	-	4,632.0
Real estate	5,765.5	-	-	5,765.5
Alternative	9,670.0	-	-	9,670.0
Accrued income	121.6	-	-	121.6
Cash collateral	(236.3)	-	-	(236.3)
Unsettled investments	192.1	-	-	192.1
<b>Total</b>	<b>\$ 52,273.4</b>	<b>\$ 4,176.7</b>	<b>\$ 3,199.7</b>	<b>\$ 59,649.8</b>

As reported on the Statement of Net Assets

Current investments	\$ 420.6
Noncurrent investments	918.6
<b>Total Investments</b>	<b>\$ 1,339.3</b>

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

	Current Investments	Noncurrent Investments	Total
Governmental Activities	\$ 311.5	\$ 667.2	\$ 978.6
Business-type activities	109.2	251.5	360.6
Fiduciary funds	432.8	57,877.7	58,310.5
<b>Total Investments</b>	<b>\$ 853.4</b>	<b>\$ 58,796.4</b>	<b>\$ 58,649.8</b>

The amounts above include losses, both realized and unrealized, that were largely the result of volatility in the financial markets, both nationally and world-wide. A substantial part of this volatility occurred toward the end of the fiscal year and continues into the current fiscal year. Despite decreases in fair value, very few principal losses have been sustained, and it is expected that many unrealized losses will be reversed.

**Authority**

Investment authority for the State's pension (and other employee benefit) trust funds is found in MCL Section 38.1133. This law 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 law 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 (SBA) makes diverse investments as allowed by State statute and/or bond resolutions.

The Michigan Tobacco Settlement Finance Authority (MTSFA) is authorized to invest at its discretion, in any obligation, as it determines to be proper, in accordance with MCL Section 129.267.

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 2008, 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 derivatives to provide additional diversification. Such investments were made in swap agreements, Standard & Poor's 500 and Standard & Poor's Midcap Index and Bond Index futures contracts, and option contracts during the year. At September 30, 2008, there was \$2.9 billion invested in swap agreements, futures contracts, and option contracts. Derivatives are not used for speculation and they are not used to leverage the investment portfolios. Approximately 12% of the total pension (and other employee benefit) trust funds portfolio has been invested from time to time in swap agreements, futures contracts, and option contracts. The swap agreements pay quarterly to the counterparty, 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 and short-term investments 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 floating rate notes and short-term investments. Swap agreements represent the largest category of derivatives used and total approximately 6.0% 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, Deposit and Investment Risk Disclosures, 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, 2008, government securities with a market value of \$25.0 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 investments for the pension 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 debt investments table.

All long-term fixed income investments, unless unrated, must be investment-grade at the time of purchase, unless specific requirements are met. Investment grade, as defined in MCL Section 38.1132 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 debt investments as of September 30, 2008, 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

Debt Investments (In millions)				
Investment Type	Fair Value	Rating S & P	Fair Value	Rating Moody's
<b>Pension (and Other Employee Benefit) Trust Funds:</b>				
<b>Retirement Systems:</b>				
Commercial paper	\$ 1,434.2	A-1	\$ 1,434.2	P-1
<b>Government securities</b>				
U.S. agencies – sponsored	1,764.3	AAA	1,764.3	Aaa
<b>Corporate bonds &amp; notes</b>				
	646.8	AAA	537.0	Aaa
	688.6	AA	753.0	Aa
	2,148.6	A	2,093.1	A
	988.7	BBB	1,039.6	Baa
	14.8	BB	17.4	Ba
	3.7	B	1.2	B
	.5	CCC	3.1	Caa
	-	CC	.4	Ca
	-	C	.1	C
	.2	D	-	D
	104.6	Unrated	151.7	Unrated
<b>International*</b>				
	515.9	AAA	515.9	Aaa
	1,333.8	AA	1,495.4	Aa
	1,472.5	A	1,460.2	A
	249.3	Unrated	99.9	Unrated
<b>Mutual funds**</b>				
	32.0	AA	32.0	Aa
	9.4	BB	9.4	Ba
Total	<u>\$ 11,408.0</u>		<u>\$ 11,408.0</u>	
<b>Deferred Compensation/Defined Contribution:</b>				
<b>Common trust funds</b>				
	\$ .8	AAA	\$ .8	Unavailable
	1,378.7	AA	1,378.7	Unavailable
	8.9	Unrated	8.9	Unavailable
<b>Mutual funds</b>				
	56.4	AA	56.4	Unavailable
<b>Money market funds</b>				
	336.6	A-1+	336.6	Unavailable
Total	<u>1,781.4</u>		<u>1,781.4</u>	
<b>Other Primary Government Funds:</b>				
<b>Commercial paper</b>				
	\$ 33.3	A-1+	\$ 33.3	Unavailable
<b>Government securities</b>				
U.S. agencies - sponsored	300.4	AAA	262.3	Aaa
U.S. agencies - sponsored	-	A-1+	38.1	Unavailable
<b>Corporate bonds &amp; notes</b>				
	52.4	AAA	51.5	Aaa
	25.6	AA	22.8	Aa
	76.5	A	80.3	A
	13.6	BBB	13.6	Baa
<b>Guaranteed investment contract</b>				
	37.8	A	37.8	Unavailable
<b>Mutual funds</b>				
	148.8	Unavailable	148.8	Aaa
	444.8	Unavailable	444.8	Aa
<b>Treasury trust fund pool</b>				
	35.3	Unrated	35.3	Unrated
Total	<u>\$ 1,168.5</u>		<u>\$ 1,168.5</u>	
<b>Total Primary Government</b>	<u>\$ 14,357.9</u>		<u>\$ 14,357.9</u>	

\*International Investment types consist of domestic floating rate notes that are used as part of a swap strategy.

\*\*Average Quality Rating.

**Michigan**  
Notes to the Financial Statements

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt investments that 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, 2008, the fair value of prime commercial paper was \$1.4 billion; the weighted average maturity was 5 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, 2008, 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
<b>Retirement Systems:</b>		
<b>Governmental</b>		
U.S. Treasury	\$ 103.2	6.8
U.S. Agency – Backed	2,221.0	5.4
U.S. Agency – Sponsored	1,764.3	4.1
Total Government	4,088.5	
<b>Corporate</b>	4,596.5	5.4
<b>International*</b>		
Corporate	3,571.5	-
<b>Mutual fund - fixed income</b>	41.4	4.1
Total	\$12,298.0	
<b>Deferred Compensation/Defined Contribution:</b>		
<b>Common trust funds</b>		
Traditional GIC/BICs	\$ 129.4	1.3
Buy and hold synthetics	9.4	.8
Global wrap synthetic contracts	1,084.4	3.2
SSgA daily bond market index fund	164.9	4.8
Total Common Trust	1,388.1	
<b>Money market funds</b>	336.6	.1
<b>Mutual funds</b>	56.4	8.4
Total	\$ 1,781.1	
Total Pension (and Other Employee Benefit) Trust Funds	\$ 14,079.1	

\*International debt securities 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.

**Michigan**  
Notes to the Financial Statements

As of September 30, 2008, the primary government, excluding pension trust funds, had the following debt securities:

Investment Type	Fair Value	Other Funds Debt Securities (In millions)			
		Investment Maturities (In years)			
		Less Than 1	1 To 5	6 To 10	More Than 10
U.S. Treasury SLGS	\$ 6.9	\$ 6.9	\$ -	\$ -	\$ -
U.S. Treasury bonds	321.0	69.5	174.4	56.4	20.7
U.S. Bonds – backed	46.7	-	-	.6	46.1
U.S. Agency bonds – sponsored	300.4	25.0	72.8	170.9	31.8
Corporate bonds	168.2	1.0	67.1	80.7	19.4
Guaranteed investment contracts	37.8	-	-	-	37.8
Mutual funds	593.5	-	-	-	593.5
<b>Total</b>	<b>\$ 1,474.4</b>	<b>\$ 102.3</b>	<b>\$ 314.3</b>	<b>\$ 308.5</b>	<b>\$ 749.3</b>

**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 MCL Sections 38.1133 and 38.1140. The types of foreign securities include equities, mutual funds, real estate, and limited partnerships. At September 30, 2008, foreign investments were approximately 7% of total assets of the systems; total foreign investments were \$3.8 billion. As of September 30, 2008, 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)			
		Market Value (In U.S. Dollars)			
Currency	Country	Alternative Investments**	Equities	Equities - International	
				Equities	Derivatives*
<b>Retirement Systems:</b>					
<b>Americas</b>					
Dollar	Canada	\$ -	\$ -	\$ 6.2	\$ -
Peso	Mexico	-	52.6	-	-
Real	Brazil	-	.4	-	-
<b>Europe</b>					
Euro	European Union	976.8	81.3	37.0	(97.2)
Franc	Switzerland	-	79.5	3.7	(16.6)
Krona	Sweden	-	-	1.1	(4.0)
Krone	Denmark	-	-	1.4	(3.8)
Krone	Norway	-	-	.9	(4.9)
Sterling	United Kingdom	39.3	.9	18.7	(100.6)
<b>Asia/Pacific</b>					
Dollar	Australia	-	-	4.5	(42.0)
Renminbi	China	-	9.2	-	-
Dollar	Hong Kong	-	-	.9	(11.0)
Yen	Japan	4.5	112.2	11.1	(59.4)
Dollar	Singapore	-	-	1.6	(5.3)
Won	South Korea	-	-	-	(25.1)
<b>Middle East</b>					
Shekel	Israel	-	.6	-	-
<b>Mutual Funds</b>					
Various	Various	746.0	40.5	1,906.1	-
<b>Total</b>		<b>\$ 1,766.5</b>	<b>\$ 377.3</b>	<b>\$ 1,993.3</b>	<b>\$ (369.9)</b>
<b>Deferred Compensation/Defined Contribution:</b>					
<b>Mutual Funds</b>					
Various	Various	-	472.6	-	-
<b>Total</b>		<b>\$ 1,766.5</b>	<b>\$ 849.8</b>	<b>\$ 1,993.3</b>	<b>\$ (369.9)</b>

\*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 2008 through September 2011, with an average maturity of 1.8 years. For more information, see the derivatives section of this note.

\*\*\$746.0 million disclosed in this column consists of international real estate investments held by the pension trust funds.

**Michigan**  
Notes to the Financial Statements

**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 MCL 38.1137 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, 2008, 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 94.6% of the total investments of the primary government. Other large holders of investments were the State Lottery Fund (SLF), MESP, and the Michigan Natural Resources Trust Fund (MNRTF).

SLF investments, \$321.0 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 MCL Section 38.1133, 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 and the State has, by way of an Agreement, authorized Credit Suisse, the agent bank, to lend the State's securities to broker-dealers and banks pursuant to a form of loan agreement. During the fiscal year, the agent bank lent, at the direction of the State Treasurer, the State's securities and received cash (United States) as collateral. Borrowers were required to deliver collateral for each loan equal to (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issues by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The 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, due to the borrower's insolvency. There was one such failure by a borrower during the fiscal year, Lehman Brothers, Inc. (September 2008). However, there were no losses during the fiscal year resulting from the default of the borrower. As the agent bank, Credit Suisse has indemnified the State and has actively been replacing all outstanding loans with Lehman Brothers.

Under Master Securities Lending Agreements between the State and each borrower, the State Treasurer and the borrowers have the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in assets held in a collateral account. As of September 30, 2008, the investments had an average weighted maturity to next reset of 31 days and an average weighted maturity of 3.3 years. 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, 2008, the retirement systems had no credit risk exposure to borrowers. The cash received for securities on loan for the State as of September 30, 2008, was \$8.9 billion. The fair market value of assets held in the dedicated collateral account at managed by Credit Suisse and held by the custodian for the State as of September 30, 2008, was \$6.8 billion. The carrying amount, which is the fair market value, of securities on loan for the State as of September 30, 2008, was \$8.7 billion.

At September 30, 2008, the pension trust funds had the following debt investments made from cash received as collateral for securities lent:

Debt Investments (in millions)				
	Fair Value	Rating S & P	Fair Value	Rating Moody's
<b>Securities Lending Collateral</b>	\$ 2,081.7	AAA	\$ 2,138.8	Aaa
	1,778.8	AA	2,016.3	Aa
	1,842.9	A	1,578.1	A
	475.9	BBB	754.7	Baa
	94.0	BB	4.4	Ba
	20.2	B	71.9	B
	20.0	D	-	D
	519.0	Unrated	268.4	Unrated
	<u>\$ 6,832.4</u>		<u>\$ 6,832.4</u>	
Total				

**Michigan**  
Notes to the Financial Statements

**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 \$576.4 million. The deposits were reflected in the accounts of the banks at \$562.0 million. Of the bank balance, \$510.3 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 \$429.5 million, represent amounts that are pledged toward the payment of outstanding bonds and notes.

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

	Fair Value	Investment Maturities (In Years)				N/A
		Less Than 1	1 To 5	6 To 10	More Than 10	
Time deposits	\$ 115.1	\$ 114.7	\$ .4	\$ -	\$ -	\$ -
Money market accounts	548.7	548.7	-	-	-	-
Commercial paper	402.8	402.8	-	-	-	-
Short-term notes	76.4	76.4	-	-	-	-
Repurchase agreements	.5	-	-	.5	-	-
Government securities	956.6	559.4	165.1	183.6	48.5	-
Insured mortgage backed securities	338.7	-	1.4	.6	336.7	-
Government-backed securities	333.0	135.5	.2	15.9	181.5	-
Investment agreements	15.1	6.7	-	-	8.4	-
Corporate bonds and notes	239.9	114.0	70.2	47.7	8.0	-
Preferred stock	.9	-	-	-	.9	-
Equities	84.5	33.1	.5	-	1.4	49.5
Real estate	8.1	-	-	-	4.6	3.4
Venture capital & leveraged buyouts	43.2	-	-	37.6	5.7	-
Mutual bond/equity funds	1,120.5	197.2	80.5	104.7	290.5	447.7
Guaranteed investment contracts	1,022.3	91.7	19.3	1.5	909.8	-
Pooled investment funds	38.2	38.2	-	-	-	-
Other investments	54.6	8.1	.1	-	45.9	.5
<b>Total Investments</b>	<b>\$ 5,399.2</b>	<b>\$ 2,326.5</b>	<b>\$ 337.7</b>	<b>\$ 392.0</b>	<b>\$ 1,841.9</b>	<b>\$ 501.2</b>
Less Investments Reported as "Cash" on Statement of Net Assets	666.5					
<b>Total Investments</b>	<b>\$ 4,732.7</b>					
<b>As Reported on Statement of Net Assets</b>						
Current investments	\$ 1,405.8					
Noncurrent restricted investments	429.5					
Noncurrent investments	2,897.4					
<b>Total Investments</b>	<b>\$ 4,732.7</b>					

## NOTE 9 – CAPITAL ASSETS

### *Primary Government*

#### **Summary of Significant Accounting Policies**

##### **Methods used to value capital assets**

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

##### **Capitalization policies**

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

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

##### **Items not capitalized and depreciated**

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets 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:

Asset	Years
Equipment	2-25
Buildings	5-50
Infrastructure	10-40
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, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. 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.



**Michigan**  
**Notes to the Financial Statements**

Capital asset activities for the fiscal year ended September 30, 2008, were as follows (in millions):

Governmental Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclass- ifications	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 3,235.2	\$ 60.8	\$ (.4)	\$ 48.6	\$ 3,344.2
Land improvements	16.9	-	-	(.7)	16.2
Construction in progress	1,008.8	409.4	(286.6)	21.3	1,152.9
Infrastructure	12,536.7	216.9	(96.3)	(20.4)	12,636.9
Mineral rights	19.8	-	-	-	19.8
Total capital assets, not being depreciated	<u>16,817.4</u>	<u>687.0</u>	<u>(383.2)</u>	<u>48.7</u>	<u>17,170.0</u>
Capital assets, being depreciated:					
Land improvements	116.4	6.8	(5.1)	3.5	121.5
Equipment and vehicles	772.7	85.4	(14.6)	2.8	846.3
Buildings	3,341.1	132.9	(63.0)	21.1	3,432.0
Infrastructure	704.5	3.4	(.6)	3.9	711.1
Total capital assets, being depreciated	<u>4,934.7</u>	<u>228.5</u>	<u>(83.4)</u>	<u>31.2</u>	<u>5,111.0</u>
Less accumulated depreciation for:					
Land improvements	(49.3)	(3.8)	4.2	.1	(48.8)
Equipment and vehicles	(573.7)	(56.6)	13.1	(4.8)	(621.9)
Buildings	(1,266.1)	(97.5)	40.5	4.3	(1,318.9)
Infrastructure	(426.3)	(26.4)	.6	(.1)	(452.2)
Total accumulated depreciation	<u>(2,315.5)</u>	<u>(184.3)</u>	<u>58.5</u>	<u>(.5)</u>	<u>(2,441.8)</u>
Total capital assets, being depreciated, net	<u>2,619.2</u>	<u>44.2</u>	<u>(24.9)</u>	<u>30.7</u>	<u>2,669.2</u>
Governmental activity capital assets, net	<u>\$ 19,436.6</u>	<u>\$ 731.2</u>	<u>\$ (408.2)</u>	<u>\$ 79.5</u>	<u>\$ 19,839.2</u>

The Department of Corrections has closed buildings at one prison campus and stopped construction on a building at another prison campus. The total impairment loss was \$13.4 million. The impairments pertained to buildings and non-depreciable and depreciable land improvements. The Department of Corrections plans to sell these assets.

In all cases, the historical cost of the buildings has been adjusted to the lower of carrying value or fair value in the above table.

Business-type Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclass- ifications	Ending Balance
Capital assets, being depreciated:					
Equipment	\$ 4.5	\$ .6	\$ (.5)	\$ -	\$ 4.6
Total capital assets, being depreciated	<u>4.5</u>	<u>.6</u>	<u>(.5)</u>	<u>-</u>	<u>4.6</u>
Less accumulated depreciation for:					
Equipment	(4.1)	(.1)	.5	-	(3.8)
Total accumulated depreciation	<u>(4.1)</u>	<u>(.1)</u>	<u>.5</u>	<u>-</u>	<u>(3.8)</u>
Total capital assets, being depreciated, net	<u>.4</u>	<u>.4</u>	<u>-</u>	<u>-</u>	<u>.8</u>
Business-type activity capital assets, net	<u>\$ .4</u>	<u>\$ .4</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ .8</u>

**Michigan**  
Notes to the Financial Statements

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

	Amount
Governmental Activities:	
General government	\$ 25.0
Education	.2
Human services	8.1
Public safety and corrections	47.2
Conservation, environment, recreation, and agriculture	10.3
Labor, commerce, and regulatory	2.0
Health services	7.2
Transportation	36.6
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.	47.8
Total Depreciation Expense – Governmental Activities	\$ 184.3
Business-type Activities:	
Enterprise	.1
Total Depreciation Expense – Business-type Activities	\$ .1

***Discretely Presented Component Units***

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

	Amount
State Universities:	
Land and other non-depreciable assets	\$ 106.6
Buildings, equipment, and other depreciable assets	4,668.8
Construction in progress	136.5
Total	4,911.9
Less accumulated depreciation	(1,816.0)
Capital Assets, net – State Universities	3,095.9
Capital Assets, net – Authorities	143.8
Capital Assets, Total – Discretely Presented Component Units	\$ 3,239.8

**NOTE 10 – PENSION BENEFITS**

**Defined Benefit Pension Plans**

**PLAN DESCRIPTION**

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

Name	Type of Plan	Participating Employers
Legislative Retirement System (LRS)	Single Employer	1
State Police Retirement System (SPRS)	Single Employer	1
State Employees' Retirement System (SERS)	Single Employer	1
Public School Employees' Retirement System (PSERS)	Cost sharing multi-employer	715
Judges' Retirement System (JRS)	Cost sharing multi-employer	141
Military Retirement Plan (MRP)	Single Employer	1

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 (except Michigan State Police officers) 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.

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

**Basis of Accounting**

The financial statements are prepared using the accrual basis of accounting. Contributions from the State are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

**Methods Used to Value Investments**

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Other investments not having an established market are recorded at estimated fair value.

**Description of Benefits**

State statutes require that the State plans provide certain retirement, disability, death benefits, and annual cost-of-living adjustments to plan members. LRS life insurance benefits are provided through the defined benefit pension plan and are accounted for as pension benefits. 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.

**Contributions and Reserves**

SERS members are allowed to purchase service credits by entering into a contract with duration of up to 20 years. At September 30, 2008, the short term receivable was \$10.6 million and the discounted long term receivable was \$53.8 million.

**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.

Plan members for SPRS, SERS, and MRP are not required to contribute to the plans. Plan members for LRS are required to contribute based on the following: 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%. Plan members for JRS are required to contribute 5.87% (weighted average) of annual covered salary.

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 fiscal year ending September 30, 2008, this amount was \$3.8 million.

For LRS, SERS, and SPRS, statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding or a level-percent-of-payroll principles so the contribution rates do not have to increase over time. The following are the required contribution rates for the fiscal year ending September 30, 2008: SPRS, 27.52% of annual active payroll; SERS, \$308.02 million; LRS, no required contribution.

For JRS, the State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. The following table provides a schedule of annual required employer contributions for JRS.

Year Ended September 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2008	-	-
2007	.2	124.0
2006	.6	108.0

## ANNUAL PENSION COST AND OTHER RELATED INFORMATION

Annual pension cost and related information for the current year for the State's single employer defined benefit plans is as follows (amounts in millions):

	LRS	SPRS	SERS	MRP*
<b>Annual Pension Cost and Net Pension Obligation:</b>				
Annual required contribution	\$ -	\$ 33.67	\$ 308.02	\$ 3.81
Interest on net pension asset (obligation)	(.08)	3.35	42.82	.86
Adjustment to annual required contribution	.29	(2.55)	(46.14)	(.92)
Annual pension cost	.21	34.46	304.70	3.74
Contributions made	-	34.36	355.73	3.20
Change in net pension asset/obligation	.21	.10	(51.04)	.55
Net pension (asset) obligation at beginning of fiscal year	(1.20)	41.82	535.23	10.70
Net pension (asset) obligation at end of fiscal year	\$ (.99)	\$ 41.91	\$ 484.19	\$ 11.25

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

### Actuarial Valuations and Assumptions

Actuarial valuations for the pension plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multi-year trend information about whether the actuarial value of plan assets for the pension plans is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

**Michigan**  
**Notes to the Financial Statements**

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

	LRS	SPRS	SERS	MRP
Latest actuarial valuation date	9/30/2008	9/30/2007	9/30/2007	9/30/2007
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level percent of payroll open	Level percent of payroll closed	Level dollar closed	Level dollar closed
Remaining amortization period	5 years	29 years	29 years	28 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	Market value
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 (non-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

**THREE YEAR HISTORICAL TREND INFORMATION**

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

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>LRS</b>	9/30/08	\$ 170.0	\$ 169.4	\$ (0.6)	100.3%	\$ 1.3	( 44.3)%
	9/30/07	167.8	163.3	(4.4)	102.7	1.3	(338.5)
	9/30/06	159.3	158.4	(0.9)	100.6	2.0	( 46.6)
<b>SPRS**</b>	9/30/07	1,259.1	1,451.9	192.7	86.7	118.2	163.0
	9/30/06	1,204.2	1,385.9	181.6	86.9	115.9	156.7
	9/30/05	1,090.3	1,300.3	210.0	83.8	117.6	178.5
<b>SERS**</b>	9/30/07	11,343.5	13,161.7	1,818.1	86.2	1,825.9	99.6
	9/30/06	10,889.9	12,798.5	1,908.6	85.1	1,847.7	103.3
	9/30/05	9,896.7	12,400.4	2,503.6	79.8	1,880.2	133.2
<b>MRP*</b>	9/30/07	-	41.9	41.9	-	.6	6,983.3
	9/30/05	-	40.6	40.6	-	.5	8,120.0
	9/30/03	-	41.3	41.3	-	.6	6,883.0

\*Actuarial valuation performed biennially.

\*\*The most recent actuarial valuation was performed as of September 30, 2007.

**Michigan**  
**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 Ended September 30	Annual Cost	Percentage Contributed	Net Obligation (Asset)
<b>LRS</b>	2008	.2	-	(1.0)
	2007	.6	-	(1.2)
	2006	.3	-	(1.5)
<b>SPRS</b>	2008	34.5	99.7	41.9
	2007	33.1	73.6	41.8
	2006	36.6	68.5	33.8
<b>SERS</b>	2008	304.7	116.7	484.2
	2007	313.9	61.2	535.2
	2006	365.1	74.1	413.5
<b>MRP</b>	2008	3.7	85.4	11.2
	2007	3.6	88.5	10.7
	2006	3.6	82.9	10.4

**Defined Contribution Pension Plans**

**State of Michigan Defined Contribution Retirement Plan**

The State of Michigan Defined Contribution Retirement Plan (Plan) was established to provide benefits at retirement to employees of the State (except Michigan State Police officers) who were hired after March 31, 1997, and to those members of the State Employees' Retirement System (defined benefit), 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 \$81.6 million. Participant contributions to the plan were \$30.7 million. The reports may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

The following investments represent 5% or more of net plan assets at September 30, 2008: Common Trust Funds: Traditional GICs/BICs, \$49.4 million; Global Wrap Synthetic Contracts, \$369.3 million; SSGA Daily Bond Market Index Fund, \$112.4 million; Money Market Funds, \$228.1 million.

**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 \$75.3 million for the year ending June 30, 2008.

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 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 the 457(b) retirement plan. 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, 2008.

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

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS**

**Other Postemployment Benefit Plans**

**PLAN DESCRIPTION**

The State of Michigan administers the following other postemployment benefit (OPEB) plans:

Name	Type of Plan	Participating Employers
Legislative Retirement System (LRS)	Single Employer	1
State Police Retirement System (SPRS)	Single Employer	1
State Employees' Retirement System (SERS)	Single Employer	1
Public School Employees' Retirement System (PSERS)	Cost sharing multi-employer	715
Judges' Retirement System (JRS)	Cost sharing multi-employer	141
Life Insurance	Single Employer	1

Each plan, except for life insurance, is accounted for in a separate OPEB 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.

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

**Basis of Accounting**

The financial statements are prepared using the accrual basis of accounting. Contributions from the State are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

**Methods Used to Value Investments**

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Other investments not having an established market are recorded at estimated fair value.

**Description of Benefits**

State statutes require that the State provide certain other postemployment benefits (OPEB) to many of its retired employees. Health, dental, and vision benefits as well as life insurance coverage are provided to retirees. These benefits are funded on a pay-as-you-go basis. The net assets available for benefits relate to residual balances from funding provided in prior fiscal years.

**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. The State is not required to fund the plans other than the pay-as-you-go amount necessary to provide current benefits to retirees. For the fiscal year ended September 30, 2008, the State paid the following amounts (in millions) on the behalf of the following plans: \$342.2, SERS; \$29.1, SPRS; \$4.6, LRS; \$18.2, life insurance.

Plan members for SPRS and SERS are required to contribute 5%, 10%, and 10% of the monthly premium amount for health, dental, and vision coverage, respectively. Plan members for JRS are required to contribute 5% of health care premiums. JRS plan members can also enroll in the vision and dental plans of which they are required to contribute 100% of the premium. Plan members for LRS that are part of the defined benefit plan are not required to contribute and the members of the defined contribution plan are required to contribute 10% of the premiums. Life insurance is provided to retirees with the employer required to contribute 100% of the premiums.

**ANNUAL OPEB COST AND OTHER RELATED INFORMATION**

Annual pension cost and related information for the current year for the State's single employer OPEB plans is as follows (amounts in millions):

	LRS	SPRS	SERS	Life Insurance
<b>Annual OPEB Cost and Net OPEB Obligation:</b>				
Annual required contribution	\$ 7.98	\$ 59.03	\$ 879.25	\$ 57.40
Contributions made	4.64	29.13	342.19	18.21
Change in net OPEB asset/obligation	3.34	29.90	537.06	39.19
Net OPEB (asset) obligation at beginning of fiscal year*	-	-	-	-
Net OPEB (asset) obligation at end of fiscal year	<u>\$ 3.34</u>	<u>\$ 29.90</u>	<u>\$ 537.06</u>	<u>\$ 39.19</u>

\*Effective October 1, 2007, the State implemented GASB Statement No. 45 prospectively, which requires reporting on an accrual basis the liability associated with other postemployment benefits and the net OPEB obligation at transition was zero.

**Actuarial Valuations and Assumptions**

Actuarial valuations for the OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multi-year trend information about whether the actuarial value of plan assets for the OPEB plans is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

	LRS	SPRS	SERS	Life Insurance
Latest actuarial valuation date	9/30/2008	9/30/2007	9/30/2007	9/30/2007
Actuarial cost method	Projected Unit Credit	Entry Age	Entry Age	Entry Age
Amortization method	Level percent open	Level percent of payroll closed	Level percent of payroll closed	Level percent of payroll closed
Remaining amortization period	30 years	29 years	29 years	30 years
Asset valuation method	Market Value	Market Value	Market Value	Market Value
Actuarial assumptions:				
Investment rate of return	4.5%	4%	4%	4%
Includes inflation at	4%	3.5%	3.5%	3.5%
Healthcare Cost Trend Rate	10% in 2009 grading to 4% in 2019	9.5% Year 1 graded to 3.5% Year 11	9.5% Year 1 graded to 3.5% Year 11	N/A



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**Notes to the Financial Statements**

**THREE YEAR HISTORICAL TREND INFORMATION\***

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

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>LRS</b>	9/30/2008	\$14.3	\$132.6	\$ 118.3	10.8%	\$ 11.9	994.1%
	9/30/2005	11.9	111.4	99.5	11.0	11.9	838.0
<b>SPRS**</b>	9/30/2007	-	918.1	918.1	-	118.2	776.7
	9/30/2006	-	944.4	944.4	-	115.9	814.9
<b>SERS**</b>	9/30/2007	-	12,966.0	12,966.0	-	2,949.0	439.6
	9/30/2006	-	13,499.0	13,499.0	-	2,848.0	474.0
<b>Life Insurance**</b>	9/30/2007	-	912.5	912.5	-	3,131.9	29.1

\*This schedule will be expanded to include three years as actuarial information becomes available.

\*\*The most recent actuarial valuation was performed as of September 30, 2007.

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

	Year Ended September 30	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation (Asset)
<b>LRS</b>	2008	\$ 8.0	58.2%	\$ 3.3
<b>SPRS</b>	2008	59.0	49.4	29.9
<b>SERS</b>	2008	879.2	38.9	537.1
<b>Life Insurance</b>	2008	57.4	31.7	39.2

\*This table will be expanded to include three years as actuarial information becomes available.

**NOTE 12 – LEASES**

**Accounting Policy**

The State leases various assets under non-cancelable 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 financial 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. For budgetary purposes, lease payments are only reported as expenditures when paid.

Most leases have cancellation clauses with one to six 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 financial 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 13 provides information on the amount of the SBA's bonds outstanding and a schedule of debt service requirements.

During the fiscal year, the State entered into a building lease agreement with the Michigan Strategic Fund (MSF), a discretely presented component unit. The lease was classified as a capital lease and is included in the capital lease disclosures below.

**Primary Government – Governmental Activities**

Rental expenditures incurred under operating leases totaled \$62.2 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totaled \$24.7 million, \$33.0 million, and \$25.8 million, respectively, during the fiscal year. Included in these amounts were payments to MSF for principal, interest, and executory costs totaling \$2.1 million, \$1.9 million, and \$65 thousand, respectively.

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

Year Ended September 30	Operating Leases	Capital Leases			Total
		Principal	Interest	Executory Costs	
2009	\$ 35.7	\$ 22.6	\$ 34.3	\$ 25.2	\$ 82.1
2010	30.4	20.3	32.2	24.5	77.0
2011	22.3	17.6	30.4	22.8	70.8
2012	13.8	15.3	28.8	21.7	65.8
2013	7.4	13.8	27.3	20.7	61.8
2014-2018	21.8	74.0	113.6	96.7	284.3
2019-2023	4.0	75.2	73.7	82.3	231.2
2024-2028	-	53.0	35.9	72.6	161.6
Thereafter	-	28.5	4.5	33.7	66.7
Total	\$ 135.5	\$ 320.5	\$ 380.7	\$ 400.2	\$ 1,101.3

The above capital leases relate to governmental activities which include the General Fund, special revenue funds, and the internal service funds. A liability of \$320.5 million has been recorded in the government-wide financial statements for the capital lease principal. Included in this liability is the capital lease between the State and MSF totaling \$82.9 million.

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The historical cost of assets acquired under capital leases are included in capital assets on the government-wide financial statements at September 30 follows (in millions):

Buildings	\$ 388.7
Equipment	79.3
Total	468.0
Accumulated Depreciation	(185.3)
Net Land, Buildings, and Equipment	\$ 282.7

Included in the table above is the historical cost and accumulated depreciation for the capital lease between the State and MSF of \$85.0 million and \$2.7 million, respectively.

**Primary Government – Business-Type Activities**

Rental expense incurred under operating leases totaled \$.6 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
2009	\$ .5
2010	.5
2011	.4
2012	.2
2013	.1
	\$ 1.7

**Discretely Presented Component Units**

Operating lease commitments for universities and authorities totaled \$59.3 million. Total capital lease obligations were \$10.1 million, \$1.7 million, and \$0 for principal, interest, and executory costs, respectively, during the fiscal year.

**NOTE 13 – BONDS AND NOTES PAYABLE – PRIMARY GOVERNMENT**

**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 2008, 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, 2008, was as follows (in billions):

	Beginning Balance	Draws	Repayments	Ending Balance
General Obligation Notes	\$ -	\$1.4	\$1.4	\$ -

**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.

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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 auction rate security interest rate.

The notes are issued in accordance with the authorization provided in Michigan Compiled Laws (MCL) Section 247.668(b). 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, 2008, principal payments of \$600 million have been made on the notes. There are no outstanding amounts at September 30, 2008.

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, SBA issues commercial paper notes to fund capital projects prior to bonding. Short-term debt activity for the fiscal year ended September 30, 2008, follows (in millions):

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
Commercial Paper Notes	\$146.7	\$151.8	\$88.2	\$210.3

Note 14 provides disclosures regarding the bonds and notes payable of the discretely presented component units.

**Bonds Issued and Outstanding**

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

	<u>Amounts Issued</u>	<u>Outstanding 9/30/2008</u>	<u>Fiscal Year Maturities</u>		<u>Average Interest Rate Percentage</u>
			<u>First Year</u>	<u>Last Year</u>	
<b>General Obligation Bonded Debt</b>					
General Obligation Refunding Debt:					
Series 2001 (Refunding)	\$ 183.3	\$ 145.1	2002	2016	4.76
Series 2002 (Refunding)	300.7	263.6	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	9.5	2008	2013	4.17
Series 2008 A (Refunding)	200.8	200.8	2011	2019	4.95
Series 2008 B (Refunding)	19.4	19.4	2011	2019	4.33
Series 2008 C (Refunding)	12.2	12.2	2011	2012	5.01
Series 2008 D (Refunding)	1.4	1.4	2011	2011	3.97
Recreation and Environmental Protection:					
Series 1989 (1)	75.0	8.7	1991	2012	6.81
Series 1992 (1)	246.3	58.6	1994	2013	5.50
College Savings Bonds - Series 1992 Mini-bonds (1)	.5	1.4	2012	2012	5.86
Series 1992 A (1)(2)	13.9	4.2	1995	2013	6.17
Series 1993 (1)(2)	16.7	6.3	1996	2014	5.00
Series 2000 (1)	60.0	2.8	2002	2011	5.24
Series 2001 (3)	56.8	13.1	2004	2012	4.82
Series 2003 (5)	10.0	6.0	2054	2054	0.00
Series 2003 A (1)(3)	200.0	71.5	2007	2021	5.00
Series 2006 A (1)(3)	105.0	105.0	2014	2026	4.58
Series 2006 B (5)	47.0	46.7	2007	2009	5.19
School Loan Bonds:					
Series 1998	160.0	35.9	2001	2012	4.80
Series 2005 B (4)	362.5	192.6	2017	2022	4.12
Series 2005 C (4)	113.1	113.1	2020	2024	3.50
<b>Total General Obligation Bonded Debt</b>	<b>2,375.2</b>	<b>1,487.4</b>			

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	Amounts Issued	Outstanding 9/30/2008	Fiscal Year Maturities		Average Interest Rate Percentage
			First Year	Last Year	
<b>Revenue Dedicated Bonded Debt</b>					
<u>State Park Related:</u>					
2002 – Gross Revenue Bonds	15.5	12.8	2004	2023	3.58
Total Revenue Dedicated Bonded Debt – State Park Related	15.5	12.8			
<u>Transportation Related:</u>					
Tax Dedicated Bonds:					
Michigan Comprehensive Transportation:					
Series 1998 (Series A Refunding)	38.6	25.3	2005	2011	4.81
Series 2001 (Series A Refunding)	27.8	26.5	2008	2022	5.01
Series 2002 (Series A Refunding)	89.6	25.3	2003	2011	5.07
Series 2002 (Series B)	82.3	14.7	2004	2012	5.13
Series 2003	35.0	18.3	2004	2023	3.61
Series 2005 (Refunding)	62.2	62.2	2009	2023	5.15
Series 2006 (Refunding)	53.7	52.1	2007	2031	4.54
State Trunkline Fund Bonds:					
Series 1989 (Series A)	135.8	5.6	1994	2009	6.75
Series 1992 (Series A Refunding)	253.6	50.6	2000	2013	5.76
Series 1992 (Series B Refunding)	99.6	7.1	2000	2013	5.68
Series 1998 (Series A Refunding)	377.9	371.7	2006	2027	5.03
Series 2001 (Series A)	308.2	26.8	2003	2012	4.96
Series 2002 (Refunding)	97.9	64.2	2004	2022	4.71
Series 2004 (Refunding)	103.5	98.4	2006	2022	4.13
Series 2004	185.7	88.6	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
Series 2006	244.5	233.2	2008	2022	4.74
Series 2007	485.1	485.1	2009	2027	4.85
Total Revenue Dedicated Bonded Debt –Transportation Related	3,282.2	2,256.9			
<u>State Building Authority:</u>					
1998 Series I Bonds (Refunding)	330.4	236.5	1999	2022	4.75
2001 Series I Bonds (Refunding)	419.7	350.5	2003	2026	5.26
2003 Series I (Refunding)	659.4	485.0	2004	2018	3.64
2003 Series II (Refunding)	392.6	174.5	2005	2030	4.42
2004 Series I	155.4	120.6	2005	2020	4.08
2005 Series I (Refunding)	293.4	278.3	2006	2034	4.84
2005 Series II (Refunding)	242.8	240.6	2007	2037	4.66
2005 Series II A Multi-modal (7)	343.6	40.1	2018	2018	8.17
2005 Series II B Multi-modal (7)	9.9	8.7	2007	2017	7.95
2006 Series I A Serial	438.3	438.3	2014	2037	4.80
2006 Series I A Capital Appreciation	891.8	891.8	2014	2037	4.80
2006 Series I B	13.7	13.7	2009	2014	4.80
2007 Series I Multi-modal (7)	96.5	96.5	2009	2032	7.92
Total State Building Authority Bonded Debt	4,287.5	3,375.1			
<u>Michigan Tobacco Settlement Finance Authority:</u>					
Series 2006 A	363.1	354.7	2008	2034	7.31
Series 2007 A	480.1	480.1	2010	2047	5.86
Series 2007 B	35.6	37.7	2052	2052	7.25
Series 2007 C	7.2	7.6	2052	2052	7.50
Series 2008 A	114.9	114.9	2035	2042	6.88
Series 2008 B	29.9	29.9	2046	2046	8.50
Series 2008 C	57.7	57.7	2058	2058	8.25
Total Michigan Tobacco Settlement Finance Authority Bonded Debt	1,088.5	1,082.6			
Total Revenue Dedicated Bonded Debt	8,673.8	6,727.4			
Total General Obligation and Revenue Dedicated Bonded Debt	<u>\$ 11,049.0</u>	<u>\$ 8,214.8</u>			

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**Notes to the Financial Statements**

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- (1) Sections 324.19301 and 324.71301 of the Michigan Compiled Laws authorized the issuance of bonds totaling \$800.0 million. As of September 30, 2008, \$791.5 million of such bond proceeds had been received, leaving remaining authorization of \$8.5 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 (MMBA), a discretely presented component unit. An outside trustee for MMBA is holding the bonds as an investment of MMBA; 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 MMBA.
- (3) MCL Section 324.95102 authorized the issuance of bonds totaling \$675.0 million. As of September 30, 2008, \$518.8 million of such bond proceeds had been received, leaving remaining authorization of \$156.2 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 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, 2008.
- (5) 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. As of September 30, 2008, \$145.6 million of such bond proceeds had been recognized as received, leaving remaining authorization of \$854.4 million. Included in the amount recognized as received is \$100.0 million in bonds issued to a discretely presented component unit, 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. The \$10.0 million bond was reduced to a net obligation of \$6.0 million when \$4.0 million of the proceeds from General Obligation Recreation and Environmental Protection Series 2006B were used to refund a portion of the original obligation. For these reasons, the State has recognized the \$6.0 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 \$6.0 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.

- (6) Michigan Tobacco Settlement Finance Authority (MTSFA) issued taxable Tobacco Settlement Asset-Backed Bonds as follows: \$363.1 million Series 2006 A Fixed Rate Turbo Bonds; \$72.6 million Series 2006 B Indexed Floating Rate Turbo Term Bonds; \$54.8 million Series 2006 C Capital Appreciation Turbo Term Bonds; \$480.1 million Series 2007 A Senior Current Interest Bonds; \$35.6 million Series 2007 B First Subordinate Capital Appreciation Bonds; \$7.2 million Series 2007 C Second Subordinate Capital Appreciation Bonds; \$114.9 million Series 2008 A Current Interest Turbo Terms Bonds; \$29.9 million Series 2008 B Taxable Capital Appreciation Turbo Term Bonds; and \$57.7 million Series 2008 C Capital Appreciation Turbo Term Bonds.

MTSFA was created by MCL Section 129.264, the Michigan Tobacco Settlement Finance Authority Act. As a public body corporate and politic within the Department of Treasury, it is a separate legal entity with separate corporate purposes, exercising public and essential governmental functions. MTSFA is authorized to issue bonds as needed to provide sufficient funds to purchase all or a portion of the State's Tobacco Settlement Revenues (TSRs) payable to the State under the Master Settlement Agreement (MSA) entered into by participating cigarette manufacturers in 1998. Refunding bonds may also be issued. Net proceeds of the sale of TSRs are deposited in the 21<sup>st</sup> Century Jobs Trust Fund, the School Aid Fund, the General Fund, and in a reserve fund.

