

State of Michigan

Comprehensive Annual
Financial Report



Fiscal Year Ended
September 30, 2007

Jennifer M. Granholm,
Governor

Prepared by
Office of the State Budget

About the Cover: Shown on the cover is the view from the south tower of the Mackinac Bridge during the annual Labor Day Bridge Walk. Normally, pedestrians are prohibited on the bridge, but every Labor Day, two of the bridge's four lanes are closed to traffic, so that pedestrians can make the five-mile crossing from St. Ignace, on the north, to Mackinaw City, on the south.

The bridge opened to the public on November 1, 1957. Michigan citizens take pride in celebrating the 50th anniversary of the "Mighty Mac" in 2007. Many events were held to commemorate this milestone including honoring designer Dr. David B. Steinman.

The Mackinac Bridge is located on Interstate 75 in northern Michigan at the Straits of Mackinac. It connects Michigan's upper and lower peninsulas. The length of the bridge's main span is 3,800 feet, which makes it the third largest suspension span in the United States and tenth largest in the world.

We invite you to visit the beautiful Mackinac Bridge in person or on line at www.mackinacbridge.org.

This publication was produced at a cost of \$10,090.86 for printing or \$13.45 per copy. A total of 750 copies were printed using recycled paper. This report is required by law, Public Act 431 of 1984, as amended.

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



State of Michigan
Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2007

JENNIFER M. GRANHOLM
Governor

ROBERT L. EMERSON
State Budget Director
Office of the State Budget

MICHAEL J. MOODY, CPA
Director
Office of Financial Management

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Michigan

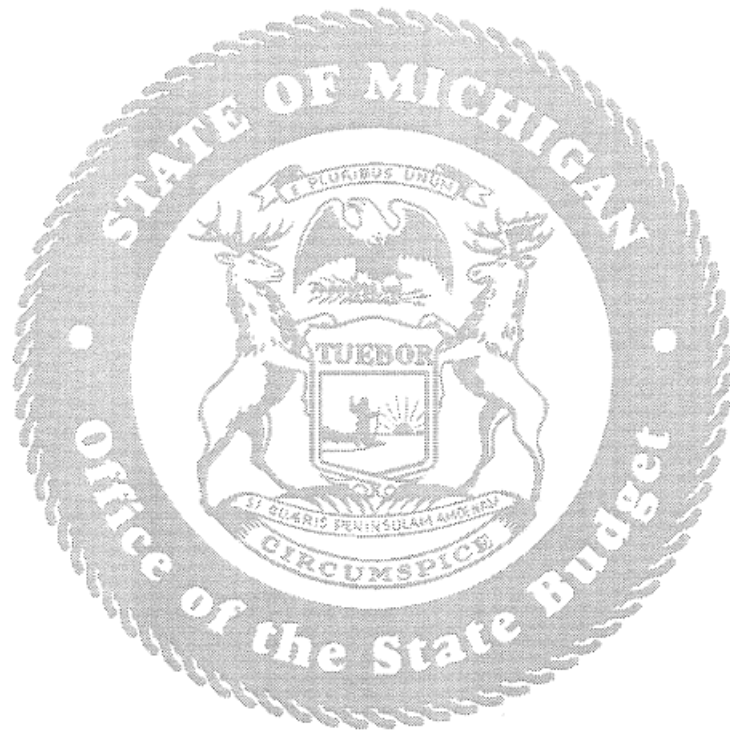
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STATE OF MICHIGAN
OFFICE OF THE STATE BUDGET
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT L. EMERSON
DIRECTOR

December 28, 2007

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, 2007.

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 Employees' Deferred Compensation Funds, the State Employees' Defined Contribution Retirement Fund, and the Michigan Education Savings Program. Many of the essential control features are decentralized, such as the preparation and entry of expenditure transactions into the central accounting system. Consequently, the Office of the State Budget relies upon the controls in place at the various State departments and agencies.

The Management and Budget Act requires each principal department to 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, 2007 are free of material misstatements. The OAG concluded that the Basic Financial Statements for the fiscal year ended September 30, 2007 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 26th 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

Working The Comprehensive Economic Plan: For Michigan to grow and compete, state government must invest in initiatives that will diversify the economy, promote job creation, and provide workers with the education and training they need. The Single Business Tax was replaced this year by the Michigan Business Tax which is more competitive, provides significant personal property tax relief, and creates incentives for companies to locate and create jobs here. The 21st Century Jobs Fund continues to foster high-tech, cutting edge businesses and made more than \$50 million in critical start-up funding available through the Capital Access Plan.

The No Worker Left Behind program and the MI Opportunity Partnership are helping workers connect with training and jobs. In just four months, No Worker Left Behind has enrolled 7,800 displaced workers in free training, while more than 48,500 citizens were placed in jobs in the second year of the MI Opportunity Partnership.

Local Jobs Today, a program that makes grants and loans available to cities, townships, and local transit agencies, enabling them to take advantage of available federal transportation funding, provided \$282 million this year for 267 local road and bridge projects creating more than 5,000 jobs.

Reforming Government: During fiscal year 2007, Governor Granholm and the legislature enacted a series of reforms, including closing a loophole that allowed some retired state employees to continue drawing a state pension after returning to active state employment, requiring school districts to shop for competitive health care coverage, and encouraging healthy behaviors for Medicaid recipients.

The State took additional steps to reduce costs and improve efficiency, including closing two prisons and two prison camps and eliminating the Department of Civil Service. Through Executive Order, the Governor consolidated the State's human resources, accounting, and internal audit functions. In addition, 37 additional boards and commissions were eliminated this year.

Agencies and departments throughout state government are also putting new technology to use to reduce costs and improve efficiency. The Department of Transportation developed a new computer system to manage and track construction projects, saving more than \$28 million this year. The Department of Agriculture is using a new web-based system to manage lab analysis data. The new program is expected to save approximately 3,000 staff hours for lab analyses while speeding turnaround times. The Department of Information Technology is working to consolidate hardware and application systems. In 2007, this effort allowed the state to close 21 separate facilities, saving the state more than \$9.5 million.

Education: The State is committed to providing every child with a quality education. As the foundation of our economic plan, over \$15.3 billion or 35.2% of the State's total fiscal year 2008 budget is devoted to educating Michigan's citizens through its public schools, community colleges, and universities.

The School Aid Budget, totaling \$13.0 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 2008, the minimum foundation allowance was increased to \$7,204 per pupil.

In 2007, five new revolutionary high schools also opened. Working in partnership with local hospitals and health care providers, these "early college high schools" will keep at-risk kids in school and prepare them for a career in health care. In just five years, students can graduate with a high school diploma and an associates degree or equivalent certification.

To make Michigan competitive, the fiscal year 2008 budget continues to invest in one of the state's largest economic catalysts – our universities. State colleges and universities will receive \$2.2 billion. In addition, more than 33,000 students enrolled in Michigan colleges and universities this year with the help of the \$4,000 Michigan Promise Scholarship. Another 86,000 students are eligible to receive the scholarship after completing two years.

Health and Human Services: For fiscal year 2008, the two departments primarily responsible for providing services to Michigan's most vulnerable citizens, the Department of Community Health and Department of Human Services, account for \$16.6 billion, or 38.2%, of the State budget.

The Michigan Medicaid program is a foundation of the social safety net for low-income families and vulnerable adults. By providing coverage to 1.6 million people, of which nearly 900,000 are children, the program ensures that low-income families, the elderly, and the disabled receive high-quality, cost-effective health care, while reducing the burden of uncompensated care costs on providers. The fiscal year 2008 budget includes \$7.5 billion for the medical and long-term care portions of the Medicaid program, which will provide health care services to one out of every seven state residents.

The fiscal year 2008 budget for the Department of Human Services provides funding for more than 300 additional workers to provide services to vulnerable families and help keep our children safe. Funding was also increased for foster parent recruitment and training to ensure that the state has enough safe, stable homes for children.

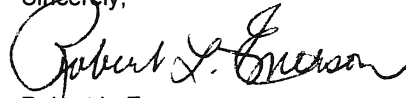
AWARDS AND ACKNOWLEDGEMENTS

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, 2006. 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.

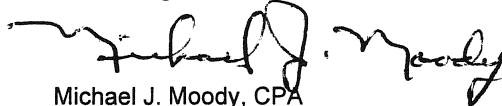
A Certificate of Achievement is valid for a period of one year only. The State has received a Certificate of Achievement for 20 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine 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, 2006

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.



Oliver S. Cox

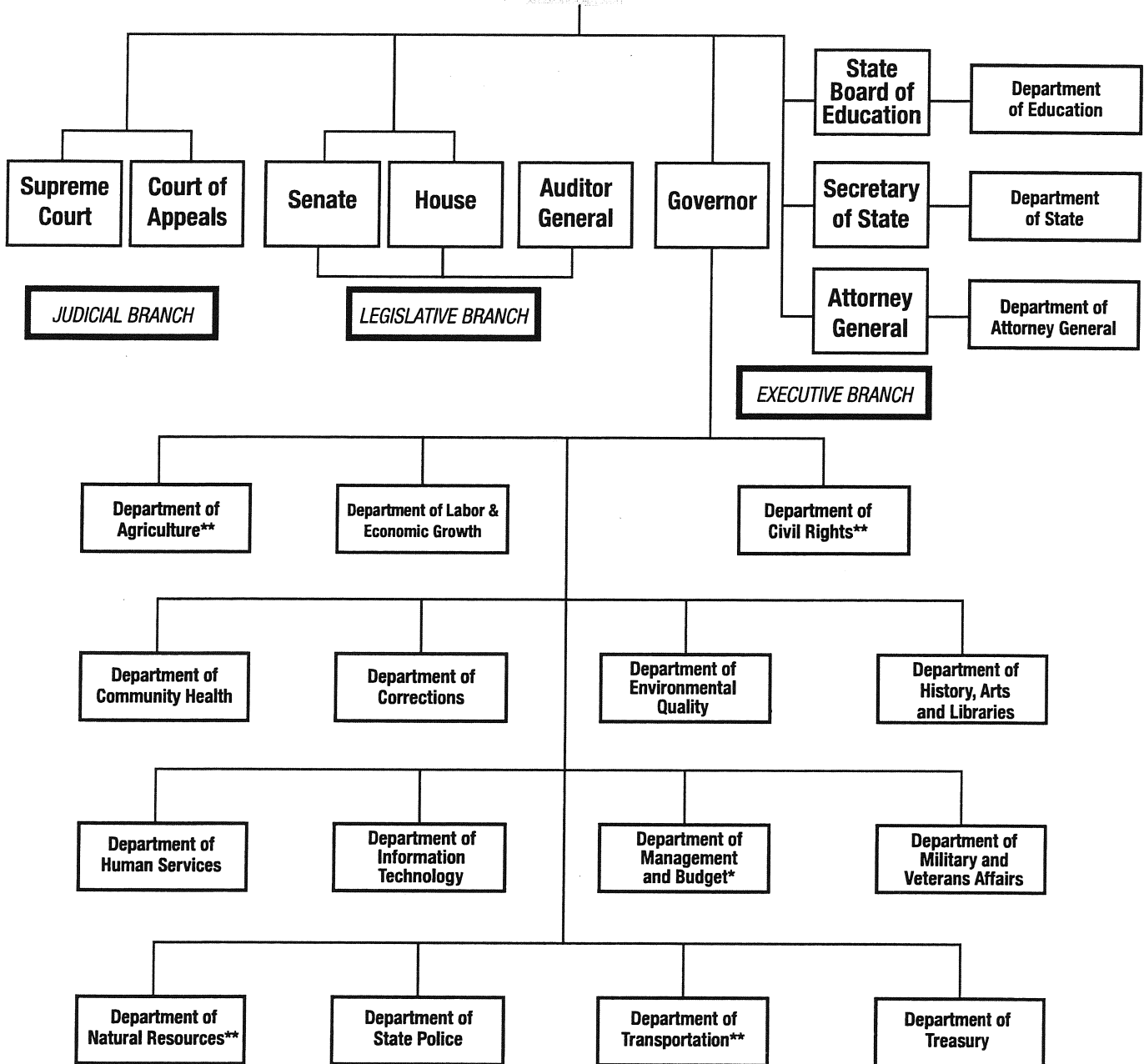
President

Jeffrey R. Emen

Executive Director

STATE OF MICHIGAN ORGANIZATIONAL STRUCTURE

CITIZENS OF MICHIGAN



* 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
Mohammed Abdrabboh, Chair
Mark Bernstein
Kelvin W. Scott
Tarun K. Sharma
Karen Henry Stokes
Matthew Wesaw
J. Michael Zelle
Vacant
Linda V. Parker, Director, Department of Civil Rights

Civil Service Commission
Bryan J. Waldman, Chair
Andrew P. Abood
Sherry L. McMillan
Thomas M. Wardrop
James D. Farrell, 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

Keith W. Cooley, Director
Department of Labor and 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
Frank C. Wheatlake
Rebecca A. Humphries, Director
Department of Natural Resources

Lt. Col. Peter C. Munoz, Director
Department of State Police

Transportation Commission
Ted B. Wahby, Chair
Linda Miller Atkinson
Maureen Miller Brosnan
Jerrold M. Jung
James R. Rosendall
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, 2007, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the State Lottery Fund, Michigan Unemployment Compensation Funds, Michigan Employment Security Act - Administration Fund, State Building Authority - Debt Service Fund, State Building Authority - Capital Projects Fund, Attorney Discipline System, State Sponsored Group Insurance Fund, State Employees' Deferred Compensation Funds, State Police 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 Employees' 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	1.6%	1.5%
Business-Type Activities	95.4%	84.6%
Aggregate Discretely Presented Component Units	92.6%	94.0%
State Lottery Fund	100.0%	100.0%
Michigan Unemployment Compensation Funds	100.0%	100.0%
Aggregate Remaining Fund Information	94.2%	71.6%

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



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

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, as of September 30, 2007, 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 Note 10 to the basic financial statements, the State of Michigan adopted Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

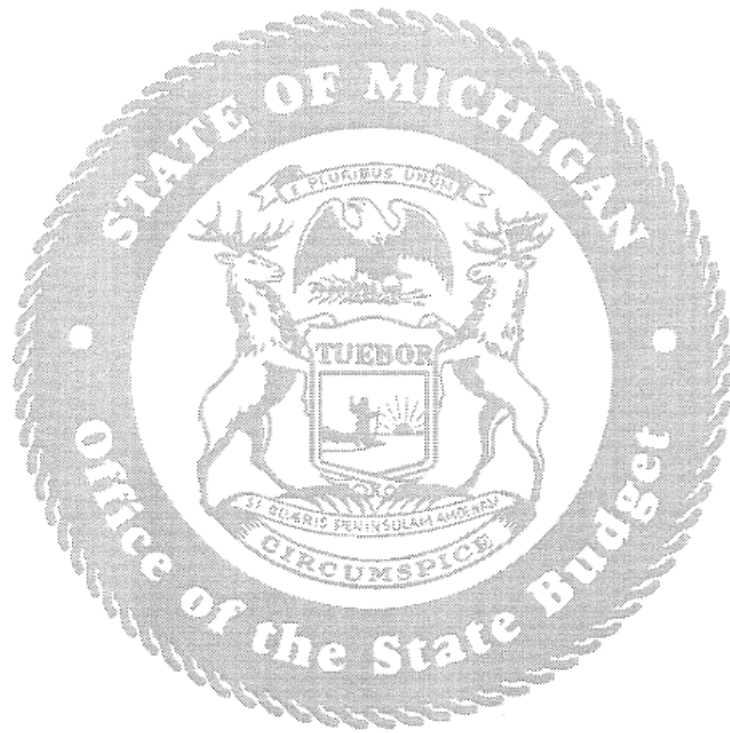
The management's discussion and analysis on pages 5 through 13, budgetary comparison schedules and corresponding notes on pages 98 through 101, and information about infrastructure assets reported using the modified approach on pages 102 and 103 are not required parts of the basic financial statements 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 28, 2007



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, 2007. 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, 2007, the State's assets exceeded its liabilities by \$16.2 billion.
- The State's unrestricted net assets were (\$2.2) 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.
- The State's total net assets decreased by \$575.5 million (3.4 percent) during fiscal year 2007 as a result of long-term debt issuance and continued unemployment.

Fund Level:

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$3.8 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 \$2.7 billion is reserved for specific purposes, such as education and transportation.
- The State's three major governmental funds, the General Fund, Counter-Cyclical Budget and Economic Stabilization Fund, and the School Aid Fund, closed the fiscal year with a combined total fund balance of \$1.1 billion. The General Fund and the Counter-Cyclical Budget and Economic Stabilization Fund ended the year with unreserved fund balances of \$259.1 million and \$2.1 million, respectively. In the School Aid Fund, the entire fund balance of \$94.0 million is reserved for specific purposes. In addition, another \$722.9 million is reserved for specific purposes such as multi-year projects and restrictively financed programs.
- The State's proprietary funds reported net assets at year-end of \$363.9 million. This represents a decrease of \$266.3 million (42.3 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, 2007 was \$8.2 billion. This is an increase of \$577.2 million since the last fiscal year-end. The increase represents the net difference between new issuances, payments, and refundings of outstanding debt, mostly related to the Michigan Tobacco Settlement Finance Authority (\$527.9 million).

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 three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

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

The Statement of Net Assets (pages 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.

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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

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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 43 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 106 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

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

Other Supplementary Information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The State's combined net assets decreased \$575.5 million (3.4 percent) over the course of this fiscal year's operations. The net assets of the governmental activities decreased \$309.2 million (1.9 percent) and business-type activities had a decrease of \$266.3 million (42.3 percent).

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and other non-current assets	\$10,391.0	\$10,118.9	\$ 1,276.4	\$ 1,618.4	\$11,667.5	\$11,737.4
Capital assets	19,436.6	19,227.7	.4	.4	19,437.0	19,228.2
Total assets	<u>29,827.7</u>	<u>29,346.7</u>	<u>1,276.8</u>	<u>1,618.8</u>	<u>31,104.5</u>	<u>30,965.5</u>
Current liabilities	4,697.7	4,253.1	594.9	624.2	5,292.6	4,877.4
Long-term liabilities	9,271.4	8,925.8	318.0	364.4	9,589.4	9,290.2
Total liabilities	<u>13,969.1</u>	<u>13,178.9</u>	<u>912.9</u>	<u>988.6</u>	<u>14,882.0</u>	<u>14,167.6</u>
Net assets:						
Invested in capital assets, net of related debt	15,739.1	15,827.6	.4	.4	15,739.5	15,828.0
Restricted	2,292.8	2,065.0	358.7	622.0	2,651.5	2,686.9
Unrestricted	(2,173.3)	(1,724.8)	4.8	7.8	(2,168.5)	(1,717.0)
Total net assets	<u>\$15,858.6</u>	<u>\$16,167.8</u>	<u>\$ 363.9</u>	<u>\$ 630.2</u>	<u>\$16,222.5</u>	<u>\$16,798.0</u>

The largest component of the State's net assets (\$15.7 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. 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 (\$2.2) 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.

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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:

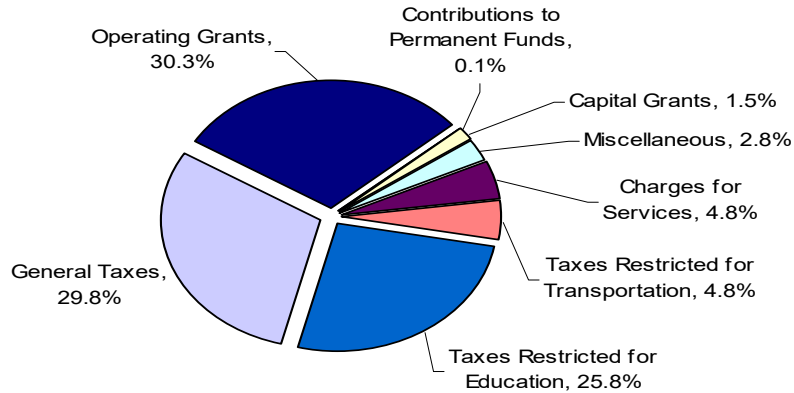
Changes in Net Assets For Fiscal Year Ending September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Charges for services	\$1,947.0	\$1,862.1	\$4,876.6	\$4,682.7	\$6,823.6	\$6,544.8
Operating grants	12,300.1	11,624.8	55.8	53.9	12,355.9	11,678.7
Capital grants	627.1	779.3	-	-	627.1	779.3
General revenues						
General taxes	12,077.0	11,905.8	13.1	12.7	12,090.1	11,918.5
Taxes restricted for educational purposes	10,456.2	10,389.8	-	-	10,456.2	10,389.8
Taxes restricted for transportation purposes	1,965.3	1,994.8	-	-	1,965.3	1,994.8
Unrestricted investment and interest earnings	12.1	10.0	5.1	4.9	17.2	14.9
Miscellaneous	1,124.8	1,004.0	-	-	1,124.8	1,004.0
Total revenues	<u>40,509.5</u>	<u>39,570.5</u>	<u>4,950.6</u>	<u>4,754.1</u>	<u>45,460.0</u>	<u>44,324.6</u>
Expenses						
General government	2,205.7	2,288.5	-	-	2,205.7	2,288.5
Education	14,660.2	14,695.2	-	-	14,660.2	14,695.2
Human Services	4,453.5	4,384.3	-	-	4,453.5	4,384.3
Public safety and corrections	2,583.9	2,541.6	-	-	2,583.9	2,541.6
Conservation, environment, etc.	597.0	688.4	-	-	597.0	688.4
Labor, commerce, and regulatory	963.4	951.5	-	-	963.4	951.5
Health services	10,832.9	9,963.4	-	-	10,832.9	9,963.4
Transportation	3,191.8	3,133.1	-	-	3,191.8	3,133.1
Tax expenditures	883.4	834.0	-	-	883.4	834.0
Intergovernmental - revenue sharing	1,071.1	1,103.6	-	-	1,071.1	1,103.6
Interest on long-term debt	345.4	306.8	-	-	345.4	306.8
Liquor Purchase Revolving Fund	-	-	602.3	583.0	602.3	583.0
State Lottery Fund	-	-	1,654.8	1,584.2	1,654.8	1,584.2
Attorney Discipline System	-	-	4.3	4.1	4.3	4.1
Michigan Unemployment Compensation Funds	-	-	2,012.1	1,990.2	2,012.1	1,990.2
Total expenses	<u>41,788.3</u>	<u>40,890.5</u>	<u>4,273.5</u>	<u>4,161.5</u>	<u>46,061.7</u>	<u>45,052.0</u>
Excess (deficiency) Before Contributions and Transfers	(1,278.8)	(1,320.0)	677.1	592.6	(601.7)	(727.3)
Contributions to permanent fund principal	26.2	35.2	-	-	26.2	35.2
Transfers	943.5	864.4	(943.5)	(864.4)	-	-
Increase (decrease) in net assets	(309.2)	(420.4)	(266.3)	(271.8)	(575.5)	(692.2)
Net assets – beginning restated	16,167.8	16,588.2	630.2	902.0	16,798.0	17,490.2
Net assets – ending	<u>\$15,858.6</u>	<u>\$16,167.8</u>	<u>\$363.9</u>	<u>\$630.2</u>	<u>\$16,222.5</u>	<u>\$16,798.0</u>

Governmental Activities:

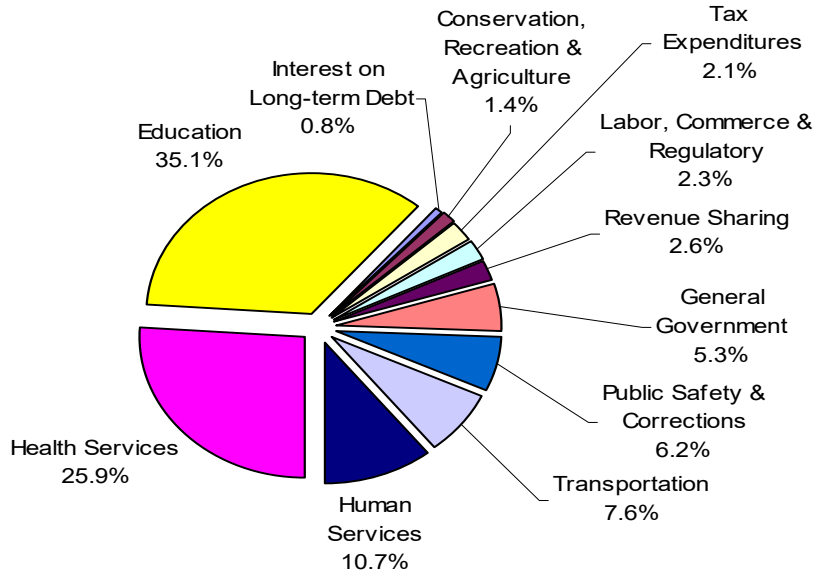
Revenues to fund governmental activities totaled \$40.5 billion for fiscal year 2007. Fund balances and other state assets were also used to support governmental activities. As shown in the accompanying chart, 30.3 percent of the governmental activities' revenue came from operating grants, primarily 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 30.6 percent for educational and transportation purposes. Only 29.8 percent of the revenues were available for general use.

Revenues - Governmental Activities for Fiscal Year Ending September 30, 2007
(\$40.5 billion)



Expenses related to governmental activities totaled \$41.8 billion during fiscal year 2007. 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 61.0 percent of the spending.

Expenses - Governmental Activities for Fiscal Year Ending September 30, 2007
(\$41.8 billion)



Business-type Activities

The business-type activities' net assets decreased by \$266.3 million (42.3 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 \$259.1 million (44.2 percent).
- The State Lottery Fund's net assets decreased by \$4.2 million (11.6 percent), which resulted from a decrease in the market value of investments that Lottery holds to fund future payments due for lottery prizes.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As the State completed the year, its governmental funds reported fund balances of \$3.8 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 (\$320.3 million) and the other state funds (\$398.4 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 2007, the General Fund unreserved fund balance was \$259.1 million and the reserved fund balance was \$722.9 million. While total fund balance decreased during the fiscal year by \$87.2 million (8.2 percent), unreserved fund balance increased by \$256.6 million (102.6 percent) as a result of controlled spending and increased general purpose revenues.

General Fund Budgetary Highlights:

During fiscal year 2007, the State was again faced with difficult budget challenges. In March 2007, Executive Order 2007-3 was issued authorizing expenditure reductions totaling \$274.2 million and transfers of unexpended balances and excess revenue from restricted revenue sources totaling \$70.4 million to be used as general fund – general purpose revenues. In addition to the executive order reductions, the original budget was amended by various supplemental appropriations and appropriation reductions. The following summarizes the differences between the original and final budget amounts:

- General-purpose tax revenues of \$8.5 billion were \$254.8 million more than the original estimate of \$8.3 billion.
- Restricted revenue inflows of \$14.6 billion were \$435.3 million less than the estimated \$15.1 billion.
- The General Fund received transfers of \$508.0 million from other appropriated funds. The largest transfer was from the Michigan Tobacco Settlement Finance Authority, totaling \$207.2 million and from the Liquor Purchase Revolving Fund, totaling \$162.4 million. In addition, the General Fund received one-time transfers from the Civilian Conservation Endowment Fund, totaling \$20 million and another \$50 million from the 21st Century Jobs Fund.

Differences between the final budget and actual spending result from spending authority lapses of \$137.6 million and restricted revenue authorized, but not spent, of \$8.2 million. At fiscal year-end, excess restricted revenues of \$395.6 million carried forward into fiscal year 2008 and are available upon appropriation.

All agencies finished the year with net lapses. However, Human Services and State Police reported line item over-expenditures of \$1.2 million and \$1.0 million, respectively.

School Aid Fund

Fund balance at September 30, 2007, totaled \$94.0 million, an increase of \$86.6 million from the prior year. Revenues and transfers to the fund totaled \$12.8 billion, up \$217.3 million from the prior year. Expenditures totaled \$12.7 billion, an increase of \$42.1 million over the previous year. A total of \$261.5 million in direct school aid expenditures were avoided due to the issuance of pension obligation credits to school districts by the Michigan Public Schools Employee Retirement System (MPERS). The retirement related expenditures offset by the pension obligation credits are contained in MPERS CAFR and are in addition to the school aid expenditures displayed in this report. The School Aid Stabilization Fund ended the year with \$82.4 million reserve.

Counter-Cyclical Budget and Economic Stabilization Fund

During the year, the BSF received \$73 thousand in interest earnings. As a result, fund balance increased to \$2.1 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2007, the State had invested \$19.4 billion, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$180.2 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Land	\$ 3,235.2	\$ 3,207.2	\$ -	\$ -	\$ 3,235.2	\$ 3,207.2
Land improvements	84.0	83.5	-	-	84.0	83.5
Buildings and improvements	2,075.0	2,123.6	-	-	2,075.0	2,123.6
Equipment	199.0	196.0	.4	.4	199.4	196.4
Infrastructure	12,814.9	12,629.2	-	-	12,814.9	12,629.2
Other	19.8	19.8	-	-	19.8	19.8
Subtotal	18,427.9	18,259.3	.4	.4	18,428.2	18,259.7
Construction in progress	1,008.8	968.5	-	-	1,008.8	968.5
Total	\$19,436.6	\$19,227.7	\$.4	\$.4	\$19,437.0	\$19,228.2

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

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State's network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 27,514 lane miles of roads and 4,759 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 2006, indicated that 83.2% 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 (2006) indicated that the condition of the bridges had improved from the condition reported for 2005. For calendar year 2006, 86.4% of the bridges were assessed as structurally fair or better.

The legislature has not passed capital outlay appropriations for fiscal year 2008. However, \$368.8 million of unspent capital outlay authorizations that existed at September 30, 2007 are available to spend in fiscal year 2008. 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 21st 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 12 and 14 to the financial statements.

Michigan

Outstanding Bonded Debt as of September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
General obligation bonds (backed by the State)	\$1,487.5	\$1,793.5	\$ -	\$ -	\$1,487.5	\$1,793.5
Revenue bonds and notes (backed by specific tax and fee revenues)	6,725.9	5,842.6	-	-	6,725.9	5,842.6
Total	<u>\$8,213.3</u>	<u>\$7,636.1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,213.3</u>	<u>\$7,636.1</u>

During the year, the State issued grant anticipation bonds to provide funding for federally-aided highway construction projects. The bonds are secured by the State's share of federal reimbursements from the Federal Highway Administration. In addition, the Michigan Tobacco Settlement Finance Authority issued taxable tobacco settlement asset backed bonds of \$527.9 million to fund General Fund and School Aid Fund programs.

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 2007, the State issued and repaid short-term borrowing totaling \$1.3 billion.

ECONOMIC CONDITION AND OUTLOOK

Michigan's economy relies heavily on the performance of the manufacturing sector, in general, and the auto industry, specifically. Given 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 2007, Michigan employment is estimated to have declined by 65,000 jobs (1.5 percent) – the seventh straight year that Michigan employment has declined. From Michigan's employment peak in June 2000, Michigan has lost approximately 420,000 jobs. In contrast, Michigan employment had increased approximately 490,000 jobs above its pre-recession peak by this time after the 1990-1991 recession.

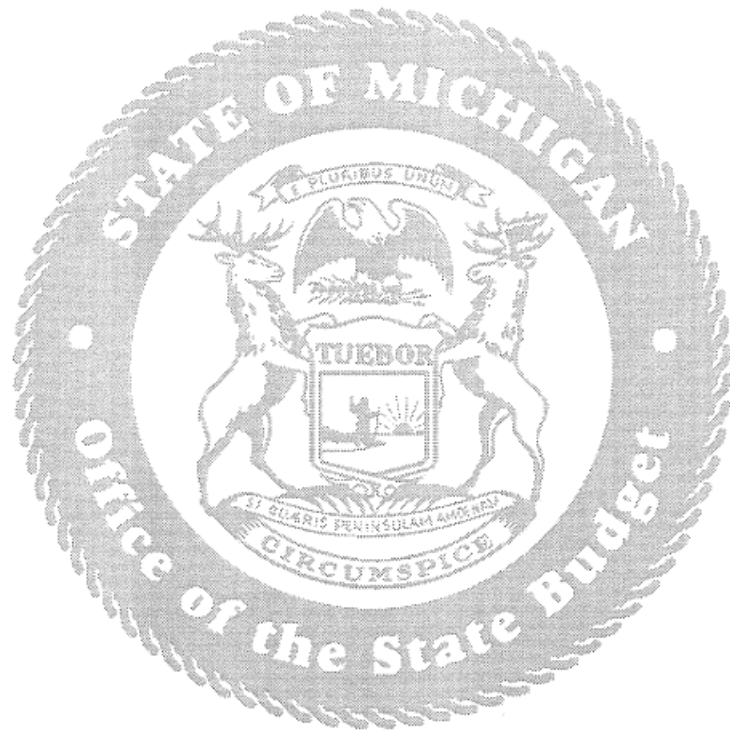
Personal income was up an estimated 1.9 percent and wages and salaries income fell an estimated 0.1 percent in 2007. Both personal income and wages and salaries failed to keep pace with the increase in consumer prices as measured by the Detroit consumer price index (2.1 percent).

Several factors are weighing on the national economy including sharp declines in the housing market, worsening credit markets and near record inflation-adjusted oil prices. As a result, the U.S. economic growth will remain tepid. Given this, Michigan employment is expected to decline in 2008 – although less so than in 2007, with 2008 employment falling by 1.2 percent. In 2008, Michigan personal income is projected to rise 2.3 percent, while wages and salaries are expected to increase 0.7 percent. With 2.0 percent inflation, real (inflation adjusted) personal income is forecast to increase while real wages and salaries are expected to decline in 2008.

CONTACTING THE STATE'S OFFICE OF FINANCIAL MANAGEMENT

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

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





II. FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

Michigan

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2007

(In Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
ASSETS				
Current Assets:				
Cash	\$ 12,404	\$ 7,259	\$ 19,663	\$ 683,733
Equity in common cash (Note 5)	1,637,482	77,841	1,715,322	119,076
Taxes, interest, and penalties receivable (Note 6)	5,100,222	-	5,100,222	-
Internal balances	10,131	(10,131)	-	-
Amounts due from component units	7,939	373	8,311	-
Amounts due from primary government	-	-	-	149,743
Amounts due from federal government	887,760	1,650	889,410	37,092
Amounts due from local units	263,751	32,736	296,488	929,432
Inventories	43,883	8,460	52,343	21,535
Investments (Note 8)	288,890	182,291	471,181	1,378,476
Securities lending collateral (Note 8)	260,193	364,608	624,800	-
Other current assets	567,162	295,344	862,506	525,240
Total Current Assets	<u>9,079,818</u>	<u>960,430</u>	<u>10,040,248</u>	<u>3,844,328</u>
Restricted Assets:				
Cash and cash equivalents	-	-	-	22,307
Investments	-	-	-	423,865
Mortgages and loans receivable	-	-	-	48,585
Taxes, interest, and penalties receivable (Note 6)	317,612	-	317,612	-
Amounts due from federal government	6,941	-	6,941	-
Amounts due from local units	385,203	-	385,203	3,062,873
Mortgages and loans receivable	-	-	-	4,024,991
Investments (Note 8)	509,165	295,508	804,673	2,957,515
Capital Assets (Note 9):				
Land and other non-depreciable assets	3,271,899	-	3,271,899	114,496
Buildings, equipment, and other depreciable assets	4,934,686	4,477	4,939,163	4,554,205
Less accumulated depreciation	(2,315,453)	(4,110)	(2,319,563)	(1,737,645)
Infrastructure	12,536,722	-	12,536,722	102,722
Construction in progress	1,008,783	-	1,008,783	147,231
Total capital assets	<u>19,436,636</u>	<u>367</u>	<u>19,437,002</u>	<u>3,181,008</u>
Interest in joint ventures (Note 7)	32,434	-	32,434	-
Other noncurrent assets	59,847	20,500	80,347	357,570
Total Assets	<u>\$ 29,827,656</u>	<u>\$ 1,276,805</u>	<u>\$ 31,104,461</u>	<u>\$ 17,923,043</u>
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 109,369	\$ 4,504	\$ 113,873	\$ 208
Obligations under security lending	260,193	364,608	624,800	-
Accounts payable and other liabilities	2,449,485	224,745	2,674,230	344,975
Income tax refunds payable (Note 15)	656,244	-	656,244	-
Amounts due to component units	3,225	-	3,225	-
Amounts due to primary government	-	-	-	4,538
Amounts due to federal government	-	-	-	397
Bonds and notes payable (Notes 12 and 13)	371,675	-	371,675	1,031,913
Interest payable	126,483	-	126,483	101,482
Deferred revenue	95,781	807	96,589	75,146
Current portion of other long-term obligations (Note 14)	625,197	253	625,450	130,912
Total Current Liabilities	<u>4,697,653</u>	<u>594,917</u>	<u>5,292,570</u>	<u>1,689,570</u>
Prize awards payable (Note 14)	-	267,719	267,719	-
Deferred revenue	14,559	-	14,559	5,082
Bonds and notes payable (Notes 12 and 13)	7,725,458	-	7,725,458	8,476,545
Noncurrent portion of other long-term obligations (Note 14)	1,531,394	50,292	1,581,686	1,500,113
Total Liabilities	<u>\$ 13,969,064</u>	<u>\$ 912,928</u>	<u>\$ 14,881,992</u>	<u>\$ 11,671,310</u>

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

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 15,739,094	\$ 367	\$ 15,739,461	\$ 1,962,702
Restricted For:				
Education	181,898	-	181,898	228,633
Construction and debt service	-	-	-	323,445
Public Safety and Corrections	1,241	-	1,241	-
Conservation, environment, recreation, and agriculture	367,897	-	367,897	-
Health and human services	45,625	-	45,625	-
Transportation	920,393	-	920,393	-
Unemployment compensation	-	326,834	326,834	-
Labor and economic growth	81,944	-	81,944	-
Other purposes	49,526	31,877	81,403	1,933,227
Funds Held as Permanent Investments:				
Expendable	111,669	-	111,669	66,654
Nonexpendable	532,586	-	532,586	250,875
Unrestricted	(2,173,281)	4,798	(2,168,482)	1,486,196
Total Net Assets	<u>\$ 15,858,592</u>	<u>\$ 363,877</u>	<u>\$ 16,222,469</u>	<u>\$ 6,251,732</u>

Michigan

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

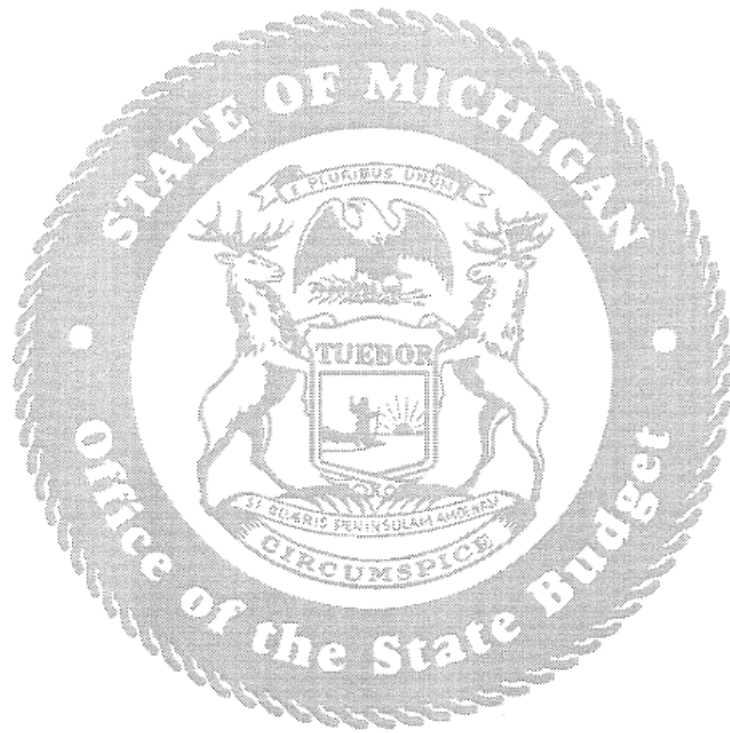
Functions/Programs	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General government	\$ 2,205,679	\$ 1,062,224	\$ 15,412	\$ 23,567
Education	14,660,163	10,377	1,437,607	-
Human services	4,453,497	59,285	3,119,153	-
Public safety and corrections	2,583,916	164,345	152,771	-
Conservation, environment, recreation, and agriculture	596,972	185,978	179,033	3,080
Labor, commerce, and regulatory	963,444	312,983	608,979	-
Health services	10,832,862	72,338	6,090,986	-
Transportation	3,191,784	79,459	696,126	600,410
Tax expenditures (Note 15)	883,400	-	-	-
Intergovernmental-revenue sharing	1,071,104	-	-	-
Interest on long-term debt	345,437	-	-	-
Total governmental activities	41,788,258	1,946,989	12,300,068	627,057
Business-type Activities:				
Liquor Purchase Revolving Fund	602,280	742,959	-	-
State Lottery Fund	1,654,823	2,363,001	48,270	-
Attorney Discipline System	4,282	4,782	-	-
Michigan Unemployment Compensation Funds	2,012,082	1,765,871	7,513	-
Total business-type activities	4,273,467	4,876,614	55,783	-
Total primary government	\$ 46,061,725	\$ 6,823,602	\$ 12,355,851	\$ 627,057
Component Units:				
Authorities:				
Michigan Education Trust	\$ 48,448	\$ 134	\$ 82,863	\$ -
Michigan State Housing Development Authority	575,543	173,163	414,460	-
Michigan Municipal Bond Authority	276,417	133,284	140,488	-
Non-Major	523,156	176,916	227,660	-
State Universities:				
Central Michigan University	334,876	236,179	28,951	6,987
Western Michigan University	470,055	270,391	77,401	9,044
Non-Major	1,457,810	881,114	211,967	12,576
Total component units	\$ 3,686,306	\$ 1,871,182	\$ 1,183,791	\$ 28,607

General Revenues:	
Taxes:	
General:	
Sales and use	
Personal income	
Single business	
Other	
Restricted For Educational Purposes:	
Sales and use	
Personal income	
Education, property, and real estate transfers	
Other	
Restricted For Transportation Purposes:	
Sales and use	
Gasoline and diesel fuel	
Motor vehicle weight	
Other	
Unrestricted investment and interest earnings	
Miscellaneous	
Contributions to permanent fund principal	
Payments from State of Michigan	
Special Items	
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
\$ (1,104,477)	\$ -	\$ (1,104,477)	\$ -
(13,212,178)	-	(13,212,178)	-
(1,275,059)	-	(1,275,059)	-
(2,266,800)	-	(2,266,800)	-
(228,881)	-	(228,881)	-
(41,482)	-	(41,482)	-
(4,669,538)	-	(4,669,538)	-
(1,815,789)	-	(1,815,789)	-
(883,400)	-	(883,400)	-
(1,071,104)	-	(1,071,104)	-
(345,437)	-	(345,437)	-
<u>(26,914,145)</u>	<u>-</u>	<u>(26,914,145)</u>	<u>-</u>
-	140,679	140,679	-
-	756,448	756,448	-
-	500	500	-
-	(238,697)	(238,697)	-
<u>-</u>	<u>658,929</u>	<u>658,929</u>	<u>-</u>
(26,914,145)	658,929	(26,255,215)	-
-	-	-	34,549
-	-	-	12,080
-	-	-	(2,644)
-	-	-	(118,579)
-	-	-	(62,760)
-	-	-	(113,219)
-	-	-	(352,152)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(602,726)</u>
2,635,341	-	2,635,341	-
5,321,169	-	5,321,169	-
1,771,854	-	1,771,854	-
2,348,619	13,133	2,361,752	-
5,230,217	-	5,230,217	-
2,142,251	-	2,142,251	-
2,336,474	-	2,336,474	-
747,241	-	747,241	-
67,678	-	67,678	-
1,016,957	-	1,016,957	-
874,287	-	874,287	-
6,339	-	6,339	-
12,097	5,055	17,151	150,761
1,124,818	-	1,124,818	57,422
26,165	-	26,165	-
-	-	-	663,240
-	-	-	(95,000)
943,460	(943,460)	-	-
<u>26,604,970</u>	<u>(925,273)</u>	<u>25,679,697</u>	<u>776,424</u>
(309,175)	(266,343)	(575,518)	173,698
16,167,767	630,220	16,797,987	6,078,034
<u>\$ 15,858,592</u>	<u>\$ 363,877</u>	<u>\$ 16,222,469</u>	<u>\$ 6,251,732</u>



GOVERNMENTAL FUND FINANCIAL STATEMENTS



Major Funds

GENERAL FUND

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

COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND

This fund, commonly referred to as the "Budget Stabilization Fund" or "Rainy Day Fund," was created by MCL 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 106.

Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2007
 (In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 11,636	\$ -	\$ -	\$ 756	\$ 12,391
Equity in common cash (Note 5)	-	2,090	-	1,420,734	1,422,824
Taxes, interest, and penalties receivable (Note 6)	2,855,911	-	2,151,194	93,118	5,100,222
Amounts due from other funds (Note 17)	761,659	-	10,901	1,048,634	1,821,194
Amounts due from component units	4,332	-	-	3,505	7,837
Amounts due from federal agencies	664,306	-	43,168	175,380	882,853
Amounts due from local units	50,905	-	41,822	117,115	209,842
Inventories	19,111	-	-	6,967	26,077
Investments (Note 8)	-	-	-	288,890	288,890
Securities lending collateral	-	-	-	260,193	260,193
Other current assets	300,098	-	-	243,325	543,423
Total Current Assets	<u>4,667,957</u>	<u>2,090</u>	<u>2,247,084</u>	<u>3,658,617</u>	<u>10,575,748</u>
Taxes, interest, and penalties receivable (Note 6)	259,848	-	53,642	4,122	317,612
Advances to other funds (Note 17)	7,688	-	-	-	7,688
Amounts due from federal agencies	6,941	-	-	-	6,941
Amounts due from local units	327,593	-	8,457	49,153	385,203
Investments (Note 8)	-	-	-	509,165	509,165
Other noncurrent assets	8,727	-	-	5,270	13,998
Total Assets	<u>\$ 5,278,755</u>	<u>\$ 2,090</u>	<u>\$ 2,309,182</u>	<u>\$ 4,226,327</u>	<u>\$ 11,816,354</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 92,931	\$ -	\$ 413	\$ 14,945	\$ 108,289
Obligations under security lending	-	-	-	260,193	260,193
Accounts payable and other liabilities (Note 22)	1,506,424	-	143,457	704,585	2,354,467
Income tax refunds payable (Note 15)	656,244	-	-	-	656,244
Amounts due to other funds (Note 17)	38,878	-	1,645,750	165,616	1,850,245
Amounts due to component units	3,225	-	-	-	3,225
Bonds and notes payable	-	-	-	146,700	146,700
Interest payable	-	-	-	777	777
Deferred revenue	1,648,630	-	371,925	226,979	2,247,533
Total Current Liabilities	<u>3,946,333</u>	<u>-</u>	<u>2,161,545</u>	<u>1,519,795</u>	<u>7,627,673</u>
Long-Term Liabilities:					
Deferred revenue	350,394	-	53,642	8,642	412,678
Total Liabilities	<u>4,296,726</u>	<u>-</u>	<u>2,215,186</u>	<u>1,528,438</u>	<u>8,040,350</u>
Fund Balances:					
Reserved fund balance (Note 21)	722,948	-	93,996	1,851,453	2,668,397
Unreserved fund balance reported in:					
General Fund	259,080	-	-	-	259,080
Special revenue funds	-	2,090	-	836,077	838,167
Debt service funds	-	-	-	208,868	208,868
Capital projects funds	-	-	-	(239,869)	(239,869)
Permanent funds	-	-	-	41,361	41,361
Total Fund Balances	<u>982,028</u>	<u>2,090</u>	<u>93,996</u>	<u>2,697,890</u>	<u>3,776,004</u>
Total Liabilities and Fund Balances	<u>\$ 5,278,755</u>	<u>\$ 2,090</u>	<u>\$ 2,309,182</u>	<u>\$ 4,226,327</u>	<u>\$ 11,816,354</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, 2007

(In Thousands)

Total fund balances for governmental funds \$ 3,776,004

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	3,262,729	
Buildings, equipment, and other depreciable assets	4,295,550	
Infrastructure	12,536,722	
Construction in progress	1,008,783	
Interest in joint ventures	32,434	
Accumulated depreciation	<u>(1,878,622)</u>	19,257,596

Certain tax revenues are earned but not available and therefore are not
reported in the funds. 2,275,483

Other long-term assets are not available to pay for current period
expenditures and therefore are deferred in the funds. 291,935

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. 186,951

Certain pension trust funds have been funded in excess of the annual
required contributions, creating a year-end asset. This asset is not a
current available resource and is not reported in the funds. (Note 10) 1,199

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. 42,550

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 14)

Capital lease obligations	(237,739)	
Compensated absences	(474,252)	
Workers' compensation	(112,895)	
Litigation	(528,027)	
Net pension obligations	(587,749)	
Other long-term liabilities	<u>(10,232)</u>	(1,950,895)

Long-term bonded debt is not due and payable in the current period and
therefore is not reported in the funds. Unamortized premiums, loss on
refundings, and interest payable are not reported in the funds. However,
these amounts are included in the Statement of Net Assets. This is the
net effect of these balances on the statement. (Note 12)

Bonds and notes payable	(8,245,342)	
Unamortized premiums	(283,240)	
Less unamortized discounts	491,264	
Less deferred loss amount on refundings	86,885	
Accrued interest payable	<u>(125,706)</u>	<u>(8,076,139)</u>

Net assets of governmental activities \$ 15,858,592

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, 2007

(In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
REVENUES					
Taxes	\$ 11,992,762	\$ -	\$ 10,404,255	\$ 1,973,867	\$ 24,370,884
From federal agencies	9,913,400	-	1,383,340	1,359,190	12,655,930
From local agencies	116,399	-	-	23,030	139,429
From services	280,976	-	-	3,394	284,370
From licenses and permits	268,975	-	-	175,865	444,841
Special Medicaid reimbursements	102,670	-	-	-	102,670
Miscellaneous	726,144	73	29,300	1,104,785	1,860,302
Total Revenues	23,401,327	73	11,816,894	4,640,131	39,858,425
EXPENDITURES					
Current:					
General government	1,324,803	-	-	269,074	1,593,877
Education	1,671,052	-	12,678,577	329,875	14,679,504
Human services	4,444,596	-	-	3,396	4,447,992
Public safety and corrections	2,464,956	-	-	2,556	2,467,512
Conservation, environment, recreation, and agriculture	323,647	-	-	244,751	568,398
Labor, commerce, and regulatory	770,177	-	-	186,845	957,023
Health services	10,610,327	-	-	130,958	10,741,285
Transportation	-	-	-	2,178,923	2,178,923
Tax expenditures (Note 15)	883,400	-	-	-	883,400
Capital outlay	32,509	-	-	1,329,593	1,362,102
Intergovernmental-revenue sharing	1,071,104	-	-	-	1,071,104
Debt service:					
Bond principal retirement	-	-	-	238,789	238,789
Bond interest and fiscal charges	-	-	-	329,171	329,171
Capital lease payments	45,523	-	-	551	46,074
Total Expenditures	23,642,094	-	12,678,577	5,244,482	41,565,154
Excess of Revenues over (under) Expenditures	(240,768)	73	(861,683)	(604,351)	(1,706,729)
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	-	-	-	1,008,107	1,008,107
Premium on bond issuance	-	-	-	18,662	18,662
Discount on bond issuance	-	-	-	(15,213)	(15,213)
Payment to refunded bond escrow agent	-	-	-	(240,280)	(240,280)
Capital lease acquisitions	20,164	-	-	742	20,906
Proceeds from sale of capital assets	2,478	-	-	2,869	5,347
Transfers from other funds (Note 19)	508,048	-	990,810	1,776,290	3,275,148
Transfers to other funds (Note 19)	(377,134)	-	(42,482)	(1,910,679)	(2,330,295)
Total Other Financing Sources (Uses)	153,556	-	948,328	640,497	1,742,382
Net changes in fund balances	(87,211)	73	86,645	36,146	35,653
Fund Balances - Beginning of fiscal year	1,069,240	2,017	7,350	2,661,743	3,740,351
Fund Balances - End of fiscal year	\$ 982,028	\$ 2,090	\$ 93,996	\$ 2,697,890	\$ 3,776,004

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, 2007

(In Thousands)

Net change in fund balance - total governmental funds \$ 35,653

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

Land and other non-depreciable assets	27,735	
Buildings, equipment, and other depreciable assets	104,521	
Infrastructure additions	156,782	
Construction in progress	40,307	
Gain on disposal of capital assets	5,347	
Accumulated depreciation	<u>(131,739)</u>	202,953

Certain revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities. (6,978)

Decrease in equity interest in joint ventures (Note 7) (210)

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. 136,714

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. (31,447)

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

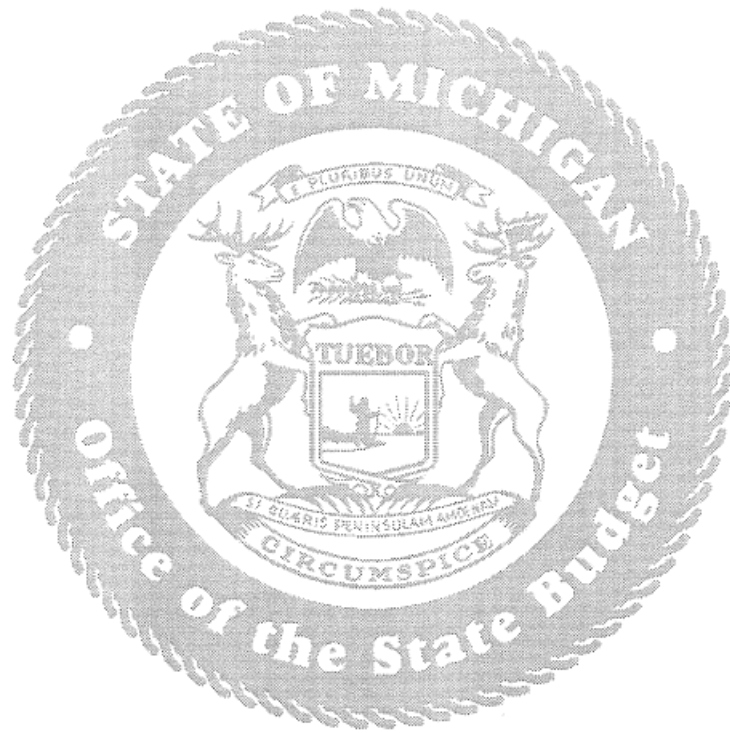
Bond proceeds and premiums received	(1,026,769)	
Repayment of bond principal	238,789	
Payment to refunded bond escrow agent	240,280	
Discount on bond issuances	15,213	
Accrued interest and amortization	(9,835)	
Deferred issue costs	<u>5,772</u>	(536,550)

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

Net pension obligation	(130,335)	
Capital lease payments	15,095	
Compensated absences payments	16,421	
Litigation recoveries, settlements and payments	(4,857)	
Workers' compensation	(1,070)	
Other	<u>(4,563)</u>	<u>(109,310)</u>

Change in net assets of governmental activities \$ (309,175)

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



PROPRIETARY FUND FINANCIAL STATEMENTS



Major Funds

STATE LOTTERY FUND

Michigan Compiled Laws 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 Bureau of Worker's and Unemployment Compensation within the Department of Labor and Economic Growth: the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund. The Michigan Unemployment Compensation Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers. The fund also makes payments under certain federally funded programs. Administrative costs of the fund are accounted for in the Michigan Employment Security Act - Administration Fund, a special revenue fund.

The Michigan Employment Security Act Contingent Fund was created by 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. Michigan Compiled Laws 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 168.

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page 172.

Michigan

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2007

(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
ASSETS					
Current Assets:					
Cash	\$ 2	\$ 5,676	\$ 1,581	\$ 7,259	\$ 13
Equity in common cash (Note 5)	4,584	12,807	60,449	77,841	214,657
Amounts due from other funds (Note 17)	-	5,539	-	5,539	35,270
Amounts due from component units	-	373	-	373	101
Amounts due from federal agencies	-	1,650	-	1,650	4,907
Amounts due from local units	-	32,736	-	32,736	-
Inventories	4,049	-	4,412	8,460	17,805
Investments (Note 8)	75,386	103,629	3,276	182,291	-
Securities lending collateral	364,608	-	-	364,608	-
Other current assets	66,615	219,573	9,156	295,344	22,584
Total Current Assets	<u>515,243</u>	<u>381,984</u>	<u>78,874</u>	<u>976,101</u>	<u>295,338</u>
Investments (Note 8)	295,508	-	-	295,508	-
Capital Assets (Note 9):					
Land and other non depreciable assets	-	-	-	-	9,170
Buildings and equipment	3,743	-	734	4,477	639,135
Allowance for depreciation	(3,403)	-	(707)	(4,110)	(436,831)
Total capital assets	<u>340</u>	<u>-</u>	<u>27</u>	<u>367</u>	<u>211,474</u>
Other noncurrent assets	-	20,500	-	20,500	2,100
Total Assets	<u>\$ 811,092</u>	<u>\$ 402,484</u>	<u>\$ 78,901</u>	<u>\$ 1,292,476</u>	<u>\$ 508,912</u>
LIABILITIES					
Current Liabilities:					
Warrants outstanding	\$ 1,032	\$ -	\$ 3,472	\$ 4,504	\$ 1,081
Accounts payable and other liabilities (Note 22)	132,773	23,268	68,616	224,657	78,736
Amounts due to other funds (Note 17)	10,986	4,696	76	15,758	11,214
Deferred revenue	-	338	469	807	17,547
Obligations under security lending (Note 8)	364,608	-	-	364,608	-
Current portion of other long-term obligations (Note 14)	162	-	91	253	88,831
Total Current Liabilities	<u>509,561</u>	<u>28,303</u>	<u>72,724</u>	<u>610,587</u>	<u>197,409</u>
Long-Term Liabilities:					
Advances from other funds (Note 17)	-	-	-	-	7,688
Prize awards payable	267,719	-	-	267,719	-
Noncurrent portion of other long-term obligations (Note 14)	1,934	47,346	1,012	50,292	116,864
Total Liabilities	<u>779,215</u>	<u>75,649</u>	<u>73,735</u>	<u>928,599</u>	<u>321,961</u>
NET ASSETS					
Invested in capital assets, net of related debt	\$ 340	\$ -	\$ 27	\$ 367	\$ 201,268
Restricted For:					
Unemployment compensation	-	326,834	-	326,834	-
Other purposes	31,877	-	-	31,877	4,680
Unrestricted	(340)	-	5,139	4,798	(18,998)
Total Net Assets	<u>\$ 31,877</u>	<u>\$ 326,834</u>	<u>\$ 5,165</u>	<u>\$ 363,877</u>	<u>\$ 186,951</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, 2007

(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
OPERATING REVENUES					
Operating revenues	\$ 2,363,001	\$ 1,765,871	\$ 747,741	\$ 4,876,614	\$ 1,762,040
Total Operating Revenues	<u>2,363,001</u>	<u>1,765,871</u>	<u>747,741</u>	<u>4,876,614</u>	<u>1,762,040</u>
OPERATING EXPENSES					
Salaries, wages, and other administrative	280,901	2	62,650	343,554	523,202
Depreciation	140	-	10	150	48,447
Purchases for resale	-	-	542,634	542,634	69,971
Purchases for prison industries	-	-	-	-	19,641
Lottery prize awards	1,329,081	-	-	1,329,081	-
Premiums and claims	-	-	49	49	1,083,868
Unemployment benefits	-	1,920,346	-	1,920,346	-
Other operating expenses	-	91,734	1,220	92,954	46,421
Total Operating Expenses	<u>1,610,123</u>	<u>2,012,082</u>	<u>606,562</u>	<u>4,228,767</u>	<u>1,791,551</u>
Operating Income (Loss)	<u>752,878</u>	<u>(246,211)</u>	<u>141,179</u>	<u>647,847</u>	<u>(29,511)</u>
NONOPERATING REVENUES (EXPENSES)					
Specific tax on spirits	-	-	13,133	13,133	-
Interest revenue	5,186	-	4,872	10,058	-
Investment revenue (expense) - net	43,084	7,513	183	50,780	-
Other nonoperating revenues	-	-	-	-	471
Amortization of prize award obligation discount	(24,884)	-	-	(24,884)	-
Interest expense	(19,816)	-	-	(19,816)	(1,047)
Other nonoperating expense	-	-	-	-	(53)
Total Nonoperating Revenues (Expenses)	<u>3,569</u>	<u>7,513</u>	<u>18,188</u>	<u>29,270</u>	<u>(629)</u>
Income (Loss) Before Transfers	<u>756,448</u>	<u>(238,697)</u>	<u>159,367</u>	<u>677,117</u>	<u>(30,141)</u>
TRANSFERS					
Transfers To:					
School Aid Fund	(748,901)	-	-	(748,901)	-
Other funds	(11,749)	(20,371)	(162,440)	(194,560)	(1,307)
Total transfers to other funds	<u>(760,649)</u>	<u>(20,371)</u>	<u>(162,440)</u>	<u>(943,460)</u>	<u>(1,307)</u>
Change in net assets	<u>(4,202)</u>	<u>(259,068)</u>	<u>(3,073)</u>	<u>(266,343)</u>	<u>(31,447)</u>
Total net assets - Beginning of fiscal year	<u>36,079</u>	<u>585,903</u>	<u>8,239</u>	<u>630,220</u>	<u>218,398</u>
Total net assets - End of fiscal year	<u>\$ 31,877</u>	<u>\$ 326,834</u>	<u>\$ 5,165</u>	<u>\$ 363,877</u>	<u>\$ 186,951</u>

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

Michigan

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from federal and local agencies	\$ -	\$ 91,469	\$ -	\$ 91,469	\$ -
Receipts from customers	2,357,674	1,645,549	742,959	4,746,183	1,768,285
Membership dues	-	-	4,944	4,944	-
Payments to employees	(14,347)	-	(16,582)	(30,929)	(198,012)
Payments to suppliers	(45,792)	-	(583,979)	(629,771)	(723,609)
Payments to prize winners	(1,404,491)	-	-	(1,404,491)	-
Payments for commissions to retailers	(216,569)	-	-	(216,569)	-
Claims paid	-	(2,018,917)	-	(2,018,917)	(819,239)
Other receipts	-	32,599	(3,625)	28,974	-
Other payments	-	(2)	(1,628)	(1,630)	(7,712)
Net cash provided (used) by operating activities	<u>\$ 676,475</u>	<u>\$ (249,302)</u>	<u>\$ 142,089</u>	<u>\$ 569,262</u>	<u>\$ 19,712</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Advances from federal government	\$ -	\$ 502,400	\$ -	\$ 502,400	\$ -
Advance repayments to federal government	-	(502,400)	-	(502,400)	-
Loans or loan repayments from other funds	-	-	-	-	3,415
Loans or loan repayments to other funds	-	-	-	-	(1,217)
Specific tax on spirits	-	-	13,133	13,133	-
Transfers to other funds	(767,766)	(21,537)	(162,440)	(951,743)	(1,307)
Net cash provided (used) by noncapital financing activities	<u>\$ (767,766)</u>	<u>\$ (21,537)</u>	<u>\$ (149,307)</u>	<u>\$ (938,610)</u>	<u>\$ 891</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	\$ (93)	\$ -	\$ (12)	\$ (105)	\$ (35,995)
Interest paid	-	-	-	-	(393)
Capital lease payments (including imputed interest expense)	-	-	-	-	(7,781)
Proceeds from sale of capital assets	-	-	-	-	109
Net cash provided (used) by capital and related financing activities	<u>\$ (93)</u>	<u>\$ -</u>	<u>\$ (12)</u>	<u>\$ (105)</u>	<u>\$ (44,060)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds (purchases) from sale and maturities of investment securities	\$ 87,130	\$ 263,361	\$ (1,102)	\$ 349,389	\$ -
Interest and dividends on investments	5,186	7,513	4,872	17,571	-
Income from securities lending activities	20,811	-	-	20,811	-
Expenses from securities lending activities	(19,816)	-	-	(19,816)	-
Net cash provided (used) by investing activities	<u>\$ 93,310</u>	<u>\$ 270,874</u>	<u>\$ 3,770</u>	<u>\$ 367,954</u>	<u>\$ -</u>
Net cash provided (used) - all activities	\$ 1,925	\$ 35	\$ (3,459)	\$ (1,499)	\$ (23,457)
Cash and cash equivalents at beginning of year	1,629	18,448	62,017	82,094	237,047
Cash and cash equivalents at end of year	<u>\$ 3,555</u>	<u>\$ 18,483</u>	<u>\$ 58,558</u>	<u>\$ 80,595</u>	<u>\$ 213,590</u>

The accompanying notes are an integral part of the financial statements

Michigan

BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS

	MAJOR			TOTALS	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
RECONCILIATION OF CASH AND CASH EQUIVALENTS					
Per Statement of Net Assets Classifications:					
Cash	\$ 2	\$ 5,676	\$ 1,581	\$ 7,259	\$ 13
Equity in common cash	4,584	12,807	60,449	77,841	214,657
Warrants outstanding	(1,032)	-	(3,472)	(4,504)	(1,081)
Cash and cash equivalents at end of year	<u>\$ 3,555</u>	<u>\$ 18,483</u>	<u>\$ 58,558</u>	<u>\$ 80,595</u>	<u>\$ 213,590</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 752,878	\$ (246,211)	\$ 141,179	\$ 647,846	\$ (29,512)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation expense	140	-	10	150	48,447
Amortization of prize award obligation discount	(24,884)	-	-	(24,884)	-
Other reconciling items	187	-	-	187	-
Net Changes in Assets and Liabilities:					
Inventories	256	-	(1,584)	(1,329)	(1,214)
Other assets (net)	(5,327)	(249)	(2,123)	(7,699)	15,041
Accounts payable and other liabilities	3,751	(2,802)	4,285	5,234	(13,050)
Prize awards payable	(50,526)	-	-	(50,526)	-
Deferred revenue	-	(40)	323	283	-
Net cash provided (used) by operating activities	<u>\$ 676,475</u>	<u>\$ (249,302)</u>	<u>\$ 142,089</u>	<u>\$ 569,262</u>	<u>\$ 19,712</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES					
Cost of capital assets acquisitions financed by capital leases	\$ -	\$ -	\$ -	\$ -	\$ 3,450
Capital lease liabilities entered into during the year	-	-	-	-	(3,450)
Increase (decrease) in fair value of investments	(4,202)	-	-	(4,202)	-
Transfers to other funds (accrual)	(10,901)	(1,006)	-	(11,907)	-
Gain (loss) on disposal of capital assets	-	-	-	-	(36)
Total noncash investing, capital, and financing activities	<u>\$ (15,102)</u>	<u>\$ (1,006)</u>	<u>\$ -</u>	<u>\$ (16,108)</u>	<u>\$ (36)</u>



FIDUCIARY FUND FINANCIAL STATEMENTS



Individual fund financial statements begin on the following pages:
Pension (and Other Employee Benefit) Trust Funds, page 180.
Private Purpose Trust Funds, page 188.
Agency Funds, page 191.

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

SEPTEMBER 30, 2007

(In Thousands)

ASSETS	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
Cash	\$ 68	\$ 1,556	\$ 50,756
Equity in common cash (Note 5)	147,124	100,723	3,969
Receivables:			
From participants	206,166	-	-
From employers	584,820	-	-
Interest and dividends	3,987	541	-
Due from other funds (Note 17)	16,371	-	-
Due from component unit	155	-	-
Sale of investments	682	-	-
Investments at Fair Value (Note 8):			
Short term investments	1,277,264	-	13,419
Bonds, notes, mortgages, and preferred stock	10,297,892	17,865	6,866
Common stock	29,556,439	183	-
Real estate	5,697,133	-	-
Alternative investments	8,651,295	-	-
International investments	7,116,304	-	-
Mutual funds	2,724,565	1,659,423	-
Pooled investment funds	2,101,011	-	-
Money market funds	218,648	-	-
Guaranteed funding agreements	-	169,706	-
Securities lending collateral (Note 8)	13,236,366	7,075	-
Other current assets	-	8,540	745
Other noncurrent assets	-	-	383,764
Total assets	\$ 81,836,289	\$ 1,965,612	\$ 459,519
LIABILITIES			
Warrants outstanding	\$ 11,011	\$ 3,097	\$ 5
Accounts payable and other liabilities	301,632	3,646	67,630
Amounts due to other funds (Note 17)	2	-	1,155
Obligations under security lending	13,236,366	7,075	-
Other long-term liabilities	-	-	390,729
Total liabilities	\$ 13,549,010	\$ 13,819	\$ 459,519
NET ASSETS			
Net assets held in trust for pension, postemployment health-care, deferred compensation participants, and other purposes	<u>\$ 68,287,279</u>	<u>\$ 1,951,794</u>	
Reconciliation of Net Assets Held in Trust:			
Pension benefits (Note 10)	\$ 63,250,632	\$ -	
Postemployment health-care benefits (Note 10)	820,160	-	
Deferred compensation participants (Note 16)	4,216,487	-	
Other purposes	-	1,951,794	
Total net assets held in trust for benefits and other purposes	<u>\$ 68,287,279</u>	<u>\$ 1,951,794</u>	

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

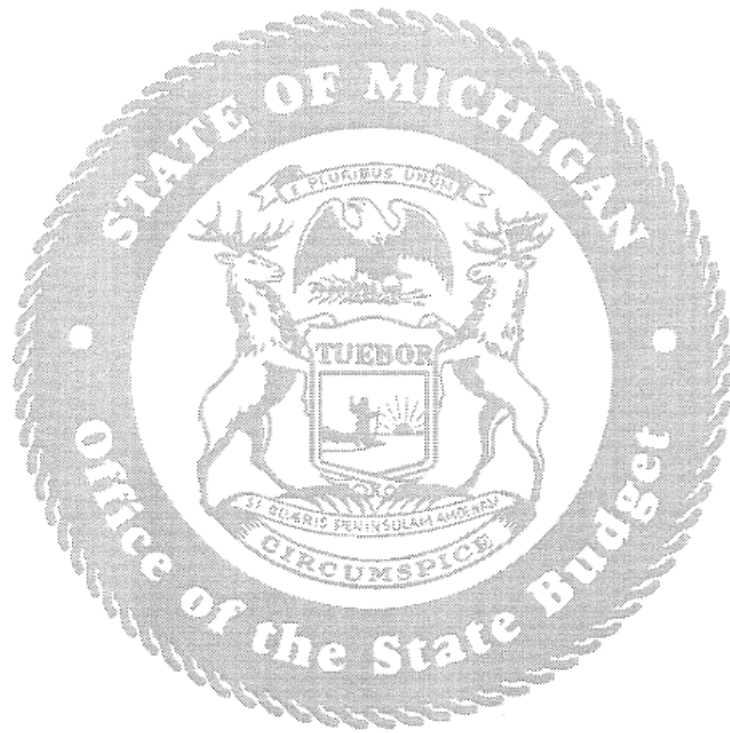
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
	<u> </u>	<u> </u>
ADDITIONS		
Contributions:		
From participants	\$ 686,770	\$ 346,133
From employers	2,149,372	-
From clients	-	65,669
From gifts, bequests, and endowments	-	2,939
From other plans	45,002	-
From other governmental	63	-
Investment Income:		
Net appreciation (depreciation) in fair value of investments	8,488,199	106,704
Interest, dividends, and other	1,513,991	76,745
Securities lending income	603,676	389
Less Investment Expense:		
Investment activity expense	87,447	4,051
Securities lending expense	579,498	377
Net investment income (loss)	9,938,921	179,411
Escheated property	-	56,861
Miscellaneous income	7,307	256
	<u>12,827,435</u>	<u>651,270</u>
DEDUCTIONS		
Benefits paid to participants or beneficiaries	4,145,582	88,497
Medical, dental, and life insurance for retirees	988,364	-
Refunds and transfers to other systems	78,434	-
Amounts distributed to clients, claimants, or third parties	-	122,372
Administrative expense	102,538	4,248
Transfers to other funds	85	-
	<u>5,315,003</u>	<u>215,117</u>
Net increase (decrease)	7,512,432	436,153
Net assets - Beginning of fiscal year	<u>60,774,847</u>	<u>1,515,641</u>
Net assets - End of fiscal year (Note 10)	<u>\$ 68,287,279</u>	<u>\$ 1,951,794</u>
Reconciliation of Net Increase in Assets:		
Net increase (decrease) in assets held in trust for pension benefits	\$ 6,948,203	\$ -
Net increase (decrease) in assets held in trust for postemployment benefits	116,399	-
Net increase (decrease) in assets held in trust for deferred compensation participants	447,830	-
Net increase (decrease) in assets held in trust for other purposes	-	436,153
	<u>\$ 7,512,432</u>	<u>\$ 436,153</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. The 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. The 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.

The 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.

The 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. The 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 196.

The non-major component unit - State universities are presented beginning on page 204.

Michigan

STATEMENT OF NET ASSETS

COMPONENT UNITS

SEPTEMBER 30, 2007

(In Thousands)

	AUTHORITIES			
	MICHIGAN EDUCATION TRUST	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN MUNICIPAL BOND AUTHORITY	NON-MAJOR
ASSETS				
Current Assets:				
Cash	\$ 98,382	\$ 138,813	\$ 110	\$ 129,850
Equity in common cash (Note 5)	-	-	67,828	51,248
Amounts due from primary government	1,754	-	2,100	4,781
Amounts due from federal government	-	-	-	20,545
Amounts due from local units	-	-	909,580	19,610
Inventories	-	-	-	658
Investments (Note 8)	-	41,051	896,085	304,637
Other current assets	26,721	55,843	47,366	300,480
Total Current Assets	<u>126,858</u>	<u>235,708</u>	<u>1,923,068</u>	<u>831,809</u>
Restricted Assets:				
Cash and cash equivalents	-	-	-	6,685
Investments	-	-	-	2,461
Mortgages and loans receivable	-	-	-	-
Amounts due from local units	-	-	3,062,873	-
Mortgages and loans receivable	-	2,082,331	-	1,910,229
Investments (Note 8)	865,688	512,575	957,400	36,162
Capital Assets:				
Land and other non-depreciable assets	-	-	-	13,427
Buildings, equipment, and other depreciable assets	-	-	-	61,089
Less accumulated depreciation	-	-	-	(32,062)
Infrastructure	-	-	-	102,722
Construction in progress	-	-	-	-
Total capital assets	-	-	-	145,175
Other noncurrent assets	55,196	48,981	187,109	17,597
Total Assets	<u>\$ 1,047,743</u>	<u>\$ 2,879,594</u>	<u>\$ 6,130,451</u>	<u>\$ 2,950,118</u>
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ -	\$ -	\$ 208
Accounts payable and other liabilities	5	31,818	4,430	43,945
Amounts due to primary government	-	-	186	2,246
Amounts due to federal government	-	-	-	397
Bonds and notes payable (Note 13)	-	46,020	889,096	54,113
Interest payable	-	12,070	73,909	9,149
Deferred revenue	-	-	8,221	2,154
Current portion of other long-term obligations	114,007	-	-	5,277
Total Current Liabilities	<u>114,012</u>	<u>89,908</u>	<u>975,842</u>	<u>117,490</u>
Deferred revenue	-	-	-	-
Bonds and notes payable (Note 13)	-	1,739,182	3,257,095	2,289,619
Noncurrent portion of other long-term obligations	922,761	398,200	38,307	63,269
Total Liabilities	<u>\$ 1,036,772</u>	<u>\$ 2,227,290</u>	<u>\$ 4,271,244</u>	<u>\$ 2,470,378</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ 143,864
Restricted For:				
Education	-	-	-	-
Construction and debt service	-	266,612	-	17,728
Other purposes	-	-	1,846,996	24,233
Funds Held as Permanent Investments:				
Expendable	-	-	-	-
Nonexpendable	-	-	-	-
Unrestricted	10,970	385,692	12,211	293,915
Total Net Assets	<u>\$ 10,970</u>	<u>\$ 652,304</u>	<u>\$ 1,859,207</u>	<u>\$ 479,740</u>

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

Michigan

STATE UNIVERSITIES

CENTRAL MICHIGAN UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	NON-MAJOR	TOTALS
\$ 27,731	\$ 20,916	\$ 267,931	\$ 683,733
-	-	-	119,076
42,894	8,156	90,058	149,743
692	2,371	13,484	37,092
-	68	174	929,432
5,158	5,813	9,905	21,535
-	25,225	111,479	1,378,476
17,924	20,547	56,358	525,240
<u>94,399</u>	<u>83,096</u>	<u>549,389</u>	<u>3,844,328</u>
6,791	-	8,831	22,307
48,288	198,781	174,335	423,865
8,373	-	40,213	48,585
-	-	-	3,062,873
-	8,958	23,474	4,024,991
173,586	71,869	340,235	2,957,515
10,875	14,360	75,834	114,496
580,276	964,209	2,948,631	4,554,205
(251,664)	(346,753)	(1,107,166)	(1,737,645)
-	-	-	102,722
30,467	34,018	82,745	147,231
<u>369,954</u>	<u>665,835</u>	<u>2,000,044</u>	<u>3,181,008</u>
-	16,007	32,680	357,570
<u>\$ 701,391</u>	<u>\$ 1,044,545</u>	<u>\$ 3,169,202</u>	<u>\$ 17,923,043</u>
\$ -	\$ -	\$ -	\$ 208
55,292	47,323	162,162	344,975
386	35	1,686	4,538
-	-	-	397
6,315	8,095	28,274	1,031,913
1,582	1,699	3,072	101,482
10,786	6,736	47,249	75,146
-	661	10,967	130,912
<u>74,361</u>	<u>64,549</u>	<u>253,410</u>	<u>1,689,570</u>
-	-	5,082	5,082
171,617	272,080	746,952	8,476,545
15,859	22,186	39,532	1,500,113
<u>\$ 261,837</u>	<u>\$ 358,814</u>	<u>\$ 1,044,975</u>	<u>\$ 11,671,310</u>
\$ 195,824	\$ 370,488	\$ 1,252,525	\$ 1,962,702
57,952	11,446	159,235	228,633
3,978	6,610	28,517	323,445
-	42,031	19,968	1,933,227
-	-	66,654	66,654
-	57,251	193,624	250,875
181,800	197,905	403,702	1,486,196
<u>\$ 439,554</u>	<u>\$ 685,730</u>	<u>\$ 2,124,226</u>	<u>\$ 6,251,732</u>

STATEMENT OF ACTIVITIES

COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	
Authorities:					
Michigan Education Trust	\$ 48,448	\$ 134	\$ 82,863	\$ -	\$ 34,549
Michigan State Housing Development Authority	575,543	173,163	414,460	-	12,080
Michigan Municipal Bond Authority	276,417	133,284	140,488	-	(2,644)
Non-Major	523,156	176,916	227,660	-	(118,579)
State Universities:					
Central Michigan University	334,876	236,179	28,951	6,987	(62,760)
Western Michigan University	470,055	270,391	77,401	9,044	(113,219)
Non-Major	1,457,810	881,114	211,967	12,576	(352,152)
Total	<u>\$ 3,686,306</u>	<u>\$ 1,871,182</u>	<u>\$ 1,183,791</u>	<u>\$ 28,607</u>	<u>\$ (602,726)</u>

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

GENERAL REVENUES						
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	SPECIAL ITEMS	CHANGE IN NET ASSETS	NET ASSETS BEGINNING OF YEAR RESTATED	NET ASSETS END OF YEAR
\$ -	\$ -	\$ -	\$ -	\$ 34,549	\$ (23,578)	\$ 10,970
20,218	-	-	-	32,299	620,006	652,304
-	-	-	-	(2,644)	1,861,851	1,859,207
35,826	125,513	11,606	(95,000)	(40,634)	520,374	479,740
28,395	72,671	344	-	38,650	400,904	439,554
13,312	100,403	27,451	-	27,947	657,783	685,730
53,010	364,653	18,021	-	83,532	2,040,694	2,124,226
<u>\$ 150,761</u>	<u>\$ 663,240</u>	<u>\$ 57,422</u>	<u>\$ (95,000)</u>	<u>\$ 173,698</u>	<u>\$ 6,078,034</u>	<u>\$ 6,251,732</u>

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 (GASB Codification). 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 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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant Transactions

The State's significant transactions with its major discretely presented component units result primarily from providing appropriations to the public universities, including \$72.7 million to Central Michigan University and \$100.4 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 2007, the State awarded contracts totaling \$26.1 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 2007, the State awarded contracts totaling \$.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 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 statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become *susceptible to accrual*; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers tax revenues and court settlements to be available if they are collected within 60 days of the end of the fiscal period. Revenues that the State earns by incurring obligations are recognized and considered available 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 "Rainy Day Fund," was created to assist in stabilizing revenue during periods of economic recession.

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

The State reports the following major enterprise funds:

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

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

Additionally, the State reports the following fund types:

Governmental Fund Types:

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

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

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

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

Proprietary Fund Types:

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

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

Fiduciary Fund Types:

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

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

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

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 statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. Capital assets are reported at historical cost or, if donated, at the estimated fair market value at the date of acquisition. In some instances, capital asset historical costs were not available; therefore, the costs of these assets at the dates of acquisitions have been estimated.

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

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

Warrants Outstanding

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

Income Tax Refunds Payable

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

Prize Awards Payable

The State Lottery Fund makes long-term prize awards for certain games, most notably the lotto games. At September 30, 2007, long-term prize awards of \$373.0 million were reported at a present value of \$267.7 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 statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

Long-Term Liabilities

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

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

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

Compensated Absences

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

Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 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, 2007.

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 statements, and "Fund Balance" on governmental fund statements.

Reservations

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

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 2007, interest charges on general long-term liabilities totaling \$25.1 million were reported as functional expenses.

Fund Financial Statements

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (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 15.

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

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (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 statements. Exceptions to this rule are 1) activities between funds reported as governmental activities and funds reported as business-type activities (examples include the transfers of profits from the Liquor Purchase Revolving Fund to General Fund and the 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 SOMCAFR page number of the first financial statement for that fund or component unit is shown in parenthesis.

PRIMARY GOVERNMENT:

MAJOR FUNDS

Governmental:

General Fund* (p. 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. 114)
State Trunkline Fund* (p. 114)
Michigan Transportation Fund* (p. 114)
Comprehensive Transportation Fund* (p. 114)
Combined State Trunkline Bond Proceeds Fund (p. 115)
Combined Comprehensive Transportation Bond Proceeds Fund (p. 115)
Transportation Related Trust Funds (p. 115)

Conservation, Environment, and Recreation Related:

Michigan Conservation and Recreation Legacy Fund*(p.124)
Game and Fish Protection Fund (p. 126)
Michigan State Waterways Fund (p. 126)
Marine Safety Fund (p. 126)
Michigan Game and Fish Protection Trust Fund (p. 124)
State Park Improvement Fund (p. 127)
Combined Recreation Bond Fund - Local Projects (p. 124)
Combined Environmental Protection Bond Fund (p. 124)
Michigan Nongame Fish and Wildlife Trust Fund* (p. 125)
Michigan Civilian Conservation Corps Endowment Fund* (p. 125)
Forest Development Fund* (p. 125)
Bottle Deposits Fund (p. 125)

Regulatory and Administrative Related:

Michigan Employment Security Act - Administration Fund* (p. 134)
Safety Education and Training Fund* (p. 134)
State Construction Code Fund* (p. 134)
Homeowner Construction Lien Recovery Fund* (p. 134)
State Casino Gaming Fund* (p. 135)
Second Injury Fund (p. 135)
Silicosis, Dust Disease, and Logging Industry Compensation Fund (p. 135)
Self-Insurers' Security Fund (p. 135)
Utility Consumer Representation Fund (p. 135)

Other State Funds:

School Bond Loan Fund (p. 144)
21st Century Jobs Trust Fund* (p.144)
Michigan Tobacco Settlement Finance Authority* (p. 144)
Michigan Merit Award Trust Fund* (p. 144)
Children's Trust Fund* (p. 145)
Assigned Claims Facility and Plan Fund (p. 145)
Military Family Relief Fund* (p. 145)
Miscellaneous Special Revenue Funds (p. 145)

Debt Service:

Combined State Trunkline Bond and Interest Redemption Fund (p. 152)
Combined Comprehensive Transportation Bond and Interest Redemption Fund (p. 152)
Recreation and Environmental Protection Bond Redemption Fund (p. 152)
School Loan Bond Redemption Fund (p. 153)
Michigan Tobacco Settlement Finance Authority (p. 153)
State Building Authority (p. 153)

Capital Projects:

Combined Recreation Bond Fund – State projects (p. 158)
Advance Financing Funds (p. 158)
State Building Authority (p. 158)

Permanent Funds:

Michigan Natural Resources Trust Fund* (p. 162)
Michigan State Parks Endowment Fund* (p. 162)
Michigan Veterans' Trust Fund* (p. 162)

Proprietary:

Enterprise Funds:

Liquor Purchase Revolving Fund (p. 168)
Attorney Discipline System (p. 168)

Internal Service Funds:

Correctional Industries Revolving Fund (p. 172)
Motor Transport Fund (p. 172)
Office Services Revolving Fund (p. 172)
Information Technology Fund (p. 173)
Risk Management Fund (p. 173)
State Sponsored Group Insurance Fund (p. 173)

Fiduciary:

Pension (and other employee benefit) Trust Funds:

State Employees' Deferred Compensation Funds (p. 180)
Legislative Pension Benefits Fund (p. 180)
Legislative Other Postemployment Benefits Fund (p. 180)
State Police Pension Benefits Fund (p. 180)
State Police Other Postemployment Benefits Fund (p. 181)
State Employees' Pension Benefits Fund (p. 181)
State Employees' Other Postemployment Benefits Fund (p. 181)
Public School Employees' Pension Benefits Fund (p. 181)
Public School Employees' Other Postemployment Benefits Fund (p. 181)
Judges' Pension Benefits Fund (p. 181)
Judges' Other Postemployment Benefits Fund (p. 182)
State Employees' Defined Contribution Retirement Fund (p. 182)

Private Purpose Trust Funds:

Escheats Fund (p. 188)
Gifts, Bequests, and Deposits Investment Fund (p. 188)
Hospital Patients' Trust Fund (p. 188)
Michigan Education Savings Program (p. 188)

Agency Funds:

Environmental Quality Deposits Fund (p. 191)
Insurance Carrier Deposits Fund (p. 191)
State Treasurer's Escrow and Paying Agent Fund (p. 191)
Child Support Collection Fund (p. 191)

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. 196)
Land Bank Fast Track Authority (p. 196)
Mackinac Bridge Authority (p. 196)
Mackinac Island State Park Commission (p. 197)
Michigan Broadband Development Authority (p. 197)
Michigan Early Childhood Investment Corporation (p. 197)
Michigan Economic Development Corporation (p. 197)
Michigan Exposition and Fairgrounds Authority (p. 197)
Michigan Higher Education Assistance Authority (p. 198)
Michigan Higher Education Facilities Authority (p. 198)
Michigan Higher Education Student Loan Authority (p. 198)
Michigan Public Educational Facilities Authority (p. 199)
Michigan State Hospital Finance Authority (p. 199)
Michigan Strategic Fund (p. 199)
State Bar of Michigan (p. 199)

State Universities (1):

Major Funds:

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

Non-Major Funds:

Eastern Michigan University (p. 204)
Ferris State University (p. 204)
Grand Valley State University (p. 204)
Lake Superior State University (p. 204)
Michigan Technological University (p. 205)
Northern Michigan University (p. 205)
Oakland University (p. 205)
Saginaw Valley State University (p. 205)

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

NOTE 3 – BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

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 2007 are not yet complete. For fiscal year 2006, 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 58.5%, reflecting payments that exceeded the minimum required by \$2.6 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 2007.

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 single 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 2007 are not final. For fiscal year 2006, the most recent year for which final calculations are available, total State revenues subject to this limitation were beneath the constitutional limit by \$4.9 billion. The State expects that total State revenues subject to the limitation will not exceed the limit for fiscal year 2007.

Budget Stabilization Fund

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund") was created in 1977 to assist in stabilizing revenue during periods of economic recession. This fund currently operates under MCL Sections 18.1351 - 18.1359, 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 2007 (in millions):

Beginning unreserved fund balance	\$ 2.0
Interest Income	.1
Transfer to General Fund	<u>-</u>
Ending unreserved fund balance	<u>\$ 2.1</u>

Budgetary Overexpenditures

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

General Fund	
Human Services	\$ 1.2
State Police	<u>1.0</u>
General Fund Total	<u>\$ 2.3</u>

NOTE 4 – ACCOUNTING CHANGES AND RESTATEMENTS

Reclassification of the Michigan Civilian Conservation Corps Endowment Fund

The Michigan Civilian Conservation Corps Endowment Fund, formerly reported as a permanent fund, was reclassified to the special revenue fund type because of legislative changes occurring during fiscal year 2007 that required the transfer of \$20 million from the fund to the General Fund, thereby eliminating the reserve for permanent investment previously maintained in the fund.

The effect of this change as of October 1, 2006, was to decrease permanent fund current assets (\$8.9 million), long-term investments (\$19.0 million), current liabilities (\$8.0 million), and fund balances (\$19.8 million). Special revenue fund assets, liabilities, and fund balances were increased by like amounts.

Oakland University

Oakland University, a discretely presented component unit, decreased its beginning net assets by \$.3 million to reflect a change in the reporting structure associated with the Oakland University Foundation. Due to the immateriality of the Foundation net assets, they are only included in the footnotes of the Oakland University Financial Statements.

Michigan Early Childhood Investment Corporation

Beginning net assets were increased by \$35 thousand 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 Michigan Compiled Laws (MCL) Sections 21.141 - 21.147. 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 2007.

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, 2007 was \$50.6 million. The interest rate is reset July 1 of each year in accordance with the loan agreement. Loan repayments by the County are supported by provisions of the loan agreement and legislation that pledge the County's share of a portion of the State taxes collected on cigarette sales. There were no repayments on the loans in fiscal year 2007.

Michigan Marina Dredging Loan Program: MCL Section 21.142d provides for a program under which financial institutions may make low-interest loans to eligible marinas for dredging costs necessitated by low water levels to accommodate the use of the marina by recreational watercraft.

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

The maximum amount of a Michigan marina-dredging loan is \$75 thousand per marina. The total amount of outstanding loans is statutorily limited to \$20.0 million. The loans accrue interest at a rate of six percent and the loans' terms may not exceed seven years. Other details about the loans are available in the investment agreement. As of September 30, 2007, the program expired and there were no outstanding loans; repayments during the year were \$28.6 thousand.

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.

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, 2007, loans outstanding totaled \$2.4 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

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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.

Agriculture Disaster Relief Program: MCL Section 21.142a created this program to provide loans to assist farmers and businesses suffering losses as a result of a disaster. Financial institutions (banks) making these loans can have the cost of the loan covered by 1) earnings on funds deposited by the State, or 2) a subsidy of the cost.

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

As of September 30, 2007, the program expired and there was no outstanding balance. During the current fiscal year, subsidy payments totaled \$1.5 million and repayments totaled \$34.7 million.

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

Assets	
Cash on hand	\$ -
Demand deposits	203.2
Time deposits - regular	1,524.1
Time deposits - Marina Loan Programs	-
Time deposits - Agricultural Loan Program	-
Prime commercial paper - at cost	298.9
Interest receivable	5.0
Emergency loans to local units - at cost	52.6
Michigan Sugar Beet Loan Program	2.4
Total assets	\$ 2,086.2
Equities	
Fund equities (net) in Common Cash (1):	
Governmental activities	\$ 1,637.5
Business-type activities	77.8
Fiduciary funds	251.8
Discretely presented component units	119.1
Net fund equities	\$ 2,086.2

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

The following paragraphs provide disclosures about deposits and investments of the Common Cash pool, as required by GASB Statement No. 3 as amended by GASB Statement No. 40. 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

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

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

Uncollateralized

Collateralized with securities held by the pledging financial institution, or

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

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

At September 30, 2007, the carrying amount of deposits, including time and demand deposits, was \$1.7 billion. The deposits were reflected in the accounts of the banks at \$1.7 billion. Of the bank balance, \$4.0 million was covered by federal depository insurance, \$1.7 billion was collateralized with securities held by the State's agent in the State's name, and \$2.6 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 \$113.6 million at September 30, 2007.

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, 2007.

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, 2007, 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, 2007, 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, 2007, the fair value of cash equivalents was \$1.8 billion; the weighted average maturity was 19 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 2007, which will be collected sometime in the future. Amounts expected to be collected in the next fiscal year are classified as “current” and amounts expected to be collected beyond the next fiscal year are classified as “noncurrent.” The receivables have been recorded net of allowances for uncollectibles.

Sales, use, single business, and income taxes are accrued to the extent that the related sales, wage, or activity being taxed occurred prior to October 1. Property taxes are accrued if the levy date occurred prior to October 1.

In the government-wide financial statements, a corresponding amount is recorded as revenue using the accrual basis of accounting. In the governmental fund financial statements, revenue is recorded using the modified accrual basis of accounting for amounts due to the State at September 30 (as stated above), that are considered “available” (e.g. received by the State within approximately 60 days after that date). Delinquent taxes are recognized to the extent that they are collected within 12 months. The remainder is recorded as deferred revenue.

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

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

<u>Tax</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Sales & use	\$ 315.3	\$ 649.9	\$ 965.1
Individual income	1,902.5	265.6	2,168.1
Single business	1,450.5	-	1,450.5
State education (property)	-	1,504.6	1,504.6
Telephone & telegraph	41.8	-	41.8
Motor fuel	-	206.2	206.2
Insurance - retaliatory	70.8	-	70.8
Tobacco products	79.8	51.8	131.6
Quality assurance assessment	50.0	-	50.0
Other	34.8	76.4	111.2
Penalties and interest	1,028.0	-	1,028.0
Gross taxes receivable	4,973.4	2,754.5	7,727.9
Less allowance for uncollectibles	1,857.7	452.4	2,310.1
Total taxes receivable (net)	<u>\$ 3,115.8</u>	<u>\$ 2,302.1</u>	<u>\$ 5,417.8</u>
 <u>As reported on the financial statements</u>			
Current Taxes Receivable	\$ 2,855.9	\$ 2,244.3	\$ 5,100.2
Noncurrent Taxes Receivable	259.8	57.8	317.6
Total Taxes Receivable (net)	<u>\$ 3,115.8</u>	<u>\$ 2,302.1</u>	<u>\$ 5,417.8</u>

NOTE 7 – JOINT VENTURES

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

Great Lakes Protection Fund

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 statements.

Joint International Bridge Authority

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

For the period ending December 31, 2006 (the Authority's most recently audited financial statements), its net assets decreased by approximately \$.2 million. The Bridge and the ancillary assets on Michigan's side of the Bridge, in addition to one-half of the balance of funds not required to pay liabilities, represent the State's equity interest. The State is obligated to pay one-half of any claims incurred by the Authority that are not covered by insurance or existing resources. The State's equity interest of \$7.4 million is reflected as an asset in the government-wide statements.

NOTE 8 – DEPOSITS AND INVESTMENTS

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

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, the Attorney Discipline System, and the Michigan Educational Savings Plan maintain these deposits and are exposed to custodial credit risk.

The Michigan Employment Security Commission (MESC) administers, under the auspices of the federal government, the deposits of the MUCF. Tax collections are deposited in a clearing account as required by the Michigan Employment Security Act. Refunds are paid from that account; after the clearance of vouchers for refunds, all other money remaining in the fund, less amounts needed for refunds and judgments, must be deposited with the Secretary of the Treasury of the United States of America to the credit of the State in the Unemployment Trust Fund, established and maintained pursuant to Section 904 of the Social Security Act, 42 USC 1104. These deposits are maintained in the Federal Reserve Bank. At year-end, the carrying amount of these deposits, excluding those classified as investments, was negative \$10.8 million, which was caused by a net book cash overdraft. The bank balance of the deposits was \$11.0 million, of which \$.1 million was covered by federal depository insurance and \$10.9 million was book-entry securities held by pledging custodial banks at the Federal Reserve Bank in the State's name.

The deposits of the State Treasurer's Escrow and Paying Agent Fund 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 (MSHFA) bonds. Michigan Compiled Law (MCL) 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 Attorney Discipline System were \$37.0 thousand; these deposits were not covered by Federal Deposit Insurance Corporation (FDIC) insurance, but risk was minimal as none of these deposits were uninsured or uncollateralized. The System 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 Michigan Educational Savings Program were reflected in bank accounts at \$.7 million; \$.1 million was insured and \$.6 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. The program 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 (in millions) at September 30, 2007:

Investment Types	Primary Government Total Investments			Total
	Pension Funds	Deferred Compensation Defined Benefit Funds	Other Funds	
Commercial paper	\$ 3,359.2	\$ -	\$ 33.3	\$ 3,392.5
Money market accounts	-	218.6	309.2	527.8
Government securities	4,740.8	-	888.0	5,628.8
Corporate bonds and notes	5,229.5	-	648.0	5,877.5
Mutual funds	120.7	2,603.9	1,051.2	3,775.7
Pooled investment funds	-	2,101.0	-	2,101.0
Equities	29,159.7	-	.2	29,159.8
Guaranteed investment contracts	-	-	43.8	43.8
Funding agreements	-	-	169.7	169.7
International	6,047.8	-	-	6,047.8
Real estate	5,374.6	-	-	5,374.6
Alternative	8,432.5	-	-	8,432.5
Accrued income	131.5	-	-	131.5
Cash collateral	45.1	-	-	45.1
Unsettled investments	75.6	-	-	75.6
Total	\$ 62,717.0	\$ 4,923.6	\$ 3,143.3	\$ 70,783.9

As reported on the Statement of Net Assets

Current investments	\$ 471.2
Noncurrent investments	804.7
Total Investments	\$ 1,275.9

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

	Current Investments	Noncurrent Investments	Total
Governmental Activities	\$ 288.9	\$ 509.2	\$ 798.1
Business-type activities	182.3	295.5	477.8
Fiduciary funds	1,290.7	68,217.3	69,508.0
Total Investments	\$ 1,761.9	\$ 69,022.0	\$ 70,783.9

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 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 2007, 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, 2007, there was \$4.2 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 6.6% of the total portfolio.