The bonds were issued in accordance with the Purchase and Sale Agreement (the Agreement), dated May 1, 2006, between the State and MTSFA. Pursuant to the Agreement, MTSFA is purchasing the right, title, and interest in and to 13.3% of all the State's future TSRs payable to the State on or after April 1, 2008, as required under the terms of the MSA. In 2007, an additional 10.77% of future tobacco settlement revenue was purchased by MTSFA on amounts payable on or after May 15, 2009. In fiscal year 2008, Series 2008 bonds were issued to refund the MTSFA's outstanding Series 2006 B Indexed Floating Rate Turbo Term Bonds and to refund the MTSFA's outstanding 2006 C Capital Appreciation Turbo Term Bonds. The General Fund received \$60 million from the net proceeds.

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Every issue of bonds shall be special revenue obligations payable from and secured by a pledge of TSRs and other assets, including without limitation the proceeds of the bonds deposited in a reserve fund for the benefit of the owners of the bonds, earnings on funds of the authority and other funds as may become available, upon the terms and conditions as specified by the authority in the authority resolution under which the bonds are issued or in a related trust agreement of trust indenture.

The issuance of bonds under the provisions of this law shall not directly, indirectly, or contingently obligate the State or any political subdivision of this State to pay any amounts to the MTSFA or owners of bonds or benefited parties, or levy or pledge any form of taxation whatsoever for the bonds. The bonds are not a debt or liability of the State or any agency or instrumentality of the State, other than MTSFA. MTSFA is not authorized to incur any indebtedness on behalf of or in any way obligate the State or any political subdivision of the State.

- (7) SBA Multi-Modal bears interest at a remarketed weekly rate. Estimated interest was computed using the weekly rates as of September 30, 2008. These unusually high rates were due to the market and economic aberrations.

**Capital Appreciation Bonds**

Capital appreciation and convertible capital appreciation bonds are recorded in the Bonds Issued and Outstanding table and the Changes In Bonds and Notes Payable table at their accreted year-end book value. The table that follows summarizes capital appreciation bonds (in millions):

	Accreted Book Value	Ultimate Maturity Value	Fiscal Year Maturities	
			First Year	Last Year
<b>General Obligation Bonds:</b>				
Series 1989	\$ 8.7	\$ 10.1	1999	2012
Series 1992	4.5	5.6	2000	2012
College Savings Bonds - Series 1992 Mini-bonds	1.4	1.8	2012	2012
<b>Revenue Dedicated – Transportation Related:</b>				
State Trunkline – Series 1989 A	5.6	6.0	2004	2009
State Trunkline – Series 1992 A	50.6	57.5	2006	2013
State Trunkline – Series 1992 B	7.1	8.0	2006	2013
<b>Revenue Dedicated – State Building Authority:</b>				
2006 Series I A	435.7	891.8	2017	2030
<b>Revenue Dedicated – Michigan Tobacco Settlement Finance Authority:</b>				
Series 2007 B	37.7	865.3	2052	2052
Series 2007 C	7.6	195.1	2052	2052
Series 2008 B	29.9	700.6	2046	2046
Series 2008 C	57.7	4,395.9	2058	2058

**Advance 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.

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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
<b>Recreation and Environmental Protection:</b>	
Series 1989	\$ 3.4
Series 1992	17.7
Series 1995	4.8
Series 1998	54.8
Series 1999 A	64.3
Series 2000 (partial)	42.5
Series 2001	31.6
Series 2003 A	109.4
Series 2005 C	5.1
Total Recreation and Environmental	\$ 333.5
 <b>School Loan Bonds:</b>	
Series 1998	\$ 69.1
Total School Loan Bonds	\$ 69.1
 <b>Comprehensive Transportation Fund Bonds:</b>	
Series 2002 B (partial)	\$ 52.9
Series 2003	9.9
	\$ 62.8
 <b>State Trunkline Fund Bonds:</b>	
Series 2001 A (partial)	\$ 245.8
Series 2004 (partial)	85.2
	331.1
Total Transportation Related	\$ 393.9
 <b>State Building Authority:</b>	
1994 Series II	\$ 4.5
1997 Series II	27.0
1998 Series I	56.2
2000 (MSP Phase II)	17.8
2001 (MSP Phase III)	28.0
2002 (MSP Phase IV)	20.9
1999 Series I	45.4
2001 Series I	80.9
2001 Series II	122.9
2000 Series I	107.6
2002 Series III (Refunding)	184.3
2003 Series II (Refunding)	185.8
Total State Building Authority	\$ 881.2
 <b>Michigan Tobacco Settlement Finance Authority</b>	
Series 2006 B	\$ 70.9
Series 2006 C	64.9
Total Michigan Tobacco Settlement Authority	\$ 135.8

**General Obligation**

In fiscal year 2008, the State issued \$233.8 million of General Obligation Bonds, Environmental Program Series 2008 A, 2008 B, 2008 C, and 2008 D maturing in 2011 through 2019 with fixed interest rates. The bonds were issued for the purpose of providing financing for certain environmental programs and refunding certain maturities and interest payments. From the debt proceeds, \$25 million was deposited to the Combined Environmental Protection Bond Fund and \$223.4 million was deposited with the escrow agent. The State received an economic gain of \$4.1 million through this refunding.

On July 7, 2008, the MTSFA issued Tobacco Settlement Asset Backed Bonds, Series 2008 for \$202.4 million; \$138.6 million of the bonds were deposited with an escrow agent and \$60 million was deposited to the General Fund.



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**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		Michigan Tobacco Settlement Finance Authority		Total Principal And Interest
	Principal	Fixed Interest	*Estimated Interest	Principal	Fixed Interest	Principal	Interest	Principal	Interest	
2009	\$ 84.0	\$ 55.9	\$ 11.9	\$ 82.5	\$ 110.4	\$ 100.5	\$ 127.6	\$ -	\$ 61.2	\$ 634.0
2010	35.9	54.3	11.9	119.4	107.0	99.1	122.6	2.7	62.0	615.0
2011	105.4	51.6	11.9	124.7	101.8	104.7	117.4	7.3	61.8	686.6
2012	111.8	46.3	11.9	116.5	96.5	111.4	111.7	8.6	61.4	676.1
2013	124.0	40.4	11.9	121.6	91.4	115.6	105.7	9.8	60.8	681.1
2014-2018	528.0	117.9	58.9	685.8	359.7	657.0	428.2	70.3	292.9	3,198.9
2019-2023	441.8	26.0	30.3	744.5	172.3	686.6	301.5	136.1	266.4	2,805.4
2024-2028	53.4	2.9	.8	273.6	38.4	579.1	217.7	199.4	196.9	1,562.1
2029-2033	-	-	-	9.2	.8	589.2	140.4	180.2	141.8	1,061.6
2034-2038	-	-	-	-	-	331.9	30.1	113.3	84.3	559.6
2039-2043	-	-	-	-	-	-	-	111.8	54.0	165.8
2044-2048	-	-	-	-	-	-	-	810.8	16.8	827.6
2049-2053	-	-	-	-	-	-	-	1,060.4	-	1,060.4
Thereafter	6.0	-	-	-	-	-	-	4,395.9	-	4,401.9
<b>Total</b>	<b>\$ 1,490.4</b>	<b>\$ 395.4</b>	<b>\$ 149.4</b>	<b>\$ 2,277.9</b>	<b>\$ 1,078.2</b>	<b>\$ 3,375.1</b>	<b>\$ 1,702.8</b>	<b>\$ 7,106.6</b>	<b>\$ 1,360.3</b>	<b>\$ 18,936.0</b>

\*Interest for Multi-Modal Bonds future debt service requirements was estimated at the rate in effect at September 30, 2008

Interest to maturity for SBA may 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.

**Changes in Bonds and Notes Payable**

Changes in bonds and notes payable for the year ended September 30, 2008, was as follows (in millions):

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
<b>Bonds Payable:</b>						
General obligation debt	\$ 1,487.5	\$ 235.5	\$ 235.6	\$ 1,487.4	\$ 84.0	\$ 1,403.4
Revenue bonds	2,341.7	4.2	76.2	2,269.7	82.5	2,187.2
State Building Authority	3,365.7	96.5	87.1	3,375.1	100.5	3,274.6
Michigan Tobacco Settlement Finance Authority	1,018.4	210.1	145.9	1,082.6	-	1,082.6
<b>Notes Payable:</b>						
Transportation related	32.0	-	32.0	-	-	-
<b>Deferred Loss on Refundings:</b>						
General obligation debt	(29.3)	(33.9)	5.3	(57.8)	-	(57.8)
Revenue dedicated debt	(28.8)	-	2.4	(26.4)	-	(26.4)
State Building Authority	(28.8)	-	5.0	(23.9)	-	(23.9)
Michigan Tobacco Settlement Finance Authority	-	(2.8)	-	(2.7)	-	(2.7)
<b>Unamortized Discounts:</b>						
State Building Authority	(476.1)	-	20.0	(456.0)	-	(456.0)
Michigan Tobacco Settlement Finance Authority	(15.2)	(3.3)	.3	(18.2)	-	(18.2)
<b>Unamortized Premiums:</b>						
General obligation debt	56.1	16.8	5.8	67.0	-	67.0
Revenue dedicated debt	117.6	-	8.3	109.3	-	109.3
State Building Authority	109.5	-	7.3	102.2	-	102.2
<b>Total bonds and notes payable</b>	<b>\$ 7,950.4</b>	<b>\$ 523.2</b>	<b>\$ 565.3</b>	<b>\$ 7,908.3</b>	<b>\$ 267.0</b>	<b>\$ 7,641.3</b>

Plus State Building Authority commercial paper notes reported as "Current Liabilities: Bonds and Notes Payable" On The Statement of Net Assets

210.3      210.3      -

As reported on the Statement of Net Assets

\$ 8,118.6      \$ 477.3      \$ 7,641.3

## NOTE 14 – BONDS AND NOTES PAYABLE – DISCRETELY PRESENTED COMPONENT UNITS

### *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 (MSHDA) utilize June 30 fiscal year-ends. The Farm Produce Insurance Authority utilizes a December 31 fiscal year-end, and 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):

<u>Fiscal Years Ending In</u>	<u>Principal</u>	<u>Fixed Interest</u>	<u>Estimated Interest</u>	<u>Total</u>
2009	\$ 375.7	\$ 525.8	\$ 4.0	\$ 905.5
2010	381.5	512.6	4.1	898.3
2011	318.6	495.9	3.9	818.5
2012	332.8	482.4	3.7	819.0
2013	342.3	467.3	3.5	813.2
	<u>1,751.1</u>	<u>2,484.0</u>	<u>19.3</u>	<u>4,254.4</u>
2014-2018	1,935.8	2,032.1	13.8	3,981.7
2019-2023	1,668.3	1,517.1	8.2	3,193.5
2024-2028	1,163.7	1,186.1	4.2	2,354.1
2029-2033	1,041.9	909.4	1.4	1,952.7
2034-2038	829.4	717.0	-	1,546.4
2039-2043	1,275.6	157.0	-	1,432.6
	<u>7,914.7</u>	<u>6,518.7</u>	<u>27.6</u>	<u>14,461.0</u>
Total	9,665.8	<u>\$ 9,002.8</u>	<u>\$ 46.9</u>	<u>\$ 18,715.4</u>
Deferred amount on refunding	(78.1)			
Unamortized discount	(.1)			
Unamortized premium	130.7			
Total principal	<u>\$ 9,718.3</u>			

Included in the table above is \$1.7 billion of demand bonds comprised of \$56.4 million issued by the Michigan Higher Education Student Loan Authority (MHESLA), \$1.4 billion issued by MSHDA, and \$233.3 million issued by the State universities. Defeased bonds outstanding of the Michigan Municipal Bond Authority (MMBA), MHESLA, and MSHDA are not reflected in the table above.

#### **Notes Payable**

The MMBA has short-term notes outstanding of \$688.4 million as of September 30, 2008.

The Land Bank Fast Track Authority (LBFTA) has long-term notes outstanding of \$.1 million as of September 30, 2008. State universities have short-term notes outstanding of \$.8 million and long-term notes outstanding of \$17.6 million as of June 30, 2008.

### *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, 2008, MHEFA had bonds outstanding of \$649.6 million. Of this amount, \$31.3 million of bonds have been defeased in substance, leaving a remaining undefeased balance of \$618.3 million.

The Michigan Strategic Fund (MSF) issues industrial development revenue bonds (taxable and tax exempt), which are not recorded as liabilities. The total amount of bonds issued for the period January 1, 1979 through September 30, 2008, was \$8.3 billion. The amount of tax exempt bonds issued during the fiscal year 2008 was \$104.6 million. There were \$2.4 million bonds

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issued by MSF under the Taxable Bond Program for fiscal year 2008. 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 \$6.5 billion of no commitment bonds as of September 30, 2008. Of the above amount, \$1.2 billion have been defeased in substance, leaving a remaining undefeased balance of \$5.3 billion. Economic gains and accounting gains and losses resulting from in-substance defeasance, inure to the benefit of the facility for which the bonds were issued, and accordingly are not reflected in MSHFA's financial statements.

MSHDA has been authorized to issue up to \$800.0 million of limited obligation bonds to finance multi-family housing projects. At June 30, 2008, limited obligation bonds had been issued totaling \$787.3 million, of which 25 issues totaling \$292.6 million had been retired.

MSHDA entered into several interest rate exchange agreements for a total of \$1.3 billion as of June 30, 2008, representing several bond series. In accordance with the exchange agreements, MSHDA pays fixed rates ranging from 3.5% to 7.7%.

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, 2008, MPEFA had bonds outstanding of \$127.8 million, all of which are undefeased.

**Short-Term Debt Activity**

Western Michigan University (WMU) used its revolving line of credit to finance a new student information system. Activity on the line of credit during WMU's fiscal year ended June 30, 2008, was as follows (in millions):

	Beginning Balance	Draws	Payments	Ending Balance
Line of Credit	\$6.8	\$ -	\$6.8	\$ -

**NOTE 15 – OTHER LONG-TERM OBLIGATIONS**

**Primary Government**

**Other Long-Term Obligations**

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

**Capital Leases**

This liability is described in more detail in Note 12.

**Compensated Absences**

This liability is described in more detail in Note 1.

**Workers' Compensation**

The gross amount of workers' compensation liability, \$166.0 million at September 30, 2008, has been recorded at its discounted present value of \$111.5 million, using a discount rate of approximately 8%. The present value of the current portion of this liability is \$24.8 million. In fiscal year 2008, State agencies paid reimbursement for actual workers' compensation claims and administrative fees totaling \$39.6 million.

**Net Pension Obligation**

This liability is described in more detail in Note 10.

**Net Other Postemployment Benefits (OPEB) Obligation**

This liability is described in more detail in Note 11.

**Other Claims & Judgments**

The governmental activities estimated liability for other claims and litigation losses, \$417.0 million at September 30, 2008, includes amounts for litigation, such as damages in tort cases and refund claims in cases involving State taxes, transportation claims, natural resources and environmental quality claims, and other claims, in which it is considered probable that costs will be incurred. Also included is an estimated liability totaling \$1.4 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

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

The liability recorded for other claims and judgments within business-type activities represents overpayments by employers to the Michigan Unemployment Compensation Fund totaling \$55.2 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 \$230.6 million at September 30, 2008. 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 24 for additional disclosure regarding the Durant case and other contingencies.

**Federal Advances**

During fiscal year 2008, the Michigan Unemployment Compensation Funds obtained repayable federal advances in the amount of \$1.1 billion from the U.S. Department of Labor in accordance with provisions of Section 1201 of the Social Security Act (also referred to as Title XII Advances). Federal advances of \$362.4 million were outstanding at September 30, 2008.

**Changes in Other Long-Term Obligations**

Changes in long-term liabilities for the year ended September 30, 2008, are summarized as follows (in millions):

<b>Governmental Activities</b>	Beginning Balance (Restated)**	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
<b>Other Long-term Obligations:</b>						
<b>Capital lease obligations:</b>						
Component units	\$ -	\$ 85.0	\$ 2.1	\$ 82.9	\$ 3.7	\$ 79.2
Others	247.9	31.0	41.3	237.6	18.9	218.7
Compensated absences	501.4	346.7	352.6	495.4	341.9	153.5
Workers' compensation	112.9	23.7	25.1	111.5	24.8	86.7
Net pension obligations	587.7	-	50.4	537.4	-	537.4
Net OPEB obligations	-	609.5	-	609.5	-	609.5
Other claims & judgments	426.5	137.8	147.3	417.0	210.6	206.3
Durant settlement	251.9	10.4	31.7	230.6	38.8	191.8
<b>Total Governmental Activities</b>	<b>\$ 2,128.4</b>	<b>\$ 1,244.1</b>	<b>\$ 650.6</b>	<b>\$ 2,721.9</b>	<b>\$ 638.8</b>	<b>\$ 2,083.1</b>
<b>Business-type Activities</b>						
<b>Other Long-term Obligations:</b>						
Advances from Federal government	\$ -	\$ 362.4	\$ -	\$ 362.4	\$ -	\$ 362.4
Lottery prize awards*	341.0	21.4	76.0	286.4	66.4	220.0
Compensated absences	3.2	1.4	1.3	3.3	1.0	2.3
Other claims & judgments	47.3	8.2	-	55.5	-	55.5
<b>Total Business-type Activities</b>	<b>\$ 391.6</b>	<b>\$ 393.3</b>	<b>\$ 77.2</b>	<b>\$ 707.6</b>	<b>\$ 67.4</b>	<b>\$ 640.3</b>

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

\*\*Beginning balance has been restated. More detailed information can be found in Note 4.

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 and net OPEB 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.

**Discretely Presented Component Units**

**Michigan Education Trust**

Michigan Education Trust (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

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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, 2008, shows the actuarial present value of future tuition obligations to be \$337.6 million, as compared to the actuarially determined market value of assets available of \$366.0 million. The actuarial assumptions used include: a projected tuition increase rate of 7.3% for all future years; and a discount rate of 4.75%.

The actuarial report on the status of MET Plan D, as of September 30, 2008, shows the actuarial present value of future tuition obligations to be \$685.0 million, as compared to the actuarially determined market value of assets available of \$559.1 million. The actuarial assumptions used include: a projected tuition increase rate of 7.3% for all future years; and a discount rate of 7.5%.

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 Internal Revenue Service (IRS) for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling which confirms that MET is in compliance with the Act.

## NOTE 16 – INCOME TAX CREDITS AND REFUNDS

### *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 on the "Tax expenditures" line as an expense in the government-wide financial statements and as an expenditure in the fund financial statements (in millions):

Property tax credits:	
General homestead	\$ 520.8
Senior citizens	324.2
Blind and disabled	50.6
Farmland preservation	33.6
Veterans	1.2
Subtotal - property tax credits	<u>930.4</u>
Adoption credit	1.0
Home heating (excluding federal share)	.2
Total tax expenditures	<u><u>\$ 931.6</u></u>

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**Income Tax Refunds Payable**

The \$681.9 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 17 – 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 of Michigan 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, 2008, were \$1.8 and \$1.8 billion, respectively.

**NOTE 18 – INTERFUND RECEIVABLES AND PAYABLES**

**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	\$ -	\$ -	\$ -	\$ 1.2	\$ 15.5	\$ 31.0	\$ 47.6
School Aid Fund	980.2	-	464.5	-	-	-	1,444.6
Non-major Governmental Funds	11.1	-	67.2	-	2.0	3.6	84.0
State Lottery Fund	-	11.7	-	-	.1	.1	11.9
Unemployment Compensation Funds	-	-	1.0	6.4	-	-	7.4
Non-major Enterprise Funds	-	-	-	-	-	.1	.1
Internal Service Funds	-	-	-	-	4.9	1.5	6.4
Fiduciary Funds	.4	-	-	-	-	-	.4
Total	<u>\$ 991.6</u>	<u>\$ 11.7</u>	<u>\$ 532.7</u>	<u>\$ 7.6</u>	<u>\$ 22.4</u>	<u>\$ 36.3</u>	<u>\$ 1,602.3</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: \$7.5 million due from the Correctional Industries Revolving Fund (an internal service fund) to the General Fund for amounts loaned for capital construction.

**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 19 – INTERFUND COMMITMENTS**

**Michigan Conservation and Recreation Legacy Fund**

In fiscal year 2003, P.A. 746 of 2002, required the transfer of \$7.8 million from the Michigan State Waterways Fund (now accounted for within the Michigan Conservation and Recreation Legacy 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**

Mackinaw Bridge Authority (MBA), 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 MBA 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. MBA 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 MBA, after consideration of MBA's annual needs for its operations and planned repairs and improvements.

As of September 30, 2008, MBA has repaid a total of \$11.3 million of the advance from the Michigan Transportation Fund, leaving a balance of \$51.8 million. No repayments have been made on the advance from the State Trunkline Fund.

**NOTE 20 – TRANSFERS**

Interfund transfers for the year ended September 30, 2008, consisted of the following (in millions):

<u>Transferred From</u>	<u>Transferred To</u>					<u>Total</u>
	<u>General Fund</u>	<u>School Aid Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Fiduciary Funds</u>	
General Fund	\$ -	\$ 29.2	\$ 365.8	\$ 14.1	\$ 7.5	\$ 416.5
School Aid Fund	3.8	-	-	-	-	3.8
Non-major Governmental Funds	97.5	-	1,399.0	-	-	1,496.5
State Lottery Fund	11.6	740.7	-	-	-	752.4
Unemployment Compensation Funds	3.7	-	10.0	-	-	13.7
Non-major Enterprise Funds	161.7	-	-	-	-	161.7
Internal Service Funds	1.3	-	-	-	-	1.3
Fiduciary Funds	.1	-	-	-	-	.1
<b>Total</b>	<u>\$ 279.7</u>	<u>\$ 770.0</u>	<u>\$ 1,774.8</u>	<u>\$ 14.1</u>	<u>\$ 7.5</u>	<u>\$2,846.0</u>

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.

**NOTE 21 – FUND DEFICITS**

**Primary Government**

**Governmental Funds**

The Advance Financing Funds, a capital projects fund, had a fund balance deficit of \$29.5 million. The fund 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 \$211.0 million. The fund deficit resulted because the issuance of commercial paper represents a fund liability and the corresponding construction projects are not reported as assets in the fund.

**Proprietary Funds**

The Office Services Revolving Fund, an internal service fund, had a net asset deficit of \$7.2 million. The fund deficit is expected to be eliminated over the next several fiscal years with rate increases as well as various cost saving initiatives.

The Michigan Unemployment Compensation Funds, an enterprise fund, had a net asset deficit of \$90.4 million. The fund deficit was the result of repayable federal advances obtained from the U.S. Department of Labor in the amount of \$362.4 million that have yet to be paid back.

**Discretely Presented Component Units**

All discretely presented component units have positive net asset balances as of September 30, 2008, with the exception of the Michigan Education Trust (MET). MET's net asset deficit of \$97.5 million was caused primarily by the decrease in the fair value of investments.

**NOTE 22 – FUND BALANCES AND NET ASSETS**

**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	\$ 94.7	\$ .4	\$ 143.8	\$ -	\$ 21.0	\$ 259.9
Restricted revenues	434.2	247.1	310.5	-	2.9	994.8
Multi-year projects (capital outlay and work projects)	40.1	2.9	275.5	-	51.9	370.4
Construction and debt service	-	-	116.5	-	-	116.5
Revolving loan programs	5.0	-	65.9	-	-	70.9
Funds held as permanent investments	-	-	143.7	-	557.3	701.0
Noncurrent assets	259.1	4.2	24.8	-	-	288.1
Other purposes	-	-	-	.3	-	.3
<b>Total Reserved Fund Balances</b>	<b>\$ 833.1</b>	<b>\$ 254.6</b>	<b>\$ 1,080.8</b>	<b>\$ .3</b>	<b>\$ 633.1</b>	<b>\$ 2,801.9</b>

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 \$37.6 million. The \$40.1 million of multi-year projects in the General Fund includes \$1.7 million of capital outlay and \$38.3 million of work project authorizations. Such amounts are reserved because the funds are legally segregated for a specific purpose.

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.



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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.

**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 25, designated \$47.7 million for future catastrophic losses.

**Restricted Net Assets – Primary Government**

The following table provides additional detail regarding the restricted net assets reported for the primary government on the government-wide Statement of Net Assets (in millions):

	Restricted by Enabling Legislation	External or Constitutional Restrictions	Total
<b>Governmental Activities:</b>			
Restricted For:			
Education	\$ 1.3	\$ 494.8	\$ 496.2
Public safety and corrections	14.0	4.0	17.9
Conservation, environment, recreation, and agriculture	178.8	190.1	368.9
Health and human services	23.8	26.2	50.1
Transportation	-	766.9	766.9
Labor and economic growth	99.9	-	99.9
Other purposes	89.7	12.7	102.4
Funds Held as Permanent Investments:			
Expendable	-	132.6	132.6
Nonexpendable	7.6	557.3	564.9
<b>Total Restricted Net Assets - Governmental</b>	<b>\$ 415.1</b>	<b>\$ 2,184.7</b>	<b>\$ 2,599.8</b>
<b>Business-Type Activities:</b>			
Restricted For:			
Unemployment compensation	\$ 35.9	\$ -	\$ 35.9
Other purposes	36.8	-	36.8
<b>Total Restricted Net Assets – Business-Type</b>	<b>\$ 72.7</b>	<b>\$ -</b>	<b>\$ 72.7</b>
<b>Total Primary Government:</b>			
Restricted For:			
Education	\$ 1.3	\$ 494.8	\$ 496.2
Public safety and corrections	14.0	4.0	17.9
Conservation, environment, recreation, and agriculture	178.8	190.1	368.9
Health and human services	23.8	26.2	50.1
Transportation	-	766.9	766.9
Unemployment compensation	35.9	-	35.9
Labor and economic growth	99.9	-	99.9
Other purposes	126.5	12.7	139.2
Funds Held as Permanent Investments:			
Expendable	-	132.6	132.6
Nonexpendable	7.6	557.3	564.9
<b>Total Restricted Net Assets – Primary Government</b>	<b>\$ 487.8</b>	<b>\$ 2,184.7</b>	<b>\$ 2,672.4</b>

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**NOTE 23 – DISAGGREGATION OF PAYABLES**

The line “Current Liabilities: Accounts payable and other liabilities,” as presented on the government-wide Statement of Net Assets as of September 30, 2008, consisted 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	\$ 536.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 536.1
Non-Medicaid health programs	160.4	-	-	-	-	-	-	160.4
Human services programs	188.7	-	.3	-	-	-	-	189.0
Transportation programs	-	-	488.5	-	-	-	-	488.5
School Aid programs	-	150.2	-	-	-	-	-	150.2
Other State programs	303.4	-	39.7	-	-	-	-	343.1
Merit Award scholarships	-	-	6.7	-	-	-	-	6.7
Payroll and withholdings	195.4	-	25.2	-	.7	-	.6	221.9
Tax refunds other than income tax	193.7	5.5	13.0	-	-	-	-	212.2
Unearned receipts	55.6	.3	11.9	-	-	-	-	67.8
Amounts held for others	26.3	-	74.0	-	1.6	-	-	102.0
Capital project related	-	-	24.1	-	-	-	-	24.1
Prize awards	-	-	-	-	118.8	-	-	118.8
Liquor purchase	-	-	-	-	-	-	62.2	62.2
Unemployment payments	-	-	-	-	-	44.5	-	44.5
Internal Service Fund liabilities	-	-	-	119.7	-	-	-	119.7
Due to fiduciary funds*	-	-	-	36.3	-	-	-	36.3
Miscellaneous	-	-	-	-	11.0	-	.2	11.3
<b>Total</b>	<b>\$ 1,659.6</b>	<b>\$ 155.9</b>	<b>\$ 683.5</b>	<b>\$ 155.9</b>	<b>\$ 132.2</b>	<b>\$ 44.5</b>	<b>\$ 63.0</b>	<b>\$ 2,894.6</b>

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

Effective January 1, 2008, the State replaced the Single Business Tax with the Michigan Business Tax (MBT). Due to the change in the law, taxpayers have until April 2009 to submit their final MBT tax returns indicating the total tax liability incurred. As a result, the State is unable to estimate an accrual because the data needed to compare tax payments received to the total tax liability is not available. Therefore, any potential tax refund (payable) is not measurable and has not been recorded in this fiscal year.

**NOTE 24 – CONTINGENCIES AND COMMITMENTS**

**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 State Constitution, Article 9, Sections 25-34 (the "Headlee Amendment"), because it allegedly transfers per pupil revenue guaranteed to school districts under the Constitution of 1963, Article 9, Section 11, for unrestricted school operating purposes, in order to satisfy the State's independent funding obligation to those school districts under Article 9, Section 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"), was filed on November 15, 2000, by more than 400 school districts and 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. 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 its entirety and with prejudice. Plaintiffs filed an 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 (CEPI), which was created by executive order in 2000 (Michigan Compiled Laws (MCL) Section 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.

On March 8, 2006, the Supreme Court issued an order vacating the August 4, 2005, Court of Appeals decision and remanded the issue to the Court of Appeals for reevaluation of the record keeping claim. The Court of Appeals appointed a Special Master to oversee discovery and make proposed findings to the Court of Appeals. An evidentiary hearing before the Special Master was held in the summer of 2007.

On January 27, 2008, the Special Master issued her opinion. She found that the increased recordkeeping and reporting requirements imposed upon the school districts by the State was an attempt to shift the burden to comply with additional requirements to the districts without appropriating the necessary costs to comply. She concluded that this was a shifting of the recordkeeping and reporting requirement burden from the State to the local units of government in violation of the Headlee Amendment.

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The State filed objections to the Special Master's Opinion in the Court of Appeals. The school districts sought attorney fees in the Court of Appeals.

On July 3, 2008, the Court of Appeals issued its Opinion on Second Remand, essentially adopting the conclusions of law and factual findings of the Special Master. The Court entered a declaratory judgment of favor of the Plaintiff school districts, requiring the State to fund the "necessary costs associated with the data collection reporting mandates" associated with CEPI. The Court denied Plaintiff's request for attorney fees.

Both parties have filed applications to appeal in the Michigan Supreme Court. The State is currently awaiting a decision as to whether the Supreme Court will hear these appeals. It is reasonably possible that the State will be paying substantial amounts to school districts for the unfunded mandates, and over \$1 million in attorney fees to the Plaintiffs.

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.

The Plaintiffs obtained two injunctions from the Ingham County Circuit Court. One injunction barred the State from diverting \$20 million to the General Fund from the Michigan Transportation Fund (MTF) and the other barred the State from diverting \$12.8 million to the General Fund from the CTF. On January 13, 2004, the Court of Appeals vacated the CTF injunction, 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.

On November 8, 2005, the Michigan Supreme Court affirmed the Court of Appeals' decision that the State legitimately transferred \$12.8 million from the CTF to the General Fund.

On January 30, 2006, the Supreme Court denied the Defendants' application for leave to appeal. Therefore, the Court of Appeals' decision that \$12.5 million was legitimately diverted from the MTF to the General Fund, but that \$7.5 million was not, stands.

The remaining issues in the case, involving approximately \$47.3 million, were tried in the Ingham County Circuit Court in July 2007. On August 28, 2008, the Ingham County Circuit Judge issued an Opinion requiring the Department of State to transfer \$7.3 million from fiscal year 2001 and \$6.5 million from fiscal year 2002 back to the MTF, and ordering that "an appropriate cost allocation study be done for use in the future to reflect the current costs associated with the sales tax collection." No relief was granted on any other of the Plaintiffs' claims. It is expected that the State will file an appeal to seek reversal of the order and the Plaintiffs will cross-appeal to reverse the portions of the post-trial order that denied them the relief.

Use Tax Revenue: A taxpayer has filed a claim against the State, requesting a refund of Use Taxes for the years 2001 through 2006. The refund amount is based on an earlier audit finding, in which the taxpayer received a refund for tax years 1995 through 2000. The Department of Treasury reviewed the claim and a refund of \$54.0 million will be paid to the taxpayer in December 2008.

#### **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, 2008, 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 \$11.3 million for the Food Stamp Program.

### **Gain Contingencies**

Certain contingent receivables related to the Department of Human Services (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. As the market share of the participating manufacturers shifts to companies that are not participating in the settlement, the participating companies are entitled to an adjustment. A state, however, may negate the effects of the market share adjustment by either demonstrating that it diligently enforced the escrow requirements, tax laws, and other statutes against the non-participating tobacco manufacturers. The states are currently in litigation over the application and interpretation of the market share adjustment and diligent enforcement provisions of the master settlement agreement. At best, Michigan will avoid any reduction of its tobacco payments. At worst, an entire year's payment can be eliminated through application of the market share adjustment. 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 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, 2008, the balances remaining in these contracts equaled \$835.0 million.

### **Contingent Liability for Local School District Bonds**

The Michigan Constitution, Article 9 Section 16 resulted in a contingent liability for the bonds of any school district which are "qualified" by the State Treasurer. If for any reason a qualified school district will be, or is unable, to pay the principal and interest on its qualified bonds when due, the school district shall borrow, and the State shall lend to it, any amount necessary for the school district to avoid a default on its qualified bonds. In the event that adequate funds are not available in the School Loan Revolving Fund to make such a loan, the State is required to make loans from the General Fund. As of September 30, 2008, the principal amount of qualified bonds outstanding was \$14.0 billion. Total debt service requirements on these bonds including interest will approximate \$1.4 billion in 2009. 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, 2008, is \$720.1 million. Interest due on these loans as of September 30, 2008, is \$160.4 million.

### ***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. The MHEAA's default ratio is currently below 5% for the fiscal year ended September 30, 2008. As a result, the federal government's reinsurance rate for defaults for the fiscal year ended September 30, 2007, 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, 2008, is \$1.1 billion.

The MHEAA entered into commitment agreements with all lenders that provide, among other things, that the 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. The MHEAA was in compliance with this requirement as of September 30, 2008.

**Multi-Family Mortgage Loans**

As of June 30, 2008, the Michigan State Housing Development Authority (MSHDA) has commitments to issue multi-family mortgage loans in the amount of \$107.6 million and single-family mortgage loans in the amount of \$114.6 million.

The MSHDA has committed up to approximately \$1.1 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 25 – RISK MANAGEMENT**

**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 15, 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 fiscal year 2008, expenditures for payments to former State employees (not including university employees) totaled \$12.2 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 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 \$5.1 million. This includes a long-term portion, which is recorded at \$3.1 million. Changes in the Risk Management Fund's claims for automobile liability for the fiscal years ending September 30, 2008 and 2007 are as follows (in millions):

	2008	2007
Balance - beginning	\$ 5.8	\$ 6.3
Current year claims and changes in estimates	.6	2.0
Claim payments	(1.3)	(2.5)
Balance - ending	\$ 5.1	\$ 5.8

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, 2008 and 2007 are as follows (in millions):

	2008	2007
Balance - beginning	\$ 112.9	\$ 111.8
Current year claims and changes in estimates	23.7	25.9
Claim payments	(25.1)	(24.9)
Balance - ending	\$ 111.5	\$ 112.9

Workers' Compensation is further described in Note 15.

**State Sponsored Group Insurance Fund**

The Department of Management and Budget and the Civil Service Commission use this fund to account for employee benefit programs, which are largely self-funded. In compliance with Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the retiree insurance benefits programs are no longer reported in this fund. 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 \$132.9 million. This includes a long-term portion, which is recorded at a discounted present value of \$86.3 million. For all claims incurred prior to October 1, 2008, the discounted present value of the long-term disability liability was calculated over a 10 year period using a discount rate of approximately 2%.

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 \$47.7 million at September 30, 2008. Unrestricted net assets totaled \$40.4 million at September 30, 2008.

Changes in the State Sponsored Group Insurance Fund's claims liability for employee benefit programs for the fiscal years ending September 30, 2008 and 2007 are as follows (in millions):

	2008	2007*
Balance - beginning	\$ 134.3	\$ 134.7
Current year claims and changes in estimates	643.9	632.7
Claim payments	(645.3)	(633.1)
Balance - ending	\$ 132.9	\$ 134.3

\*2007 amounts were restated due to removal of retiree benefit programs.

***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 26 – SUBSEQUENT EVENTS**

***Long-Term Borrowing***

In October 2008, principal in the amount of \$113.1 million was paid on the State's Multi-Modal General Obligation Tax-Exempt School Loan Bonds Series 2005C using proceeds from a draw on the DEPFA Credit Facility and as such, these became bank bonds. Interest is due on November 3, 2008 and will further occur on the first business day of each subsequent month. The interest rate is the Prime Rate.

In October 2008, principal in the amount of \$139.5 million was paid on the State's Multi-Modal General Obligation Taxable School Loan Bonds Series 2005B using proceeds from a draw on the DEPFA Credit Facility and as such, these became bank bonds. Interest is due on November 3, 2008 and will further occur on the first business day of each subsequent month. The interest rate is the Prime Rate.

In November 2008, principal in the amount of \$49.1 million was paid on the State's Multi-Modal General Obligation Taxable School Loan Bonds Series 2005B using proceeds from a draw on the DEPFA Credit Facility. Interest is due on December 1, 2008 and will further occur on the first business day of each subsequent month. The interest rate is the Prime Rate.

In November 2008, the State issued its General Obligation School Loan Refunding Bonds Series 2008A, in the aggregated principal amount of \$143.0 million as fully registered bonds bearing interest which is payable semi-annually commencing May 1, 2009. Proceeds of this issuance were used to refund \$27.5 million of School Loan Bonds, Series 1998, and \$113.1 million of Multi-Modal General Obligation Tax-Exempt School Loan Bonds Series 2005C.

**Michigan**  
**Notes to the Financial Statements**

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In November 2008, the State Building Authority (SBA) issued its 2008 Revenue and Refunding Series I Bonds for \$192.3 million. This issue financed 17 new projects and refunded the 2005 Series II A/B bonds outstanding.

**Short-Term Borrowing**

On November 13, 2008, the State issued its \$900.0 million State of Michigan Full Faith and Credit General Obligation Notes, Fiscal Year 2009, Series A. The notes will mature on September 30, 2009, with an interest rate of 3.0%.

On December 17, 2008, the State issued its \$500.0 million State of Michigan Full Faith and Credit General Obligation Notes, Fiscal Year 2009, Series B. The notes will mature on September 30, 2009, with an interest rate of 3.0%.

In November 2008, SBA issued an additional \$20.8 million and retired \$134.8 million in commercial paper. Therefore, SBA's commercial paper outstanding is \$96.3 million, at a rate of .85%, maturing on February 12, 2009.

**Long-Term Borrowing - Discretely Presented Component Units**

Subsequent to their respective year-ends, the following discretely presented component units issued long-term debt (in millions):

	Bonds Issued
Michigan State Housing Development Authority	\$ 427.6
Michigan State Hospital Finance Authority	704.8
Michigan Municipal Bond Authority	180.8
Michigan Technological University	15.9
Saginaw Valley State University	12.6
Total	<u>\$ 1,341.7</u>

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

**Disbursements to Local Units of Government - Discretely Presented Component Units**

On October 27, 2008, funds totaling \$16.1 million were disbursed to qualified schools from the Michigan Municipal Bond Authority's School Loan Revolving Fund.

**Executive Reorganization**

On October 27, 2008, the Governor issued Executive Order 2008-20, which abolished the Michigan Broadband Development Authority (MBDA), a discretely presented component unit, and its board of directors effective December 28, 2008. The MBDA's responsibilities regarding broadband infrastructure assessment and development in the State were transferred to the Department of Information Technology. Any unexpended balances of appropriations, allocations, or other funds were transferred to the Michigan State Housing Development Authority, a discretely presented component unit.

**Financial Market Decline**

Financial markets have experienced severe volatility and consequently experienced a substantial decline in value. The long-term effects of this market volatility on any particular investment cannot be determined. However, the short-term effect of these events has had a material effect on the reported values of investments subsequent to year-end.





## **II. FINANCIAL SECTION**

### **REQUIRED SUPPLEMENTARY INFORMATION**

## REQUIRED SUPPLEMENTARY INFORMATION

**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR GOVERNMENTAL FUNDS**  
 SEPTEMBER 30, 2008  
 (In Thousands)

	GENERAL FUND			VARIANCE WITH FINAL BUDGET
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
Beginning budgetary fund balance	\$ 686,012	\$ 686,012	\$ 686,012	\$ -
Resources (inflows):				
General Purpose Revenues:				
Taxes	6,816,100	9,580,332	9,580,332	-
Federal	23,000	14,812	14,812	-
Local	1,000	115	115	-
Licenses and permits	35,000	37,376	37,376	-
Services	8,100	18,381	18,381	-
Miscellaneous	120,600	210,020	210,020	-
Proceeds from sale of capital assets	23,900	23,027	23,027	-
Transfers in	165,000	229,945	229,945	-
Restricted Revenues:				
Taxes	178,779	3,790,430	3,790,430	-
Federal	902,558	10,716,679	10,716,679	-
Local	29,608	229,254	229,254	-
Licenses and permits	-	247,007	247,007	-
Services	-	269,409	269,409	-
Miscellaneous	342,887	548,927	548,927	-
Proceeds from sale of capital assets	-	4,354	4,354	-
Transfers in	-	49,793	49,793	-
Total Revenue Inflows	<u>8,646,532</u>	<u>25,969,860</u>	<u>25,969,860</u>	<u>-</u>
Amounts Available for Appropriation	<u>9,332,544</u>	<u>26,655,871</u>	<u>26,655,871</u>	<u>-</u>
Charges to Appropriations (outflows):				
Legislative Branch	22,654	130,575	130,199	375
Judicial Branch	21,527	248,037	247,367	671
Executive Branch:				
Agriculture	9,186	83,884	83,867	17
Attorney General	5,429	69,148	68,648	500
Civil Rights	1,154	14,515	13,848	667
Colleges and Universities Grants	352,401	2,098,718	2,098,191	527
Community Health	950,371	11,957,027	11,923,742	33,285
Corrections	162,802	2,035,396	2,022,888	12,508
Education	7,805	96,909	91,013	5,896
Environmental Quality	35,223	198,638	198,280	359
Executive Office	439	5,317	5,170	147
History, Arts & Libraries	4,192	49,485	48,138	1,346
Human Services	378,820	4,692,384	4,620,872	71,512
Labor and Economic Growth	105,153	798,340	797,091	1,249
Management and Budget	81,386	473,769	464,276	9,492
Military and Veterans Affairs	10,314	124,324	122,685	1,639
Natural Resources	23,603	72,355	72,292	64
State	22,234	192,472	189,869	2,603
State Police	47,207	495,322	491,967	3,355
Transportation	-	-	-	-
Treasury	215,645	2,650,037	2,629,093	20,945
Intrafund expenditure reimbursements	-	(591,687)	(591,687)	-
Total Charges to Appropriations	<u>2,457,544</u>	<u>25,894,966</u>	<u>25,727,809</u>	<u>167,157</u>
Reconciling Items:				
Change in noncurrent assets	-	9,116	9,116	-
Net Reconciling Items	-	9,116	9,116	-
Ending Budgetary Fund Balance	<u>\$ 6,875,000</u>	<u>\$ 770,022</u>	<u>\$ 937,178</u>	<u>\$ 167,157</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
\$ 2,090	\$ 2,090	\$ 2,090	\$ -	\$ 83,925	\$ 83,925	\$ 83,925	\$ -
-	-	-	-	984,858	10,772,286	10,772,286	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
100	66	66	-	-	30,864	30,864	-
-	-	-	-	64,266	740,842	740,842	-
-	-	-	-	-	-	-	-
-	-	-	-	1,479,326	1,377,664	1,377,664	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	3,182	29,127	29,127	-
100	66	66	-	2,531,632	12,950,783	12,950,783	-
2,190	2,156	2,156	-	2,615,557	13,034,708	13,034,708	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	2,531,632	12,812,387	12,788,952	23,435
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	2,531,632	12,812,387	12,788,952	23,435
-	-	-	-	-	4,249	4,249	-
-	-	-	-	-	4,249	4,249	-
\$ 2,190	\$ 2,156	\$ 2,156	\$ -	\$ 83,925	\$ 226,569	\$ 250,005	\$ 23,435

## REQUIRED SUPPLEMENTARY INFORMATION

## BUDGETARY COMPARISON SCHEDULE

## BUDGET-TO-GAAP RECONCILIATION

SEPTEMBER 30, 2008

(In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND
<b>Sources/inflows of resources</b>			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	\$ 26,655,871	\$ 2,156	\$ 13,034,708
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.	(686,012)	(2,090)	(83,925)
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes.	(27,381)	-	-
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(279,738)	-	(769,969)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 25,662,741</u>	<u>\$ 66</u>	<u>\$ 12,180,814</u>
<b>Uses/outflows of resources</b>			
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 25,727,809	\$ -	\$ 12,788,952
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.	(66,895)	-	1,232
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(416,549)	-	(3,833)
Capital lease acquisitions are not outflows of budgetary resources but are recorded as current expenditures and other financing sources under GAAP.	106,248	-	-
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 25,350,613</u>	<u>\$ -</u>	<u>\$ 12,786,351</u>

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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 2008, 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, 2007, and includes multi-year projects budgetary carry-forwards from the prior fiscal year. On October 1, 2007, the Governor signed a 30-day continuation budget to allow the Legislature more time to pass individual budgets for fiscal year 2008. As a result, the General Fund original budget was only \$2.5 billion. Later in the fiscal year, the Legislature passed full budgets for each State agency and department.

The budgetary fund balance represents total fund balance, net of reserves for noncurrent assets and prior year encumbrances. Reserves for noncurrent assets do not represent current financial resources available for appropriation and are removed for budgetary purposes. Prior year encumbrances are considered uses of spending authority in the year the State incurs an obligation and are also removed.

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. Therefore, the “Original” and “Final Budget” columns do not include encumbrance authorization balances carried over from the prior fiscal 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.

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 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 27,478 lane miles of roads and 4,761 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 shoulder-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 one inch. 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 three years. “Good” represents ratings of 1.0 through 3.0 above and “Poor” represents ratings of 4.0 and 5.0.

Rating	2007	2006	2005
Good	83.6%	83.2%	81.4%
Poor	16.4%	16.8%	18.6%

## 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. No problems noted.
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 highway 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
2007	11.4%
2006	12.8%
2005	15.2%

Bridges that do not carry highway traffic are not included in MDOT's condition assessment. As a result, the number of bridges that were evaluated (4,416) in calendar year 2007 is less than the total (4,761) maintained by the department.

MDOT implemented a change in methodology for the above table in calendar year 2006. Comparable prior year amounts are not available.

#### Estimated and Actual 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
2009	\$1,081.7	\$ -
2008	\$ 829.0	\$1,003.7
2007	\$1,013.0	\$1,139.0
2006	\$1,109.0	\$1,131.4
2005	\$ 932.0	\$1,072.3
2004	\$ 921.0	\$ 857.6







## **II. FINANCIAL SECTION**

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

**BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**  
 SEPTEMBER 30, 2008  
 (In Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTALS
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 859	\$ -	\$ -	\$ -	\$ 859
Equity in common cash	1,089,201	1,437	1,862	197,141	1,289,642
Taxes, interest, and penalties receivable	96,354	-	-	-	96,354
Amounts due from other funds	515,667	-	17,019	-	532,686
Amounts due from component units	1,520	-	-	-	1,520
Amounts due from federal agencies	200,025	-	-	-	200,025
Amounts due from local units	169,749	-	3	32	169,783
Inventories	5,792	-	-	-	5,792
Investments	75,346	219,238	16,879	-	311,463
Other current assets	229,615	291	42	15,733	245,681
Total Current Assets	<u>2,384,127</u>	<u>220,966</u>	<u>35,806</u>	<u>212,907</u>	<u>2,853,806</u>
Taxes, interest, and penalties receivable	5,819	-	-	-	5,819
Amounts due from local units	50,775	-	-	-	50,775
Investments	181,698	-	-	485,466	667,164
Other noncurrent assets	5,519	-	-	-	5,519
Total Assets	<u>\$ 2,627,938</u>	<u>\$ 220,966</u>	<u>\$ 35,806</u>	<u>\$ 698,373</u>	<u>\$ 3,583,083</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Current Liabilities:					
Warrants outstanding	\$ 4,946	\$ 1	\$ 54	\$ 2,441	\$ 7,441
Accounts payable and other liabilities	639,747	148	35,583	7,995	683,474
Amounts due to other funds	55,788	-	28,120	59	83,967
Bonds and notes payable	-	-	210,310	-	210,310
Interest payable	-	-	457	-	457
Deferred revenue	226,705	-	-	-	226,705
Total Current Liabilities	<u>927,186</u>	<u>149</u>	<u>274,524</u>	<u>10,495</u>	<u>1,212,354</u>
Long-Term Liabilities:					
Deferred revenue	10,662	-	-	-	10,662
Total Liabilities	<u>937,847</u>	<u>149</u>	<u>274,524</u>	<u>10,495</u>	<u>1,223,016</u>
Fund Balances:					
Reserved fund balance	1,080,799	300	-	633,087	1,714,186
Unreserved fund balance (deficit)	609,292	220,517	(238,718)	54,791	645,882
Total Fund Balances	<u>1,690,090</u>	<u>220,817</u>	<u>(238,718)</u>	<u>687,878</u>	<u>2,360,067</u>
Total Liabilities and Fund Balances	<u>\$ 2,627,938</u>	<u>\$ 220,966</u>	<u>\$ 35,806</u>	<u>\$ 698,373</u>	<u>\$ 3,583,083</u>

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

## NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTALS
<b>REVENUES</b>					
Taxes	\$ 1,932,088	\$ -	\$ -	\$ -	\$ 1,932,088
From federal agencies	1,323,483	-	-	-	1,323,483
From local agencies	12,978	-	-	-	12,978
From services	3,590	-	-	-	3,590
From licenses and permits	157,024	-	-	-	157,024
Miscellaneous	759,140	3,639	577	99,827	863,183
Total Revenues	4,188,302	3,639	577	99,827	4,292,346
<b>EXPENDITURES</b>					
Current:					
General government	262,595	2,783	-	5,447	270,824
Education	88,059	829	69,273	-	158,160
Human services	18,679	-	-	-	18,679
Public safety and corrections	182	-	-	2,280	2,462
Conservation, environment, recreation, and agriculture	238,804	-	1	16,974	255,778
Labor, commerce, and regulatory	193,786	-	-	-	193,786
Health services	69,900	-	-	-	69,900
Transportation	2,338,905	2	-	-	2,338,907
Capital outlay	1,161,389	-	26,656	24,870	1,212,915
Debt Service:					
Bond principal retirement	-	238,371	-	-	238,371
Bond interest and fiscal charges	-	339,237	-	-	339,237
Capital lease payments	1,490	-	-	-	1,490
Total Expenditures	4,373,789	581,221	95,929	49,570	5,100,510
Excess of Revenues over (under) Expenditures	(185,487)	(577,582)	(95,352)	50,257	(808,164)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bonds and notes issued	88,742	-	96,500	-	185,242
Refunding bonds issued	-	347,446	-	-	347,446
Premium on bond issuance	1,215	15,596	-	-	16,811
Discount on bond issuance	(1,042)	(2,267)	-	-	(3,309)
Capital lease acquisitions	4,590	-	-	-	4,590
Payment to refunded bond escrow agent	-	(361,879)	-	-	(361,879)
Proceeds from sale of capital assets	3,006	-	-	118	3,124
Transfers from other funds	1,099,308	590,335	75,139	10,000	1,774,781
Transfers to other funds	(1,411,249)	-	(75,135)	(10,081)	(1,496,465)
Total Other Financing Sources (Uses)	(215,430)	589,231	96,503	37	470,342
Excess of Revenues and Other Sources over (under) Expenditures Other Uses	(400,916)	11,649	1,151	50,294	(337,823)
Fund Balances - Beginning of fiscal year	2,091,007	209,168	(239,869)	637,584	2,697,890
Fund Balances - End of fiscal year	\$ 1,690,090	\$ 220,817	\$ (238,718)	\$ 687,878	\$ 2,360,067

**BALANCE SHEET**  
**SPECIAL REVENUE FUNDS - BY CLASSIFICATION**  
 SEPTEMBER 30, 2008  
 (In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 803	\$ 56	\$ -	\$ -	\$ 859
Equity in common cash	516,702	209,620	63,454	299,425	1,089,201
Taxes, interest, and penalties receivable	96,184	170	-	-	96,354
Amounts due from other funds	506,889	2	8,775	-	515,667
Amounts due from component units	1,514	7	-	-	1,520
Amounts due from federal agencies	185,028	1,871	13,126	-	200,025
Amounts due from local units	169,409	339	-	-	169,749
Inventories	5,487	305	-	-	5,792
Investments	-	-	-	75,346	75,346
Other current assets	4,150	15,054	1,182	209,229	229,615
Total Current Assets	<u>1,486,167</u>	<u>227,423</u>	<u>86,537</u>	<u>584,000</u>	<u>2,384,127</u>
Taxes, interest, and penalties receivable	5,819	-	-	-	5,819
Amounts due from local units	37,627	13,148	-	-	50,775
Investments	-	113,041	-	68,658	181,698
Other noncurrent assets	2,982	1,543	-	994	5,519
Total Assets	<u>\$ 1,532,594</u>	<u>\$ 355,155</u>	<u>\$ 86,537</u>	<u>\$ 653,651</u>	<u>\$ 2,627,938</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Current Liabilities:					
Warrants outstanding	\$ 3,308	\$ 568	\$ 1,038	\$ 31	\$ 4,946
Accounts payable and other liabilities	576,609	34,530	21,147	7,462	639,747
Amounts due to other funds	45,390	1,369	9,001	28	55,788
Deferred revenue	11,814	2,014	5,606	207,271	226,705
Total Current Liabilities	<u>637,121</u>	<u>38,482</u>	<u>36,791</u>	<u>214,792</u>	<u>927,186</u>
Long-Term Liabilities:					
Deferred revenue	8,800	1,543	-	318	10,662
Total Liabilities	<u>645,921</u>	<u>40,025</u>	<u>36,791</u>	<u>215,110</u>	<u>937,847</u>
Fund Balances:					
Reserves For:					
Budgetary Carry-Forwards:					
Encumbrances	124,690	18,876	255	-	143,822
Restricted revenues	226,529	74,032	9,980	-	310,541
Multi-year projects	248,730	26,786	-	-	275,516
Construction and debt service	116,470	-	-	-	116,470
Revolving loan programs	37,455	28,453	-	-	65,908
Funds held as permanent investments	-	123,928	-	19,774	143,702
Noncurrent assets	24,163	-	-	676	24,839
Total Reserved	<u>778,038</u>	<u>272,074</u>	<u>10,235</u>	<u>20,451</u>	<u>1,080,799</u>
Unreserved	108,635	43,056	39,510	418,090	609,292
Total Fund Balances	<u>886,673</u>	<u>315,131</u>	<u>49,746</u>	<u>438,541</u>	<u>1,690,090</u>
Total Liabilities and Fund Balances	<u>\$ 1,532,594</u>	<u>\$ 355,155</u>	<u>\$ 86,537</u>	<u>\$ 653,651</u>	<u>\$ 2,627,938</u>

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

## SPECIAL REVENUE FUNDS - BY CLASSIFICATION

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
<b>REVENUES</b>					
Taxes	\$ 1,931,831	\$ 257	\$ -	\$ -	\$ 1,932,088
From federal agencies	1,180,781	5,856	135,808	1,039	1,323,483
From local agencies	12,978	-	-	-	12,978
From services	3,590	-	-	-	3,590
From licenses and permits	39,687	108,036	9,301	-	157,024
Miscellaneous	168,143	76,847	68,858	445,293	759,140
Total Revenues	3,337,008	190,996	213,966	446,332	4,188,302
<b>EXPENDITURES</b>					
Current:					
General government	-	1,406	19,149	242,039	262,595
Education	-	-	-	88,059	88,059
Human services	-	-	-	18,679	18,679
Public safety and corrections	-	-	-	182	182
Conservation, environment, recreation, and agriculture	-	238,804	-	-	238,804
Labor, commerce, and regulatory	-	-	193,786	-	193,786
Health services	-	-	-	69,900	69,900
Transportation	2,338,905	-	-	-	2,338,905
Capital outlay	1,145,598	15,791	-	-	1,161,389
Debt Service:					
Capital lease payments	90	-	1,400	-	1,490
Total Expenditures	3,484,593	256,002	214,336	418,859	4,373,789
Excess of Revenues over (under) Expenditures	(147,584)	(65,006)	(370)	27,473	(185,487)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bonds and notes issued	-	25,000	-	63,742	88,742
Premium on bond issuance	-	1,215	-	-	1,215
Discount on bond issuance	-	-	-	(1,042)	(1,042)
Capital lease acquisitions	464	-	4,126	-	4,590
Proceeds from sale of capital assets	3,006	-	-	-	3,006
Transfers from other funds	993,906	35,400	10,002	60,000	1,099,308
Transfers to other funds	(1,245,596)	(21,130)	(12,843)	(131,680)	(1,411,249)
Total Other Financing Sources (Uses)	(248,220)	40,485	1,285	(8,980)	(215,430)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(395,804)	(24,521)	915	18,494	(400,916)
Fund Balances - Beginning of fiscal year	1,282,478	339,651	48,830	420,047	2,091,007
Fund Balances - End of fiscal year	\$ 886,673	\$ 315,131	\$ 49,746	\$ 438,541	\$ 1,690,090

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
SPECIAL REVENUE FUNDS - BY CLASSIFICATION**  
FISCAL YEAR ENDED SEPTEMBER 30, 2008  
(In Thousands)

Statutory/Budgetary Basis	TRANSPORTATION RELATED			CONSERVATION, ENVIRONMENT, AND RECREATION RELATED		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
<b>REVENUES AND OTHER SOURCES</b>						
Taxes	\$ 1,931,831	\$ 1,931,831	\$ -	\$ 257	\$ 257	\$ -
From federal agencies	832,518	832,518	-	5,163	5,163	-
From local agencies	10,275	10,275	-	-	-	-
From services	3,590	3,590	-	-	-	-
From licenses and permits	39,687	39,687	-	108,036	108,036	-
Miscellaneous	83,689	83,689	-	38,466	38,466	-
Bonds and notes issued	-	-	-	-	-	-
Proceeds from sale of capital assets	3,006	3,006	-	-	-	-
Transfers in	993,906	993,906	-	28,938	28,938	-
Total Revenues and Other Sources	3,898,502	3,898,502	-	180,860	180,860	-
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>						
Attorney General	-	-	-	-	-	-
Colleges and Universities Grants	-	-	-	-	-	-
Community Health	-	-	-	-	-	-
Human Services	-	-	-	-	-	-
Labor and Economic Growth	-	-	-	-	-	-
Military and Veterans Affairs	-	-	-	-	-	-
Natural Resources	-	-	-	219,355	214,524	4,831
Transportation	4,346,979	4,199,215	147,764	-	-	-
Treasury	-	-	-	258	258	-
Total Expenditures, Transfers Out, and Encumbrances	4,346,979	4,199,215	147,764	219,613	214,782	4,831
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (448,477)	(300,713)	\$ 147,764	\$ (38,753)	(33,922)	\$ 4,831
Reconciling Items:						
Encumbrances at September 30		124,690			18,876	
Funds not annually budgeted		(219,781)			(9,475)	
Net Reconciling Items		(95,091)			9,401	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		(395,804)			(24,521)	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances		1,282,478			339,651	
Ending balances (GAAP Basis)		\$ 886,673			\$ 315,131	

# Michigan

REGULATORY AND ADMINISTRATIVE RELATED			OTHER STATE FUNDS			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,932,088	\$ 1,932,088	\$ -
135,808	135,808	-	1,039	1,039	-	974,528	974,528	-
-	-	-	-	-	-	10,275	10,275	-
-	-	-	-	-	-	3,590	3,590	-
9,301	9,301	-	-	-	-	157,024	157,024	-
42,429	42,429	-	298,256	298,256	-	462,840	462,840	-
-	-	-	63,742	63,742	-	63,742	63,742	-
-	-	-	-	-	-	3,006	3,006	-
10,002	10,002	-	60,000	60,000	-	1,092,845	1,092,845	-
197,539	197,539	-	423,038	423,038	-	4,699,939	4,699,939	-
-	-	-	407	358	49	407	358	49
-	-	-	98,050	92,309	5,741	98,050	92,309	5,741
-	-	-	69,900	69,900	-	69,900	69,900	-
-	-	-	20,699	18,680	2,019	20,699	18,680	2,019
172,862	167,123	5,739	-	-	-	172,862	167,123	5,739
-	-	-	1,000	182	818	1,000	182	818
-	-	-	-	-	-	219,355	214,524	4,831
-	-	-	-	-	-	4,346,979	4,199,215	147,764
30,464	30,464	-	628,697	223,120	405,577	659,418	253,841	405,577
203,326	197,587	5,739	818,753	404,549	414,204	5,588,671	5,016,132	572,538
<u>\$ (5,786)</u>	<u>(48)</u>	<u>\$ 5,739</u>	<u>\$ (395,715)</u>	<u>18,489</u>	<u>\$ 414,204</u>	<u>\$ (888,732)</u>	<u>(316,193)</u>	<u>\$ 572,538</u>
	255			-			143,822	
	708			4			(228,544)	
	963			4			(84,723)	
	915			18,494			(400,916)	
	48,830			420,047			2,091,007	
	<u>\$ 49,746</u>			<u>\$ 438,541</u>			<u>\$ 1,690,090</u>	





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## SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED

### STATE AERONAUTICS FUND

Established pursuant to Michigan Compiled Laws Section 259.34, this fund accounts for airport improvement projects. Financing consists primarily of aviation fuel taxes and federal 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 Michigan Compiled Laws Section 247.661, 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.

### MICHIGAN TRANSPORTATION FUND

Established pursuant to Michigan Compiled Laws Section 247.660, 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

Established pursuant to Michigan Compiled Laws Section 247.660, this fund accounts for the planning and development of public transportation systems within the State. Federal 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 Michigan Compiled Laws Section 247.668, 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 Michigan Compiled Laws Section 247.668, 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 federal matching funds with very little State funds.

**COMBINING BALANCE SHEET**  
**SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**  
 SEPTEMBER 30, 2008  
 (In Thousands)

	STATE AERONAUTICS FUND	STATE TRUNKLINE FUND	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 2	\$ 788	\$ -	\$ 1
Equity in common cash	20,534	167,505	155,771	60,437
Taxes, interest, and penalties receivable	67	-	96,117	-
Amounts due from other funds	-	499,818	-	7,071
Amounts due from component units	-	1,514	-	-
Amounts due from federal agencies	20,543	121,569	-	9,606
Amounts due from local units	27,582	81,982	-	1,194
Inventories	-	5,487	-	-
Other current assets	30	4,015	4	101
Total Current Assets	<u>68,759</u>	<u>882,677</u>	<u>251,891</u>	<u>78,411</u>
Taxes, interest, and penalties receivable	335	-	5,484	-
Amounts due from local units	299	32,888	-	4,439
Other noncurrent assets	-	2,136	-	846
Total Assets	<u>\$ 69,393</u>	<u>\$ 917,701</u>	<u>\$ 257,375</u>	<u>\$ 83,696</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Current Liabilities:				
Warrants outstanding	\$ 24	\$ 2,582	\$ 190	\$ 239
Accounts payable and other liabilities	45,955	197,716	213,846	18,080
Amounts due to other funds	61	2,825	31,955	79
Deferred revenue	7	3,499	5,900	2
Total Current Liabilities	<u>46,046</u>	<u>206,622</u>	<u>251,891</u>	<u>18,399</u>
Long-Term Liabilities:				
Deferred revenue	335	2,136	5,484	846
Total Liabilities	<u>46,381</u>	<u>208,757</u>	<u>257,375</u>	<u>19,245</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	4,958	81,714	-	38,019
Restricted revenues	268	225,365	-	897
Multi-year projects	9,272	239,458	-	-
Construction and debt service	-	116,470	-	-
Revolving loan programs	2,200	21,773	-	13,482
Noncurrent assets	-	24,163	-	-
Total Reserved	<u>16,697</u>	<u>708,943</u>	<u>-</u>	<u>52,397</u>
Unreserved	6,315	-	-	12,054
Total Fund Balances	<u>23,012</u>	<u>708,943</u>	<u>-</u>	<u>64,451</u>
Total Liabilities and Fund Balances	<u>\$ 69,393</u>	<u>\$ 917,701</u>	<u>\$ 257,375</u>	<u>\$ 83,696</u>

**Michigan**

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS
\$ -	\$ -	\$ 13	\$ 803
53,348	59,108	-	516,702
-	-	-	96,184
-	-	-	506,889
-	-	-	1,514
225	-	33,085	185,028
2,617	-	56,035	169,409
-	-	-	5,487
-	-	-	4,150
<u>56,189</u>	<u>59,108</u>	<u>89,133</u>	<u>1,486,167</u>
-	-	-	5,819
-	-	-	37,627
-	-	-	2,982
<u>\$ 56,189</u>	<u>\$ 59,108</u>	<u>\$ 89,133</u>	<u>\$ 1,532,594</u>
\$ -	\$ 8	\$ 266	\$ 3,308
18,364	4,252	78,396	576,609
-	-	10,471	45,390
2,407	-	-	11,814
<u>20,771</u>	<u>4,259</u>	<u>89,133</u>	<u>637,121</u>
-	-	-	8,800
<u>20,771</u>	<u>4,259</u>	<u>89,133</u>	<u>645,921</u>
-	-	-	124,690
-	-	-	226,529
-	-	-	248,730
-	-	-	116,470
-	-	-	37,455
-	-	-	24,163
<u>-</u>	<u>-</u>	<u>-</u>	<u>778,038</u>
<u>35,418</u>	<u>54,849</u>	<u>-</u>	<u>108,635</u>
<u>35,418</u>	<u>54,849</u>	<u>-</u>	<u>886,673</u>
<u>\$ 56,189</u>	<u>\$ 59,108</u>	<u>\$ 89,133</u>	<u>\$ 1,532,594</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**  
 FISCAL YEAR ENDED SEPTEMBER 30, 2008  
 (In Thousands)

	STATE AERONAUTICS FUND	STATE TRUNKLINE FUND	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND
<b>REVENUES</b>				
Taxes	\$ 5,344	\$ -	\$ 1,844,372	\$ 82,114
From federal agencies	108,295	692,226	-	31,997
From local agencies	34	10,241	-	-
From services	428	18	3,144	-
From licenses and permits	302	5,996	33,076	312
Miscellaneous	4,322	72,497	5,470	1,400
Total Revenues	<u>118,725</u>	<u>780,979</u>	<u>1,886,063</u>	<u>115,824</u>
<b>EXPENDITURES</b>				
Current:				
Transportation	119,838	630,326	921,347	240,849
Capital outlay	323	969,731	-	-
Debt service:				
Capital lease payments	-	90	-	-
Total Expenditures	<u>120,160</u>	<u>1,600,146</u>	<u>921,347</u>	<u>240,849</u>
Excess of Revenues over (under) Expenditures	<u>(1,435)</u>	<u>(819,168)</u>	<u>964,716</u>	<u>(125,025)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital lease acquisitions	-	464	-	-
Proceeds from sale of capital assets	-	3,006	-	-
Transfers from other funds	6,000	822,618	3,506	161,782
Transfers to other funds	(3,521)	(190,835)	(968,222)	(29,909)
Total Other Financing Sources (Uses)	<u>2,479</u>	<u>635,253</u>	<u>(964,716)</u>	<u>131,874</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	<u>1,044</u>	<u>(183,915)</u>	<u>-</u>	<u>6,848</u>
Fund Balances - Beginning of fiscal year	<u>21,968</u>	<u>892,858</u>	<u>-</u>	<u>57,603</u>
Fund Balances - End of fiscal year	<u>\$ 23,012</u>	<u>\$ 708,943</u>	<u>\$ -</u>	<u>\$ 64,451</u>

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ 1,931,831
56,434	-	291,828	1,180,781
2,703	-	-	12,978
-	-	-	3,590
-	-	-	39,687
81,576	2,586	291	168,143
<u>140,713</u>	<u>2,586</u>	<u>292,120</u>	<u>3,337,008</u>
118,701	15,725	292,120	2,338,905
175,465	80	-	1,145,598
-	-	-	90
<u>294,166</u>	<u>15,805</u>	<u>292,120</u>	<u>3,484,593</u>
<u>(153,453)</u>	<u>(13,219)</u>	<u>-</u>	<u>(147,584)</u>
-	-	-	464
-	-	-	3,006
-	-	-	993,906
(53,109)	-	-	(1,245,596)
<u>(53,109)</u>	<u>-</u>	<u>-</u>	<u>(248,220)</u>
(206,562)	(13,219)	-	(395,804)
241,981	68,068	-	1,282,478
<u>\$ 35,418</u>	<u>\$ 54,849</u>	<u>\$ -</u>	<u>\$ 886,673</u>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**  
FISCAL YEAR ENDED SEPTEMBER 30, 2008  
(In Thousands)

<u>Statutory/Budgetary Basis</u>	STATE AERONAUTICS FUND		
	BUDGET	ACTUAL	VARIANCE
<b>REVENUES AND OTHER SOURCES</b>			
Taxes	\$ 5,344	\$ 5,344	\$ -
From federal agencies	108,295	108,295	-
From local agencies	34	34	-
From services	428	428	-
From licenses and permits	302	302	-
Miscellaneous	4,322	4,322	-
Proceeds from sale of capital assets	-	-	-
Transfers in	6,000	6,000	-
Total Revenues and Other Sources	<u>124,725</u>	<u>124,725</u>	<u>-</u>
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>			
Transportation	<u>131,378</u>	<u>128,639</u>	<u>2,739</u>
Total Expenditures, Transfers Out, and Encumbrances	<u>131,378</u>	<u>128,639</u>	<u>2,739</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (6,653)</u>	<u>(3,914)</u>	<u>\$ 2,739</u>
Reconciling Items:			
Encumbrances at September 30		4,958	
Funds not annually budgeted		-	
Net Reconciling Items		<u>4,958</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>1,044</u>	
<b>FUND BALANCES (GAAP BASIS)</b>			
Beginning balances		<u>21,968</u>	
Ending balances (GAAP Basis)		<u>\$ 23,012</u>	

# Michigan

STATE TRUNKLINE FUND			MICHIGAN TRANSPORTATION FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 1,844,372	\$ 1,844,372	\$ -
692,226	692,226	-	-	-	-
10,241	10,241	-	-	-	-
18	18	-	3,144	3,144	-
5,996	5,996	-	33,076	33,076	-
72,497	72,497	-	5,470	5,470	-
3,006	3,006	-	-	-	-
822,618	822,618	-	3,506	3,506	-
1,606,602	1,606,602	-	1,889,569	1,889,569	-
1,906,795	1,872,231	34,564	1,990,801	1,889,569	101,232
1,906,795	1,872,231	34,564	1,990,801	1,889,569	101,232
<u>\$ (300,192)</u>	<u>(265,628)</u>	<u>\$ 34,564</u>	<u>\$ (101,232)</u>	-	<u>\$ 101,232</u>
	81,714			-	
	-			-	
	81,714			-	
	<u>(183,915)</u>			-	
	892,858			-	
	<u>\$ 708,943</u>			<u>\$ -</u>	

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, 2008

(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>COMPREHENSIVE TRANSPORTATION FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES AND OTHER SOURCES</b>			
Taxes	\$ 82,114	\$ 82,114	\$ -
From federal agencies	31,997	31,997	-
From local agencies	-	-	-
From services	-	-	-
From licenses and permits	312	312	-
Miscellaneous	1,400	1,400	-
Proceeds from sale of capital assets	-	-	-
Transfers in	161,782	161,782	-
Total Revenues and Other Sources	<u>277,606</u>	<u>277,606</u>	<u>-</u>
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>			
Transportation	<u>318,006</u>	<u>308,777</u>	<u>9,229</u>
Total Expenditures, Transfers Out, and Encumbrances	<u>318,006</u>	<u>308,777</u>	<u>9,229</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (40,400)</u>	<u>(31,171)</u>	<u>\$ 9,229</u>
Reconciling Items:			
Encumbrances at September 30		38,019	
Funds not annually budgeted		-	
Net Reconciling Items		<u>38,019</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>6,848</u>	
<b>FUND BALANCES (GAAP BASIS)</b>			
Beginning balances		<u>57,603</u>	
Ending balances (GAAP Basis)		<u>\$ 64,451</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			
\$ -	\$ -	\$ -	\$ 1,931,831	\$ 1,931,831	\$ -
-	-	-	832,518	832,518	-
-	-	-	10,275	10,275	-
-	-	-	3,590	3,590	-
-	-	-	39,687	39,687	-
-	-	-	83,689	83,689	-
-	-	-	3,006	3,006	-
-	-	-	993,906	993,906	-
-	-	-	3,898,502	3,898,502	-
-	-	-	4,346,979	4,199,215	147,764
-	-	-	4,346,979	4,199,215	147,764
-	-	-	\$ (448,477)	(300,713)	\$ 147,764
-	-	-		124,690	
(206,562)	(13,219)	-		(219,781)	
(206,562)	(13,219)	-		(95,091)	
(206,562)	(13,219)	-		(395,804)	
241,981	68,068	-		1,282,478	
\$ 35,418	\$ 54,849	\$ -		\$ 886,673	

## SPECIAL REVENUE FUNDS – CONSERVATION, ENVIRONMENT, AND RECREATION RELATED

### MICHIGAN CONSERVATION AND RECREATION LEGACY FUND

This fund ("Legacy Fund") was created by Article 9, Section 40, of the State Constitution, an amendment approved by voters in November 2006. The purpose of the amendment was to constitutionally prevent the diversion of certain funds and revenues for purposes other than those for which they were created. Section 40 created the following accounts within the Legacy Fund: Forest Recreation, Game and Fish Protection, Off-Road Vehicle, Recreation Improvement, Snowmobile, State Park Improvement, and Waterways.

The implementing legislation related to this amendment, found in Sections 324.2002 – 324.2035 of the Michigan Compiled Laws, transferred a number of special revenue funds and certain restrictively financed activities within the General Fund to the Legacy Fund. The following special revenue funds were transferred into the fund: Game and Fish Protection Fund, Michigan State Waterways Fund, Marine Safety Fund, and State Park Improvement Fund. The restrictively financed activities transferred into the fund from the General Fund were related to various outdoor recreation activities including snowmobiles, off-the-road vehicles, recreation trails, and State forest recreation.

Financing consists primarily of hunting and fishing licenses; camping and park entrance fees; 2% of gasoline taxes dedicated for boating, snowmobiling, off-road vehicles and other trails; watercraft and snowmobile registration fees; and trail use permits. The fund also receives funding from the Michigan Game and Fish Protection Trust Fund. Expenditures are limited to those activities specified in Section 40 and include forest recreation activities, wildlife and fisheries programs, off-road vehicle and snowmobile trails and facilities, State parks and recreation areas, improvement of lake harbors and inland waterways, and water safety education programs.

### MICHIGAN GAME AND FISH PROTECTION TRUST FUND

The former Game and Fish Protection Trust Fund was established in 1986 to restrict certain assets for the purpose of generating interest and earnings for transfer to the former Game and Fish Protection Fund (now accounted for within the Michigan Conservation and Recreation Legacy Fund). Article 9, Section 41, of the State Constitution, an amendment approved by voters in November 2006, further protected these assets by creating the Michigan Game and Fish Protection Trust Fund.

The fund operates under Sections 324.43702 – 324.43704 of the Michigan Compiled Laws. The Legislature may appropriate up to \$6 million annually for use by the Game and Fish Protection Account of the Michigan Conservation and Recreation Legacy Fund. Mineral royalties from lands acquired by the Game and Fish Protection Account; direct sale proceeds; and other revenues, which, by statute, are retained for permanent investment, provide additional investment funding.

### COMBINED RECREATION BOND FUND - LOCAL PROJECTS

Established in 1988, this fund operates under Sections 324.19606 - 324.19612, 324.19615, 324.71303, and 324.71506 - 324.71508 of the Michigan Compiled Laws (MCL). 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 provided 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 MCL Section 324.71602.

### COMBINED ENVIRONMENTAL PROTECTION BOND FUND

This fund, which is administered by the Department of Environmental Quality (DEQ), was established by Michigan Compiled Laws (MCL) Section 324.19506 to account for the proceeds of \$660 million of Environmental Protection general obligation bonds approved by Michigan voters in November 1988. The statute specifies that the proceeds of these bonds be available to clean up sites of toxic and other environmental contamination, for solid waste projects, to capitalize the State Water Pollution Control Loan Fund, and to fund Michigan's participation in a regional Great Lakes Protection Fund.

Sections 324.95101 – 324.95108 of the MCL expanded this fund to account for the proceeds of \$570 million of Clean Michigan Initiative general obligation bonds approved by Michigan voters in November 1998. The statute directs that bond proceeds be used for environmental response activities at facilities, waterfront improvements, remediation of contaminated lake and river sediments, nonpoint source pollution prevention and control projects or wellhead protection projects, water quality monitoring and water resources protection, pollution control activities, and pollution prevention programs.

Sections 324.5201 – 324.5304 and 324.19701 – 324.19708 of the MCL, expanded this fund to account for the proceeds of \$1 billion of Great Lakes Water Quality general obligation bonds approved by Michigan voters in November 2002. The law directs that bond proceeds be used to finance sewage treatment works projects, storm water projects, and nonpoint source projects that improve the quality of the waters of the State. This fund records the bond proceeds and the administrative costs of DEQ. All programmatic loan and grant payments are reported in the financial statements of the Michigan Municipal Bond Authority, a discretely presented component unit.

#### MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND

The former Michigan Nongame Fish and Wildlife Fund was established in 1983 to finance research and management of nongame fish and wildlife, designated endangered species, and designated plant species of this State. Article 9, Section 42, of the State Constitution, an amendment approved by voters in November 2006, further protected these assets by creating the Michigan Nongame Fish and Wildlife Trust Fund.

The fund operates under Sections 324.43902 – 324.43907 of the Michigan Compiled Laws. The fund may receive transfers from other funds, donations, investment income, and revenue from specialty license plate sales.

#### MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND

Michigan Compiled Laws Section 409.312a 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. Public Act 147 of 2007 required the transfer of \$20 million from the fund to the General Fund, thereby eliminating the fund's permanent investment reserve.

Prior to fiscal year 2007, this fund was classified as a permanent fund but the 2007 legislation resulted in the reclassification of this fund to a special revenue fund.

#### FOREST DEVELOPMENT FUND

This fund was established in 1993, along with the Michigan Forest Finance Authority, and operates under Michigan Compiled Laws Section 324.50507. The primary revenue source of the fund is timber revenue from State forest lands. Expenditures from the fund are for forest management activities and forest fire protection. The Authority is authorized to, but thus far has not, issued bonds.

#### BOTTLE DEPOSITS FUND

Michigan Compiled Laws (MCL) Section 445.573c created the Bottle Deposits Fund to provide for the disposition of unredeemed bottle deposits. The Department of Treasury and the Department of Environmental Quality (DEQ) 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 DEQ 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.

MCL Section 324.20108 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 DEQ or the Attorney General, or both, shall be credited to the ERF.

Several DEQ sub-funds are administratively housed within the Bottle Deposits Fund, although they receive no bottle deposits revenue. Included is the State Sites Cleanup Sub-Fund, established in accordance with MCL Section 324.20108c to provide for response activities at facilities where the State is liable as an owner or operator. The following loan programs administered by DEQ are also included: the Brownfield Revolving Loan Fund created by MCL Section 324.19608a, the Revitalization Revolving Loan Fund created by MCL Section 324.20108a, and the Federal Brownfield Cleanup and Revolving Loan Fund.

**COMBINING BALANCE SHEET**  
**SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED**  
 SEPTEMBER 30, 2008  
 (In Thousands)

	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND	MICHIGAN GAME AND FISH PROTECTION TRUST FUND	COMBINED RECREATION BOND FUND- LOCAL PROJECTS
<b>ASSETS</b>			
Current Assets:			
Cash	\$ 48	\$ -	\$ -
Equity in common cash	85,370	7,134	2,186
Taxes, interest, and penalties receivable	170	-	-
Amounts due from other funds	-	-	-
Amounts due from component units	-	-	-
Amounts due from federal agencies	1,534	-	-
Amounts due from local units	-	-	-
Inventories	305	-	-
Other current assets	4,179	2,111	-
Total Current Assets	<u>91,606</u>	<u>9,245</u>	<u>2,186</u>
Amounts due from local units	-	-	-
Investments	1,672	105,568	-
Other noncurrent assets	-	-	-
Total Assets	<u>\$ 93,278</u>	<u>\$ 114,813</u>	<u>\$ 2,186</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Current Liabilities:			
Warrants outstanding	\$ 363	\$ 41	\$ -
Accounts payable and other liabilities	17,485	6	37
Amounts due to other funds	1,005	-	-
Deferred revenue	835	-	-
Total Current Liabilities	<u>19,688</u>	<u>47</u>	<u>37</u>
Long-Term Liabilities:			
Deferred revenue	-	-	-
Total Liabilities	<u>19,688</u>	<u>47</u>	<u>37</u>
Fund Balances:			
Reserves for:			
Budgetary Carry-Forwards:			
Encumbrances	17,899	-	-
Restricted revenues	25,193	-	-
Multi-year projects	25,476	-	-
Revolving loan programs	-	-	-
Funds held as permanent investments	1,658	108,766	-
Total Reserved	<u>70,225</u>	<u>108,766</u>	<u>-</u>
Unreserved	<u>3,365</u>	<u>6,000</u>	<u>2,149</u>
Total Fund Balances	<u>73,590</u>	<u>114,766</u>	<u>2,149</u>
Total Liabilities and Fund Balances	<u>\$ 93,278</u>	<u>\$ 114,813</u>	<u>\$ 2,186</u>

**Michigan**

COMBINED ENVIRONMENTAL PROTECTION BOND FUND	MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND	MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND	FOREST DEVELOPMENT FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ -	\$ -	\$ 4	\$ 3	\$ 56
35,977	460	818	11,821	65,854	209,620
-	-	-	-	-	170
2	-	-	-	-	2
7	-	-	-	-	7
-	-	-	337	-	1,871
2	-	-	-	338	339
-	-	-	-	-	305
-	45	-	120	8,599	15,054
<u>35,987</u>	<u>505</u>	<u>818</u>	<u>12,282</u>	<u>74,793</u>	<u>227,423</u>
-	-	-	-	13,148	13,148
-	5,800	-	-	-	113,041
-	-	-	-	1,543	1,543
<u>\$ 35,987</u>	<u>\$ 6,305</u>	<u>\$ 818</u>	<u>\$ 12,282</u>	<u>\$ 89,485</u>	<u>\$ 355,155</u>
\$ 17	\$ 1	\$ 1	\$ 70	\$ 76	\$ 568
12,270	39	41	2,882	1,770	34,530
5	3	1	219	135	1,369
-	-	-	121	1,058	2,014
<u>12,291</u>	<u>43</u>	<u>43</u>	<u>3,291</u>	<u>3,040</u>	<u>38,482</u>
-	-	-	-	1,543	1,543
<u>12,291</u>	<u>43</u>	<u>43</u>	<u>3,291</u>	<u>4,583</u>	<u>40,025</u>
-	124	-	852	-	18,876
-	-	-	-	48,839	74,032
-	-	-	1,310	-	26,786
-	-	-	-	28,453	28,453
-	5,895	-	-	7,610	123,928
-	6,019	-	2,162	84,902	272,074
<u>23,696</u>	<u>243</u>	<u>775</u>	<u>6,829</u>	<u>-</u>	<u>43,056</u>
<u>23,696</u>	<u>6,262</u>	<u>775</u>	<u>8,991</u>	<u>84,902</u>	<u>315,131</u>
<u>\$ 35,987</u>	<u>\$ 6,305</u>	<u>\$ 818</u>	<u>\$ 12,282</u>	<u>\$ 89,485</u>	<u>\$ 355,155</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, 2008  
 (In Thousands)

	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND	MICHIGAN GAME AND FISH PROTECTION TRUST FUND	COMBINED RECREATION BOND FUND- LOCAL PROJECTS
<b>REVENUES</b>			
Taxes	\$ 257	\$ -	\$ -
From federal agencies	4,896	-	-
From licenses and permits	108,034	-	-
Miscellaneous	6,641	10,857	71
Total Revenues	<u>119,828</u>	<u>10,857</u>	<u>71</u>
<b>EXPENDITURES</b>			
Current:			
General government	5	1,149	-
Conservation, environment, recreation, and agriculture	149,462	68	47
Capital outlay	15,325	-	-
Total Expenditures	<u>164,792</u>	<u>1,217</u>	<u>47</u>
Excess of Revenues over (under) Expenditures	<u>(44,964)</u>	<u>9,640</u>	<u>24</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Bonds and notes issued	-	-	-
Premium on bond issuance	-	-	-
Transfers from other funds	28,938	-	-
Transfers to other funds	(1,958)	(12,007)	-
Total Other Financing Sources (Uses)	<u>26,980</u>	<u>(12,007)</u>	<u>-</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	<u>(17,984)</u>	<u>(2,366)</u>	<u>24</u>
Fund Balances - Beginning of fiscal year	<u>91,574</u>	<u>117,132</u>	<u>2,125</u>
Fund Balances - End of fiscal year	<u>\$ 73,590</u>	<u>\$ 114,766</u>	<u>\$ 2,149</u>

**Michigan**

COMBINED ENVIRONMENTAL PROTECTION BOND FUND	MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND	MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND	FOREST DEVELOPMENT FUND	BOTTLE DEPOSITS FUND	<b>TOTALS</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 257
-	-	-	267	693	5,856
-	-	-	2	-	108,036
1,976	446	1,083	30,296	25,477	76,847
<u>1,976</u>	<u>446</u>	<u>1,083</u>	<u>30,565</u>	<u>26,170</u>	<u>190,996</u>
-	71	182	-	-	1,406
42,943	598	471	27,187	18,029	238,804
-	-	-	467	-	15,791
<u>42,943</u>	<u>668</u>	<u>652</u>	<u>27,654</u>	<u>18,029</u>	<u>256,002</u>
<u>(40,967)</u>	<u>(222)</u>	<u>431</u>	<u>2,911</u>	<u>8,141</u>	<u>(65,006)</u>
25,000	-	-	-	-	25,000
1,215	-	-	-	-	1,215
-	-	-	-	6,463	35,400
(6,464)	(3)	(2)	(177)	(519)	(21,130)
<u>19,751</u>	<u>(3)</u>	<u>(2)</u>	<u>(177)</u>	<u>5,943</u>	<u>40,485</u>
(21,217)	(225)	429	2,734	14,084	(24,521)
<u>44,912</u>	<u>6,487</u>	<u>346</u>	<u>6,257</u>	<u>70,818</u>	<u>339,651</u>
<u>\$ 23,696</u>	<u>\$ 6,262</u>	<u>\$ 775</u>	<u>\$ 8,991</u>	<u>\$ 84,902</u>	<u>\$ 315,131</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, 2008  
(In Thousands)

Statutory/Budgetary Basis	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND			MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
<b>REVENUES AND OTHER SOURCES</b>						
Taxes	\$ 257	\$ 257	\$ -	\$ -	\$ -	\$ -
From federal agencies	4,896	4,896	-	-	-	-
From licenses and permits	108,034	108,034	-	-	-	-
Miscellaneous	6,641	6,641	-	446	446	-
Transfers in	28,938	28,938	-	-	-	-
Total Revenues and Other Sources	<u>148,766</u>	<u>148,766</u>	<u>-</u>	<u>446</u>	<u>446</u>	<u>-</u>
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>						
Natural Resources	189,225	184,644	4,582	725	725	-
Treasury	<u>5</u>	<u>5</u>	<u>-</u>	<u>71</u>	<u>71</u>	<u>-</u>
Total Expenditures, Transfers Out and Encumbrances	<u>189,231</u>	<u>184,649</u>	<u>4,582</u>	<u>796</u>	<u>795</u>	<u>-</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (40,465)</u>	<u>(35,883)</u>	<u>\$ 4,582</u>	<u>\$ (350)</u>	<u>(349)</u>	<u>\$ -</u>
Reconciling Items:						
Encumbrances at September 30		17,899			124	
Funds not annually budgeted		<u>-</u>			<u>-</u>	
Net Reconciling Items		<u>17,899</u>			<u>124</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(17,984)</u>			<u>(225)</u>	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances		<u>91,574</u>			<u>6,487</u>	
Ending balances (GAAP Basis)		<u>\$ 73,590</u>			<u>\$ 6,262</u>	



**Michigan**

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MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND			FOREST DEVELOPMENT FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	267	267	-
-	-	-	2	2	-
1,083	1,083	-	30,296	30,296	-
-	-	-	-	-	-
1,083	1,083	-	30,565	30,565	-
535	472	62	28,870	28,683	187
182	182	-	-	-	-
716	654	62	28,870	28,683	187
\$ 366	429	\$ 62	\$ 1,695	1,882	\$ 187
	-			852	
	-			-	
	-			852	
	429			2,734	
	346			6,257	
	\$ 775			\$ 8,991	

This schedule continued on next page.