Investment Pools

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

Repurchase Agreements

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

Risk

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

Custodial Credit Risk

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

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

The State Treasurer does not have a policy for limiting custodial credit risk. As of September 30, 2007, government securities with a market value of \$24.8 million were exposed to custodial credit risk. These securities were held by the counterparty, not in the name of the retirement systems.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Short-term investment for the 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 rated debt investment 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 rated debt investments as of September 30, 2007, 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
Pension (and Other Employee Benefit) Trust Funds:				
Retirement Systems:				
Commercial paper	\$ 3,040.7	A-1	\$ 3,185.2	P-1
	324.4	Unrated	179.9	Unrated
Government securities				
U.S. agencies – sponsored	3,519.9	AAA	3,519.9	Aaa
Corporate bonds & notes				
	814.0	AAA	752.7	Aaa
	936.8	AA	1,029.1	Aa
	1,662.0	A	1,606.0	A
	639.2	BBB	689.8	Baa
	17.6	BB	17.0	Ba
	4.2	B	-	B
	-	CCC	1.8	Caa
	178.7	Unrated	156.2	Unrated
International*				
	330.1	AAA	330.1	Aaa
	948.1	AA	1,568.4	Aa
	455.5	A	100.2	A
	365.0	Unrated	100.0	Unrated
Mutual funds**	48.8	AA	48.8	Aa
Total	13,285.1		13,285.1	
Deferred Compensation/Defined Contribution:				
Common trust funds				
	\$ 7.4	AAA	\$ 7.4	Unavailable
	1,352.2	AA	1,352.2	Unavailable
	16.1	Unrated	16.1	Unrated
Mutual funds	59.2	AA	59.2	Unavailable
Money market funds	218.6	A-1+	218.6	Unavailable
Total	1,653.5		1,653.5	
Other Primary Government Funds:				
Commercial paper	\$ 33.3	A-1+	\$ 33.3	Unavailable
Government securities				
U.S. agencies - sponsored	326.6	AAA	288.5	Aaa
U.S. agencies - sponsored	34.6	A-1+	72.7	Unavailable
Corporate bonds & notes				
	77.3	AAA	68.1	Aaa
	5.9	AA	5.4	Aa
	43.7	A	53.3	A
	3.9	BBB	3.9	Baa
Guaranteed investment contract				
	37.8	A	37.8	Unavailable
	6.0	NR	6.0	NR
Mutual funds				
	127.9	Unavailable	127.9	Aaa
	389.3	Unavailable	389.3	Aa1/Aa2
Treasury trust fund pool	103.6	Unrated	103.6	Unrated
Total	1,190.0		1,190.0	
Total Primary Government	\$ 16,128.7		\$ 16,128.7	

*International and Equity 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, 2007, the fair value of prime commercial paper was \$3.4 billion; the weighted average maturity was 12 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, 2007, the pension trust funds had the following long-term debt securities:

Pension (and Other Employee Benefit) Trust Funds Debt Securities (In millions)		
	Fair Value	Duration In Years
Retirement Systems:		
Governmental		
U.S. Treasury	\$ 542.7	4.8
U.S. Agency – Backed	1,624.1	5.7
U.S. Agency – Sponsored	3,519.9	3.3
Total Government	5,686.7	
Corporate	4,252.6	4.9
International*		
U.S. Treasury	99.5	.1
Corporate	2,098.7	.1
Total International	2,198.2	
Mutual fund - fixed income	48.8	5.3
Total	\$12,186.4	
Deferred Compensation/Defined Benefit:		
Common trust funds		
Traditional GIC/BICs	\$ 145.5	1.4
Buy and hold synthetics	17.4	1.2
Global wrap synthetic contracts	1,106.4	3.1
SSgA daily bond market index fund	100.3	4.6
Total Common Trust	1,369.6	
Money market funds	218.6	.1
Mutual funds	59.2	8.2
Total	1,647.4	
Total Pension (and Other Employee Benefit) Trust Funds	\$13,833.8	

*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.

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Notes to the Financial Statements

As of September 30, 2007, 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	\$ 20.3	\$ 13.4	\$ 6.9	\$ -	\$ -
U.S. Treasury bonds	370.9	75.4	199.4	74.1	22.0
U.S. Bonds – backed	31.9	-	.1	.8	30.9
U.S. Agency bonds – sponsored	361.3	40.6	146.9	146.2	27.5
Corporate bonds	130.7	-	35.9	56.9	37.9
Guaranteed investment contracts	43.8	6.0	-	-	37.8
Mutual funds	517.3	-	-	517.3	-
Total	\$ 1,476.1	\$ 135.4	\$ 389.2	\$ 795.3	\$ 156.2

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, 2007, foreign investments were approximately 8% of total assets of the systems; total foreign investments were \$5.1 billion. As of September 30, 2007, 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*
Retirement Systems:					
Americas					
Dollar	Canada	\$ -	\$ -	\$ 59.9	\$ -
Peso	Mexico	-	102.6	-	-
Real	Brazil	-	.6	-	-
Europe					
Euro	European Union	798.9	59.2	236.7	206.8
Franc	Switzerland	-	69.5	43.6	38.4
Krona	Sweden	-	-	19.4	11.9
Krone	Denmark	-	.9	13.0	3.4
Krone	Norway	-	-	15.5	2.2
Sterling	United Kingdom	32.5	5.6	116.2	86.0
Asia/Pacific					
Dollar	Australia	-	-	57.6	35.5
Renminbi	China	-	12.4	-	-
Dollar	Hong Kong	-	-	20.9	33.4
Rupee	India	-	.6	-	-
Yen	Japan	5.5	173.5	139.4	52.7
Dollar	Singapore	-	-	7.4	5.8
Won	South Korea	-	-	21.8	29.5
Middle East					
Shekel	Israel	-	.4	-	-
Mutual Funds					
Various	Various	513.2	44.3	2,070.6	-
Total		\$ 1,350.0	\$ 469.7	\$ 2,822.1	\$ 505.6
Deferred Compensation/Defined Contribution:					
Mutual Funds					
Various	Various	\$ -	\$ 693.3	\$ -	\$ -
Total		\$ 1,350.0	\$ 1,163.0	\$ 2,822.1	\$ 505.6

*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 2007 through September 2010, with an average maturity of 1.2 years. For more information, see the derivatives section of this note.

**\$513.2 million of investments disclosed in this column consist of international real estate investments held by the pension trust funds.

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, 2007, 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 95.6% of the total investments of the primary government. Other large holders of investments were the State Lottery Fund and MUCF.

The State Lottery Fund investments, \$370.9 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 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, via a Securities Lending Authorization Agreement, authorizing the agent bank to lend its securities to broker-dealers and banks, pursuant to a form of loan agreement. During the fiscal year, the agent bank, at the direction of the State Treasurer, lent securities and received: cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, convertible bonds, Canadian provincial debt, and irrevocable bank letters of credit as collateral. The agent bank did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: 1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; or 2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

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

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a collective investment pool along with the cash collateral of other qualified and non-qualified tax-exempt plan lenders. As of September 30, 2007, the investment pool had an average duration of 25 days and an average expected maturity of 710 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. At September 30, 2007, the retirement systems had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the State as of September 30, 2007, were \$13.9 billion and \$13.5 billion, respectively.

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 \$323.6 million. The deposits were reflected in the accounts of the banks at \$322.2 million. Of the bank balance, \$274.7 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,

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Notes to the Financial Statements

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 \$423.9 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):

	Investment Maturities (In Years)					N/A
	Fair Market Value	Less Than 1	1 To 5	6 To 10	More Than 10	
Deposits:						
Time deposits	\$ 33.6	\$ 33.1	\$.5	\$ -	\$ -	\$ -
Government money market accounts	474.9	474.9	-	-	-	-
Investments:						
Commercial paper	251.5	251.5	-	-	-	-
Short-term notes	106.8	102.8	2.5	1.5	-	-
Repurchase agreements	9.8	9.3	-	-	.5	-
Government securities	1,505.7	903.2	314.4	177.0	111.1	-
Insured mortgage backed securities	269.0	2.9	14.6	1.6	249.9	-
Government-backed securities	203.9	-	.4	18.3	185.2	-
Investment agreements	13.9	5.5	-	-	8.4	-
Corporate bonds and notes	186.7	23.7	114.6	26.5	21.9	-
Preferred stock	.9	-	-	-	.9	-
Equities	76.2	36.8	.9	-	3.1	35.4
Real estate	8.0	.7	-	-	5.9	1.4
Venture capital & leveraged buyouts	18.8	-	-	15.8	2.9	-
Government money market funds	11.1	11.1	-	-	-	-
Mutual bond funds	296.2	161.4	81.6	48.4	.2	4.6
Mutual equity funds	878.6	56.9	.8	-	328.2	492.7
Guaranteed investment contracts	839.8	-	45.2	59.1	735.5	-
Pooled investment funds	33.0	33.0	-	-	-	-
Other investments	50.2	2.7	.1	-	46.9	.5
Total Investments	\$ 5,268.6	\$ 2,109.6	\$ 575.6	\$ 348.1	\$ 1,700.6	\$ 534.6
Less Investments Reported as "Cash" on Statement of Net Assets	508.7					
Total Investments	\$ 4,759.9					
As Reported on Statement of Net Assets						
Current investments	\$ 1,378.5					
Noncurrent restricted investments	423.9					
Noncurrent investments	2,957.5					
Total Investments	\$ 4,759.9					

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:

<u>Asset</u>	<u>Years</u>
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. 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, 2007, were as follows (in millions):

Governmental Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclass- ifications	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 3,207.2	\$ 28.2	\$ (.2)	\$ -	\$ 3,235.2
Land improvements	17.2	-	(.1)	(.2)	16.9
Construction in progress	968.5	358.8	(323.2)	4.7	1,008.8
Infrastructure	12,379.9	257.6	(100.8)	-	12,536.7
Mineral rights	19.8	-	-	-	19.8
Total capital assets, not being depreciated	<u>16,592.6</u>	<u>644.6</u>	<u>(424.3)</u>	<u>4.5</u>	<u>16,817.4</u>
Capital assets, being depreciated:					
Land improvements	111.9	1.7	-	2.8	116.4
Equipment and vehicles	738.1	62.2	(21.2)	(6.4)	772.7
Buildings	3,327.9	58.2	(32.6)	(12.4)	3,341.1
Infrastructure	653.1	55.7	(4.3)	-	704.5
Total capital assets, being depreciated	<u>4,831.1</u>	<u>177.7</u>	<u>(58.2)</u>	<u>(15.9)</u>	<u>4,934.7</u>
Less accumulated depreciation for:					
Land improvements	(45.6)	(3.5)	-	(.2)	(49.3)
Equipment and vehicles	(542.1)	(56.6)	18.9	6.1	(573.7)
Buildings	(1,204.3)	(94.8)	26.3	6.7	(1,266.1)
Infrastructure	(403.9)	(25.2)	2.8	-	(426.3)
Total accumulated depreciation	<u>(2,195.9)</u>	<u>(180.2)</u>	<u>48.0</u>	<u>12.6</u>	<u>(2,315.5)</u>
Total capital assets, being depreciated, net	<u>2,635.2</u>	<u>(2.5)</u>	<u>(10.2)</u>	<u>(3.3)</u>	<u>2,619.2</u>
Governmental activity capital assets, net	<u>\$ 19,227.7</u>	<u>\$ 642.1</u>	<u>\$ (434.4)</u>	<u>\$ 1.2</u>	<u>\$ 19,436.6</u>

The Department of Human Services expenses in the Statement of Activities include an impairment loss of \$.1 million for two buildings due to facility closures. The Department of Human Services plans to sell the properties.

The Department of Corrections has closed buildings at four prison campuses. The total impairment loss was \$4.4 million. The impairments pertained to buildings and depreciable land improvements. The Department of Corrections plans to either transfer or 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	\$ 4.7	\$.1	\$ (.4)	\$ -	\$ 4.5
Total capital assets, being depreciated	<u>4.7</u>	<u>.1</u>	<u>(.4)</u>	<u>-</u>	<u>4.5</u>
Less accumulated depreciation for:					
Equipment	(4.3)	(.1)	.4	-	(4.1)
Total accumulated depreciation	<u>(4.3)</u>	<u>(.1)</u>	<u>.4</u>	<u>-</u>	<u>(4.1)</u>
Total capital assets, being depreciated, net	<u>.4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>.4</u>
Business-type activity capital assets, net	<u>\$.4</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$.4</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	\$ 22.1
Education	.2
Human Services	9.3
Public Safety and Corrections	46.9
Conservation, Environment, Recreation, and Agriculture	9.5
Labor, Commerce, and Regulatory	1.9
Health Services	7.1
Transportation	34.6
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.	48.4
Total Depreciation Expense – Governmental Activities	\$ 180.2
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	\$ 101.1
Buildings, equipment, and other depreciable assets	4,493.1
Construction in progress	147.2
Total	4,741.4
Less accumulated depreciation	(1,705.6)
Capital Assets, net – State Universities	3,035.8
Capital Assets, net – Authorities	145.2
Capital Assets, Total – Discretely Presented Component Units	\$ 3,181.0

NOTE 10 – PENSION BENEFITS AND OTHER POSTEMPLOYMENT BENEFITS

Defined Benefit Pension Plans

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

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

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

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

Plan Membership Data	LRS	SPRS	SERS	PSERS	JRS	MRP
Current active:						
Vested	16	1,123	29,991	119,989	259	679
Nonvested	-	497	873	175,995	1	11,157
Retirees & beneficiaries receiving benefits	286	2,735	46,886	162,844	542	3,351
Inactive members with vested deferred benefits	44	15	6,663	14,999	16	1,019
Current members with vested deferred benefits	-	148	-	-	-	-

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS

Basis of Accounting

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

Methods Used to Value Investments

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

Significant Investments

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

FUNDING POLICY

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

The Public School Employees' Retirement System (PSERS) is a cost-sharing, multiple-employer, State-wide defined benefit retirement system. Statute requires a reconciliation of required contributions and actual contributions in the PSERS. Michigan Compiled Laws Section 38.1341 provides that any overage or shortage must be paid in installments over five years.

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

Michigan
Notes to the Financial Statements

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

Effective in fiscal year 2001, SPRS, SERS, and PSERS use the valuation for the previous fiscal year for their respective reports. This approach is consistent with Governmental Accounting Standards Board (GASB) Statement No. 25. Consistent with this approach the most recent actuarial valuation was performed as of September 30, 2006.

ANNUAL PENSION COST AND OTHER RELATED INFORMATION

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

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>MRP</u>
Required contribution rates:				
State	-	31.54%	-****	-**
Plan Members	***	-	-	-
Annual Pension Cost and Net Pension Obligation:				
Annual required contribution	\$.39	\$ 32.39	\$ 316.14	\$ 3.61
Interest on net pension asset (obligation)	(.10)	2.65	33.08	.83
Adjustment to annual required contribution	.35	(1.99)	(35.34)	(.89)
Annual pension cost	.64	33.05	313.88	3.55
Contributions made	.39	24.32	192.16	3.14
Change in net pension asset/obligation	.25	8.73	121.72	.41
Change in actuarial estimate	-	(.72)	-	(.07)
Net pension (asset) obligation at beginning of fiscal year	(1.45)	33.81	413.51	10.36
Net pension (asset) obligation at end of fiscal year	<u>\$ (1.20)</u>	<u>\$ 41.82</u>	<u>\$ 535.23</u>	<u>\$ 10.70</u>

Significant Actuarial Assumptions used include:

Latest actuarial valuation date	9/30/07	9/30/06	9/30/06	9/30/07
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	30 years	30 years	29 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 (not compounded for legislators who first became members after 1/1/95)	2% annual non-compounded with maximum annual increase \$500	3% annual non-compounded with maximum annual increase \$300	3.5% for special duty retirees

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

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

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

****For SERS, the system is closed to new members. Accordingly, the annual required contribution from the State is determined as a dollar amount, not as a percentage of payroll.

Michigan
Notes to the Financial Statements

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

	PSERS	JRS
Required contribution rates:		
State	N/A	**
Plan Members	4.0*	5.87
Number of participating employers	714	137

N/A - Not available

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

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

THREE YEAR HISTORICAL TREND INFORMATION

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

	Actuarial Valuation Date	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)
LRS	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)
	9/30/05	157.5	154.7	(2.8)	101.8	2.0	(139.2)
SPRS**	9/30/06	1,113.5	1,385.9	272.4	80.3	115.9	235.0
	9/30/05	1,090.3	1,300.3	210.0	83.8	117.6	178.5
	9/30/04	1,117.7	1,255.8	138.1	89.0	119.7	115.4
SERS**	9/30/06	10,110.7	12,798.5	2,687.9	79.0	1,847.7	145.5
	9/30/05	9,896.7	12,400.4	2,503.6	79.8	1,880.2	133.2
	9/30/04	10,149.3	12,004.0	1,854.7	84.5	1,889.4	98.2
PSERS**	9/30/06	39,893.0	49,136.0	9,243.0	81.2	9,806.0	94.3
	9/30/05	38,211.0	48,206.0	9,995.0	79.3	10,206.0	97.9
	9/30/04	38,784.0	46,317.0	7,533.0	83.7	10,407.0	72.4
JRS	9/30/07	301.0	247.1	(53.9)	121.8	29.7	(181.5)
	9/30/06	282.8	243.7	(39.1)	116.0	33.1	(118.1)
	9/30/05	278.4	243.4	(35.0)	114.4	34.9	(100.3)
MRP*	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, 2006.

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	Annual Cost (APC)	Percentage Contributed	Net Pension Obligation (Asset)
LRS				
	2004-05	.1	-	(1.8)
	2005-06	.3	-	(1.5)
	2006-07	.6	-	(1.2)
SPRS				
	2004-05	32.5	81.8	22.6
	2005-06	36.6	68.5	33.8
	2006-07	33.1	73.6	41.8
SERS				
	2004-05	307.1	83.5	316.8
	2005-06	365.1	74.1	413.5
	2006-07	313.9	61.2	535.2
MRP				
	2004-05	3.6	78.7	9.8
	2005-06	3.6	82.9	10.4
	2006-07	3.6	88.5	10.7

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

	Fiscal Year	Annual Required Contribution (ARC)	Percentage of ARC Contributed
PSERS			
	2004-05	1,023.3	75.7
	2005-06	1,161.8	85.7
	2006-07	919.6	90.8
JRS			
	2004-05	-	-
	2005-06	.6	108.0
	2006-07	.2	124.0

REQUIRED SUPPLEMENTARY INFORMATION

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

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

Schedule of funding progress for MRP

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered ((b-a)/c)
9/30/03	-	41.3	41.3	-	.6	6,883.0
9/30/05	-	40.6	40.6	-	.5	8,120.0
9/30/07	-	41.9	41.9	-	.6	6,983.3

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

Schedule of Employer Contributions for MRP:

Year Ended September 30	Annual Required Contribution	Percentage Contributed
2007	3.6	88.5
2006	3.6	82.9
2005	3.6	78.7
2004	3.6	76.8
2003	3.3	79.5
2002	3.3	81.9

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

Defined Contribution Pension Plans

State Employees' Defined Contribution Retirement Plan

The State Employees' Defined Contribution Retirement Plan (Plan) was established to provide benefits at retirement to employees of the State who were hired after March 31, 1997, and to those members of the State Employees' Retirement 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 \$76.2 million. Participant contributions to the plan were \$28.3 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, 2007: Common Trust Funds: Traditional GICs/BICs, \$54.0 million; Global Wrap Synthetic Contracts, \$339.7 million; SSGA Daily Bond Market Index Fund, \$69.5 million; Money Market Funds, \$168.4 million; Mutual Funds, \$41.6 million.

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

Component Units

In addition to the Public School Employees' Retirement System (PSERS), the State university component units participate in the Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The TIAA-CREF is a defined contribution multiple-employer pension plan. The State university component units are required to contribute between 4% and 15% of annual covered payroll, as determined by each institution's employment agreements. The total contribution to the TIAA-CREF for all State university component units was \$70.7 million for the year ending June 30, 2007.

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

Effective January 1, 2004, the State Bar of Michigan assumed responsibility for the retirement plans of State Bar employees who participated in the State of Michigan's Defined Contribution Retirement Plan (Plan). All monies held in the Plan on behalf of participating State Bar employees were subsequently transferred to the newly established State Bar 401(a) retirement plan and 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, 2007.

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

Other Postemployment Benefit Plans

The State implemented GASB Statement No. 43 during fiscal year 2007. This statement provides financial reporting requirements for postemployment benefit plans other than pension plans.

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

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

Each plan is accounted for in a separate other postemployment benefits 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. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Methods Used to Value Investments

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

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 of all pension plans except MRP. These benefits are funded on a pay-as-you-go basis, except for LRS life insurance coverage, as explained below. The net assets available for benefits relate to residual balances from funding provided in prior fiscal years.

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. At September 30, 2007, the actuarial accrued liability for life insurance premiums was \$9.8 million with net assets available for benefits of \$19.1 million. The expense for life insurance premiums was \$.1 million in fiscal year 2007.

Following is a brief summary of the other postemployment benefits as of September 30, 2007:

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>JRS</u>	<u>PSERS</u>	<u>TOTAL</u>
Participating Employers	1	1	1	137	714	
Participants eligible for benefits	363	2,735	46,886	542	162,844	213,370
Contribution rates for current employees (% of payroll)	0.0%	N/A	N/A	2.0%	N/A	
Percentage of pre-Medicare premiums paid by participants	0.0%	5%	5%	5%	10%*	
Expense for year (in millions)	\$ 4.5	\$29.1	\$364.0	\$.6	\$590.2	\$988.4
Net assets available for benefits (in millions)	\$16.4	\$ -	\$ 27.4	\$ -	\$776.3	\$820.1

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

Michigan
Notes to the Financial Statements

THREE YEAR HISTORICAL TREND INFORMATION*

The following table provides a schedule of funding progress for the State's other postemployment 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)
LRS	9/30/05	\$ 11.9	\$ 111.4	\$ 99.5	11.0%	\$ 11.9	838.0%
SPRS	9/30/06	-	944.4	944.4	-	115.9	814.9
SERS	9/30/06	-	13,499.0	13,499.0	-	2,848.0	474.0
PSERS	9/30/06	630.0	25,387.0	24,757.0	2.5	9,806.0	252.5
JRS	9/30/07	-	6.6	6.6	-	6.1	107.5
	9/30/06	-	6.4	6.4	-	6.1	105.3

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

NOTE 11 – 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 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 1 to 6 month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable, because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Some lease agreements include escalation clauses or other contingent rentals.

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

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

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Notes to the Financial Statements

Primary Government – Governmental Activities

Rental expenditures incurred under operating leases totaled \$65.0 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totaled \$25.5 million, \$31.6 million, and \$25.8 million, respectively, during the fiscal year.

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	
2008	\$ 34.9	\$ 21.9	\$ 30.3	\$ 25.2	\$ 77.4
2009	30.4	16.8	28.4	24.5	69.7
2010	26.5	14.1	26.7	23.7	64.5
2011	19.0	11.5	25.2	21.9	58.6
2012	10.3	10.0	24.0	20.8	54.8
2013-2017	20.2	43.3	103.5	96.0	242.8
2018-2022	6.2	40.9	73.1	83.3	197.3
2023-2027	-	48.7	42.6	71.9	163.2
Thereafter	-	40.7	8.6	47.5	96.7
Total	\$ 147.5	\$ 247.9	\$ 362.5	\$ 414.7	\$ 1,025.1

The above capital leases relate to governmental activities which include the General Fund, special revenue funds, and the internal service funds. A liability of \$247.9 million has been recorded in the government-wide statements for the capital lease principal.

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

Buildings	\$ 311.2
Equipment	96.4
Total	407.6
Accumulated Depreciation	(187.8)
Net Land, Buildings, and Equipment	<u>\$ 219.7</u>

Primary Government – Business-Type Activities

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

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

Year Ended September 30	Operating Leases
2008	\$.6
2009	.5
2010	.5
2011	.4
2012	.2
	<u>\$ 2.1</u>

Discretely Presented Component Units

Operating lease commitments for universities and authorities totaled \$53.5 million. Total capital lease obligations were \$10.1 million, \$2.1 million, and \$0 for principal, interest, and executory costs, respectively, during the fiscal year.

NOTE 12 – 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 2007, 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, 2007, was as follows (in billions):

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
General Obligation Notes	\$ -	\$1.3	\$1.3	\$ -

Revenue Dedicated Bonds and Notes

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

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

The notes are issued in accordance with the authorization provided in MCL Section 247.668b. 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, 2007, principal payments of \$568.0 million have been made on the notes. The amount outstanding at September 30, 2007, \$32.0 million, is not disclosed in the table below.

Revenue bonds have been issued by the State Building Authority (SBA) to acquire and/or construct various facilities for use by the State or institutions of higher education. Revenue bonds have also been issued to finance equipment capital lease refinancings and acquisitions. In addition, the SBA issues commercial paper notes to fund capital projects prior to bonding. Short-term debt activity for the fiscal year ended September 30, 2007, follows (in millions):

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
Commercial Paper Notes	\$57.0	\$89.7	\$ -	\$146.7

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

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Notes to the Financial Statements

Bonds Issued and Outstanding

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

	Amounts Issued	Outstanding 9/30/2007	Fiscal Year Maturities		Average Interest Rate Percentage
			First Year	Last Year	
General Obligation Bonded Debt					
General Obligation Refunding Debt:					
Series 2001 (Refunding)	\$ 183.3	\$ 145.1	2002	2016	4.76
Series 2002 (Refunding)	300.7	284.0	2004	2017	4.41
Series 2005 A (Refunding) (3)	86.8	86.8	2017	2021	5.00
Series 2005 B (Refunding) (3)	82.8	82.8	2013	2021	5.00
Series 2005 C (Refunding) (3)	21.1	21.1	2008	2013	4.17
Recreation and Environmental Protection:					
Series 1989 (1)	75.0	14.6	1991	2012	6.81
Series 1992 (1)	246.3	81.9	1994	2013	5.50
College Savings Bonds - Series 1992 Mini-bonds (1)	.5	1.3	2012	2012	5.86
Series 1992 A (1)(2)	13.9	5.0	1995	2013	6.17
Series 1993 (1)(2)	16.7	7.3	1996	2014	5.00
Series 1995 (1)	234.3	10.8	1997	2010	5.28
Series 1998 (1)	90.0	8.5	1999	2009	4.87
Series 1999 A (3)	81.8	12.0	2004	2010	5.47
Series 2000 (1)	60.0	10.4	2002	2011	5.24
Series 2001 (3)	56.8	26.2	2004	2012	4.82
Series 2003 (5)	10.0	6.0	2054	2054	0.00
Series 2003 A (1)(3)	200.0	190.6	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	2008	2022	Variable
Series 2005 C (4)	113.1	113.1	2020	2024	Variable
Total General Obligation Bonded Debt	2,547.5	1,487.5			
Revenue Dedicated Bonded Debt					
<u>State Park Related:</u>					
2002 – Gross Revenue Bonds	15.5	13.4	2004	2023	3.58
Total Revenue Dedicated Bonded Debt – State Park Related	15.5	13.4			
<u>Transportation Related:</u>					
Tax Dedicated Bonds:					
Michigan Comprehensive Transportation:					
Series 1998 (Series A Refunding)	38.6	29.7	2005	2011	4.81
Series 2001 (Series A Refunding)	27.8	27.8	2008	2022	5.01
Series 2002 (Series A Refunding)	89.6	36.1	2003	2011	5.07
Series 2002 (Series B)	82.3	17.9	2004	2012	5.13
Series 2003	35.0	19.7	2004	2023	3.61
Series 2005 (Refunding)	62.2	62.2	2009	2023	5.15
Series 2006 (Refunding)	53.7	52.3	2007	2031	4.54
State Trunkline Fund Bonds:					
Series 1989 (Series A)	135.8	10.8	1994	2009	6.75
Series 1992 (Series A Refunding)	253.6	56.7	2000	2013	5.76
Series 1992 (Series B Refunding)	99.6	8.3	2000	2013	5.68
Series 1998 (Series A Refunding)	377.9	374.4	2006	2027	5.03
Series 2001 (Series A)	308.2	32.7	2003	2012	4.96
Series 2002 (Refunding)	97.9	68.6	2004	2022	4.71
Series 2004 (Refunding)	103.5	99.7	2006	2022	4.13
Series 2004	185.7	100.5	2008	2019	4.36
Series 2005 (Refunding)	223.0	223.0	2010	2023	5.10
Series 2005 B (Refunding)	378.3	378.3	2010	2019	4.81
Series 2006	244.5	244.5	2008	2022	4.74
Series 2007	485.1	485.1	2009	2027	4.85
Total Revenue Dedicated Bonded Debt – Transportation Related	3,282.2	2,328.3			

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Notes to the Financial Statements

	Amounts Issued	Outstanding 9/30/2007	Maturities		Average Interest Rate Percentage
			First Year	Last Year	
<u>State Building Authority:</u>					
1998 Series I Bonds (Refunding)	330.4	248.6	1999	2022	4.75
2001 Series I Bonds (Refunding)	419.7	363.1	2003	2026	5.26
2003 Series I (Refunding)	659.4	527.0	2004	2018	3.64
2003 Series II (Refunding)	392.6	174.5	2005	2030	4.42
2004 Series I	155.4	131.5	2005	2020	4.08
2005 Series I (Refunding)	293.4	285.3	2006	2034	4.84
2005 Series II (Refunding)	242.8	241.9	2007	2037	4.66
2005 Series II A Multi-modal (7)	343.6	40.1	2018	2018	Variable
2005 Series II B Multi-modal (7)	9.9	9.9	2007	2017	Variable
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
Total State Building Authority Bonded Debt	4,191.0	3,365.7			
<u>Tobacco Settlement Finance Authority:</u>					
Series 2006 A (6)	363.1	363.1	2008	2034	7.31
Series 2006 B (6)	72.6	72.6	2008	2034	7.85
Series 2006 C (6)	54.8	59.7	2046	2046	8.50
Series 2007 A (6)	480.1	480.1	2010	2047	5.86
Series 2007 B (6)	35.6	35.6	2052	2052	7.25
Series 2007 C (6)	7.2	7.2	2052	2052	7.50
Total Tobacco Settlement Finance Authority	1,013.5	1,018.4			
Total Revenue Dedicated Bonded Debt	8,502.2	6,725.9			
Total General Obligation and Revenue Dedicated Bonded Debt	<u>\$ 11,049.7</u>	<u>\$ 8,213.3</u>			

- (1) Michigan Compiled Laws Sections 324.19301 and 324.71301 authorized the issuance of bonds totaling \$800.0 million. As of September 30, 2007, \$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 (a discretely presented component unit). An outside trustee for the Authority is holding the bonds as an investment of the Authority; no immediate cash proceeds were provided. The trustee receives the debt service payments on the bonds, which are negotiable instruments held to subsidize water pollution control financing provided by the Authority.
- (3) Michigan Compiled Laws Section 324.95102 authorized the issuance of bonds totaling \$675.0 million. As of September 30, 2007, \$495.1 million of such bond proceeds had been received, leaving remaining authorization of \$179.9 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, 2007.
- (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, 2007, \$143.2 million of such bond proceeds had been recognized as received, leaving remaining authorization of \$856.8 million. Included in the amount recognized as received is \$100.0 million in bonds issued to a discretely presented component unit, the Michigan Municipal Bond Authority (MMBA). Although no cash traded hands, MMBA (the registered owner of the bonds) is holding the bond document as collateral and issuing their own revenue bonds to generate the capital. This transaction allows the State's General Fund to defer principal and interest costs until future years when the bond is repurchased/redeemed. MMBA will fund the principal and interest costs of the revenue bonds until such time that they request the State to honor the general obligation bond document.

On December 18, 2003, the State issued \$100.0 million in bonds (\$10.0 million relating to Strategic Water Quality and \$90.0 million relating to the previously existing State Water Quality Revolving Fund). The \$10.0 million bond relating to Strategic Water Quality includes a repurchase provision that requires the State to repurchase all or any portion of this bond upon 10 days prior written notice from the registered owner, MMBA. The State anticipates at this time that if the bond repurchase was acted on, the State would issue long-term debt to finance the repurchase. This bond is being used as collateral by MMBA for

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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) The Michigan Tobacco Settlement Finance Authority (MTSFA) issued taxable Tobacco Settlement Asset-Backed Bonds as follows: \$363.1 million Series 2006A Fixed Rate Turbo Bonds; \$72.6 million Series 2006B Indexed Floating Rate Turbo Term Bonds; \$54.8 million Series 2006C Capital Appreciation Turbo Term Bonds; \$480.1 million Series 2007A Senior Current Interest Bonds; \$35.6 million Series 2007B First Subordinate Capital Appreciation Bonds; and \$7.2 million Series 2007C Second Subordinate Capital Appreciation 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. The 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 Michigan 21st 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. 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. The 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) The State Building Authority Multi-Modal bears interest at a remarketed weekly rate.

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
General Obligation Bonds:				
Series 1989	\$14.6	\$16.9	1999	2012
Series 1992	12.1	14.6	2000	2012
College Savings Bonds - Series 1992 Mini-bonds	1.3	1.8	2012	2012
Series 1995	10.8	12.2	2001	2010
Revenue Dedicated – Transportation Related:				
State Trunkline – Series 1989 A	10.8	11.9	2004	2009
State Trunkline – Series 1992 A	56.7	66.7	2006	2013
State Trunkline – Series 1992 B	8.3	9.6	2006	2013
Revenue Dedicated – State Building Authority:				
2006 Series I A	415.7	891.8	2017	2030
Revenue Dedicated – Tobacco Settlement Finance Authority				
Series 2006 C	59.7	1,534.9	2046	2046
Series 2007 B	35.6	865.3	2052	2052
Series 2007 C	7.2	195.1	2052	2052

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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.

The State has defeased certain bonds by placing cash with an escrow agent in a trust to be used for future payment on the debt. The following table summarizes the defeased bonds outstanding at September 30 (in millions):

	Amounts Outstanding
Recreation and Environmental Protection:	
Series 1998	\$ 50.4
Series 1999 A	56.1
Series 2000 (partial)	37.4
Series 2001	22.3
Series 2001 (Refunding)	.1
Series 2002 (Refunding)	8.5
Series 2003	4.0
Total Recreation and Environmental	\$ 178.8
School Loan Bonds:	
Series 1998	\$ 77.0
Series 2005 B	156.9
Series 2006 A	66.8
Total School Loan Bonds	\$ 300.7
Comprehensive Transportation Fund Bonds:	
Series 2002 B (partial)	\$ 52.9
Series 2003	9.9
	\$ 62.8
State Trunkline Fund Bonds:	
Series 2001 A (partial)	\$ 245.8
Series 2004 (partial)	85.2
	331.1
Total Transportation Related	\$ 393.9
State Building Authority:	
1994 Series II	\$ 7.0
1997 Series I	47.2
1997 Series II	196.0
1998 Series I	62.8
2000 (MSP Phase II)	22.5
2001 (MSP Phase III)	32.8
2002 (MSP Phase IV)	24.0
1999 Series I	50.7
2001 Series I	87.4
2001 Series II	131.0
2000 Series 1	113.7
2002 Series III (Refunding)	190.4
2003 Series II (Refunding)	194.9
Total State Building Authority	\$ 1,160.2

General Obligation

In fiscal year 2007, the Michigan Municipal Bond Authority (MMBA), a discretely presented component unit of the State, placed funds with an escrow agent to refund a total of \$240.3 million in State general obligation debt for the following:

General Obligation Debt	Refunded Amount
Recreation and Environmental Protection Series 2001	\$.1
Recreation and Environmental Protection Series 2002	8.5
School Loan Bonds Series 1998	8.0
School Loan Bonds series 2005B	156.9
School Loan Bonds series 2006A	66.8

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The State assigned a total of \$171.5 million in loan repayments to the MMBA in consideration for the funds placed by MMBA with the escrow agent, resulting in a net subsidy of \$68.7 million from MMBA to the State.

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	
2008	\$ 59.9	\$ 47.3	\$ -	\$ 76.2	\$ 114.3	\$ 87.1	\$ 123.1	\$ 1.8	\$ 54.1	\$ 563.7
2009	125.0	54.8	14.5	82.5	110.4	92.2	118.8	3.7	60.1	661.9
2010	84.1	48.9	14.5	119.4	107.0	97.4	114.0	7.1	59.9	652.4
2011	88.3	44.8	14.5	124.7	101.8	103.0	108.9	8.3	59.5	653.8
2012	92.6	40.4	14.5	116.5	96.5	109.0	103.5	9.6	59.0	641.6
2013-2017	480.4	123.2	72.5	657.3	393.0	620.8	426.0	70.6	284.3	3,128.0
2018-2022	472.2	36.1	47.6	768.6	211.2	679.4	296.7	106.3	256.6	2,874.6
2023-2027	85.6	4.7	2.4	396.1	56.9	571.7	219.0	129.1	217.8	1,683.4
2028-2032	-	-	-	12.6	1.5	554.2	154.3	190.4	163.9	1,076.9
2033-2037	-	-	-	-	-	450.9	49.6	148.4	94.7	743.5
2038-2042	-	-	-	-	-	-	-	105.4	60.3	165.7
2043-2047	-	-	-	-	-	-	-	1,670.0	24.9	1,694.9
2048-2052	-	-	-	-	-	-	-	1,060.4	-	1,060.4
Thereafter	6.0	-	-	-	-	-	-	-	-	6.0
Total	\$ 1,494.0	\$ 400.1	\$ 180.5	\$ 2,354.1	\$ 1,192.4	\$ 3,365.7	\$ 1,713.8	\$ 3,511.2	\$ 1,395.0	\$ 15,606.8

*Interest for Multi-Modal Bonds future debt service requirements was estimated at the rate in effect at September 30, 2007.

Interest to maturity for the State Building Authority 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, 2007, was as follows (in millions):

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds Payable:						
General obligation debt	\$ 1,793.5	\$ 2.8	\$ 308.8	\$ 1,487.5	\$ 59.9	\$ 1,427.6
Revenue bonds	1,902.8	490.1	51.2	2,341.7	76.2	2,265.5
State Building Authority	3,449.3	-	83.6	3,365.7	87.1	3,278.6
Tobacco Settlement Finance Authority	490.5	527.9	-	1,018.4	1.8	1,016.7
Notes Payable:						
Transportation related	84.0	-	52.0	32.0	-	32.0
Deferred Loss on Refundings:						
General obligation debt	(33.3)	-	4.0	(29.3)	-	(29.3)
Revenue dedicated debt	(31.1)	-	2.4	(28.8)	-	(28.8)
State Building Authority	(33.9)	-	5.1	(28.8)	-	(28.8)
Unamortized Discounts:						
State Building Authority	(496.4)	-	20.4	(476.1)	-	(476.1)
Tobacco Settlement Finance Authority	-	(15.2)	-	(15.2)	-	(15.2)
Unamortized Premiums:						
General obligation debt	61.3	-	5.2	56.1	-	56.1
Revenue dedicated debt	106.4	18.7	7.4	117.6	-	117.6
State Building Authority	116.9	-	7.3	109.5	-	109.5
Total bonds and notes payable	\$ 7,409.9	\$ 1,024.2	\$ 464.1	\$ 7,950.4	\$ 225.0	\$ 7,725.5
Plus State Building Authority commercial paper notes reported as "Current Liabilities: Bonds and Notes Payable" on the Statement of Net Assets				146.7	146.7	-
As reported on the Statement of Net Assets				\$ 8,097.1	\$ 371.7	\$ 7,725.5

NOTE 13 – 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 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>
2008	\$ 320.0	\$ 430.6	\$ 5.4	\$ 756.1
2009	321.2	415.1	5.0	741.3
2010	381.2	400.9	5.0	787.1
2011	303.4	383.6	4.6	691.5
2012	314.4	361.3	4.4	680.1
	<u>1,640.1</u>	<u>1,991.6</u>	<u>24.4</u>	<u>3,656.1</u>
2013-2017	1,832.6	1,589.1	18.2	3,440.0
2018-2022	1,649.9	1,121.8	10.4	2,782.1
2023-2027	878.1	799.4	4.2	1,681.7
2028-2032	746.1	626.7	.4	1,373.1
2033-2037	724.0	478.3	-	1,202.3
2038-2042	1,247.1	301.6	-	1,548.7
	<u>7,077.8</u>	<u>4,916.9</u>	<u>33.1</u>	<u>12,027.9</u>
Total	8,718.0	<u>\$ 6,908.5</u>	<u>\$ 57.5</u>	<u>\$ 15,684.0</u>
Deferred amount on refunding	(84.0)			
Unamortized discount	(.1)			
Unamortized premium	144.9			
Total principal	<u>\$ 8,778.7</u>			

Included in the table above is \$1,103.2 million of demand bonds comprised of \$56.4 million issued by the Michigan Higher Education Student Loan Authority, \$878.8 million issued by the Michigan State Housing Development Authority, and \$168.0 million issued by the State universities. Defeased bonds outstanding of the Michigan Municipal Bond Authority, Michigan Higher Education Student Loan Authority, and Michigan State Housing Development Authority are not reflected in the table above.

Notes Payable

The Michigan Municipal Bond Authority has short-term notes outstanding of \$711.5 million as of September 30, 2007.

The Land Bank Fast Track Authority has long-term notes outstanding of \$.2 million as of September 30, 2007. State universities have short-term notes outstanding of \$.6 million and long-term notes outstanding of \$18.5 million as of June 30, 2007.

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, 2007, MHEFA had bonds outstanding of \$628.6 million. Of this amount, \$62.2 million of bonds have been defeased in substance, leaving a remaining undefeased balance of \$566.4 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, 2007, was \$7.4 billion. The amount of tax exempt bonds issued during the fiscal year 2007 was \$329 million. There were no taxable bonds

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issued in fiscal year 2007. 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 \$6.4 billion of no commitment bonds as of September 30, 2007. Of the above amount, \$1.3 billion have been defeased in substance, leaving a remaining undefeased balance of \$5.1 billion. Economic gains and accounting gains and losses resulting from in-substance defeasance, inure to the benefit of the facility for which the bonds were issued, and accordingly are not reflected in the Authority's financial statements.

The Michigan State Housing Development Authority (MSHDA) has been authorized to issue up to \$800.0 million of limited obligation bonds to finance multi-family housing projects. At June 30, 2007, limited obligation bonds had been issued totaling \$771.1 million, of which twenty issues totaling \$235.1 million had been retired.

The MSHDA entered into several interest rate exchange agreements for a total of \$955.9 million as of June 30, 2007, 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, 2007, MPEFA had bonds outstanding of \$80.3 million, all of which are undefeased.

Short-Term Debt Activity

Western Michigan University used its revolving line of credit to finance a new student information system. Activity on the line of credit during Western Michigan University's fiscal year ended June 30, 2007, was as follows (in millions):

	Beginning Balance	Draws	Payments	Ending Balance
Line of Credit	\$8.3	\$ -	\$1.5	\$6.8

NOTE 14 – 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 11.

Compensated Absences

This liability is described in more detail in Note 1.

Workers' Compensation

The gross amount of workers' compensation liability, \$168.0 million at September 30, 2007, has been recorded at its discounted present value of \$112.9 million, using a discount rate of approximately 8%. The present value of the current portion of this liability is \$25.1 million. In fiscal year 2007, State agencies paid reimbursement for actual workers' compensation claims and administrative fees totaling \$38.6 million.

Net Pension Obligation

This liability is described in more detail in Note 10.

Other Claims & Judgments

The governmental activities estimated liability for other claims and litigation losses, \$454.7 million at September 30, 2007, 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 \$1.8 million for arbitrage payable to the federal government for interest earned on bond proceeds. Where a range of potential loss exists, the amount recorded is based upon the expected minimum amount that will be lost if the State does, indeed, lose. The allowance also includes projections for highway related negligence cases based upon historical loss ratios. The State continues to vigorously contest all of these claims and the State may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that

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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 \$47.3 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 \$251.9 million at September 30, 2007. This amount will, over time, be paid to each "non-Durant" school district for its underfunded State mandated program costs if certain requirements are met. See Note 23 for additional disclosure regarding the Durant case and other contingencies.

Changes in Other Long-Term Obligations

Changes in long-term liabilities for the year ended September 30, 2007, are summarized as follows (in millions):

Governmental activities	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Other Long-term Obligations:						
Capital lease obligations	\$ 252.2	\$ 23.0	\$ 27.2	\$ 247.9	\$ 21.9	\$ 226.1
Compensated absences	518.7	252.9	270.3	501.4	297.7	203.7
Workers' compensation	111.8	25.9	24.9	112.9	25.1	87.8
Net pension obligations	457.7	130.1	-	587.7	-	587.7
Other claims & judgments	368.9	168.3	82.4	454.7	248.9	205.9
Durant settlement	274.3	6.5	28.9	251.9	31.7	220.2
Total Governmental Activities	\$ 1,983.7	\$ 606.7	\$ 433.8	\$ 2,156.6	\$ 625.2	\$ 1,531.4
Business-type Activities						
Other Long-term Obligations:						
Lottery prize awards*	\$ 399.8	\$ 27.9	\$ 86.7	\$ 341.0	\$ 73.3	\$ 267.7
Compensated absences	3.2	1.3	1.3	3.2	.3	2.9
Other claims & judgments	45.2	2.1	-	47.3	-	47.3
Total Business-type Activities	\$ 448.2	\$ 31.4	\$ 88.0	\$ 391.6	\$ 73.6	\$ 318.0

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

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

Discretely Presented Component Units

Michigan Education Trust (MET)

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

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

The actuarial report on the status of MET Plans B and C, as of September 30, 2007, shows the actuarial present value of future tuition obligations to be \$417.6 million, as compared to the actuarially determined market value of assets available of \$440.4 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%.

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The actuarial report on the status of MET Plan D, as of September 30, 2007, shows the actuarial present value of future tuition obligations to be \$619.1 million, as compared to the actuarially determined market value of assets available of \$607.2 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 (IRS) of 1986 defining "qualified state tuition programs." A qualified State tuition program is generally exempt from income tax, but is subject to unrelated business income tax. MET has no unrelated business income. Distributions made in excess of qualified higher education expenses (whether to the refund designee, beneficiary, or to a college on behalf of the beneficiary) are taxable income to the beneficiary or the refund designee. In May 1997, MET submitted a request for ruling to the IRS for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling which confirms that MET is in compliance with the Act.

NOTE 15 – INCOME TAX CREDITS AND REFUNDS

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	\$ 494.2
Senior citizens	311.2
Farmland preservation	32.5
Other property tax credits	44.2
Subtotal - property tax credits	<u>882.1</u>
Adoption credit	1.0
Stillbirth credit	.1
Home heating (excluding federal share)	.2
Total tax expenditures	<u>\$ 883.4</u>

Income Tax Refunds Payable

The \$656.2 million reported as a liability on the "Income tax refunds payable" line in the government-wide and fund financial statements includes: projected refund estimates for overwithholding and tax credits reported as revenue reductions, actual refunds made in October and November, and accruals for known income tax litigation losses.

NOTE 16 – DEFERRED COMPENSATION PLANS

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

The State makes no contribution to the 457 plan. Generally, the State does not make matching contributions to the 401k plan; however, the State has occasionally made matching contributions to the 401k plan as part of certain employees’ compensation packages. To expand investment options, three investment tiers were developed and made available to participants on July 1, 1997. Participants invest their contributions and accumulated earnings by selecting mutual funds in one or more of the investment tiers. Employees may, at any time, transfer accumulated balances and future contributions among mutual funds in the investment tiers. Investment earnings, net of administrative charges, are credited to the participants proportionally, based upon their balances in the plan.

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

Net assets available for plan benefits for the 457 plan and the 401k plan at September 30, 2007, were \$2.1 and \$2.1 billion, respectively.

NOTE 17 – 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	\$ -	\$ -	\$ -	\$ 1.8	\$ 23.3	\$ 13.8	\$ 38.9
School Aid Fund	681.1	-	964.6	-	-	-	1,645.8
Non-major Governmental Funds	78.5	-	83.9	.1	1.3	1.8	165.6
State Lottery Fund	-	10.9	-	-	-	-	11.0
Unemployment Compensation Funds	.9	-	.1	3.7	-	-	4.7
Non-major Enterprise Funds	-	-	-	-	-	-	.1
Internal Service Funds	-	-	-	-	10.5	.7	11.2
Fiduciary Funds	1.2	-	-	-	-	-	1.2
Total	\$ 761.7	\$ 10.9	\$ 1,048.6	\$ 5.5	\$ 35.3	\$ 16.4	\$ 1,878.4

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: \$7.7 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 18 – 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

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General Fund is to provide reimbursement. Interfund receivables and payables are not recorded for this commitment, because there is no repayment schedule and the repayment is considered long-term and budgetary in nature.

Mackinac Bridge Authority

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

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

As of September 30, 2007, the Authority has repaid a total of \$11.0 million of the advance from the Michigan Transportation Fund, leaving a balance of \$52.0 million. No repayments have been made on the advance from the State Trunkline Fund.

NOTE 19 – TRANSFERS

Interfund transfers for the year ended September 30, 2007, 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>	
General Fund	\$ -	\$ 34.1	\$ 343.0	\$ 377.1
School Aid Fund	-	-	42.5	42.5
Non-major Governmental Funds	327.9	207.8	1,374.9	1,910.7
State Lottery Fund	11.7	748.9	-	760.6
Unemployment Compensation Funds	4.5	-	15.8	20.4
Non-major Enterprise Funds	162.4	-	-	162.4
Internal Service Funds	1.3	-	-	1.3
Fiduciary Funds	.1	-	-	.1
Total	<u>\$ 508.0</u>	<u>\$ 990.8</u>	<u>\$ 1,776.3</u>	<u>\$ 3,275.1</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 20 – FUND DEFICITS

Primary Government

Governmental Funds

The Advance Financing Funds, a capital projects fund, had a fund balance deficit of \$82.5 million. The deficit was caused by expenditures for projects for which bonds have not yet been issued and for expenditures incurred to improve State-owned sites that have not been sold.