**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, 2008  
(In Thousands)

	FUNDS NOT ANNUALLY BUDGETED			
	MICHIGAN GAME AND FISH PROTECTION TRUST FUND	COMBINED RECREATION BOND FUND- LOCAL PROJECTS	COMBINED ENVIRONMENTAL PROTECTION BOND FUND	BOTTLE DEPOSITS FUND
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
<u>Statutory/Budgetary Basis</u>				
<b>REVENUES AND OTHER SOURCES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
From federal agencies	-	-	-	-
From licenses and permits	-	-	-	-
Miscellaneous	-	-	-	-
Transfers in	-	-	-	-
Total Revenues and Other Sources	-	-	-	-
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>				
Natural Resources	-	-	-	-
Treasury	-	-	-	-
Total Expenditures, Transfers Out and Encumbrances	-	-	-	-
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	-	-	-	-
Reconciling Items:				
Encumbrances at September 30	-	-	-	-
Funds not annually budgeted	(2,366)	24	(21,217)	14,084
Net Reconciling Items	(2,366)	24	(21,217)	14,084
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)	(2,366)	24	(21,217)	14,084
<b>FUND BALANCES (GAAP BASIS)</b>				
Beginning balances	117,132	2,125	44,912	70,818
Ending balances (GAAP Basis)	\$ 114,766	\$ 2,149	\$ 23,696	\$ 84,902

TOTALS		
BUDGET	ACTUAL	VARIANCE
\$ 257	\$ 257	\$ -
5,163	5,163	-
108,036	108,036	-
38,466	38,466	-
28,938	28,938	-
<u>180,860</u>	<u>180,860</u>	<u>-</u>
219,355	214,524	4,831
258	258	-
<u>219,613</u>	<u>214,782</u>	<u>4,831</u>
<u>\$ (38,753)</u>	<u>(33,922)</u>	<u>\$ 4,831</u>
	18,876	
	<u>(9,475)</u>	
	9,401	
	<u>(24,521)</u>	
	339,651	
	<u>\$ 315,131</u>	



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## SPECIAL REVENUE FUNDS – REGULATORY AND ADMINISTRATIVE RELATED

### MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND

Michigan Compiled Laws Section 421.10 created this fund to account for administrative costs of the Unemployment Insurance Agency, 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

Michigan Compiled Laws Section 408.1055 imposes an annual levy on each insurance carrier licensed to write workers' disability compensation business in the State and on each self-insured employer. The Safety Education and Training Fund was established to receive these assessments for support of the Department of Labor and Economic Growth's Consultation Education and Training Division.

### STATE CONSTRUCTION CODE FUND

Michigan Compiled Laws Section 125.1522 created the State Construction Code Fund. Fees received for building permit applications and other funds collected under this legislation 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 Michigan Compiled Laws Section 570.1201, 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 Michigan Compiled Laws Section 432.212, 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

Michigan Compiled Laws Section 418.501, 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 Michigan Compiled Laws Section 418.501, 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 Michigan Compiled Laws Section 418.501, 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 Michigan Compiled Laws Section 460.6m, 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, 2008  
 (In Thousands)

	<u>MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND</u>	<u>SAFETY EDUCATION AND TRAINING FUND</u>	<u>STATE CONSTRUCTION CODE FUND</u>	<u>HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND</u>
<b>ASSETS</b>				
Current Assets:				
Equity in common cash	\$ -	\$ 5,617	\$ 1,243	\$ 2,595
Amounts due from other funds	993	-	-	-
Amounts due from federal agencies	13,126	-	-	-
Other current assets	13	-	207	-
Total Current Assets	<u>14,132</u>	<u>5,617</u>	<u>1,450</u>	<u>2,595</u>
Total Assets	<u>\$ 14,132</u>	<u>\$ 5,617</u>	<u>\$ 1,450</u>	<u>\$ 2,595</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Current Liabilities:				
Warrants outstanding	\$ 13	\$ 1	\$ 7	\$ 166
Accounts payable and other liabilities	5,366	313	374	208
Amounts due to other funds	8,753	50	80	2
Deferred revenue	-	-	-	-
Total Current Liabilities	<u>14,132</u>	<u>364</u>	<u>461</u>	<u>376</u>
Total Liabilities	<u>14,132</u>	<u>364</u>	<u>461</u>	<u>376</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	-	246	9	-
Restricted revenues	-	-	-	-
Total Reserved	<u>-</u>	<u>246</u>	<u>9</u>	<u>-</u>
Unreserved	<u>-</u>	<u>5,007</u>	<u>979</u>	<u>2,219</u>
Total Fund Balances	<u>-</u>	<u>5,253</u>	<u>988</u>	<u>2,219</u>
Total Liabilities and Fund Balances	<u>\$ 14,132</u>	<u>\$ 5,617</u>	<u>\$ 1,450</u>	<u>\$ 2,595</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	<b>TOTALS</b>
\$ 12,449	\$ 10,989	\$ 2,904	\$ 23,925	\$ 3,732	\$ 63,454
-	7,782	-	-	-	8,775
-	-	-	-	-	13,126
72	574	41	275	-	1,182
<u>12,521</u>	<u>19,345</u>	<u>2,945</u>	<u>24,200</u>	<u>3,732</u>	<u>86,537</u>
<u>\$ 12,521</u>	<u>\$ 19,345</u>	<u>\$ 2,945</u>	<u>\$ 24,200</u>	<u>\$ 3,732</u>	<u>\$ 86,537</u>
\$ 1	\$ 585	\$ 24	\$ 233	\$ 8	\$ 1,038
661	1,989	466	11,564	205	21,147
81	17	6	10	3	9,001
62	4,071	689	784	-	5,606
<u>806</u>	<u>6,662</u>	<u>1,184</u>	<u>12,590</u>	<u>216</u>	<u>36,791</u>
806	6,662	1,184	12,590	216	36,791
-	-	-	-	-	255
9,980	-	-	-	-	9,980
<u>9,980</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,235</u>
1,736	12,683	1,761	11,610	3,515	39,510
<u>11,716</u>	<u>12,683</u>	<u>1,761</u>	<u>11,610</u>	<u>3,515</u>	<u>49,746</u>
<u>\$ 12,521</u>	<u>\$ 19,345</u>	<u>\$ 2,945</u>	<u>\$ 24,200</u>	<u>\$ 3,732</u>	<u>\$ 86,537</u>

**Michigan**

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

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(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>
<b>REVENUES</b>				
From federal agencies	\$ 135,808	\$ -	\$ -	\$ -
From licenses and permits	-	-	7,928	-
Miscellaneous	7	9,148	90	1,132
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Revenues	135,814	9,148	8,017	1,132
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Labor, commerce, and regulatory	147,689	7,893	10,722	2,294
Debt Service:				
Capital lease payments	1,400	-	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Expenditures	149,089	7,893	10,722	2,294
Excess of Revenues over (under) Expenditures	<u>(13,275)</u>	<u>1,255</u>	<u>(2,705)</u>	<u>(1,162)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital lease acquisitions	4,126	-	-	-
Transfers from other funds	10,002	-	-	-
Transfers to other funds	(853)	(56)	(85)	(1)
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Other Financing Sources (Uses)	13,275	(56)	(85)	(1)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	1,199	(2,791)	(1,163)
Fund Balances - Beginning of fiscal year	<u>-</u>	<u>4,054</u>	<u>3,779</u>	<u>3,382</u>
Fund Balances - End of fiscal year	<u>\$ -</u>	<u>\$ 5,253</u>	<u>\$ 988</u>	<u>\$ 2,219</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	<b>TOTALS</b>
\$ -	\$ -	\$ -	\$ -	\$ -	<b>\$ 135,808</b>
1,373	-	-	-	-	<b>9,301</b>
<u>32,052</u>	<u>16,604</u>	<u>2,437</u>	<u>6,182</u>	<u>1,205</u>	<b><u>68,858</u></b>
<u>33,426</u>	<u>16,604</u>	<u>2,437</u>	<u>6,182</u>	<u>1,205</u>	<b><u>213,966</u></b>
18,643	-	-	-	507	<b>19,149</b>
-	16,059	2,127	6,344	659	<b>193,786</b>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<b><u>1,400</u></b>
<u>18,643</u>	<u>16,059</u>	<u>2,127</u>	<u>6,344</u>	<u>1,165</u>	<b><u>214,336</u></b>
<u>14,783</u>	<u>545</u>	<u>311</u>	<u>(162)</u>	<u>40</u>	<b><u>(370)</u></b>
-	-	-	-	-	<b>4,126</b>
-	-	-	-	-	<b>10,002</b>
<u>(11,821)</u>	<u>(13)</u>	<u>(4)</u>	<u>(6)</u>	<u>(3)</u>	<b><u>(12,843)</u></b>
<u>(11,821)</u>	<u>(13)</u>	<u>(4)</u>	<u>(6)</u>	<u>(3)</u>	<b><u>1,285</u></b>
2,962	532	306	(168)	37	<b>915</b>
<u>8,754</u>	<u>12,151</u>	<u>1,454</u>	<u>11,778</u>	<u>3,478</u>	<b><u>48,830</u></b>
<u>\$ 11,716</u>	<u>\$ 12,683</u>	<u>\$ 1,761</u>	<u>\$ 11,610</u>	<u>\$ 3,515</u>	<b><u>\$ 49,746</u></b>

**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, 2008  
(In Thousands)

<u>Statutory/Budgetary Basis</u>	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND			SAFETY EDUCATION AND TRAINING FUND		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES AND OTHER SOURCES</b>						
From federal agencies	\$ 135,808	\$ 135,808	\$ -	\$ -	\$ -	\$ -
From licenses and permits	-	-	-	-	-	-
Miscellaneous	7	7	-	9,148	9,148	-
Transfers in	10,002	10,002	-	-	-	-
Total Revenues and Other Sources	<u>145,816</u>	<u>145,816</u>	<u>-</u>	<u>9,148</u>	<u>9,148</u>	<u>-</u>
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>						
Labor and Economic Growth	145,816	145,816	-	9,230	8,196	1,035
Treasury	-	-	-	-	-	-
Total Expenditures, Transfers Out, and Encumbrances	<u>145,816</u>	<u>145,816</u>	<u>-</u>	<u>9,230</u>	<u>8,196</u>	<u>1,035</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (82)</u>	<u>953</u>	<u>\$ 1,035</u>
Reconciling Items:						
Encumbrances at September 30		-			246	
Funds not annually budgeted		-			-	
Net Reconciling Items		-			<u>246</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		-			<u>1,199</u>	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances		-			<u>4,054</u>	
Ending balances (GAAP Basis)		<u>\$ -</u>			<u>\$ 5,253</u>	

STATE CONSTRUCTION CODE FUND			HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7,928	7,928	-	-	-	-
90	90	-	1,132	1,132	-
-	-	-	-	-	-
8,017	8,017	-	1,132	1,132	-
15,416	10,817	4,599	2,400	2,294	106
-	-	-	-	-	-
15,416	10,817	4,599	2,400	2,294	106
<u>\$ (7,398)</u>	<u>(2,800)</u>	<u>\$ 4,599</u>	<u>\$ (1,268)</u>	<u>(1,163)</u>	<u>\$ 106</u>
	9			-	
	-			-	
	9			-	
	<u>(2,791)</u>			<u>(1,163)</u>	
	3,779			3,382	
	<u>\$ 988</u>			<u>\$ 2,219</u>	

This schedule continued on next page.

**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, 2008  
(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>STATE CASINO GAMING FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES AND OTHER SOURCES</b>			
From federal agencies	\$ -	\$ -	\$ -
From licenses and permits	1,373	1,373	-
Miscellaneous	32,052	32,052	-
Transfers in	-	-	-
Total Revenues and Other Sources	<u>33,426</u>	<u>33,426</u>	<u>-</u>
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>			
Labor and Economic Growth	-	-	-
Treasury	30,464	30,464	-
Total Expenditures, Transfers Out, and Encumbrances	<u>30,464</u>	<u>30,464</u>	<u>-</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 2,962</u>	<u>2,962</u>	<u>\$ -</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>2,962</u>	
<b>FUND BALANCES (GAAP BASIS)</b>			
Beginning balances		<u>8,754</u>	
Ending balances (GAAP Basis)		<u>\$ 11,716</u>	

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			
\$ -	\$ -	\$ -	\$ -	\$ 135,808	\$ 135,808	\$ -
-	-	-	-	9,301	9,301	-
-	-	-	-	42,429	42,429	-
-	-	-	-	10,002	10,002	-
-	-	-	-	197,539	197,539	-
-	-	-	-	172,862	167,123	5,739
-	-	-	-	30,464	30,464	-
-	-	-	-	203,326	197,587	5,739
-	-	-	-	<u>\$ (5,786)</u>	<u>(48)</u>	<u>\$ 5,739</u>
-	-	-	-		255	
532	306	(168)	37		708	
532	306	(168)	37		963	
532	306	(168)	37		915	
12,151	1,454	11,778	3,478		48,830	
<u>\$ 12,683</u>	<u>\$ 1,761</u>	<u>\$ 11,610</u>	<u>\$ 3,515</u>		<u>\$ 49,746</u>	



## SPECIAL REVENUE FUNDS – OTHER STATE FUNDS

### SCHOOL BOND LOAN FUND

Article 9, Section 16, of the State Constitution, Sections 388.921 and 388.981 of the Michigan Compiled Laws 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.

### 21<sup>st</sup> CENTURY JOBS TRUST FUND

Michigan Compiled Laws Section 12.257 created the 21<sup>st</sup> Century Jobs Trust Fund to account for the transfer of the net bond proceeds issued by the Michigan Tobacco Settlement Finance Authority. The bonds are issued to provide sufficient funds to purchase all or a portion of the State's receipts from the master settlement agreement between tobacco manufacturers and the State. Fund expenditures are used to reimburse the Michigan Strategic Fund for expenses related to revitalizing Michigan's economy and for other programs as determined by the Legislature. The fund may accept donations of money from any source; all interest earned is deposited into the State's General Fund. Beginning in fiscal year 2008 through 2015, the fund will also receive a portion of the tobacco settlement revenue received by the State.

### MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY

Michigan Compiled Laws Section 129.264 created the Michigan Tobacco Settlement Finance Authority (MTSFA) to issue bonds necessary to provide sufficient funds to purchase all or a portion of the State's tobacco receipts from the master settlement agreement between tobacco manufacturers and the State. MTSFA may also issue refunding bonds. Bonds are special revenue obligations that are payable primarily from and secured by a pledge of encumbered tobacco revenue and other assets. These bonds are not a general obligation of the State. MTSFA is required to disburse the net proceeds of the bonds to the 21<sup>st</sup> Century Jobs Trust Fund. The MTSFA special revenue fund receives bond proceeds and disburses those for the intended purposes stated in the official statement of each bond series.

MTSFA is administered by a seven-member board of directors, including the State Treasurer; the Director of the Department of Labor and Economic Growth; and five other members appointed by the Governor with varying levels of consent from the members of the legislature.

### MICHIGAN MERIT AWARD TRUST FUND

This fund was created by Michigan Compiled Laws (MCL) Section 12.259 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, Michigan Promise Scholarship, and other programs as determined by the Legislature.

All assets and liabilities of the Tobacco Settlement Trust Fund, established by MCL Section 12.253 and repealed as part of tobacco securitization legislation passed in November 2005, were transferred to the Michigan Merit Award Trust Fund in fiscal year 2006.

### CHILDREN'S TRUST FUND

Michigan Compiled Laws (MCL) Section 21.171 established the Children's Trust Fund to support the State Child Abuse and Neglect Prevention Board. The Board was established under MCL Section 722.603 to coordinate and fund activities for the prevention of child abuse and neglect in the State. Not more than one-half 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 are available for disbursement. Money 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.

### 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 in the operation of the facility and the plan.

### MILITARY FAMILY RELIEF FUND

Michigan Compiled Laws Section 35.1213 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 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, 2008  
 (In Thousands)

	SCHOOL BOND LOAN FUND	21ST CENTURY JOBS TRUST FUND	MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY	MICHIGAN MERIT AWARD TRUST FUND
<b>ASSETS</b>				
Current Assets:				
Equity in common cash	\$ 715	\$ 277,043	\$ 89	\$ 12,556
Investments	-	-	75,346	-
Other current assets	-	56,250	29,457	122,497
Total Current Assets	<u>715</u>	<u>333,293</u>	<u>104,891</u>	<u>135,054</u>
Investments	-	-	50,948	-
Other noncurrent assets	-	-	-	-
Total Assets	<u>\$ 715</u>	<u>\$ 333,293</u>	<u>\$ 155,839</u>	<u>\$ 135,054</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Current Liabilities:				
Warrants outstanding	\$ -	\$ -	\$ -	\$ 8
Accounts payable and other liabilities	-	375	6	6,730
Amounts due to other funds	-	-	1	16
Deferred revenue	-	56,250	27,515	122,492
Total Current Liabilities	<u>-</u>	<u>56,625</u>	<u>27,522</u>	<u>129,245</u>
Deferred revenue	-	-	-	-
Total Liabilities	<u>-</u>	<u>56,625</u>	<u>27,522</u>	<u>129,245</u>
Fund Balances:				
Reserves for:				
Funds held as permanent investments	-	-	-	-
Noncurrent assets	-	-	-	-
Total Reserved	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unreserved	<u>715</u>	<u>276,668</u>	<u>128,317</u>	<u>5,808</u>
Total Fund Balances	<u>715</u>	<u>276,668</u>	<u>128,317</u>	<u>5,808</u>
Total Liabilities and Fund Balances	<u>\$ 715</u>	<u>\$ 333,293</u>	<u>\$ 155,839</u>	<u>\$ 135,054</u>



**Michigan**

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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>
\$ 3,881	\$ 474	\$ 2,133	\$ 2,535	<b>\$ 299,425</b>
-	-	-	-	<b>75,346</b>
253	564	-	207	<b>209,229</b>
<u>4,134</u>	<u>1,038</u>	<u>2,133</u>	<u>2,742</u>	<b><u>584,000</u></b>
17,710	-	-	-	<b>68,658</b>
-	-	-	994	<b>994</b>
<u>\$ 21,844</u>	<u>\$ 1,038</u>	<u>\$ 2,133</u>	<u>\$ 3,736</u>	<b><u>\$ 653,651</u></b>
\$ 6	\$ -	\$ 4	\$ 14	<b>\$ 31</b>
323	24	3	-	<b>7,462</b>
5	6	-	-	<b>28</b>
6	1,008	-	-	<b>207,271</b>
<u>341</u>	<u>1,038</u>	<u>7</u>	<u>14</u>	<b><u>214,792</u></b>
-	-	-	318	<b>318</b>
<u>341</u>	<u>1,038</u>	<u>7</u>	<u>332</u>	<b><u>215,110</u></b>
19,774	-	-	-	<b>19,774</b>
-	-	-	676	<b>676</b>
<u>19,775</u>	<u>-</u>	<u>-</u>	<u>676</u>	<b><u>20,451</u></b>
1,728	-	2,126	2,727	<b>418,090</b>
21,503	-	2,126	3,404	<b>438,541</b>
<u>\$ 21,844</u>	<u>\$ 1,038</u>	<u>\$ 2,133</u>	<u>\$ 3,736</u>	<b><u>\$ 653,651</u></b>

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

## SPECIAL REVENUE FUNDS - OTHER STATE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

	SCHOOL BOND LOAN FUND	21ST CENTURY JOBS TRUST FUND	MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY	MICHIGAN MERIT AWARD TRUST FUND
<b>REVENUES</b>				
From federal agencies	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	75,000	45,261	176,458
Total Revenues	-	75,000	45,261	176,458
<b>EXPENDITURES</b>				
Current:				
General government	-	90,812	1,098	2,828
Education	-	-	-	88,059
Human services	-	-	-	15,850
Public safety and corrections	-	-	-	-
Health services	-	-	-	69,900
Total Expenditures	-	90,812	1,098	176,637
Excess of Revenues over (under) Expenditures	-	(15,812)	44,163	(178)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds and notes issued	-	-	63,742	-
Discount on bond issuance	-	-	(1,042)	-
Transfers from other funds	-	60,000	-	-
Transfers to other funds	-	-	(127,358)	(4,253)
Total Other Financing Sources (Uses)	-	60,000	(64,657)	(4,253)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	44,188	(20,494)	(4,431)
Fund Balances - Beginning of fiscal year	715	232,480	148,811	10,239
Fund Balances - End of fiscal year	\$ 715	\$ 276,668	\$ 128,317	\$ 5,808

**Michigan**

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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>
\$ 1,039	\$ -	\$ -	\$ -	\$ 1,039
982	146,909	555	128	445,293
<u>2,021</u>	<u>146,909</u>	<u>555</u>	<u>128</u>	<u>446,332</u>
337	146,842	-	122	242,039
-	-	-	-	88,059
2,827	-	-	1	18,679
-	-	182	-	182
-	-	-	-	69,900
<u>3,164</u>	<u>146,842</u>	<u>182</u>	<u>124</u>	<u>418,859</u>
<u>(1,143)</u>	<u>67</u>	<u>373</u>	<u>4</u>	<u>27,473</u>
-	-	-	-	63,742
-	-	-	-	(1,042)
-	-	-	-	60,000
<u>(3)</u>	<u>(67)</u>	<u>-</u>	<u>-</u>	<u>(131,680)</u>
<u>(3)</u>	<u>(67)</u>	<u>-</u>	<u>-</u>	<u>(8,980)</u>
(1,146)	-	373	4	18,494
<u>22,649</u>	<u>-</u>	<u>1,753</u>	<u>3,400</u>	<u>420,047</u>
<u>\$ 21,503</u>	<u>\$ -</u>	<u>\$ 2,126</u>	<u>\$ 3,404</u>	<u>\$ 438,541</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, 2008

(In Thousands)

Statutory/Budgetary Basis	21ST CENTURY JOBS TRUST FUND			MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
<b>REVENUES AND OTHER SOURCES</b>						
From federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	75,000	75,000	-	45,261	45,261	-
Bonds and notes issued	-	-	-	63,742	63,742	-
Transfers in	60,000	60,000	-	-	-	-
Total Revenues and Other Sources	135,000	135,000	-	109,003	109,003	-
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>						
Attorney General	-	-	-	-	-	-
Colleges and Universities Grants	-	-	-	-	-	-
Community Health	-	-	-	-	-	-
Human Services	-	-	-	-	-	-
Military and Veterans Affairs	-	-	-	-	-	-
Treasury	367,480	90,812	276,668	257,736	129,498	128,238
Total Expenditures, Transfers Out, and Encumbrances	367,480	90,812	276,668	257,736	129,498	128,238
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (232,480)	44,188	\$ 276,668	\$ (148,732)	(20,494)	\$ 128,238
Reconciling Items:						
Encumbrances at September 30		-			-	
Funds not annually budgeted		-			-	
Net Reconciling Items		-			-	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		44,188			(20,494)	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances		232,480			148,811	
Ending balances (GAAP Basis)		\$ 276,668			\$ 128,317	

# Michigan

MICHIGAN MERIT AWARD TRUST FUND			CHILDREN'S TRUST FUND			MILITARY FAMILY RELIEF FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 1,039	\$ 1,039	\$ -	\$ -	\$ -	\$ -
176,458	176,458	-	982	982	-	555	555	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>176,458</u>	<u>176,458</u>	<u>-</u>	<u>2,021</u>	<u>2,021</u>	<u>-</u>	<u>555</u>	<u>555</u>	<u>-</u>
407	358	49	-	-	-	-	-	-
98,050	92,309	5,741	-	-	-	-	-	-
69,900	69,900	-	-	-	-	-	-	-
15,850	15,850	-	4,849	2,830	2,019	-	-	-
-	-	-	-	-	-	1,000	182	818
3,144	2,473	671	337	337	-	-	-	-
<u>187,351</u>	<u>180,890</u>	<u>6,461</u>	<u>5,186</u>	<u>3,168</u>	<u>2,019</u>	<u>1,000</u>	<u>182</u>	<u>818</u>
<u>\$ (10,892)</u>	<u>(4,431)</u>	<u>\$ 6,461</u>	<u>\$ (3,165)</u>	<u>(1,146)</u>	<u>\$ 2,019</u>	<u>\$ (445)</u>	<u>373</u>	<u>\$ 818</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>(4,431)</u>				<u>(1,146)</u>			<u>373</u>	
	<u>10,239</u>			<u>22,649</u>			<u>1,753</u>	
	<u>\$ 5,808</u>			<u>\$ 21,503</u>			<u>\$ 2,126</u>	

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, 2008

(In Thousands)

Statutory/Budgetary Basis	FUNDS NOT ANNUALLY BUDGETED			TOTALS		
	SCHOOL BOND LOAN FUND	ASSIGNED CLAIMS FACILITY AND PLAN FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	BUDGET	ACTUAL	VARIANCE
	ACTUAL	ACTUAL	ACTUAL			
<b>REVENUES AND OTHER SOURCES</b>						
From federal agencies	\$ -	\$ -	\$ -	\$ 1,039	\$ 1,039	\$ -
Miscellaneous	-	-	-	298,256	298,256	-
Bonds and notes issued	-	-	-	63,742	63,742	-
Transfers in	-	-	-	60,000	60,000	-
Total Revenues and Other Sources	-	-	-	423,038	423,038	-
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>						
Attorney General	-	-	-	407	358	49
Colleges and Universities Grants	-	-	-	98,050	92,309	5,741
Community Health	-	-	-	69,900	69,900	-
Human Services	-	-	-	20,699	18,680	2,019
Military and Veterans Affairs	-	-	-	1,000	182	818
Treasury	-	-	-	628,697	223,120	405,577
Total Expenditures, Transfers Out, and Encumbrances	-	-	-	818,753	404,549	414,204
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	-	-	-	\$ (395,715)	18,489	\$ 414,204
Reconciling Items:						
Encumbrances at September 30	-	-	-		-	
Funds not annually budgeted	-	-	4		4	
Net Reconciling Items	-	-	4		4	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)	-	-	4		18,494	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances	715	-	3,400		420,047	
Ending balances (GAAP Basis)	\$ 715	\$ -	\$ 3,404		\$ 438,541	

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## DEBT SERVICE FUNDS

### COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND

This fund was administratively established to account for the debt service on all State Trunkline Fund (STF) related bond issues allowed for under Michigan Compiled Laws Section 247.661. 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 State Constitution and irrevocably pledged by law for deposit in STF. Debt service requirements are funded by annual appropriations in STF.

### COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND

This fund was administratively established to account for the debt service on all Comprehensive Transportation Fund (CTF) related bond issues allowed for under Michigan Compiled Laws Section 247.660b. 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 State Constitution and irrevocably pledged by law for deposit in CTF. Debt service requirements are funded by annual appropriations in CTF.

### RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND

Sections 324.19506 and 324.71506 of the Michigan Compiled Laws (MCL) 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 MCL Section 324.95102, 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 (SPIF) revenue bonds, issued pursuant to MCL Section 324.74106.

Financing of debt retirement, interest expense, and paying agent fees is provided by annual legislative appropriation from the General Fund, transfers from SPIF 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

Michigan Compiled Laws Section 388.922 created this fund to account for debt service on general obligation bonds issued to finance loans to local school districts. Financing of debt retirement, interest expense, and paying agent fees is provided by annual legislative appropriation from the General Fund or School Aid Fund.

### MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY

The Michigan Tobacco Settlement Finance Authority (MTSFA) was created by Michigan Compiled Laws Section 129.264. The debt service fund was established to account for debt service payment on bonds issued by MTSFA. The MTSFA special revenue fund receives bond proceeds and disburses those for the intended purposes stated in the Official Statement of each bond series. Debt service financing is provided by pledged tobacco settlement revenues, as described in the bond indentures of MTSFA, that are received by the special revenue fund. These bonds are not a general obligation of the State.

### STATE BUILDING AUTHORITY

The State Building Authority (SBA) was created pursuant to Michigan Compiled Laws Section 830.412, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education, as well as State furnishings and equipment.

SBA 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.

**COMBINING BALANCE SHEET**  
**DEBT SERVICE FUNDS**  
 SEPTEMBER 30, 2008  
 (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
<b>ASSETS</b>			
Current Assets:			
Equity in common cash	\$ -	\$ -	\$ 1,301
Investments	-	-	-
Other current assets	-	-	1
Total Current Assets	<u>-</u>	<u>-</u>	<u>1,301</u>
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,301</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Current Liabilities:			
Warrants outstanding	\$ -	\$ -	\$ 1
Accounts payable and other liabilities	-	-	2
Total Current Liabilities	<u>-</u>	<u>-</u>	<u>3</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>3</u>
Fund Balances:			
Reserved for other purposes	-	-	300
Unreserved	-	-	999
Total Fund Balances	<u>-</u>	<u>-</u>	<u>1,299</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,301</u>



SCHOOL LOAN BOND REDEMPTION FUND	MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY	STATE BUILDING AUTHORITY	TOTALS
\$ 136	\$ -	\$ -	\$ 1,437
-	6	219,233	219,238
-	-	290	291
<u>136</u>	<u>6</u>	<u>219,523</u>	<u>220,966</u>
<u>\$ 136</u>	<u>\$ 6</u>	<u>\$ 219,523</u>	<u>\$ 220,966</u>
\$ -	\$ -	\$ -	\$ 1
136	6	4	148
<u>136</u>	<u>6</u>	<u>4</u>	<u>149</u>
136	6	4	149
-	-	-	300
-	-	219,518	220,517
-	-	219,518	220,817
<u>\$ 136</u>	<u>\$ 6</u>	<u>\$ 219,523</u>	<u>\$ 220,966</u>

**Michigan**

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

**DEBT SERVICE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(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
<b>REVENUES</b>			
Miscellaneous	\$ 1	\$ 1	\$ 24
Total Revenues	<u>1</u>	<u>1</u>	<u>24</u>
<b>EXPENDITURES</b>			
Current:			
General government	-	-	1,057
Education	-	-	-
Transportation	1	1	-
Debt Service:			
Bond principal retirement	75,523	21,275	44,318
Bond interest and fiscal charges	112,609	12,041	33,951
Total Expenditures	<u>188,133</u>	<u>33,317</u>	<u>79,327</u>
Excess of Revenues over (under) Expenditures	<u>(188,132)</u>	<u>(33,316)</u>	<u>(79,303)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Refunding bonds issued	-	-	208,780
Premium on bond issuance	-	-	15,596
Discount on bond issuance	-	-	-
Payment to refunded bond escrow agent	-	-	(223,319)
Transfers from other funds	188,132	33,316	78,286
Total Other Financing Sources (Uses)	<u>188,132</u>	<u>33,316</u>	<u>79,343</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	40
Fund Balances - Beginning of fiscal year	-	-	1,258
Fund Balances - End of fiscal year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,299</u>

**Michigan**

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SCHOOL LOAN BOND REDEMPTION FUND	MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY	STATE BUILDING AUTHORITY	TOTALS
\$ -	\$ -	\$ 3,613	\$ 3,639
-	-	3,613	3,639
543	1,182	-	2,783
-	-	829	829
-	-	-	2
-	10,110	87,145	238,371
3,290	53,904	123,441	339,237
3,833	65,196	211,415	581,221
(3,833)	(65,196)	(207,802)	(577,582)
-	138,666	-	347,446
-	-	-	15,596
-	(2,267)	-	(2,267)
-	(138,560)	-	(361,879)
3,833	67,358	219,410	590,335
3,833	65,196	219,410	589,231
-	-	11,608	11,649
-	-	207,910	209,168
\$ -	\$ -	\$ 219,518	\$ 220,817



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## CAPITAL PROJECTS FUNDS

### COMBINED RECREATION BOND FUND - STATE PROJECTS

Established in 1988, this fund operates under Sections 324.19601 – 324.19616, 324.71501 – 324.71514, and 324.74106 – 324.74113 of the Michigan Compiled Laws. 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 (SBA) Advance Financing Fund and the Site Preparation Economic Development Fund.

The SBA Advance Financing Fund was administratively established to account for expenditures incurred for equipment, higher education, and State projects prior to the issuance of SBA bonds. Appropriation acts and concurrent resolutions provide temporary financing of such expenditures for legislatively authorized projects. Expenditures on behalf of SBA 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 the SBA projects are recorded in this fund.

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

The Site Preparation Economic Development Fund is created through the annual appropriations process 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 (SBA) was created pursuant to Michigan Compiled Laws Section 830.412, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education, as well as State furnishings and equipment. The SBA's five-member board is 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 SBA 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, 2008  
 (In Thousands)

	COMBINED RECREATION BOND FUND - STATE PROJECTS	ADVANCE FINANCING FUNDS	STATE BUILDING AUTHORITY	TOTALS
<b>ASSETS</b>				
Current Assets:				
Equity in common cash	\$ 1,862	\$ -	\$ -	\$ 1,862
Amounts due from other funds	-	17,019	-	17,019
Amounts due from local units	-	3	-	3
Investments	-	-	16,879	16,879
Other current assets	-	-	42	42
Total Current Assets	<u>1,862</u>	<u>17,022</u>	<u>16,921</u>	<u>35,806</u>
Total Assets	<u>\$ 1,862</u>	<u>\$ 17,022</u>	<u>\$ 16,921</u>	<u>\$ 35,806</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Current Liabilities:				
Warrants outstanding	\$ -	\$ 54	\$ -	\$ 54
Accounts payable and other liabilities	-	35,401	182	35,583
Amounts due to other funds	-	11,100	17,019	28,120
Bonds and notes payable	-	-	210,310	210,310
Interest payable	-	-	457	457
Total Current Liabilities	<u>-</u>	<u>46,555</u>	<u>227,969</u>	<u>274,524</u>
Total Liabilities	<u>-</u>	<u>46,555</u>	<u>227,969</u>	<u>274,524</u>
Fund Balances:				
Unreserved	<u>1,862</u>	<u>(29,533)</u>	<u>(211,047)</u>	<u>(238,718)</u>
Total Fund Balances	<u>1,862</u>	<u>(29,533)</u>	<u>(211,047)</u>	<u>(238,718)</u>
Total Liabilities and Fund Balances	<u>\$ 1,862</u>	<u>\$ 17,022</u>	<u>\$ 16,921</u>	<u>\$ 35,806</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

	COMBINED RECREATION BOND FUND - STATE PROJECTS	ADVANCE FINANCING FUNDS	STATE BUILDING AUTHORITY	TOTALS
<b>REVENUES</b>				
Miscellaneous	\$ 66	\$ -	\$ 512	\$ 577
Total Revenues	66	-	512	577
<b>EXPENDITURES</b>				
Current:				
Education	-	12,867	56,406	69,273
Conservation, environment, recreation, and agriculture	1	-	-	1
Capital outlay	213	9,266	17,177	26,656
Total Expenditures	214	22,133	73,583	95,929
Excess of Revenues over (under) Expenditures	(148)	(22,133)	(73,071)	(95,352)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds and notes issued	-	-	96,500	96,500
Transfers from other funds	-	75,139	-	75,139
Transfers to other funds	-	-	(75,135)	(75,135)
Total Other Financing Sources (Uses)	-	75,139	21,365	96,503
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(148)	53,006	(51,707)	1,151
Fund Balances - Beginning of fiscal year	2,010	(82,539)	(159,340)	(239,869)
Fund Balances - End of fiscal year	\$ 1,862	\$ (29,533)	\$ (211,047)	\$ (238,718)





## PERMANENT FUNDS

### MICHIGAN NATURAL RESOURCES TRUST FUND

Article 9, Section 35, of the State Constitution created the Michigan Natural Resources Trust Fund. The fund, established in 1985, operates under Sections 324.1901 - 324.1910 of the Michigan Compiled Laws. Most "royalty revenues" (i.e. rentals, royalties, and other revenues derived from mineral, coal, oil, and gas interests on State-owned lands) are credited to the fund. A portion (50%, up to \$10 million per year) of these revenues are transferred to the Michigan State Parks Endowment Fund (MSPEF). The State Treasurer directs the investments of the fund, which include fixed income and equity investments.

The interest and investment earnings and one-third of royalty revenues are 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 fund payments in lieu of property taxes on State lands acquired by the fund. Two-thirds of royalty revenues, less the portion transferred to MSPEF, are added to the accumulated principal until the accumulated principal reaches \$500 million. After that time, all royalties will be deposited into MSPEF and only investment earnings and interest will be available for appropriation in this fund.

### MICHIGAN STATE PARKS ENDOWMENT FUND

Established in 1994, this fund is governed by the provisions of Michigan Compiled Laws Section 324.74119 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, annually adjusted for inflation, may be expended.

### MICHIGAN VETERANS' TRUST FUND

Article 9, Section 37 of the State Constitution 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.

**COMBINING BALANCE SHEET**  
**PERMANENT FUNDS**  
 SEPTEMBER 30, 2008  
 (In Thousands)

	MICHIGAN NATURAL RESOURCES TRUST FUND	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN VETERANS' TRUST FUND	TOTALS
<b>ASSETS</b>				
Current Assets:				
Equity in common cash	\$ 180,365	\$ 13,316	\$ 3,460	\$ 197,141
Amounts due from local units	-	-	32	32
Other current assets	14,104	1,208	422	15,733
Total Current Assets	<u>194,469</u>	<u>14,524</u>	<u>3,914</u>	<u>212,907</u>
Investments	315,123	127,217	43,126	485,466
Total Assets	<u>\$ 509,592</u>	<u>\$ 141,741</u>	<u>\$ 47,040</u>	<u>\$ 698,373</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Current Liabilities:				
Warrants outstanding	\$ 2,379	\$ 61	\$ 2	\$ 2,441
Accounts payable and other liabilities	6,928	1,025	43	7,995
Amounts due to other funds	21	34	5	59
Total Current Liabilities	<u>9,327</u>	<u>1,119</u>	<u>49</u>	<u>10,495</u>
Total Liabilities	<u>9,327</u>	<u>1,119</u>	<u>49</u>	<u>10,495</u>
Fund Balances:				
Reserves For:				
Budgetary Carry-Forwards:				
Encumbrances	20,828	132	-	20,960
Restricted revenues	-	2,887	-	2,887
Multi-year projects	51,835	99	-	51,934
Funds held as permanent investments	379,049	129,256	49,000	557,305
Total Reserved	<u>451,712</u>	<u>132,375</u>	<u>49,000</u>	<u>633,087</u>
Unreserved	48,553	8,247	(2,009)	54,791
Total Fund Balances	<u>500,265</u>	<u>140,622</u>	<u>46,991</u>	<u>687,878</u>
Total Liabilities and Fund Balances	<u>\$ 509,592</u>	<u>\$ 141,741</u>	<u>\$ 47,040</u>	<u>\$ 698,373</u>

**Michigan**

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

**PERMANENT FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

	<u>MICHIGAN NATURAL RESOURCES TRUST FUND</u>	<u>MICHIGAN STATE PARKS ENDOWMENT FUND</u>	<u>MICHIGAN VETERANS' TRUST FUND</u>	<u>TOTALS</u>
<b>REVENUES</b>				
Miscellaneous	\$ 97,240	\$ 1,203	\$ 1,384	\$ 99,827
Total Revenues	<u>97,240</u>	<u>1,203</u>	<u>1,384</u>	<u>99,827</u>
<b>EXPENDITURES</b>				
Current:				
General government	3,124	1,714	608	5,447
Public safety and corrections	-	-	2,280	2,280
Conservation, environment, recreation, and agriculture	2,991	13,983	-	16,974
Capital outlay	<u>24,838</u>	<u>32</u>	<u>-</u>	<u>24,870</u>
Total Expenditures	<u>30,953</u>	<u>15,729</u>	<u>2,889</u>	<u>49,570</u>
Excess of Revenues over (under) Expenditures	<u>66,288</u>	<u>(14,526)</u>	<u>(1,505)</u>	<u>50,257</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	118	-	-	118
Transfers from other funds	-	10,000	-	10,000
Transfers to other funds	<u>(10,012)</u>	<u>(64)</u>	<u>(4)</u>	<u>(10,081)</u>
Total Other Financing Sources (Uses)	<u>(9,894)</u>	<u>9,936</u>	<u>(4)</u>	<u>37</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	56,393	(4,590)	(1,509)	50,294
Fund Balances - Beginning of fiscal year	<u>443,872</u>	<u>145,212</u>	<u>48,500</u>	<u>637,584</u>
Fund Balances - End of fiscal year	<u>\$ 500,265</u>	<u>\$ 140,622</u>	<u>\$ 46,991</u>	<u>\$ 687,878</u>

**Michigan**

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

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(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>
<b>REVENUES AND OTHER SOURCES</b>						
Miscellaneous	\$ 97,240	\$ 97,240	\$ -	\$ 1,203	\$ 1,203	\$ -
Proceeds from sale of capital assets	118	118	-	-	-	-
Transfers in	-	-	-	10,000	10,000	-
Total Revenues and Other Sources	<u>97,358</u>	<u>97,358</u>	<u>-</u>	<u>11,203</u>	<u>11,203</u>	<u>-</u>
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>						
Military and Veterans Affairs	-	-	-	-	-	-
Natural Resources	62,549	58,668	3,880	14,388	14,211	177
Treasury	3,124	3,124	-	1,714	1,714	-
Total Expenditures, Transfers Out, and Encumbrances	<u>65,673</u>	<u>61,793</u>	<u>3,880</u>	<u>16,102</u>	<u>15,925</u>	<u>177</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 31,685</u>	<u>35,565</u>	<u>\$ 3,880</u>	<u>\$ (4,899)</u>	<u>(4,722)</u>	<u>\$ 177</u>
Reconciling Items:						
Encumbrances at September 30		<u>20,828</u>			<u>132</u>	
Net Reconciling Items		<u>20,828</u>			<u>132</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>56,393</u>			<u>(4,590)</u>	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances		<u>443,872</u>			<u>145,212</u>	
Ending balances (GAAP Basis)		<u>\$ 500,265</u>			<u>\$ 140,622</u>	

MICHIGAN VETERANS' TRUST FUND			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ 1,384	\$ 1,384	\$ -	\$ 99,827	\$ 99,827	\$ -
-	-	-	118	118	-
-	-	-	10,000	10,000	-
<u>1,384</u>	<u>1,384</u>	<u>-</u>	<u>109,945</u>	<u>\$ 109,945</u>	<u>\$ -</u>
4,969	2,284	2,685	4,969	2,284	2,685
-	-	-	76,936	72,880	4,057
<u>608</u>	<u>608</u>	<u>-</u>	<u>5,447</u>	<u>5,447</u>	<u>-</u>
<u>5,577</u>	<u>2,893</u>	<u>2,685</u>	<u>87,352</u>	<u>80,611</u>	<u>6,741</u>
<u>\$ (4,194)</u>	<u>(1,509)</u>	<u>\$ 2,685</u>	<u>\$ 22,593</u>	<u>29,334</u>	<u>\$ 6,741</u>
	-			<u>20,960</u>	
	-			<u>20,960</u>	
	<u>(1,509)</u>			<u>50,294</u>	
	<u>48,500</u>			<u>637,584</u>	
	<u>\$ 46,991</u>			<u>\$ 687,878</u>	



## ENTERPRISE FUNDS

### LIQUOR PURCHASE REVOLVING FUND

Michigan Compiled Laws (MCL) Section 436.1221 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 MCL Section 18.1435.

### ATTORNEY DISCIPLINE SYSTEM

The Attorney Discipline System (ADS) 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. ADS is under the supervision of the Michigan Supreme Court.

ADS 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, 2008

(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	ATTORNEY DISCIPLINE SYSTEM	TOTALS
<b>ASSETS</b>			
Current Assets:			
Cash	\$ 1	\$ 892	\$ 893
Equity in common cash	55,057	-	55,057
Inventories	8,773	-	8,773
Investments	-	4,364	4,364
Other current assets	4,744	85	4,829
Total Current Assets	68,574	5,341	73,915
Capital Assets:			
Buildings and equipment	-	371	371
Allowance for depreciation	-	(353)	(353)
Total capital assets	-	17	17
Total Assets	\$ 68,574	\$ 5,359	\$ 73,933
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants outstanding	\$ 3,656	\$ -	\$ 3,656
Accounts payable and other liabilities	62,743	240	62,984
Amounts due to other funds	142	-	142
Deferred revenue	-	395	395
Current portion of other long-term obligations	319	-	319
Total Current Liabilities	66,861	635	67,496
Long-Term Liabilities:			
Noncurrent portion of other long-term obligations	837	307	1,144
Total Liabilities	67,698	942	68,640
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ -	\$ 17	\$ 17
Unrestricted	876	4,399	5,275
Total Net Assets	\$ 876	\$ 4,417	\$ 5,293



**Michigan**

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

**ENTERPRISE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	ATTORNEY DISCIPLINE SYSTEM	TOTALS
<b>OPERATING REVENUES</b>			
Operating revenues	\$ 768,085	\$ 4,885	\$ 772,970
Total Operating Revenues	<u>768,085</u>	<u>4,885</u>	<u>772,970</u>
<b>OPERATING EXPENSES</b>			
Salaries, wages, and other administrative	59,523	4,967	64,489
Depreciation	-	9	9
Purchases for resale	561,269	-	561,269
Premiums and claims	38	-	38
Other operating expenses	1,161	-	1,161
Total Operating Expenses	<u>621,991</u>	<u>4,976</u>	<u>626,967</u>
Operating Income (Loss)	<u>146,094</u>	<u>(91)</u>	<u>146,003</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Specific tax on spirits	13,663	-	13,663
Interest revenue	1,973	218	2,192
Total Nonoperating Revenues (Expenses)	<u>15,636</u>	<u>218</u>	<u>15,854</u>
Income (Loss) Before Transfers	161,730	127	161,857
<b>TRANSFERS</b>			
Transfers to other funds	<u>(161,730)</u>	<u>-</u>	<u>(161,730)</u>
Change in net assets	<u>-</u>	<u>127</u>	<u>127</u>
Total net assets - Beginning of fiscal year	<u>876</u>	<u>4,290</u>	<u>5,165</u>
Total net assets - End of fiscal year	<u>\$ 876</u>	<u>\$ 4,417</u>	<u>\$ 5,293</u>

**COMBINING STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	ATTORNEY DISCIPLINE SYSTEM	TOTALS
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 768,085	\$ -	\$ 768,085
Membership dues	-	4,629	4,629
Payments to employees	(13,415)	(3,555)	(16,970)
Payments to suppliers	(612,997)	(677)	(613,674)
Other receipts	45	182	227
Other payments	(1,200)	(397)	(1,597)
Net cash provided (used)			
by operating activities	<u>\$ 140,518</u>	<u>\$ 181</u>	<u>\$ 140,699</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Specific tax on spirits	\$ 13,663	\$ -	\$ 13,663
Transfers to other funds	(161,730)	-	(161,730)
Net cash provided (used)			
by noncapital financing activities	<u>\$ (148,067)</u>	<u>\$ -</u>	<u>\$ (148,067)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of investment securities	\$ -	\$ (1,088)	\$ (1,088)
Interest and dividends on investments	1,973	218	2,192
Net cash provided (used)			
by investing activities	<u>\$ 1,973</u>	<u>\$ (870)</u>	<u>\$ 1,104</u>
Net cash provided (used) - all activities	\$ (5,576)	\$ (688)	\$ (6,264)
Cash and cash equivalents at beginning of year	56,978	1,580	58,558
<b>Cash and cash equivalents at end of year</b>	<u><u>\$ 51,401</u></u>	<u><u>\$ 892</u></u>	<u><u>\$ 52,293</u></u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
Per Statement of Net Assets Classifications:			
Cash	\$ 1	\$ 892	\$ 893
Equity in common cash	55,057	-	55,057
Warrants outstanding	(3,656)	-	(3,656)
Cash and cash equivalents at end of year	<u>\$ 51,401</u>	<u>\$ 892</u>	<u>\$ 52,293</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 146,094	\$ (91)	\$ 146,003
Adjustments to Reconcile Operating Income to Net Cash Provided (Used)			
by Operating Activities:			
Depreciation expense	-	9	9
Net Changes in Assets and Liabilities:			
Inventories	(4,361)	-	(4,361)
Other assets (net)	4,339	(12)	4,327
Accounts payable and other liabilities	(5,555)	350	(5,205)
Deferred revenue	-	(74)	(74)
Net cash provided (used)			
by operating activities	<u>\$ 140,518</u>	<u>\$ 181</u>	<u>\$ 140,699</u>

## INTERNAL SERVICE FUNDS

### CORRECTIONAL INDUSTRIES REVOLVING FUND

Authorized by Michigan Compiled Laws (MCL) Section 800.325, this fund accounts for the financial transactions of a manufacturing and processing industry, employing inmates incarcerated in Michigan's correctional institutions. MCL Section 800.326 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, a foreign government or agencies of a foreign government, a private vendor that operates the youth correctional facility, and certain tax-exempt organizations.

Executive Order 1992-13 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 minimum required payment was made in fiscal year 2008.

### MOTOR TRANSPORT FUND

This fund was created by Michigan Compiled Laws Section 18.1213 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 in 1952, this fund operates under Michigan Compiled Laws Section 18.1269 to provide 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 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 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. 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, 2008  
 (In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT FUND	OFFICE SERVICES REVOLVING FUND
<b>ASSETS</b>			
Current Assets:			
Cash	\$ -	\$ -	\$ 491
Equity in common cash	1,096	1,560	630
Amounts due from other funds	-	-	-
Amounts due from component units	-	-	-
Inventories	10,317	633	4,691
Other current assets	442	5,196	5,731
Total Current Assets	<u>11,856</u>	<u>7,388</u>	<u>11,542</u>
Capital Assets:			
Land and other non-depreciable assets	-	-	-
Buildings and equipment	50,123	9,867	19,365
Allowance for depreciation	(26,766)	(8,952)	(13,866)
Total capital assets	<u>23,358</u>	<u>914</u>	<u>5,499</u>
Other noncurrent assets	-	-	-
Total Assets	<u>\$ 35,213</u>	<u>\$ 8,303</u>	<u>\$ 17,042</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants outstanding	\$ 83	\$ 49	\$ 45
Accounts payable and other liabilities	2,533	2,776	17,560
Amounts due to other funds	188	39	4,312
Deferred revenue	-	-	-
Current portion of other long-term obligations	84	157	970
Total Current Liabilities	<u>2,889</u>	<u>3,021</u>	<u>22,887</u>
Long-Term Liabilities:			
Advances from other funds	7,548	-	-
Noncurrent portion of other long-term obligations	1,452	341	1,384
Total Liabilities	<u>\$ 11,889</u>	<u>\$ 3,363</u>	<u>\$ 24,271</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 23,358	\$ 914	\$ 5,244
Restricted for other purposes	-	4,026	-
Unrestricted	(34)	-	(12,473)
Total Net Assets	<u>\$ 23,324</u>	<u>\$ 4,940</u>	<u>\$ (7,229)</u>

**Michigan**

INFORMATION TECHNOLOGY FUND	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS
\$ -	\$ -	\$ 6	\$ 496
29,731	7,331	194,331	234,679
-	-	22,412	22,412
-	-	154	154
76	-	-	15,717
172	1	7,834	19,375
<u>29,980</u>	<u>7,332</u>	<u>224,736</u>	<u>292,834</u>
9,170	-	-	9,170
630,060	4	-	709,419
(437,514)	(4)	-	(487,102)
201,715	-	-	231,487
-	1,550	1,100	2,650
<u>\$ 231,695</u>	<u>\$ 8,882</u>	<u>\$ 225,836</u>	<u>\$ 526,971</u>
\$ 390	\$ -	\$ 42	\$ 609
43,814	671	52,314	119,669
1,807	9	-	6,356
49,455	-	155	49,610
12,243	2,038	46,649	62,140
<u>107,708</u>	<u>2,719</u>	<u>99,160</u>	<u>238,384</u>
-	-	-	7,548
18,577	3,160	86,279	111,193
<u>\$ 126,285</u>	<u>\$ 5,879</u>	<u>\$ 185,439</u>	<u>\$ 357,126</u>
\$ 194,394	\$ -	\$ -	\$ 223,910
-	-	-	4,026
(88,984)	3,003	40,397	(58,091)
<u>\$ 105,410</u>	<u>\$ 3,003</u>	<u>\$ 40,397</u>	<u>\$ 169,845</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT FUND	OFFICE SERVICES REVOLVING FUND
<b>OPERATING REVENUES</b>			
Operating revenues	\$ 41,366	\$ 58,359	\$ 111,921
Total Operating Revenues	<u>41,366</u>	<u>58,359</u>	<u>111,921</u>
<b>OPERATING EXPENSES</b>			
Salaries, wages, and other administrative	24,036	5,591	26,643
Interest expense	-	-	-
Depreciation	1,422	221	1,521
Purchases for resale	-	-	82,328
Purchases for prison industries	17,826	-	-
Premiums and claims	-	2,122	-
Other operating expenses:			
Leased vehicles expense	-	19,868	-
Vehicle maintenance expense	-	30,397	-
Total other operating expenses	<u>-</u>	<u>50,264</u>	<u>-</u>
Total Operating Expenses	<u>43,284</u>	<u>58,198</u>	<u>110,492</u>
Operating Income (Loss)	<u>(1,919)</u>	<u>161</u>	<u>1,429</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Other nonoperating revenues	-	64	-
Interest expense	(252)	-	(83)
Other nonoperating expense	(11)	-	-
Total Nonoperating Revenues (Expenses)	<u>(264)</u>	<u>64</u>	<u>(83)</u>
Income (Loss) Before Transfers	<u>(2,182)</u>	<u>225</u>	<u>1,346</u>
<b>TRANSFERS</b>			
Transfers from other funds	-	-	-
Transfers to other funds	-	(26)	(107)
Total Transfers In (Out)	<u>-</u>	<u>(26)</u>	<u>(107)</u>
Change in net assets	<u>(2,182)</u>	<u>199</u>	<u>1,239</u>
Total net assets - Beginning of fiscal year - restated	<u>25,506</u>	<u>4,741</u>	<u>(8,469)</u>
Total net assets - End of fiscal year	<u>\$ 23,324</u>	<u>\$ 4,940</u>	<u>\$ (7,229)</u>

INFORMATION TECHNOLOGY FUND	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS
\$ 475,638	\$ 4,935	\$ 707,737	\$ 1,399,957
475,638	4,935	707,737	1,399,957
438,227	2,760	23,911	521,168
1	-	-	1
44,605	-	-	47,770
-	-	-	82,328
-	-	-	17,826
6	491	656,465	659,085
-	-	-	19,868
-	-	-	30,397
-	-	-	50,264
482,840	3,251	680,376	1,378,441
(7,201)	1,684	27,361	21,516
39	4	3,521	3,629
(289)	-	-	(624)
(1)	-	-	(13)
(251)	4	3,521	2,992
(7,452)	1,688	30,882	24,508
-	-	14,093	14,093
(1,186)	(15)	-	(1,333)
(1,186)	(15)	14,093	12,759
(8,638)	1,673	44,975	37,267
114,048	1,330	(4,578)	132,578
\$ 105,410	\$ 3,003	\$ 40,397	\$ 169,845

**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2008  
(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT FUND	OFFICE SERVICES REVOLVING FUND
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 41,263	\$ 57,946	\$ 108,812
Payments to employees	(15,678)	(3,243)	(12,430)
Payments to suppliers	(14,227)	(53,905)	(90,303)
Claims paid	-	-	-
Other receipts	-	174	-
Other payments	(8,114)	-	-
Net cash provided (used) by operating activities	<u>\$ 3,244</u>	<u>\$ 972</u>	<u>\$ 6,079</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Loans or loan repayments from other funds	\$ (140)	\$ -	\$ 4,132
Loans or loan repayments to other funds	(1,415)	-	(8,605)
Transfers from other funds	-	-	-
Transfers to other funds	-	(26)	(107)
Net cash provided (used) by noncapital financing activities	<u>\$ (1,555)</u>	<u>\$ (26)</u>	<u>\$ (4,580)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	\$ (265)	\$ (95)	\$ (136)
Interest paid	(252)	-	-
Capital lease payments (including imputed interest expense)	-	-	(760)
Proceeds from sale of capital assets	-	64	-
Net cash provided (used) by capital and related financing activities	<u>\$ (517)</u>	<u>\$ (30)</u>	<u>\$ (896)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends on investments	\$ -	\$ -	\$ -
Net cash provided (used) by investing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net cash provided (used) - all activities	\$ 1,172	\$ 915	\$ 603
Cash and cash equivalents at beginning of year - restated	(159)	595	472
<b>Cash and cash equivalents at end of year</b>	<u><u>\$ 1,013</u></u>	<u><u>\$ 1,511</u></u>	<u><u>\$ 1,075</u></u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
Per Statement of Net Assets Classifications:			
Cash	\$ -	\$ -	\$ 491
Equity in common cash	1,096	1,560	630
Warrants outstanding	(83)	(49)	(45)
Cash and cash equivalents at end of year	<u>\$ 1,013</u>	<u>\$ 1,511</u>	<u>\$ 1,075</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (1,919)	\$ 161	\$ 1,429
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	1,422	221	1,521
Other reconciling item	-	-	-
Net Changes in Assets and Liabilities:			
Inventories	2,871	(169)	(549)
Other assets (net)	(103)	421	(3,092)
Accounts payable and other liabilities	971	338	6,769
Net cash provided (used) by operating activities	<u>\$ 3,244</u>	<u>\$ 972</u>	<u>\$ 6,079</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>			
Cost of capital assets acquisitions financed by capital leases	\$ -	\$ -	\$ -
Capital lease liabilities entered into during the year	-	-	-
Gain (loss) on disposal of capital assets	(11)	-	-
Total noncash investing, capital, and financing activities	<u>\$ (11)</u>	<u>\$ -</u>	<u>\$ -</u>



Michigan

INFORMATION TECHNOLOGY FUND	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS
\$ 507,663	\$ 4,935	\$ 714,665	\$ 1,435,285
(172,414)	(878)	-	(204,644)
(258,106)	(2,228)	(221,124)	(639,894)
-	(1,238)	(425,675)	(426,913)
-	4	-	178
-	-	-	(8,114)
<u>\$ 77,143</u>	<u>\$ 595</u>	<u>\$ 67,865</u>	<u>\$ 155,897</u>
\$ -	\$ 1,415	\$ -	\$ 5,407
-	-	(4,132)	(14,152)
-	-	14,093	14,093
(1,186)	(15)	-	(1,333)
<u>\$ (1,186)</u>	<u>\$ 1,400</u>	<u>\$ 9,961</u>	<u>\$ 4,015</u>
(67,260)	\$ -	\$ -	\$ (67,756)
-	-	-	(252)
(2,241)	-	-	(3,000)
-	-	-	64
<u>\$ (69,501)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (70,944)</u>
\$ -	\$ -	\$ 3,521	\$ 3,521
-	-	3,521	3,521
\$ 6,456	\$ 1,995	\$ 81,347	\$ 92,489
22,885	5,336	112,948	142,078
<u>\$ 29,341</u>	<u>\$ 7,331</u>	<u>\$ 194,295</u>	<u>\$ 234,566</u>
\$ -	\$ -	\$ 6	\$ 496
29,731	7,331	194,331	234,679
(390)	-	(42)	(609)
<u>\$ 29,341</u>	<u>\$ 7,331</u>	<u>\$ 194,295</u>	<u>\$ 234,566</u>
\$ (7,201)	\$ 1,684	\$ 27,361	\$ 21,516
44,605	-	-	47,770
-	4	-	4
(66)	-	-	2,088
(65)	(1)	3,614	775
39,869	(1,093)	36,890	83,745
<u>\$ 77,143</u>	<u>\$ 595</u>	<u>\$ 67,865</u>	<u>\$ 155,897</u>
\$ 4,990	\$ -	\$ -	\$ 4,990
(4,990)	-	-	(4,990)
-	-	-	(11)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11)</u>

## PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

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

### STATE OF MICHIGAN DEFERRED COMPENSATION FUNDS

The State of Michigan Deferred Compensation Fund I (457) and the State of Michigan 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 PENSION BENEFITS FUND

This fund was established to account for pension benefits of the Legislative Retirement System (LRS) created by Michigan Compiled Laws (MCL) Section 38.1001. LRS's pension plan provides 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.

MCL Section 38.1018 amended LRS's 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.

### LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND

This fund was established to account for other postemployment benefits of the Legislative Retirement System (LRS) created by Michigan Compiled Laws Section 38.1001. LRS's health plan provides its members with health, dental, vision, and hearing insurance coverage. This fund includes health coverage for participants of both the defined benefit pension plan and the defined contribution retirement plan.

### STATE POLICE PENSION BENEFITS FUND

This fund was established to account for pension benefits of the Michigan State Police Retirement System (MSPRS) created by Michigan Compiled Laws Section 38.1605, which is administered by a nine-member board under the direction of a chairperson elected from the membership. MSPRS's pension plan provides retirement, survivor and disability benefits to Michigan State Police officers. Financing is provided by investment income and by an annual legislative appropriation.

### STATE POLICE OTHER POSTEMPLOYMENT BENEFITS FUND

This fund was established to account for other postemployment benefits of the Michigan State Police Retirement System (MSPRS) created by Michigan Compiled Laws Section 38.1605. MSPRS's health plan provides all retirees with the option of receiving health, dental, and vision coverage.

### STATE EMPLOYEES' PENSION BENEFITS FUND

This fund was established to account for pension benefits of the State Employees' Retirement System (SERS) created by Michigan Compiled Laws (MCL) Section 38.2, which is administered by a nine-member board under the direction of an Executive Secretary. SERS's pension plan provides retirement, survivor and disability benefits to State employees.

Effective March 31, 1997, MCL Section 38.13 closed the plan to new applicants. All new employees become members of the State's defined contribution plan. The law 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.

### STATE EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND

This fund was established to account for other postemployment benefits of the State Employees' Retirement System (SERS) created by Michigan Compiled Laws Section 38.2. SERS's health plan provides all retirees with the option of receiving health, dental, and vision coverage. This fund includes coverage for participants of both the defined benefit pension plan and the defined contribution retirement plan.

**PUBLIC SCHOOL EMPLOYEES' PENSION BENEFITS FUND**

This fund was established to account for pension benefits of the Michigan Public School Employees' Retirement System (MPERS) created by Michigan Compiled Laws (MCL) Section 38.1321. An eight-member board governs administrative policy. MPERS's pension plan provides retirement, survivor and disability benefits to the public school employees.

Employer contributions and investment earnings provide financing for the fund. Under MCL Section 38.1343a, employees may contribute additional amounts into a "member investment plan".

**PUBLIC SCHOOL EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND**

This fund was established to account for other postemployment benefits of the Michigan Public School Employees' Retirement System (MPERS) created by Michigan Compiled Laws Section 38.1321. MPERS's health plan provides all retirees with the option of receiving health, dental, and vision coverage.

**JUDGES' PENSION BENEFITS FUND**

This fund was established to account for pension benefits of the Michigan Judges Retirement System (MJRS) created by Michigan Compiled Laws (MCL) Section 38.2201. MJRS's pension plan provides retirement, survivor and disability benefits to judges in the judicial branch of State government. Financing comes from member contributions, court filing fees as provided under law, investment earnings, and legislative appropriations.

MCL Section 38.2401a, 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.

**JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND**

This fund was established to account for other postemployment benefits of the Michigan Judges Retirement System (MJRS) created by Michigan Compiled Laws Section 38.2201. MJRS's health plan provides all retirees with the option of receiving health, dental, and vision coverage. This fund includes health coverage for participants of both the defined benefit pension plan and the defined contribution retirement plan.

**STATE OF MICHIGAN DEFINED CONTRIBUTION RETIREMENT FUND**

This fund was established by Michigan Compiled Laws Section 38.11 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 continues to oversee investment options.

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

SEPTEMBER 30, 2008

(In Thousands)

	STATE OF MICHIGAN DEFERRED COMPENSATION FUNDS	LEGISLATIVE PENSION BENEFITS FUND	LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE POLICE PENSION BENEFITS FUND
<b>ASSETS</b>				
Cash	\$ -	\$ -	\$ -	\$ -
Equity in common cash	3,412	5,998	581	12,280
Receivables:				
From participants	133,818	-	-	-
From employer	-	561	54	-
Other	375	-	-	-
Interest and dividends	-	46	4	28
Due from other funds	-	-	-	3,855
Due from component unit	-	-	-	-
Due from other governmental	-	-	-	-
Sale of investments	-	307	30	-
Investments at Fair Value:				
Short-term investments	-	-	-	9,521
Bonds, notes, mortgages, and preferred stock	-	-	-	188,659
Common stock	-	55,272	5,362	473,325
Real estate	-	-	-	134,433
Alternative investments	-	-	-	210,624
International investments	-	-	-	100,818
Mutual funds	1,426,221	86,909	8,431	-
Pooled investment funds	1,780,986	-	-	-
Money market funds	219,002	-	-	-
Securities lending collateral	-	-	-	146,126
<b>Total Assets</b>	<b>\$ 3,563,814</b>	<b>\$ 149,093</b>	<b>\$ 14,462</b>	<b>\$ 1,279,669</b>
<b>LIABILITIES</b>				
Warrants outstanding	\$ -	\$ 21	\$ 2	\$ 145
Accounts payable and other liabilities	-	1,456	142	80
Amounts due to other funds	-	4	-	-
Obligations under security lending	-	-	-	190,704
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 1,481</b>	<b>\$ 144</b>	<b>\$ 190,929</b>
<b>NET ASSETS</b>				
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits	<u>\$ 3,563,814</u>	<u>\$ 147,612</u>	<u>\$ 14,319</u>	<u>\$ 1,088,740</u>
Reconciliation of Net Assets Held in Trust:				
Pension benefits	\$ -	\$ 147,612	\$ -	\$ 1,088,740
Postemployment health-care benefits	-	-	14,319	-
Deferred compensation participants	3,563,814	-	-	-
<b>Total net assets held in trust for benefits</b>	<b><u>\$ 3,563,814</u></b>	<b><u>\$ 147,612</u></b>	<b><u>\$ 14,319</u></b>	<b><u>\$ 1,088,740</u></b>

**Michigan**

STATE POLICE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE EMPLOYEES' PENSION BENEFITS FUND	STATE EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' PENSION BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	JUDGES' PENSION BENEFITS FUND
\$ -	\$ -	\$ -	\$ 23	\$ -	\$ -
7,551	119,727	97,645	565,175	15,461	6,039
-	-	-	-	-	-
764	65,775	9,523	435,064	-	66
-	-	-	-	-	-
-	260	-	1,018	28	7
-	32,413	-	-	-	-
-	325	-	-	-	-
53	-	3,973	-	-	-
-	-	-	-	-	-
4	75,016	10	328,696	8,992	3,683
86	1,704,093	236	6,928,098	189,523	45,774
217	4,268,486	592	16,948,853	463,649	115,956
61	1,189,366	165	4,366,608	119,452	44,650
96	1,808,061	251	7,526,501	205,893	40,106
46	919,512	127	3,574,932	97,795	24,484
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
82	1,307,178	222	5,214,811	142,655	36,415
<u>\$ 8,961</u>	<u>\$ 11,490,212</u>	<u>\$ 112,745</u>	<u>\$ 45,889,777</u>	<u>\$ 1,243,448</u>	<u>\$ 317,180</u>
\$ -	\$ 1,999	\$ -	\$ 6,254	\$ 171	\$ 39
6,026	1,182	75,245	13,021	225,047	3
-	-	-	-	-	-
82	1,705,793	222	6,804,760	186,149	47,518
<u>\$ 6,108</u>	<u>\$ 1,708,973</u>	<u>\$ 75,467</u>	<u>\$ 6,824,035</u>	<u>\$ 411,368</u>	<u>\$ 47,559</u>
<u>\$ 2,853</u>	<u>\$ 9,781,239</u>	<u>\$ 37,278</u>	<u>\$ 39,065,741</u>	<u>\$ 832,080</u>	<u>\$ 269,621</u>
\$ -	\$ 9,781,239	\$ -	\$ 39,065,741	\$ -	\$ 269,621
2,853	-	37,278	-	832,080	-
-	-	-	-	-	-
<u>\$ 2,853</u>	<u>\$ 9,781,239</u>	<u>\$ 37,278</u>	<u>\$ 39,065,741</u>	<u>\$ 832,080</u>	<u>\$ 269,621</u>

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

SEPTEMBER 30, 2008

(In Thousands)

ASSETS	JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND	STATE OF MICHIGAN DEFINED CONTRIBUTION RETIREMENT FUND	TOTALS
Cash	\$ -	\$ -	\$ 23
Equity in common cash	137	478	834,484
Receivables:			
From participants	-	87,159	220,976
From employer	21	-	511,828
Other	-	88	463
Interest and dividends	-	-	1,392
Due from other funds	-	-	36,268
Due from component unit	-	-	325
Due from other governmental	-	-	4,026
Sale of investments	-	-	337
Investments at Fair Value:			
Short-term investments	-	-	425,922
Bonds, notes, mortgages, and preferred stock	1	-	9,056,471
Common stock	3	-	22,331,713
Real estate	1	-	5,854,736
Alternative investments	1	-	9,791,534
International investments	1	-	4,717,714
Mutual funds	-	337,532	1,859,094
Pooled investment funds	-	295,300	2,076,286
Money market funds	-	117,621	336,624
Securities lending collateral	1	-	6,847,491
<b>Total Assets</b>	<b>\$ 166</b>	<b>\$ 838,178</b>	<b>\$ 64,907,705</b>
<b>LIABILITIES</b>			
Warrants outstanding	\$ -	\$ -	\$ 8,632
Accounts payable and other liabilities	163	-	322,365
Amounts due to other funds	-	-	4
Obligations under security lending	1	-	8,935,229
<b>Total Liabilities</b>	<b>\$ 164</b>	<b>\$ -</b>	<b>\$ 9,266,228</b>
<b>NET ASSETS</b>			
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits	<u>\$ 2</u>	<u>\$ 838,178</u>	<u>\$ 55,641,476</u>
Reconciliation of Net Assets Held in Trust:			
Pension benefits	\$ -	\$ 838,178	\$ 51,191,131
Postemployment health-care benefits	2	-	886,531
Deferred compensation participants	-	-	3,563,814
<b>Total net assets held in trust for benefits</b>	<b>\$ 2</b>	<b>\$ 838,178</b>	<b>\$ 55,641,476</b>



**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2008  
(In Thousands)

	STATE OF MICHIGAN DEFERRED COMPENSATION FUNDS	LEGISLATIVE PENSION BENEFITS FUND	LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE POLICE PENSION BENEFITS FUND
<b>ADDITIONS</b>				
Contributions:				
From participants	\$ 197,714	\$ 13	\$ 132	\$ 96
From employers	-	-	3,424	34,365
From other plans	482	-	-	-
From other governmental	-	-	154	-
Investment Income:				
Net appreciation (depreciation) in fair value of investments	(825,334)	(39,789)	-	(226,721)
Interest, dividends, and other	239,092	11,153	(2,617)	25,362
Securities lending income	-	-	-	8,668
Less Investment Expense:				
Investment activity expense	-	612	-	2,730
Securities lending expense	-	-	-	7,371
Net investment income (loss)	<u>(586,242)</u>	<u>(29,248)</u>	<u>(2,617)</u>	<u>(202,792)</u>
Miscellaneous income	1,717	39	1,571	23
Transfers from other funds	-	-	-	-
Total Additions	<u>(386,330)</u>	<u>(29,195)</u>	<u>2,664</u>	<u>(168,308)</u>
<b>DEDUCTIONS</b>				
Benefits paid to participants or beneficiaries	259,665	10,457	-	87,590
Medical, dental, and life insurance for retirants	-	-	4,718	-
Refunds and transfers to other systems	50	9	-	-
Administrative expense	6,627	381	-	361
Transfers to other funds	-	-	-	1
Total Deductions	<u>266,343</u>	<u>10,846</u>	<u>4,718</u>	<u>87,952</u>
Net increase (decrease)	(652,673)	(40,042)	(2,054)	(256,260)
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits - Beginning of fiscal year - restated	<u>4,216,487</u>	<u>187,654</u>	<u>16,373</u>	<u>1,345,000</u>
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits - End of fiscal year	<u>\$ 3,563,814</u>	<u>\$ 147,612</u>	<u>\$ 14,319</u>	<u>\$ 1,088,740</u>
Reconciliation of Net Increase in Assets:				
Net increase (decrease) in assets held in trust for pension benefits	\$ -	\$ (40,042)	\$ -	\$ (256,260)
Net increase (decrease) in assets held in trust for postemployment benefits	-	-	(2,054)	-
Net increase (decrease) in assets held in trust for deferred compensation participants	<u>(652,673)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net increase (decrease)	<u>\$ (652,673)</u>	<u>\$ (40,042)</u>	<u>\$ (2,054)</u>	<u>\$ (256,260)</u>



**Michigan**

STATE POLICE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE EMPLOYEES' PENSION BENEFITS FUND	STATE EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' PENSION BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	JUDGES' PENSION BENEFITS FUND
\$ 1,274	\$ 5,644	\$ 13,100	\$ 399,257	\$ 78,089	\$ 1,738
29,131	355,732	342,187	999,375	649,571	-
-	190	-	83	-	-
278	-	23,004	-	102	-
-	(2,060,479)	-	(8,337,977)	-	(54,854)
278	226,837	5,663	867,322	62,107	6,561
-	77,419	-	317,987	-	2,312
-	23,601	-	98,908	-	576
-	65,768	-	270,249	-	1,966
<u>278</u>	<u>(1,845,592)</u>	<u>5,663</u>	<u>(7,521,824)</u>	<u>62,107</u>	<u>(48,524)</u>
44	184	698	897	378	52
551	-	6,884	-	-	-
<u>31,556</u>	<u>(1,483,842)</u>	<u>391,535</u>	<u>(6,122,213)</u>	<u>790,247</u>	<u>(46,734)</u>
-	832,553	-	3,117,435	-	19,180
29,672	-	377,514	-	666,381	-
1,502	374	35,001	32,803	42	-
1,553	5,036	19,394	24,667	68,079	144
-	13	-	74	-	-
<u>32,727</u>	<u>837,976</u>	<u>431,909</u>	<u>3,174,979</u>	<u>734,501</u>	<u>19,325</u>
(1,171)	(2,321,818)	(40,374)	(9,297,191)	55,746	(66,058)
<u>4,024</u>	<u>12,103,057</u>	<u>77,652</u>	<u>48,362,933</u>	<u>776,334</u>	<u>335,679</u>
<u>\$ 2,853</u>	<u>\$ 9,781,239</u>	<u>\$ 37,278</u>	<u>\$ 39,065,741</u>	<u>\$ 832,080</u>	<u>\$ 269,621</u>
\$ -	\$ (2,321,818)	\$ -	\$ (9,297,191)	\$ -	\$ (66,058)
(1,171)	-	(40,374)	-	55,746	-
-	-	-	-	-	-
<u>\$ (1,171)</u>	<u>\$ (2,321,818)</u>	<u>\$ (40,374)</u>	<u>\$ (9,297,191)</u>	<u>\$ 55,746</u>	<u>\$ (66,058)</u>

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS (Continued)**  
FISCAL YEAR ENDED SEPTEMBER 30, 2008  
(In Thousands)

	JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND	STATE OF MICHIGAN DEFINED CONTRIBUTION RETIREMENT FUND	TOTALS
<b>ADDITIONS</b>			
Contributions:			
From participants	\$ 539	\$ 30,684	\$ 728,280
From employers	-	81,595	2,495,381
From other plans	-	6	761
From other governmental	-	-	23,537
Investment Income:			
Net appreciation (depreciation) in fair value of investments	-	(190,847)	(11,736,002)
Interest, dividends, and other	8	46,788	1,488,553
Securities lending income	-	-	406,386
Less Investment Expense:			
Investment activity expense	-	-	126,426
Securities lending expense	-	-	345,355
Net investment income (loss)	8	(144,059)	(10,312,844)
Miscellaneous income	122	381	6,106
Transfers from other funds	15	-	7,450
Total Additions	684	(31,394)	(7,051,329)
<b>DEDUCTIONS</b>			
Benefits paid to participants or beneficiaries	-	42,040	4,368,921
Medical, dental, and life insurance for retirants	790	-	1,079,075
Refunds and transfers to other systems	-	2,782	72,564
Administrative expense	* 42	1,917	128,199
Transfers to other funds	-	-	88
Total Deductions	832	46,739	5,648,846
Net increase (decrease)	(148)	(78,132)	(12,700,175)
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits - Beginning of fiscal year - restated			
	150	916,310	68,341,652
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits - End of fiscal year			
	\$ 2	\$ 838,178	\$ 55,641,476
Reconciliation of Net Increase in Assets:			
Net increase (decrease) in assets held in trust for pension benefits	\$ -	\$ (78,132)	\$ (12,059,501)
Net increase (decrease) in assets held in trust for postemployment benefits	(148)	-	11,999
Net increase (decrease) in assets held in trust for deferred compensation participants	-	-	(652,673)
Total net increase (decrease)	\$ (148)	\$ (78,132)	\$ (12,700,175)

## PRIVATE PURPOSE TRUST FUNDS

### ESCHEATS FUND

The Escheats Fund operates under the authority of Sections 567.221 – 567.265 of the Michigan Compiled Laws 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 laws are met. Proceeds of the fund pay the administrative costs and prompt claims allowed under the laws.

### 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

The Hospital Patients' Trust Fund operates under the authority of Michigan Compiled Laws Section 330.1730 and is used to account for funds of patients receiving services in State hospitals. The Department of Community Health (DCH), 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. DCH distributes interest on a monthly basis to patients meeting minimum balance requirements.

### MICHIGAN EDUCATION SAVINGS PROGRAM

Michigan Compiled Laws Section 390.1473 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 limited contributions into the program as prescribed by law. 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.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**PRIVATE PURPOSE TRUST FUNDS**  
 SEPTEMBER 30, 2008  
 (In Thousands)

	ESCHEATS FUND	GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND	HOSPITAL PATIENTS' TRUST FUND	MICHIGAN EDUCATION SAVINGS PROGRAM	TOTALS
<b>ASSETS</b>					
Cash	\$ -	\$ 891	\$ 21	\$ 773	\$ 1,685
Equity in common cash	75,168	17,645	150	-	92,964
Receivables:					
Interest and dividends	-	231	-	1,990	2,221
Investments at Fair Value:					
Bonds, notes, mortgages, and preferred stock	-	17,391	-	-	17,391
Common stock	-	216	-	-	216
Mutual funds	-	8	-	1,647,680	1,647,688
Guaranteed funding agreements	-	-	-	188,282	188,282
Other current assets	4,544	3,026	18	1,425	9,014
Other noncurrent assets	-	700	-	-	700
Total Assets	<u>\$ 79,713</u>	<u>\$ 40,109</u>	<u>\$ 188</u>	<u>\$ 1,840,150</u>	<u>\$ 1,960,160</u>
<b>LIABILITIES</b>					
Warrants outstanding	\$ 1,663	\$ 432	\$ 17	\$ -	\$ 2,112
Accounts payable and other liabilities	40	2,167	5	3,998	6,210
Total Liabilities	<u>\$ 1,703</u>	<u>\$ 2,599</u>	<u>\$ 22</u>	<u>\$ 3,998</u>	<u>\$ 8,321</u>
<b>NET ASSETS</b>					
Net assets held in trust for other purposes	<u>\$ 78,010</u>	<u>\$ 37,511</u>	<u>\$ 166</u>	<u>\$ 1,836,152</u>	<u>\$ 1,951,839</u>

**Michigan**

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

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

	ESCHEATS FUND	GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND	HOSPITAL PATIENTS' TRUST FUND	MICHIGAN EDUCATION SAVINGS PROGRAM	TOTALS
<b>ADDITIONS</b>					
Contributions:					
From participants	\$ -	\$ -	\$ -	\$ 363,026	\$ 363,026
From clients	-	63,484	1,722	-	65,206
From gifts, bequests, and endowments	-	23,473	-	-	23,473
Investment Income:					
Net appreciation (depreciation) in fair value of investments	-	(11)	-	(337,871)	(337,882)
Interest, dividends, and other	-	1,016	6	96,184	97,207
Securities lending income	-	227	-	-	227
Less Investment Expense:					
Securities lending expense	-	200	-	-	200
Net investment income (loss)	-	1,033	6	(241,687)	(240,648)
Escheated property	60,794	-	-	-	60,794
Miscellaneous income	-	302	-	-	302
<b>Total Additions</b>	<b>60,794</b>	<b>88,291</b>	<b>1,728</b>	<b>121,339</b>	<b>272,152</b>
<b>DEDUCTIONS</b>					
Benefits paid to participants or beneficiaries	-	-	-	112,774	112,774
Amounts distributed to clients, claimants, or third parties	64,211	86,973	1,792	-	152,977
Administrative expense	2,763	1	-	3,593	6,356
<b>Total Deductions</b>	<b>66,974</b>	<b>86,974</b>	<b>1,792</b>	<b>116,367</b>	<b>272,107</b>
Net increase (decrease)	(6,180)	1,318	(64)	4,972	45
Net assets held in trust for others - Beginning of fiscal year	84,191	36,193	230	1,831,180	1,951,794
Net assets held in trust for others End of fiscal year	\$ 78,010	\$ 37,511	\$ 166	\$ 1,836,152	\$ 1,951,839
<b>Reconciliation of Net Increase in Assets:</b>					
Net increase (decrease) in assets held in trust for other purposes	\$ (6,180)	\$ 1,318	\$ (64)	\$ 4,972	\$ 45
<b>Total net increase (decrease)</b>	<b>\$ (6,180)</b>	<b>\$ 1,318</b>	<b>\$ (64)</b>	<b>\$ 4,972</b>	<b>\$ 45</b>

## AGENCY FUNDS

### ENVIRONMENTAL QUALITY DEPOSITS FUND

The Environmental Quality Deposits Fund accounts for deposits of performance bonds for which the Department of Environmental Quality has legal custody. The bonds held by this fund include bond deposits from the hazardous waste program and the solid waste program as provided by Sections 324.11141 and 324.11523 of the Michigan Compiled Laws (MCL) and from the scrap tire program as provided in MCL Section 324.16903.