The State Building Authority, a capital projects fund, had a fund balance deficit of \$159.3 million. The deficit resulted because the issuance of commercial paper represents a fund liability and the corresponding construction projects are not reported as assets in the fund.

Proprietary Funds

The Office Services Revolving Fund, an internal service fund, had a fund balance deficit of \$8.5 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.

NOTE 21 – 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	\$ 27.8	\$ 1.6	\$ 157.9	\$ -	\$ 15.3	\$ 202.6
Restricted revenues	395.6	82.4	432.0	-	3.1	913.0
Multi-year projects (capital outlay and work projects)	26.4	1.6	319.2	-	51.4	398.6
Construction and debt service	-	-	115.9	-	-	115.9
Revolving loan programs	5.0	-	57.6	-	-	62.6
Funds held as permanent investments	-	-	145.9	-	526.4	672.3
Noncurrent assets	268.2	8.5	26.4	-	-	303.1
Other purposes	-	-	-	.3	-	.3
Total Reserved Fund Balances	\$ 722.9	\$ 94.0	\$ 1,254.9	\$.3	\$ 596.2	\$ 2,668.4

Budgetary carry-forwards represent unused spending authorization that continues to be available in the new year. Restricted revenue carry-forwards include revenues restricted by law for specified purposes. The largest restricted revenue carry-forward in the General Fund is related to the Refined Petroleum Fund in the amount of \$39.9 million. The \$26.4 million of multi-year projects in the General Fund includes \$3.2 million of capital outlay and \$23.2 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.

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.

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Net Asset Designations - Primary Government

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

The State Sponsored Group Insurance Fund, an internal service fund described in Note 24, designated \$88.8 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
Governmental Activities:			
Restricted For:			
Education	\$ 1.0	\$ 180.9	\$ 181.9
Public safety and corrections	1.2	-	1.2
Conservation, environment, recreation, and agriculture	173.1	194.8	367.9
Health and human services	23.6	22.0	45.6
Transportation	-	920.4	920.4
Labor and economic growth	81.9	-	81.9
Other purposes	43.3	6.2	49.5
Funds Held as Permanent Investments:			
Expendable	-	111.7	111.7
Nonexpendable	6.2	526.4	532.6
Total Restricted Net Assets - Governmental	\$ 330.3	\$ 1,962.4	\$ 2,292.8
Business-Type Activities:			
Restricted For:			
Unemployment compensation	\$ 326.8	\$ -	\$ 326.8
Other purposes	31.9	-	31.9
Total Restricted Net Assets – Business-Type	\$ 358.7	\$ -	\$ 358.7
Total Primary Government:			
Restricted For:			
Education	\$ 1.0	\$ 180.9	\$ 181.9
Public safety and corrections	1.2	-	1.2
Conservation, environment, recreation, and agriculture	173.1	194.8	367.9
Health and human services	23.6	22.0	45.6
Transportation	-	920.4	920.4
Unemployment compensation	326.8	-	326.8
Labor and economic growth	81.9	-	81.9
Other purposes	75.2	6.2	81.4
Funds Held as Permanent Investments:			
Expendable	-	111.7	111.7
Nonexpendable	6.2	526.4	532.6
Total Restricted Net Assets – Primary Government	\$ 689.1	\$ 1,962.4	\$ 2,651.5

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NOTE 22 – DISAGGREGATION OF PAYABLES

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

	General Fund	School Aid Fund	Non-major Governmental Funds	Other Funds	State Lottery Fund	Michigan Unemployment Compensation Funds	Non-major Enterprise Funds	Total
Medicaid Programs	\$ 479.8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 479.8
Non-medicaid Health Programs	209.8	-	-	-	-	-	-	209.8
Human Services Programs	173.8	-	.5	-	-	-	-	174.3
Transportation Programs	-	-	516.3	-	-	-	-	516.3
School Aid Programs	-	138.3	-	-	-	-	-	138.3
Other State Programs	246.6	-	34.3	-	-	-	-	280.9
Merit Award Scholarships	-	-	16.9	-	-	-	-	16.9
Payroll and Withholdings	166.2	-	21.3	-	.7	-	.5	188.6
Tax Refunds other than Income Tax	136.3	4.5	5.5	-	-	-	-	146.3
Unearned Receipts	67.4	.7	19.6	-	-	-	-	87.7
Amounts Held for Others	26.5	-	47.2	-	1.2	-	-	74.8
Capital Project Related	-	-	43.0	-	-	-	-	43.0
Prize Awards	-	-	-	-	118.8	-	-	118.8
Liquor Purchase	-	-	-	-	-	-	67.9	67.9
Unemployment Payments	-	-	-	-	-	23.3	-	23.3
Internal Service Fund Liabilities	-	-	-	78.7	-	-	-	78.7
Due to Fiduciary Funds*	-	-	-	16.4	-	-	-	16.4
Miscellaneous	-	-	-	-	12.2	-	.2	12.4
Total	\$ 1,506.4	\$ 143.5	\$ 704.6	\$ 95.1	\$ 132.8	\$ 23.3	\$ 68.6	\$ 2,674.2

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

NOTE 23 – CONTINGENCIES AND COMMITMENTS

Primary Government

Litigation

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

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

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

The second suit, Adair et al v State et al ("Adair"), 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, which was created by Executive Order in 2000 (MCL 388.1752; EO 2000-9). Plaintiffs alleged that the statute and Executive Order require districts to create and maintain student data following State-specified data-gathering procedures and transmit the data electronically to the State. The Supreme Court ruled that the plaintiffs' allegation that districts had to now actively participate in maintaining data that the State requires for its own purposes presents a colorable claim under the Headlee Amendment. The Court reversed the Court of Appeals' dismissal of the claim and remanded the issue to the Court of Appeals to determine whether this claim constitutes a new State-mandated activity in violation of the Headlee Amendment.

On August 4, 2005, the Court of Appeals held that the school districts failed to present documentary support from which it can be inferred that either MCL 388.1752 or Executive Order 2000-9 mandates the school districts to actively participate in the maintenance of data that the State requires for its purposes. Further, the record keeping claim cannot survive summary disposition in the absence of any factual support, either expressed or implied, demonstrating that a genuine issue of material fact exists with regard to whether the dictates of the statute and the EO impermissibly shift a State obligation to the school districts to avoid the costs of obligation. The Court of Appeals granted summary disposition in the State's favor. Plaintiffs estimated their claim to be \$30 million plus ongoing costs. The plaintiff school districts filed an application for leave to appeal with the Michigan Supreme Court. A brief in opposition was filed on October 11, 2005.

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. The Special Master's determinations will be made in a written report to be filed with the Court of Appeals.

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

Article 9, Section 17 of the State Constitution, by transferring funds from the Transportation Economic Development Fund to the General Fund.

Three public transit authorities intervened in the suit, asserting a single claim identical to that alleged by Plaintiffs with respect to the CTF. The Plaintiffs and Intervenor obtained two injunctions from the Ingham County Circuit. 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, in a published opinion, the Court of Appeals vacated the CTF injunction, and remanded for dismissal, holding that Executive Order 2001-9 legitimately diverted \$12.8 million from the CTF to the General Fund. On the same day, in an unpublished opinion, the Court of Appeals reversed in part and affirmed in part the MTF injunction, holding that \$12.5 million was legitimately diverted from the MTF to the General Fund but that the remainder was not.

Both sides appealed to the Michigan Supreme Court. On November 8, 2005, the Michigan Supreme Court affirmed the State's position that the Governor properly transferred \$12.8 million from the CTF to the General Fund for purposes of balancing the State's budget. Under Article 5, Section 20, of the State Constitution, the Governor may reduce expenditures, but may not do so "from funds constitutionally dedicated for specific purposes." The Supreme Court agreed that Article 9, Section 9, which establishes the CTF, does not constitutionally dedicate funds to the CTF and, thus, Executive Order 2001-9 did not impermissibly transfer funds.

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 were tried in the Ingham Circuit Court on July 9 and 10, 2007. The amount in controversy is approximately \$47.3 million. The State's motion for summary disposition has not been decided by the Court.

Dwayne B v Granholm: In August of 2006, Children's Rights, Inc. of New York filed suit against the State and the Department of Human Services. The plaintiffs seek class-wide relief under the Civil Rights Act of 1871, in the form of numerous improvements to various aspects of the child welfare system. If the plaintiffs prevail, additional program costs could amount to over \$25 million per year. The Court denied a motion to dismiss shortly after the hearing in April 2007. The case is scheduled for trial in June 2008.

Michigan Bell Telephone v State Tax Commission and Department of Treasury; Michigan Bell Telephone v State Board of Assessors et al; SBC Midwest dba Michigan Bell v State Board of Assessors: All three cases deal with the same taxpayer, Michigan Bell Telephone Co., and its appeal of property tax liabilities under the provisions of P.A. 282 of 1905. The taxpayer contends that the values determined by the State were excessive for tax years 2005 through 2007. The total amount of refund requested is \$88.8 million. At the present time, negotiations are taking place regarding settlement of these matters.

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 will be conducting an additional audit to determine the correct amount. At this time, the taxpayer is withholding future Use Tax payments. The amount of recognized loss for fiscal year 2008 is \$23.7 million, with an estimated additional \$74 million thereafter.

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, 2007, 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 \$14.6 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, 2007, the balances remaining in these contracts equaled \$901.3 million.

Contingent Liability for Local School District Bonds

MCL 388.1924, as amended, resulted in a contingent liability for the bonds of any school district which are "qualified" by the State Treasurer. Every qualified school district is required to borrow and the State is required to lend to it any amount necessary for the school district to avoid a default on its qualified bonds. In the event that funds are not available in the School Loan Revolving Fund in adequate amounts to make such a loan, the State is required to make such loans from the General Fund. As of September 30, 2007, the principal amount of qualified bonds outstanding was \$13.9 billion. Total debt service requirements on these bonds including interest will approximate \$1.3 billion in 2008. 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, 2007, is \$695.7 million. Interest due on these loans as of September 30, 2007, is \$140.3 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, 2007. 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, 2007, is \$993.5 million.

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, 2007.

Multi-Family Mortgage Loans

As of June 30, 2007, the Michigan State Housing Development Authority (MSHDA) has commitments to issue multi-family mortgage loans in the amount of \$45.2 million and single-family mortgage loans in the amount of \$35.1 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 24 – 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 14, losses for workers' compensation and certain types of litigation losses have been recognized as liabilities in the government-wide financial statements.

For unemployment claims, the Unemployment Insurance Agency (UIA) bills the State for the actual amount of claims paid to former State employees. The State accrues liabilities in the governmental fund financial statements for unemployment compensation, only to the extent paid by UIA through September 30. During fiscal year 2007, expenditures for payments to former State employees (not including university employees) totaled \$12.8 million. The potential liability for future payments cannot be estimated.

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

Risk Management Fund

This fund was established during fiscal year 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 \$5.8 million. This includes a long-term portion, which is recorded at \$3.3 million. Changes in the Risk Management Fund's claims for automobile liability for the fiscal years ending September 30, 2007 and 2006 are as follows (in millions):

	2007	2006
Balance - beginning	\$ 6.3	\$ 5.9
Current year claims and changes in estimates	2.0	1.8
Claim payments	<u>(2.5)</u>	<u>(1.4)</u>
Balance - ending	<u>\$ 5.8</u>	<u>\$ 6.3</u>

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, 2007 and 2006, are as follows (in millions):

	2007	2006
Balance - beginning	\$ 111.8	\$ 106.6
Current year claims and changes in estimates	25.9	28.9
Claim payments	<u>(24.9)</u>	<u>(23.7)</u>
Balance - ending	<u>\$ 112.9</u>	<u>\$ 111.8</u>

Workers' Compensation is further described in Note 14.

State Sponsored Group Insurance Fund

The Department of Management and Budget and the Civil Service Commission use this fund to account for employee and retiree insurance benefit programs, which are largely self-funded. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, based on preliminary estimates from the plan administrators, have been recorded as liabilities in the amount of \$162.5 million. This includes a long-term portion, which is recorded at a discounted present value of \$85.3 million. For all claims incurred prior to October 1, 2007, the discounted present value of the long-term disability liability was calculated over a 10 year period using a discount rate of approximately 1%.

Michigan
Notes to the Financial Statements

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 \$88.8 million at September 30, 2007. Unrestricted net assets totaled \$49.8 million at September 30, 2007.

Changes in the State Sponsored Group Insurance Fund's claims liability for employee and retiree insurance benefit programs for the fiscal years ending September 30, 2007 and 2006 are as follows (in millions):

	2007	2006
Balance - beginning	\$ 161.9	\$ 167.3
Current year claims and changes in estimates	1,048.7	941.6
Claim payments	(1,048.1)	(946.9)
Balance - ending	<u>\$ 162.5</u>	<u>\$ 161.9</u>

Discretely Presented Component Units

State Universities

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

NOTE 25 – SUBSEQUENT EVENTS

Short-Term Borrowing

On December 20, 2007, the State issued its \$1.4 billion State of Michigan Full Faith and Credit General Obligation Notes, Fiscal Year 2008, Series A. The notes will mature on September 30, 2008, with an interest rate of 4.0%.

Subsequent to year-end, the Michigan Unemployment Compensation Fund requested a federal advance in the amount of \$22.9 million from the U.S. Department of Labor in accordance with provisions of Section 1201 of the Social Security Act. As a result, the fund owes interest of \$3.6 million on previous borrowings.

On October 11, 2007, the State Building Authority issued \$9.9 million in commercial paper.

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	\$ 791.5
Michigan State Hospital Finance Authority	165.7
Michigan Municipal Bond Authority	309.1
Michigan Public Educational Facilities Authority	6.4
Grand Valley State University	72.4
Total	<u>\$ 1,345.2</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 24, 2007, funds totaling \$18.6 million were disbursed to qualified schools from the Michigan Municipal Bond Authority's School Loan Revolving Fund.



II. FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2007

(In Thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Beginning budgetary fund balance	\$ 603,440	\$ 603,440	\$ 603,440	\$ -
Resources (inflows):				
General Purpose Revenues:				
Taxes	8,283,200	8,537,998	8,537,998	-
Federal	35,000	18,809	18,809	-
Local	2,000	404	404	-
Licenses and permits	37,500	33,611	33,611	-
Services	18,000	8,177	8,177	-
Miscellaneous	165,300	228,023	228,023	-
Proceeds from sale of capital assets	28,000	1	1	-
Transfers in	157,500	446,707	446,707	-
Restricted Revenues:				
Taxes	3,011,019	3,454,764	3,454,764	-
Federal	10,279,281	9,894,591	9,894,591	-
Local	342,887	218,666	218,666	-
Licenses and permits	337,736	235,364	235,364	-
Services	295,030	272,799	272,799	-
Miscellaneous	766,554	498,121	498,121	-
Proceeds from sale of capital assets	-	2,477	2,477	-
Transfers in	40,916	61,341	61,341	-
Total Revenue Inflows	<u>23,799,922</u>	<u>23,911,852</u>	<u>23,911,852</u>	<u>-</u>
Amounts Available for Appropriation	<u>24,403,362</u>	<u>24,515,292</u>	<u>24,515,292</u>	<u>-</u>
Charges to Appropriations (outflows):				
Legislative Branch	148,627	131,230	130,591	639
Judicial Branch	259,428	243,811	243,296	515
Executive Branch:				
Agriculture	113,629	84,129	84,010	119
Attorney General	67,586	60,951	60,864	87
Civil Rights	14,020	13,883	13,285	598
Colleges and Universities Grants	1,924,978	1,616,561	1,615,642	919
Community Health	11,020,378	11,026,098	10,961,912	64,186
Corrections	1,921,069	1,913,778	1,910,985	2,793
Education	125,915	95,660	93,977	1,683
Environmental Quality	333,664	186,162	185,695	467
Executive Office	5,510	5,273	5,110	163
History, Arts & Libraries	54,864	50,425	48,807	1,617
Human Services	4,463,549	4,505,092	4,462,370	42,722
Labor and Economic Growth	858,987	789,971	783,494	6,477
Management and Budget	454,967	457,127	450,300	6,827
Military and Veterans Affairs	116,433	116,350	113,334	3,016
Natural Resources	100,383	92,914	92,775	139
State	209,126	194,473	193,283	1,190
State Police	569,289	458,578	458,032	546
Transportation	-	5,000	5,000	-
Treasury	1,563,962	2,668,805	2,659,941	8,863
Intrafund expenditure reimbursements	-	(560,670)	(560,670)	-
Total Charges to Appropriations	<u>24,326,363</u>	<u>24,155,600</u>	<u>24,012,035</u>	<u>143,565</u>
Reconciling Items:				
Change in noncurrent assets	-	182,754	182,754	-
Net Reconciling Items	-	182,754	182,754	-
Ending Budgetary Fund Balance	<u>\$ 76,999</u>	<u>\$ 542,446</u>	<u>\$ 686,012</u>	<u>\$ 143,565</u>

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
\$ 2,017	\$ 2,017	\$ 2,017	\$ -	\$ 1,270	\$ 1,270	\$ 1,270	\$ -
-	-	-	-	10,842,400	10,404,255	10,404,255	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
100	73	73	-	-	29,300	29,300	-
-	-	-	-	-	-	-	-
-	-	-	-	710,000	956,701	956,701	-
-	-	-	-	-	-	-	-
-	-	-	-	1,411,237	1,383,340	1,383,340	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	35,000	34,110	34,110	-
100	73	73	-	12,998,637	12,807,704	12,807,704	-
2,117	2,090	2,090	-	12,999,906	12,808,974	12,808,974	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
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-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	13,093,745	12,733,859	12,722,438	11,421
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
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-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	13,093,745	12,733,859	12,722,438	11,421
-	-	-	-	-	(2,612)	(2,612)	-
-	-	-	-	-	(2,612)	(2,612)	-
\$ 2,117	\$ 2,090	\$ 2,090	\$ -	\$ (93,839)	\$ 72,503	\$ 83,925	\$ 11,421

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION

SEPTEMBER 30, 2007

(In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND
Sources/inflows of resources			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	\$ 24,515,292	\$ 2,090	\$ 12,808,974
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.	(603,440)	(2,017)	(1,270)
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes.	(2,478)	-	-
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(508,048)	-	(990,810)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 23,401,327</u>	<u>\$ 73</u>	<u>\$ 11,816,894</u>
Uses/outflows of resources			
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 24,012,035	\$ -	\$ 12,722,438
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.	(12,971)	-	(1,378)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(377,134)	-	(42,482)
Capital lease acquisitions are not outflows of budgetary resources but are recorded as current expenditures and other financing sources under GAAP.	20,164	-	-
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 23,642,094</u>	<u>\$ -</u>	<u>\$ 12,678,577</u>

Required Supplementary Information

Notes to Required Supplementary Information – Budgetary Reporting

Statutory/Budgetary Presentation

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

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

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

The budgetary comparison schedule presented for the General Fund, the Budget Stabilization Fund, and the School Aid Fund presents both the original and final appropriated budgets for fiscal year 2007, 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, 2006, and includes multi-year projects budgetary carry-forwards from the prior fiscal year.

The budgetary fund balance represents total fund balance, net of reserves for noncurrent assets 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 27,514 lane miles of roads and 4,759 bridges (spans in excess of 20 feet).

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

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

Roads

Measurement Scale

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

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

Established Condition Level

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

Assessed Conditions

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

Rating	2006	2005	2004	2003	2002
Good	83.2%	81.4%	81.0%	80.0%	78.1%
Poor	16.8%	18.6%	19.0%	20.0%	21.9%

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
2006	13.6%
2005	15.2%
2004	15.8%
2003	16.6%
2002	20.3%
2001	20.9%

Bridges that do not carry highway traffic or that were constructed or reconstructed in the last 10 years are not included in MDOT's condition assessment. As a result, the number of bridges that were evaluated (3,396) in calendar year 2006 is less than the total (4,759) maintained by the department.

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
2008	\$ 829.0	-
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
2003	\$873.6	\$791.3
2002	\$993.3	\$798.2





II. FINANCIAL SECTION

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

BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
 SEPTEMBER 30, 2007
 (In Thousands)

	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 756	\$ -	\$ -	\$ -	\$ 756
Equity in common cash	1,117,096	1,426	2,010	300,202	1,420,734
Taxes, interest, and penalties receivable	93,118	-	-	-	93,118
Amounts due from other funds	1,026,129	-	22,505	-	1,048,634
Amounts due from component units	1,353	-	2,152	-	3,505
Amounts due from federal agencies	175,380	-	-	-	175,380
Amounts due from local units	112,539	-	4,403	173	117,115
Inventories	6,967	-	-	-	6,967
Investments	70,944	207,180	10,766	-	288,890
Securities lending collateral	67,772	-	-	192,420	260,193
Other current assets	226,313	886	3,069	13,058	243,325
Total Current Assets	<u>2,898,368</u>	<u>209,492</u>	<u>44,905</u>	<u>505,853</u>	<u>3,658,617</u>
Taxes, interest, and penalties receivable	4,122	-	-	-	4,122
Amounts due from local units	49,153	-	-	-	49,153
Investments	168,011	-	-	341,154	509,165
Other noncurrent assets	5,270	-	-	-	5,270
Total Assets	<u>\$ 3,124,925</u>	<u>\$ 209,492</u>	<u>\$ 44,905</u>	<u>\$ 847,007</u>	<u>\$ 4,226,327</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 14,502	\$ 10	\$ 6	\$ 427	\$ 14,945
Obligations under security lending	67,772	-	-	192,420	260,193
Accounts payable and other liabilities	631,465	313	56,286	16,521	704,585
Amounts due to other funds	84,558	-	81,004	54	165,616
Bonds and notes payable	-	-	146,700	-	146,700
Interest payable	-	-	777	-	777
Deferred revenue	226,979	-	-	-	226,979
Total Current Liabilities	<u>1,025,276</u>	<u>323</u>	<u>284,774</u>	<u>209,423</u>	<u>1,519,795</u>
Long-Term Liabilities:					
Deferred revenue	8,642	-	-	-	8,642
Total Liabilities	<u>1,033,918</u>	<u>323</u>	<u>284,774</u>	<u>209,423</u>	<u>1,528,438</u>
Fund Balances:					
Reserved fund balance	1,254,929	300	-	596,223	1,851,453
Unreserved fund balance (deficit)	836,077	208,868	(239,869)	41,361	846,437
Total Fund Balances	<u>2,091,007</u>	<u>209,168</u>	<u>(239,869)</u>	<u>637,584</u>	<u>2,697,890</u>
Total Liabilities and Fund Balances	<u>\$ 3,124,925</u>	<u>\$ 209,492</u>	<u>\$ 44,905</u>	<u>\$ 847,007</u>	<u>\$ 4,226,327</u>

Michigan

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
 FISCAL YEAR ENDED SEPTEMBER 30, 2007
 (In Thousands)

	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTALS
REVENUES					
Taxes	\$ 1,973,867	\$ -	\$ -	\$ -	\$ 1,973,867
From federal agencies	1,359,190	-	-	-	1,359,190
From local agencies	23,030	-	-	-	23,030
From services	3,394	-	-	-	3,394
From licenses and permits	175,865	-	-	-	175,865
Miscellaneous	754,617	247,298	1,125	101,745	1,104,785
Total Revenues	4,289,963	247,298	1,125	101,745	4,640,131
EXPENDITURES					
Current:					
General government	259,314	379	-	9,381	269,074
Education	222,632	796	106,447	-	329,875
Human services	3,396	-	-	-	3,396
Public safety and corrections	407	-	-	2,150	2,556
Conservation, environment, recreation, and agriculture	229,386	-	6	15,359	244,751
Labor, commerce, and regulatory	186,845	-	-	-	186,845
Health services	130,958	-	-	-	130,958
Transportation	2,178,922	1	-	-	2,178,923
Capital outlay	1,263,544	-	45,940	20,109	1,329,593
Debt Service:					
Bond principal retirement	-	238,789	-	-	238,789
Bond interest and fiscal charges	-	329,171	-	-	329,171
Capital lease payments	551	-	-	-	551
Total Expenditures	4,475,955	569,137	152,393	46,998	5,244,482
Excess of Revenues over (under) Expenditures	(185,991)	(321,838)	(151,268)	54,747	(604,351)
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	1,008,107	-	-	-	1,008,107
Premium on bond issuance	18,662	-	-	-	18,662
Discount on bond issuance	(15,213)	-	-	-	(15,213)
Capital lease acquisitions	742	-	-	-	742
Payment to refunded bond escrow agent	-	(240,280)	-	-	(240,280)
Proceeds from sale of capital assets	2,840	-	-	29	2,869
Transfers from other funds	1,166,840	581,218	18,232	10,000	1,776,290
Transfers to other funds	(1,881,601)	(83)	(18,915)	(10,081)	(1,910,679)
Total Other Financing Sources (Uses)	300,377	340,855	(683)	(51)	640,497
Excess of Revenues and Other Sources over (under) Expenditures Other Uses	114,386	19,017	(151,951)	54,695	36,146
Fund Balances - Beginning of fiscal year - Restated	1,976,621	190,151	(87,918)	582,889	2,661,743
Fund Balances - End of fiscal year	\$ 2,091,007	\$ 209,168	\$ (239,869)	\$ 637,584	\$ 2,697,890

Michigan

**BALANCE SHEET
SPECIAL REVENUE FUNDS - BY CLASSIFICATION**

SEPTEMBER 30, 2007

(In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 521	\$ 232	\$ 3	\$ -	\$ 756
Equity in common cash	491,281	295,017	59,624	271,175	1,117,096
Taxes, interest, and penalties receivable	92,927	191	-	-	93,118
Amounts due from other funds	1,018,786	754	6,590	-	1,026,129
Amounts due from component units	1,335	16	-	2	1,353
Amounts due from federal agencies	163,402	701	11,276	-	175,380
Amounts due from local units	111,305	1,234	-	-	112,539
Inventories	6,683	284	-	-	6,967
Investments	-	-	-	70,944	70,944
Securities lending collateral	-	56,534	-	11,239	67,772
Other current assets	4,277	9,516	3,959	208,561	226,313
Total Current Assets	<u>1,890,518</u>	<u>364,477</u>	<u>81,451</u>	<u>561,921</u>	<u>2,898,368</u>
Taxes, interest, and penalties receivable	4,122	-	-	-	4,122
Amounts due from local units	37,876	11,277	-	-	49,153
Investments	-	75,875	-	92,136	168,011
Other noncurrent assets	3,325	857	-	1,088	5,270
Total Assets	<u>\$ 1,935,842</u>	<u>\$ 452,486</u>	<u>\$ 81,451</u>	<u>\$ 655,145</u>	<u>\$ 3,124,925</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 10,369	\$ 2,825	\$ 1,261	\$ 47	\$ 14,502
Obligations under security lending	-	56,534	-	11,239	67,772
Accounts payable and other liabilities	566,718	30,879	16,226	17,642	631,465
Amounts due to other funds	56,555	20,792	7,199	12	84,558
Deferred revenue	12,275	947	7,935	205,821	226,979
Total Current Liabilities	<u>645,917</u>	<u>111,977</u>	<u>32,621</u>	<u>234,760</u>	<u>1,025,276</u>
Long-Term Liabilities:					
Deferred revenue	7,447	857	-	338	8,642
Total Liabilities	<u>653,365</u>	<u>112,835</u>	<u>32,621</u>	<u>235,098</u>	<u>1,033,918</u>
Fund Balances:					
Reserves For:					
Budgetary Carry-Forwards:					
Encumbrances	143,241	14,269	312	44	157,865
Restricted revenues	358,591	66,058	7,373	-	432,022
Multi-year projects	282,818	36,425	-	-	319,243
Construction and debt service	115,854	-	-	-	115,854
Revolving loan programs	36,000	21,621	-	-	57,621
Funds held as permanent investments	-	125,075	-	20,853	145,929
Noncurrent assets	25,646	-	-	750	26,396
Total Reserved	<u>962,150</u>	<u>263,448</u>	<u>7,685</u>	<u>21,647</u>	<u>1,254,929</u>
Unreserved	320,328	76,204	41,146	398,400	836,077
Total Fund Balances	<u>1,282,478</u>	<u>339,651</u>	<u>48,830</u>	<u>420,047</u>	<u>2,091,007</u>
Total Liabilities and Fund Balances	<u>\$ 1,935,842</u>	<u>\$ 452,486</u>	<u>\$ 81,451</u>	<u>\$ 655,145</u>	<u>\$ 3,124,925</u>

Michigan

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS - BY CLASSIFICATION

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
REVENUES					
Taxes	\$ 1,973,563	\$ 304	\$ -	\$ -	\$ 1,973,867
From federal agencies	1,229,657	5,941	122,542	1,050	1,359,190
From local agencies	23,030	-	-	-	23,030
From services	3,394	-	-	-	3,394
From licenses and permits	50,025	112,129	13,712	-	175,865
Miscellaneous	92,224	83,406	74,500	504,487	754,617
Total Revenues	<u>3,371,893</u>	<u>201,780</u>	<u>210,753</u>	<u>505,537</u>	<u>4,289,963</u>
EXPENDITURES					
Current:					
General government	-	2,668	18,343	238,303	259,314
Education	-	-	-	222,632	222,632
Human services	-	-	-	3,396	3,396
Public safety and corrections	-	-	-	407	407
Conservation, environment, recreation, and agriculture	-	229,386	-	-	229,386
Labor, commerce, and regulatory	-	-	186,845	-	186,845
Health services	-	-	-	130,958	130,958
Transportation	2,178,922	-	-	-	2,178,922
Capital outlay	1,253,885	9,659	-	-	1,263,544
Debt Service:					
Capital lease payments	78	-	473	-	551
Total Expenditures	<u>3,432,885</u>	<u>241,712</u>	<u>205,662</u>	<u>595,696</u>	<u>4,475,955</u>
Excess of Revenues over (under) Expenditures	<u>(60,992)</u>	<u>(39,932)</u>	<u>5,091</u>	<u>(90,159)</u>	<u>(185,991)</u>
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	485,115	-	-	522,992	1,008,107
Premium on bond issuance	18,662	-	-	-	18,662
Discount on bond issuance	-	-	-	(15,213)	(15,213)
Capital lease acquisitions	-	-	742	-	742
Proceeds from sale of capital assets	2,840	-	-	-	2,840
Transfers from other funds	1,021,580	129,394	15,866	-	1,166,840
Transfers to other funds	(1,241,797)	(116,343)	(20,820)	(502,640)	(1,881,601)
Total Other Financing Sources (Uses)	<u>286,400</u>	<u>13,051</u>	<u>(4,212)</u>	<u>5,138</u>	<u>300,377</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	225,408	(26,882)	879	(85,020)	114,386
Fund Balances - Beginning of fiscal year - Restated	<u>1,057,069</u>	<u>366,533</u>	<u>47,951</u>	<u>505,068</u>	<u>1,976,621</u>
Fund Balances - End of fiscal year	<u>\$ 1,282,478</u>	<u>\$ 339,651</u>	<u>\$ 48,830</u>	<u>\$ 420,047</u>	<u>\$ 2,091,007</u>

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - BY CLASSIFICATION**
FISCAL YEAR ENDED SEPTEMBER 30, 2007
(In Thousands)

Statutory/Budgetary Basis	TRANSPORTATION RELATED			CONSERVATION, ENVIRONMENT, AND RECREATION RELATED		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ 1,973,563	\$ 1,973,563	\$ -	\$ 304	\$ 304	\$ -
From federal agencies	971,919	971,919	-	4,788	4,788	-
From local agencies	18,347	18,347	-	-	-	-
From services	3,394	3,394	-	-	-	-
From licenses and permits	50,025	50,025	-	112,129	112,129	-
Miscellaneous	77,045	77,045	-	36,180	36,180	-
Bonds and notes issued	-	-	-	-	-	-
Proceeds from sale of capital assets	2,840	2,840	-	-	-	-
Transfers in	1,021,544	1,021,544	-	121,394	121,394	-
Total Revenues and Other Sources	<u>4,118,676</u>	<u>4,118,676</u>	<u>-</u>	<u>274,794</u>	<u>274,794</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Attorney General	-	-	-	-	-	-
Colleges and Universities Grants	-	-	-	-	-	-
Community Health	-	-	-	-	-	-
Human Services	-	-	-	-	-	-
Labor and Economic Growth	-	-	-	-	-	-
Military and Veterans Affairs	-	-	-	-	-	-
Natural Resources	-	-	-	237,068	217,530	19,538
Transportation	4,307,061	4,119,392	187,669	-	-	-
Treasury	-	-	-	661	661	-
Total Expenditures, Transfers Out, and Encumbrances	<u>4,307,061</u>	<u>4,119,392</u>	<u>187,669</u>	<u>237,728</u>	<u>218,190</u>	<u>19,538</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (188,385)</u>	<u>(716)</u>	<u>\$ 187,669</u>	<u>\$ 37,066</u>	<u>56,604</u>	<u>\$ 19,538</u>
Reconciling Items:						
Encumbrances at September 30		143,241			11,703	
Funds not annually budgeted		82,883			(95,188)	
Net Reconciling Items		<u>226,124</u>			<u>(83,486)</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>225,408</u>			<u>(26,882)</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances - Restated		<u>1,057,069</u>			<u>366,533</u>	
Ending balances (GAAP Basis)		<u>\$ 1,282,478</u>			<u>\$ 339,651</u>	

Michigan

REGULATORY AND ADMINISTRATIVE RELATED			OTHER STATE FUNDS			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,973,867	\$ 1,973,867	\$ -
122,542	122,542	-	1,050	1,050	-	1,100,298	1,100,298	-
-	-	-	-	-	-	18,347	18,347	-
-	-	-	-	-	-	3,394	3,394	-
13,712	13,712	-	-	-	-	175,865	175,865	-
41,989	41,989	-	370,451	370,451	-	525,665	525,665	-
-	-	-	522,992	522,992	-	522,992	522,992	-
-	-	-	-	-	-	2,840	2,840	-
15,866	15,866	-	-	-	-	1,158,804	1,158,804	-
<u>194,108</u>	<u>194,108</u>	<u>-</u>	<u>894,493</u>	<u>894,493</u>	<u>-</u>	<u>5,482,071</u>	<u>5,482,071</u>	<u>-</u>
-	-	-	396	386	10	396	386	10
-	-	-	231,800	226,882	4,918	231,800	226,882	4,918
-	-	-	130,958	130,958	-	130,958	130,958	-
-	-	-	4,566	3,402	1,165	4,566	3,402	1,165
164,068	160,027	4,041	-	-	-	164,068	160,027	4,041
-	-	-	1,000	407	593	1,000	407	593
-	-	-	-	-	-	237,068	217,530	19,538
-	-	-	-	-	-	4,307,061	4,119,392	187,669
37,617	37,617	-	999,404	617,381	382,023	1,037,681	655,658	382,023
<u>201,685</u>	<u>197,644</u>	<u>4,041</u>	<u>1,368,124</u>	<u>979,415</u>	<u>388,709</u>	<u>6,114,598</u>	<u>5,514,641</u>	<u>599,957</u>
<u>\$ (7,577)</u>	<u>(3,536)</u>	<u>\$ 4,041</u>	<u>\$ (473,631)</u>	<u>(84,922)</u>	<u>\$ 388,709</u>	<u>\$ (632,527)</u>	<u>(32,570)</u>	<u>\$ 599,957</u>
	312			44			155,299	
	<u>4,104</u>			<u>(142)</u>			<u>(8,344)</u>	
	<u>4,415</u>			<u>(98)</u>			<u>146,955</u>	
	<u>879</u>			<u>(85,020)</u>			<u>114,386</u>	
	<u>47,951</u>			<u>505,068</u>			<u>1,976,621</u>	
	<u>\$ 48,830</u>			<u>\$ 420,047</u>			<u>\$ 2,091,007</u>	



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 MCL 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 MCL 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 MCL 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 MCL 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 MCL 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.

Michigan

**COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**

SEPTEMBER 30, 2007

(In Thousands)

	STATE AERONAUTICS FUND	STATE TRUNKLINE FUND	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND
ASSETS				
Current Assets:				
Cash	\$ 2	\$ 171	\$ -	\$ 59
Equity in common cash	15,460	-	64,320	51,972
Taxes, interest, and penalties receivable	534	-	92,393	-
Amounts due from other funds	-	905,960	104,390	8,435
Amounts due from component units	-	1,335	-	-
Amounts due from federal agencies	38,134	82,328	-	9,335
Amounts due from local units	22,473	49,583	-	1,141
Inventories	-	6,683	-	-
Other current assets	45	5,218	(1,199)	213
Total Current Assets	<u>76,648</u>	<u>1,051,278</u>	<u>259,905</u>	<u>71,156</u>
Taxes, interest, and penalties receivable	4	-	4,118	-
Amounts due from local units	368	32,604	-	4,904
Other noncurrent assets	-	2,286	-	1,039
Total Assets	<u>\$ 77,020</u>	<u>\$ 1,086,169</u>	<u>\$ 264,023</u>	<u>\$ 77,099</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 255	\$ 8,603	\$ 394	\$ 240
Accounts payable and other liabilities	54,762	175,421	216,991	18,183
Amounts due to other funds	23	1,560	38,120	35
Deferred revenue	8	5,440	4,400	-
Total Current Liabilities	<u>55,048</u>	<u>191,024</u>	<u>259,905</u>	<u>18,457</u>
Long-Term Liabilities:				
Deferred revenue	4	2,286	4,118	1,039
Total Liabilities	<u>55,052</u>	<u>193,311</u>	<u>264,023</u>	<u>19,496</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	5,938	96,267	-	41,036
Restricted revenues	1,856	355,990	-	745
Multi-year projects	4,849	277,969	-	-
Construction and debt service	-	115,854	-	-
Revolving loan programs	2,200	21,133	-	12,667
Noncurrent assets	-	25,646	-	-
Total Reserved	<u>14,844</u>	<u>892,858</u>	<u>-</u>	<u>54,448</u>
Unreserved	7,124	-	-	3,155
Total Fund Balances	<u>21,968</u>	<u>892,858</u>	<u>-</u>	<u>57,603</u>
Total Liabilities and Fund Balances	<u>\$ 77,020</u>	<u>\$ 1,086,169</u>	<u>\$ 264,023</u>	<u>\$ 77,099</u>

Michigan

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS
\$ 9	\$ -	\$ 281	\$ 521
287,788	71,740	-	491,281
-	-	-	92,927
-	-	-	1,018,786
-	-	-	1,335
949	-	32,656	163,402
2,254	-	35,855	111,305
-	-	-	6,683
-	-	-	4,277
<u>290,999</u>	<u>71,740</u>	<u>68,792</u>	<u>1,890,518</u>
-	-	-	4,122
-	-	-	37,876
-	-	-	3,325
<u>\$ 290,999</u>	<u>\$ 71,740</u>	<u>\$ 68,792</u>	<u>\$ 1,935,842</u>
\$ -	\$ 1	\$ 876	\$ 10,369
46,591	3,672	51,099	566,718
-	-	16,817	56,555
2,428	-	-	12,275
<u>49,019</u>	<u>3,673</u>	<u>68,792</u>	<u>645,917</u>
-	-	-	7,447
<u>49,019</u>	<u>3,673</u>	<u>68,792</u>	<u>653,365</u>
-	-	-	143,241
-	-	-	358,591
-	-	-	282,818
-	-	-	115,854
-	-	-	36,000
-	-	-	25,646
<u>-</u>	<u>-</u>	<u>-</u>	<u>962,150</u>
<u>241,981</u>	<u>68,068</u>	<u>-</u>	<u>320,328</u>
<u>241,981</u>	<u>68,068</u>	<u>-</u>	<u>1,282,478</u>
<u>\$ 290,999</u>	<u>\$ 71,740</u>	<u>\$ 68,792</u>	<u>\$ 1,935,842</u>

Michigan

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

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	STATE AERONAUTICS FUND	STATE TRUNKLINE FUND	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND
REVENUES				
Taxes	\$ 6,335	\$ -	\$ 1,899,550	\$ 67,678
From federal agencies	112,674	833,073	-	26,171
From local agencies	30	18,317	-	-
From services	443	20	2,931	-
From licenses and permits	315	16,611	32,786	314
Miscellaneous	3,988	64,492	7,190	1,376
Total Revenues	<u>123,785</u>	<u>932,512</u>	<u>1,942,456</u>	<u>95,538</u>
EXPENDITURES				
Current:				
Transportation	130,740	615,199	951,277	232,236
Capital outlay	264	859,438	-	122
Debt service:				
Capital lease payments	-	78	-	-
Total Expenditures	<u>131,004</u>	<u>1,474,714</u>	<u>951,277</u>	<u>232,358</u>
Excess of Revenues over (under) Expenditures	<u>(7,218)</u>	<u>(542,202)</u>	<u>991,179</u>	<u>(136,820)</u>
OTHER FINANCING SOURCES (USES)				
Bonds and notes issued	-	-	-	-
Premium on bond issuance	-	-	-	-
Proceeds from sale of capital assets	-	2,840	-	-
Transfers from other funds	11,000	842,975	979	166,590
Transfers to other funds	(4,398)	(161,363)	(992,159)	(28,880)
Total Other Financing Sources (Uses)	<u>6,602</u>	<u>684,452</u>	<u>(991,179)</u>	<u>137,710</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(616)	142,250	-	891
Fund Balances - Beginning of fiscal year	<u>22,584</u>	<u>750,608</u>	<u>-</u>	<u>56,712</u>
Fund Balances - End of fiscal year	<u>\$ 21,968</u>	<u>\$ 892,858</u>	<u>\$ -</u>	<u>\$ 57,603</u>

Michigan

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ 1,973,563
56,823	-	200,915	1,229,657
4,683	-	-	23,030
-	-	-	3,394
-	-	-	50,025
<u>4,632</u>	<u>5,855</u>	<u>4,692</u>	<u>92,224</u>
<u>66,138</u>	<u>5,855</u>	<u>205,607</u>	<u>3,371,893</u>
16,505	27,358	205,607	2,178,922
394,007	55	-	1,253,885
<u>-</u>	<u>-</u>	<u>-</u>	<u>78</u>
<u>410,512</u>	<u>27,413</u>	<u>205,607</u>	<u>3,432,885</u>
<u>(344,374)</u>	<u>(21,557)</u>	<u>-</u>	<u>(60,992)</u>
485,115	-	-	485,115
18,662	-	-	18,662
-	-	-	2,840
36	-	-	1,021,580
<u>(54,999)</u>	<u>-</u>	<u>-</u>	<u>(1,241,797)</u>
<u>448,814</u>	<u>-</u>	<u>-</u>	<u>286,400</u>
104,441	(21,557)	-	225,408
<u>137,540</u>	<u>89,625</u>	<u>-</u>	<u>1,057,069</u>
<u>\$ 241,981</u>	<u>\$ 68,068</u>	<u>\$ -</u>	<u>\$ 1,282,478</u>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 2007
(In Thousands)

Statutory/Budgetary Basis	STATE AERONAUTICS FUND		
	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES			
Taxes	\$ 6,335	\$ 6,335	\$ -
From federal agencies	112,674	112,674	-
From local agencies	30	30	-
From services	443	443	-
From licenses and permits	315	315	-
Miscellaneous	3,988	3,988	-
Proceeds from sale of capital assets	-	-	-
Transfers in	11,000	11,000	-
Total Revenues and Other Sources	<u>134,785</u>	<u>134,785</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Transportation	<u>149,379</u>	<u>141,340</u>	<u>8,039</u>
Total Expenditures, Transfers Out, and Encumbrances	<u>149,379</u>	<u>141,340</u>	<u>8,039</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (14,594)</u>	<u>(6,554)</u>	<u>\$ 8,039</u>
Reconciling Items:			
Encumbrances at September 30		5,938	
Funds not annually budgeted		<u>-</u>	
Net Reconciling Items		<u>5,938</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(616)</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances		<u>22,584</u>	
Ending balances (GAAP Basis)		<u>\$ 21,968</u>	

Michigan

STATE TRUNKLINE FUND			MICHIGAN TRANSPORTATION FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 1,899,550	\$ 1,899,550	\$ -
833,073	833,073	-	-	-	-
18,317	18,317	-	-	-	-
20	20	-	2,931	2,931	-
16,611	16,611	-	32,786	32,786	-
64,492	64,492	-	7,190	7,190	-
2,840	2,840	-	-	-	-
842,975	842,975	-	979	979	-
1,778,327	1,778,327	-	1,943,436	1,943,436	-
1,777,687	1,732,343	45,345	2,071,945	1,943,436	128,509
1,777,687	1,732,343	45,345	2,071,945	1,943,436	128,509
\$ 639	45,984	\$ 45,345	\$ (128,509)	-	\$ 128,509
	96,267			-	
	-			-	
	96,267			-	
	142,250			-	
	750,608			-	
	\$ 892,858			\$ -	

This schedule continued on next page.

Michigan

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 2007
(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>COMPREHENSIVE TRANSPORTATION FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES			
Taxes	\$ 67,678	\$ 67,678	\$ -
From federal agencies	26,171	26,171	-
From local agencies	-	-	-
From services	-	-	-
From licenses and permits	314	314	-
Miscellaneous	1,376	1,376	-
Proceeds from sale of capital assets	-	-	-
Transfers in	166,590	166,590	-
	<u>262,128</u>	<u>262,128</u>	<u>-</u>
Total Revenues and Other Sources			
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Transportation	308,050	302,273	5,776
	<u>308,050</u>	<u>302,273</u>	<u>5,776</u>
Total Expenditures, Transfers Out, and Encumbrances			
	<u>308,050</u>	<u>302,273</u>	<u>5,776</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (45,922)</u>	<u>(40,145)</u>	<u>\$ 5,776</u>
Reconciling Items:			
Encumbrances at September 30		41,036	
Funds not annually budgeted		-	
		<u>41,036</u>	
Net Reconciling Items			
		<u>41,036</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>891</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances		56,712	
Ending balances (GAAP Basis)		<u>\$ 57,603</u>	

Michigan

FUNDS NOT ANNUALLY BUDGETED

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS		
ACTUAL	ACTUAL	ACTUAL	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 1,973,563	\$ 1,973,563	\$ -
-	-	-	971,919	971,919	-
-	-	-	18,347	18,347	-
-	-	-	3,394	3,394	-
-	-	-	50,025	50,025	-
-	-	-	77,045	77,045	-
-	-	-	2,840	2,840	-
-	-	-	1,021,544	1,021,544	-
-	-	-	4,118,676	4,118,676	-
-	-	-	4,307,061	4,119,392	187,669
-	-	-	4,307,061	4,119,392	187,669
-	-	-	\$ (188,385)	(716)	\$ 187,669
-	-	-	-	143,241	-
104,441	(21,557)	-	-	82,883	-
104,441	(21,557)	-	-	226,124	-
104,441	(21,557)	-	-	225,408	-
137,540	89,625	-	-	1,057,069	-
\$ 241,981	\$ 68,068	\$ -	-	\$ 1,282,478	-

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 Michigan Compiled Laws Sections 324.2002 – 324.2035, 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.

GAME AND FISH PROTECTION FUND

This fund was established in 1921 to support the conservation program for preservation and control of fish and wildlife. Article 9, Section 40, of the State Constitution, an amendment approved by voters in November 2006, created the Game and Fish Protection Account within the new Michigan Conservation and Recreation Legacy Fund. As required by MCL 324.2010, the fund balance in this fund was transferred to the new account during fiscal year 2006-2007.

MICHIGAN STATE WATERWAYS FUND

This fund was established in 1947 to provide for improvement of lake harbors and inland waterways; construction, operation, and maintenance of recreational boating facilities; property acquisition; and administration. Article 9, Section 40, of the State Constitution, an amendment approved by voters in November 2006, created the Waterways Account within the new Michigan Conservation and Recreation Legacy Fund. As required by MCL 324.2035, the fund balance in this fund was transferred to the new account during fiscal year 2006-2007.

MARINE SAFETY FUND

This fund was established in 1967 to provide for water safety education programs, law enforcement, and regulation of watercraft on the waters of this State. Article 9, Section 40, of the State Constitution, an amendment approved by voters in November 2006, created the Waterways Account within the new Michigan Conservation and Recreation Legacy Fund. As required by MCL 324.2035, the fund balance in this fund was transferred to the new account during fiscal year 2006-2007.

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 MCL Sections 324.43702 – 324.43704. 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.

STATE PARK IMPROVEMENT FUND

This fund was established in 1960 to provide for the operation, maintenance, debt service, and improvements of the State Park system. Article 9, Section 40, of the State Constitution, an amendment approved by voters in November 2006, created the State Park Improvement Account within the new Michigan Conservation and Recreation Legacy Fund. As required by MCL 324.2030, the fund balance in this fund was transferred to the new account during fiscal year 2006-2007.