### 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 Michigan Compiled Laws Section 500.411, 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 bonds.

### CHILD SUPPORT COLLECTION FUND

This fund was administratively established to account for the activity of the Michigan State Disbursement Unit (MISDU). The 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, 2008

(In Thousands)

	ENVIRONMENTAL QUALITY DEPOSITS FUND	INSURANCE CARRIER DEPOSITS FUND	STATE TREASURER'S ESCROW AND PAYING AGENT FUND	CHILD SUPPORT COLLECTION FUND	TOTALS
<b>ASSETS</b>					
Cash	\$ -	\$ -	\$ 149	\$ 54,611	\$ 54,759
Equity in common cash	3,288	2,320	-	-	5,608
Investments at Fair Value:					
Short-term investments	-	-	6,866	-	6,866
Other current assets	-	-	217	2	219
Other noncurrent assets	-	380,831	-	-	380,831
Total Assets	<u>\$ 3,288</u>	<u>\$ 383,151</u>	<u>\$ 7,232</u>	<u>\$ 54,613</u>	<u>\$ 448,283</u>
<b>LIABILITIES</b>					
Warrants outstanding	\$ -	\$ 273	\$ -	\$ -	\$ 273
Accounts payable and other liabilities	3,288	2,047	7,232	54,232	66,799
Amounts due to other funds	-	-	-	381	381
Other long-term liabilities	-	380,831	-	-	380,831
Total Liabilities	<u>\$ 3,288</u>	<u>\$ 383,151</u>	<u>\$ 7,232</u>	<u>\$ 54,613</u>	<u>\$ 448,283</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

	BALANCE OCTOBER 1, 2007	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2008
<b>ENVIRONMENTAL QUALITY DEPOSITS FUND</b>				
<b>ASSETS</b>				
Equity in common cash	\$ 3,055	\$ 284	\$ 51	\$ 3,288
Total Assets	<u>\$ 3,055</u>	<u>\$ 284</u>	<u>\$ 51</u>	<u>\$ 3,288</u>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 3,055	\$ 284	\$ 51	\$ 3,288
Total Liabilities	<u>\$ 3,055</u>	<u>\$ 284</u>	<u>\$ 51</u>	<u>\$ 3,288</u>
<b>INSURANCE CARRIER DEPOSITS FUND</b>				
<b>ASSETS</b>				
Equity in common cash	\$ 914	\$ 65,777	\$ 64,372	\$ 2,320
Other noncurrent assets	383,764	123,195	126,128	380,831
Total Assets	<u>\$ 384,678</u>	<u>\$ 188,972</u>	<u>\$ 190,500</u>	<u>\$ 383,151</u>
<b>LIABILITIES</b>				
Warrants outstanding	\$ 5	\$ 267	\$ -	\$ 273
Accounts payable and other liabilities	909	65,798	64,660	2,047
Other long-term liabilities	383,764	123,195	126,128	380,831
Total Liabilities	<u>\$ 384,678</u>	<u>\$ 189,261</u>	<u>\$ 190,788</u>	<u>\$ 383,151</u>
<b>STATE TREASURER'S ESCROW AND PAYING AGENT FUND</b>				
<b>ASSETS</b>				
Cash	\$ 147	\$ 15,596	\$ 15,595	\$ 149
Investments at Fair Value:				
Short-term investments	13,419	7,067	13,620	6,866
Bonds, notes, mortgages, and preferred stock	6,866	-	6,866	-
Other current assets	743	1,434	1,960	217
Total Assets	<u>\$ 21,176</u>	<u>\$ 24,097</u>	<u>\$ 38,041</u>	<u>\$ 7,232</u>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 14,211	\$ 10,374	\$ 17,354	\$ 7,232
Other long-term liabilities	6,965	-	6,965	-
Total Liabilities	<u>\$ 21,176</u>	<u>\$ 10,374</u>	<u>\$ 24,318</u>	<u>\$ 7,232</u>



	BALANCE OCTOBER 1, 2007	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2008
<b>CHILD SUPPORT COLLECTION FUND</b>				
<b>ASSETS</b>				
Cash	\$ 50,608	\$ 1,657,188	\$ 1,653,185	\$ 54,611
Other current assets	2	2	2	2
Total Assets	<u>\$ 50,610</u>	<u>\$ 1,657,190</u>	<u>\$ 1,653,187</u>	<u>\$ 54,613</u>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 49,455	\$ 1,693,479	\$ 1,688,703	\$ 54,232
Amounts due to other funds	1,155	7,369	8,142	381
Total Liabilities	<u>\$ 50,610</u>	<u>\$ 1,700,848</u>	<u>\$ 1,696,845</u>	<u>\$ 54,613</u>
<b>TOTALS - ALL AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash	\$ 50,756	\$ 1,672,784	\$ 1,668,780	\$ 54,759
Equity in common cash	3,969	66,061	64,422	5,608
Investments at Fair Value:				
Short-term investments	13,419	7,067	13,620	6,866
Bonds, notes, mortgages, and preferred stock	6,866	-	6,866	-
Other current assets	745	1,436	1,962	219
Other noncurrent assets	383,764	123,195	126,128	380,831
Total Assets	<u>\$ 459,519</u>	<u>\$ 1,870,543</u>	<u>\$ 1,881,778</u>	<u>\$ 448,283</u>
<b>LIABILITIES</b>				
Warrants outstanding	\$ 5	\$ 267	\$ -	\$ 273
Accounts payable and other liabilities	67,630	1,769,936	1,770,767	66,799
Amounts due to other funds	1,155	7,369	8,142	381
Other long-term liabilities	390,729	123,195	133,093	380,831
Total Liabilities	<u>\$ 459,519</u>	<u>\$ 1,900,767</u>	<u>\$ 1,912,002</u>	<u>\$ 448,283</u>

## COMPONENT UNITS – AUTHORITIES

### FARM PRODUCE INSURANCE AUTHORITY

Michigan Compiled Laws (MCL) Section 285.315 created the Farm Produce Insurance Authority (FPIA) as a public body corporate. Operating under Sections 285.311 – 285.331 of the MCL, FPIA is governed and administered by a nine-member board of directors. FPIA administers a program in which producers of dry beans, grain, or corn may contribute to the Farm Produce Insurance Fund, a percentage of their net proceeds from all farm produce sold by the producer to a licensee in this State. Under this program the producer may recover from the fund for losses caused by the licensed grain dealer's financial failure.

### LAND BANK FAST TRACK AUTHORITY

Michigan Compiled Laws Section 124.765 created the Land Bank Fast Track Authority (LBFTA) 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. LBFTA receives tax reverted properties, undertakes expedited action to clear their titles, and then ensures the properties' redevelopment.

The 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

Michigan Compiled Laws (MCL) Section 254.302 created the Mackinac Bridge Authority (MBA). MCL Section 254.314 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

Established in 1927, the Mackinac Island State Park Commission currently operates under Sections 324.76701 – 324.76709 of the Michigan Compiled Laws. 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

Michigan Compiled Laws Section 484.3204 created the Michigan Broadband Development Authority (MBDA) to assist in the build out and utilization of high-speed broadband internet service and infrastructure across the State. It is the responsibility of MBDA to remain financially self-sufficient by generating revenues from project lending and joint venture activity.

On October 27, 2008 the Governor issued Executive 2008-20 which abolished MBDA and its board of directors effective December 28, 2008.

### MICHIGAN EARLY CHILDHOOD INVESTMENT CORPORATION

The Michigan Early Childhood Investment Corporation was created by an interlocal agreement between the Department of Human Services and participating intermediate school districts. The interlocal agreement was entered into pursuant to Sections 124.501 – 124.512 of the Michigan Compiled Laws. The corporation's primary objective is to administer activities related to early childhood development.

The governing body of each participant shall appoint one member of the Corporation Board to serve at the will of the participant. For each member of the Corporation Board appointed by the governing body of a participant, the Governor shall appoint up to two members of the Corporation Board representing the State to serve at the will of the Governor. If there are fewer than five participants, the Governor may appoint up to twelve additional members of the Corporation Board representing the State to serve at the will of the Governor or until there are five or more participants. In addition, the Corporation shall have an Executive Committee of fifteen members, all appointed by the Governor. The committee shall exercise the powers of the Corporation.

### MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

The Michigan Economic Development Corporation (MEDC), under Article 7, Section 28 of the State Constitution of 1963 and Sections 124.501 – 124.512 of the Michigan Compiled Laws (MCL), is a public body corporate. Created by a ten-year contract (interlocal agreement) between participating local economic development corporations formed under Sections 125.1601 – 125.1636 of the MCL 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 20 members appointed to eight-year, staggered terms.

### MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY

Michigan Compiled Laws Section 285.164 created the Michigan Exposition and Fairgrounds Authority (MEFA) as a public body corporate within the Department of Management and Budget (DMB). 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 DMB, and nine members serving fixed terms appointed by the Governor with the advice and consent of the Senate.

**MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY**

Michigan Compiled Laws Section 390.951 created the Michigan Higher Education Assistance Authority (MHEAA). It is governed by a sixteen-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**

Michigan Compiled Laws Section 390.923 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**

Michigan Compiled Laws Section 390.1153 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 (MPEFA) was organized by Michigan Compiled Laws Section 12.192. MPEFA 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.

MPEFA 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 Sections 331.31 – 331.84 of the Michigan Compiled Laws to lend money to nonprofit, nonpublic hospitals and health-care corporations for capital improvements or debt refinancing. The law also empowers MSHFA to sell bonds and to enter into loan and other agreements to obtain the necessary funds for such loans. The MSHFA's board 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 Michigan Compiled Laws (MCL) Section 125.2005 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. MCL Section 408.40 transferred all of the economic development functions of the former Department of Commerce and the Michigan Jobs Commission to MSF and placed MSF as an autonomous entity in the Department of Management and Budget (DMB). In 2003, MCL Section 445.2011 transferred MSF from DMB to the Department of Labor and Economic Growth (DLEG). As part of the tobacco securitization legislation passed November 21, 2005, MCL Section 125.2005 transferred MSF to the Department of Treasury. MSF is governed by a board of eleven members, consisting of the directors of DLEG and Treasury, and the Chief Executive Officer of the Michigan Economic Development Corporation. The Governor, with the advice and consent of the Senate, appoints the other eight members; none of those eight may be an employee of the State. Two positions on the board expired in December 2007 but were reauthorized in July 2008. There are currently 10 members serving on the board.

**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, 2008  
(In Thousands)

	FARM PRODUCE INSURANCE AUTHORITY	LAND BANK FAST TRACK AUTHORITY	MACKINAC BRIDGE AUTHORITY
<b>ASSETS</b>			
Current Assets:			
Cash	\$ 25	\$ -	\$ 921
Equity in common cash	-	2,222	-
Amounts due from component units	-	-	-
Amounts due from primary government	-	-	-
Amounts due from federal government	-	-	-
Amounts due from local units	-	-	-
Inventories	-	-	-
Investments	4,600	-	5,306
Other current assets	1,282	-	235
Total Current Assets	<u>5,906</u>	<u>2,222</u>	<u>6,462</u>
Restricted Assets:			
Cash and cash equivalents	-	-	-
Investments	-	-	-
Mortgages and loans receivable	-	-	-
Investments	-	-	32,054
Capital Assets:			
Land and other non-depreciable assets	-	8,799	125
Buildings, equipment, and other depreciable assets	-	-	8,441
Less accumulated depreciation	-	-	(4,223)
Infrastructure	-	-	102,722
Total capital assets	<u>-</u>	<u>8,799</u>	<u>107,064</u>
Other noncurrent assets	-	-	-
Total Assets	<u>\$ 5,906</u>	<u>\$ 11,021</u>	<u>\$ 145,581</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants outstanding	\$ -	\$ 3	\$ -
Accounts payable and other liabilities	-	32	956
Amounts due to component units	-	-	-
Amounts due to primary government	152	4	1,587
Amounts due to federal government	-	-	-
Bonds and notes payable	-	-	-
Interest payable	-	-	-
Deferred revenue	-	-	1,039
Current portion of other long-term obligations	-	2	250
Total Current Liabilities	<u>152</u>	<u>42</u>	<u>3,832</u>
Bonds and notes payable	-	70	-
Noncurrent portion of other long-term obligations	-	22	254
Total Liabilities	<u>\$ 152</u>	<u>\$ 134</u>	<u>\$ 4,086</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ -	\$ 8,799	\$ 107,064
Restricted For:			
Construction and debt service	-	-	-
Other purposes	-	-	-
Unrestricted	<u>5,754</u>	<u>2,088</u>	<u>34,431</u>
Total Net Assets	<u>\$ 5,754</u>	<u>\$ 10,887</u>	<u>\$ 141,495</u>

**Michigan**

MACKINAC ISLAND STATE PARK COMMISSION	MICHIGAN BROADBAND DEVELOPMENT AUTHORITY	MICHIGAN EARLY CHILDHOOD INVESTMENT CORPORATION	MICHIGAN ECONOMIC DEVELOPMENT CORPORATION	MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY
\$ 839	\$ -	\$ 4,035	\$ 42,346	\$ 4
-	-	-	27,528	1,145
-	-	-	27,699	-
215	-	4,689	-	-
-	-	-	69	-
-	-	-	-	-
634	-	-	-	-
421	-	-	-	-
53	1,688	1,428	5,143	367
<u>2,161</u>	<u>1,688</u>	<u>10,152</u>	<u>102,784</u>	<u>1,516</u>
1,067	-	-	-	-
2,479	-	-	-	-
-	5,619	-	22,416	-
43	-	-	4,921	-
337	-	-	-	3,360
10,460	-	-	17,078	12,346
(7,374)	-	-	(6,658)	(8,086)
-	-	-	-	-
<u>3,424</u>	<u>-</u>	<u>-</u>	<u>10,421</u>	<u>7,620</u>
-	122	-	-	-
<u>\$ 9,174</u>	<u>\$ 7,428</u>	<u>\$ 10,152</u>	<u>\$ 140,542</u>	<u>\$ 9,136</u>
\$ -	\$ -	\$ -	\$ 8	\$ 194
120	-	4,131	7,466	1,243
-	-	-	-	-
-	-	8	175	45
-	-	2	-	-
290	-	-	-	-
11	-	-	-	-
55	-	1,421	38	15
-	1,688	-	1,372	34
<u>476</u>	<u>1,688</u>	<u>5,562</u>	<u>9,059</u>	<u>1,531</u>
749	-	-	-	-
-	5,740	-	1,195	102
<u>\$ 1,225</u>	<u>\$ 7,428</u>	<u>\$ 5,562</u>	<u>\$ 10,254</u>	<u>\$ 1,633</u>
\$ 2,385	\$ -	\$ -	\$ 10,421	\$ 7,620
3,380	-	-	-	-
876	-	-	-	-
<u>1,309</u>	<u>-</u>	<u>4,590</u>	<u>119,868</u>	<u>(117)</u>
<u>\$ 7,949</u>	<u>\$ -</u>	<u>\$ 4,590</u>	<u>\$ 130,288</u>	<u>\$ 7,503</u>

**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR COMPONENT UNITS**  
**AUTHORITIES (Continued)**  
 SEPTEMBER 30, 2008  
 (In Thousands)

	MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY	MICHIGAN HIGHER EDUCATION FACILITIES AUTHORITY	MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY
<b>ASSETS</b>			
Current Assets:			
Cash	\$ 5,240	\$ -	\$ 69,546
Equity in common cash	-	-	-
Amounts due from component units	-	-	-
Amounts due from primary government	477	503	265
Amounts due from federal government	1,579	-	-
Amounts due from local units	-	-	-
Inventories	-	-	-
Investments	7,500	-	65,759
Other current assets	756	41	306,331
Total Current Assets	<u>15,553</u>	<u>545</u>	<u>441,901</u>
Restricted Assets:			
Cash and cash equivalents	-	-	-
Investments	-	-	-
Mortgages and loans receivable	-	-	1,960,516
Investments	-	-	500
Capital Assets:			
Land and other non-depreciable assets	-	-	-
Buildings, equipment, and other depreciable assets	2,061	-	-
Less accumulated depreciation	(1,188)	-	-
Infrastructure	-	-	-
Total capital assets	<u>874</u>	<u>-</u>	<u>-</u>
Other noncurrent assets	-	-	16,848
Total Assets	<u>\$ 16,426</u>	<u>\$ 545</u>	<u>\$ 2,419,765</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants outstanding	\$ -	\$ -	\$ -
Accounts payable and other liabilities	-	-	1,719
Amounts due to component units	-	-	-
Amounts due to primary government	443	-	-
Amounts due to federal government	135	-	-
Bonds and notes payable	-	-	58,930
Interest payable	-	-	8,540
Deferred revenue	-	-	-
Current portion of other long-term obligations	-	-	1,552
Total Current Liabilities	<u>579</u>	<u>-</u>	<u>70,742</u>
Bonds and notes payable	-	-	2,218,944
Noncurrent portion of other long-term obligations	422	25	31,279
Total Liabilities	<u>\$ 1,000</u>	<u>\$ 25</u>	<u>\$ 2,320,965</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 874	\$ -	\$ -
Restricted For:			
Construction and debt service	-	-	14,001
Other purposes	14,552	-	-
Unrestricted	-	520	84,799
Total Net Assets	<u>\$ 15,426</u>	<u>\$ 520</u>	<u>\$ 98,800</u>

**Michigan**

MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY	MICHIGAN STATE HOSPITAL FINANCE AUTHORITY	MICHIGAN STRATEGIC FUND	STATE BAR OF MICHIGAN	<b>TOTALS</b>
\$ 15,652	\$ 400	\$ 4,275	\$ 1,741	\$ 145,024
-	-	19,776	-	50,672
-	-	-	-	27,699
210	67	-	-	6,426
-	-	13,943	-	15,590
16,607	-	-	-	16,607
-	-	-	-	634
-	3,769	-	7,769	95,124
35	911	34,007	690	352,968
<u>32,503</u>	<u>5,148</u>	<u>72,001</u>	<u>10,200</u>	<u>710,744</u>
-	-	5,589	-	6,656
-	-	-	-	2,479
-	-	58,388	-	2,046,938
-	1,419	33,066	-	72,003
-	-	-	381	13,002
-	64	-	10,926	61,377
-	(63)	-	(5,694)	(33,285)
-	-	-	-	102,722
-	1	-	5,613	143,815
-	-	79,181	-	96,150
<u>\$ 32,503</u>	<u>\$ 6,568</u>	<u>\$ 248,225</u>	<u>\$ 15,814</u>	<u>\$ 3,078,786</u>
\$ -	\$ -	\$ 55	\$ -	\$ 260
-	-	23,711	969	40,347
-	-	27,700	-	27,700
-	-	25	-	2,439
-	-	-	-	137
23,003	-	-	-	82,223
142	-	2,223	-	10,917
-	-	71	776	3,416
-	-	1,655	-	6,553
<u>23,146</u>	<u>-</u>	<u>55,439</u>	<u>1,745</u>	<u>173,992</u>
-	-	82,771	-	2,302,534
27	158	4,212	-	43,435
<u>\$ 23,173</u>	<u>\$ 158</u>	<u>\$ 142,422</u>	<u>\$ 1,745</u>	<u>\$ 2,519,962</u>
\$ -	\$ 1	\$ -	\$ 5,613	\$ 142,776
-	-	-	-	17,381
9,113	-	-	-	24,542
217	6,409	105,803	8,455	374,125
<u>\$ 9,331</u>	<u>\$ 6,410</u>	<u>\$ 105,803</u>	<u>\$ 14,068</u>	<u>\$ 558,824</u>

**COMBINING STATEMENT OF ACTIVITIES**  
**NON-MAJOR COMPONENT UNITS - AUTHORITIES**  
 FISCAL YEAR ENDED SEPTEMBER 30, 2008  
 (In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	
Farm Produce Insurance Authority	\$ 528	\$ 2,645	\$ -	\$ -	\$ 2,116
Land Bank Fast Track Authority	1,063	-	85	-	(978)
Mackinac Bridge Authority	10,798	14,836	-	-	4,038
Mackinac Island State Park Commission	4,105	3,810	378	-	83
Michigan Broadband Development Authority	154	-	-	-	(154)
Michigan Early Childhood Investment Corporation	16,967	-	19,180	-	2,213
Michigan Economic Development Corporation	56,917	-	69,844	-	12,927
Michigan Exposition and Fairgrounds Authority	4,962	-	4,153	-	(809)
Michigan Higher Education Assistance Authority	156,580	19,011	133,772	-	(3,796)
Michigan Higher Education Facilities Authority	151	159	-	-	7
Michigan Higher Education Student Loan Authority	120,882	113,925	-	-	(6,957)
Michigan Public Educational Facilities Authority	1,306	163	5,790	-	4,647
Michigan State Hospital Finance Authority	991	1,017	-	-	26
Michigan Strategic Fund	190,834	3,120	45,208	-	(142,506)
State Bar of Michigan	11,546	11,722	-	-	177
Total	<u>\$ 577,785</u>	<u>\$ 170,409</u>	<u>\$ 278,411</u>	<u>\$ -</u>	<u>\$ (128,965)</u>



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
\$ 168	\$ -	\$ 200	\$ -	\$ 2,485	\$ 3,269	\$ 5,754
77	-	341	-	(560)	11,447	10,887
1,048	-	-	-	5,085	136,409	141,495
183	-	-	-	267	7,682	7,949
-	-	154	-	-	-	-
105	-	4	-	2,323	2,267	4,590
1,284	-	7,655	-	21,866	108,422	130,288
(13)	493	-	-	(329)	7,832	7,503
-	-	-	-	(3,796)	19,222	15,426
14	-	-	-	22	498	520
6,697	-	-	-	(260)	99,060	98,800
-	-	-	-	4,647	4,684	9,331
234	-	-	-	261	6,149	6,410
(203)	123,174	37,546	-	18,012	87,791	105,803
424	-	-	-	601	13,467	14,068
<u>\$ 10,020</u>	<u>\$ 123,667</u>	<u>\$ 45,900</u>	<u>\$ -</u>	<u>\$ 50,623</u>	<u>\$ 508,202</u>	<u>\$ 558,824</u>



## COMPONENT UNITS – STATE UNIVERSITIES

The State has 13 legally separate public universities, 10 of which are included in this report as component units and 3 of which are excluded. Included are the 10 universities whose governing boards are appointed by the Governor and for which the State is legally accountable, as prescribed by the Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity. Excluded are those 3 that have governing boards whose members are elected by the voters and, therefore, considered separate special purpose governments. The 3 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 10 universities is based upon their separately issued financial statements for the fiscal year ended on June 30, 2008. 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, 2008

(In Thousands)

	EASTERN MICHIGAN UNIVERSITY	FERRIS STATE UNIVERSITY	GRAND VALLEY STATE UNIVERSITY	LAKE SUPERIOR STATE UNIVERSITY
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 20,054	\$ 38,801	\$ 23,617	\$ 5,500
Amounts due from component units	-	-	-	-
Amounts due from primary government	19,559	9,689	36,595	2,403
Amounts due from federal government	2,696	204	1,912	212
Amounts due from local units	-	-	-	-
Inventories	1,791	940	2,348	253
Investments	102,048	28,333	5,898	-
Other current assets	14,424	5,190	12,619	1,541
Total Current Assets	<u>160,572</u>	<u>83,156</u>	<u>82,989</u>	<u>9,909</u>
Restricted Assets:				
Cash and cash equivalents	-	-	10,812	1,190
Investments	12,362	15,614	14,180	4,337
Mortgages and loans receivable	11,422	19,972	7,985	-
Mortgages and loans receivable	-	-	-	2,817
Investments	-	52,469	136,952	8,134
Capital Assets:				
Land and other non-depreciable assets	11,079	5,950	34,953	2,551
Buildings, equipment, and other depreciable assets	541,615	338,519	597,969	140,509
Less accumulated depreciation	(239,153)	(157,284)	(170,349)	(76,722)
Construction in progress	3,163	8,326	49,649	-
Total capital assets	<u>316,704</u>	<u>195,510</u>	<u>512,223</u>	<u>66,337</u>
Other noncurrent assets	<u>1,240</u>	<u>1,294</u>	<u>15,943</u>	<u>-</u>
Total Assets	<u>\$ 502,300</u>	<u>\$ 368,016</u>	<u>\$ 781,084</u>	<u>\$ 92,724</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and other liabilities	\$ 34,890	\$ 16,281	\$ 49,987	\$ 1,879
Amounts due to primary government	288	-	77	205
Bonds and notes payable	5,949	3,005	8,310	955
Interest payable	873	733	918	177
Deferred revenue	7,715	6,288	10,136	1,051
Current portion of other long-term obligations	400	85	3,596	677
Total Current Liabilities	<u>50,115</u>	<u>26,392</u>	<u>73,024</u>	<u>4,944</u>
Deferred revenue	-	951	737	-
Bonds and notes payable	142,591	69,770	205,729	26,590
Noncurrent portion of other long-term obligations	15,510	22,288	2,070	3,553
Total Liabilities	<u>\$ 208,216</u>	<u>\$ 119,402</u>	<u>\$ 281,560</u>	<u>\$ 35,087</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 168,308	\$ 125,637	\$ 309,960	\$ 38,246
Restricted For:				
Education	-	8,299	17,156	13,967
Construction and debt service	10,792	-	16,320	256
Other purposes	27,371	-	-	3,103
Funds Held as Permanent Investments:				
Expendable	-	5,698	25,673	-
Nonexpendable	30,820	15,614	29,478	-
Unrestricted	<u>56,792</u>	<u>93,365</u>	<u>100,936</u>	<u>2,065</u>
Total Net Assets	<u>\$ 294,083</u>	<u>\$ 248,614</u>	<u>\$ 499,524</u>	<u>\$ 57,637</u>

**Michigan**

<u>MICHIGAN TECHNOLOGICAL UNIVERSITY</u>	<u>NORTHERN MICHIGAN UNIVERSITY</u>	<u>OAKLAND UNIVERSITY</u>	<u>SAGINAW VALLEY STATE UNIVERSITY</u>	<u>TOTALS</u>
\$ 15,620	\$ 63,078	\$ 33,766	\$ 42,109	\$ 242,545
-	18	-	-	18
9,121	11,532	9,489	17,268	115,654
4,475	326	1,769	777	12,371
-	2	184	-	185
1,489	1,315	854	2,459	11,449
-	151	-	51	136,481
6,221	7,150	7,988	4,142	59,274
<u>36,925</u>	<u>83,570</u>	<u>54,050</u>	<u>66,805</u>	<u>577,977</u>
5,177	-	-	2,805	19,986
96,361	-	50,450	-	193,304
-	-	1,876	-	41,255
13,294	8,114	-	24	24,250
6,257	49,195	77,889	36,896	367,792
14,184	5,765	4,325	2,490	81,297
332,585	351,800	388,001	354,010	3,045,008
(126,365)	(127,047)	(166,217)	(116,809)	(1,179,948)
1,867	7,295	17,276	11,374	98,950
<u>222,272</u>	<u>237,813</u>	<u>243,384</u>	<u>251,065</u>	<u>2,045,307</u>
<u>9,226</u>	<u>2,567</u>	<u>2,901</u>	<u>3,919</u>	<u>37,091</u>
<u>\$ 389,513</u>	<u>\$ 381,259</u>	<u>\$ 430,550</u>	<u>\$ 361,515</u>	<u>\$ 3,306,961</u>
\$ 10,681	\$ 16,041	\$ 15,042	\$ 17,517	\$ 162,318
700	294	368	-	1,930
1,050	3,274	2,645	2,176	27,365
338	-	661	-	3,701
2,263	4,349	10,834	5,289	47,925
6,737	989	319	113	12,916
<u>21,770</u>	<u>24,947</u>	<u>29,870</u>	<u>25,095</u>	<u>256,156</u>
-	-	2,697	-	4,385
49,014	107,406	100,550	111,122	812,773
7,917	10,051	7,779	2,865	72,035
<u>\$ 78,701</u>	<u>\$ 142,405</u>	<u>\$ 140,896</u>	<u>\$ 139,082</u>	<u>\$ 1,145,349</u>
\$ 172,226	\$ 127,132	\$ 140,887	\$ 148,079	\$ 1,230,476
73,782	2,575	20,025	4,621	140,426
-	10,433	-	181	37,981
-	-	-	-	30,475
-	18,198	11,480	-	61,049
51,664	6,494	14,921	34,794	183,785
13,140	74,022	102,341	34,757	477,419
<u>\$ 310,812</u>	<u>\$ 238,854</u>	<u>\$ 289,654</u>	<u>\$ 222,433</u>	<u>\$ 2,161,612</u>

**COMBINING STATEMENT OF ACTIVITIES**  
**NON-MAJOR COMPONENT UNITS - STATE UNIVERSITIES**  
 FISCAL YEAR ENDED JUNE 30, 2008  
 (In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	
Eastern Michigan University	\$ 309,244	\$ 186,927	\$ 11,834	\$ 95	\$ (110,388)
Ferris State University	204,278	137,207	1,771	-	(65,300)
Grand Valley State University	312,669	208,928	24,065	16,331	(63,345)
Lake Superior State University	47,199	22,706	7,952	644	(15,898)
Michigan Technological University	198,988	86,836	55,936	-	(56,217)
Northern Michigan University	151,171	85,683	11,838	1,290	(52,359)
Oakland University	209,807	138,288	20,200	34	(51,285)
Saginaw Valley State University	116,242	69,233	8,921	-	(38,088)
Total	<u>\$ 1,549,599</u>	<u>\$ 935,807</u>	<u>\$ 142,518</u>	<u>\$ 18,395</u>	<u>\$ (452,879)</u>

GENERAL REVENUES

INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	CHANGE IN NET ASSETS	NET ASSETS BEGINNING OF YEAR RESTATED	NET ASSETS END OF YEAR
\$ 4,304	\$ 88,850	\$ 19,025	\$ 1,791	\$ 292,292	\$ 294,083
2,667	55,685	15,417	8,470	240,145	248,614
5,016	71,434	21,050	34,156	465,368	499,524
(1,145)	13,993	-	(3,050)	60,687	57,637
1,779	53,503	-	(935)	311,747	310,812
701	50,390	7,879	6,610	232,244	238,854
2,361	56,697	6,614	14,387	275,267	289,654
(1,596)	32,663	7,757	737	221,696	222,433
<u>\$ 14,087</u>	<u>\$ 423,216</u>	<u>\$ 77,742</u>	<u>\$ 62,166</u>	<u>\$ 2,099,446</u>	<u>\$ 2,161,612</u>







### **III. STATISTICAL SECTION**



**Index  
STATISTICAL SECTION**

This part of the State of Michigan's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

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**Financial Trends**

These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.

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These schedules contain information about the State's operations and resources to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.

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**SOURCES:**

Unless otherwise noted, the information in these schedules is derived from the financial statements presented in the comprehensive annual financial reports for the relevant years.

**NOTES:**

The State of Michigan implemented GASB Statement No. 34 in fiscal year 2001; therefore, some schedules only include financial data beginning in that year.

**NET ASSETS BY COMPONENT  
LAST EIGHT FISCAL YEARS**

(In Thousands)

(Accrual Basis of Accounting)

	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Governmental activities</b>			
Invested in capital assets, net of related debt	\$ 15,129,844	\$ 15,014,812	\$ 14,996,945
Restricted	2,849,171	2,016,570	1,886,336
Unrestricted	1,404,776	338,575	(652,923)
<b>Total governmental activities net assets</b>	<u>\$ 19,383,790</u>	<u>\$ 17,369,957</u>	<u>\$ 16,230,358</u>
<b>Business-type activities</b>			
Invested in capital assets, net of related debt	\$ 287	\$ 443	\$ 581
Restricted	3,121,417	2,563,917	1,765,699
Unrestricted	6,388	4,433	4,295
<b>Total business-type activities net assets</b>	<u>\$ 3,128,093</u>	<u>\$ 2,568,793</u>	<u>\$ 1,770,575</u>
<b>Primary government</b>			
Invested in capital assets, net of related debt	\$ 15,130,131	\$ 15,015,255	\$ 14,997,525
Restricted	5,970,588	4,580,487	3,652,035
Unrestricted	1,411,164	343,008	(648,628)
<b>Total primary government net assets</b>	<u>\$ 22,511,883</u>	<u>\$ 19,938,749</u>	<u>\$ 18,000,933</u>
<b>Reconciliation of net assets</b>			
Beginning net assets	\$ 22,586,033	\$ 22,511,883	\$ 19,938,749
Restatement of beginning net assets	-	-	-
Beginning net assets - restated	22,586,033	22,511,883	19,938,749
Statement of Activities - changes in net assets	(74,150)	(2,573,134)	(1,937,817)
<b>Ending net assets</b>	<u>\$ 22,511,883</u>	<u>\$ 19,938,749</u>	<u>\$ 18,000,933</u>

2004	2005	2006	2007	2008
\$ 14,962,902	\$ 15,245,452	\$ 15,827,600	\$ 15,739,094	\$ 15,909,317
1,993,335	2,086,764	2,064,965	2,292,779	2,599,760
(960,684)	(932,221)	(1,724,799)	(2,173,281)	(2,788,445)
<u>\$ 15,995,554</u>	<u>\$ 16,399,994</u>	<u>\$ 16,167,767</u>	<u>\$ 15,858,592</u>	<u>\$ 15,720,632</u>
\$ 566	\$ 582	\$ 412	\$ 367	\$ 807
1,164,540	894,513	621,982	358,712	72,672
5,910	6,891	7,827	4,798	(121,773)
<u>\$ 1,171,016</u>	<u>\$ 901,986</u>	<u>\$ 630,220</u>	<u>\$ 363,877</u>	<u>\$ (48,294)</u>
\$ 14,963,468	\$ 15,246,033	\$ 15,828,012	\$ 15,739,461	\$ 15,910,124
3,157,875	2,981,277	2,686,947	2,651,490	2,672,432
(954,774)	(925,330)	(1,716,972)	(2,168,482)	(2,910,218)
<u>\$ 17,166,569</u>	<u>\$ 17,301,980</u>	<u>\$ 16,797,987</u>	<u>\$ 16,222,469</u>	<u>\$ 15,672,338</u>
\$ 18,000,933	\$ 17,166,569	\$ 17,301,980	\$ 16,797,987	\$ 16,222,469
203,870	75,489	188,188	-	(54,373)
18,204,803	17,242,058	17,490,168	16,797,987	16,168,096
(1,038,233)	59,922	(692,181)	(575,518)	(495,759)
<u>\$ 17,166,569</u>	<u>\$ 17,301,980</u>	<u>\$ 16,797,987</u>	<u>\$ 16,222,469</u>	<u>\$ 15,672,338</u>

**CHANGES IN NET ASSETS  
LAST EIGHT FISCAL YEARS**

(In Thousands)

(Accrual Basis of Accounting)

	2001	2002	2003
<b>Expenses</b>			
Governmental activities:			
General government	\$ 1,735,152	\$ 1,560,139	\$ 1,714,827
Education	14,109,560	14,696,060	14,839,951
Human services	3,627,815	3,792,086	3,891,686
Public safety and corrections	2,098,619	2,161,486	2,159,537
Conservation, environment, recreation, and agriculture	682,875	691,796	612,638
Labor, commerce, and regulatory	884,129	898,235	901,562
Health services	8,535,965	8,952,390	9,362,895
Transportation	2,766,735	3,268,241	2,792,752
Tax expenditures (Note 15)	532,800	615,100	707,800
Intergovernmental - revenue sharing	1,555,799	1,517,303	1,451,374
Interest on long - term debt	221,333	248,263	281,408
Total governmental activities	<u>36,750,783</u>	<u>38,401,099</u>	<u>38,716,430</u>
Business-type activities:			
Liquor Purchase Revolving Fund	479,359	494,696	515,243
State Lottery Fund	1,132,767	1,153,280	1,152,760
Attorney Discipline System	-	-	-
Michigan Unemployment Compensation Funds	1,485,947	2,328,713	2,473,817
Total business - type activities	<u>3,098,072</u>	<u>3,976,689</u>	<u>4,141,820</u>
Total primary government expenses	<u>\$ 39,848,855</u>	<u>\$ 42,377,787</u>	<u>\$ 42,858,249</u>
<b>Program Revenues</b>			
Governmental activities:			
Charges for services:			
General government	\$ 612,104	\$ 664,533	\$ 670,680
Education	12,836	10,587	14,030
Human services	66,365	54,982	49,917
Public safety and corrections	98,075	113,058	111,843
Conservation, environment, recreation, and agriculture	262,367	233,430	236,157
Labor, commerce, and regulatory	204,650	256,314	252,982
Health services	42,959	56,822	229,826
Transportation	197,536	219,129	217,466
Operating grants and contributions	10,255,342	10,848,672	11,290,702
Capital grants and contributions	667,437	589,530	546,713
Total governmental activities program revenues	<u>\$ 12,419,671</u>	<u>\$ 13,047,057</u>	<u>\$ 13,620,316</u>
Business-type activities:			
Charges for services:			
Liquor Purchase Revolving Fund	\$ 592,084	\$ 607,413	\$ 638,170
State Lottery Fund	1,655,683	1,729,938	1,700,313
Attorney Discipline System	-	-	-
Michigan Unemployment Compensation Funds	1,050,123	1,426,748	1,701,364
Operating grants and contributions	313,629	535,524	135,116
Total business - type activities program revenues	<u>3,611,520</u>	<u>4,299,623</u>	<u>4,174,964</u>
Total primary government program revenues	<u>\$ 16,031,192</u>	<u>\$ 17,346,681</u>	<u>\$ 17,795,280</u>
<b>Net (Expenses)/Revenues</b>			
Governmental activities	\$ (24,331,111)	\$ (25,354,041)	\$ (25,096,114)
Business - type activities	513,448	322,935	33,144
Total primary government net expenses	<u>\$ (23,817,663)</u>	<u>\$ (25,031,106)</u>	<u>\$ (25,062,969)</u>

**Michigan**

2004	2005	2006	2007	2008
\$ 1,748,598	\$ 1,877,410	\$ 2,288,504	\$ 2,205,679	\$ 1,671,941
14,418,940	14,531,388	14,695,186	14,660,163	15,080,883
3,985,861	4,154,811	4,384,311	4,453,497	4,699,046
2,256,393	2,320,406	2,541,630	2,583,916	2,895,133
674,387	652,326	688,407	596,972	572,755
920,056	936,467	951,519	963,444	995,714
9,605,216	10,179,705	9,963,373	10,832,862	11,622,966
3,104,841	3,106,993	3,133,137	3,191,784	3,235,394
702,700	815,300	834,000	883,400	931,600
1,305,146	1,112,931	1,103,625	1,071,104	1,076,445
246,992	287,519	306,788	345,437	387,800
<u>38,969,130</u>	<u>39,975,258</u>	<u>40,890,480</u>	<u>41,788,258</u>	<u>43,169,677</u>
544,683	557,377	582,982	602,280	621,991
1,391,385	1,447,285	1,584,186	1,654,823	1,636,858
4,056	3,856	4,122	4,282	4,976
<u>2,349,400</u>	<u>1,892,486</u>	<u>1,990,197</u>	<u>2,012,082</u>	<u>2,403,043</u>
<u>4,289,524</u>	<u>3,901,003</u>	<u>4,161,487</u>	<u>4,273,467</u>	<u>4,666,868</u>
<u>\$ 43,258,653</u>	<u>\$ 43,876,261</u>	<u>\$ 45,051,967</u>	<u>\$ 46,061,725</u>	<u>\$ 47,836,545</u>
\$ 826,573	\$ 876,151	\$ 965,130	\$ 1,062,224	\$ 590,493
5,277	4,858	9,306	10,377	6,616
58,170	53,400	56,367	59,285	57,963
154,440	155,683	160,829	164,345	168,789
254,861	269,035	251,591	185,978	282,008
247,857	238,229	262,021	312,983	304,145
57,071	72,062	72,564	72,338	79,683
197,125	201,598	84,280	79,459	72,651
11,783,472	11,792,127	11,624,786	12,300,068	12,963,536
618,445	805,580	779,269	627,057	719,518
<u>\$ 14,203,291</u>	<u>\$ 14,468,723</u>	<u>\$ 14,266,144</u>	<u>\$ 14,874,113</u>	<u>\$ 15,245,401</u>
\$ 675,747	\$ 688,928	\$ 718,085	\$ 742,959	\$ 768,085
2,002,688	2,082,229	2,232,204	2,363,001	2,351,082
4,593	4,588	4,631	4,782	4,885
1,817,576	1,646,311	1,727,761	1,765,871	1,998,292
76,762	54,148	53,932	55,783	44,262
<u>4,577,366</u>	<u>4,476,205</u>	<u>4,736,614</u>	<u>4,932,397</u>	<u>5,166,606</u>
<u>\$ 18,780,657</u>	<u>\$ 18,944,928</u>	<u>\$ 19,002,757</u>	<u>\$ 19,806,510</u>	<u>\$ 20,412,007</u>
\$ (24,765,839)	\$ (25,506,535)	\$ (26,624,336)	\$ (26,914,145)	\$ (27,924,276)
287,843	575,202	575,127	658,929	499,738
<u>\$ (24,477,996)</u>	<u>\$ (24,931,333)</u>	<u>\$ (26,049,209)</u>	<u>\$ (26,255,215)</u>	<u>\$ (27,424,538)</u>

**CHANGES IN NET ASSETS**  
**LAST EIGHT FISCAL YEARS (Continued)**

(In Thousands)

(Accrual Basis of Accounting)

	2001	2002	2003
<b>General Revenues and Other Changes in Net Assets</b>			
Governmental activities:			
Taxes:			
General:			
Sales and use	\$ 2,555,186	\$ 2,560,816	\$ 2,475,020
Personal income	5,483,584	4,549,592	4,569,230
Single business and Michigan business	2,207,500	1,783,582	1,824,292
Other	1,179,461	1,205,529	1,265,175
Restricted For Educational Purposes:			
Sales and use	5,117,360	5,177,407	5,081,189
Personal income	2,003,475	1,761,334	1,816,390
Michigan business	-	-	-
Education, property, and real estate transfers	1,742,445	1,847,603	2,408,728
Other	636,984	694,690	791,958
Restricted For Transportation Purposes:			
Sales and use	74,415	77,676	79,440
Gasoline and diesel fuel	1,077,187	1,090,866	1,089,558
Motor vehicle weight	777,903	827,347	844,695
Other	6,766	6,727	7,402
Unrestricted investment and interest earnings	159,194	51,657	14,132
Miscellaneous	668,970	790,940	813,608
Contributions to permanent fund principal	38,415	19,928	31,938
Transfers	737,635	894,513	843,762
Total governmental activities	<u>\$ 24,466,480</u>	<u>\$ 23,340,208</u>	<u>\$ 23,956,515</u>
Business - type activities:			
Taxes	10,419	10,707	11,297
Investment earnings	4,248	1,562	1,102
Miscellaneous	1	8	-
Transfers	(737,635)	(894,513)	(843,762)
Total business - type activities	<u>(722,967)</u>	<u>(882,235)</u>	<u>(831,363)</u>
Total primary government	<u>\$ 23,743,513</u>	<u>\$ 22,457,973</u>	<u>\$ 23,125,153</u>
<b>Changes in Net Assets</b>			
Governmental activities	\$ 135,369	\$ (2,013,834)	\$ (1,139,599)
Business - type activities	(209,519)	(559,300)	(798,218)
Total primary government	<u>\$ (74,150)</u>	<u>\$ (2,573,134)</u>	<u>\$ (1,937,817)</u>