COMBINED RECREATION BOND FUND - LOCAL PROJECTS

Established in 1988, this fund operates under MCL Sections 324.19606 - 324.19612, 324.19615, 324.71303, and 324.71506 - 324.71508. The residual balances in this fund reflect proceeds and investment earnings remaining from two bond packages: \$70 million of general obligation bonds approved by voters in November 1988, as part of a \$140 million bond package for financing state and local public recreation projects, and \$50 million of general obligation bonds approved by voters in November of 1998, as part of a \$675 million bond package known as the "Clean Michigan Initiative." Proceeds from the 1988 bond package provide grants and loans to local units of government in the amounts of \$65 million for local recreation projects and \$5 million to discourage development of open space and underdeveloped lands. Proceeds from the 1998 bond package also provided grants to local units of government for local recreation projects pursuant to MCL Section 324.71602.

COMBINED ENVIRONMENTAL PROTECTION BOND FUND

This fund, which is administered by the Department of Environmental Quality (DEQ), was established by MCL 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.

MCL 324.95101 – 324.95108 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.

MCL 324.5201 – 324.5304 and 324.19701 – 324.19708, 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 MCL Sections 324.43902 – 324.43907. The fund may receive transfers from other funds, donations, investment income, and revenue from specialty license plate sales.

MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND

MCL 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.

In prior years, 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 MCL Section 324.50507. The primary revenue source of the fund is timber revenue for 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

MCL 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 jointly administer the fund. The law mandates that an annual distribution of the funds be made as follows: 25% returned to the dealers and 75% to fund several sub-funds.

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

MCL 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 the department or the Attorney General, or both, shall be credited to the ERF.

COMBINING BALANCE SHEET

SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED

SEPTEMBER 30, 2007

(In Thousands)

	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND	MICHIGAN GAME AND FISH PROTECTION TRUST FUND	COMBINED RECREATION BOND FUND- LOCAL PROJECTS	COMBINED ENVIRONMENTAL PROTECTION BOND FUND
ASSETS				
Current Assets:				
Cash	\$ 231	\$ -	\$ -	\$ -
Equity in common cash	97,045	66,862	2,162	58,285
Taxes, interest, and penalties receivable	191	-	-	-
Amounts due from other funds	754	-	-	-
Amounts due from component units	-	-	-	16
Amounts due from federal agencies	605	-	-	-
Amounts due from local units	-	-	-	900
Inventories	284	-	-	-
Securities lending collateral	256	42,530	-	-
Other current assets	4,732	1,731	-	-
Total Current Assets	<u>104,097</u>	<u>111,123</u>	<u>2,162</u>	<u>59,201</u>
Amounts due from local units	-	-	-	-
Investments	1,760	49,597	-	-
Other noncurrent assets	-	-	-	-
Total Assets	<u>\$ 105,857</u>	<u>\$ 160,720</u>	<u>\$ 2,162</u>	<u>\$ 59,201</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 1,121	\$ 2	\$ -	\$ 871
Obligations under security lending	256	42,530	-	-
Accounts payable and other liabilities	11,650	1,056	37	13,411
Amounts due to other funds	589	-	-	7
Deferred revenue	667	-	-	-
Total Current Liabilities	<u>14,284</u>	<u>43,587</u>	<u>37</u>	<u>14,288</u>
Long-Term Liabilities:				
Deferred revenue	-	-	-	-
Total Liabilities	<u>14,284</u>	<u>43,587</u>	<u>37</u>	<u>14,288</u>
Fund Balances:				
Reserves for:				
Budgetary Carry-Forwards:				
Encumbrances	11,513	-	-	-
Restricted revenues	30,597	-	-	-
Multi-year projects	29,924	-	-	-
Revolving loan programs	-	-	-	-
Funds held as permanent investments	1,672	111,132	-	-
Total Reserved	<u>73,706</u>	<u>111,132</u>	<u>-</u>	<u>-</u>
Unreserved	<u>17,868</u>	<u>6,000</u>	<u>2,125</u>	<u>44,912</u>
Total Fund Balances	<u>91,574</u>	<u>117,132</u>	<u>2,125</u>	<u>44,912</u>
Total Liabilities and Fund Balances	<u>\$ 105,857</u>	<u>\$ 160,720</u>	<u>\$ 2,162</u>	<u>\$ 59,201</u>

Michigan

MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND	MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND	FOREST DEVELOPMENT FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ -	\$ 1	\$ -	\$ 232
1,198	961	8,662	59,843	295,017
-	-	-	-	191
-	-	-	-	754
-	-	-	-	16
-	-	96	-	701
-	-	-	334	1,234
-	-	-	-	284
2,660	11,088	-	-	56,534
59	197	184	2,612	9,516
<u>3,917</u>	<u>12,246</u>	<u>8,942</u>	<u>62,788</u>	<u>364,477</u>
-	-	-	11,277	11,277
5,263	19,255	-	-	75,875
-	-	-	857	857
<u>\$ 9,180</u>	<u>\$ 31,501</u>	<u>\$ 8,942</u>	<u>\$ 74,923</u>	<u>\$ 452,486</u>
\$ 1	\$ 2	\$ 39	\$ 789	\$ 2,825
2,660	11,088	-	-	56,534
30	64	2,523	2,110	30,879
2	20,001	124	69	20,792
-	-	-	280	947
<u>2,693</u>	<u>31,155</u>	<u>2,685</u>	<u>3,248</u>	<u>111,977</u>
-	-	-	857	857
<u>2,693</u>	<u>31,155</u>	<u>2,685</u>	<u>4,105</u>	<u>112,835</u>
13	-	176	2,566	14,269
-	-	-	35,460	66,058
-	-	1,503	4,998	36,425
-	-	-	21,621	21,621
6,100	-	-	6,172	125,075
<u>6,113</u>	<u>-</u>	<u>1,679</u>	<u>70,818</u>	<u>263,448</u>
374	346	4,578	-	76,204
6,487	346	6,257	70,818	339,651
<u>\$ 9,180</u>	<u>\$ 31,501</u>	<u>\$ 8,942</u>	<u>\$ 74,923</u>	<u>\$ 452,486</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, 2007
 (In Thousands)

	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND	GAME AND FISH PROTECTION FUND	MICHIGAN STATE WATERWAYS FUND	MARINE SAFETY FUND	MICHIGAN GAME AND FISH PROTECTION TRUST FUND
REVENUES					
Taxes	\$ 304	\$ -	\$ -	\$ -	\$ -
From federal agencies	4,692	-	-	-	-
From licenses and permits	112,127	-	-	-	-
Miscellaneous	7,117	-	-	-	21,980
Total Revenues	<u>124,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,980</u>
EXPENDITURES					
Current:					
General government	15	-	-	-	2,007
Conservation, environment, recreation, and agriculture	142,318	-	-	-	74
Capital outlay	9,130	-	-	-	-
Total Expenditures	<u>151,463</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,082</u>
Excess of Revenues over (under) Expenditures	<u>(27,223)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,898</u>
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	121,394	-	-	-	-
Transfers to other funds	(2,597)	(25,649)	(39,626)	(737)	(11,851)
Total Other Financing Sources (Uses)	<u>118,796</u>	<u>(25,649)</u>	<u>(39,626)</u>	<u>(737)</u>	<u>(11,851)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	91,574	(25,649)	(39,626)	(737)	8,047
Fund Balances - Beginning of fiscal year - Restated	<u>-</u>	<u>25,649</u>	<u>39,626</u>	<u>737</u>	<u>109,085</u>
Fund Balances - End of fiscal year	<u>\$ 91,574</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,132</u>

Michigan

STATE PARK IMPROVEMENT FUND	COMBINED RECREATION BOND FUND- LOCAL PROJECTS	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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 304
-	-	-	-	-	96	1,153	5,941
-	-	-	-	-	1	-	112,129
-	114	4,158	871	1,832	26,360	20,974	83,406
-	114	4,158	871	1,832	26,458	22,127	201,780
-	-	-	127	518	-	-	2,668
-	41	37,942	548	795	28,735	18,933	229,386
-	-	-	-	-	529	-	9,659
-	41	37,942	675	1,313	29,264	18,933	241,712
-	73	(33,784)	195	520	(2,806)	3,194	(39,932)
-	-	-	-	-	-	8,000	129,394
(6,302)	-	(8,026)	(3)	(20,003)	(1,170)	(379)	(116,343)
(6,302)	-	(8,026)	(3)	(20,003)	(1,170)	7,621	13,051
(6,302)	73	(41,809)	192	(19,483)	(3,976)	10,815	(26,882)
6,302	2,052	86,722	6,295	19,829	10,233	60,002	366,533
<u>\$ -</u>	<u>\$ 2,125</u>	<u>\$ 44,912</u>	<u>\$ 6,487</u>	<u>\$ 346</u>	<u>\$ 6,257</u>	<u>\$ 70,818</u>	<u>\$ 339,651</u>

Michigan

**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, 2007
(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>MICHIGAN CONSERVATION AND RECREATION LEGACY FUND</u>			<u>MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES						
Taxes	\$ 304	\$ 304	\$ -	\$ -	\$ -	\$ -
From federal agencies	4,692	4,692	-	-	-	-
From licenses and permits	112,127	112,127	-	-	-	-
Miscellaneous	7,117	7,117	-	871	871	-
Transfers in	121,394	121,394	-	-	-	-
Total Revenues and Other Sources	<u>245,633</u>	<u>245,633</u>	<u>-</u>	<u>871</u>	<u>871</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Natural Resources	179,036	165,558	13,477	708	564	143
Treasury	15	15	-	127	127	-
Total Expenditures, Transfers Out and Encumbrances	<u>179,051</u>	<u>165,573</u>	<u>13,477</u>	<u>835</u>	<u>692</u>	<u>143</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 66,583</u>	<u>80,060</u>	<u>\$ 13,477</u>	<u>\$ 36</u>	<u>179</u>	<u>\$ 143</u>
Reconciling Items:						
Encumbrances at September 30		11,513			13	
Funds not annually budgeted		-			-	
Net Reconciling Items		<u>11,513</u>			<u>13</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>91,574</u>			<u>192</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances - Restated		-			6,295	
Ending balances (GAAP Basis)		<u>\$ 91,574</u>			<u>\$ 6,487</u>	

Michigan

MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND			FOREST DEVELOPMENT FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	96	96	-
-	-	-	1	1	-
1,832	1,832	-	26,360	26,360	-
-	-	-	-	-	-
1,832	1,832	-	26,458	26,458	-
21,143	20,797	346	36,182	30,610	5,572
518	518	-	-	-	-
21,661	21,315	346	36,182	30,610	5,572
<u>\$ (19,829)</u>	<u>(19,483)</u>	<u>\$ 346</u>	<u>\$ (9,724)</u>	<u>(4,152)</u>	<u>\$ 5,572</u>
	-			176	
	-			-	
	-			176	
	(19,483)			(3,976)	
	19,829			10,233	
	<u>\$ 346</u>			<u>\$ 6,257</u>	

This schedule continued on next page.

Michigan

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 2007
(In Thousands)

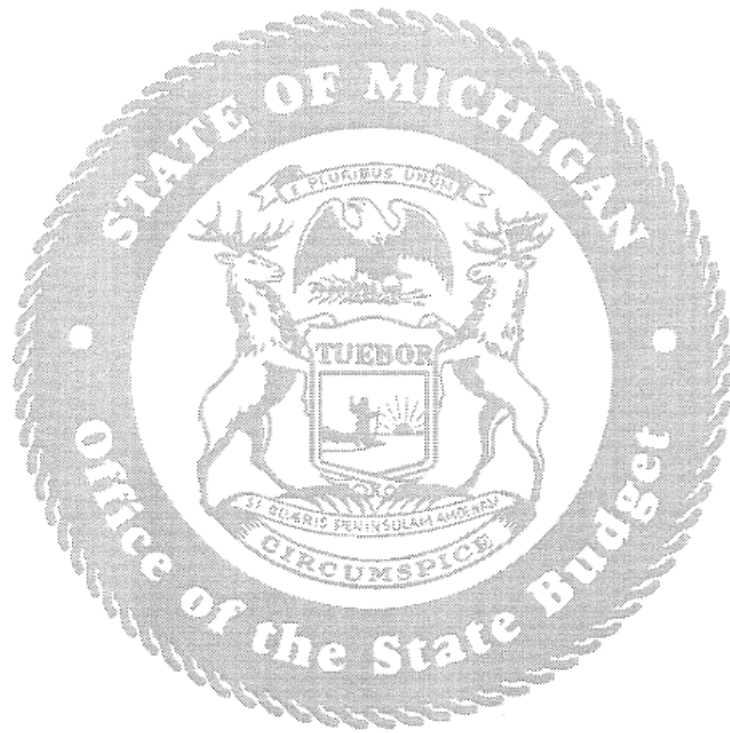
FUNDS NOT ANNUALLY BUDGETED

<u>Statutory/Budgetary Basis</u>	GAME AND FISH PROTECTION FUND	MICHIGAN STATE WATERWAYS FUND	MARINE SAFTEY FUND	MICHIGAN GAME AND FISH PROTECTION TRUST FUND	STATE PARK IMPROVEMENT FUND
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL
REVENUES AND OTHER SOURCES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
From federal agencies	-	-	-	-	-
From licenses and permits	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Transfers in	-	-	-	-	-
Total Revenues and Other Sources	-	-	-	-	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY					
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	(25,649)	(39,626)	(737)	8,047	(6,302)
Net Reconciling Items	(25,649)	(39,626)	(737)	8,047	(6,302)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)	(25,649)	(39,626)	(737)	8,047	(6,302)
FUND BALANCES (GAAP BASIS)					
Beginning balances - Restated	25,649	39,626	737	109,085	6,302
Ending balances (GAAP Basis)	\$ -	\$ -	\$ -	\$ 117,132	\$ -

Michigan

FUNDS NOT ANNUALLY BUDGETED

COMBINED RECREATION BOND FUND- LOCAL PROJECTS	COMBINED ENVIRONMENTAL PROTECTION BOND FUND	BOTTLE DEPOSITS FUND	TOTALS		
ACTUAL	ACTUAL	ACTUAL	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 304	\$ 304	\$ -
-	-	-	4,788	4,788	-
-	-	-	112,129	112,129	-
-	-	-	36,180	36,180	-
-	-	-	121,394	121,394	-
-	-	-	<u>274,794</u>	<u>274,794</u>	-
-	-	-	237,068	217,530	19,538
-	-	-	661	661	-
-	-	-	<u>237,728</u>	<u>218,190</u>	<u>19,538</u>
-	-	-	<u>\$ 37,066</u>	56,604	<u>\$ 19,538</u>
-	-	-		11,703	
73	(41,809)	10,815		(95,188)	
73	(41,809)	10,815		(83,486)	
73	(41,809)	10,815		(26,882)	
<u>2,052</u>	<u>86,722</u>	<u>60,002</u>		<u>366,533</u>	
<u>\$ 2,125</u>	<u>\$ 44,912</u>	<u>\$ 70,818</u>		<u>\$ 339,651</u>	



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

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

SAFETY EDUCATION AND TRAINING FUND

MCL 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

MCL 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 MCL 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 MCL 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

MCL 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 MCL 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 MCL 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 MCL 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, 2007
 (In Thousands)

	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	STATE CONSTRUCTION CODE FUND	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND
ASSETS				
Current Assets:				
Cash	\$ -	\$ -	\$ -	\$ -
Equity in common cash	-	4,354	4,100	3,716
Amounts due from other funds	150	-	-	-
Amounts due from federal agencies	11,276	-	-	-
Other current assets	390	-	108	-
Total Current Assets	<u>11,816</u>	<u>4,354</u>	<u>4,208</u>	<u>3,716</u>
Total Assets	<u>\$ 11,816</u>	<u>\$ 4,354</u>	<u>\$ 4,208</u>	<u>\$ 3,716</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 186	\$ 6	\$ 7	\$ 150
Accounts payable and other liabilities	4,616	268	332	184
Amounts due to other funds	7,013	27	91	-
Deferred revenue	-	-	-	-
Total Current Liabilities	<u>11,816</u>	<u>300</u>	<u>429</u>	<u>334</u>
Total Liabilities	<u>11,816</u>	<u>300</u>	<u>429</u>	<u>334</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	-	211	101	-
Restricted revenues	-	-	-	-
Total Reserved	<u>-</u>	<u>211</u>	<u>101</u>	<u>-</u>
Unreserved	<u>-</u>	<u>3,843</u>	<u>3,678</u>	<u>3,382</u>
Total Fund Balances	<u>-</u>	<u>4,054</u>	<u>3,779</u>	<u>3,382</u>
Total Liabilities and Fund Balances	<u>\$ 11,816</u>	<u>\$ 4,354</u>	<u>\$ 4,208</u>	<u>\$ 3,716</u>

Michigan

STATE CASINO GAMING FUND	SECOND INJURY FUND	SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	SELF-INSURERS' SECURITY FUND	UTILITY CONSUMER REPRESENTATION FUND	TOTALS
\$ 3	\$ -	\$ -	\$ -	\$ -	\$ 3
9,350	11,986	2,149	20,421	3,548	59,624
-	6,440	-	-	-	6,590
-	-	-	-	-	11,276
137	1,612	170	1,542	-	3,959
<u>9,490</u>	<u>20,038</u>	<u>2,319</u>	<u>21,963</u>	<u>3,548</u>	<u>81,451</u>
<u>\$ 9,490</u>	<u>\$ 20,038</u>	<u>\$ 2,319</u>	<u>\$ 21,963</u>	<u>\$ 3,548</u>	<u>\$ 81,451</u>
\$ 1	\$ 705	\$ 31	\$ 160	\$ 15	\$ 1,261
572	2,063	452	7,687	52	16,226
53	7	3	4	2	7,199
111	5,112	378	2,334	-	7,935
<u>736</u>	<u>7,887</u>	<u>864</u>	<u>10,185</u>	<u>69</u>	<u>32,621</u>
<u>736</u>	<u>7,887</u>	<u>864</u>	<u>10,185</u>	<u>69</u>	<u>32,621</u>
-	-	-	-	-	312
7,373	-	-	-	-	7,373
<u>7,373</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,685</u>
<u>1,381</u>	<u>12,151</u>	<u>1,454</u>	<u>11,778</u>	<u>3,478</u>	<u>41,146</u>
<u>8,754</u>	<u>12,151</u>	<u>1,454</u>	<u>11,778</u>	<u>3,478</u>	<u>48,830</u>
<u>\$ 9,490</u>	<u>\$ 20,038</u>	<u>\$ 2,319</u>	<u>\$ 21,963</u>	<u>\$ 3,548</u>	<u>\$ 81,451</u>

Michigan

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

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	STATE CONSTRUCTION CODE FUND	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
REVENUES				
From federal agencies	\$ 122,542	\$ -	\$ -	\$ -
From licenses and permits	-	-	12,608	-
Miscellaneous	110	9,048	94	1,472
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	122,651	9,048	12,702	1,472
EXPENDITURES				
Current:				
General government	-	-	-	-
Labor, commerce, and regulatory	137,909	8,681	10,708	1,689
Debt Service:				
Capital lease payments	473	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	138,382	8,681	10,708	1,689
Excess of Revenues over (under) Expenditures	<u>(15,731)</u>	<u>367</u>	<u>1,994</u>	<u>(217)</u>
OTHER FINANCING SOURCES (USES)				
Capital lease acquisitions	742	-	-	-
Transfers from other funds	15,847	-	-	-
Transfers to other funds	(858)	(45)	(93)	(1)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Other Financing Sources (Uses)	15,731	(45)	(93)	(1)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	322	1,901	(218)
Fund Balances - Beginning of fiscal year	<u>-</u>	<u>3,732</u>	<u>1,878</u>	<u>3,600</u>
Fund Balances - End of fiscal year	<u>\$ -</u>	<u>\$ 4,054</u>	<u>\$ 3,779</u>	<u>\$ 3,382</u>

Michigan

STATE CASINO GAMING FUND	SECOND INJURY FUND	SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	SELF-INSURERS' SECURITY FUND	UTILITY CONSUMER REPRESENTATION FUND	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 122,542
1,103	-	-	-	-	13,712
<u>31,266</u>	<u>19,287</u>	<u>1,754</u>	<u>10,238</u>	<u>1,233</u>	<u>74,500</u>
<u>32,369</u>	<u>19,287</u>	<u>1,754</u>	<u>10,238</u>	<u>1,233</u>	<u>210,753</u>
17,821	-	-	-	522	18,343
-	17,533	2,222	7,504	599	186,845
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>473</u>
<u>17,821</u>	<u>17,533</u>	<u>2,222</u>	<u>7,504</u>	<u>1,122</u>	<u>205,662</u>
<u>14,548</u>	<u>1,754</u>	<u>(469)</u>	<u>2,734</u>	<u>111</u>	<u>5,091</u>
-	-	-	-	-	742
19	-	-	-	-	15,866
<u>(19,796)</u>	<u>(13)</u>	<u>(4)</u>	<u>(6)</u>	<u>(3)</u>	<u>(20,820)</u>
<u>(19,777)</u>	<u>(13)</u>	<u>(4)</u>	<u>(6)</u>	<u>(3)</u>	<u>(4,212)</u>
(5,229)	1,741	(473)	2,727	108	879
<u>13,983</u>	<u>10,410</u>	<u>1,928</u>	<u>9,051</u>	<u>3,370</u>	<u>47,951</u>
<u>\$ 8,754</u>	<u>\$ 12,151</u>	<u>\$ 1,454</u>	<u>\$ 11,778</u>	<u>\$ 3,478</u>	<u>\$ 48,830</u>

**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, 2007
(In Thousands)

Statutory/Budgetary Basis	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND			SAFETY EDUCATION AND TRAINING FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
From federal agencies	\$ 122,542	\$ 122,542	\$ -	\$ -	\$ -	\$ -
From licenses and permits	-	-	-	-	-	-
Miscellaneous	110	110	-	9,048	9,048	-
Transfers in	15,847	15,847	-	-	-	-
Total Revenues and Other Sources	<u>138,499</u>	<u>138,499</u>	<u>-</u>	<u>9,048</u>	<u>9,048</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Labor and Economic Growth	138,499	138,499	-	9,243	8,937	306
Treasury	-	-	-	-	-	-
Total Expenditures, Transfers Out, and Encumbrances	<u>138,499</u>	<u>138,499</u>	<u>-</u>	<u>9,243</u>	<u>8,937</u>	<u>306</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$(195)</u>	<u>111</u>	<u>\$ 306</u>
Reconciling Items:						
Encumbrances at September 30		-			211	
Funds not annually budgeted		-			-	
Net Reconciling Items		-			211	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		-			322	
FUND BALANCES (GAAP BASIS)						
Beginning balances		-			3,732	
Ending balances (GAAP Basis)		<u>\$ -</u>			<u>\$ 4,054</u>	

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STATE CONSTRUCTION CODE FUND			HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12,608	12,608	-	-	-	-
94	94	-	1,472	1,472	-
-	-	-	-	-	-
12,702	12,702	-	1,472	1,472	-
14,603	10,902	3,702	1,723	1,690	33
-	-	-	-	-	-
14,603	10,902	3,702	1,723	1,690	33
<u>\$ (1,901)</u>	<u>1,800</u>	<u>\$ 3,702</u>	<u>\$ (251)</u>	<u>(218)</u>	<u>\$ 33</u>
	101			-	
	-			-	
	101			-	
	1,901			(218)	
	1,878			3,600	
	<u>\$ 3,779</u>			<u>\$ 3,382</u>	

This schedule continued on next page.

Michigan

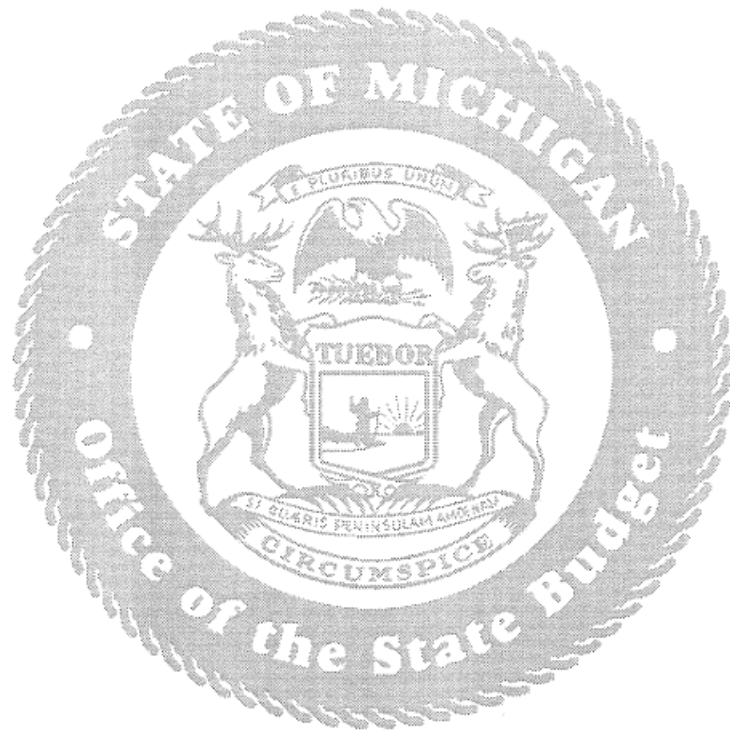
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 2007
(In Thousands)

Statutory/Budgetary Basis	STATE CASINO GAMING FUND		
	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES			
From federal agencies	\$ -	\$ -	\$ -
From licenses and permits	1,103	1,103	-
Miscellaneous	31,266	31,266	-
Transfers in	19	19	-
Total Revenues and Other Sources	32,388	32,388	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Labor and Economic Growth	-	-	-
Treasury	37,617	37,617	-
Total Expenditures, Transfers Out, and Encumbrances	37,617	37,617	-
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (5,229)</u>	<u>(5,229)</u>	<u>\$ -</u>
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)		<u>(5,229)</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances		13,983	
Ending balances (GAAP Basis)		<u>\$ 8,754</u>	

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FUNDS NOT ANNUALLY BUDGETED

SECOND INJURY FUND	SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	SELF-INSURERS' SECURITY FUND	UTILITY CONSUMER REPRESENTATION FUND	TOTALS		
				BUDGET	ACTUAL	VARIANCE
ACTUAL	ACTUAL	ACTUAL	ACTUAL			
\$ -	\$ -	\$ -	\$ -	\$ 122,542	\$ 122,542	\$ -
-	-	-	-	13,712	13,712	-
-	-	-	-	41,989	41,989	-
-	-	-	-	15,866	15,866	-
-	-	-	-	194,108	194,108	-
-	-	-	-	164,068	160,027	4,041
-	-	-	-	37,617	37,617	-
-	-	-	-	201,685	197,644	4,041
-	-	-	-	<u>\$ (7,577)</u>	<u>(3,536)</u>	<u>\$ 4,041</u>
-	-	-	-		312	
1,741	(473)	2,727	108		4,104	
1,741	(473)	2,727	108		4,415	
1,741	(473)	2,727	108		879	
10,410	1,928	9,051	3,370		47,951	
<u>\$ 12,151</u>	<u>\$ 1,454</u>	<u>\$ 11,778</u>	<u>\$ 3,478</u>		<u>\$ 48,830</u>	



SPECIAL REVENUE FUNDS – OTHER STATE FUNDS

SCHOOL BOND LOAN FUND

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

21st CENTURY JOBS TRUST FUND

MCL Section 12.257 created the 21st 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

MCL 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. The Authority 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. The Authority is required to disburse the net proceeds of the bonds to the 21st 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.

The Authority 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 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 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

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

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

MILITARY FAMILY RELIEF FUND

MCL 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 \$1.00 or more of his or her refund to be credited to this fund.

MISCELLANEOUS SPECIAL REVENUE FUNDS

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

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
 SEPTEMBER 30, 2007
 (In Thousands)

	SCHOOL BOND LOAN FUND	21ST CENTURY JOBS TRUST FUND	MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY	MICHIGAN MERIT AWARD TRUST FUND
ASSETS				
Current Assets:				
Equity in common cash	\$ 861	\$ 232,480	\$ 8	\$ 26,857
Amounts due from component units	-	-	-	2
Investments	-	-	70,944	-
Securities lending collateral	-	-	-	-
Other current assets	-	56,250	29,290	121,650
Total Current Assets	<u>861</u>	<u>288,730</u>	<u>100,241</u>	<u>148,509</u>
Investments	-	-	75,899	-
Other noncurrent assets	-	-	-	-
Total Assets	<u>\$ 861</u>	<u>\$ 288,730</u>	<u>\$ 176,141</u>	<u>\$ 148,509</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ -	\$ -	\$ 12
Obligations under security lending	-	-	-	-
Accounts payable and other liabilities	146	-	3	16,985
Amounts due to other funds	-	-	-	8
Deferred revenue	-	56,250	27,326	121,265
Total Current Liabilities	<u>146</u>	<u>56,250</u>	<u>27,329</u>	<u>138,270</u>
Deferred revenue	-	-	-	-
Total Liabilities	<u>146</u>	<u>56,250</u>	<u>27,329</u>	<u>138,270</u>
Fund Balances:				
Reserves for:				
Encumbrances	-	-	-	36
Funds held as permanent investments	-	-	-	-
Noncurrent assets	-	-	-	-
Total Reserved	<u>-</u>	<u>-</u>	<u>-</u>	<u>36</u>
Unreserved	<u>715</u>	<u>232,480</u>	<u>148,811</u>	<u>10,204</u>
Total Fund Balances	<u>715</u>	<u>232,480</u>	<u>148,811</u>	<u>10,239</u>
Total Liabilities and Fund Balances	<u>\$ 861</u>	<u>\$ 288,730</u>	<u>\$ 176,141</u>	<u>\$ 148,509</u>

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CHILDREN'S TRUST FUND	ASSIGNED CLAIMS FACILITY AND PLAN FUND	MILITARY FAMILY RELIEF FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	TOTALS
\$ 6,547	\$ 280	\$ 1,769	\$ 2,375	\$ 271,175
-	-	-	-	2
-	-	-	-	70,944
11,239	-	-	-	11,239
394	698	-	280	208,561
<u>18,179</u>	<u>978</u>	<u>1,769</u>	<u>2,655</u>	<u>561,921</u>
16,237	-	-	-	92,136
-	-	-	1,088	1,088
<u>\$ 34,416</u>	<u>\$ 978</u>	<u>\$ 1,769</u>	<u>\$ 3,742</u>	<u>\$ 655,145</u>
\$ 29	\$ 2	\$ -	\$ 3	\$ 47
11,239	-	-	-	11,239
491	-	15	2	17,642
3	-	-	-	12
4	975	-	-	205,821
<u>11,767</u>	<u>978</u>	<u>15</u>	<u>5</u>	<u>234,760</u>
-	-	-	338	338
<u>11,767</u>	<u>978</u>	<u>15</u>	<u>343</u>	<u>235,098</u>
9	-	-	-	44
20,853	-	-	-	20,853
-	-	-	750	750
<u>20,862</u>	<u>-</u>	<u>-</u>	<u>750</u>	<u>21,647</u>
1,787	-	1,753	2,650	398,400
<u>22,649</u>	<u>-</u>	<u>1,753</u>	<u>3,400</u>	<u>420,047</u>
<u>\$ 34,416</u>	<u>\$ 978</u>	<u>\$ 1,769</u>	<u>\$ 3,742</u>	<u>\$ 655,145</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, 2007
(In Thousands)**

	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND	GAME AND FISH PROTECTION FUND	MICHIGAN STATE WATERWAYS FUND	MARINE SAFETY FUND	MICHIGAN GAME AND FISH PROTECTION TRUST FUND
REVENUES					
Taxes	\$ 304	\$ -	\$ -	\$ -	\$ -
From federal agencies	4,692	-	-	-	-
From licenses and permits	112,127	-	-	-	-
Miscellaneous	7,117	-	-	-	21,980
Total Revenues	<u>124,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,980</u>
EXPENDITURES					
Current:					
General government	15	-	-	-	2,007
Conservation, environment, recreation, and agriculture	142,318	-	-	-	74
Capital outlay	9,130	-	-	-	-
Total Expenditures	<u>151,463</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,082</u>
Excess of Revenues over (under) Expenditures	<u>(27,223)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,898</u>
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	121,394	-	-	-	-
Transfers to other funds	(2,597)	(25,649)	(39,626)	(737)	(11,851)
Total Other Financing Sources (Uses)	<u>118,796</u>	<u>(25,649)</u>	<u>(39,626)</u>	<u>(737)</u>	<u>(11,851)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	91,574	(25,649)	(39,626)	(737)	8,047
Fund Balances - Beginning of fiscal year - Restated	<u>-</u>	<u>25,649</u>	<u>39,626</u>	<u>737</u>	<u>109,085</u>
Fund Balances - End of fiscal year	<u>\$ 91,574</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,132</u>

Michigan

STATE PARK IMPROVEMENT FUND	COMBINED RECREATION BOND FUND- LOCAL PROJECTS	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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 304
-	-	-	-	-	96	1,153	5,941
-	-	-	-	-	1	-	112,129
-	114	4,158	871	1,832	26,360	20,974	83,406
-	114	4,158	871	1,832	26,458	22,127	201,780
-	-	-	127	518	-	-	2,668
-	41	37,942	548	795	28,735	18,933	229,386
-	-	-	-	-	529	-	9,659
-	41	37,942	675	1,313	29,264	18,933	241,712
-	73	(33,784)	195	520	(2,806)	3,194	(39,932)
-	-	-	-	-	-	8,000	129,394
(6,302)	-	(8,026)	(3)	(20,003)	(1,170)	(379)	(116,343)
(6,302)	-	(8,026)	(3)	(20,003)	(1,170)	7,621	13,051
(6,302)	73	(41,809)	192	(19,483)	(3,976)	10,815	(26,882)
6,302	2,052	86,722	6,295	19,829	10,233	60,002	366,533
\$ -	\$ 2,125	\$ 44,912	\$ 6,487	\$ 346	\$ 6,257	\$ 70,818	\$ 339,651

Michigan

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

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

Statutory/Budgetary Basis	21ST CENTURY JOBS TRUST FUND			MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
From federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	4,243	4,243	-
Bonds and notes issued	-	-	-	522,992	522,992	-
Total Revenues and Other Sources	-	-	-	527,235	527,235	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Attorney General	-	-	-	-	-	-
Colleges and Universities Grants	-	-	-	-	-	-
Community Health	-	-	-	-	-	-
Human Services	-	-	-	-	-	-
Military and Veterans Affairs	-	-	-	-	-	-
Treasury	380,143	147,663	232,480	615,463	466,651	148,811
Total Expenditures, Transfers Out, and Encumbrances	380,143	147,663	232,480	615,463	466,651	148,811
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (380,143)</u>	<u>(147,663)</u>	<u>\$ 232,480</u>	<u>\$ (88,228)</u>	<u>60,583</u>	<u>\$ 148,811</u>
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)		<u>(147,663)</u>			<u>60,583</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		<u>380,143</u>			<u>88,228</u>	
Ending balances (GAAP Basis)		<u>\$ 232,480</u>			<u>\$ 148,811</u>	

Michigan

MICHIGAN MERIT AWARD TRUST FUND			CHILDREN'S TRUST FUND			MILITARY FAMILY RELIEF FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 1,050	\$ 1,050	\$ -	\$ -	\$ -	\$ -
361,875	361,875	-	3,444	3,444	-	890	890	-
-	-	-	-	-	-	-	-	-
<u>361,875</u>	<u>361,875</u>	<u>-</u>	<u>4,494</u>	<u>4,494</u>	<u>-</u>	<u>890</u>	<u>890</u>	<u>-</u>
396	386	10	-	-	-	-	-	-
231,800	226,882	4,918	-	-	-	-	-	-
130,958	130,958	-	-	-	-	-	-	-
-	-	-	4,566	3,402	1,165	-	-	-
-	-	-	-	-	-	1,000	407	593
3,263	2,531	732	536	536	-	-	-	-
<u>366,416</u>	<u>360,757</u>	<u>5,659</u>	<u>5,102</u>	<u>3,938</u>	<u>1,165</u>	<u>1,000</u>	<u>407</u>	<u>593</u>
<u>\$ (4,542)</u>	<u>1,118</u>	<u>\$ 5,659</u>	<u>\$ (608)</u>	<u>556</u>	<u>\$ 1,165</u>	<u>\$ (110)</u>	<u>483</u>	<u>\$ 593</u>
	36			9			-	
	-			-			-	
	<u>36</u>			<u>9</u>			<u>-</u>	
	<u>1,153</u>			<u>565</u>			<u>483</u>	
	<u>9,086</u>			<u>22,084</u>			<u>1,270</u>	
	<u>\$ 10,239</u>			<u>\$ 22,649</u>			<u>\$ 1,753</u>	

This schedule continued on next page.

Michigan

**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, 2007

(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			
REVENUES AND OTHER SOURCES						
From federal agencies	\$ -	\$ -	\$ -	\$ 1,050	\$ 1,050	\$ -
Miscellaneous	-	-	-	370,451	370,451	-
Bonds and notes issued	-	-	-	522,992	522,992	-
Total Revenues and Other Sources	-	-	-	894,493	894,493	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Attorney General	-	-	-	396	386	10
Colleges and Universities Grants	-	-	-	231,800	226,882	4,918
Community Health	-	-	-	130,958	130,958	-
Human Services	-	-	-	4,566	3,402	1,165
Military and Veterans Affairs	-	-	-	1,000	407	593
Treasury	-	-	-	999,404	617,381	382,023
Total Expenditures, Transfers Out, and Encumbrances	-	-	-	1,368,124	979,415	388,709
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	-	-	-	\$ (473,631)	(84,922)	\$ 388,709
Reconciling Items:						
Encumbrances at September 30	-	-	-		44	
Funds not annually budgeted	(394)	-	252		(142)	
Net Reconciling Items	(394)	-	252		(98)	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)	(394)	-	252		(85,020)	
FUND BALANCES (GAAP BASIS)						
Beginning balances	1,109	-	3,147		505,068	
Ending balances (GAAP Basis)	\$ 715	\$ -	\$ 3,400		\$ 420,047	

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-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 Michigan State Constitution and irrevocably pledged by law for deposit in the State Trunkline Fund. Debt service requirements are funded by annual appropriations in the State Trunkline Fund.

COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND

This fund was administratively established to account for the debt service on all Comprehensive Transportation Fund-related bond issues allowed for under MCL 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 Michigan State Constitution and irrevocably pledged by law for deposit in the Comprehensive Transportation Fund. Debt service requirements are funded by annual appropriations in the Comprehensive Transportation Fund.

RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND

MCL Sections 324.19506 and 324.71506 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 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 the State Park Improvement Fund representing state park revenues pledged for the payment of State Park Gross Revenue Bonds, and transfers from other funds as required by legislative appropriation or executive order.

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

SCHOOL LOAN BOND REDEMPTION FUND

MCL Section 388.922 created this fund to account for debt service on general obligation bonds issued to finance loans to local school districts. The School Bond Loan Fund, a special revenue fund, receives the State bond proceeds and makes the loans. Financing of debt retirement, interest expense, and paying agent fees is provided by annual legislative appropriation from the General Fund.

MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY

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

COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
 SEPTEMBER 30, 2007
 (In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
ASSETS			
Current Assets:			
Equity in common cash	\$ 124	\$ -	\$ 1,260
Investments	-	-	-
Other current assets	-	-	-
Total Current Assets	<u>124</u>	<u>-</u>	<u>1,260</u>
Total Assets	<u>\$ 124</u>	<u>\$ -</u>	<u>\$ 1,260</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Warrants outstanding	\$ 10	\$ -	\$ 1
Accounts payable and other liabilities	114	-	1
Total Current Liabilities	<u>124</u>	<u>-</u>	<u>2</u>
Total Liabilities	<u>124</u>	<u>-</u>	<u>2</u>
Fund Balances:			
Reserved for other purposes	-	-	300
Unreserved	-	-	958
Total Fund Balances	<u>-</u>	<u>-</u>	<u>1,258</u>
Total Liabilities and Fund Balances	<u>\$ 124</u>	<u>\$ -</u>	<u>\$ 1,260</u>

Michigan

SCHOOL LOAN BOND REDEMPTION FUND	MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY	STATE BUILDING AUTHORITY	TOTALS
\$ 41	\$ -	\$ -	\$ 1,426
-	-	207,180	207,180
-	-	886	886
<u>41</u>	<u>-</u>	<u>208,066</u>	<u>209,492</u>
<u>\$ 41</u>	<u>\$ -</u>	<u>\$ 208,066</u>	<u>\$ 209,492</u>
\$ -	\$ -	\$ -	\$ 10
41	-	156	313
<u>41</u>	<u>-</u>	<u>156</u>	<u>323</u>
41	-	156	323
-	-	-	300
<u>-</u>	<u>-</u>	<u>207,910</u>	<u>208,868</u>
-	-	207,910	209,168
<u>-</u>	<u>-</u>	<u>207,910</u>	<u>209,168</u>
<u>\$ 41</u>	<u>\$ -</u>	<u>\$ 208,066</u>	<u>\$ 209,492</u>

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

DEBT SERVICE FUNDS

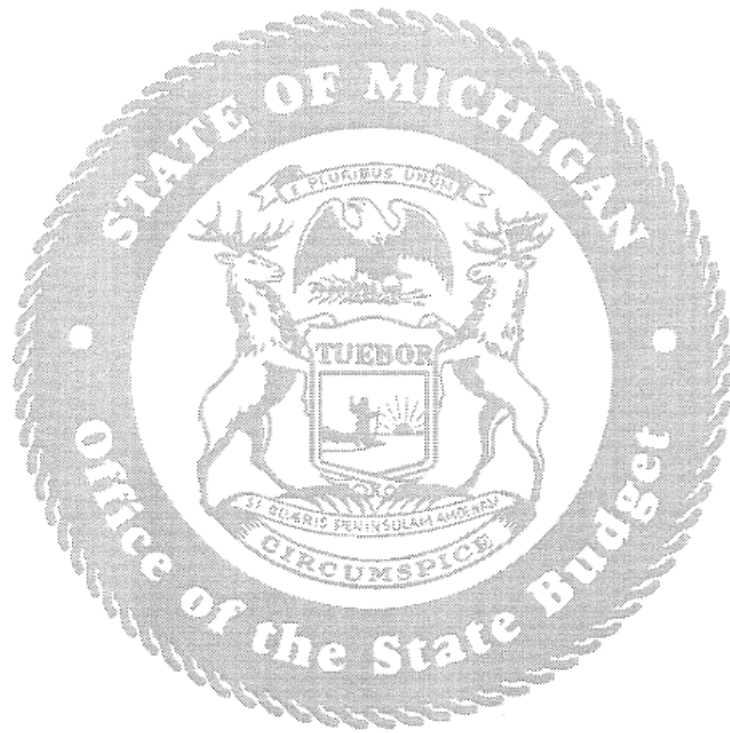
FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
REVENUES			
Miscellaneous	\$ 1	\$ -	\$ 39
Total Revenues	1	-	39
EXPENDITURES			
Current:			
General government	-	-	-
Education	-	-	-
Transportation	1	-	-
Debt Service:			
Bond principal retirement	71,994	20,230	46,545
Bond interest and fiscal charges	86,472	12,930	53,255
Total Expenditures	158,467	33,160	99,800
Excess of Revenues over (under) Expenditures	(158,466)	(33,160)	(99,761)
OTHER FINANCING SOURCES (USES)			
Payment to refunded bond escrow agent	-	-	-
Transfers from other funds	158,466	33,160	99,818
Transfers to other funds	-	-	-
Total Other Financing Sources (Uses)	158,466	33,160	99,818
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	57
Fund Balances - Beginning of fiscal year	-	-	1,201
Fund Balances - End of fiscal year	\$ -	\$ -	\$ 1,258

Michigan

SCHOOL LOAN BOND REDEMPTION FUND	MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY	STATE BUILDING AUTHORITY	TOTALS
\$ 240,280	\$ -	\$ 6,979	\$ 247,298
240,280	-	6,979	247,298
379	-	-	379
-	-	796	796
-	-	-	1
16,425	-	83,595	238,789
25,678	33,293	117,544	329,171
42,482	33,293	201,935	569,137
197,798	(33,293)	(194,956)	(321,838)
(240,280)	-	-	(240,280)
42,482	33,293	213,999	581,218
-	-	(83)	(83)
(197,798)	33,293	213,916	340,855
-	-	18,960	19,017
-	-	188,950	190,151
\$ -	\$ -	\$ 207,910	\$ 209,168



CAPITAL PROJECTS FUNDS

COMBINED RECREATION BOND FUND - STATE PROJECTS

Established in 1988, this fund operates under Michigan Compiled Laws Sections 324.19601 – 324.19616, 324.71501 – 324.71514, and 324.74106 – 324.74113. The balances in the fund reflect proceeds and investment earnings remaining from two bond packages: \$70 million of general obligation bonds approved by voters in November 1988 as part of a \$140 million bond package for financing State and local public recreation projects and \$50 million of general obligation bonds approved by voters in November 1998 as part of a \$675 million bond package known as the “Clean Michigan Initiative.”

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

ADVANCE FINANCING FUNDS

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

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

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

The Site Preparation Economic Development Fund 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 was created pursuant to MCL 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 Authority's five board members are appointed by the Governor.

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

**COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS**

SEPTEMBER 30, 2007

(In Thousands)

	COMBINED RECREATION BOND FUND - STATE PROJECTS	ADVANCE FINANCING FUNDS	STATE BUILDING AUTHORITY	TOTALS
ASSETS				
Current Assets:				
Equity in common cash	\$ 2,010	\$ -	\$ -	\$ 2,010
Amounts due from other funds	-	22,505	-	22,505
Amounts due from component units	-	2,152	-	2,152
Amounts due from local units	-	4,403	-	4,403
Investments	-	-	10,766	10,766
Other current assets	-	3,004	64	3,069
Total Current Assets	<u>2,010</u>	<u>32,064</u>	<u>10,830</u>	<u>44,905</u>
Total Assets	<u>\$ 2,010</u>	<u>\$ 32,064</u>	<u>\$ 10,830</u>	<u>\$ 44,905</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ 6	\$ -	\$ 6
Accounts payable and other liabilities	-	56,098	188	56,286
Amounts due to other funds	-	58,499	22,505	81,004
Bonds and notes payable	-	-	146,700	146,700
Interest payable	-	-	777	777
Total Current Liabilities	<u>-</u>	<u>114,603</u>	<u>170,171</u>	<u>284,774</u>
Total Liabilities	<u>-</u>	<u>114,603</u>	<u>170,171</u>	<u>284,774</u>
Fund Balances:				
Unreserved	<u>2,010</u>	<u>(82,539)</u>	<u>(159,340)</u>	<u>(239,869)</u>
Total Fund Balances	<u>2,010</u>	<u>(82,539)</u>	<u>(159,340)</u>	<u>(239,869)</u>
Total Liabilities and Fund Balances	<u>\$ 2,010</u>	<u>\$ 32,064</u>	<u>\$ 10,830</u>	<u>\$ 44,905</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	COMBINED RECREATION BOND FUND - STATE PROJECTS	ADVANCE FINANCING FUNDS	STATE BUILDING AUTHORITY	TOTALS
REVENUES				
Miscellaneous	\$ 111	\$ -	\$ 1,014	\$ 1,125
Total Revenues	111	-	1,014	1,125
EXPENDITURES				
Current:				
Education	-	22,496	83,951	106,447
Conservation, environment, recreation, and agriculture	6	-	-	6
Capital outlay	-	40,589	5,350	45,940
Total Expenditures	6	63,085	89,301	152,393
Excess of Revenues over (under) Expenditures	104	(63,085)	(88,287)	(151,268)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	18,149	83	18,232
Transfers to other funds	-	-	(18,915)	(18,915)
Total Other Financing Sources (Uses)	-	18,149	(18,832)	(683)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	104	(44,936)	(107,120)	(151,951)
Fund Balances - Beginning of fiscal year	1,906	(37,603)	(52,221)	(87,918)
Fund Balances - End of fiscal year	\$ 2,010	\$ (82,539)	\$ (159,340)	\$ (239,869)



PERMANENT FUNDS

MICHIGAN NATURAL RESOURCES TRUST FUND

The State Constitution was amended in 1984 to provide for the Michigan Natural Resources Trust Fund. The fund, established in 1985, operates under Michigan Compiled Laws Sections 324.1901 - 324.1910. Most rentals, royalties, and other revenues derived from mineral, coal, oil, and gas interests on State-owned land are credited to the fund. Michigan Compiled Laws Section 324.1902 directs a portion (50%, up to \$10 million per year) of these revenues to the Michigan State Parks Endowment Fund. The voters approved a constitutional amendment in August 2002, which increased the amount that can be accumulated to \$500 million, modified the distribution formula, and allows the State Treasurer to invest in equity securities and other types of investments.

In accordance with statutory provisions, this fund is to accumulate up to \$500 million in reserves for permanent investments. The amount accumulated toward this cap is shown as a reservation of fund balance. Investment earnings and one-third of royalty earnings are available for appropriation. Two-thirds of royalty earnings, less the portion transferred to the Michigan State Parks Endowment Fund, are added to amounts held for permanent investments until the investment reserve reaches \$500 million. After that time, all royalties will be transferred from this fund to the Michigan State Parks Endowment Fund and only investment earnings and interest will be 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.

MICHIGAN STATE PARKS ENDOWMENT FUND

Established in 1994, this fund is governed by the provisions of MCL 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.

Michigan

COMBINING BALANCE SHEET
PERMANENT FUNDS
 SEPTEMBER 30, 2007
 (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>
ASSETS				
Current Assets:				
Equity in common cash	\$ 234,532	\$ 54,982	\$ 10,689	\$ 300,202
Amounts due from local units	-	-	173	173
Securities lending collateral	114,890	59,460	18,070	192,420
Other current assets	11,418	1,180	460	13,058
Total Current Assets	<u>360,840</u>	<u>115,621</u>	<u>29,392</u>	<u>505,853</u>
Investments	<u>213,888</u>	<u>90,061</u>	<u>37,205</u>	<u>341,154</u>
Total Assets	<u>\$ 574,727</u>	<u>\$ 205,682</u>	<u>\$ 66,597</u>	<u>\$ 847,007</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 348	\$ 76	\$ 3	\$ 427
Obligations under security lending	114,890	59,460	18,070	192,420
Accounts payable and other liabilities	15,606	895	21	16,521
Amounts due to other funds	12	40	3	54
Total Current Liabilities	<u>130,856</u>	<u>60,470</u>	<u>18,097</u>	<u>209,423</u>
Total Liabilities	<u>130,856</u>	<u>60,470</u>	<u>18,097</u>	<u>209,423</u>
Fund Balances:				
Reserves For:				
Budgetary Carry-Forwards:				
Encumbrances	15,231	85	-	15,316
Restricted revenues	-	3,093	-	3,093
Multi-year projects	51,299	101	-	51,400
Funds held as permanent investments	345,314	132,100	49,000	526,414
Total Reserved	<u>411,844</u>	<u>135,379</u>	<u>49,000</u>	<u>596,223</u>
Unreserved	<u>32,028</u>	<u>9,833</u>	<u>(500)</u>	<u>41,361</u>
Total Fund Balances	<u>443,872</u>	<u>145,212</u>	<u>48,500</u>	<u>637,584</u>
Total Liabilities and Fund Balances	<u>\$ 574,727</u>	<u>\$ 205,682</u>	<u>\$ 66,597</u>	<u>\$ 847,007</u>

Michigan

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

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(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>
REVENUES				
Miscellaneous	\$ 79,758	\$ 17,687	\$ 4,300	\$ 101,745
Total Revenues	<u>79,758</u>	<u>17,687</u>	<u>4,300</u>	<u>101,745</u>
EXPENDITURES				
Current:				
General government	5,521	3,007	853	9,381
Public safety and corrections	-	-	2,150	2,150
Conservation, environment, recreation, and agriculture	2,525	12,833	-	15,359
Capital outlay	<u>20,075</u>	<u>34</u>	<u>-</u>	<u>20,109</u>
Total Expenditures	<u>28,122</u>	<u>15,873</u>	<u>3,003</u>	<u>46,998</u>
Excess of Revenues over (under) Expenditures	<u>51,636</u>	<u>1,813</u>	<u>1,297</u>	<u>54,747</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	29	-	-	29
Transfers from other funds	-	10,000	-	10,000
Transfers to other funds	<u>(10,014)</u>	<u>(62)</u>	<u>(5)</u>	<u>(10,081)</u>
Total Other Financing Sources (Uses)	<u>(9,985)</u>	<u>9,938</u>	<u>(5)</u>	<u>(51)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	41,652	11,752	1,292	54,695
Fund Balances - Beginning of fiscal year - Restated	<u>402,220</u>	<u>133,461</u>	<u>47,209</u>	<u>582,889</u>
Fund Balances - End of fiscal year	<u>\$ 443,872</u>	<u>\$ 145,212</u>	<u>\$ 48,500</u>	<u>\$ 637,584</u>

Michigan

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

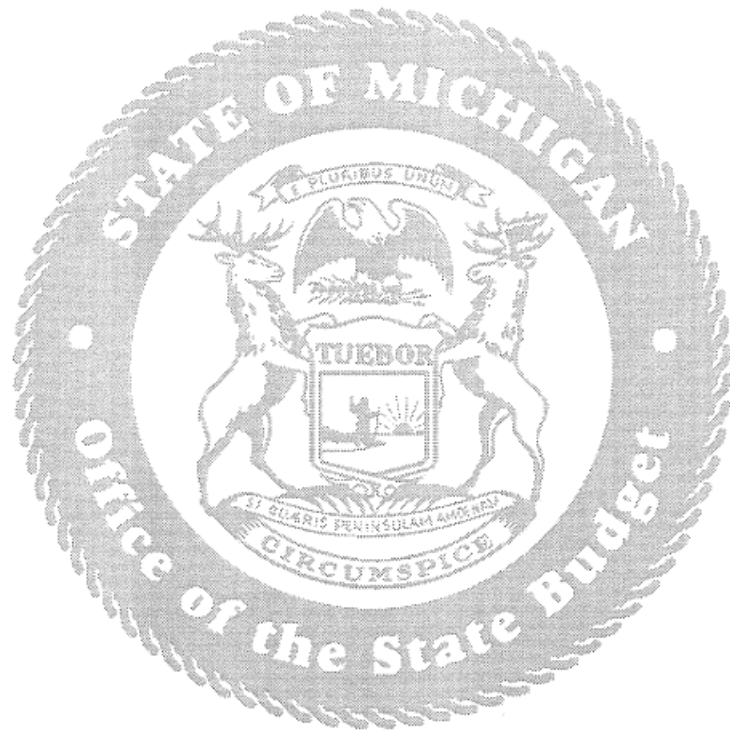
FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>MICHIGAN NATURAL RESOURCES TRUST FUND</u>			<u>MICHIGAN STATE PARKS ENDOWMENT FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES						
Miscellaneous	\$ 79,758	\$ 79,758	\$ -	\$ 17,687	\$ 17,687	\$ -
Proceeds from sale of capital assets	29	29	-	-	-	-
Transfers in	-	-	-	10,000	10,000	-
	<u>79,788</u>	<u>79,788</u>	<u>-</u>	<u>27,687</u>	<u>27,687</u>	<u>-</u>
Total Revenues and Other Sources						
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Military and Veterans Affairs	-	-	-	-	-	-
Natural Resources	53,051	47,846	5,205	13,178	13,014	164
Treasury	5,521	5,521	-	3,007	3,007	-
	<u>58,572</u>	<u>53,367</u>	<u>5,205</u>	<u>16,185</u>	<u>16,020</u>	<u>164</u>
Total Expenditures, Transfers Out, and Encumbrances						
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 21,216</u>	<u>26,421</u>	<u>\$ 5,205</u>	<u>\$ 11,502</u>	<u>11,667</u>	<u>\$ 164</u>
Reconciling Items:						
Encumbrances at September 30		<u>15,231</u>			<u>85</u>	
Net Reconciling Items		<u>15,231</u>			<u>85</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>41,652</u>			<u>11,752</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		<u>402,220</u>			<u>133,461</u>	
Ending balances (GAAP Basis)		<u>\$ 443,872</u>			<u>\$ 145,212</u>	

Michigan

MICHIGAN VETERANS' TRUST FUND			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ 4,300	\$ 4,300	\$ -	\$ 101,745	\$ 101,745	\$ -
-	-	-	29	29	-
-	-	-	10,000	10,000	-
<u>4,300</u>	<u>4,300</u>	<u>-</u>	<u>111,774</u>	<u>\$ 111,774</u>	<u>\$ -</u>
4,899	2,155	2,744	4,899	2,155	2,744
-	-	-	66,229	60,859	5,370
<u>853</u>	<u>853</u>	<u>-</u>	<u>9,381</u>	<u>9,381</u>	<u>-</u>
<u>5,752</u>	<u>3,008</u>	<u>2,744</u>	<u>80,508</u>	<u>72,395</u>	<u>8,114</u>
<u>\$ (1,452)</u>	<u>1,292</u>	<u>\$ 2,744</u>	<u>\$ 31,266</u>	<u>39,379</u>	<u>\$ 8,114</u>
	-			<u>15,316</u>	
	-			<u>15,316</u>	
	<u>1,292</u>			<u>54,695</u>	
	<u>47,209</u>			<u>582,889</u>	
	<u>\$ 48,500</u>			<u>\$ 637,584</u>	



ENTERPRISE FUNDS

LIQUOR PURCHASE REVOLVING FUND

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

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

COMBINING STATEMENT OF NET ASSETS**ENTERPRISE FUNDS**

SEPTEMBER 30, 2007

(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	ATTORNEY DISCIPLINE SYSTEM	TOTALS
ASSETS			
Current Assets:			
Cash	\$ 1	\$ 1,580	\$ 1,581
Equity in common cash	60,449	-	60,449
Inventories	4,412	-	4,412
Investments	-	3,276	3,276
Other current assets	9,083	73	9,156
Total Current Assets	<u>73,945</u>	<u>4,929</u>	<u>78,874</u>
Capital Assets:			
Buildings and equipment	-	734	734
Allowance for depreciation	-	(707)	(707)
Total capital assets	<u>-</u>	<u>27</u>	<u>27</u>
Total Assets	<u>\$ 73,945</u>	<u>\$ 4,956</u>	<u>\$ 78,901</u>
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ 3,472	\$ -	\$ 3,472
Accounts payable and other liabilities	68,418	198	68,616
Amounts due to other funds	76	-	76
Deferred revenue	-	469	469
Current portion of other long-term obligations	91	-	91
Total Current Liabilities	<u>72,057</u>	<u>666</u>	<u>72,724</u>
Long-Term Liabilities:			
Noncurrent portion of other long-term obligations	1,012	-	1,012
Total Liabilities	<u>73,069</u>	<u>666</u>	<u>73,735</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ -	\$ 27	\$ 27
Unrestricted	876	4,263	5,139
Total Net Assets	<u>\$ 876</u>	<u>\$ 4,290</u>	<u>\$ 5,165</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	ATTORNEY DISCIPLINE SYSTEM	TOTALS
OPERATING REVENUES			
Operating revenues	\$ 742,959	\$ 4,782	\$ 747,741
Total Operating Revenues	<u>742,959</u>	<u>4,782</u>	<u>747,741</u>
OPERATING EXPENSES			
Salaries, wages, and other administrative	58,378	4,272	62,650
Depreciation	-	10	10
Purchases for resale	542,634	-	542,634
Premiums and claims	49	-	49
Other operating expenses	1,220	-	1,220
Total Operating Expenses	<u>602,280</u>	<u>4,282</u>	<u>606,562</u>
Operating Income (Loss)	<u>140,679</u>	<u>500</u>	<u>141,179</u>
NONOPERATING REVENUES (EXPENSES)			
Specific tax on spirits	13,133	-	13,133
Interest revenue	4,628	244	4,872
Investment revenue (expense) - net	-	183	183
Total Nonoperating Revenues (Expenses)	<u>17,761</u>	<u>427</u>	<u>18,188</u>
Income (Loss) Before Transfers	158,440	927	159,367
TRANSFERS			
Transfers to other funds	<u>(162,440)</u>	<u>-</u>	<u>(162,440)</u>
Change in net assets	<u>(4,000)</u>	<u>927</u>	<u>(3,073)</u>
Total net assets - Beginning of fiscal year	<u>4,876</u>	<u>3,363</u>	<u>8,239</u>
Total net assets - End of fiscal year	<u>\$ 876</u>	<u>\$ 4,290</u>	<u>\$ 5,165</u>

**COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	ATTORNEY DISCIPLINE SYSTEM	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 742,959	\$ -	\$ 742,959
Membership dues	-	4,944	4,944
Payments to employees	(13,315)	(3,266)	(16,582)
Payments to suppliers	(583,353)	(626)	(583,979)
Other receipts	(3,787)	162	(3,625)
Other payments	(1,269)	(359)	(1,628)
Net cash provided (used) by operating activities	<u>\$ 141,235</u>	<u>\$ 854</u>	<u>\$ 142,089</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Specific tax on spirits	\$ 13,133	\$ -	\$ 13,133
Transfers to other funds	(162,440)	-	(162,440)
Net cash provided (used) by noncapital financing activities	<u>\$ (149,307)</u>	<u>\$ -</u>	<u>\$ (149,307)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	\$ -	\$ (12)	\$ (12)
Net cash provided (used) by capital and related finance activities	<u>\$ -</u>	<u>\$ (12)</u>	<u>\$ (12)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds (purchases) from sale and maturities of investment securities	\$ -	\$ (1,102)	\$ (1,102)
Interest and dividends on investments	4,628	244	4,872
Net cash provided (used) by investing activities	<u>\$ 4,628</u>	<u>\$ (858)</u>	<u>\$ 3,770</u>
Net cash provided (used) - all activities	\$ (3,444)	\$ (15)	\$ (3,459)
Cash and cash equivalents at beginning of year	<u>60,422</u>	<u>1,595</u>	<u>62,017</u>
Cash and cash equivalents at end of year	<u><u>\$ 56,978</u></u>	<u><u>\$ 1,580</u></u>	<u><u>\$ 58,558</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Per Statement of Net Assets Classifications:			
Cash	\$ 1	\$ 1,580	\$ 1,581
Equity in common cash	60,449	-	60,449
Warrants outstanding	(3,472)	-	(3,472)
Cash and cash equivalents at end of year	<u><u>\$ 56,978</u></u>	<u><u>\$ 1,580</u></u>	<u><u>\$ 58,558</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 140,679	\$ 500	\$ 141,179
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	-	10	10
Net Changes in Assets and Liabilities:			
Inventories	(1,584)	-	(1,584)
Other assets (net)	(2,147)	24	(2,123)
Accounts payable and other liabilities	4,287	(2)	4,285
Deferred revenue	-	323	323
Net cash provided (used) by operating activities	<u><u>\$ 141,235</u></u>	<u><u>\$ 854</u></u>	<u><u>\$ 142,089</u></u>

INTERNAL SERVICE FUNDS

CORRECTIONAL INDUSTRIES REVOLVING FUND

Authorized by Michigan Compiled Laws Section 800.325, this fund accounts for the financial transactions of a manufacturing and processing industry, employing inmates incarcerated in Michigan's correctional institutions. Michigan Compiled Laws 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 repayment provisions, as stipulated in Executive Order 1992-13, resulted in no required payment in fiscal year 2007.

MOTOR TRANSPORT FUND

This fund was created by MCL 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 MCL 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 and retirees. The plans' funding methods range from those where the State is fully self-insured to those where an outside carrier assumes partial risk on a contracted basis. A note to the Government-wide Financial Statements entitled "Risk Management" provides additional information about this fund.

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

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

SEPTEMBER 30, 2007

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT FUND	OFFICE SERVICES REVOLVING FUND
ASSETS			
Current Assets:			
Cash	\$ -	\$ -	\$ -
Equity in common cash	-	603	488
Amounts due from other funds	-	-	-
Amounts due from component units	-	-	-
Amounts due from federal agencies	-	-	-
Inventories	13,188	464	4,143
Other current assets	340	5,617	2,639
Total Current Assets	<u>13,528</u>	<u>6,684</u>	<u>7,270</u>
Capital Assets:			
Land and other non-depreciable assets	-	-	-
Buildings and equipment	50,361	10,224	20,922
Allowance for depreciation	<u>(25,834)</u>	<u>(9,183)</u>	<u>(14,038)</u>
Total capital assets	24,526	1,041	6,884
Other noncurrent assets	-	-	-
Total Assets	<u>\$ 38,054</u>	<u>\$ 7,724</u>	<u>\$ 14,154</u>
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ 159	\$ 7	\$ 16
Accounts payable and other liabilities	1,717	2,465	10,863
Amounts due to other funds	1,506	18	8,693
Deferred revenue	-	-	-
Current portion of other long-term obligations	137	14	819
Total Current Liabilities	<u>3,518</u>	<u>2,505</u>	<u>20,391</u>
Long-Term Liabilities:			
Advances from other funds	7,688	-	-
Noncurrent portion of other long-term obligations	<u>1,342</u>	<u>478</u>	<u>2,231</u>
Total Liabilities	<u>\$ 12,548</u>	<u>\$ 2,983</u>	<u>\$ 22,623</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 24,526	\$ 1,041	\$ 5,952
Restricted for other purposes	980	3,701	-
Unrestricted	-	-	<u>(14,421)</u>
Total Net Assets	<u>\$ 25,506</u>	<u>\$ 4,741</u>	<u>\$ (8,469)</u>

Michigan

INFORMATION TECHNOLOGY FUND	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS
\$ -	\$ -	\$ 13	\$ 13
23,632	5,336	184,599	214,657
-	1,415	33,855	35,270
-	-	101	101
-	-	4,907	4,907
11	-	-	17,805
108	50	13,831	22,584
<u>23,750</u>	<u>6,801</u>	<u>237,306</u>	<u>295,338</u>
9,170	-	-	9,170
557,625	4	-	639,135
(387,772)	(4)	-	(436,831)
179,022	-	-	211,474
-	1,500	600	2,100
<u>\$ 202,772</u>	<u>\$ 8,301</u>	<u>\$ 237,906</u>	<u>\$ 508,912</u>
\$ 747	\$ -	\$ 152	\$ 1,081
37,406	1,030	25,256	78,736
992	5	-	11,214
17,378	-	169	17,547
8,170	2,503	77,188	88,831
<u>64,691</u>	<u>3,538</u>	<u>102,765</u>	<u>197,409</u>
-	-	-	7,688
24,033	3,434	85,346	116,864
<u>\$ 88,725</u>	<u>\$ 6,971</u>	<u>\$ 188,111</u>	<u>\$ 321,961</u>
\$ 169,749	\$ -	\$ -	\$ 201,268
-	-	-	4,680
(55,701)	1,330	49,795	(18,998)
<u>\$ 114,048</u>	<u>\$ 1,330</u>	<u>\$ 49,795</u>	<u>\$ 186,951</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT FUND	OFFICE SERVICES REVOLVING FUND
OPERATING REVENUES			
Operating revenues	\$ 45,481	\$ 51,624	\$ 100,458
Total Operating Revenues	<u>45,481</u>	<u>51,624</u>	<u>100,458</u>
OPERATING EXPENSES			
Salaries, wages, and other administrative	23,600	6,057	28,843
Depreciation	1,480	219	1,489
Purchases for resale	-	-	69,971
Purchases for prison industries	19,641	-	-
Premiums and claims	-	838	1
Other operating expenses:			
Leased vehicles expense	-	21,975	-
Vehicle maintenance expense	-	24,446	-
Total other operating expenses	<u>-</u>	<u>46,420</u>	<u>-</u>
Total Operating Expenses	<u>44,721</u>	<u>53,534</u>	<u>100,304</u>
Operating Income (Loss)	<u>760</u>	<u>(1,911)</u>	<u>154</u>
NONOPERATING REVENUES (EXPENSES)			
Other nonoperating revenues	-	104	-
Interest expense	(393)	-	(148)
Other nonoperating expense	<u>(15)</u>	<u>-</u>	<u>(21)</u>
Total Nonoperating Revenues (Expenses)	<u>(408)</u>	<u>104</u>	<u>(168)</u>
Income (Loss) Before Transfers	352	(1,807)	(14)
TRANSFERS			
Transfers to other funds	<u>-</u>	<u>(27)</u>	<u>(111)</u>
Change in net assets	352	(1,834)	(125)
Total net assets - Beginning of fiscal year	<u>25,154</u>	<u>6,575</u>	<u>(8,343)</u>
Total net assets - End of fiscal year	<u>\$ 25,506</u>	<u>\$ 4,741</u>	<u>\$ (8,469)</u>

Michigan

INFORMATION TECHNOLOGY FUND	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS
\$ 452,151	\$ 2,706	\$ 1,109,620	\$ 1,762,040
<u>452,151</u>	<u>2,706</u>	<u>1,109,620</u>	<u>1,762,040</u>
421,491	2,563	40,649	523,202
45,260	-	-	48,447
-	-	-	69,971
-	-	-	19,641
6	2,012	1,081,012	1,083,868
-	-	-	21,975
<u>-</u>	<u>-</u>	<u>-</u>	<u>24,446</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>46,421</u>
<u>466,756</u>	<u>4,575</u>	<u>1,121,661</u>	<u>1,791,551</u>
<u>(14,605)</u>	<u>(1,869)</u>	<u>(12,041)</u>	<u>(29,511)</u>
367	-	-	471
(507)	-	-	(1,047)
(18)	-	-	(53)
<u>(157)</u>	<u>-</u>	<u>-</u>	<u>(629)</u>
(14,762)	(1,869)	(12,041)	(30,141)
<u>(1,154)</u>	<u>(14)</u>	<u>-</u>	<u>(1,307)</u>
(15,916)	(1,883)	(12,041)	(31,447)
<u>129,964</u>	<u>3,213</u>	<u>61,835</u>	<u>218,398</u>
<u>\$ 114,048</u>	<u>\$ 1,330</u>	<u>\$ 49,795</u>	<u>\$ 186,951</u>

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2007
(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT REVOLVING FUND	OFFICE SERVICES REVOLVING FUND
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 45,496	\$ 53,458	\$ 103,087
Payments to employees	(16,102)	(3,026)	(12,380)
Payments to suppliers	(21,274)	(49,688)	(87,885)
Claims paid	-	-	-
Other payments	(7,959)	246	-
Net cash provided (used) by operating activities	<u>\$ 162</u>	<u>\$ 990</u>	<u>\$ 2,822</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Loans or loan repayments from other funds	\$ 393	\$ -	\$ 8,605
Loans or loan repayments to other funds	198	(291)	(7,956)
Transfers to other funds	-	(27)	(111)
Net cash provided (used) by noncapital financing activities	<u>\$ 591</u>	<u>\$ (319)</u>	<u>\$ 538</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	\$ (198)	\$ (183)	\$ (2,189)
Interest paid	(393)	-	-
Capital lease payments (including imputed interest expense)	-	-	(1,057)
Proceeds from sale of capital assets	-	104	5
Net cash provided (used) by capital and related financing activities	<u>\$ (591)</u>	<u>\$ (79)</u>	<u>\$ (3,241)</u>
Net cash provided (used) - all activities	\$ 162	\$ 593	\$ 119
Cash and cash equivalents at beginning of year	(321)	3	354
Cash and cash equivalents at end of year	<u><u>\$ (159)</u></u>	<u><u>\$ 595</u></u>	<u><u>\$ 472</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Per Statement of Net Assets Classifications:			
Cash	\$ -	\$ -	\$ -
Equity in common cash	-	603	488
Warrants outstanding	(159)	(7)	(16)
Cash and cash equivalents at end of year	<u><u>\$ (159)</u></u>	<u><u>\$ 595</u></u>	<u><u>\$ 472</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 760	\$ (1,911)	\$ 154
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	1,480	219	1,489
Net Changes in Assets and Liabilities:			
Inventories	(758)	(9)	(458)
Other assets (net)	(17)	3,133	2,630
Accounts payable and other liabilities	(1,303)	(442)	(993)
Net cash provided (used) by operating activities	<u>\$ 162</u>	<u>\$ 990</u>	<u>\$ 2,822</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Cost of capital assets acquisitions financed by capital leases	\$ -	\$ -	\$ -
Capital lease liabilities entered into during the year	-	-	-
Gain (loss) on disposal of capital assets	(15)	-	(21)
Total noncash investing, capital, and financing activities	<u>\$ (15)</u>	<u>\$ -</u>	<u>\$ (21)</u>

Michigan

INFORMATION TECHNOLOGY FUND	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS
\$ 452,602	\$ 2,706	\$ 1,110,936	\$ 1,768,285
(165,711)	(795)	-	(198,012)
(260,327)	(1,746)	(302,689)	(723,609)
-	(2,537)	(816,702)	(819,239)
-	-	-	(7,712)
<u>\$ 26,564</u>	<u>\$ (2,371)</u>	<u>\$ (8,455)</u>	<u>\$ 19,712</u>
\$ 3,022	\$ -	\$ (8,605)	\$ 3,415
-	(1,415)	8,247	(1,217)
(1,154)	(14)	-	(1,307)
<u>\$ 1,868</u>	<u>\$ (1,429)</u>	<u>\$ (358)</u>	<u>\$ 891</u>
(33,426)	\$ -	\$ -	\$ (35,995)
-	-	-	(393)
(6,724)	-	-	(7,781)
-	-	-	109
<u>\$ (40,150)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (44,060)</u>
\$ (11,718)	\$ (3,800)	\$ (8,813)	\$ (23,457)
34,603	9,136	193,273	237,047
<u>\$ 22,885</u>	<u>\$ 5,336</u>	<u>\$ 184,460</u>	<u>\$ 213,590</u>
\$ -	\$ -	\$ 13	\$ 13
23,632	5,336	184,599	214,657
(747)	-	(152)	(1,081)
<u>\$ 22,885</u>	<u>\$ 5,336</u>	<u>\$ 184,460</u>	<u>\$ 213,590</u>
\$ (14,606)	\$ (1,869)	\$ (12,041)	\$ (29,512)
45,260	-	-	48,447
11	-	-	(1,214)
3,492	-	5,802	15,041
(7,593)	(502)	(2,216)	(13,050)
<u>\$ 26,564</u>	<u>\$ (2,371)</u>	<u>\$ (8,455)</u>	<u>\$ 19,712</u>
\$ 3,450	\$ -	\$ -	\$ 3,450
(3,450)	-	-	(3,450)
-	-	-	(36)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (36)</u>

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

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

STATE EMPLOYEES' DEFERRED COMPENSATION FUNDS

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

LEGISLATIVE PENSION BENEFITS FUND

This fund was established to account for pension benefits of the Legislative Retirement System (LRS) created by Michigan Compiled Laws Section 38.1001. The system'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' 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 created by MCL Section 38.1001. The system'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 created by MCL Section 38.1605, which is administered by a nine-member board under the direction of a chairperson elected from the membership. The System'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 created by MCL Section 38.1605. The system'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 created by MCL Section 38.2, which is administered by a nine-member board under the direction of an Executive Secretary. The System'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 created by MCL Section 38.2. The system'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 created by MCL Section 38.1321. An eight-member board governs administrative policy. The system'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 created by MCL Section 38.1321. The system'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 created by MCL Section 38.2201. The system'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 created by MCL Section 38.2201. The system'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 EMPLOYEES' DEFINED CONTRIBUTION RETIREMENT FUND

This fund was established by MCL 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, 2007

(In Thousands)

	STATE EMPLOYEES' DEFERRED COMPENSATION FUNDS	LEGISLATIVE PENSION BENEFITS FUND	LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE POLICE PENSION BENEFITS FUND
ASSETS				
Cash	\$ -	\$ -	\$ -	\$ -
Equity in common cash	2,165	1,204	104	5,009
Receivables:				
Employee	130,171	-	-	-
Employer	538	232	20	2
Interest and dividends	-	46	4	84
Due from other funds	-	-	-	2,430
Due from component unit	-	-	-	-
Sale of investments	-	627	55	-
Investments at Fair Value:				
Short-term investments	-	-	-	20,652
Bonds, notes, mortgages, and preferred stock	-	-	-	218,637
Common stock	-	75,200	6,561	627,789
Real estate	-	-	-	130,417
Alternative investments	-	-	-	188,051
International investments	-	-	-	152,212
Mutual funds	2,126,815	110,981	9,683	-
Pooled investment funds	1,856,244	-	-	-
Money market funds	100,554	-	-	-
Securities lending collateral	-	-	-	282,597
Total Assets	\$ 4,216,487	\$ 188,290	\$ 16,428	\$ 1,627,879
LIABILITIES				
Warrants outstanding	\$ -	\$ 48	\$ 4	\$ 195
Accounts payable and other liabilities	-	587	51	87
Amounts due to other funds	-	2	-	-
Obligations under security lending	-	-	-	282,597
Total Liabilities	\$ -	\$ 636	\$ 55	\$ 282,879
NET ASSETS				
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits	\$ 4,216,487	\$ 187,654	\$ 16,373	\$ 1,345,000
Reconciliation of Net Assets Held in Trust:				
Pension benefits	\$ -	\$ 187,654	\$ -	\$ 1,345,000
Postemployment health-care benefits	-	-	16,373	-
Deferred compensation participants	4,216,487	-	-	-
Total net assets held in trust for benefits	\$ 4,216,487	\$ 187,654	\$ 16,373	\$ 1,345,000

Michigan

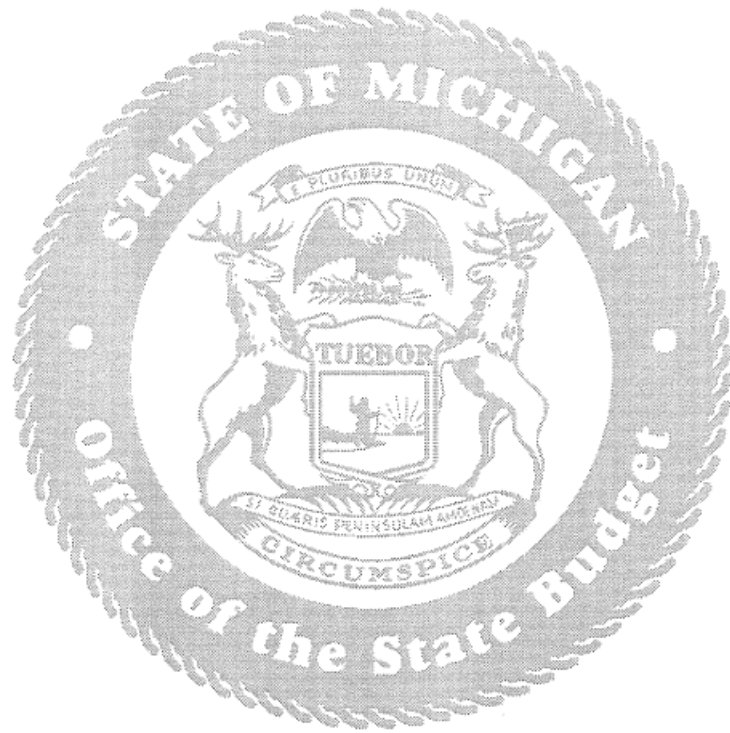
STATE POLICE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE EMPLOYEES' PENSION BENEFITS FUND	STATE EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' PENSION BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	JUDGES' PENSION BENEFITS FUND
\$ -	\$ 60	\$ -	\$ 8	\$ -	\$ -
-	27,199	62	107,559	2,388	1,180
-	-	-	-	-	-
-	78,131	69	505,620	29	63
-	758	2	3,002	67	24
-	13,940	-	-	-	-
-	155	-	-	-	-
-	-	-	-	-	-
-	183,233	417	1,044,228	23,183	5,549
-	1,988,414	4,527	7,853,184	174,352	58,771
-	5,688,380	12,950	22,491,305	499,340	154,895
-	1,163,703	2,649	4,262,390	94,631	43,337
-	1,579,358	3,595	6,696,602	148,674	35,011
-	1,383,468	3,149	5,420,220	120,337	36,913
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	2,557,426	5,822	10,089,808	224,008	76,695
<u>\$ -</u>	<u>\$ 14,664,228</u>	<u>\$ 33,242</u>	<u>\$ 58,473,926</u>	<u>\$ 1,287,010</u>	<u>\$ 412,439</u>
\$ -	\$ 2,319	\$ 5	\$ 8,206	\$ 182	\$ 52
-	1,426	3	12,979	286,485	13
-	-	-	-	-	-
-	2,557,426	5,822	10,089,808	224,008	76,695
<u>\$ -</u>	<u>\$ 2,561,171</u>	<u>\$ 5,831</u>	<u>\$ 10,110,993</u>	<u>\$ 510,676</u>	<u>\$ 76,760</u>
<u>\$ -</u>	<u>\$ 12,103,057</u>	<u>\$ 27,412</u>	<u>\$ 48,362,933</u>	<u>\$ 776,334</u>	<u>\$ 335,679</u>
\$ -	\$ 12,103,057	\$ -	\$ 48,362,933	\$ -	\$ 335,679
-	-	27,412	-	776,334	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 12,103,057</u>	<u>\$ 27,412</u>	<u>\$ 48,362,933</u>	<u>\$ 776,334</u>	<u>\$ 335,679</u>

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

SEPTEMBER 30, 2007

(In Thousands)

ASSETS	JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND	STATE EMPLOYEES' DEFINED CONTRIBUTION RETIREMENT FUND	TOTALS
Cash	\$ -	\$ -	\$ 68
Equity in common cash	-	252	147,124
Receivables:			
Employee	-	75,995	206,166
Employer	-	116	584,820
Interest and dividends	-	-	3,987
Due from other funds	-	-	16,371
Due from component unit	-	-	155
Sale of investments	-	-	682
Investments at Fair Value:			
Short-term investments	1	-	1,277,264
Bonds, notes, mortgages, and preferred stock	7	-	10,297,892
Common stock	19	-	29,556,439
Real estate	5	-	5,697,133
Alternative investments	4	-	8,651,295
International investments	5	-	7,116,304
Mutual funds	-	477,085	2,724,565
Pooled investment funds	-	244,767	2,101,011
Money market funds	-	118,095	218,648
Securities lending collateral	9	-	13,236,366
Total Assets	\$ 51	\$ 916,310	\$ 81,836,289
LIABILITIES			
Warrants outstanding	\$ -	\$ -	\$ 11,011
Accounts payable and other liabilities	-	-	301,632
Amounts due to other funds	-	-	2
Obligations under security lending	9	-	13,236,366
Total Liabilities	\$ 9	\$ -	\$ 13,549,010
NET ASSETS			
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits	<u>\$ 41</u>	<u>\$ 916,310</u>	<u>\$ 68,287,279</u>
Reconciliation of Net Assets Held in Trust:			
Pension benefits	\$ -	\$ 916,310	\$ 63,250,632
Postemployment health-care benefits	41	-	820,160
Deferred compensation participants	-	-	4,216,487
Total net assets held in trust for benefits	\$ 41	\$ 916,310	\$ 68,287,279



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

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	STATE EMPLOYEES' DEFERRED COMPENSATION FUNDS	LEGISLATIVE PENSION BENEFITS FUND	LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE POLICE PENSION BENEFITS FUND
ADDITIONS				
Contributions:				
From participants	\$ 189,165	\$ 18	\$ 146	\$ 101
From employers	-	-	3,681	24,323
From other plans	3,565	-	-	-
From other governmental	-	-	-	-
Investment Income:				
Net appreciation (depreciation) in fair value of investments	335,671	23,291	-	175,537
Interest, dividends, and other	179,204	4,797	2,165	27,450
Securities lending income	-	-	-	12,899
Less Investment Expense:				
Investment activity expense	-	614	-	1,895
Securities lending expense	-	-	-	12,377
Net investment income (loss)	<u>514,876</u>	<u>27,473</u>	<u>2,165</u>	<u>201,614</u>
Miscellaneous income	<u>1,186</u>	<u>429</u>	<u>1,451</u>	<u>47</u>
Total Additions	<u>708,791</u>	<u>27,921</u>	<u>7,443</u>	<u>226,085</u>
DEDUCTIONS				
Benefits paid to participants or beneficiaries	253,817	9,831	-	84,930
Medical, dental, and life insurance for retirants	-	-	4,491	-
Refunds and transfers to other systems	376	193	-	1
Administrative expense	6,768	342	-	401
Transfers to other funds	-	-	-	1
Total Deductions	<u>260,961</u>	<u>10,366</u>	<u>4,491</u>	<u>85,333</u>
Net increase (decrease)	<u>447,830</u>	<u>17,554</u>	<u>2,952</u>	<u>140,752</u>
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits - Beginning of fiscal year	<u>3,768,657</u>	<u>170,100</u>	<u>13,421</u>	<u>1,204,248</u>
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits - End of fiscal year	<u>\$ 4,216,487</u>	<u>\$ 187,654</u>	<u>\$ 16,373</u>	<u>\$ 1,345,000</u>
Reconciliation of Net Increase in Assets:				
Net increase (decrease) in assets held in trust for pension benefits	\$ -	\$ 17,554	\$ -	\$ 140,752
Net increase (decrease) in assets held in trust for postemployment benefits	-	-	2,952	-
Net increase (decrease) in assets held in trust for deferred compensation participants	<u>447,830</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net increase (decrease)	<u>\$ 447,830</u>	<u>\$ 17,554</u>	<u>\$ 2,952</u>	<u>\$ 140,752</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
\$ 1,220	\$ 19,696	\$ 11,761	\$ 356,761	\$ 77,207	\$ 1,846
27,840	150,859	359,375	835,366	671,680	-
-	41,410	-	6	-	-
-	-	-	-	63	-
-	1,564,591	-	6,262,638	-	43,143
-	248,766	1,500	961,169	50,417	6,842
-	116,787	-	470,629	-	3,361
-	16,475	-	68,058	-	406
-	112,080	-	451,817	-	3,224
-	1,801,588	1,500	7,174,561	50,417	49,716
-	766	-	2,553	261	259
<u>29,060</u>	<u>2,014,318</u>	<u>372,636</u>	<u>8,369,248</u>	<u>799,628</u>	<u>51,820</u>
-	795,842	-	2,944,920	-	18,919
29,060	-	363,975	-	590,226	-
-	230	41,304	32,248	31	248
-	5,102	-	24,418	63,315	182
-	13	-	71	-	-
<u>29,060</u>	<u>801,187</u>	<u>405,279</u>	<u>3,001,657</u>	<u>653,572</u>	<u>19,349</u>
-	1,213,131	(32,643)	5,367,591	146,056	32,471
-	10,889,925	60,055	42,995,342	630,279	303,208
<u>\$ -</u>	<u>\$ 12,103,057</u>	<u>\$ 27,412</u>	<u>\$ 48,362,933</u>	<u>\$ 776,334</u>	<u>\$ 335,679</u>
\$ -	\$ 1,213,131	\$ -	\$ 5,367,591	\$ -	\$ 32,471
-	-	(32,643)	-	146,056	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 1,213,131</u>	<u>\$ (32,643)</u>	<u>\$ 5,367,591</u>	<u>\$ 146,056</u>	<u>\$ 32,471</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND	STATE EMPLOYEES' DEFINED CONTRIBUTION RETIREMENT FUND	TOTALS
ADDITIONS			
Contributions:			
From participants	\$ 530	\$ 28,319	\$ 686,770
From employers	-	76,247	2,149,372
From other plans	-	21	45,002
From other governmental	-	-	63
Investment Income:			
Net appreciation (depreciation) in fair value of investments	-	83,328	8,488,199
Interest, dividends, and other	-	31,682	1,513,991
Securities lending income	-	-	603,676
Less Investment Expense:			
Investment activity expense	-	-	87,447
Securities lending expense	-	-	579,498
Net investment income (loss)	-	115,010	9,938,921
Miscellaneous income	116	241	7,307
Total Additions	646	219,839	12,827,435
DEDUCTIONS			
Benefits paid to participants or beneficiaries	-	37,322	4,145,582
Medical, dental, and life insurance for retirees	611	-	988,364
Refunds and transfers to other systems	-	3,804	78,434
Administrative expense	-	2,009	102,538
Transfers to other funds	-	-	85
Total Deductions	611	43,136	5,315,003
Net increase (decrease)	35	176,703	7,512,432
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits - Beginning of fiscal year	7	739,607	60,774,847
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits - End of fiscal year	\$ 41	\$ 916,310	\$ 68,287,279
Reconciliation of Net Increase in Assets:			
Net increase (decrease) in assets held in trust for pension benefits	\$ -	\$ 176,703	\$ 6,948,203
Net increase (decrease) in assets held in trust for postemployment benefits	35	-	116,399
Net increase (decrease) in assets held in trust for deferred compensation participants	-	-	447,830
Total net increase (decrease)	\$ 35	\$ 176,703	\$ 7,512,432

PRIVATE PURPOSE TRUST FUNDS

ESCHEATS FUND

The Escheats Fund operates under the authority of Michigan Compiled Laws Sections 567.221 – 567.265 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 MCL Section 330.1730 and is used to account for funds of patients receiving services in State hospitals. The Department of Community Health, in conjunction with the State Treasury, acts as the trustee of this fund. This fund earns interest quarterly for its share of the equity in the State Treasurer's Common Cash pool. The Department of Community Health distributes interest on a monthly basis to patients meeting minimum balance requirements.

MICHIGAN EDUCATION SAVINGS PROGRAM

MCL 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, 2007

(In Thousands)

	ESCHEATS FUND	GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND	HOSPITAL PATIENTS' TRUST FUND	MICHIGAN EDUCATION SAVINGS PROGRAM	TOTALS
ASSETS					
Cash	\$ -	\$ 790	\$ 21	\$ 745	\$ 1,556
Equity in common cash	82,931	17,563	229	-	100,723
Receivables:					
Interest and dividends	-	144	-	397	541
Investments at Fair Value:					
Bonds, notes, mortgages, and preferred stock	-	17,865	-	-	17,865
Common stock	-	183	-	-	183
Mutual funds	-	11	-	1,659,412	1,659,423
Guaranteed funding agreements	-	-	-	169,706	169,706
Securities lending collateral	-	7,075	-	-	7,075
Other current assets	3,820	2,741	13	1,966	8,540
Total Assets	\$ 86,751	\$ 46,371	\$ 263	\$ 1,832,227	\$ 1,965,612
LIABILITIES					
Warrants outstanding	\$ 2,528	\$ 539	\$ 30	\$ -	\$ 3,097
Accounts payable and other liabilities	32	2,563	3	1,048	3,646
Obligations under security lending	-	7,075	-	-	7,075
Total Liabilities	\$ 2,560	\$ 10,178	\$ 33	\$ 1,048	\$ 13,819
NET ASSETS					
Net assets held in trust for other purposes	\$ 84,191	\$ 36,193	\$ 230	\$ 1,831,180	\$ 1,951,794

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

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	ESCHEATS FUND	GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND	HOSPITAL PATIENTS' TRUST FUND	MICHIGAN EDUCATION SAVINGS PROGRAM	TOTALS
ADDITIONS					
Contributions:					
From participants	\$ -	\$ -	\$ -	\$ 346,133	\$ 346,133
From clients	-	63,914	1,755	-	65,669
From gifts, bequests, and endowments	-	2,939	-	-	2,939
Investment Income:					
Net appreciation (depreciation) in fair value of investments	-	226	-	106,478	106,704
Interest, dividends, and other	-	1,130	11	75,604	76,745
Securities lending income	-	389	-	-	389
Less Investment Expense:					
Investment activity expense	-	-	-	4,051	4,051
Securities lending expense	-	377	-	-	377
Net investment income (loss)	-	1,369	11	178,032	179,411
Escheated property	56,861	-	-	-	56,861
Miscellaneous income	-	256	-	-	256
Total Additions	56,861	68,478	1,766	524,165	651,270
DEDUCTIONS					
Benefits paid to participants or beneficiaries	-	-	-	88,497	88,497
Amounts distributed to clients, claimants, or third parties	56,064	64,609	1,699	-	122,372
Administrative expense	4,104	145	-	-	4,248
Total Deductions	60,168	64,754	1,699	88,497	215,117
Net increase (decrease)	(3,307)	3,725	67	435,668	436,153
Net assets held in trust for others - Beginning of fiscal year	87,498	32,469	163	1,395,512	1,515,641
Net assets held in trust for others End of fiscal year	\$ 84,191	\$ 36,193	\$ 230	\$ 1,831,180	\$ 1,951,794
Reconciliation of Net Increase in Assets:					
Net increase (decrease) in assets held in trust for other purposes	\$ (3,307)	\$ 3,725	\$ 67	\$ 435,668	\$ 436,153
Total net increase (decrease)	\$ (3,307)	\$ 3,725	\$ 67	\$ 435,668	\$ 436,153

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 Michigan Compiled Laws Sections 324.11141 and 324.11523 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 MCL 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 (MSHFA) 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, 2007
 (In Thousands)

	ENVIRONMENTAL QUALITY DEPOSITS FUND	INSURANCE CARRIER DEPOSITS FUND	STATE TREASURER'S ESCROW AND PAYING AGENT FUND	CHILD SUPPORT COLLECTION FUND	TOTALS
ASSETS					
Cash	\$ -	\$ -	\$ 147	\$ 50,608	\$ 50,756
Equity in common cash	3,055	914	-	-	3,969
Investments at Fair Value:					
Short-term investments	-	-	13,419	-	13,419
Bonds, notes, mortgages, and preferred stock	-	-	6,866	-	6,866
Other current assets	-	-	743	2	745
Other noncurrent assets	-	383,764	-	-	383,764
Total Assets	<u>\$ 3,055</u>	<u>\$ 384,678</u>	<u>\$ 21,176</u>	<u>\$ 50,610</u>	<u>\$ 459,519</u>
LIABILITIES					
Warrants outstanding	\$ -	\$ 5	\$ -	\$ -	\$ 5
Accounts payable and other liabilities	3,055	909	14,211	49,455	67,630
Amounts due to other funds	-	-	-	1,155	1,155
Other long-term liabilities	-	383,764	6,965	-	390,729
Total Liabilities	<u>\$ 3,055</u>	<u>\$ 384,678</u>	<u>\$ 21,176</u>	<u>\$ 50,610</u>	<u>\$ 459,519</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	BALANCE OCTOBER 1, 2006	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2007
ENVIRONMENTAL QUALITY DEPOSITS FUND				
ASSETS				
Equity in common cash	\$ 2,887	\$ 176	\$ 8	\$ 3,055
Total Assets	<u>\$ 2,887</u>	<u>\$ 176</u>	<u>\$ 8</u>	<u>\$ 3,055</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 2,887	\$ 176	\$ 8	\$ 3,055
Total Liabilities	<u>\$ 2,887</u>	<u>\$ 176</u>	<u>\$ 8</u>	<u>\$ 3,055</u>
INSURANCE CARRIER DEPOSITS FUND				
ASSETS				
Equity in common cash	\$ 1,255	\$ 57,652	\$ 57,992	\$ 914
Other noncurrent assets	382,639	82,968	81,843	383,764
Total Assets	<u>\$ 383,894</u>	<u>\$ 140,620</u>	<u>\$ 139,835</u>	<u>\$ 384,678</u>
LIABILITIES				
Warrants outstanding	\$ 72	\$ -	\$ 66	\$ 5
Accounts payable and other liabilities	1,183	57,748	58,022	909
Other long-term liabilities	382,639	82,968	81,843	383,764
Total Liabilities	<u>\$ 383,894</u>	<u>\$ 140,716</u>	<u>\$ 139,932</u>	<u>\$ 384,678</u>
STATE TREASURER'S ESCROW AND PAYING AGENT FUND				
ASSETS				
Cash	\$ 201	\$ 17,307	\$ 17,362	\$ 147
Investments at Fair Value:				
Short-term investments	13,504	13,792	13,877	13,419
Bonds, notes, mortgages, and preferred stock	20,285	-	13,419	6,866
Other current assets	1,281	2,867	3,405	743
Total Assets	<u>\$ 35,272</u>	<u>\$ 33,967</u>	<u>\$ 48,062</u>	<u>\$ 21,176</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 14,939	\$ 19,666	\$ 20,393	\$ 14,211
Other long-term liabilities	20,333	-	13,368	6,965
Total Liabilities	<u>\$ 35,272</u>	<u>\$ 19,666</u>	<u>\$ 33,761</u>	<u>\$ 21,176</u>

	BALANCE OCTOBER 1, 2006	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2007
CHILD SUPPORT COLLECTION FUND				
ASSETS				
Cash	\$ 61,749	\$ 1,600,408	\$ 1,611,549	\$ 50,608
Other current assets	5	5	8	2
Total Assets	\$ 61,754	\$ 1,600,413	\$ 1,611,557	\$ 50,610
LIABILITIES				
Accounts payable and other liabilities	\$ 60,680	\$ 1,642,726	\$ 1,653,951	\$ 49,455
Amounts due to other funds	1,073	5,278	5,197	1,155
Total Liabilities	\$ 61,754	\$ 1,648,004	\$ 1,659,148	\$ 50,610
TOTALS - ALL AGENCY FUNDS				
ASSETS				
Cash	\$ 61,950	\$ 1,617,716	\$ 1,628,910	\$ 50,756
Equity in common cash	4,141	57,828	58,000	3,969
Investments at Fair Value:				
Short-term investments	13,504	13,792	13,877	13,419
Bonds, notes, mortgages, and preferred stock	20,285	-	13,419	6,866
Other current assets	1,286	2,872	3,413	745
Other noncurrent assets	382,639	82,968	81,843	383,764
Total Assets	\$ 483,806	\$ 1,775,176	\$ 1,799,463	\$ 459,519
LIABILITIES				
Warrants outstanding	\$ 72	\$ -	\$ 66	\$ 5
Accounts payable and other liabilities	79,689	1,720,316	1,732,375	67,630
Amounts due to other funds	1,073	5,278	5,197	1,155
Other long-term liabilities	402,972	82,968	95,211	390,729
Total Liabilities	\$ 483,806	\$ 1,808,562	\$ 1,832,849	\$ 459,519

COMPONENT UNITS – AUTHORITIES

FARM PRODUCE INSURANCE AUTHORITY

Michigan Compiled Laws Section 285.315 created the Farm Produce Insurance Authority as a public body corporate. Operating under MCL Sections 285.311 – 285.331, the Authority is governed and administered by a nine-member board of directors. The Authority 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

MCL 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. The 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

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 MCL Sections 324.76701 – 324.76709. 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

MCL 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 the authority to remain financially self-sufficient by generating revenues from project lending and joint venture activity.