**Michigan**

2004	2005	2006	2007	2008
\$ 2,565,865	\$ 2,663,226	\$ 2,665,614	\$ 2,635,341	\$ 2,701,052
4,693,512	5,036,282	5,123,885	5,321,169	6,229,339
1,773,325	1,934,003	1,926,884	1,771,854	1,715,861
1,640,244	2,209,052	2,189,417	2,348,619	2,516,526
5,143,414	5,283,583	5,240,334	5,230,217	5,424,253
1,896,860	2,019,932	2,069,435	2,142,251	2,174,393
-	-	-	-	341,000
2,142,706	2,236,159	2,320,578	2,336,474	2,266,377
775,297	754,431	759,440	747,241	678,157
64,960	56,924	66,405	67,678	82,114
1,070,488	1,068,565	1,054,766	1,016,957	992,502
933,822	863,367	867,663	874,287	854,736
7,721	6,719	5,974	6,339	5,675
9,728	14,141	9,991	12,097	7,595
677,848	788,809	1,003,976	1,124,818	865,407
30,759	41,033	35,153	26,165	57,937
901,580	859,260	864,406	943,460	927,763
<u>\$ 24,328,129</u>	<u>\$ 25,835,487</u>	<u>\$ 26,203,921</u>	<u>\$ 26,604,970</u>	<u>\$ 27,840,688</u>
11,989	12,194	12,654	13,133	13,663
1,225	2,784	4,861	5,055	2,192
-	50	-	-	-
(901,580)	(859,260)	(864,406)	(943,460)	(927,763)
<u>(888,366)</u>	<u>(844,232)</u>	<u>(846,892)</u>	<u>(925,273)</u>	<u>(911,909)</u>
<u>\$ 23,439,763</u>	<u>\$ 24,991,255</u>	<u>\$ 25,357,029</u>	<u>\$ 25,679,697</u>	<u>\$ 26,928,780</u>
\$ (437,710)	\$ 328,952	\$ (420,415)	\$ (309,175)	\$ (83,588)
(600,524)	(269,030)	(271,766)	(266,343)	(412,171)
<u>\$ (1,038,233)</u>	<u>\$ 59,922</u>	<u>\$ (692,181)</u>	<u>\$ (575,518)</u>	<u>\$ (495,759)</u>

**FUND BALANCES, GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS**

(In Thousands)

(Modified Accrual Basis of Accounting)

	1999	2000	2001	2002
General Fund				
Reserved	\$ 1,575,960	\$ 1,889,523	\$ 1,880,452	\$ 1,662,579
Unreserved	-	211,810	28,072	114,500
Total general fund	<u>\$ 1,575,960</u>	<u>\$ 2,101,333</u>	<u>\$ 1,908,525</u>	<u>\$ 1,777,079</u>
All Other Governmental Funds				
Reserved	\$ 1,014,183	\$ 1,396,417	\$ 1,393,523	\$ 1,441,759
Unreserved, reported in:				
Special revenue funds	2,112,480	2,358,165	2,462,033	968,700
Debt service funds	246,973	291,822	318,721	406,903
Capital projects funds	(265,559)	(513,593)	(287,958)	(158,776)
Permanent funds	-	-	41,082	40,459
Total all other governmental funds	<u>\$ 3,108,077</u>	<u>\$ 3,532,811</u>	<u>\$ 3,927,400</u>	<u>\$ 2,699,045</u>
Reconciliation of governmental fund balances				
Beginning fund balances	\$ 4,096,329	\$ 4,684,037	\$ 5,634,144	\$ 5,835,924
Restatement of beginning fund balances	21,911	-	369,229	-
Beginning fund balances - restated	4,118,239	4,684,037	6,003,373	5,835,924
Excess of revenues and other sources over (under) expenditures and other uses	565,798	950,107	(167,449)	(1,359,800)
Ending fund balances	<u>\$ 4,684,037</u>	<u>\$ 5,634,144</u>	<u>\$ 5,835,924</u>	<u>\$ 4,476,125</u>

**Michigan**

2003	2004	2005	2006	2007	2008
\$ 1,136,802	\$ 1,169,819	\$ 1,232,856	\$ 1,066,757	\$ 722,948	\$ 833,104
173,956	-	220,537	2,482	259,080	457,870
<u>\$ 1,310,758</u>	<u>\$ 1,169,819</u>	<u>\$ 1,453,393</u>	<u>\$ 1,069,240</u>	<u>\$ 982,028</u>	<u>\$ 1,290,974</u>
\$ 1,445,064	\$ 1,665,549	\$ 1,759,462	\$ 1,657,248	\$ 1,945,448	\$ 1,968,781
571,164	537,917	303,226	868,138	838,167	611,448
369,313	365,841	194,586	189,851	208,868	220,517
(436,623)	(451,060)	(349,643)	(87,918)	(239,869)	(238,718)
34,719	42,778	43,259	43,791	41,361	54,791
<u>\$ 1,983,637</u>	<u>\$ 2,161,025</u>	<u>\$ 1,950,891</u>	<u>\$ 2,671,111</u>	<u>\$ 2,793,975</u>	<u>\$ 2,616,818</u>
\$ 4,476,125	\$ 3,294,395	\$ 3,330,844	\$ 3,404,284	\$ 3,740,351	\$ 3,776,004
(255,500)	-	-	-	-	-
4,220,625	3,294,395	3,330,844	3,404,284	3,740,351	3,776,004
(926,230)	36,449	73,440	336,067	35,653	131,789
<u>\$ 3,294,395</u>	<u>\$ 3,330,844</u>	<u>\$ 3,404,284</u>	<u>\$ 3,740,351</u>	<u>\$ 3,776,004</u>	<u>\$ 3,907,792</u>

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS**

(In Thousands)

(Modified Accrual Basis of Accounting)

	1999	2000	2001	2002
<b>Revenues</b>				
Taxes	\$ 21,958,875	\$ 22,865,469	\$ 22,405,023	\$ 22,070,408
From federal agencies	7,911,473	8,581,461	9,572,898	10,203,716
From local agencies	183,822	173,882	227,996	248,867
From services	113,415	110,294	115,346	121,849
From licenses and permits	383,778	393,006	391,655	408,746
Special Medicaid reimbursements	690,799	1,059,343	1,155,374	1,109,233
Miscellaneous	796,444	1,063,355	1,411,628	1,218,388
Total revenues	<u>32,038,606</u>	<u>34,246,809</u>	<u>35,279,920</u>	<u>35,381,208</u>
<b>Expenditures</b>				
General government	1,072,930	1,071,893	1,277,822	1,544,055
Education	11,851,116	12,510,188	14,176,060	14,744,715
Human services	3,229,377	3,336,835	3,598,591	3,793,974
Public safety and corrections	1,908,871	1,983,001	2,159,602	2,136,506
Conservation, environment, recreation, and agriculture	482,901	564,738	636,279	650,353
Labor, commerce, and regulatory	720,070	740,687	881,069	891,817
Health services	7,100,795	7,692,354	8,525,435	8,891,480
Transportation	1,645,123	1,663,318	2,058,484	2,118,452
Tax expenditures	486,100	502,100	532,800	615,100
Capital outlay	1,307,822	1,427,858	1,532,145	1,465,800
Intergovernmental - revenue sharing	1,410,400	1,494,016	1,555,799	1,517,303
Debt service:				
Bond principal retirement	218,266	199,820	219,552	226,801
Bond interest and fiscal charges	195,708	202,434	201,980	225,678
Capital lease payments	59,287	52,027	48,820	51,387
Total Expenditures	<u>31,688,767</u>	<u>33,441,268</u>	<u>37,404,438</u>	<u>38,873,422</u>
Excess of revenues over (under) expenditures	349,839	805,541	(2,124,519)	(3,492,214)
<b>Other Financing Sources (Uses)</b>				
Bonds and notes issued	85,488	231,115	1,223,549	987,850
Premium on bond issuance	-	-	44,373	64,238
Discount on bond issuance	-	-	-	-
Refunding bonds issued	336,145	-	630,812	488,145
Payment to refunded bond escrow agent	(360,810)	-	(698,723)	(527,303)
Extinguishment of commercial paper	-	-	(40,680)	(51,890)
Capital lease acquisitions	57,609	22,330	23,014	237,272
Proceeds from sale of capital assets	-	-	-	-
Transfers from other funds	3,096,878	3,138,332	3,185,915	4,132,997
Transfers from component units	621	354	-	-
Transfers to other funds	(2,282,944)	(2,325,522)	(2,411,191)	(3,198,895)
Transfers to component units	(706,175)	(904,689)	-	-
Total other financing sources (uses)	<u>226,812</u>	<u>161,920</u>	<u>1,957,070</u>	<u>2,132,415</u>
Net change in fund balances	<u>\$ 576,651</u>	<u>\$ 967,461</u>	<u>\$ (167,449)</u>	<u>\$ (1,359,800)</u>
Debt service as a percentage of noncapital expenditures	2%	1%	1%	1%

## Michigan

	2003	2004	2005	2006	2007	2008
\$	22,425,957	\$ 22,799,928	\$ 23,936,964	\$ 24,198,924	\$ 24,370,884	\$ 26,075,135
	10,813,804	11,580,220	11,974,006	12,160,022	12,655,930	13,432,638
	230,728	239,815	262,875	124,101	139,429	126,550
	121,198	148,140	264,956	269,593	284,370	291,380
	417,786	555,858	423,501	437,560	444,841	441,407
	932,658	704,551	467,970	93,621	102,670	115,797
	1,467,812	1,205,367	1,475,377	1,549,859	1,860,302	1,653,059
	<u>36,409,943</u>	<u>37,233,878</u>	<u>38,805,648</u>	<u>38,833,679</u>	<u>39,858,425</u>	<u>42,135,966</u>
	1,209,916	1,117,659	1,307,448	1,635,378	1,593,877	1,555,951
	14,866,526	14,445,184	14,557,032	14,758,992	14,679,504	15,099,591
	3,877,953	3,935,170	4,122,779	4,341,774	4,447,992	4,609,481
	2,115,448	2,121,584	2,287,452	2,455,145	2,467,512	2,617,048
	591,218	586,096	614,939	642,815	568,398	597,267
	891,644	902,903	924,876	952,921	957,023	966,091
	9,270,484	9,676,268	10,126,544	9,958,104	10,741,285	11,588,207
	2,080,361	2,212,371	2,167,888	2,082,847	2,178,923	2,338,907
	707,800	702,700	815,300	834,000	883,400	931,600
	1,164,002	1,100,106	1,274,247	1,462,405	1,362,102	1,229,102
	1,451,374	1,305,146	1,112,931	1,103,625	1,071,104	1,076,445
	222,477	729,557	354,711	773,826	238,789	238,371
	239,054	241,194	276,216	294,093	329,171	339,237
	67,723	50,840	49,530	49,183	46,074	50,176
	<u>38,755,981</u>	<u>39,126,778</u>	<u>39,991,894</u>	<u>41,345,109</u>	<u>41,565,154</u>	<u>43,237,473</u>
	(2,346,038)	(1,892,901)	(1,186,245)	(2,511,430)	(1,706,729)	(1,101,507)
	568,616	520,676	365,164	1,453,606	1,008,107	185,242
	87,561	55,940	97,857	46,234	18,662	16,811
	-	-	-	(496,466)	(15,213)	(3,309)
	692,694	660,249	1,528,539	1,494,050	-	347,446
	(851,235)	(247,256)	(1,609,886)	(563,776)	(240,280)	(361,879)
	-	-	-	-	-	-
	16,052	19,661	6,778	34,059	20,906	110,838
	-	17,236	10,643	13,974	5,347	30,505
	3,433,535	3,294,939	2,924,083	3,137,772	3,275,148	2,824,489
	-	-	-	-	-	-
	(2,527,415)	(2,392,095)	(2,063,492)	(2,271,956)	(2,330,295)	(1,916,847)
	-	-	-	-	-	-
	<u>1,419,808</u>	<u>1,929,350</u>	<u>1,259,686</u>	<u>2,847,496</u>	<u>1,742,382</u>	<u>1,233,296</u>
\$	<u>(926,230)</u>	<u>\$ 36,449</u>	<u>\$ 73,440</u>	<u>\$ 336,067</u>	<u>\$ 35,653</u>	<u>\$ 131,789</u>
	1%	3%	2%	3%	2%	1%

## Michigan

### PERSONAL INCOME BY INDUSTRY

LAST TEN FISCAL YEARS

(In Millions)

	1998	1999	2000
Farm earnings	\$ 632	\$ 799	\$ 634
Forestry, fishing, related activities, and other	294	305	326
Mining	682	637	697
Utilities	2,352	2,422	2,331
Construction	11,103	12,118	13,932
Manufacturing	53,007	56,224	58,751
Wholesale trade	10,019	10,689	11,749
Retail trade	13,269	14,069	14,830
Transportation and warehousing	5,647	6,196	6,374
Information	4,081	4,477	4,564
Finance and insurance	8,425	9,008	9,130
Real estate and rental and leasing	2,703	3,291	3,566
Professional and technical services	19,569	22,503	24,159
Management of companies and enterprises	6,979	6,864	7,167
Administrative and waste services	7,162	7,978	8,899
Educational services	1,229	1,396	1,427
Health care and social assistance	16,963	17,773	18,920
Arts, entertainment, and recreation	1,299	1,480	1,887
Accommodation and food services	4,269	4,388	4,766
Other services, except public administration	5,576	5,673	6,054
Government and government enterprises	27,134	27,902	29,442
<b>Total earnings by place of work</b>	<b>202,390</b>	<b>216,188</b>	<b>229,603</b>
Total earnings by place of work	202,390	216,188	229,603
less: Contributions for government social insurance	23,742	25,120	26,338
plus: Adjustment for residence	883	966	1,007
<b>Net earnings by place of residence</b>	<b>179,531</b>	<b>192,034</b>	<b>204,271</b>
Net earnings by place of residence	179,531	192,034	204,271
plus: Dividends, interest, and rent	46,084	45,952	48,662
plus: Personal current transfer receipts	35,163	36,931	38,552
<b>Total Personal Income</b>	<b>\$ 260,778</b>	<b>\$ 274,918</b>	<b>\$ 291,485</b>
Statutory Tax Rate (blended rate)	4.40%	4.40%	4.25%

NOTES: Earnings presented are blended averages. Due to the use of averages and blended amounts, the totals may not equal the sum of the industry amounts presented.

Earnings includes wages and salaries, supplements to wages and proprietors' income.

Industries categorized using the North American Industry Classification System.

Fiscal year 2007 is the most recent year for which data is available.

SOURCES: U.S. Bureau of Economic Analysis, U.S. Department of Commerce.

Office of Revenue and Tax Analysis, Michigan Department of Treasury.

## Michigan

	2001	2002	2003	2004	2005	2006	2007
\$	387	\$ 313	\$ 610	\$ 870	\$ 910	\$ 721	\$ 973
	352	318	307	320	325	335	344
	783	657	705	781	848	962	1,065
	2,556	2,558	2,779	2,762	2,801	2,967	3,246
	13,831	13,797	13,227	13,663	14,247	14,004	13,211
	56,032	55,399	61,360	57,954	54,200	53,992	54,151
	11,561	11,259	11,602	11,931	12,449	12,762	13,152
	15,083	15,437	15,471	15,666	15,779	15,682	15,798
	6,749	6,535	6,573	7,037	7,266	7,123	7,418
	4,560	4,623	4,640	4,775	4,811	4,865	5,009
	10,409	11,134	11,645	11,927	12,202	12,735	13,070
	6,249	6,561	5,733	6,134	6,771	6,174	5,849
	24,128	24,179	23,371	24,003	25,120	25,693	26,700
	6,812	6,379	6,372	6,900	7,285	6,860	6,908
	8,801	9,034	9,508	10,024	10,890	11,114	10,951
	1,526	1,656	1,829	2,056	2,189	2,281	2,458
	19,721	20,959	21,955	23,178	24,634	25,856	27,113
	1,988	2,157	2,179	2,293	2,246	2,331	2,427
	4,828	5,041	5,176	5,461	5,577	5,721	5,957
	6,225	6,425	6,644	6,807	6,930	6,960	7,157
	30,454	31,898	33,207	34,764	36,668	37,254	38,024
	<u>233,034</u>	<u>236,316</u>	<u>244,892</u>	<u>249,304</u>	<u>254,144</u>	<u>256,391</u>	<u>260,977</u>
	233,034	236,316	244,892	249,304	254,144	256,391	260,977
	26,311	26,615	27,284	28,036	28,844	29,345	29,900
	1,054	1,078	1,117	1,212	1,289	1,408	1,479
	<u>207,776</u>	<u>210,780</u>	<u>218,726</u>	<u>222,480</u>	<u>226,589</u>	<u>228,454</u>	<u>232,556</u>
	207,776	210,780	218,726	222,480	226,589	228,454	232,556
	48,316	46,414	45,143	45,786	46,792	47,794	51,288
	42,036	44,733	46,595	48,652	51,267	54,686	58,849
\$	<u>298,129</u>	<u>301,926</u>	<u>310,463</u>	<u>316,918</u>	<u>324,647</u>	<u>330,934</u>	<u>342,692</u>
	4.20%	4.13%	4.03%	3.98%	3.90%	3.90%	3.90%

## Michigan

### TAXABLE SALES BY INDUSTRY

LAST TEN FISCAL YEARS

(In Millions)

	1998	1999	2000	2001
Farming	\$ 72.1	\$ 67.9	\$ 83.3	\$ 78.9
Agricultural	218.1	245.7	273.0	269.7
Mining	128.3	138.9	174.0	183.9
Construction	697.7	717.2	816.3	795.9
Manufacturing	3,638.8	3,812.0	4,040.2	3,783.1
Transportation and utilities	7,502.0	7,795.0	8,331.9	8,734.9
Wholesale trade	2,900.5	3,110.6	3,434.2	3,231.4
Retail trade	70,134.1	72,342.7	78,301.4	80,297.7
Finance, insurance, and real estate	1,575.4	1,385.3	1,153.6	929.0
Services	6,170.3	6,803.2	7,720.5	8,179.2
State and local government	133.9	145.8	167.6	172.4
Other classifications	510.9	571.0	692.6	675.8
<b>Total</b>	<b>\$ 93,682.2</b>	<b>\$ 97,135.3</b>	<b>\$ 105,188.4</b>	<b>\$ 107,331.8</b>
Direct Sales Tax Rate	6%	6%	6%	6%

NOTES: Taxable sales were imputed from fiscal year sales tax cash collections by industry.

Industries categorized by using the Standard Industrial Classification.

Fiscal year 2007 is the most recent year for which data is available.

SOURCE: Michigan Department of Treasury.



## Michigan

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2002	2003	2004	2005	2006	2007
\$ 80.8	\$ 77.8	\$ 77.2	\$ 78.9	\$ 78.5	\$ 73.6
243.3	275.3	275.3	277.5	270.7	250.3
173.8	174.6	159.9	181.0	192.5	183.4
778.8	741.5	768.8	788.3	782.3	706.4
3,486.9	3,225.4	3,315.5	3,577.2	3,424.2	3,283.3
8,632.8	9,030.7	9,369.3	10,359.4	11,715.5	12,091.0
2,970.7	3,121.5	3,127.9	3,270.5	3,400.5	2,881.0
82,580.9	82,417.6	83,135.4	84,719.4	83,382.5	83,464.8
718.1	622.2	472.3	460.8	435.6	333.3
8,276.9	8,077.5	7,686.8	7,121.3	6,215.0	6,483.1
155.6	150.9	162.0	184.3	197.7	202.6
707.6	614.2	951.9	1,021.3	806.4	1,091.1
<u>\$ 108,806.2</u>	<u>\$ 108,529.3</u>	<u>\$ 109,502.2</u>	<u>\$ 112,040.0</u>	<u>\$ 110,901.4</u>	<u>\$ 111,043.9</u>
6%	6%	6%	6%	6%	6%

**Michigan**

**PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL**  
**TAX YEARS 1997 AND 2006**

Adjusted Gross Income (AGI) Group	Tax Year 1997				Tax Year 2006			
	Number of Filers	Percentage of Total	Personal Income Tax (In Millions)	Percentage of Total	Number of Filers	Percentage of Total	Personal Income Tax (In Millions)	Percentage of Total
\$50,000 and under	3,103,046	72.0%	\$ 1,313.9	23.6%	2,904,362	64.7%	\$ 443.5	7.9%
\$50,001 - \$100,000	929,512	21.6%	2,203.9	39.5%	1,059,606	23.6%	1,937.8	34.7%
\$100,001 and higher	275,985	6.4%	2,056.8	36.9%	523,289	11.7%	3,203.5	57.4%
<b>Total</b>	<b>4,308,543</b>	<b>100.0%</b>	<b>\$ 5,574.6</b>	<b>100.0%</b>	<b>4,487,257</b>	<b>100.0%</b>	<b>\$ 5,584.8</b>	<b>100.0%</b>

NOTES: Due to confidentiality issues, the names of the ten largest revenue payers are not available. These categories are intended to provide alternative information regarding the sources of the State's personal income tax revenue.

Tax year 2006 is the most recent year for which data is available.

SOURCE: Michigan Department of Treasury.

## SALES TAX PAYERS BY INDUSTRY

FISCAL YEARS 1998 AND 2007

	1998				2007			
	Number of Filers	Percentage of Total	Tax Liability (In Millions)	Percentage of Total	Number of Filers	Percentage of Total	Tax Liability (In Millions)	Percentage of Total
Farming	654	0.56%	\$ 4.4	0.08%	576	0.55%	\$ 4.4	0.07%
Agricultural	1,661	1.41%	13.0	0.23%	1,520	1.45%	15.0	0.23%
Mining	295	0.25%	7.7	0.14%	278	0.26%	11.0	0.17%
Construction	2,833	2.41%	41.9	0.76%	2,634	2.51%	42.4	0.65%
Manufacturing	7,624	6.48%	218.3	3.95%	6,512	6.20%	197.0	3.02%
Transportation and utilities	1,299	1.10%	355.6	6.43%	1,320	1.26%	589.0	9.02%
Wholesale trade	3,005	2.55%	174.0	3.15%	2,307	2.20%	172.9	2.65%
Retail trade	72,177	61.34%	4,208.0	76.14%	62,612	59.64%	5,007.9	76.74%
Finance, insurance, and real estate	501	0.43%	94.5	1.71%	476	0.45%	20.0	0.31%
Services	26,865	22.83%	370.2	6.70%	25,210	24.01%	389.0	5.96%
State and local government	326	0.28%	8.0	0.15%	325	0.31%	12.2	0.19%
Other classifications	419	0.36%	30.7	0.55%	1,213	1.16%	65.5	1.00%
<b>Total</b>	<b>117,659</b>	<b>100.00%</b>	<b>\$ 5,526.4</b>	<b>100.00%</b>	<b>104,983</b>	<b>100.00%</b>	<b>\$ 6,526.1</b>	<b>100.00%</b>

NOTES: Due to confidentiality issues, the names of the ten largest revenue payers are not available. These categories are intended to provide alternative information regarding the sources of the State's sales tax revenue.

Fiscal year 2007 is the most recent year for which data is available.

Industries categorized using the Standard Industrial Classification.

SOURCE: Michigan Department of Treasury.

## Michigan

### RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

(In Millions)

FISCAL YEAR	GOVERNMENTAL ACTIVITIES					
	GENERAL OBLIGATION BONDS	STATE PARK REVENUE BONDS	MUSTFA REVENUE BONDS	TRANSPORTATION REVENUE BONDS	STATE BUILDING AUTHORITY BONDS	TOBACCO SETTLEMENT FINANCE AUTHORITY
1999	\$ 870	\$ -	\$ 181	\$ 859	\$ 1,945	\$ -
2000	930	-	167	837	1,826	-
2001	1,032	-	153	1,122	2,159	-
2002	1,120	16	138	1,173	2,582	-
2003	1,413	16	122	1,176	2,607	-
2004	1,528	15	105	1,323	2,545	-
2005	1,645	15	-	1,652	2,615	-
2006	1,794	14	-	1,889	3,449	491
2007	1,488	13	-	2,328	3,366	1,018
2008	1,487	13	-	2,257	3,375	1,083

NOTE: Article 9, Section 15 of the State Constitution allows for long-term borrowing by the State for specific purposes in amounts as may be provided by acts of the Legislature adopted by a vote of two-thirds of the members in each house, and approved by a majority of the people voting at a general election. The debts of public bodies corporate and politic created by law are not general obligation debts and liabilities of the State of Michigan. Details regarding the State's debt can be found in the bonds and notes payable note of the financial statements.

SOURCES: U.S. Census Bureau, Population Division.  
 Department of History, Arts, and Libraries.  
 U.S. Department of Commerce, Bureau of Economic Analysis.  
 Department of Treasury.

GOVERNMENTAL  
ACTIVITIES

CAPITAL LEASES	TOTAL PRIMARY GOVERNMENT	PERCENTAGE OF PERSONAL INCOME	PER CAPITA
\$ 253	\$ 4,108	1.48%	\$ 415
255	4,015	1.36%	403
255	4,721	1.58%	472
461	5,490	1.81%	547
479	5,813	1.85%	577
423	5,939	1.86%	588
406	6,333	1.95%	627
252	7,888	2.37%	781
248	8,461	2.45%	840
320	8,535	Unavailable	Unavailable



**RATIOS OF NET GENERAL OBLIGATION BONDED DEBT OUTSTANDING  
LAST TEN FISCAL YEARS  
(In Millions)**

<u>FISCAL YEAR</u>	<u>GENERAL OBLIGATION BONDS</u>	<u>LESS DEBT SERVICE FUNDS</u>	<u>NET BONDED GENERAL OBLIGATION BONDS</u>	<u>PERCENTAGE OF PERSONAL INCOME</u>	<u>PER CAPITA</u>
1999	\$ 870	\$ -	\$ 870	0.31%	\$ 87.88
2000	930	-	930	0.32%	93.44
2001	1,032	-	1,032	0.34%	103.11
2002	1,120	-	1,120	0.37%	111.47
2003	1,413	1	1,413	0.45%	140.21
2004	1,528	1	1,527	0.48%	151.12
2005	1,645	1	1,644	0.51%	162.67
2006	1,794	1	1,793	0.54%	177.44
2007	1,487	1	1,487	0.43%	147.59
2008	1,487	1	1,486	Unavailable	Unavailable

SOURCES: U.S. Census Bureau, Population Division.  
 Department of History, Arts, and Libraries.  
 U.S. Department of Commerce, Bureau of Economic Analysis.  
 Department of Treasury.

**DEBT SERVICE COVERAGE**  
**COMPREHENSIVE TRANSPORTATION FUND RELATED BONDS**  
 LAST TEN FISCAL YEARS  
 (In Millions)

	1999	2000	2001	2002
Constitutionally Restricted				
Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 1,066.3	\$ 1,066.5	\$ 1,067.6	\$ 1,082.8
Registration Taxes	709.9	755.1	777.9	827.3
Miscellaneous Fees	57.0	55.2	54.7	58.0
Total	<u>1,833.2</u>	<u>1,876.7</u>	<u>1,900.2</u>	<u>1,968.1</u>
Less Deductions	<u>121.2</u>	<u>128.0</u>	<u>132.0</u>	<u>173.4</u>
Remaining Balance	1,712.0	1,748.7	1,768.2	1,794.7
Portion of Balance Credited to Comprehensive Transportation Fund (excluding interest)	<u>153.0</u>	<u>156.9</u>	<u>159.2</u>	<u>160.5</u>
Motor Vehicle Related Sales Tax Revenues	\$ 906.7	\$ 999.3	\$ 1,057.0	\$ 1,130.0
Allocation to Comprehensive Transportation Fund	<u>63.2</u>	<u>69.7</u>	<u>73.7</u>	<u>78.8</u>
Constitutionally Restricted Revenues Credited to Comprehensive Transportation Fund	\$ 216.3	\$ 226.6	\$ 232.9	\$ 239.3
Plus Other Revenues (primarily interest)	<u>6.6</u>	<u>3.1</u>	<u>3.5</u>	<u>0.9</u>
Money Available for Debt Service	<u>222.9</u>	<u>229.7</u>	<u>236.4</u>	<u>240.3</u>
Debt Service:				
Principal	\$ 8.0	\$ 8.3	\$ 10.5	\$ 11.1
Interest	<u>13.9</u>	<u>12.9</u>	<u>11.2</u>	<u>10.2</u>
Actual Annual Debt Service (1)	21.9	21.2	21.7	21.4
Debt Service Coverage	10.2 x	10.8 x	10.9 x	11.3 x

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

SOURCE: Michigan Department of Transportation.



# Michigan

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2003	2004	2005	2006	2007	2008
\$ 1,093.2	\$ 1,073.3	\$ 1,069.1	\$ 1,055.3	\$ 1,027.8	\$ 989.3
844.7	933.8	863.4	867.7	871.7	855.0
56.7	51.4	37.3	36.0	35.7	36.2
<u>1,994.5</u>	<u>2,058.4</u>	<u>1,969.8</u>	<u>1,959.0</u>	<u>1,935.3</u>	<u>1,880.6</u>
176.8	110.9	125.4	149.5	137.9	138.3
<u>1,817.8</u>	<u>1,947.6</u>	<u>1,844.4</u>	<u>1,809.5</u>	<u>1,797.4</u>	<u>1,742.3</u>
<u>162.3</u>	<u>166.4</u>	<u>167.3</u>	<u>165.4</u>	<u>164.7</u>	<u>159.9</u>
\$ 1,708.4	\$ 1,082.7	\$ 1,115.4	\$ 1,111.2	\$ 1,117.5	\$ 1,249.0
79.4	65.0	56.9	66.4	67.7	82.1
<u>241.8</u>	<u>231.3</u>	<u>224.3</u>	<u>231.8</u>	<u>232.4</u>	<u>242.0</u>
1.4	3.6	5.0	0.5	5.9	1.4
<u>243.2</u>	<u>234.9</u>	<u>229.3</u>	<u>232.3</u>	<u>238.3</u>	<u>243.5</u>
\$ 11.7	\$ 16.3	\$ 15.6	\$ 19.1	\$ 20.2	\$ 21.3
12.0	14.0	13.4	12.0	12.9	12.0
<u>23.6</u>	<u>30.3</u>	<u>28.9</u>	<u>31.1</u>	<u>33.2</u>	<u>33.3</u>
10.3 x	7.8 x	7.9 x	7.5 x	7.2 x	7.3 x

**DEBT SERVICE COVERAGE**  
**STATE TRUNKLINE FUND RELATED BONDS**  
**LAST TEN FISCAL YEARS**  
(In Millions)

	1999	2000	2001	2002
Constitutionally Restricted				
Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 1,066.3	\$ 1,066.5	\$ 1,067.6	\$ 1,082.8
Registration Taxes	709.9	755.1	777.9	827.3
Miscellaneous Fees	57.0	55.2	54.7	58.0
Total	<u>1,833.2</u>	<u>1,876.7</u>	<u>1,900.2</u>	<u>1,968.1</u>
Less Deductions:				
Critical Bridge Debt Service	1.4	2.4	2.4	2.4
Legally Dedicated State Trunkline Fund Debt Service	43.0	43.0	43.0	43.0
Collection Costs	58.4	64.0	63.1	109.4
Waterways/Recreational Improvement Fund	18.4	18.6	18.5	18.7
Comprehensive Transportation Fund (excluding interest)	153.0	156.9	159.2	160.5
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	40.3	40.3	40.3	40.3
Total Deductions	<u>352.5</u>	<u>363.2</u>	<u>364.5</u>	<u>412.2</u>
Constitutionally Restricted Revenues				
Available for Distribution	1,480.7	1,513.6	1,535.7	1,555.9
Plus Other Revenues (primarily interest)	11.6	15.8	13.4	6.1
Total Money Available for Distribution	<u>1,492.3</u>	<u>1,529.4</u>	<u>1,549.1</u>	<u>1,562.0</u>
Distributions to:				
Cities and Villages	318.7	326.7	331.9	332.3
County Road Commissions	561.0	575.0	582.9	588.6
State Trunkline Fund	612.7	627.7	634.3	641.1
Money Available for Debt Service:				
State Trunkline Fund	612.7	627.7	634.3	641.1
Legally Dedicated State Trunkline Fund Debt Service	43.0	43.0	43.0	43.0
Economic Development Fund	40.3	40.3	40.3	40.3
Local Program Fund	33.0	33.0	33.0	33.0
Critical Bridge Fund	1.4	2.4	2.4	2.4
Miscellaneous (1)	-	-	-	-
Total Available for Debt Service	<u>730.4</u>	<u>746.4</u>	<u>753.0</u>	<u>759.7</u>
Debt Service:				
Principal	\$ 30.1	\$ 17.7	\$ 18.7	\$ 19.7
Interest	27.6	29.5	29.5	39.7
Actual Annual Debt Service (2)	<u>57.8</u>	<u>47.2</u>	<u>48.2</u>	<u>59.4</u>
Debt Service Coverage	12.6 x	15.8 x	15.6 x	12.8 x

## NOTES:

- (1) Beginning fiscal year 2008, miscellaneous revenues were available for debt service.
- (2) The table above excludes amounts related to refunded bonds and federally funded debt.

SOURCE: Michigan Department of Transportation.

**Michigan**

2003	2004	2005	2006	2007	2008
\$ 1,093.2	\$ 1,073.3	\$ 1,069.1	\$ 1,055.3	\$ 1,027.8	\$ 989.3
844.7	933.8	863.4	867.7	871.7	855.0
56.7	51.4	37.3	36.0	35.7	36.2
<u>1,994.5</u>	<u>2,058.4</u>	<u>1,969.8</u>	<u>1,959.0</u>	<u>1,935.3</u>	<u>1,880.6</u>
2.2	2.2	2.2	2.5	2.8	2.8
43.0	43.0	43.0	43.0	43.0	43.0
113.1	42.2	44.5	57.1	46.2	48.1
18.5	18.4	18.4	18.0	17.6	16.9
162.3	166.4	167.3	165.4	164.7	159.9
33.0	33.0	33.0	33.0	33.0	33.0
5.0	5.0	17.2	28.9	28.3	27.5
40.3	40.3	40.3	40.3	40.3	40.3
<u>417.4</u>	<u>350.5</u>	<u>366.0</u>	<u>388.2</u>	<u>375.9</u>	<u>371.5</u>
1,577.2	1,707.9	1,603.8	1,570.8	1,559.4	1,509.1
5.9	6.2	7.0	8.9	8.2	9.0
<u>1,583.1</u>	<u>1,714.1</u>	<u>1,610.8</u>	<u>1,579.7</u>	<u>1,567.5</u>	<u>1,518.0</u>
341.6	366.9	348.7	344.8	342.8	332.1
594.7	642.5	611.6	603.3	599.7	580.9
646.7	704.8	650.5	631.5	625.0	605.0
646.7	704.8	650.5	631.5	625.0	605.0
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
2.2	2.2	2.2	2.5	2.8	2.8
-	-	-	-	-	40.5
<u>765.1</u>	<u>823.2</u>	<u>769.0</u>	<u>750.3</u>	<u>744.1</u>	<u>764.6</u>
\$ 26.2	\$ 23.9	\$ 25.0	\$ 19.9	\$ 20.0	\$ 43.5
39.5	43.9	49.5	74.7	84.8	91.5
<u>65.7</u>	<u>67.8</u>	<u>74.5</u>	<u>94.6</u>	<u>104.8</u>	<u>135.0</u>
11.6 x	12.1 x	10.3 x	7.9 x	7.1 x	5.7 x

**DEBT SERVICE COVERAGE**  
**STATE BUILDING AUTHORITY**  
 LAST TEN FISCAL YEARS  
 (In Millions)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Revenue - Lease and Rental Payments	\$ 214.8	\$ 218.5	\$ 254.3	\$ 266.0
Less: Operating Expenses	<u>0.6</u>	<u>1.1</u>	<u>2.2</u>	<u>0.8</u>
Net Available Revenue	<u>214.2</u>	<u>217.4</u>	<u>252.1</u>	<u>265.2</u>
Debt Service:				
Principal	132.4	124.1	133.7	115.1
Interest	<u>98.3</u>	<u>100.3</u>	<u>100.5</u>	<u>106.7</u>
Actual Annual Debt Service	230.7	224.4	234.1	221.8
Debt Service Coverage	0.9 x	1.0 x	1.1 x	1.2 x

NOTE: Details regarding the State's outstanding debt can be found in the bonds and notes payable note to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses.

## Michigan

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2003	2004	2005	2006	2007	2008
\$ 287.5	\$ 239.9	\$ 246.9	\$ 255.5	\$ 213.2	\$ 219.4
6.4	4.2	3.2	9.9	0.8	0.8
281.1	235.7	243.7	245.6	212.4	218.6
141.7	84.7	119.9	82.1	83.6	87.1
119.6	109.5	128.7	140.8	117.5	123.4
261.3	194.2	248.6	222.9	201.1	210.5
1.1 x	1.2 x	1.0 x	1.1 x	1.1 x	1.0 x



**DEBT SERVICE COVERAGE  
MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY**

(In Millions)

	2008
Revenue - Tobacco Revenue	\$ 45.3
Less: Operating Expenses	1.1
Net Available Revenue	44.2
Debt Service:	
Principal	10.1
Interest	53.9
Actual Annual Debt Service	64.0
 Debt Service Coverage	 0.7 x

**NOTES:**

- (1) Debt service on the Michigan Tobacco Settlement Finance Authority bonds commenced in fiscal year 2008.
- (2) Details regarding the State's outstanding debt can be found in the bonds and notes payable note to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses.

**DEMOGRAPHIC AND ECONOMIC INDICATORS**  
**LAST TEN CALENDAR YEARS**

	1998	1999	2000	2001
Population (a) (in thousands)				
Michigan	9,848	9,897	9,955	10,007
United States	275,854	279,040	282,194	285,112
Total Personal Income (b) (in billions)				
Michigan	\$ 265.1	\$ 278.1	\$ 294.2	\$ 299.5
United States	\$ 7,415.7	\$ 7,796.1	\$ 8,422.1	\$ 8,717.0
Per Capita Income (b)				
Michigan	\$ 26,919	\$ 28,095	\$ 29,554	\$ 29,933
United States	\$ 26,883	\$ 27,939	\$ 29,845	\$ 30,574
Unemployment Rate (c)				
Michigan	4.0%	3.8%	3.7%	5.2%
United States	4.5%	4.2%	4.0%	4.7%
Estimated wage and salary employees (c) (in thousands)				
Goods Producing:				
Natural Resources and Mining	10.0	9.6	9.5	9.3
Construction	187.4	197.0	209.6	206.1
Manufacturing	891.7	899.9	898.4	823.1
Total Goods Producing	1,089.1	1,106.5	1,117.5	1,038.5
Service-Providing:				
Private Service-Providing				
Trade, Transportation, and Utilities:				
Wholesale Trade	179.8	183.6	186.0	180.4
Retail Trade	542.5	550.6	559.8	548.8
Transportation and Utilities	131.2	134.1	135.4	132.0
Information	74.1	73.9	76.7	76.0
Financial Activities:				
Finance and Insurance	153.8	153.0	152.8	154.8
Real Estate and Rental and Leasing	53.9	53.9	56.6	55.5
Professional and Business Services:				
Professional, Scientific, and Technical Services	253.7	264.1	274.3	268.0
Management of Companies and Enterprises	70.8	70.9	70.5	69.1
Administrative, Support Services, and Waste Management	272.4	277.9	290.5	267.0
Educational and Health Services:				
Educational Services	51.2	52.1	54.3	61.2
Health Care and Social Assistance	433.6	439.6	447.9	456.7
Leisure and Hospitality:				
Accommodation and Food Services	326.4	328.8	336.4	332.7
Other	52.6	54.7	61.8	61.6
Other Services	173.0	174.0	175.3	176.9
Total Private Service-Providing	2,769.1	2,811.3	2,878.0	2,840.7
Government	655.8	667.4	681.4	685.0
Total Service-Providing	3,424.9	3,478.6	3,559.4	3,525.7
Total Wage and Salary Employment	4,514.0	4,585.2	4,676.9	4,564.2

NOTES: Calendar year 2007 is the most recent year for which data is available.

Wage and Salary Employment based on North American Industry Classification System.

Components in Wage and Salary Employment may not total due to truncation.

**SOURCES:**

- (a) U.S. Census Bureau, Population Division
- (b) U.S. Department of Commerce, Bureau of Economic Analysis
- (c) Michigan Department of Labor & Economic Growth and U.S. Department of Labor, Bureau of Labor Statistics



## Michigan

2002	2003	2004	2005	2006	2007
10,044 287,888	10,075 290,448	10,103 293,192	10,108 295,896	10,102 298,755	10,072 301,621
\$ 303.5 \$ 8,872.9	\$ 313.5 \$ 9,150.3	\$ 318.7 \$ 9,711.4	\$ 325.3 \$ 10,252.8	\$ 332.7 \$ 10,977.3	\$ 345.9 \$ 11,631.6
\$ 30,214 \$ 30,821	\$ 31,116 \$ 31,504	\$ 31,550 \$ 33,123	\$ 32,182 \$ 34,650	\$ 32,928 \$ 36,744	\$ 34,342 \$ 38,564
6.2% 5.8%	7.1% 6.0%	7.1% 5.5%	6.9% 5.1%	6.9% 4.6%	7.2% 4.6%
8.6 199.6 <u>763.5</u> 971.7	8.1 190.6 <u>719.7</u> 918.4	8.2 191.5 <u>700.7</u> 900.3	8.4 189.1 <u>680.0</u> 877.5	8.0 178.0 <u>650.8</u> 836.9	7.6 166.2 <u>616.8</u> 790.5
175.4 530.7 128.2 73.8	172.6 518.7 125.8 70.3	170.5 513.6 125.7 68.6	170.7 506.0 128.3 67.3	170.6 496.0 128.4 66.1	169.1 489.7 129.1 65.6
159.2 55.7	162.3 56.0	161.3 56.1	161.8 56.1	160.9 54.9	157.8 53.6
257.4 69.5 267.0	247.9 68.6 266.4	244.2 67.0 270.1	246.4 64.6 277.5	244.9 61.7 275.1	244.2 57.3 271.8
63.1 472.0	66.4 480.5	70.6 490.3	74.8 501.0	76.1 507.2	78.0 517.0
336.2 61.7 <u>179.3</u> 2,829.2	335.9 62.2 <u>179.1</u> 2,812.7	339.7 62.3 <u>179.6</u> 2,819.5	341.9 62.6 <u>179.6</u> 2,838.7	343.8 61.8 <u>177.5</u> 2,824.9	341.8 62.7 <u>176.7</u> 2,814.3
<u>686.6</u> 3,515.8	<u>685.4</u> 3,498.0	<u>679.7</u> 3,499.2	<u>674.1</u> 3,512.8	<u>665.3</u> 3,490.3	<u>657.2</u> 3,471.4
<u>4,487.5</u>	<u>4,416.5</u>	<u>4,399.5</u>	<u>4,390.3</u>	<u>4,327.1</u>	<u>4,262.0</u>

**CLASSIFIED EMPLOYEES BY FUNCTION**  
 LAST TEN FISCAL YEARS

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
General Government	6,866	7,183	7,191	7,170
Education	442	403	396	393
Human services	12,836	13,254	13,139	12,554
Public safety and corrections	21,171	21,829	22,506	21,947
Conservation, environment, recreation, and agriculture	4,687	4,768	4,823	4,715
Labor, commerce, and regulatory	5,058	4,898	4,911	4,814
Health services	5,810	5,914	5,838	5,370
Transportation	<u>3,196</u>	<u>3,244</u>	<u>3,253</u>	<u>3,185</u>
Total	60,066	61,493	62,057	60,147

NOTES: Starting in fiscal year 2005, this report reflects classified employees who are full-time, part-time, permanent intermittent, limited term, seasonal, and non-career in primary positions only, except for the following non-career appointments: student assistant, construction aide-transportation, and state worker.

Each fiscal year in this schedule also includes approximately 2,000 classified employees for the business type activities and discretely presented component unit authorities. Although the expenses for the business type activities and component unit authorities are reported separately in the government-wide financial statements, the employee counts were combined in this schedule to ensure consistency with the Civil Service Commission reports and for administrative efficiency.

This schedule includes average employee counts. Employees who job share are divided in half. For this reason, totals may not equal the sum of the employee counts per function.

SOURCE: Michigan Civil Service Commission, Annual Work Force Report.

## Michigan

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<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
7,666	7,645	7,138	7,144	7,264	7,348
298	324	352	367	369	380
10,303	10,104	9,953	9,778	9,759	9,582
20,941	20,385	20,175	20,060	19,948	19,451
4,270	4,459	3,729	3,662	3,586	3,439
4,097	4,126	3,994	4,128	3,967	3,781
4,465	4,577	4,424	4,241	4,225	3,964
<u>2,826</u>	<u>2,956</u>	<u>2,849</u>	<u>2,880</u>	<u>2,895</u>	<u>2,854</u>
54,866	54,573	52,614	52,259	52,013	50,799

**OPERATING INDICATORS BY FUNCTION  
LAST TEN FISCAL YEARS**

	1999	2000	2001
<b>General government</b>			
Tax forms processed (calendar year)	7,836,022	8,045,023	8,445,431
Passenger, commercial, and recreational vehicle registrations	8,837,524	8,977,693	9,008,126
Driver licenses issued	1,840,167	1,997,651	1,923,498
<b>Education</b>			
K-12 students	1,696,912	1,701,375	1,705,798
Public university students	223,667	227,972	232,648
Community college students	109,700	107,660	109,131
<b>Human services</b>			
Food assistance program recipients (1)	653,887	580,308	623,335
Family independence program recipients (1)	256,750	205,600	193,217
Day care recipients (1)	119,389	125,777	124,061
Children in foster care	19,425	19,365	19,877
State disability assistance recipients (1)	7,492	6,925	7,040
Finalized adoptions (yearly total) (2)	2,417	2,775	2,927
Juvenile justice youth served	5,737	4,084	2,805
Open child support cases with support orders established	638,704	714,138	762,254
<b>Public safety and corrections</b>			
Inmates, parolees, and probationers (as of 9/30)	109,644	111,666	115,722
State police patrol miles driven	18,132,306	19,318,420	19,456,634
Criminal offender DNA samples entered into federal indexing database (calendar year)	Unavailable	353	16,785
National Guard members (as of 9/30)	10,919	10,926	11,224
Veteran homes average daily census	901	903	900
<b>Conservation, environment, recreation and agriculture</b>			
Hunting and/or fishing license holders (3)	2,304,174	2,242,607	2,169,161
Camping nights in State parks	1,185,507	1,173,890	1,146,956
Population impacted by water purification projects	288,771	185,771	174,574
Underground storage tank releases closed	1,122	793	467
Scrap tires collected (passenger tire equivalent)	3,303,916	1,192,867	2,476,948
<b>Labor, commerce, and regulatory</b>			
Processed applications for new and renewal occupational licenses (4)	19,575	20,263	22,522
Building related permits issued	53,288	49,212	42,664
Building related safety inspections conducted	49,915	42,207	53,485
Occupational safety and health enforcement inspections conducted	7,521	6,998	5,246
Alleged occupational safety and health violations identified	28,368	27,869	23,393
Financial and insurance service providers chartered	Unavailable	212,269	215,005
<b>Health services</b>			
Medicaid recipients (1)	1,060,776	1,061,997	1,101,154
Women, Infants, and Children Food and Nutrition Program recipients (1)	215,138	213,050	214,952
Children's special health care services recipients (1)	20,379	24,554	28,048
Mentally ill/developmental disability service recipients (1)	205,559	190,408	185,984
Substance abuse service recipients (1)	70,768	66,146	59,821

## NOTES:

- (1) Monthly average
- (2) Total adoptions were completed by the Department of Human Services (DHS) and private agencies under contract with DHS.
- (3) The licensing season runs April 1 through March 31. Amounts reported under fiscal year 2008 are for the licensing year ending March 31, 2008.
- (4) Processed occupational license renewals are not available for fiscal years 2002 and prior.
- (5) The increase in fiscal year 2005 resulted from a project benefiting users of the Detroit Water and Sewerage Department.
- (6) Amount estimated

SOURCES: Various State departments.

## Michigan

2002	2003	2004	2005	2006	2007	2008
8,460,529	8,131,481	8,079,995	8,059,355	8,259,132	8,245,905	8,335,760 <sup>(6)</sup>
9,109,817	9,100,370	8,987,430	8,879,158	8,732,938	8,785,222	8,570,421
1,728,793	1,899,690	2,018,292	1,913,530	1,724,108	1,875,932	1,915,459
1,715,153	1,718,286	1,716,511	1,708,585	1,697,936	1,678,579	1,648,769
241,205	246,205	249,616	250,030	253,020	253,346	254,025
116,802	125,719	127,717	131,150	133,359	139,219	146,237 <sup>(6)</sup>
748,421	836,518	943,713	1,047,594	1,133,793	1,204,409	1,262,951
202,462	200,962	211,569	212,252	217,318	237,102	210,181
123,054	127,606	124,735	123,519	118,851	109,519	100,673
19,400	19,566	19,562	19,194	18,811	19,070	18,056
8,045	9,114	10,058	10,560	10,591	11,015	10,427
2,833	2,611	2,744	2,883	2,589	2,602	2,744 <sup>(6)</sup>
2,253	1,905	1,769	1,577	1,371	1,229	1,091
745,135	758,992	769,462	777,188	764,500	755,201	762,526
120,804	122,377	122,680	119,845	120,337	123,032	126,216
18,605,982	15,230,342	15,961,280	16,879,418	17,632,736	14,916,802	17,071,748
8,861	13,967	34,525	23,099	41,888	30,519	Unavailable
11,580	11,306	10,917	11,125	11,768	11,862	11,991
901	900	886	909	902	896	891
2,138,381	2,104,171	2,053,768	2,004,577	1,950,676	1,981,382	1,964,480
1,142,539	1,156,130	1,040,368	1,005,437	956,030	929,753	881,040 <sup>(6)</sup>
157,966	314,918	203,641	3,994,970 <sup>(5)</sup>	1,046,379	490,298	1,331,867
561	339	337	265	320	233	159
667,443	1,751,165	3,215,727	5,942,164	6,081,447	3,736,086	3,645,574 <sup>(6)</sup>
31,456	205,088	196,440	152,659	164,153	198,430	151,230
41,573	41,216	39,942	40,662	33,031	26,942	24,025
47,375	47,339	44,343	41,303	45,921	42,931	47,847
4,919	4,820	5,301	4,492	5,102	5,001	5,032
19,839	19,188	20,576	17,621	17,311	16,712	15,781
231,741	252,338	260,498	281,668	297,662	323,791	334,685
1,197,086	1,281,397	1,357,546	1,424,831	1,490,384	1,524,299	1,536,853
215,989	216,684	222,077	226,601	229,770	232,280	239,145
29,465	27,105	29,105	30,232	30,449	30,898	31,452
195,552	185,072	187,059	200,424	207,407	213,257	219,228 <sup>(6)</sup>
56,049	65,584	66,085	69,808	71,175	69,564	69,900 <sup>(6)</sup>

**OPERATING INDICATORS BY FUNCTION - (Continued)**  
**LAST TEN FISCAL YEARS**

	1999	2000	2001
Transportation			
Annual vehicle miles of travel on			
State Trunkline roads (calendar year) (11)	50,500,000,000	51,300,000,000	51,500,000,000
Miles of intercity bus travel receiving State funding	644,058 (7)	1,136,199	1,090,776
Miles of local bus travel receiving State funding	84,131,010	87,178,629	91,827,361
Railroad crossing maintenance/safety inspections	2,671	2,710	2,845
Tax expenditures			
Taxpayers claiming refundable credits (8) (10)	1,144,700	1,168,000	1,264,500
Intergovernmental-revenue sharing			
Township grants	1,241	1,241	1,241
City grants	273	273	273
Village grants	262	262	262
County grants (9)	83	83	83
Liquor Purchase Revolving Fund			
Annual retail liquor licenses issued	16,451	16,314	16,169
Liquor sales volume (cases)	5,187,270	5,350,162	5,377,947
Beer sales volume (barrels)	6,695,898	6,778,789	6,812,301
Wine sales volume (liters)	52,692,089	56,451,428	55,794,094
Pre-mixed spirit drink sales volume (liters)	1,465,144	1,748,304	2,069,203
State Lottery Fund			
Retailers	9,306	9,271	9,217
Winners greater than \$600	36,147	32,563	27,777
Millionaire prizewinners	15	22	18
Michigan Unemployment Compensation Funds			
Individuals receiving benefits (calendar year)	398,900	419,588	615,249

## NOTES:

- (7) State subsidized service began in the Upper Peninsula during fiscal year 1999.
- (8) Tax credits are reported based on the tax year. Credits claimed during tax year 2004, for example, are reported above in fiscal year 2004.
- (9) County grants were suspended beginning in fiscal year 2005. Instead, each county expends from its revenue sharing reserve fund created by State statute in 2004. Each fiscal year, counties are allowed only to expend from the fund the amount the Department of Treasury certifies them to spend. Once a county has exhausted its revenue sharing reserve fund, the county will return to revenue sharing. One county returned to revenue sharing in fiscal year 2008.
- (10) Amount estimated and rounded to nearest hundred.
- (11) Amount estimated and rounded to nearest one hundred million.

SOURCES: Various State departments.

**Michigan**

2002	2003	2004	2005	2006	2007	2008
52,800,000,000	53,400,000,000	53,700,000,000	52,600,000,000	51,500,000,000	52,000,000,000	51,500,000
1,169,738	1,148,787	1,116,321	1,090,708	1,086,793	1,081,038	1,087,543
98,082,082	97,289,858	93,223,721	88,837,852	92,951,025	94,128,601	98,236,581 <sup>(6)</sup>
2,927	2,405	2,370	2,898	2,531	2,679	2,586
1,380,400	1,416,100	1,479,300	1,497,900	1,537,500	1,592,300 <sup>(6)</sup>	Unavailable
1,241	1,241	1,241	1,241	1,241	1,241	1,241
272	272	272	274	274	274	274
261	261	261	259	259	259	259
83	83	83	-	-	-	1
16,130	16,034	16,019	15,964	15,942	15,838	15,763
5,496,879	5,752,264	6,029,155	6,110,122	6,293,797	6,464,739	6,611,415
6,730,138	6,802,658	6,807,147	6,721,468	6,647,438	6,588,385	6,601,138
53,916,859	61,471,699	65,417,883	66,022,306	68,139,758	71,385,503	72,797,847
1,572,937	1,032,309	1,237,451	1,065,146	871,900	1,008,073	811,286
9,160	9,048	10,806	11,076	10,880	10,973	10,969
25,921	44,162	44,962	44,692	52,124	49,585	44,962
16	11	20	21	17	42	37
623,208	617,145	617,134	547,376	569,721	568,841	654,861 <sup>(6)</sup>

# Michigan

## CAPITAL ASSETS BY FUNCTION LAST TEN FISCAL YEARS

	1999	2000	2001	2002
General Government:				
Buildings	Unavailable	Unavailable	Unavailable	Unavailable
Vehicles	Unavailable	Unavailable	Unavailable	Unavailable
Education				
Buildings	Unavailable	Unavailable	Unavailable	Unavailable
Vehicles	Unavailable	Unavailable	Unavailable	Unavailable
Human services				
Buildings	Unavailable	Unavailable	Unavailable	Unavailable
Vehicles	Unavailable	Unavailable	Unavailable	Unavailable
Public safety and corrections				
Buildings	Unavailable	Unavailable	Unavailable	Unavailable
Vehicles	Unavailable	Unavailable	Unavailable	Unavailable
Conservation, environment, recreation, and agriculture				
Buildings	Unavailable	Unavailable	164	191
Vehicles	Unavailable	Unavailable	Unavailable	Unavailable
Environmental quality				
air-monitoring instruments	Unavailable	73	88	99
Environmental quality				
lab/analyzing equipment	Unavailable	115	120	124
Natural resources acres of land	4,526,062	4,537,232	4,543,728	4,545,628
Harbors	16	16	16	16
Hatcheries	6	6	6	6
State park & recreation areas	96	96	96	96
Labor, commerce, and regulatory				
Buildings	Unavailable	Unavailable	Unavailable	Unavailable
Vehicles	Unavailable	Unavailable	Unavailable	Unavailable
Health services				
Buildings	Unavailable	Unavailable	Unavailable	Unavailable
Vehicles	Unavailable	Unavailable	Unavailable	Unavailable
Transportation				
Buildings	Unavailable	Unavailable	Unavailable	Unavailable
Vehicles	Unavailable	946	1,042	1,242
Highway lane miles (calendar year)	27,314	27,345	27,323	27,423
Heavy equipment owned	Unavailable	2,260	2,193	2,128

NOTES: For years prior to 2006, capital assets information was not available by function.

Building and vehicle counts include both owned and leased assets with the exception of transportation vehicles for years prior to fiscal year 2006. Transportation vehicle counts for fiscal years prior to fiscal year 2006 include only owned vehicles.

Acres of land are on a tax year basis rather than a fiscal year basis. The current fiscal year amount is an estimate.

Building counts for 2001 - 2005 in the Conservation, environment, recreation, and agriculture function represent only those buildings owned by the Department of Natural Resources.

SOURCES: Michigan Departments of Management and Budget, Environmental Quality, Natural Resources and Transportation.



## Michigan

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2003	2004	2005	2006	2007	2008
Unavailable	Unavailable	Unavailable	281	280	296
Unavailable	Unavailable	Unavailable	747	754	756
Unavailable	Unavailable	Unavailable	27	27	27
Unavailable	Unavailable	Unavailable	28	21	21
Unavailable	Unavailable	Unavailable	208	208	210
Unavailable	Unavailable	Unavailable	838	844	931
Unavailable	Unavailable	Unavailable	1,390	1,390	1,403
Unavailable	Unavailable	Unavailable	3,401	3,548	3,605
192	203	229	249	300	314
Unavailable	Unavailable	Unavailable	3,452	3,763	3,832
116	146	170	188	194	195
129	151	127	131	153	147
4,551,591	4,556,233	4,557,246	4,562,444	4,566,708	4,574,956
16	16	16	16	16	16
6	6	6	6	6	6
97	97	97	97	98	98
Unavailable	Unavailable	Unavailable	160	164	158
Unavailable	Unavailable	Unavailable	482	482	509
Unavailable	Unavailable	Unavailable	239	239	241
Unavailable	Unavailable	Unavailable	272	276	287
Unavailable	Unavailable	Unavailable	437	437	439
1,320	1,322	1,448	1,841	1,872	1,777
27,460	27,534	27,557	27,521	27,514	27,478
2,112	2,129	2,117	2,162	2,184	2,164





## **IV. OTHER INFORMATION**

**COMBINED SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES**  
**GENERAL AND SPECIAL REVENUE FUNDS**  
 FISCAL YEAR ENDED SEPTEMBER 30, 2008  
 (In Thousands)

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>
<b>TAXES</b>			
Sales	\$ 6,773,276	\$ 1,763,071	\$ 5,010,206
Personal income	8,157,649	6,039,951	2,117,698
Single business and Michigan business	2,482,035	2,141,035	341,000
Use	1,377,077	917,801	459,277
State education (property)	2,079,703	-	2,079,703
Real estate transfer	169,835	-	169,835
Tobacco products	1,073,650	648,921	424,728
Beer and wine	50,941	50,941	-
Liquor	111,162	74,247	36,915
Horse race wagering	8,188	8,188	-
Casino gaming wagering	129,684	17,617	112,067
Telephone and telegraph company	80,793	80,793	-
Commercial mobile radio service	21,317	21,317	-
Insurance company	223,198	223,198	-
Motor vehicle registration	857,947	2,911	855,036
Gasoline	849,238	-	849,238
Aviation fuel	5,344	-	5,344
Diesel fuel	140,356	-	140,356
Gas and oil severance	99,179	99,179	-
Industrial facilities	86,129	-	86,129
Convention hotel accommodation	19,193	19,193	-
Airport parking	22,627	22,627	-
Quality assurance assessment	1,023,766	1,023,766	-
Penalties and interest	160,939	160,939	-
Other	71,907	55,066	16,842
	<u>26,075,135</u>	<u>13,370,761</u>	<u>12,704,374</u>
<b>FROM FEDERAL AGENCIES</b>			
Department of Health and Human Services	8,040,975	8,039,791	1,184
Department of Education	1,320,499	284,629	1,035,869
Department of Agriculture	2,158,743	1,817,112	341,630
Department of Labor	417,550	281,743	135,808
Department of Housing and Urban Development	10,368	10,368	-
Department of Energy	16,226	16,226	-
Department of Transportation	1,208,620	27,840	1,180,781
Department of Interior	29,085	24,276	4,809
Department of Defense	36,996	36,996	-
Department of Justice	41,861	41,861	-
Environmental Protection Agency	41,886	41,193	693
General Services Administration	64	64	-
Other	109,766	109,392	374
	<u>13,432,638</u>	<u>10,731,491</u>	<u>2,701,147</u>
<b>FROM LOCAL AGENCIES</b>			
Counties	96,146	95,765	381
Cities, villages, and townships	9,188	185	9,003
School districts	3,727	3,727	-
Other	17,488	13,895	3,593
	<u>126,550</u>	<u>113,572</u>	<u>12,978</u>
<b>SPECIAL MEDICAID REIMBURSEMENTS</b>			
	<u>115,797</u>	<u>115,797</u>	<u>-</u>
	115,797	115,797	-

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>
<b>FROM SERVICES</b>			
Charges for providing vehicle and driver services	\$ 134,518	\$ 131,374	\$ 3,144
Revenue for patient, ward, and inmate care	39,470	39,470	-
Other	117,391	116,946	446
	<u>291,380</u>	<u>287,790</u>	<u>3,590</u>
<b>FROM LICENSES AND PERMITS</b>			
Liquor retailers', manufacturers', and wholesalers' licenses	14,124	14,124	-
Motor vehicle operators' and chauffeurs' licenses	51,928	51,462	466
Examination fees - financial institutions and insurance industry	25,832	25,832	-
Concession and privilege fees - State parks	820	-	820
Motor vehicle related	34,872	2,585	32,287
Hunting, fishing, and trapping licenses	47,073	-	47,073
Public utility assessment fees	19,554	19,554	-
Labor and Economic Growth licenses and permits	74,021	66,093	7,928
Auto repair facilities and mechanics licenses and fees	3,873	3,873	-
Corporation franchise fees	20,347	20,347	-
Other	148,963	80,512	68,451
	<u>441,407</u>	<u>284,382</u>	<u>157,024</u>
<b>MISCELLANEOUS</b>			
Income from investments	65,366	14,084	51,282
Tobacco settlement proceeds	290,159	-	290,159
Various fines, fees, and assessments	80,753	49,515	31,238
Court fines, fees, and assessments	294,348	283,993	10,355
Oil and gas royalties, fees, assignments, and rentals	25,379	14,329	11,050
Environmental pollution settlements	19,250	3,675	15,575
Child support	42,415	42,415	-
Other	731,346	350,936	380,410
	<u>1,549,016</u>	<u>758,947</u>	<u>790,069</u>
Total Revenues	<u>42,031,923</u>	<u>25,662,741</u>	<u>16,369,182</u>
<b>OTHER FINANCING SOURCES</b>			
Proceeds from bond issues and bond anticipation notes	89,957	-	89,957
Capital lease acquisitions	110,838	106,248	4,590
Proceeds from sale of capital assets	30,388	27,381	3,006
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	161,730	161,730	-
From State Lottery Fund	752,364	11,628	740,735
From other funds	1,234,922	106,380	1,128,542
	<u>2,380,198</u>	<u>413,367</u>	<u>1,966,830</u>
Total Other Financing Sources	<u>2,380,198</u>	<u>413,367</u>	<u>1,966,830</u>
Total Revenue and Other Financing Sources (GAAP Basis)	<u>\$ 44,412,120</u>	<u>\$ 26,076,108</u>	<u>\$ 18,336,012</u>

**SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES****GENERAL FUND**

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL PURPOSE</u>	<u>RESTRICTED REVENUES</u>
<b>TAXES</b>			
Sales	\$ 1,763,071	\$ 666,725	\$ 1,096,346
Personal income	6,039,951	5,008,575	1,031,377
Single business and Michigan business	2,141,035	2,124,032	17,003
Use	917,801	911,658	6,143
Tobacco products	648,921	212,933	435,988
Beer and wine	50,941	50,941	-
Liquor	74,247	37,254	36,993
Horse race wagering	8,188	-	8,188
Casino gaming wagering	17,617	15,415	2,202
Telephone and telegraph company	80,793	80,793	-
Commercial mobile radio service	21,317	-	21,317
Insurance company	223,198	223,191	7
Motor vehicle registration	2,911	-	2,911
Gas and oil severance	99,179	97,052	2,126
Convention hotel accommodation	19,193	-	19,193
Airport parking	22,627	-	22,627
Quality assurance assessment	1,023,766	-	1,023,766
Penalties and interest	160,939	149,737	11,202
Other	55,066	2,025	53,040
	<u>13,370,761</u>	<u>9,580,332</u>	<u>3,790,430</u>
<b>FROM FEDERAL AGENCIES</b>			
Department of Health and Human Services	8,039,791	5,457	8,034,335
Department of Education	284,629	1,157	283,473
Department of Agriculture	1,817,112	1,647	1,815,465
Department of Labor	281,743	452	281,290
Department of Housing and Urban Development	10,368	217	10,150
Department of Energy	16,226	29	16,197
Department of Transportation	27,840	1,281	26,559
Department of Interior	24,276	139	24,137
Department of Defense	36,996	80	36,916
Department of Justice	41,861	1,098	40,763
Environmental Protection Agency	41,193	1,598	39,595
General Services Administration	64	-	64
Other	109,392	1,658	107,735
	<u>10,731,491</u>	<u>14,812</u>	<u>10,716,679</u>
<b>FROM LOCAL AGENCIES</b>			
Counties	95,765	-	95,765
Cities, villages, and townships	185	-	185
School districts	3,727	-	3,727
Other	13,895	115	13,780
	<u>113,572</u>	<u>115</u>	<u>113,457</u>
<b>SPECIAL MEDICAID REIMBURSEMENTS</b>			
	115,797	-	115,797
	<u>115,797</u>	<u>-</u>	<u>115,797</u>

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL PURPOSE</u>	<u>RESTRICTED REVENUES</u>
<b>FROM SERVICES</b>			
Charges for providing vehicle and driver services	\$ 131,374	\$ 3,832	\$ 127,542
Revenue for patient, ward, and inmate care	39,470	201	39,269
Other	116,946	14,347	102,599
	<u>287,790</u>	<u>18,381</u>	<u>269,409</u>
<b>FROM LICENSES AND PERMITS</b>			
Liquor retailers', manufacturers', and wholesalers' licenses	14,124	-	14,124
Motor vehicle operators' and chauffeurs' licenses	51,462	25,512	25,950
Examination fees - financial institutions and insurance industry	25,832	-	25,832
Motor vehicle related	2,585	55	2,530
Public utility assessment fees	19,554	-	19,554
Labor and Economic Growth licenses and permits	66,093	9,739	56,355
Auto repair facilities and mechanics licenses and fees	3,873	-	3,873
Corporation franchise fees	20,347	1,407	18,940
Other	80,512	663	79,849
	<u>284,382</u>	<u>37,376</u>	<u>247,007</u>
<b>MISCELLANEOUS</b>			
Income from investments	14,084	1,548	12,536
Various fines, fees, and assessments	49,515	1,058	48,457
Court fines, fees, and assessments	283,993	123,569	160,424
Oil and gas royalties, fees, assignments, and rentals	14,329	-	14,329
Environmental pollution settlements	3,675	-	3,675
Child support	42,415	253	42,162
Other	350,936	83,592	267,345
	<u>758,947</u>	<u>210,020</u>	<u>548,927</u>
Total Revenues	<u>25,662,741</u>	<u>9,861,035</u>	<u>15,801,706</u>
<b>OTHER FINANCING SOURCES</b>			
Capital lease acquisitions	106,248	-	106,248
Proceeds from sale of capital assets	27,381	23,027	4,354
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	161,730	159,239	2,490
From State Lottery Fund	11,628	10,638	990
From other funds	106,380	60,068	46,312
Total Other Financing Sources	<u>413,367</u>	<u>252,973</u>	<u>160,395</u>
Total Revenue and Other Financing Sources (GAAP Basis)	<u>26,076,108</u>	<u>10,114,007</u>	<u>15,962,101</u>
<b>BUDGETARY BASIS ADJUSTMENTS</b>			
Capital lease acquisitions	(106,248)	-	(106,248)
Total Revenue and Other Financing Sources (budgetary basis)	<u>\$ 25,969,860</u>	<u>\$ 10,114,007</u>	<u>\$ 15,855,853</u>

## SOURCE AND DISPOSITION OF GENERAL FUND AUTHORIZATIONS

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

BRANCH AND DEPARTMENT	CURRENT LEGISLATIVE APPROPRIATION	BUDGETARY TRANSFERS IN/OUT	BUDGETARY ADJUSTMENT	UNEXPENDED FROM PRIOR YEAR	RESTRICTED REVENUE ADDITIONS	LESS: TIMING DIFFERENCES*
						RESTRICTED REVENUE NOT AUTHORIZED/USED
Legislative Branch	\$ 125,481	\$ -	\$ 302	\$ 12,553	\$ 6,141	\$ (22)
Judicial Branch	157,997	-	-	15,040	90,017	(14,847)
Executive Branch:						
Agriculture	31,573	-	-	4,470	53,031	(5,080)
Attorney General	32,037	-	-	2,927	37,806	(2,985)
Civil Rights	12,437	-	-	1	2,078	-
Colleges and Universities Grants	1,986,076	-	-	1,597	111,240	-
Community Health	3,217,758	-	-	64,943	8,754,735	(72,875)
Corrections	1,996,085	-	-	6,969	37,870	(2,834)
Education	41,985	-	-	2,090	54,794	(1,738)
Environmental Quality	42,763	-	-	110,513	153,669	(108,227)
Executive Office	5,317	-	-	-	-	-
History, Arts & Libraries	39,298	(79)	-	1,286	9,032	(29)
Human Services	1,408,332	-	-	5,433	3,291,390	(3,584)
Labor and Economic Growth	48,694	-	-	69,046	762,442	(81,822)
Management and Budget	293,522	-	-	32,691	179,675	(27,847)
Military and Veterans Affairs	40,504	-	-	2,484	82,560	(1,084)
Natural Resources	23,743	-	-	3,590	49,297	(4,197)
State	28,797	-	-	21,057	165,837	(14,916)
State Police	277,029	-	-	24,933	216,517	(23,098)
Transportation	-	-	-	-	-	-
Treasury	272,182	79	253	73,131	2,389,407	(64,733)
Intrafund expenditure reimbursements	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 10,081,612</b>	<b>\$ -</b>	<b>\$ 555</b>	<b>\$ 454,754</b>	<b>\$ 16,447,539</b>	<b>\$ (429,918)</b>

\* 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-overs that could have been used in the current period but were not.

For budgetary purposes, encumbrance authorization are considered use of spending authority in the year the State incurs an obligation.

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
\$ 144,454	\$ (13,577)	\$ 130,877	\$ 130,282	\$ 220	\$ 80	\$ 295	\$ -
248,207	-	248,207	247,401	135	330	341	-
83,994	-	83,994	83,655	323	-	17	-
69,784	-	69,784	68,591	693	-	500	-
14,517	-	14,517	13,849	-	-	667	-
2,098,913	(195)	2,098,718	2,098,191	-	-	527	-
11,964,561	(3,528)	11,961,033	11,884,936	42,812	-	33,285	-
2,038,090	-	2,038,090	2,020,088	5,494	1,177	11,331	-
97,131	(180)	96,951	91,055	-	-	5,896	-
198,718	-	198,718	198,327	32	-	359	-
5,317	-	5,317	5,170	-	-	147	-
49,508	-	49,508	47,831	331	1,208	138	-
4,701,572	(7,944)	4,693,628	4,602,876	19,240	-	71,512	-
798,361	-	798,361	795,818	1,294	567	681	-
478,041	(2,361)	475,680	463,722	2,465	-	9,492	-
124,463	-	124,463	122,405	419	953	686	-
72,433	-	72,433	72,292	77	-	64	-
200,775	(8,059)	192,716	189,968	145	105	2,497	-
495,381	-	495,381	490,088	1,938	-	4,725	(1,370)
-	-	-	-	-	-	-	-
2,670,321	(4,223)	2,666,098	2,626,056	19,097	4,903	16,042	-
-	-	(591,687)	(591,687)	-	-	-	-
<u>\$ 26,554,542</u>	<u>\$ (40,067)</u>	<u>\$ 25,922,788</u>	<u>\$ 25,660,914</u>	<u>\$ 94,717</u>	<u>\$ 9,323</u>	<u>\$ 159,203</u>	<u>\$ (1,370)</u>
Prior Year encumbrances		(27,822)	(27,822)				
Amount reported on Budgetary Comparison Schedule		<u>\$ 25,894,966</u>	<u>\$ 25,633,092</u>	<u>\$ 94,717</u>	<u>\$ 9,323</u>	<u>\$ 159,203</u>	<u>\$ (1,370)</u>

**SOURCE AND DISPOSITION OF  
GENERAL FUND/GENERAL PURPOSE AUTHORIZATIONS  
APPROPRIATION YEAR 2008  
FISCAL YEAR ENDED SEPTEMBER 30, 2008**  
(In Thousands)

<u>BRANCH AND DEPARTMENT</u>	<u>CURRENT LEGISLATIVE APPROPRIATION*</u>	<u>BUDGETARY TRANSFERS IN/OUT</u>	<u>BUDGETARY ADJUSTMENT</u>
Legislative Branch	\$ 125,481	\$ -	\$ 298
Judicial Branch	157,997	-	-
Executive Branch:			
Agriculture	31,573	-	-
Attorney General	32,037	-	-
Civil Rights	12,437	-	-
Colleges and Universities Grants	1,986,076	-	-
Community Health	3,217,758	-	-
Corrections	1,996,085	-	-
Education	41,985	-	-
Environmental Quality	42,763	-	-
Executive Office	5,317	-	-
History, Arts & Libraries	39,298	(79)	-
Human Services	1,408,332	-	-
Labor and Economic Growth	48,694	-	-
Management and Budget	293,522	-	-
Military and Veterans Affairs	40,504	-	-
Natural Resources	23,743	-	-
State	28,797	-	-
State Police	277,029	-	-
Transportation	-	-	-
Treasury	272,182	79	252
	<u>10,081,612</u>	<u>-</u>	<u>550</u>
TOTAL	\$ <u>10,081,612</u>	\$ <u>-</u>	\$ <u>550</u>

\* 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 \$100.8 million of the "Current Legislative Appropriation" for the Appropriation Year 2008.

Michigan

	"ACTUAL"			"VARIANCES"	
	GROSS SPENDING AUTHORITY	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	MULTI-YEAR PROJECT BALANCES FORWARD	LAPSES
\$ 125,779	\$ 117,988	\$ 179	\$ 7,391	\$ 221	\$ -
157,997	157,580	96	-	321	-
31,573	31,313	244	-	17	-
32,037	31,391	320	-	326	-
12,437	11,770	-	-	667	-
1,986,076	1,985,547	-	2	527	-
3,217,758	3,138,572	42,485	3,528	33,173	-
1,996,085	1,980,588	4,609	-	10,887	-
41,985	35,951	-	180	5,854	-
42,763	42,381	24	-	358	-
5,317	5,170	-	-	147	-
39,219	38,759	322	-	138	-
1,408,332	1,309,850	19,138	7,944	71,399	-
48,694	46,719	1,294	-	681	-
293,522	281,886	1,452	822	9,362	-
40,504	39,489	418	-	597	-
23,743	23,656	43	-	44	-
28,797	23,511	39	2,750	2,497	-
277,029	271,047	1,258	-	4,725	-
-	-	-	-	-	-
272,514	247,310	4,993	4,223	15,988	-
<u>\$ 10,082,162</u>	<u>\$ 9,820,479</u>	<u>\$ 76,913</u>	<u>\$ 26,840</u>	<u>\$ 157,929</u>	<u>\$ -</u>

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

LAST TEN YEARS

SEPTEMBER 30, 2008

(In Thousands)

<u>SOURCE</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>TAXES:</b>				
Sales	\$ 5,901,733	\$ 6,277,498	\$ 6,352,306	\$ 6,439,894
Personal Income (net of tax expenditures)	6,907,933	7,144,211	6,749,373	6,095,989
Amount reported as tax expenditures	486,100	502,100	532,800	615,100
Single Business and Michigan Business Use	2,360,533	2,324,868	2,022,882	1,983,795
State Education (Property)	1,283,017	1,355,389	1,333,607	1,306,365
Real Estate Transfer	1,273,459	1,381,420	1,489,552	1,583,660
Liquor, Beer, Wine, and Tobacco Products	261,696	257,093	252,894	253,075
Casino Gaming Wagering	739,972	736,859	732,673	808,225
Telephone and Telegraph Company	-	-	75,415	91,915
Insurance Company	150,334	149,206	152,523	137,343
Motor Vehicle and Fuel	199,463	191,946	200,756	227,081
Quality Assurance Assessment	1,784,970	1,829,979	1,852,964	1,917,481
Other	-	-	-	-
	609,665	714,899	657,279	610,485
<b>TOTAL TAXES</b>	<b>21,958,875</b>	<b>22,865,469</b>	<b>22,405,023</b>	<b>22,070,408</b>
<b>FEDERAL AGENCIES</b>	<b>7,902,699</b>	<b>8,571,625</b>	<b>9,566,353</b>	<b>10,202,344</b>
<b>LOCAL AGENCIES</b>	<b>183,822</b>	<b>173,882</b>	<b>227,996</b>	<b>248,867</b>
<b>SPECIAL MEDICAID REIMBURSEMENTS</b>	<b>690,799</b>	<b>1,059,343</b>	<b>1,155,374</b>	<b>1,109,233</b>
<b>SERVICES</b>	<b>113,415</b>	<b>110,294</b>	<b>115,346</b>	<b>121,849</b>
<b>LICENSES AND PERMITS</b>	<b>383,778</b>	<b>393,006</b>	<b>391,655</b>	<b>408,746</b>
<b>MISCELLANEOUS</b>	<b>769,236</b>	<b>1,032,248</b>	<b>1,281,281</b>	<b>1,150,187</b>
<b>TOTAL REVENUE</b>	<b>32,002,624</b>	<b>34,205,867</b>	<b>35,143,027</b>	<b>35,311,635</b>
<b>PROCEEDS FROM BOND ISSUES AND BOND ANTICIPATION NOTES</b>	<b>-</b>	<b>82,099</b>	<b>854,240</b>	<b>424,472</b>
<b>CAPITAL LEASE ACQUISITIONS</b>	<b>57,609</b>	<b>22,330</b>	<b>23,014</b>	<b>237,272</b>
<b>PROCEEDS FROM SALE OF CAPITAL ASSETS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL REVENUE, BOND PROCEEDS, CAPITAL LEASE ACQUISITIONS, AND PROCEEDS FROM SALE OF CAPITAL ASSETS</b>	<b>\$ 32,060,233</b>	<b>\$ 34,310,295</b>	<b>\$ 36,020,281</b>	<b>\$ 35,973,378</b>

NOTES: (1) Beginning in fiscal year 2004, the State began reporting quality assurance assessment revenue as a tax revenue, rather than as miscellaneous revenue. Amounts for years prior to 2004 are not available.

(2) Beginning in fiscal year 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 2005 are not available.

(3) Effective January 1, 2008, the State replaced the single business tax with the Michigan business tax.

**Michigan**

2003	2004	2005	2006	2007	2008
\$ 6,422,642	\$ 6,473,522	\$ 6,599,138	\$ 6,638,110	\$ 6,552,240	\$ 6,773,276
5,811,843	5,873,365	6,108,924	6,226,304	6,442,678	7,226,049
707,800	702,700	815,300	834,000	883,400	931,600
1,843,072	1,841,010	1,907,190	1,886,168	1,786,213	2,482,035
1,229,838	1,316,504	1,402,399	1,413,758	1,380,375	1,377,077
2,127,513	1,824,493	1,914,629	2,003,527	2,080,977	2,079,703
275,513	317,480	313,548	297,680	237,483	169,835
1,035,322	1,142,217	1,330,759	1,324,189	1,288,335	1,235,753
90,945	99,455	145,811	155,461	159,363	129,684
124,168	101,315	99,149	83,533	87,282	80,793
231,076	230,272	249,524	219,538	223,754	223,198
1,946,225	2,015,567	1,942,450	1,932,043	1,909,146	1,852,884
-	325,188	509,857	676,923	827,776	1,023,766
580,001	536,839	598,285	507,690	511,861	489,479
22,425,957	22,799,928	23,936,964	24,198,924	24,370,884	26,075,135
10,812,852	11,579,388	11,974,006	12,160,022	12,655,930	13,432,638
230,728	239,815	262,875	124,101	139,429	126,550
932,658	704,551	467,970	93,621	102,670	115,797
121,198	148,140	264,957	269,593	284,370	291,380
417,786	555,858	423,501	437,560	444,841	441,407
1,390,001	1,109,630	1,371,999	1,457,623	1,510,134	1,549,016
36,331,180	37,137,308	38,702,270	38,741,444	39,508,257	42,031,923
352,254	405,881	182,441	1,004,778	1,026,769	89,957
16,052	19,661	6,778	34,059	20,906	110,838
-	11,513	10,340	3,989	5,318	30,388
<u>\$ 36,699,486</u>	<u>\$ 37,574,362</u>	<u>\$ 38,901,829</u>	<u>\$ 39,784,271</u>	<u>\$ 40,561,251</u>	<u>\$ 42,263,105</u>

**Michigan**

**SCHEDULE OF EXPENDITURES BY FUNCTION**  
**GENERAL AND SPECIAL REVENUE FUNDS - STATE FUNDS**  
 LAST TEN YEARS  
 SEPTEMBER 30, 2008  
 (In Thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Current:				
General government	\$ 1,072,735	\$ 1,071,643	\$ 1,270,363	\$ 1,541,175
Education	11,827,226	12,436,812	13,975,247	14,547,772
Human services	3,229,377	3,336,835	3,596,001	3,791,373
Public safety and corrections	1,908,871	1,983,001	2,155,735	2,132,401
Conservation, environment, recreation, and agriculture	482,901	564,738	617,703	638,615
Labor, commerce, and regulatory	720,070	740,687	881,069	891,817
Health services	7,100,795	7,692,354	8,525,435	8,891,480
Transportation	1,645,123	1,663,318	2,058,191	2,117,153
Tax expenditures	486,100	502,100	532,800	615,100
Capital outlay	1,144,575	1,196,211	1,267,158	1,232,479
Intergovernmental - revenue sharing	1,410,400	1,494,016	1,555,799	1,517,303
Debt service:				
Bond interest and fiscal charges	-	-	2,219	1,240
Capital lease payments	<u>59,287</u>	<u>52,027</u>	<u>48,820</u>	<u>51,387</u>
Total Expenditures	<u>\$ 31,087,460</u>	<u>\$ 32,733,741</u>	<u>\$ 36,486,541</u>	<u>\$ 37,969,296</u>

**Michigan**

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<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$ 1,207,672	\$ 1,116,072	\$ 1,303,070	\$ 1,632,416	\$ 1,584,117	\$ 1,547,722
14,624,856	14,305,112	14,488,870	14,710,682	14,572,261	15,029,489
3,875,371	3,932,475	4,122,779	4,341,774	4,447,992	4,609,481
2,112,194	2,118,888	2,284,674	2,453,297	2,465,362	2,614,768
581,168	571,909	598,930	626,879	553,033	580,293
891,644	902,903	924,876	952,921	957,023	966,091
9,270,484	9,676,268	10,126,544	9,958,104	10,741,285	11,588,207
2,080,361	2,211,490	2,163,688	2,082,685	2,178,922	2,338,905
707,800	702,700	815,300	834,000	883,400	931,600
1,085,686	1,046,339	1,229,534	1,253,535	1,296,053	1,177,576
1,451,374	1,305,146	1,112,931	1,103,625	1,071,104	1,076,445
-	-	-	174	-	-
<u>67,723</u>	<u>50,840</u>	<u>49,530</u>	<u>49,183</u>	<u>46,074</u>	<u>50,176</u>
<u><u>\$ 37,956,335</u></u>	<u><u>\$ 37,940,143</u></u>	<u><u>\$ 39,220,726</u></u>	<u><u>\$ 39,999,276</u></u>	<u><u>\$ 40,796,626</u></u>	<u><u>\$ 42,510,753</u></u>

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