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

MICHIGAN 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 MCL Sections 124.501 – 124.512. 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 VII, Section 28 of the Michigan State Constitution of 1963 and MCL Sections 124.501 – 124.512, is a public body corporate. Created by a ten-year contract (inter-local agreement) between participating local economic development corporations formed under MCL Sections 125.1601 – 125.1636 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

MCL Section 285.164 created the Michigan Exposition and Fairgrounds Authority (MEFA) as a public body corporate within the Department of Management and Budget. MEFA is responsible for conducting an annual State Fair and other exhibits or events for the purpose of promoting all phases of the economy of the State. Fund revenues are derived from the annual State Fair and other exhibits, leases, rentals, or other charges for the use of the buildings and grounds scheduled during the year.

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

MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY

MCL 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

MCL 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. The 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

MCL 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 was organized by MCL Section 12.192. The Authority was created in response to the passage of the federal Economic Growth and Tax Relief Reconciliation Act of 2001. This act authorizes the issuance of "qualified public educational facility bonds" as tax exempt facility bonds.

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

MICHIGAN STATE HOSPITAL FINANCE AUTHORITY

The Michigan State Hospital Finance Authority (MSHFA) was organized under MCL Sections 331.31 – 331.84 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 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. In 2003, MCL Section 445.2011 transferred MSF from the Department of Management and Budget to the Department of Labor and Economic Growth. 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 the State Departments of Labor and Economic Growth 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 of the board members have terms expiring December 31, 2007. After this date the board will have nine members.

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, 2007

(In Thousands)

	FARM PRODUCE INSURANCE AUTHORITY	LAND BANK FAST TRACK AUTHORITY	MACKINAC BRIDGE AUTHORITY
ASSETS			
Current Assets:			
Cash	\$ 24	\$ -	\$ 1,511
Equity in common cash	-	2,424	-
Amounts due from primary government	-	-	-
Amounts due from federal government	-	-	-
Amounts due from local units	-	-	-
Inventories	-	-	-
Investments	2,181	-	15,034
Other current assets	1,155	-	199
Total Current Assets	<u>3,360</u>	<u>2,424</u>	<u>16,744</u>
Restricted Assets:			
Cash and cash equivalents	-	-	-
Investments	-	-	-
Mortgages and loans receivable	-	-	-
Investments	-	-	16,306
Capital Assets:			
Land and other non-depreciable assets	-	9,224	125
Buildings, equipment, and other depreciable assets	-	-	8,355
Less accumulated depreciation	-	-	(4,148)
Infrastructure	-	-	102,722
Total capital assets	<u>-</u>	<u>9,224</u>	<u>107,053</u>
Other noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 3,360</u>	<u>\$ 11,648</u>	<u>\$ 140,104</u>
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ -	\$ -	\$ -
Accounts payable and other liabilities	-	16	781
Amounts due to primary government	90	3	1,386
Amounts due to federal government	-	-	-
Bonds and notes payable	-	-	-
Interest payable	-	-	-
Deferred revenue	-	-	1,023
Current portion of other long-term obligations	<u>-</u>	<u>3</u>	<u>250</u>
Total Current Liabilities	<u>90</u>	<u>22</u>	<u>3,440</u>
Bonds and notes payable	-	155	-
Noncurrent portion of other long-term obligations	<u>-</u>	<u>25</u>	<u>255</u>
Total Liabilities	<u>\$ 90</u>	<u>\$ 201</u>	<u>\$ 3,695</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ -	\$ 9,224	\$ 107,053
Restricted For:			
Construction and debt service	-	-	-
Other purposes	-	-	-
Unrestricted	<u>3,269</u>	<u>2,223</u>	<u>29,356</u>
Total Net Assets	<u>\$ 3,269</u>	<u>\$ 11,447</u>	<u>\$ 136,409</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
\$ 647	\$ -	\$ 2,051	\$ 21,116	\$ 4
-	-	-	24,776	932
500	-	2,498	-	-
-	-	-	518	-
-	-	-	-	-
658	-	-	-	-
444	-	-	700	-
30	2,440	1	5,295	557
<u>2,280</u>	<u>2,440</u>	<u>4,551</u>	<u>52,406</u>	<u>1,492</u>
1,155	-	-	-	-
2,425	-	-	-	-
-	10,401	-	25,425	-
-	-	-	4,082	-
337	-	-	-	3,360
9,959	-	-	16,738	12,346
(6,989)	-	-	(6,098)	(7,757)
-	-	-	-	-
<u>3,307</u>	<u>-</u>	<u>-</u>	<u>10,639</u>	<u>7,949</u>
-	-	-	-	39
<u>\$ 9,167</u>	<u>\$ 12,841</u>	<u>\$ 4,551</u>	<u>\$ 92,552</u>	<u>\$ 9,480</u>
\$ -	\$ -	\$ -	\$ 15	\$ 193
90	-	3,865	8,342	1,270
-	-	-	89	17
-	-	-	-	-
280	-	-	-	-
29	-	-	-	-
55	-	-	-	26
-	2,440	-	1,279	57
<u>454</u>	<u>2,440</u>	<u>3,865</u>	<u>9,724</u>	<u>1,563</u>
1,030	-	-	-	-
-	10,401	-	1,285	85
<u>\$ 1,485</u>	<u>\$ 12,841</u>	<u>\$ 3,865</u>	<u>\$ 11,010</u>	<u>\$ 1,648</u>
\$ 1,997	\$ -	\$ -	\$ 10,639	\$ 7,949
3,126	-	-	-	-
1,564	-	-	-	-
995	-	685	70,903	(117)
<u>\$ 7,682</u>	<u>\$ -</u>	<u>\$ 685</u>	<u>\$ 81,542</u>	<u>\$ 7,832</u>

COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS
AUTHORITIES (Continued)
 SEPTEMBER 30, 2007
 (In Thousands)

	MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY	MICHIGAN HIGHER EDUCATION FACILITIES AUTHORITY	MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY
ASSETS			
Current Assets:			
Cash	\$ 5,364	\$ -	\$ 86,397
Equity in common cash	-	-	-
Amounts due from primary government	849	482	174
Amounts due from federal government	2,331	-	-
Amounts due from local units	-	-	-
Inventories	-	-	-
Investments	9,988	-	268,224
Other current assets	1,124	38	287,004
Total Current Assets	<u>19,655</u>	<u>520</u>	<u>641,799</u>
Restricted Assets:			
Cash and cash equivalents	-	-	-
Investments	-	-	-
Mortgages and loans receivable	-	-	1,820,102
Investments	-	-	515
Capital Assets:			
Land and other non-depreciable assets	-	-	-
Buildings, equipment, and other depreciable assets	2,061	-	-
Less accumulated depreciation	(1,002)	-	-
Infrastructure	-	-	-
Total capital assets	<u>1,060</u>	<u>-</u>	<u>-</u>
Other noncurrent assets	-	-	17,558
Total Assets	<u>\$ 20,715</u>	<u>\$ 520</u>	<u>\$ 2,479,974</u>
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ -	\$ -	\$ -
Accounts payable and other liabilities	-	-	8,074
Amounts due to primary government	654	-	-
Amounts due to federal government	397	-	-
Bonds and notes payable	-	-	29,550
Interest payable	-	-	8,951
Deferred revenue	-	-	-
Current portion of other long-term obligations	1	-	49
Total Current Liabilities	<u>1,053</u>	<u>-</u>	<u>46,624</u>
Bonds and notes payable	-	-	2,288,434
Noncurrent portion of other long-term obligations	439	22	45,856
Total Liabilities	<u>\$ 1,492</u>	<u>\$ 22</u>	<u>\$ 2,380,914</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 1,060	\$ -	\$ -
Restricted For:			
Construction and debt service	-	-	14,602
Other purposes	18,163	-	-
Unrestricted	-	498	84,458
Total Net Assets	<u>\$ 19,222</u>	<u>\$ 498</u>	<u>\$ 99,060</u>

Michigan

MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY	MICHIGAN STATE HOSPITAL FINANCE AUTHORITY	MICHIGAN STRATEGIC FUND	STATE BAR OF MICHIGAN	TOTALS
\$ 9,272	\$ 706	\$ 151	\$ 2,609	\$ 129,850
-	-	23,116	-	51,248
184	93	-	-	4,781
-	-	17,695	-	20,545
19,610	-	-	-	19,610
-	-	-	-	658
-	1,978	-	6,087	304,637
94	900	993	650	300,480
<u>29,160</u>	<u>3,677</u>	<u>41,954</u>	<u>9,346</u>	<u>831,809</u>
-	-	5,530	-	6,685
-	36	-	-	2,461
-	-	54,301	-	1,910,229
-	2,609	12,650	-	36,162
-	-	-	381	13,427
-	64	-	11,567	61,089
-	(62)	-	(6,007)	(32,062)
-	-	-	-	102,722
-	3	-	5,940	145,175
-	-	-	-	17,597
<u>\$ 29,160</u>	<u>\$ 6,324</u>	<u>\$ 114,435</u>	<u>\$ 15,286</u>	<u>\$ 2,950,118</u>
\$ -	\$ -	\$ -	\$ -	\$ 208
-	36	20,613	858	43,945
-	-	7	-	2,246
-	-	-	-	397
24,283	-	-	-	54,113
169	-	-	-	9,149
-	-	89	962	2,154
-	-	1,198	-	5,277
<u>24,452</u>	<u>36</u>	<u>21,907</u>	<u>1,819</u>	<u>117,490</u>
-	-	-	-	2,289,619
24	139	4,737	-	63,269
<u>\$ 24,476</u>	<u>\$ 175</u>	<u>\$ 26,644</u>	<u>\$ 1,819</u>	<u>\$ 2,470,378</u>
\$ -	\$ 3	\$ -	\$ 5,940	\$ 143,864
-	-	-	-	17,728
4,506	-	-	-	24,233
178	6,147	87,791	7,527	293,915
<u>\$ 4,684</u>	<u>\$ 6,149</u>	<u>\$ 87,791</u>	<u>\$ 13,467</u>	<u>\$ 479,740</u>

COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - AUTHORITIES

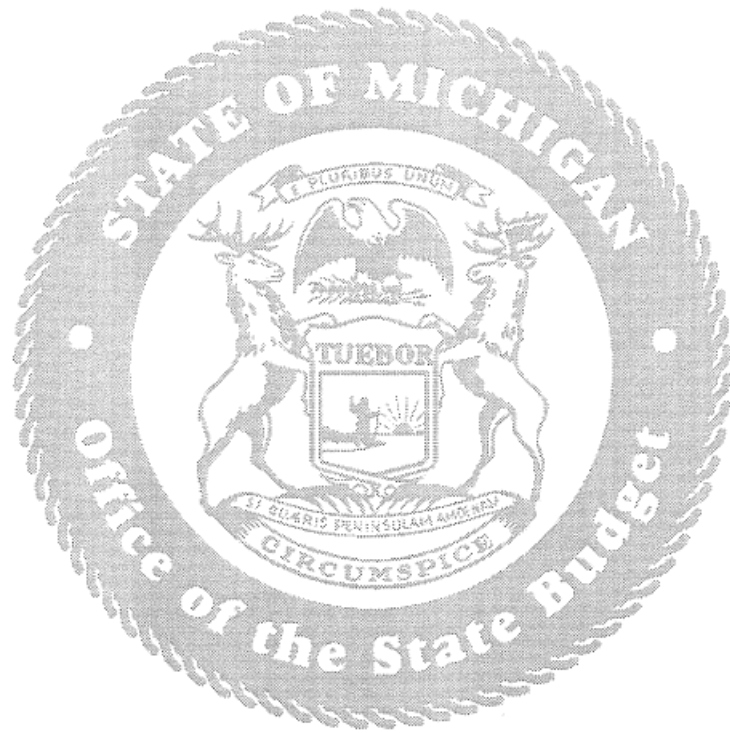
FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	
Farm Produce Insurance Authority	\$ 160	\$ 2,103	\$ -	\$ -	\$ 1,943
Land Bank Fast Track Authority	941	-	90	-	(851)
Mackinac Bridge Authority	9,018	13,987	-	-	4,969
Mackinac Island State Park Commission	4,281	4,198	82	-	(1)
Michigan Broadband Development Authority	1,359	-	1,168	-	(192)
Michigan Early Childhood Investment Corporation	15,066	-	15,366	-	300
Michigan Economic Development Corporation	51,365	-	35,427	-	(15,939)
Michigan Exposition and Fairgrounds Authority	5,057	-	4,746	-	(311)
Michigan Higher Education Assistance Authority	153,825	21,600	127,229	-	(4,995)
Michigan Higher Education Facilities Authority	143	152	-	-	9
Michigan Higher Education Student Loan Authority	124,206	119,516	-	-	(4,689)
Michigan Public Educational Facilities Authority	1,415	172	713	-	(530)
Michigan State Hospital Finance Authority	950	1,035	-	-	85
Michigan Strategic Fund	144,687	2,619	42,839	-	(99,229)
State Bar of Michigan	10,683	11,534	-	-	851
Total	<u>\$ 523,156</u>	<u>\$ 176,916</u>	<u>\$ 227,660</u>	<u>\$ -</u>	<u>\$ (118,579)</u>

Michigan

GENERAL REVENUES						
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	SPECIAL ITEMS	CHANGE IN NET ASSETS	NET ASSETS BEGINNING OF YEAR RESTATED	NET ASSETS END OF YEAR
\$ 68	\$ -	\$ 215	\$ -	\$ 2,227	\$ 1,043	\$ 3,269
136	-	466	-	(249)	11,696	11,447
1,590	-	-	-	6,560	129,850	136,409
182	-	-	-	181	7,501	7,682
-	-	265	-	73	(73)	-
87	-	-	-	387	298	685
2,177	-	7,700	-	(6,061)	87,603	81,542
(21)	-	-	-	(332)	8,165	7,832
-	-	-	-	(4,995)	24,218	19,222
15	-	-	-	25	473	498
29,721	-	-	(95,000)	(69,968)	169,028	99,060
-	-	-	-	(530)	5,214	4,684
257	-	-	-	342	5,808	6,149
791	125,513	2,960	-	30,035	57,757	87,791
821	-	-	-	1,672	11,795	13,467
<u>\$ 35,826</u>	<u>\$ 125,513</u>	<u>\$ 11,606</u>	<u>\$ (95,000)</u>	<u>\$ (40,634)</u>	<u>\$ 520,374</u>	<u>\$ 479,740</u>



COMPONENT UNITS – STATE UNIVERSITIES

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

The information presented in this report for the ten universities is based upon their separately issued financial statements for the fiscal year ended on June 30, 2007. 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, 2007

(In Thousands)

	EASTERN MICHIGAN UNIVERSITY	FERRIS STATE UNIVERSITY	GRAND VALLEY STATE UNIVERSITY	LAKE SUPERIOR STATE UNIVERSITY
ASSETS				
Current Assets:				
Cash	\$ 66,886	\$ 33,623	\$ 13,278	\$ 5,028
Amounts due from primary government	10,608	7,986	31,421	905
Amounts due from federal government	2,518	3	1,798	209
Amounts due from local units	-	-	-	-
Inventories	576	1,266	2,043	314
Investments	-	35,258	20,337	-
Other current assets	14,616	5,217	9,206	1,602
Total Current Assets	<u>95,204</u>	<u>83,352</u>	<u>78,084</u>	<u>8,058</u>
Restricted Assets:				
Cash and cash equivalents	-	-	413	1,026
Investments	66,534	14,057	-	4,687
Mortgages and loans receivable	10,920	18,646	8,775	-
Mortgages and loans receivable Investments	-	-	-	2,671
	-	41,414	123,944	9,160
Capital Assets:				
Land and other non-depreciable assets	10,590	6,118	30,650	2,556
Buildings, equipment, and other depreciable assets	525,088	333,851	557,970	140,331
Less accumulated depreciation	(223,942)	(146,693)	(151,899)	(71,450)
Construction in progress	9,915	6,923	21,488	-
Total capital assets	<u>321,651</u>	<u>200,198</u>	<u>458,209</u>	<u>71,437</u>
Other noncurrent assets	7,701	1,475	5,717	-
Total Assets	<u>\$ 502,010</u>	<u>\$ 359,144</u>	<u>\$ 675,142</u>	<u>\$ 97,038</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 35,118	\$ 13,680	\$ 44,078	\$ 1,794
Amounts due to primary government	356	-	67	190
Bonds and notes payable	4,688	2,900	11,006	915
Interest payable	551	879	812	174
Deferred revenue	7,166	5,990	11,863	974
Current portion of other long-term obligations	-	85	3,367	732
Total Current Liabilities	<u>47,878</u>	<u>23,534</u>	<u>71,193</u>	<u>4,779</u>
Deferred revenue	-	942	763	-
Bonds and notes payable	146,981	72,685	137,090	27,545
Noncurrent portion of other long-term obligations	4,062	7,855	727	4,026
Total Liabilities	<u>\$ 198,921</u>	<u>\$ 105,015</u>	<u>\$ 209,774</u>	<u>\$ 36,351</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 170,067	\$ 127,170	\$ 313,412	\$ 42,157
Restricted For:				
Education	-	21,457	16,016	14,920
Construction and debt service	18,069	-	2,999	251
Other purposes	16,839	-	-	3,129
Funds Held as Permanent Investments:				
Expendable	-	7,674	28,772	-
Nonexpendable	52,798	14,057	24,310	-
Unrestricted	45,315	83,770	79,860	231
Total Net Assets	<u>\$ 303,089</u>	<u>\$ 254,129</u>	<u>\$ 465,368</u>	<u>\$ 60,687</u>

Michigan

MICHIGAN TECHNOLOGICAL UNIVERSITY	NORTHERN MICHIGAN UNIVERSITY	OAKLAND UNIVERSITY	SAGINAW VALLEY STATE UNIVERSITY	TOTALS
\$ 15,408	\$ 49,335	\$ 43,835	\$ 40,537	\$ 267,931
5,953	6,278	3,756	23,151	90,058
4,083	2,099	1,466	1,308	13,484
-	14	160	-	174
1,467	1,354	1,183	1,702	9,905
49,156	6,724	-	3	111,479
7,016	5,022	7,788	5,891	56,358
<u>83,083</u>	<u>70,827</u>	<u>58,190</u>	<u>72,592</u>	<u>549,389</u>
7,306	-	-	86	8,831
46,020	-	43,037	-	174,335
-	-	1,872	-	40,213
13,504	7,269	-	30	23,474
7,391	52,542	68,307	37,477	340,235
13,526	5,580	4,325	2,490	75,834
336,728	340,217	371,095	343,351	2,948,631
(128,130)	(118,680)	(156,727)	(109,644)	(1,107,166)
1,974	6,925	26,883	8,637	82,745
<u>224,098</u>	<u>234,041</u>	<u>245,576</u>	<u>244,833</u>	<u>2,000,044</u>
9,152	1,011	2,411	5,212	32,680
<u>\$ 390,555</u>	<u>\$ 365,691</u>	<u>\$ 419,393</u>	<u>\$ 360,230</u>	<u>\$ 3,169,202</u>
\$ 14,029	\$ 15,087	\$ 20,527	\$ 17,848	\$ 162,162
648	114	311	-	1,686
1,030	3,082	2,562	2,091	28,274
442	-	215	-	3,072
3,354	4,415	8,614	4,874	47,249
2,716	938	3,013	116	10,967
<u>22,219</u>	<u>23,635</u>	<u>35,242</u>	<u>24,930</u>	<u>253,410</u>
-	-	3,377	-	5,082
49,185	99,372	103,241	110,853	746,952
7,404	10,440	2,267	2,751	39,532
<u>\$ 78,808</u>	<u>\$ 133,447</u>	<u>\$ 144,126</u>	<u>\$ 138,534</u>	<u>\$ 1,044,975</u>
\$ 173,945	\$ 131,588	\$ 143,428	\$ 150,759	\$ 1,252,525
77,574	2,513	18,863	7,891	159,235
-	6,753	-	444	28,517
-	-	-	-	19,968
-	18,580	11,629	-	66,654
49,278	6,870	12,478	33,834	193,624
10,950	65,940	88,870	28,767	403,702
<u>\$ 311,747</u>	<u>\$ 232,244</u>	<u>\$ 275,267</u>	<u>\$ 221,696</u>	<u>\$ 2,124,226</u>

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

FISCAL YEAR ENDED JUNE 30, 2007

(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	
Eastern Michigan University	\$ 300,288	\$ 193,011	\$ 19,198	\$ 114	\$ (87,965)
Ferris State University	190,928	125,956	18,595	-	(46,377)
Grand Valley State University	290,051	191,488	41,298	3,222	(54,042)
Lake Superior State University	45,921	20,936	7,491	780	(16,714)
Michigan Technological University	185,713	77,749	67,250	8,120	(32,594)
Northern Michigan University	143,822	82,727	19,421	162	(41,512)
Oakland University	197,830	127,641	25,328	178	(44,684)
Saginaw Valley State University	103,257	61,607	13,385	-	(28,264)
Total	<u>\$ 1,457,810</u>	<u>\$ 881,114</u>	<u>\$ 211,967</u>	<u>\$ 12,576</u>	<u>\$ (352,152)</u>

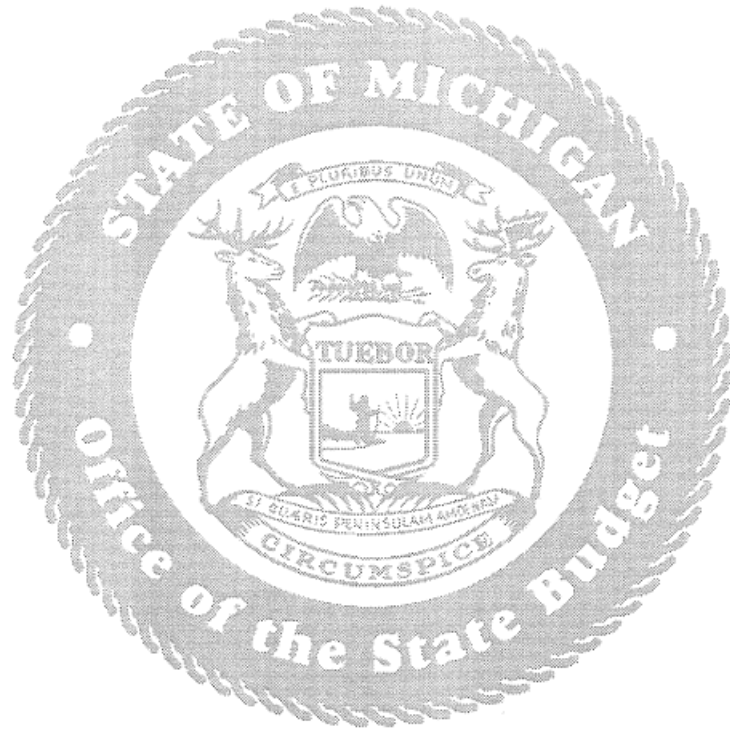
GENERAL REVENUES

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
\$ 5,061	\$ 72,773	\$ 3,564	\$ (6,566)	\$ 309,655	\$ 303,089
6,672	47,965	5,537	13,796	240,332	254,129
7,160	65,907	5,540	24,564	440,804	465,368
2,207	11,225	-	(3,282)	63,969	60,687
5,641	43,657	-	16,704	295,043	311,747
9,544	41,035	-	9,067	223,177	232,244
10,526	46,614	185	12,642	262,625	275,267
6,200	35,477	3,195	16,607	205,088	221,696
<u>\$ 53,010</u>	<u>\$ 364,653</u>	<u>\$ 18,021</u>	<u>\$ 83,532</u>	<u>\$ 2,040,694</u>	<u>\$ 2,124,226</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 present information to help the reader assess the affordability of the State’s current levels of outstanding debt and the State’s ability to issue additional debt in the future. The State has no statutory limit on the amount of general obligation debt that may be authorized.

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These schedules offer demographic and economic indicators to help the reader understand the environment within which the State’s financial activities take place.

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Operating Information

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 SEVEN FISCAL YEARS**

(In Thousands)

(Accrual Basis of Accounting)

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Governmental activities			
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)
Total governmental activities net assets	<u>\$ 19,383,790</u>	<u>\$ 17,369,957</u>	<u>\$ 16,230,358</u>
Business-type activities			
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
Total business-type activities net assets	<u>\$ 3,128,093</u>	<u>\$ 2,568,793</u>	<u>\$ 1,770,575</u>
Primary government			
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)
Total primary government net assets	<u>\$ 22,511,883</u>	<u>\$ 19,938,749</u>	<u>\$ 18,000,933</u>
Reconciliation of net assets			
Beginning net assets	\$ 22,586,033	\$ 22,511,883	\$ 19,938,749
Restatement of beginning net assets	-	-	-
Beginning net assets - restated	<u>22,586,033</u>	<u>22,511,883</u>	<u>19,938,749</u>
Statement of Activities-changes in net assets	(74,150)	(2,573,134)	(1,937,817)
Ending net assets	<u>\$ 22,511,883</u>	<u>\$ 19,938,749</u>	<u>\$ 18,000,933</u>

Michigan

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

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

(In Thousands)

(Accrual Basis of Accounting)

	2001	2002	2003
Expenses			
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>
Program Revenues			
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 revenue	<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 revenue	<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>
Net (Expenses)/Revenues			
Governmental activities	\$ (24,331,111)	\$ (25,354,041)	\$ (25,096,114)
Business-type activities	513,448	322,935	33,144
Total primary government net expense	<u>\$ (23,817,663)</u>	<u>\$ (25,031,106)</u>	<u>\$ (25,062,969)</u>

Michigan

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

CHANGES IN NET ASSETS
LAST SEVEN FISCAL YEARS (Continued)

(In Thousands)

(Accrual Basis of Accounting)

	2001	2002	2003
General Revenues and Other Changes in Net Assets			
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	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
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>
Changes in Net Assets			
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
\$	2,565,865	\$ 2,663,226	\$ 2,665,614	\$ 2,635,341
	4,693,512	5,036,282	5,123,885	5,321,169
	1,773,325	1,934,003	1,926,884	1,771,854
	1,640,244	2,209,052	2,189,417	2,348,619
	5,143,414	5,283,583	5,240,334	5,230,217
	1,896,860	2,019,932	2,069,435	2,142,251
	2,142,706	2,236,159	2,320,578	2,336,474
	775,297	754,431	759,440	747,241
	64,960	56,924	66,405	67,678
	1,070,488	1,068,565	1,054,766	1,016,957
	933,822	863,367	867,663	874,287
	7,721	6,719	5,974	6,339
	9,728	14,141	9,991	12,097
	677,848	788,809	1,003,976	1,124,818
	30,759	41,033	35,153	26,165
	901,580	859,260	864,406	943,460
\$	<u>24,328,129</u>	<u>\$ 25,835,487</u>	<u>\$ 26,203,921</u>	<u>\$ 26,604,970</u>
	11,989	12,194	12,654	13,133
	1,225	2,784	4,861	5,055
	-	50	-	-
	(901,580)	(859,260)	(864,406)	(943,460)
	<u>(888,366)</u>	<u>(844,232)</u>	<u>(846,892)</u>	<u>(925,273)</u>
\$	<u>23,439,763</u>	<u>\$ 24,991,255</u>	<u>\$ 25,357,029</u>	<u>\$ 25,679,697</u>
\$	(437,710)	\$ 328,952	\$ (420,415)	\$ (309,175)
	(600,524)	(269,030)	(271,766)	(266,343)
\$	<u>(1,038,233)</u>	<u>\$ 59,922</u>	<u>\$ (692,181)</u>	<u>\$ (575,518)</u>

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

(In Thousands)

(Modified Accrual Basis of Accounting)

	1998	1999	2000	2001
General Fund				
Reserved	\$ 1,210,198	\$ 1,575,960	\$ 1,889,523	\$ 1,880,452
Unreserved	55,172	-	211,810	28,072
Total general fund	<u>\$ 1,265,370</u>	<u>\$ 1,575,960</u>	<u>\$ 2,101,333</u>	<u>\$ 1,908,525</u>
All Other Governmental Funds				
Reserved	\$ 1,141,022	\$ 1,014,183	\$ 1,396,417	\$ 1,393,523
Unreserved, reported in:				
Special revenue funds	1,561,102	2,112,480	2,358,165	2,462,033
Debt service funds	283,737	246,973	291,822	318,721
Capital projects funds	(154,903)	(265,559)	(513,593)	(287,958)
Permanent funds	-	-	-	41,082
Total all other governmental funds	<u>\$ 2,830,958</u>	<u>\$ 3,108,077</u>	<u>\$ 3,532,811</u>	<u>\$ 3,927,400</u>
Reconciliation of governmental fund balances				
Beginning fund balances	\$ 3,334,293	\$ 4,096,329	\$ 4,684,037	\$ 5,634,144
Restatement of beginning fund balances	(150,194)	21,911	-	369,229
Beginning fund balances - restated	3,184,099	4,118,239	4,684,037	6,003,373
Excess of revenues and other sources over (under) expenditures and other uses	912,230	565,798	950,107	(167,449)
Ending fund balances	<u>\$ 4,096,329</u>	<u>\$ 4,684,037</u>	<u>\$ 5,634,144</u>	<u>\$ 5,835,924</u>

Michigan

2002	2003	2004	2005	2006	2007
\$ 1,662,579	\$ 1,136,802	\$ 1,169,819	\$ 1,232,856	\$ 1,066,757	\$ 722,948
114,500	173,956	-	220,537	2,482	259,080
<u>\$ 1,777,079</u>	<u>\$ 1,310,758</u>	<u>\$ 1,169,819</u>	<u>\$ 1,453,393</u>	<u>\$ 1,069,240</u>	<u>\$ 982,028</u>
\$ 1,441,759	\$ 1,445,064	\$ 1,665,549	\$ 1,759,462	\$ 1,657,248	\$ 1,945,448
968,700	571,164	537,917	303,226	868,138	838,167
406,903	369,313	365,841	194,586	189,851	208,868
(158,776)	(436,623)	(451,060)	(349,643)	(87,918)	(239,869)
40,459	34,719	42,778	43,259	43,791	41,361
<u>\$ 2,699,045</u>	<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>
\$ 5,835,924	\$ 4,476,125	\$ 3,294,395	\$ 3,330,844	\$ 3,404,284	\$ 3,740,351
-	(255,500)	-	-	-	-
5,835,924	4,220,625	3,294,395	3,330,844	3,404,284	3,740,351
(1,359,800)	(926,230)	36,449	73,440	336,067	35,653
<u>\$ 4,476,125</u>	<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>

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

(In Thousands)

(Modified Accrual Basis of Accounting)

	1998	1999	2000	2001
Revenues				
Taxes	\$ 20,626,025	\$ 21,958,875	\$ 22,865,469	\$ 22,405,023
From federal agencies	7,679,518	7,911,473	8,581,461	9,572,898
From local agencies	165,443	183,822	173,882	227,996
From services	107,623	113,415	110,294	115,346
From licenses and permits	376,909	383,778	393,006	391,655
Special Medicaid reimbursements	585,179	690,799	1,059,343	1,155,374
Miscellaneous	734,284	796,444	1,063,355	1,411,628
Total revenues	<u>30,274,981</u>	<u>32,038,606</u>	<u>34,246,809</u>	<u>35,279,920</u>
Expenditures				
General government	1,003,812	1,072,930	1,071,893	1,277,822
Education	11,488,544	11,851,116	12,510,188	14,176,060
Human services	3,262,649	3,229,377	3,336,835	3,598,591
Public safety and corrections	1,720,105	1,908,871	1,983,001	2,159,602
Conservation, environment, recreation, and agriculture	446,377	482,901	564,738	636,279
Labor, commerce, and regulatory	763,484	720,070	740,687	881,069
Health services	6,781,614	7,100,795	7,692,354	8,525,435
Transportation	1,556,082	1,645,123	1,663,318	2,058,484
Tax expenditures	477,000	486,100	502,100	532,800
Capital outlay	955,941	1,307,822	1,427,858	1,532,145
Intergovernmental - revenue sharing	1,381,009	1,410,400	1,494,016	1,555,799
Debt service:				
Bond principal retirement	185,666	218,266	199,820	219,552
Bond interest and fiscal charges	183,562	195,708	202,434	201,980
Capital lease payments	58,905	59,287	52,027	48,820
Total Expenditures	<u>30,264,751</u>	<u>31,688,767</u>	<u>33,441,268</u>	<u>37,404,438</u>
Excess of revenues over (under) expenditures	10,229	349,839	805,541	(2,124,519)
Other Financing Sources (Uses)				
Bonds and notes issued	739,548	85,488	231,115	1,223,549
Premium on bond issuance	-	-	-	44,373
Discount on bond issuance	-	-	-	-
Refunding bonds issued	421,227	336,145	-	630,812
Payment to refunded bond escrow agent	(419,478)	(360,810)	-	(698,723)
Extinguishment of commercial paper	-	-	-	(40,680)
Capital lease acquisitions	29,027	57,609	22,330	23,014
Proceeds from sale of capital assets	-	-	-	-
Transfers from other funds	2,968,677	3,096,878	3,138,332	3,185,915
Transfers from component units	187	621	354	-
Transfers to other funds	(2,185,673)	(2,282,944)	(2,325,522)	(2,411,191)
Transfers to component units	(632,711)	(706,175)	(904,689)	-
Total other financing sources (uses)	<u>920,804</u>	<u>226,812</u>	<u>161,920</u>	<u>1,957,070</u>
Net change in fund balances	<u>\$ 931,033</u>	<u>\$ 576,651</u>	<u>\$ 967,461</u>	<u>\$ (167,449)</u>
Debt service as a percentage of noncapital expenditures	1%	2%	1%	1%

Michigan

	2002	2003	2004	2005	2006	2007
\$	22,070,408	\$ 22,425,957	\$ 22,799,928	\$ 23,936,964	\$ 24,198,924	\$ 24,370,884
	10,203,716	10,813,804	11,580,220	11,974,006	12,160,022	12,655,930
	248,867	230,728	239,815	262,875	124,101	139,429
	121,849	121,198	148,140	264,956	269,593	284,370
	408,746	417,786	555,858	423,501	437,560	444,841
	1,109,233	932,658	704,551	467,970	93,621	102,670
	1,218,388	1,467,812	1,205,367	1,475,377	1,549,859	1,860,302
	<u>35,381,208</u>	<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>
	1,544,055	1,209,916	1,117,659	1,307,448	1,635,378	1,593,877
	14,744,715	14,866,526	14,445,184	14,557,032	14,758,992	14,679,504
	3,793,974	3,877,953	3,935,170	4,122,779	4,341,774	4,447,992
	2,136,506	2,115,448	2,121,584	2,287,452	2,455,145	2,467,512
	650,353	591,218	586,096	614,939	642,815	568,398
	891,817	891,644	902,903	924,876	952,921	957,023
	8,891,480	9,270,484	9,676,268	10,126,544	9,958,104	10,741,285
	2,118,452	2,080,361	2,212,371	2,167,888	2,082,847	2,178,923
	615,100	707,800	702,700	815,300	834,000	883,400
	1,465,800	1,164,002	1,100,106	1,274,247	1,462,405	1,362,102
	1,517,303	1,451,374	1,305,146	1,112,931	1,103,625	1,071,104
	226,801	222,477	729,557	354,711	773,826	238,789
	225,678	239,054	241,194	276,216	294,093	329,171
	51,387	67,723	50,840	49,530	49,183	46,074
	<u>38,873,422</u>	<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>
	(3,492,214)	(2,346,038)	(1,892,901)	(1,186,245)	(2,511,430)	(1,706,729)
	987,850	568,616	520,676	365,164	1,453,606	1,008,107
	64,238	87,561	55,940	97,857	46,234	18,662
	-	-	-	-	(496,466)	(15,213)
	488,145	692,694	660,249	1,528,539	1,494,050	-
	(527,303)	(851,235)	(247,256)	(1,609,886)	(563,776)	(240,280)
	(51,890)	-	-	-	-	-
	237,272	16,052	19,661	6,778	34,059	20,906
	-	-	17,236	10,643	13,974	5,347
	4,132,997	3,433,535	3,294,939	2,924,083	3,137,772	3,275,148
	-	-	-	-	-	-
	(3,198,895)	(2,527,415)	(2,392,095)	(2,063,492)	(2,271,956)	(2,330,295)
	-	-	-	-	-	-
	<u>2,132,415</u>	<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>(1,359,800)</u>	<u>(926,230)</u>	<u>36,449</u>	<u>73,440</u>	<u>336,067</u>	<u>35,653</u>
	1%	1%	3%	2%	3%	2%

Michigan

PERSONAL INCOME BY INDUSTRY

LAST FIVE FISCAL YEARS

(In Millions)

	<u>2002</u>	<u>2003</u>
Farm earnings	\$ 313	\$ 610
Forestry, fishing, related activities, and other	318	307
Mining	657	705
Utilities	2,558	2,779
Construction	13,797	13,227
Manufacturing	55,399	61,360
Wholesale trade	11,259	11,602
Retail trade	15,437	15,471
Transportation and warehousing	6,535	6,573
Information	4,623	4,640
Finance and insurance	11,134	11,645
Real estate and rental and leasing	6,561	5,733
Professional and technical services	24,179	23,371
Management of companies and enterprises	6,379	6,372
Administrative and waste services	9,034	9,508
Educational services	1,656	1,829
Health care and social assistance	20,959	21,955
Arts, entertainment, and recreation	2,157	2,179
Accommodation and food services	5,041	5,176
Other services, except public administration	6,425	6,644
Government and government enterprises	31,898	33,207
Total earnings by place of work (1)	<u>236,316</u>	<u>244,892</u>
Total earnings by place of work (1)	236,316	244,892
less: Contributions for government social insurance	26,615	27,284
plus: Adjustment for residence	1,078	1,117
Net earnings by place of residence	<u>210,780</u>	<u>218,726</u>
Net earnings by place of residence	210,780	218,726
plus: Dividends, interest, and rent	46,414	45,143
plus: Personal current transfer receipts	44,733	46,595
Total Personal Income	<u>\$ 301,926</u>	<u>\$ 310,463</u>
Statutory Tax Rate (blended rate)	4.13%	4.03%

NOTES: (1) Earnings includes wages and salaries, supplements to wages and proprietors' income.

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.

Industries categorized using the North American Industry Classification System.

Fiscal year 2006 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.

2004	2005	2006
\$ 832	\$ 870	\$ 767
320	326	322
781	826	945
2,762	2,937	3,091
13,662	14,255	14,089
57,930	56,199	55,179
11,934	12,473	12,818
15,662	15,724	15,589
7,046	7,315	7,223
4,769	4,824	4,856
11,925	12,377	12,693
6,135	6,619	6,507
24,012	24,988	25,527
6,907	7,313	6,895
10,015	10,858	11,017
2,055	2,186	2,260
23,183	24,465	25,675
2,293	2,237	2,310
5,461	5,560	5,666
6,807	6,935	7,058
34,763	36,992	38,391
<u>249,250</u>	<u>256,274</u>	<u>258,877</u>
249,250	256,274	258,877
28,034	28,845	29,360
1,213	1,308	1,402
<u>222,430</u>	<u>228,737</u>	<u>230,920</u>
222,430	228,737	230,920
45,786	48,442	52,915
48,711	51,303	54,850
<u>\$ 316,926</u>	<u>\$ 328,482</u>	<u>\$ 338,685</u>
3.98%	3.90%	3.90%

Michigan

TAXABLE SALES BY INDUSTRY

LAST TEN FISCAL YEARS

(In Millions)

	1997	1998	1999	2000
Farming	\$ 66.2	\$ 72.1	\$ 67.9	\$ 83.3
Agricultural	162.9	218.1	245.7	273.0
Mining	117.1	128.3	138.9	174.0
Construction	703.6	697.7	717.2	816.3
Manufacturing	3,699.4	3,638.8	3,812.0	4,040.2
Transportation and utilities	7,209.9	7,502.0	7,795.0	8,331.9
Wholesale trade	2,888.8	2,900.5	3,110.6	3,434.2
Retail trade	66,875.9	70,134.1	72,342.7	78,301.4
Finance, insurance, and real estate	1,540.5	1,575.4	1,385.3	1,153.6
Services	5,840.5	6,170.3	6,803.2	7,720.5
State and local government	144.3	133.9	145.8	167.6
Other classifications	394.6	510.9	571.0	692.6
Total	\$ 89,643.5	\$ 93,682.2	\$ 97,135.3	\$ 105,188.4
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 2006 is the most recent year for which data is available.

SOURCE: Michigan Department of Treasury.

Michigan

2001	2002	2003	2004	2005	2006
\$ 78.9	\$ 80.8	\$ 77.8	\$ 77.2	\$ 78.9	\$ 78.5
269.7	243.3	275.3	275.3	277.5	270.7
183.9	173.8	174.6	159.9	181.0	192.5
795.9	778.8	741.5	768.8	788.3	782.3
3,783.1	3,486.9	3,225.4	3,315.5	3,577.2	3,424.2
8,734.9	8,632.8	9,030.7	9,369.3	10,359.4	11,715.5
3,231.4	2,970.7	3,121.5	3,127.9	3,270.5	3,400.5
80,297.7	82,580.9	82,417.6	83,135.4	84,719.4	83,382.5
929.0	718.1	622.2	472.3	460.8	435.6
8,179.2	8,276.9	8,077.5	7,686.8	7,121.3	6,215.0
172.4	155.6	150.9	162.0	184.3	197.7
675.8	707.6	614.2	951.9	1,021.3	806.4
<u>\$ 107,331.8</u>	<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>
6%	6%	6%	6%	6%	6%

Michigan

PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL

TAX YEARS 1996 AND 2005

Adjusted Gross Income (AGI) Group	Tax Year 1996				Tax Year 2005			
	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	3,138,206	73.66%	\$ 1,317.6	25.24%	2,902,076	65.59%	\$ 502.6	9.41%
\$50,001 - \$100,000	875,701	20.55%	2,097.6	40.19%	1,048,115	23.69%	1,965.6	36.79%
\$100,001 and higher	246,462	5.78%	1,804.1	34.57%	474,471	10.72%	2,874.0	53.80%
Total	4,260,369	100.00%	\$ 5,219.3	100.00%	4,424,662	100.00%	\$ 5,342.1	100.00%

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 2005 is the most recent year for which data is available.

Personal income tax amounts are net of refundable and non-refundable tax credits; however, certain refundable credits are included in the Tax Year 1996 amounts as data by Adjusted Gross Income is not available for that tax year.

SOURCE: Michigan Department of Treasury.

Michigan

SALES TAX PAYERS BY INDUSTRY

FISCAL YEARS 1997 AND 2006

	1997				2006			
	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	511	0.57%	\$ 4.0	0.07%	565	0.53%	\$ 4.7	0.07%
Agricultural	1,341	1.50%	9.8	0.18%	1,548	1.45%	16.2	0.25%
Mining	248	0.28%	7.0	0.13%	290	0.27%	11.5	0.18%
Construction	2,409	2.69%	42.2	0.80%	2,535	2.37%	46.9	0.72%
Manufacturing	6,199	6.93%	222.0	4.18%	6,346	5.94%	205.5	3.15%
Transportation and utilities	1,036	1.16%	361.4	6.81%	1,328	1.24%	565.4	8.68%
Wholesale trade	2,491	2.79%	173.3	3.27%	2,330	2.18%	204.0	3.13%
Retail trade	53,299	59.62%	4,012.6	75.60%	64,588	60.48%	5,003.0	76.77%
Finance, insurance, and real estate	411	0.46%	92.4	1.74%	477	0.45%	26.1	0.40%
Services	20,866	23.34%	350.4	6.60%	25,169	23.57%	372.9	5.72%
State and local government	313	0.35%	8.7	0.16%	319	0.30%	11.9	0.18%
Other classifications	272	0.30%	23.7	0.45%	1,298	1.22%	48.4	0.74%
Total	89,396	100.00%	\$ 5,307.4	100.00%	106,793	100.00%	\$ 6,516.6	100.00%

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 2006 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)

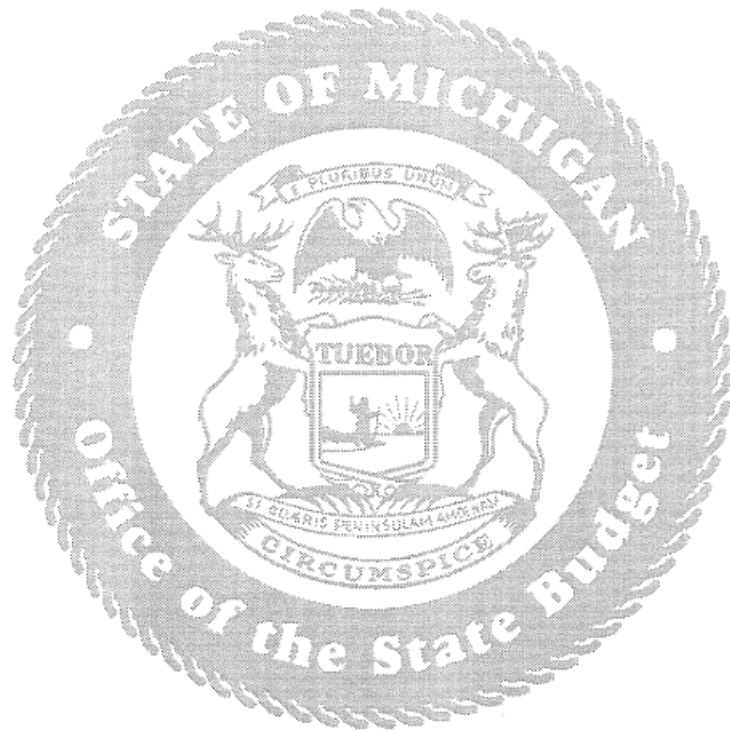
FISCAL YEAR	GOVERNMENTAL ACTIVITIES					
	GENERAL OBLIGATION BONDS	STATE PARK REVENUE BONDS	MUSTFA REVENUE BONDS	TRANSPORTATION REVENUE BONDS	STATE BUILDING AUTHORITY BONDS	TOBACCO SETTLEMENT FINANCE AUTHORITY
1998	\$ 901	\$ -	\$ 194	\$ 894	\$ 1,997	\$ -
1999	870	-	181	859	1,945	-
2000	930	-	167	837	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

Note: The State of Michigan Constitution, Article IX, Section 15 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

<u>CAPITAL LEASES</u>	<u>TOTAL PRIMARY GOVERNMENT</u>	<u>PERCENTAGE OF PERSONAL INCOME</u>	<u>PER CAPITA</u>
\$ 225	\$ 4,211	1.59%	\$ 428
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	1.85%	588
406	6,333	1.91%	627
252	7,888	2.31%	781
248	8,461	Unavailable	Unavailable



RATIOS OF NET GENERAL 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>
1998	\$ 901	\$ -	\$ 901	0.34%	\$ 91.50
1999	870	-	870	0.31%	87.88
2000	930	-	930	0.32%	93.43
2001	1,032	-	1,032	0.34%	103.15
2002	1,120	-	1,120	0.37%	111.53
2003	1,413	1	1,413	0.45%	140.31
2004	1,528	1	1,527	0.48%	151.26
2005	1,645	1	1,644	0.50%	162.78
2006	1,794	1	1,793	0.53%	177.56
2007	1,488	1	1,487	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)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Constitutionally Restricted				
Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 1,022.7	\$ 1,066.3	\$ 1,066.5	\$ 1,067.6
Registration Taxes	664.8	709.9	755.1	777.9
Miscellaneous Fees	59.1	57.0	55.2	54.7
Total	<u>1,746.6</u>	<u>1,833.2</u>	<u>1,876.7</u>	<u>1,900.2</u>
Less Deductions	<u>117.9</u>	<u>121.2</u>	<u>128.0</u>	<u>132.0</u>
Remaining Balance	1,628.7	1,712.0	1,748.7	1,768.2
Portion of Balance Credited to Comprehensive Transportation Fund (excluding interest)	<u>145.3</u>	<u>153.0</u>	<u>156.9</u>	<u>159.2</u>
Motor Vehicle Related Sales Tax Revenues	\$ 864.7	\$ 906.7	\$ 999.3	\$ 1,057.0
Allocation to Comprehensive Transportation Fund	<u>60.3</u>	<u>63.2</u>	<u>69.7</u>	<u>73.7</u>
Constitutionally Restricted Revenues Credited to Comprehensive Transportation Fund	\$ 205.6	\$ 216.3	\$ 226.6	\$ 232.9
Plus Other Revenues (primarily interest)	<u>6.1</u>	<u>6.6</u>	<u>3.1</u>	<u>3.5</u>
Money Available for Debt Service	<u>211.7</u>	<u>222.9</u>	<u>229.7</u>	<u>236.4</u>
Debt Service:				
Principal	\$ 10.0	\$ 8.0	\$ 8.3	\$ 10.5
Interest	<u>13.1</u>	<u>13.9</u>	<u>12.9</u>	<u>11.2</u>
Actual Annual Debt Service (1)	23.1	21.9	21.2	21.7
Debt Service Coverage	9.2 x	10.2 x	10.8 x	10.9 x

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

SOURCE: Michigan Department of Transportation.

Michigan

2002	2003	2004	2005	2006	2007
\$ 1,082.8	\$ 1,093.2	\$ 1,073.3	\$ 1,069.1	\$ 1,055.3	\$ 1,027.8
827.3	844.7	933.8	863.4	867.7	871.7
58.0	56.7	51.4	37.3	36.0	35.7
1,968.1	1,994.5	2,058.4	1,969.8	1,959.0	1,935.3
173.4	176.8	110.9	125.4	149.5	137.9
1,794.7	1,817.8	1,947.6	1,844.4	1,809.5	1,797.4
160.5	162.3	166.4	167.3	165.4	164.7
\$ 1,130.0	\$ 1,708.4	\$ 1,082.7	\$ 1,115.4	\$ 1,111.2	\$ 1,117.5
78.8	79.4	65.0	56.9	66.4	67.7
\$ 239.3	\$ 241.8	\$ 231.3	\$ 224.3	\$ 231.8	\$ 232.4
0.9	1.4	3.6	5.0	0.5	5.9
240.3	243.2	234.9	229.3	232.3	238.3
\$ 11.1	\$ 11.7	\$ 16.3	\$ 15.6	\$ 19.1	\$ 20.2
10.2	12.0	14.0	13.4	12.0	12.9
21.4	23.6	30.3	28.9	31.1	33.2
11.3 x	10.3 x	7.8 x	7.9 x	7.5 x	7.2 x

DEBT SERVICE COVERAGE
STATE TRUNKLINE FUND RELATED BONDS

LAST TEN FISCAL YEARS

(In Millions)

	1998	1999	2000	2001
Constitutionally Restricted				
Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 1,022.7	\$ 1,066.3	\$ 1,066.5	\$ 1,067.6
Registration Taxes	664.8	709.9	755.1	777.9
Miscellaneous Fees	59.1	57.0	55.2	54.7
Total	<u>1,746.6</u>	<u>1,833.2</u>	<u>1,876.7</u>	<u>1,900.2</u>
Less Deductions:				
Critical Bridge Debt Service	1.6	1.4	2.4	2.4
Legally Dedicated State Trunkline Fund Debt Service (1)	43.0	43.0	43.0	43.0
Collection Costs	55.4	58.4	64.0	63.1
Waterways/Recreational Improvement Fund	17.9	18.4	18.6	18.5
Comprehensive Transportation Fund (excluding interest)	145.3	153.0	156.9	159.2
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>341.5</u>	<u>352.5</u>	<u>363.2</u>	<u>364.5</u>
Constitutionally Restricted Revenues				
Available for Distribution	1,405.1	1,480.7	1,513.6	1,535.7
Plus Other Revenues (primarily interest)	13.9	11.6	15.8	13.4
Total Money Available for Distribution	<u>1,419.0</u>	<u>1,492.3</u>	<u>1,529.4</u>	<u>1,549.1</u>
Distributions to:				
Cities and Villages	302.7	318.7	326.7	331.9
County Road Commissions	534.3	561.0	575.0	582.9
State Trunkline Fund	582.0	612.7	627.7	634.3
Money Available for Debt Service				
State Trunkline Fund	582.0	612.7	627.7	634.3
Legally Dedicated State Trunkline Fund Debt Service (1)	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	1.6	1.4	2.4	2.4
Total Available for Debt Service	<u>699.9</u>	<u>730.4</u>	<u>746.4</u>	<u>753.0</u>
Debt Service:				
Principal	\$ 28.6	\$ 30.1	\$ 17.7	\$ 18.7
Interest	<u>32.7</u>	<u>27.6</u>	<u>29.5</u>	<u>29.5</u>
Actual Annual Debt Service (2)	61.3	57.8	47.2	48.2
Debt Service Coverage	11.4 x	12.6 x	15.8 x	15.6 x

NOTES:

- (1) Beginning fiscal year 1998, the formula for the tax distribution was revised to apportion and appropriate \$43 million from the Michigan Transportation Fund to the State Trunkline Fund for debt service costs on State of Michigan projects.
- (2) The table above excludes amounts related to refunded bonds and federally funded debt.

SOURCE: Michigan Department of Transportation.

Michigan

2002	2003	2004	2005	2006	2007
\$ 1,082.8	\$ 1,093.2	\$ 1,073.3	\$ 1,069.1	\$ 1,055.3	\$ 1,027.8
827.3	844.7	933.8	863.4	867.7	871.7
58.0	56.7	51.4	37.3	36.0	35.7
<u>1,968.1</u>	<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>
2.4	2.2	2.2	2.2	2.5	2.8
43.0	43.0	43.0	43.0	43.0	43.0
109.4	113.1	42.2	44.5	57.1	46.2
18.7	18.5	18.4	18.4	18.0	17.6
160.5	162.3	166.4	167.3	165.4	164.7
33.0	33.0	33.0	33.0	33.0	33.0
5.0	5.0	5.0	17.2	28.9	28.3
40.3	40.3	40.3	40.3	40.3	40.3
<u>412.2</u>	<u>417.4</u>	<u>350.5</u>	<u>366.0</u>	<u>388.2</u>	<u>375.9</u>
1,555.9	1,577.2	1,707.9	1,603.8	1,570.8	1,559.4
6.1	5.9	6.2	7.0	8.9	8.2
<u>1,562.0</u>	<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>
332.3	341.6	366.9	348.7	344.8	342.8
588.6	594.7	642.5	611.6	603.3	599.7
641.1	646.7	704.8	650.5	631.5	625.0
641.1	646.7	704.8	650.5	631.5	625.0
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
2.4	2.2	2.2	2.2	2.5	2.8
<u>759.7</u>	<u>765.1</u>	<u>823.2</u>	<u>769.0</u>	<u>750.3</u>	<u>744.1</u>
\$ 19.7	\$ 26.2	\$ 23.9	\$ 25.0	\$ 19.9	\$ 20.0
39.7	39.5	43.9	49.5	74.7	84.8
<u>59.4</u>	<u>65.7</u>	<u>67.8</u>	<u>74.5</u>	<u>94.6</u>	<u>104.8</u>
12.8 x	11.6 x	12.1 x	10.3 x	7.9 x	7.1 x

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

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Revenue - Lease and Rental Payments	\$ 226.8	\$ 214.8	\$ 218.5	\$ 254.3
Less: Operating Expenses	<u>0.5</u>	<u>0.6</u>	<u>1.1</u>	<u>2.2</u>
Net Available Revenue	<u><u>226.3</u></u>	<u><u>214.2</u></u>	<u><u>217.4</u></u>	<u><u>252.1</u></u>
Debt Service:				
Principal	103.6	132.4	124.1	133.7
Interest	<u>93.6</u>	<u>98.3</u>	<u>100.3</u>	<u>100.5</u>
Actual Annual Debt Service	<u>197.2</u>	<u>230.7</u>	<u>224.4</u>	<u>234.1</u>
Debt Service Coverage	1.1 x	0.9 x	1.0 x	1.1 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

2002	2003	2004	2005	2006	2007
\$ 266.0	\$ 287.5	\$ 239.9	\$ 246.9	\$ 255.5	\$ 213.2
0.8	6.4	4.2	3.2	9.9	0.8
265.2	281.1	235.7	243.7	245.6	212.4
115.1	141.7	84.7	119.9	82.1	83.6
106.7	119.6	109.5	128.7	140.8	117.5
221.8	261.3	194.2	248.6	222.9	201.1
1.2 x	1.1 x	1.2 x	1.0 x	1.1 x	1.1 x

DEMOGRAPHIC AND ECONOMIC INDICATORS

LAST TEN CALENDAR YEARS

	1997	1998	1999	2000
Population (a) (in thousands)				
Michigan	9,809	9,848	9,897	9,957
United States	272,647	275,854	279,040	282,217
Total Personal Income (b) (in billions)				
Michigan	\$ 248.8	\$ 265.1	\$ 278.1	\$ 294.2
United States	\$ 6,907.3	\$ 7,415.7	\$ 7,796.1	\$ 8,422.1
Per Capita Income (b)				
Michigan	\$ 25,367	\$ 26,919	\$ 28,095	\$ 29,551
United States	\$ 25,334	\$ 26,883	\$ 27,939	\$ 29,843
Unemployment Rate (c)				
Michigan	4.3%	4.0%	3.8%	3.7%
United States	4.9%	4.5%	4.2%	4.0%
Estimated wage and salary employees (c) (in thousands)				
Goods Producing:				
Natural Resources and Mining	9.9	10.0	9.6	9.5
Construction	180.3	187.4	197.0	209.6
Manufacturing	871.8	888.2	896.4	894.9
Total Goods Producing	1,062.0	1,085.6	1,103.0	1,114.0
Service-Providing:				
Trade, Transportation, and Utilities:				
Wholesale Trade	173.4	179.8	183.6	186.0
Retail Trade	540.1	542.5	550.6	559.8
Transportation and Utilities	129.6	131.2	134.1	135.4
Information	71.8	74.1	73.9	76.7
Financial Activities:				
Finance and Insurance	150.8	153.8	153.0	152.8
Real Estate and Rental and Leasing	53.7	53.9	53.9	56.6
Professional and Business Services:				
Professional, Scientific, and Technical Services	248.0	253.7	264.1	274.3
Management of Companies and Enterprises	71.4	70.8	70.9	70.5
Administrative, Support Services, and Waste Management	251.9	275.9	281.4	294.0
Educational and Health Services:				
Educational Services	49.7	51.2	52.1	54.3
Health Care and Social Assistance	439.7	433.6	439.6	447.9
Leisure and Hospitality:				
Accommodation and Food Services	327.6	326.4	328.8	336.4
Other	50.8	52.6	54.7	61.8
Other Services	171.5	173.0	174.0	175.1
Total Service-Providing	2,729.9	2,772.6	2,814.8	2,881.3
Government	647.2	655.8	667.4	681.4
Total Service-Providing	3,377.1	3,428.4	3,482.1	3,562.8
Total Wage and Salary Employment	4,439.1	4,514.0	4,585.2	4,676.7

NOTE: Calendar Year 2006 is the most recent year for which data is available.

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

2001	2002	2003	2004	2005	2006
10,003 285,226	10,038 288,126	10,068 290,796	10,093 293,638	10,101 296,507	10,096 299,398
\$ 299.5 \$ 8,717.0	\$ 303.5 \$ 8,872.9	\$ 313.5 \$ 9,150.3	\$ 318.8 \$ 9,711.3	\$ 330.5 \$ 10,284.4	\$ 341.1 \$ 10,966.8
\$ 29,945 \$ 30,562	\$ 30,231 \$ 30,795	\$ 31,138 \$ 31,466	\$ 31,581 \$ 33,072	\$ 32,719 \$ 34,685	\$ 33,784 \$ 36,629
5.2% 4.7%	6.2% 5.8%	7.1% 6.0%	7.0% 5.5%	6.8% 5.1%	6.9% 4.6%
9.3 206.1 819.6 <u>1,035.0</u>	8.6 199.6 760.0 <u>968.2</u>	8.1 190.6 716.3 <u>915.0</u>	8.2 191.5 697.3 <u>896.9</u>	8.4 189.1 676.7 <u>874.2</u>	8.0 180.1 648.4 <u>836.5</u>
180.4 548.8 132.0 76.0	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	170.8 495.6 128.3 66.7
154.8 55.5	159.2 55.7	162.3 56.0	161.3 56.1	161.8 56.1	161.6 54.7
268.0 69.1 270.5	257.4 69.5 270.5	247.9 68.6 269.8	244.2 67.0 273.5	246.4 64.6 280.8	246.1 62.7 279.2
59.5 456.0	65.9 469.8	68.4 476.7	72.6 485.0	74.8 501.0	76.3 507.6
332.7 61.6 176.4 <u>2,841.3</u>	336.2 61.7 178.5 <u>2,832.3</u>	335.9 62.2 177.9 <u>2,813.1</u>	339.7 62.3 178.1 <u>2,818.1</u>	341.9 62.6 179.6 <u>2,842.0</u>	345.4 62.0 178.1 <u>2,834.9</u>
<u>685.0</u> 3,526.3	<u>686.6</u> 3,519.0	<u>685.4</u> 3,498.5	<u>679.7</u> 3,497.8	<u>674.1</u> 3,516.1	<u>669.7</u> 3,504.5
<u><u>4,561.3</u></u>	<u><u>4,487.1</u></u>	<u><u>4,413.5</u></u>	<u><u>4,394.7</u></u>	<u><u>4,390.3</u></u>	<u><u>4,341.1</u></u>

CLASSIFIED EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
General Government	6,518	6,866	7,183	7,191
Education	436	442	403	396
Human services	12,443	12,836	13,254	13,139
Public safety and corrections	20,628	21,171	21,829	22,506
Conservation, environment, recreation, and agriculture	4,555	4,687	4,768	4,823
Labor, commerce, and regulatory	5,150	5,058	4,898	4,911
Health services	5,835	5,810	5,914	5,838
Transportation	<u>3,110</u>	<u>3,196</u>	<u>3,244</u>	<u>3,253</u>
Total	58,675	60,066	61,493	62,057

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 three 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 Department of Civil Service reports and for administrative efficiency.

This schedule includes average employee counts rounded to the whole full-time equivalent employee. For this reason, totals may not equal the sum of the employee counts per function.

SOURCE: Michigan Department of Civil Service, Annual Work Force Report.

Michigan

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
7,170	7,666	7,645	7,138	7,144	7,264
393	298	324	352	367	369
12,554	10,303	10,104	9,953	9,778	9,759
21,947	20,941	20,385	20,175	20,060	19,948
4,715	4,270	4,459	3,729	3,662	3,586
4,814	4,097	4,126	3,994	4,128	3,967
5,370	4,465	4,577	4,424	4,241	4,225
<u>3,185</u>	<u>2,826</u>	<u>2,956</u>	<u>2,849</u>	<u>2,880</u>	<u>2,895</u>
60,147	54,866	54,573	52,614	52,259	52,013

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

	1998	1999	2000
General government			
Tax forms processed (calendar year)	7,680,036	7,836,022	8,045,023
Passenger, commercial, and recreational vehicle registrations	8,620,037	8,837,524	8,977,693
Driver licenses issued	1,639,204	1,840,167	1,997,651
Education			
K-12 students	1,680,753	1,696,912	1,701,375
Public university students	219,707	223,667	227,972
Community college students	107,501	109,700	107,660
Human services			
Food assistance program recipients (1)	745,886	653,887	580,308
Family independence program recipients (1)	359,671	256,750	205,600
Day care recipients (1)	100,904	119,389	125,777
Children in foster care	18,070	18,931	18,862
State disability assistance recipients (1)	8,509	7,492	6,925
Finalized adoptions (yearly total) (2)	2,233	2,417	2,775
Juvenile justice youth served	5,856	5,737	4,084
Open child support cases with support orders established	802,195	638,704	714,138
Public safety and corrections			
Inmates, parolees, and probationers (as of 9/30)	110,897	109,644	111,666
State police patrol miles driven	17,675,349	18,132,306	19,318,420
Criminal offender DNA samples entered into federal indexing database (calendar year)	Unavailable	Unavailable	353
National Guard members (as of 9/30)	11,281	10,919	10,926
Veteran homes average daily census	884	901	903
Conservation, environment, recreation and agriculture			
Hunting and/or fishing license holders (3)	2,259,172	2,304,174	2,242,607
Camping nights in State parks	1,143,392	1,185,507	1,173,890
Population impacted by water purification projects	190,729	288,771	185,771
Underground storage tank releases closed	1,425	1,122	793
Scrap tires collected (passenger tire equivalent)	1,004,001	2,765,759	501,407
Labor, commerce, and regulatory			
Processed applications for new and renewal occupational licenses (4)	Unavailable	19,575	20,263
Building related permits issued	50,924	53,288	49,212
Building related safety inspections conducted	46,377	49,915	42,207
Occupational safety and health enforcement inspections conducted	6,480	7,521	6,998
Alleged occupational safety and health violations identified	25,578	28,368	27,869
Financial and insurance service providers chartered	Unavailable	Unavailable	212,269
Health services			
Medicaid recipients (1)	1,084,522	1,060,776	1,061,997
Women, Infants, and Children Food and Nutrition Program recipients (1)	217,924	215,138	213,050
Children's special health care services recipients (1)	20,554	20,379	24,554
Mentally ill/developmental disability service recipients (1)	205,330	205,559	190,408
Substance abuse service recipients (1)	Unavailable	70,768	66,146

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 2007 are for the licensing year ending March 31, 2007.
- (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

2001	2002	2003	2004	2005	2006	2007
8,445,431	8,460,529	8,131,481	8,079,995	8,059,355	8,259,132	8,202,000 (6)
9,008,126	9,109,817	9,100,370	8,987,430	8,879,158	8,732,938	8,785,222
1,923,498	1,728,793	1,899,690	2,018,292	1,913,530	1,724,108	1,875,932
1,705,798	1,715,153	1,718,286	1,716,511	1,708,585	1,697,936	1,679,664
232,648	241,205	246,205	249,616	250,030	253,020	253,346
109,131	116,802	125,719	127,717	131,150	133,359	139,219 (6)
623,335	748,421	836,518	943,713	1,047,594	1,133,793	1,204,409
193,217	202,462	200,962	211,569	212,252	217,318	237,102
124,061	123,054	127,606	124,735	123,519	118,852	109,519
19,445	18,923	19,130	19,146	18,733	18,347	18,771
7,040	8,045	9,114	10,058	10,560	10,591	11,015
2,927	2,833	2,611	2,744	2,883	2,589	2,481 (6)
2,805	2,253	1,905	1,769	1,577	1,371	1,229
762,254	745,135	758,992	769,462	777,188	764,500	755,201
115,722	120,804	122,377	122,680	119,845	120,337	123,032
19,456,634	18,605,982	15,230,342	15,961,280	16,879,418	17,632,736	14,916,802
16,785	8,861	13,967	34,525	23,099	41,888	Unavailable
11,224	11,580	11,306	10,917	11,125	11,768	11,862
900	901	900	886	909	902	896
2,169,161	2,138,381	2,104,171	2,053,768	2,004,577	1,950,676	1,981,382
1,146,956	1,142,539	1,156,130	1,040,368	1,005,437	956,030	929,753
174,574	157,966	314,918	203,641	3,994,970 (5)	1,046,379	490,298
467	561	339	337	265	320	233
520,728	447,443	1,660,078	2,679,123	4,992,517	4,709,881	3,650,000 (6)
22,522	31,456	205,088	196,440	152,659	164,153	198,430
42,664	41,573	41,216	39,942	40,662	33,031	26,942
53,485	47,375	47,339	44,343	41,303	45,921	42,931
5,246	4,919	4,820	5,301	4,492	5,102	5,001
23,393	19,839	19,188	20,576	17,621	17,311	16,712
215,005	231,741	252,338	260,498	281,668	297,662	323,791
1,101,154	1,197,086	1,281,397	1,357,546	1,424,831	1,490,384	1,536,390
214,952	215,989	216,684	222,077	226,601	229,770	232,261
28,048	29,465	27,105	29,105	30,232	30,449	30,908
185,984	195,552	185,072	187,059	200,424	207,407	211,555 (6)
59,821	56,049	65,584	66,085	69,808	71,175	72,599 (6)

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

	1998	1999	2000
Transportation			
Annual vehicle miles of travel on			
State Trunkline roads (calendar year) (11)	50,000,000,000	50,500,000,000	51,300,000,000
Miles of intercity bus travel receiving State funding	370,956	644,058 (7)	1,136,199
Miles of local bus travel receiving State funding	83,133,090	84,131,010	87,178,629
Railroad crossing maintenance/safety inspections	Unavailable	2,671	2,710
Tax expenditures			
Taxpayers claiming refundable credits (8) (10)	1,116,600	1,133,300	1,157,400
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	16,559	16,451	16,314
Liquor sales volume (cases)	5,059,933	5,187,270	5,350,162
Beer sales volume (barrels)	6,655,699	6,695,898	6,778,789
Wine sales volume (liters)	52,325,417	52,692,089	56,451,428
Pre-mixed spirit drink sales volume (liters)	961,241	1,465,144	1,748,304
State Lottery Fund			
Retailers	9,237	9,306	9,271
Winners greater than \$600	37,060	36,147	32,563
Millionaire prizewinners	28	15	22
Michigan Unemployment Compensation Funds			
Individuals receiving benefits (calendar year)	477,571	398,900	419,588

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.
- (10) Amount estimated and rounded to nearest hundred.
- (11) Amount estimated and rounded to nearest one hundred million.

SOURCES: Various State departments.

Michigan

2001	2002	2003	2004	2005	2006	2007
51,500,000,000	52,800,000,000	53,400,000,000	53,700,000,000	52,600,000,000	51,500,000,000	52,000,000,000
1,090,776	1,169,738	1,148,787	1,116,321	1,090,708	1,086,793	1,081,038
91,827,361	98,082,082	97,289,858	93,223,721	88,837,852	92,951,025	101,181,431
2,845	2,927	2,405	2,370	2,898	2,531	2,679
1,254,200	1,369,700	1,405,300	1,468,700	1,487,900	1,537,500 ⁽⁶⁾	Unavailable
1,241	1,241	1,241	1,241	1,241	1,241	1,241
273	272	272	272	274	274	274
262	261	261	261	259	259	259
83	83	83	83	-	-	-
16,169	16,130	16,034	16,019	15,964	15,942	15,838
5,377,947	5,496,879	5,752,264	6,029,155	6,110,122	6,293,797	6,464,739
6,812,301	6,730,138	6,802,658	6,807,147	6,721,468	6,647,438	6,588,385
55,794,094	53,916,859	61,471,699	65,417,883	66,022,306	68,139,758	71,385,503
2,069,203	1,572,937	1,032,309	1,237,451	1,065,146	871,900	1,008,073
9,217	9,160	9,048	10,806	11,076	10,880	10,973
27,777	25,921	44,162	44,962	44,692	52,124	49,585
18	16	11	20	21	17	42
615,249	623,208	617,145	617,134	547,376	569,721	568,841 ⁽⁶⁾

CAPITAL ASSETS BY FUNCTION

LAST TEN FISCAL YEARS

	1998	1999	2000	2001
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	Unavailable	164
Vehicles	Unavailable	Unavailable	Unavailable	Unavailable
Environmental quality air-monitoring instruments	Unavailable	Unavailable	73	88
Environmental quality lab/analyzing equipment	Unavailable	Unavailable	115	120
Natural resources acres of land	Unavailable	4,526,062	4,537,232	4,543,728
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	Unavailable	946	1,042
Highway lane miles (calendar year)	27,024	27,314	27,345	27,323
Heavy equipment owned	Unavailable	Unavailable	2,260	2,193

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

2002	2003	2004	2005	2006	2007
Unavailable	Unavailable	Unavailable	Unavailable	281	280
Unavailable	Unavailable	Unavailable	Unavailable	747	754
Unavailable	Unavailable	Unavailable	Unavailable	27	27
Unavailable	Unavailable	Unavailable	Unavailable	28	21
Unavailable	Unavailable	Unavailable	Unavailable	208	208
Unavailable	Unavailable	Unavailable	Unavailable	838	844
Unavailable	Unavailable	Unavailable	Unavailable	1,390	1,390
Unavailable	Unavailable	Unavailable	Unavailable	3,401	3,548
191	192	203	229	249	300
Unavailable	Unavailable	Unavailable	Unavailable	3,452	3,763
99	116	146	170	188	194
124	129	151	127	133	155
4,545,628	4,551,591	4,556,233	4,557,246	4,562,444	4,566,708
16	16	16	16	16	16
6	6	6	6	6	6
96	97	97	97	97	98
Unavailable	Unavailable	Unavailable	Unavailable	160	164
Unavailable	Unavailable	Unavailable	Unavailable	482	482
Unavailable	Unavailable	Unavailable	Unavailable	239	239
Unavailable	Unavailable	Unavailable	Unavailable	272	276
Unavailable	Unavailable	Unavailable	Unavailable	437	437
1,242	1,320	1,322	1,448	1,841	1,872
27,423	27,460	27,534	27,557	27,521	27,514
2,128	2,112	2,129	2,117	2,162	2,184





IV. OTHER INFORMATION

COMBINED SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES

GENERAL AND SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

SOURCE	TOTAL	GENERAL FUND	SPECIAL REVENUE FUNDS
TAXES			
Sales	\$ 6,552,240	\$ 1,716,007	\$ 4,836,232
Personal income	7,326,078	5,215,724	2,110,353
Single business	1,786,213	1,786,213	-
Use	1,380,375	919,995	460,381
State education (property)	2,080,977	-	2,080,977
Real estate transfer	237,483	-	237,483
Tobacco products	1,129,226	678,850	450,377
Beer and wine	51,478	51,478	-
Liquor	107,631	71,942	35,689
Horse race wagering	9,169	9,169	-
Casino gaming wagering	159,363	52,682	106,681
Telephone and telegraph company	87,282	87,282	-
Commercial mobile radio service	20,829	20,829	-
Insurance company	223,754	223,754	-
Motor vehicle registration	874,683	2,957	871,726
Gasoline	884,002	-	884,002
Aviation fuel	6,335	-	6,335
Diesel fuel	144,126	-	144,126
Gas and oil severance	73,257	73,257	-
Industrial facilities	136,691	-	136,691
Convention hotel accommodation	18,156	18,156	-
Airport parking	21,527	21,527	-
Quality assurance assessment	827,776	827,776	-
Penalties and interest	158,218	158,218	-
Other	74,014	56,945	17,069
	<u>24,370,884</u>	<u>11,992,762</u>	<u>12,378,122</u>
FROM FEDERAL AGENCIES			
Department of Health and Human Services	7,499,037	7,497,659	1,378
Department of Education	1,268,869	200,565	1,068,304
Department of Agriculture	1,961,447	1,646,778	314,669
Department of Labor	374,990	252,449	122,542
Department of Housing and Urban Development	9,464	9,464	-
Department of Energy	16,870	16,870	-
Department of Transportation	1,254,609	24,952	1,229,657
Department of Interior	24,882	20,357	4,525
Department of Defense	31,806	31,806	-
Department of Justice	41,495	41,495	-
Environmental Protection Agency	43,134	41,980	1,153
General Services Administration	236	236	-
Other	129,092	128,789	302
	<u>12,655,930</u>	<u>9,913,400</u>	<u>2,742,530</u>
FROM LOCAL AGENCIES			
Counties	96,730	96,730	-
Cities, villages, and townships	17,169	84	17,085
School districts	3,963	3,963	-
Multi-level governmental units	2,914	-	2,914
Other	18,653	15,623	3,031
	<u>139,429</u>	<u>116,399</u>	<u>23,030</u>
SPECIAL MEDICAID REIMBURSEMENTS			
	<u>102,670</u>	<u>102,670</u>	<u>-</u>
	102,670	102,670	-

Michigan

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>
FROM SERVICES			
Charges for providing vehicle and driver services	\$ 138,236	\$ 135,305	\$ 2,931
Revenue for patient, ward, and inmate care	36,325	36,325	-
Other	109,809	109,346	463
	<u>284,370</u>	<u>280,976</u>	<u>3,394</u>
FROM LICENSES AND PERMITS			
Liquor retailers', manufacturers', and wholesalers' licenses	13,461	13,461	-
Motor vehicle operators' and chauffeurs' licenses	51,430	40,131	11,299
Examination fees - financial institutions and insurance industry	28,433	28,433	-
Concession and privilege fees - State parks	805	-	805
Motor vehicle related	34,670	2,589	32,081
Hunting, fishing, and trapping licenses	49,981	-	49,981
Public utility assessment fees	21,885	21,885	-
Labor and Economic Growth licenses and permits	75,615	63,006	12,608
Auto repair facilities and mechanics licenses and fees	3,910	3,910	-
Corporation franchise fees	20,315	20,315	-
Other	144,337	75,246	69,091
	<u>444,841</u>	<u>268,975</u>	<u>175,865</u>
MISCELLANEOUS			
Income from investments	95,334	19,365	75,969
Tobacco settlement proceeds	266,506	-	266,506
Various fines, fees, and assessments	82,114	51,667	30,448
Court fines, fees, and assessments	281,488	268,928	12,560
Oil and gas royalties, fees, assignments, and rentals	12,568	8,641	3,928
Environmental pollution settlements	9,196	4,283	4,913
Child support	39,661	39,661	-
Other	723,267	333,600	389,667
	<u>1,510,134</u>	<u>726,144</u>	<u>783,990</u>
Total Revenues	<u>39,508,257</u>	<u>23,401,327</u>	<u>16,106,931</u>
OTHER FINANCING SOURCES			
Proceeds from bond issues and bond anticipation notes	1,026,769	-	1,026,769
Capital lease acquisitions	20,906	20,164	742
Proceeds from sale of capital assets	5,318	2,478	2,840
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	162,440	162,440	-
From State Lottery Fund	760,649	11,749	748,901
From other funds	1,742,608	333,859	1,408,749
	<u>3,718,691</u>	<u>530,690</u>	<u>3,188,001</u>
Total Other Financing Sources	<u>3,718,691</u>	<u>530,690</u>	<u>3,188,001</u>
Total Revenue and Other Financing Sources (GAAP Basis)	<u>\$ 43,226,948</u>	<u>\$ 23,932,017</u>	<u>\$ 19,294,931</u>

SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES

GENERAL FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL PURPOSE</u>	<u>RESTRICTED REVENUES</u>
TAXES			
Sales	\$ 1,716,007	\$ 630,300	\$ 1,085,707
Personal income	5,215,724	4,245,592	970,132
Single business (1)	1,786,213	1,814,820	(28,606)
Use	919,995	919,961	33
Tobacco products	678,850	225,389	453,461
Beer and wine	51,478	51,478	-
Liquor	71,942	36,176	35,766
Horse race wagering	9,169	-	9,169
Casino gaming wagering	52,682	46,097	6,585
Telephone and telegraph company	87,282	87,282	-
Commercial mobile radio service	20,829	-	20,829
Insurance company	223,754	223,754	-
Motor vehicle registration	2,957	-	2,957
Gas and oil severance	73,257	72,004	1,253
Convention hotel accommodation (1)	18,156	35,000	(16,844)
Airport parking	21,527	-	21,527
Quality assurance assessment	827,776	-	827,776
Penalties and interest	158,218	147,615	10,604
Other	56,945	2,530	54,416
	<u>11,992,762</u>	<u>8,537,998</u>	<u>3,454,764</u>
FROM FEDERAL AGENCIES			
Department of Health and Human Services	7,497,659	10,421	7,487,238
Department of Education	200,565	1,057	199,508
Department of Agriculture	1,646,778	1,308	1,645,470
Department of Labor	252,449	522	251,927
Department of Housing and Urban Development	9,464	344	9,120
Department of Energy	16,870	675	16,195
Department of Transportation	24,952	1,219	23,733
Department of Interior	20,357	119	20,238
Department of Defense	31,806	69	31,736
Department of Justice	41,495	132	41,363
Environmental Protection Agency	41,980	1,398	40,583
General Services Administration	236	-	236
Other	128,789	1,545	127,245
	<u>9,913,400</u>	<u>18,809</u>	<u>9,894,591</u>
FROM LOCAL AGENCIES			
Counties	96,730	-	96,730
Cities, villages, and townships	84	-	84
School districts	3,963	-	3,963
Other	15,623	404	15,219
	<u>116,399</u>	<u>404</u>	<u>115,996</u>
SPECIAL MEDICAID REIMBURSEMENTS			
	<u>102,670</u>	<u>-</u>	<u>102,670</u>
	102,670	-	102,670

(1) Current year restricted revenue and prior year accumulated amounts were converted to general purpose revenue in accordance with enabling legislation.

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL PURPOSE</u>	<u>RESTRICTED REVENUES</u>
FROM SERVICES			
Charges for providing vehicle and driver services	\$ 135,305	\$ 465	\$ 134,840
Revenue for patient, ward, and inmate care	36,325	-	36,325
Other	109,346	7,712	101,634
	<u>280,976</u>	<u>8,177</u>	<u>272,799</u>
FROM LICENSES AND PERMITS			
Liquor retailers', manufacturers', and wholesalers' licenses	13,461	-	13,461
Motor vehicle operators' and chauffeurs' licenses	40,131	15,091	25,039
Examination fees - financial institutions and insurance industry	28,433	7,000	21,433
Motor vehicle related	2,589	67	2,522
Public utility assessment fees	21,885	-	21,885
Labor and Economic Growth licenses and permits	63,006	8,843	54,163
Auto repair facilities and mechanics licenses and fees	3,910	382	3,529
Corporation franchise fees	20,315	1,219	19,096
Other	75,246	1,009	74,237
	<u>268,975</u>	<u>33,611</u>	<u>235,364</u>
MISCELLANEOUS			
Income from investments	19,365	1,200	18,165
Various fines, fees, and assessments	51,667	1,087	50,580
Court fines, fees, and assessments	268,928	118,811	150,117
Oil and gas royalties, fees, assignments, and rentals	8,641	-	8,641
Environmental pollution settlements	4,283	-	4,283
Child support	39,661	-	39,661
Other	333,600	106,926	226,674
	<u>726,144</u>	<u>228,023</u>	<u>498,121</u>
 Total Revenues	 <u>23,401,327</u>	 <u>8,827,021</u>	 <u>14,574,305</u>
OTHER FINANCING SOURCES			
Capital lease acquisitions	20,164	-	20,164
Proceeds from sale of capital assets	2,478	1	2,477
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	162,440	158,651	3,789
From State Lottery Fund	11,749	10,759	990
From other funds	333,859	277,297	56,562
	<u>530,690</u>	<u>446,708</u>	<u>83,982</u>
 Total Other Financing Sources	 <u>530,690</u>	 <u>446,708</u>	 <u>83,982</u>
 Total Revenue and Other Financing Sources (GAAP Basis)	 <u>23,932,017</u>	 <u>9,273,729</u>	 <u>14,658,288</u>
BUDGETARY BASIS ADJUSTMENTS			
Capital lease acquisitions	(20,164)	-	(20,164)
 Total Revenue and Other Financing Sources (budgetary basis)	 <u>\$ 23,911,852</u>	 <u>\$ 9,273,729</u>	 <u>\$ 14,638,123</u>

Michigan

SOURCE AND DISPOSITION OF GENERAL FUND AUTHORIZATIONS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

<u>BRANCH AND DEPARTMENT</u>	<u>CURRENT LEGISLATIVE APPROPRIATION</u>	<u>BUDGETARY TRANSFERS IN/OUT</u>	<u>BUDGETARY ADJUSTMENT</u>	<u>UNEXPENDED FROM PRIOR YEAR</u>	<u>RESTRICTED REVENUE ADDITIONS</u>	<u>LESS: TIMING DIFFERENCES* RESTRICTED REVENUE NOT AUTHORIZED/USED</u>
Legislative Branch	\$ 121,538	\$ -	\$ 197	\$ 16,876	\$ 5,713	\$ (2)
Judicial Branch	156,501	-	-	11,214	92,207	(14,617)
Executive Branch:						
Agriculture	28,834	-	-	4,535	55,346	(4,361)
Attorney General	30,471	-	-	3,767	29,595	(2,290)
Civil Rights	12,043	-	-	1	1,840	-
Colleges and Universities Grants	1,609,204	-	-	3,099	5,855	-
Community Health	3,145,329	-	-	91,739	7,850,905	(60,937)
Corrections	1,871,878	-	-	3,845	42,330	(4,275)
Education	41,188	-	-	2,723	53,896	(2,048)
Environmental Quality	30,788	-	240	181,323	84,294	(110,434)
Executive Office	5,273	-	-	24	-	-
History, Arts & Libraries	38,689	-	-	1,204	10,615	(31)
Human Services	1,269,341	-	-	1,811	3,238,129	(393)
Labor and Economic Growth	48,667	-	-	61,806	748,031	(68,533)
Management and Budget	272,604	-	322	28,193	188,490	(27,125)
Military and Veterans Affairs	39,299	-	-	1,635	76,893	(1,439)
Natural Resources	31,790	-	-	23,761	41,146	(3,512)
State	17,766	-	-	25,020	175,528	(15,028)
State Police	243,187	-	-	25,097	215,192	(24,874)
Transportation	5,000	-	-	-	-	-
Treasury	314,918	-	183	128,134	2,282,788	(52,480)
Intrafund expenditure reimbursements	-	-	-	-	-	-
TOTAL	\$ 9,334,307	\$ -	\$ 943	\$ 615,809	\$ 15,198,793	\$ (392,378)

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

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

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
\$ 144,323	\$ (12,122)	\$ 132,201	\$ 131,259	\$ 303	\$ 127	\$ 512	\$ -
245,305	-	245,305	244,621	170	253	262	-
84,355	-	84,355	84,126	110	-	119	-
61,543	-	61,543	60,819	636	-	87	-
13,884	-	13,884	13,285	1	-	598	-
1,618,158	(1,597)	1,616,561	1,615,642	-	-	919	-
11,027,036	-	11,027,036	10,958,844	4,006	-	64,186	-
1,913,778	-	1,913,778	1,908,291	2,694	-	2,793	-
95,760	-	95,760	94,035	42	-	1,683	-
186,212	-	186,211	185,665	79	-	467	-
5,297	-	5,297	5,134	-	-	163	-
50,476	-	50,476	48,835	23	1,231	386	-
4,508,887	(3,796)	4,505,092	4,461,126	1,244	-	43,957	(1,236)
789,972	-	789,972	783,474	21	493	5,984	-
462,484	(2,970)	459,514	450,775	1,912	-	6,827	-
116,388	-	116,388	113,233	139	1,589	1,427	-
93,184	-	93,184	92,968	77	-	139	-
203,286	(5,668)	197,618	196,184	244	116	1,074	-
458,602	-	458,602	457,997	59	-	1,576	(1,031)
5,000	-	5,000	5,000	-	-	-	-
2,673,544	(200)	2,673,344	2,648,421	16,060	4,391	4,472	-
-	-	(560,670)	(560,670)	-	-	-	-
<u>\$ 24,757,474</u>	<u>\$ (26,353)</u>	<u>\$ 24,170,452</u>	<u>\$ 23,999,064</u>	<u>\$ 27,822</u>	<u>\$ 8,201</u>	<u>\$ 137,631</u>	<u>\$ (2,267)</u>
Prior Year encumbrances		(14,852)	(14,852)				
Amount reported on Budgetary Comparison Schedule		<u>\$ 24,155,600</u>	<u>\$ 23,984,212</u>	<u>\$ 27,822</u>	<u>\$ 8,201</u>	<u>\$ 137,631</u>	<u>\$ (2,267)</u>

**SOURCE AND DISPOSITION OF
GENERAL FUND/GENERAL PURPOSE AUTHORIZATIONS
APPROPRIATION YEAR 2007
FISCAL YEAR ENDED SEPTEMBER 30, 2007**

(In Thousands)

<u>BRANCH AND DEPARTMENT</u>	<u>CURRENT LEGISLATIVE APPROPRIATION*</u>	<u>BUDGETARY TRANSFERS IN/OUT</u>	<u>BUDGETARY ADJUSTMENT</u>
Legislative Branch	\$ 121,935	\$ -	\$ 197
Judicial Branch	156,501	-	-
Executive Branch:			
Agriculture	28,834	-	-
Attorney General	30,471	-	-
Civil Rights	12,043	-	-
Colleges and Universities Grants	1,609,204	-	-
Community Health	3,145,329	-	-
Corrections	1,871,878	-	-
Education	41,188	-	-
Environmental Quality	30,788	-	240
Executive Office	5,273	-	-
History, Arts & Libraries	38,689	-	-
Human Services	1,269,341	-	-
Labor and Economic Growth	48,667	-	-
Management and Budget	272,604	-	322
Military and Veterans Affairs	39,299	-	-
Natural Resources	31,790	-	-
State	17,766	-	-
State Police	243,187	-	-
Transportation	5,000	-	-
Treasury	314,918	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL	\$ 9,334,704	\$ -	\$ 759

* 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 \$221.9 million of the "Current Legislative Appropriation" for the Appropriation Year 2007.

Michigan

GROSS SPENDING AUTHORITY	"ACTUAL"			"VARIANCES"	
	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	MULTI-YEAR PROJECT BALANCES FORWARD	LAPSES	OVEREXPENDED
\$ 122,132	\$ 115,846	\$ 88	\$ 5,706	\$ 492	\$ -
156,501	156,417	71	-	13	-
28,834	28,705	16	-	112	-
30,471	30,114	271	-	86	-
12,043	11,445	1	-	596	-
1,609,204	1,606,886	-	1,400	918	-
3,145,329	3,077,453	4,006	-	63,869	-
1,871,878	1,866,391	2,694	-	2,793	-
41,188	39,862	30	-	1,296	-
31,028	30,488	73	-	467	-
5,273	5,110	-	-	162	-
38,689	38,282	23	-	384	-
1,269,341	1,220,343	1,244	3,796	43,957	-
48,667	42,662	21	-	5,984	-
272,925	266,050	263	-	6,612	-
39,299	37,737	138	-	1,424	-
31,790	31,654	77	-	59	-
17,766	13,917	8	2,776	1,066	-
243,187	241,551	59	-	1,576	-
5,000	5,000	-	-	-	-
314,918	297,432	13,008	200	4,279	-
<u>\$ 9,335,463</u>	<u>\$ 9,163,346</u>	<u>\$ 22,093</u>	<u>\$ 13,877</u>	<u>\$ 136,147</u>	<u>\$ -</u>

Michigan

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

LAST TEN YEARS
SEPTEMBER 30, 2007
(In Thousands)

<u>SOURCE</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
TAXES:				
Sales	\$ 5,617,331	\$ 5,901,733	\$ 6,277,498	\$ 6,352,306
Personal Income (net of tax expenditures)	6,316,125	6,907,933	7,144,211	6,749,373
Amount reported as tax expenditures	477,000	486,100	502,100	532,800
Single Business Use	2,349,148	2,360,533	2,324,868	2,022,882
State Education (Property)	1,159,258	1,283,017	1,355,389	1,333,607
Real Estate Transfer	1,256,874	1,273,459	1,381,420	1,489,552
Liquor, Beer, Wine, and Tobacco Products	227,852	261,696	257,093	252,894
Casino Gaming Wagering	689,451	739,972	736,859	732,673
Telephone and Telegraph Company	-	-	-	75,415
Insurance Company	151,964	150,334	149,206	152,523
Motor Vehicle and Fuel	142,565	199,463	191,946	200,756
Quality Assurance Assessment	1,695,068	1,784,970	1,829,979	1,852,964
Other	-	-	-	-
	<u>543,391</u>	<u>609,665</u>	<u>714,899</u>	<u>657,279</u>
TOTAL TAXES	20,626,025	21,958,875	22,865,469	22,405,023
FEDERAL AGENCIES	7,679,490	7,902,699	8,571,625	9,566,353
LOCAL AGENCIES	165,443	183,822	173,882	227,996
SPECIAL MEDICAID REIMBURSEMENTS	585,179	690,799	1,059,343	1,155,374
SERVICES	107,623	113,415	110,294	115,346
LICENSES AND PERMITS	376,909	383,778	393,006	391,655
MISCELLANEOUS	<u>700,553</u>	<u>769,236</u>	<u>1,032,248</u>	<u>1,281,281</u>
TOTAL REVENUE	<u>30,241,222</u>	<u>32,002,624</u>	<u>34,205,867</u>	<u>35,143,027</u>
PROCEEDS FROM BOND ISSUES AND BOND ANTICIPATION NOTES	251,454	-	82,099	854,240
CAPITAL LEASE ACQUISITIONS	29,027	57,609	22,330	23,014
PROCEEDS FROM SALE OF CAPITAL ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE, BOND PROCEEDS, CAPITAL LEASE ACQUISITIONS, AND PROCEEDS FROM SALE OF CAPITAL ASSETS	<u>\$ 30,521,703</u>	<u>\$ 32,060,233</u>	<u>\$ 34,310,295</u>	<u>\$ 36,020,281</u>

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.

Michigan

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$	6,439,894	\$ 6,422,642	\$ 6,473,522	\$ 6,599,138	\$ 6,638,110	\$ 6,552,240
	6,095,989	5,811,843	5,873,365	6,108,924	6,226,304	6,442,678
	615,100	707,800	702,700	815,300	834,000	883,400
	1,983,795	1,843,072	1,841,010	1,907,190	1,886,168	1,786,213
	1,306,365	1,229,838	1,316,504	1,402,399	1,413,758	1,380,375
	1,583,660	2,127,513	1,824,493	1,914,629	2,003,527	2,080,977
	253,075	275,513	317,480	313,548	297,680	237,483
	808,225	1,035,322	1,142,217	1,330,759	1,324,189	1,288,335
	91,915	90,945	99,455	145,811	155,461	159,363
	137,343	124,168	101,315	99,149	83,533	87,282
	227,081	231,076	230,272	249,524	219,538	223,754
	1,917,481	1,946,225	2,015,567	1,942,450	1,932,043	1,909,146
	-	-	325,188	509,857	676,923	827,776
	<u>610,485</u>	<u>580,001</u>	<u>536,839</u>	<u>598,285</u>	<u>507,690</u>	<u>511,861</u>
	22,070,408	22,425,957	22,799,928	23,936,964	24,198,924	24,370,884
	10,202,344	10,812,852	11,579,388	11,974,006	12,160,022	12,655,930
	248,867	230,728	239,815	262,875	124,101	139,429
	1,109,233	932,658	704,551	467,970	93,621	102,670
	121,849	121,198	148,140	264,957	269,593	284,370
	408,746	417,786	555,858	423,501	437,560	444,841
	<u>1,150,187</u>	<u>1,390,001</u>	<u>1,109,630</u>	<u>1,371,999</u>	<u>1,457,623</u>	<u>1,510,134</u>
	<u>35,311,635</u>	<u>36,331,180</u>	<u>37,137,308</u>	<u>38,702,270</u>	<u>38,741,444</u>	<u>39,508,257</u>
	424,472	352,254	405,881	182,441	1,004,778	1,026,769
	237,272	16,052	19,661	6,778	34,059	20,906
	<u>-</u>	<u>-</u>	<u>11,513</u>	<u>10,340</u>	<u>3,989</u>	<u>5,318</u>
\$	<u>35,973,378</u>	<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>

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

LAST TEN YEARS
SEPTEMBER 30, 2007
(In Thousands)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Current:				
General government	\$ 1,003,062	\$ 1,072,735	\$ 1,071,643	\$ 1,270,363
Education	11,462,128	11,827,226	12,436,812	13,975,247
Human services	3,262,649	3,229,377	3,336,835	3,596,001
Public safety and corrections	1,720,105	1,908,871	1,983,001	2,155,735
Conservation, environment, recreation, and agriculture	446,377	482,901	564,738	617,703
Labor, commerce, and regulatory	763,484	720,070	740,687	881,069
Health services	6,781,614	7,100,795	7,692,354	8,525,435
Transportation	1,556,082	1,645,123	1,663,318	2,058,191
Tax expenditures	477,000	486,100	502,100	532,800
Capital outlay	898,509	1,144,575	1,196,211	1,267,158
Intergovernmental - revenue sharing	1,381,009	1,410,400	1,494,016	1,555,799
Debt service:				
Bond interest and fiscal charges	-	-	-	2,219
Capital lease payments	<u>58,905</u>	<u>59,287</u>	<u>52,027</u>	<u>48,820</u>
Total Expenditures	<u>\$ 29,810,925</u>	<u>\$ 31,087,460</u>	<u>\$ 32,733,741</u>	<u>\$ 36,486,541</u>

Michigan

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$	1,541,175	\$ 1,207,672	\$ 1,116,072	\$ 1,303,070	\$ 1,632,416	\$ 1,584,117
	14,547,772	14,624,856	14,305,112	14,488,870	14,710,682	14,572,261
	3,791,373	3,875,371	3,932,475	4,122,779	4,341,774	4,447,992
	2,132,401	2,112,194	2,118,888	2,284,674	2,453,297	2,465,362
	638,615	581,168	571,909	598,930	626,879	553,033
	891,817	891,644	902,903	924,876	952,921	957,023
	8,891,480	9,270,484	9,676,268	10,126,544	9,958,104	10,741,285
	2,117,153	2,080,361	2,211,490	2,163,688	2,082,685	2,178,922
	615,100	707,800	702,700	815,300	834,000	883,400
	1,232,479	1,085,686	1,046,339	1,229,534	1,253,535	1,296,053
	1,517,303	1,451,374	1,305,146	1,112,931	1,103,625	1,071,104
	1,240	-	-	-	174	-
	<u>51,387</u>	<u>67,723</u>	<u>50,840</u>	<u>49,530</u>	<u>49,183</u>	<u>46,074</u>
\$	<u><u>37,969,296</u></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>

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ACKNOWLEDGMENTS

The *State of Michigan Comprehensive Annual Financial Report* is prepared by the Office of Financial Management, Accounting and Financial Reporting Division. Staff of the division for the fiscal year 2007 report included:

Laura J. Mester, CPA, Director
Pamela J. Beam
Dorothy J. Hanna

Timothy T. Becker, CPA, Manager
Manager
Financial Reporting Section

Cindy S. Bloomer
Jane E. Hallitt
Angela K. McNulty
Susan K. Ruff

Lisa S. Fath, CPA, Manager
Accounting Section

Angela M. Burgtorf
Christopher D. Holly
Paul J. McDonald
Kathleen R. Pietila

Nandita K. Jain, CPA,
MAIN FACS Service Center

Kathleen D. Ball
Eric M. Bolyard
Lorraine C. Couchman
John L. MacIntosh III
Alicia L. Paape

Special thanks are also extended to the State's CFO Council; the Financial Management Users Group; financial management personnel throughout Michigan State Government; and the staff of the Office of the Auditor General. Preparation of this report would not have been possible without the efforts of these individuals.

The cover photo was provided by the Michigan Department of Transportation.

